



# Lower Administration Costs for Crown Royalties



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Lower Administration Costs



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- ❑ **Industry presenter:**
  - Project World - 4 years
  - CIPS Informatics - 7 years
  - PMI - Information Systems SIG
  - PPDM Association - several years



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– PPDM Association - several years



# Current Situation Crown Royalty Administration

Lower Administration Costs



## ❑ High administration costs for:

- Industry Thousands of production accountants
- Alberta Energy Dozens of administrators

## ❑ High audit costs for:

- Industry Hundreds of auditors
- Alberta Energy Dozens of auditors
- AEUB Sparse coverage of industry facilities

Where is the Alberta Advantage?



# Proposals

## - 1

### Lower Administration Costs



#### ❑ **Eliminate the cost component**

- Eliminate CGA on gas
- Eliminate various allowable costs on bitumen

**Benefit**

Eliminates huge administrative effort for the payers and significant audit costs for the crown

#### ❑ **Base crown royalty on sales**

- Abandon production basis

**Benefit**

Eliminates all the inventory/load oil accounting costs

#### ❑ **Base crown royalty on market price**

- Eliminate Alberta Gas Reference Price

**Benefit**

Eliminates audit costs and the lag in AGRP



# Simplified Crown Royalty Calculation

Lower Administration Costs



$$\text{Monthly Crown Royalty Amount} = \text{Monthly Sales Volume} * \left( \text{Crown Royalty Rate} - \text{Regional Cost Rate} \right)$$

15% of 12 month moving average market price

Product Code

# Benefits

## Lower Administration Costs

- ❑ **Reduce industry & crown administration costs**
- ❑ **Enhance crown royalty compliance**
- ❑ **Enhance assurance of compliance at a lower audit cost point**
- ❑ **Make accountants and auditors available for higher value work**



# Lower Administration Costs for Crown Royalties

Questions ???



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# Supplemental Slides



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# Potential Cost Regions

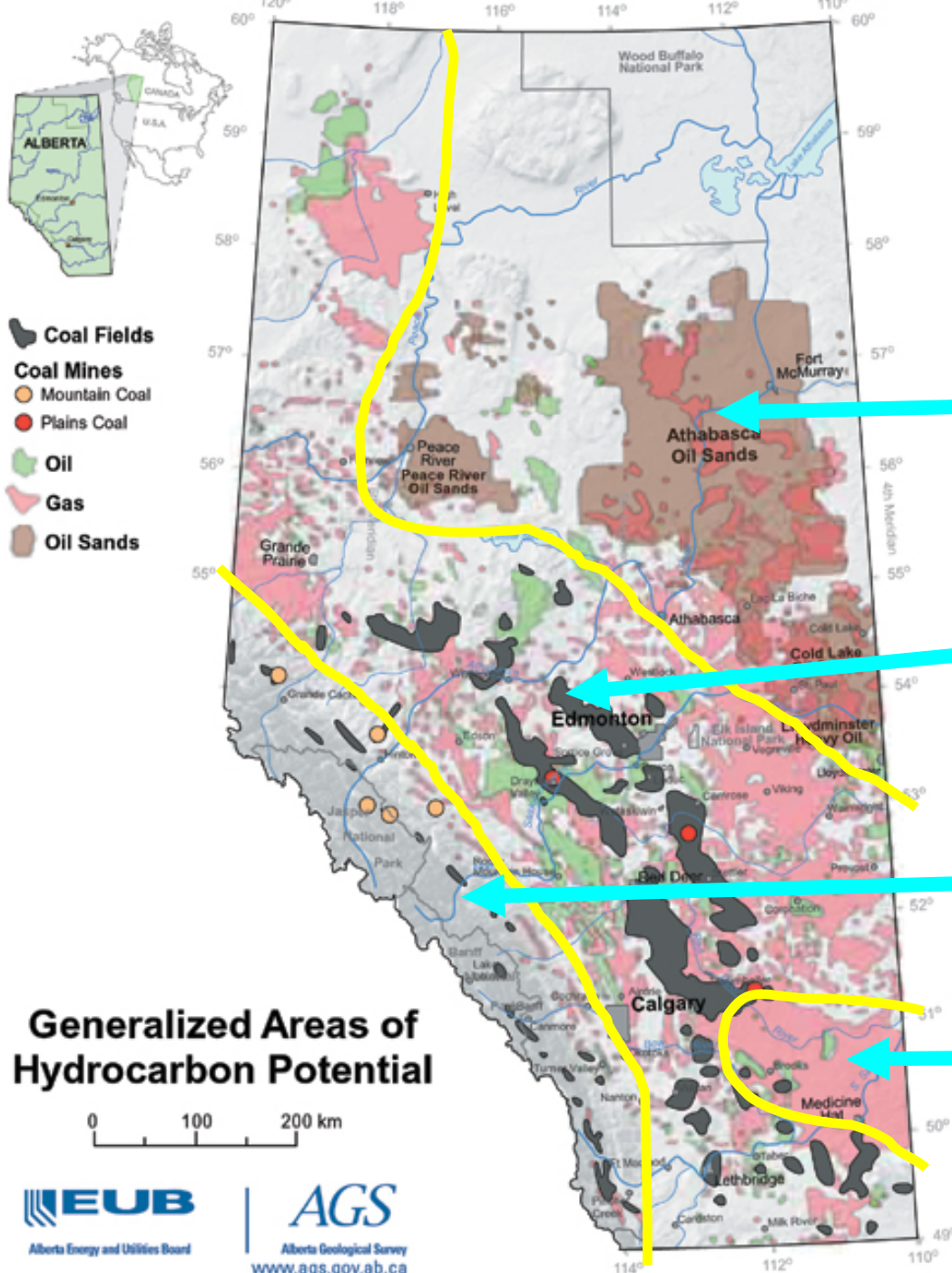


Tar Sands/  
Bitumen

Conventional  
Oil & Gas

Deep Gas

Shallow Gas



Generalized Areas of Hydrocarbon Potential

# Proposals

## - 2



### Lower Administration Costs



#### □ Enlarge the functionality of the Petroleum Registry

- Encompass data that is currently managed elsewhere
- Eliminate various inconsistencies and avoidable reconciliation processes

**Benefit** ▷ Reduces systems and data management costs

#### □ Standardize the field aspect of production reporting

- Reduce administrative costs and errors
- Apply the benefits of the Petroleum Registry to field aspects of production operations

**Benefit** ▷ Reduces systems and data management costs

# Proposals

## - 3

### Lower Administration Costs

#### □ Handle all products identically

- Eliminate the oil taken-in-kind crown royalty
- Eliminate AE marketing agents

**Benefit**

- Lets oil & gas producer handle oil marketing
- Reduces crown costs

#### □ Simplify parts of the EUB compliance rules

- Produce no benefit to oil & gas producers
- Produce no benefit to the EUB mandate

**Benefit**

- Reduces oil & gas producer costs and errors





# Counter Arguments

## Lower Administration Costs

- ❑ Less fair because it doesn't adequately recognize cost differences across pools
- ❑ Risk of undermining conservation goals for low-productivity wells
- ❑ Creates yet another vintage rather than improving existing vintages
- ❑ Disruptive to the lives/careers of many accountants and auditors
- ❑ Constitutional issues



9 Date



Cause?

Lower Administration Costs



# Too much complexity in Crown Royalty:

- Administration
- Calculation/amendment
- Audit
- Reconciliation

Amendment

Code