



October 19, 2015

Alberta Royalty Review Panel

CAPPA comments on the Alberta Royalty Framework

As a stakeholder in Alberta's upstream petroleum industry, the Canadian Association of Petroleum Production Accounting (CAPPA) appreciates the opportunity to provide the following input to the Alberta Royalty Review Panel. First, a bit of background regarding our organization. Our association provides industry recognized production and royalty accounting training through SAIT, Mount Royal University and ourselves directly. We have approximately 1000 members who support the collection, assembly and submission of monthly operating information to the Alberta Energy Regulator to meet regulatory obligations. They also provide the necessary information to enable the Alberta Department of Energy to calculate oil royalties taken in kind and invoice industry members for gas royalties payable. This should be of particular interest to the panel as the information supplied by our members is fundamental to Royalty administration in Alberta.

Due to our specialized focus on Royalty, this submission will concentrate on the "how-to" of royalty administration and recommend potential improvements to streamline and simplify royalty determination. Our organization attends to the procedural aspects of royalty, so our recommendations would indirectly lend support to the Panel's four primary objectives:

1. to optimize the return to Albertans as owners of the resource;
2. encourage industry investment;
3. encourage diversification opportunities; and
4. encourage responsible development.

CAPPA has *three recommendations* for the panel to consider to improve the quality of royalty administration in Alberta and support simplicity thereof.

**1. OIL SANDS ROYALTY REPORTING**

Volumetric, infrastructure and (non-oil sands) royalty information is transmitted from industry to government agencies through an internet based system called Petrinex. Petrinex provides services that facilitate immediate, standardized, safe and accurate management and exchange of key information. Petrinex is a joint strategic organization supporting Canada's upstream oil and gas industry and is represented by Government (Alberta Department of Energy (DOE), the Alberta Energy Regulator (AER) and the Saskatchewan Ministry of the Economy (ECON)), and Industry (represented by the Canadian Association of Petroleum Producers (CAPP) and The Explorers and Producers Association of Canada (EPAC)). Since its implementation in 2002, it has appreciably improved the accuracy and efficiency of

reporting in Alberta for industry and the Alberta government. Its benefits have been recognized by Alberta's neighboring provinces; Saskatchewan who have adopted Petrinex reporting in 2012 and British Columbia who are in the process of adopting. It is a world-class application. Unfortunately, Alberta Oil sands royalty information does not utilize Petrinex. Oil sands royalty information is collected from industry in a stand-alone reporting structure. There would be tangible benefits to industry if Petrinex were also the interface for royalty related information.

**CAPPA recommends Petrinex be implemented for Alberta oil sands royalty reporting.**

## **2. TRANSPARANCY IN ROYALTY REPORTING**

When Petrinex was implemented in 2002, a key principle was to ensure transparency of data elements used in royalty determination. We believe, that agencies within the Alberta government should continue to build upon the transparency principle and expand it to any reforms or new programs that may result from the royalty review. They should also seek to eliminate "blindspots" and improve transparency in current reporting. Suggested areas of improvement include; tracking volumes for royalty paid well groups, royalty reassignment activities, commercial storage activities, and unit agreements and their associated processes. These are just some examples of functionality that would deliver immediate benefits to all stakeholders. Petrinex has proven that its capacity is broad enough to accept and process all data collected and used by the Alberta Energy Regulator, the Department of Energy or any other department or agency which impacts royalty or royalty programs.

**CAPPA recommends Petrinex be utilized to preserve the transparency principle for current and future royalty changes and programs for all royalty products.**

## **3. MAINTAINING THE QUALITY OF REPORTING**

The Alberta Department of Energy depends on industry clients to provide accurate information for royalty determination. This is critical to ensure the Crown is accurately calculating and invoicing their share of royalties. CAPPA understands the value in timely, prompt, accurate and efficient reporting and is supportive of improvement measures. CAPPA believes, and as we also understand the bulk of industry's upstream employers also believes, that proper training of specialized accountants in production and royalty accounting is integral to accurate and efficient reporting that meet Alberta's rigorous reporting standards. Personnel performing reporting functions, who have not invested in such training and/or are geographically removed from operations, key support mechanisms and personal training opportunities, are working at a disadvantage. Consequently, there is an adverse impact that ripples across industry, and ultimately, the Crown. Ensuring that the information industry is reporting is executed by professionals trained to Alberta's (CAPPA) standards would be an important step in promoting high quality and consistency of royalty information.

**CAPPA recommends that the production and royalty reporting functions be limited to those trained to Alberta (CAPPA) standards in order to enable and maintain the high quality of this critical information.**

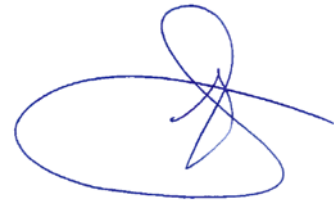
Adoption of these recommendations will promote efficiency and simplicity in royalty determination and collection. We would be pleased to meet with you at your convenience to discuss any of these recommendations in detail.

Thank you once again for this opportunity.

Sincerely,



Sheila McFadyen  
CAPPA CEO



Gavin Schafer  
CAPPA Board Chair