



Natural Gas
Gas Development
Gas Royalty Calculation

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Dear Gas Royalty Client:

We wish to welcome you as a new client and take this opportunity to provide some key information relating to your responsibility as a gas royalty client. A client is *new* when the client receives a new Business Associate (BA) ID or when two or more existing companies amalgamate/consolidate to form a company with a new name and a new BA ID.

The Crown owns the mineral rights underlying Crown lands. The Crown's right to an owner's share (the Crown royalty share) of the minerals produced from lands under lease is established in the Crown lease agreement and in the *Mines and Minerals Act*. The Crown royalty on natural gas or any of the constituent products of natural gas is established in the *Natural Gas Royalty Regulation, 220/2002*. Copies of the Mines and Minerals Act and the Natural Gas Royalty Regulations can be obtained from the Queen's Printer [Telephone number: (780) 427- 4952].

Alberta Natural Gas Royalty Guidelines

The department developed The Alberta Natural Gas Royalty Guidelines (2006) to provide an understanding of the general applications and principles for calculating royalty.

The Alberta Natural Gas Royalty Guidelines are available to royalty clients. The *Guidelines* describe the reporting requirements, due dates, and processes involved in assessing, levying, and collecting gas and gas product royalties. The Guidelines (with a *printer friendly* option) can be accessed on the website at [/www.energy.gov.ab.ca/under Our Business, Natural Gas, Legislation, Guidelines & Policies](http://www.energy.gov.ab.ca/under%20Our%20Business,%20Natural%20Gas,%20Legislation,%20Guidelines%20&%20Policies).

Monthly Gas Royalty Calculation Information Letter and Information Bulletin

Each month the department publishes a *Gas Royalty Calculation Information Letter* and *Information Bulletin*, which includes notices of operational requirements, activities and pricing information. They can be accessed at [/www.energy.gov.ab.ca/under Our Business, Natural Gas, Legislation, Guidelines & Policies](http://www.energy.gov.ab.ca/under%20Our%20Business,%20Natural%20Gas,%20Legislation,%20Guidelines%20&%20Policies).

To subscribe to the *Gas Royalty Calculation Information Letter and Information Bulletin*, click on the *SUBSCRIBE* link and follow the instructions outlined.

Gas Royalty Client Responsibility

As a gas royalty client, you are responsible to satisfy the royalty obligations and to comply with the applicable regulations and reporting requirements. There are consequences for non-compliance. For all filing requirements, *please refer to Chapter I, Section 4 of the Guidelines*. For consequences of non-compliance, *refer to Chapter II, Section 1 of the Guidelines*.

Data Required for the Calculation of Crown Royalty

The Crown, in most cases, charges royalty for gas (residue gas) and gas products (ethane, propane, butanes, pentanes, and sulphur) at the plant gate exit. Crown royalty on unprocessed gas sales (raw gas) is charged at the battery or gathering system. Following are some examples of the data components used for calculating Crown royalty:

Volumetric Allocation

A facility operator is required to submit the appropriate reports: Volumetric, Stream Allocation Factor (SAF) and Owner Allocation Factor (OAF) to the Petroleum Registry of Alberta by the 15th day of the second month following the month of production. The department uses this information to determine the Crown royalty obligation. *Please refer to [Chapter III, Section 1 of the Guidelines](#).*

If a royalty client wishes to reassign his royalty responsibility to one or more royalty clients who accept responsibility for the reassignment, he must submit a Reassignment of Volumes Setup/Change (RMF2) form. *Please refer to [Chapter III, Section 2 of the Guidelines](#).*

Crown Interest

The Crown interest share of production is determined by the ownership of minerals, in the Crown lease, at a well event from which natural gas is recovered. *Please refer to [Chapter III, Section 1 of the Guidelines](#).*

Vintage

There are two types of vintage, *old* and *new*, which apply to gas, ethane and pentanes-plus. The vintage is determined by the date of discovery, or first production from the pool. There are different royalty rates for old and new vintage. *Please refer to [Chapter IV, Sections 1 and 3 of the Guidelines](#).*

Product Royalty Rate

Gas Royalty Rate: The gas royalty rate is calculated using the facility weighted average royalty rates of the products remaining within the gas streams. The facility operator is required to submit the In-Stream Component (ISC) breakdown to report the composition of the gas stream. *Please refer to [Chapter IV, Section 1 of the Guidelines](#).*

By-Product Royalty Rates: The royalty rate of each by-product, ethane, propane, butanes, and pentanes, is calculated monthly according to a prescribed formula that provides price sensitivity. The calculated rates are published in the Gas Royalty Calculation Information Letter and Information Bulletin every month. The sulphur royalty rate is fixed at 16.66667 percent. *Please refer to [Chapter IV, Sections 2, 3 and 4 of the Guidelines](#).*

Product Valuation

Gas Valuation:

Royalty clients may choose one of two valuation methods to value their Crown royalty share:

1. Reference Price Method: A gas Reference Price is calculated monthly, by the department, using pricing information submitted by industry, and is published in the Gas Royalty Calculation Information Letter and Information Bulletin every month. *Please refer to [Chapter IV, Section 1 of the Guidelines](#).*

2. Corporate Average Price (CAP) Method: The CAP price is calculated using the royalty client's annual weighted average selling price. It is subject to a floor value of 90% of the annual weighted average gas Reference Price. There is no ceiling value. CAP applies to gas only; gas by-products are valued at their respective Reference prices.

A royalty client using the CAP method of valuation may subsequently elect to use the reference price method, but cannot change from the reference price method once it has been selected. *To elect the CAP method, the client must submit an Election for Gas Valuation (VA1) form to the department on or before the 15th day of the second month following the production month in which the person became a royalty client.* If a royalty client does not submit a VA1 form by the specified deadline, the client is deemed to have selected the Reference Price and cannot change to CAP. Please refer to [Chapter IV, Section 1 of the Guidelines](#).

By-Product Valuation:

The department values ethane, propane, butanes and pentanes using the product reference price less transportation, where applicable. The department calculates the reference price of each product and publishes these prices in the Information Letter and Gas Royalty Information Bulletin every month. *Please refer to [Chapter IV, Sections 2, 3 and 4 of the Guidelines](#).*

Allowable Costs

The Crown deducts allowances for capital, operating, and custom processing costs incurred and paid in Alberta for compressing, gathering and processing its royalty share of gas and gas products. These costs are reported and allocated to royalty clients mainly by the operators of the facilities. The Crown calculates a corporate effective royalty rate (CERR) to determine the Crown's share of the eligible costs. Eligible costs are deducted from the royalties payable monthly, on an estimated basis, and adjusted annually when the actual costs are reported. Eligible costs cannot exceed royalties payable and unused costs cannot be carried forward. *Please refer to [Chapter VI of the Guidelines](#).*

A new royalty client's monthly Crown share of costs is based on a provincial average CERR, however, a written request of estimated costs must be submitted to the department for the royalty client to receive an estimated monthly Crown share of cost deduction in the first year of operation.

Royalty Deposit Account

Each royalty client must maintain a royalty deposit on account with the department. Currently, for a new royalty client, the royalty deposit equals the first and second month's Crown royalty. The deposit is charged in the invoices issued in these two months. *Please refer to [Chapter VII, Section 1 of the Guidelines](#).*

Monthly Invoice

The department issues a gas royalty invoice and a statement of account monthly to all gas royalty clients. The gas royalty invoice and supporting detail reports are issued on or before the last day of each month to a client who has received allocations of royalty liable volumes. The gas royalty Statement of Account is issued on or before the 15th day of a month and includes invoiced amounts and payments received. Interest on unpaid invoiced amounts, transfers and refunds are also reflected on the statement of account. Interest is compounded and is charged on late or underpayments at the Alberta Treasury Prime Interest Rate plus one percent. *Please refer to [Chapter VII, Section 1 of the Guidelines](#).*

Payment Information

Each client is assigned a unique six (6) digit G94 account number, which is reflected on the Gas Royalty Invoice and Statement of Account. It is imperative that clients identify their G94 account number on payment remittances to the Minister of Finance. *Please refer to [Appendix K of the Guidelines](#).*

The invoice payment due date is on or before the last day of the third month following the month of production. Example: the January 2007 production invoice is issued on or before March 31, 2007, and the payment is due April 30, 2007. If the due date falls on a weekend or holiday, the next business day will apply.

Amalgamation/Consolidation of Companies

Amalgamation

Amalgamation is when two or more companies combine to form one entity. To ensure accurate royalty reporting, and acceptance of documents, the amalgamator's BA ID must be reflected on all submissions effective the Amalgamated Established Date (AED). The department will calculate royalties under the amalgamator's BA ID, and all charges will appear on the amalgamator's invoice.

Consolidation

Consolidation is when two or more royalty clients consolidate their invoices under one BA ID (called *supra* client), who becomes the royalty payer for the consolidated entity. Royalty clients, who wish to consolidate their invoices, must submit an Invoice Consolidation Concurrence (ICC1) form to Client Registry and indicate which client will become the royalty payer for the consolidated entity. The department will calculate royalties under the individual BA ID. However, all charges related to the consolidated companies will appear on the royalty payer's invoice.

Note:

- If the reporting structure of the amalgamating/consolidating parties consists of both CAP and Reference Price, the gas valuation will revert to the Reference Price, effective the first month of the year following amalgamation/consolidation. If the reporting structure of the amalgamating/consolidating parties consists of only CAP, the gas valuation will remain CAP as long as their CAP eligibility is maintained.

- If the amalgamation/consolidation process results in the assignment of a new BA ID as the amalgamator or the supra client, the provincial average CERR will be used to estimate the monthly allowable cost deductions from the royalty amount of all the parties. Also, the department transfers any existing deposit and recalculates the deposit for the amalgamating/consolidating parties under the amalgamator or the supra client.

For information on Amalgamation and Consolidation, please refer to [Chapter II, Section 4](#) of the Guidelines.

The Petroleum Registry of Alberta (The Registry)

The Petroleum Registry of Alberta allows royalty clients to directly input and retrieve most royalty related information. All gas royalty reports are delivered to the Registry and are downloaded in the PDF/CSV/TXT formats as the default. Certain reports, relating to the invoice and Crown royalty details, are also available in the Electronic Data Interchange (EDI) format. A client, who wishes to change the mode of delivery to the EDI format for these particular reports, must submit a written request to Program Support, Gas Royalty Calculation Unit. [Fax # (780) 427-3334].

A written request is also required if the royalty client wishes to receive an Energy Adjusted Gas Equivalent Volume (EAGEV) report on the Registry. The EAGEV report provides the volumetric information for filing of the custom processing fees.

How to Apply for Petroleum Registry of Alberta (Registry) Access

The Registry is accessed through the Internet at: <http://www.petroleumregistry.gov.ab.ca>. Prior to conducting business on the Registry, a company/individual must have a Business Associate (BA) code and a BA User Security Administrator (USA) ID and password. To obtain information about applying for these IDs and password, please go to the Registry website and click on *Apply for Access*. The USA is responsible for setting up and managing security access to the Registry for all designated users for that BA.

A royalty client must also be set up with a Working Interest Owner (WIO) Role in order to receive volumetric allocations from the operator of a facility. Further information on this process can be obtained by contacting the Petroleum Registry Service Desk. See *Help* below for contact information.

Royalty clients who do not have access to the Registry may submit a written request for a BA ID and/or a WIO Role to Client Registry at:

Alberta Department of Energy	Telephone	(780) 422-1395
Client Registry	Fax	(780) 422-9522
9945 - 108 Street, 3 rd Floor	e-mail:ClientRegistry.Energy@gov.ab.ca	
T5K 2G6		

Help

The Petroleum Registry Training Modules

Registry training modules are available through the Registry web site (www.petroleumregistry.gov.ab.ca) under the Training tab. To obtain a training ID and password for these modules, click on the [Access the Online Training System](#) link.

The Petroleum Registry Service Desk

The Registry Service Desk contact numbers are:

Telephone (403) 297-6111 (Calgary) Fax (403) 297-3665
Telephone 1-800-992-1144 (other locations) e-mail: petroleumregistry.energy@gov.ab.ca

Gas Royalty Client Services

The department's Gas Royalty Client Services assists royalty clients in all aspects of the gas royalty reporting. The teams are setup by client portfolio. The client portfolio is structured according to the company name as follows:

Team	Help line
Numbered companies, A, B & L	(780) 644-1201
C – G	(780) 644-1202
H - P (excluding L)	(780) 644-1203
Q – Z	(780) 644-1204

Example: If your company name is "The Gas Company" you would call C - G team at (780) 644-1202. The Gas Royalty Client Services is available Monday to Friday between 8:15 a.m. to 4:30 p.m.

Please feel free to contact us if you require further information or visit our website at the following address: <http://www.energy.gov.ab.ca>

Deen Khan
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