

Natural Gas Royalty Regime

Offshore Natural Gas Royalty

Royalty comprised of two components: basic and net. Basic and net royalty rates change through a smooth progression in between a low and high tier bandwidth.

Basic Royalty:

- to begin with project production
- basic royalty rates driven by netback value of production

Netback Price (NP)	Basic Royalty Rate (BRR)
< Cdn\$4 (NP_{min})	2% (BRR_{min})
> Cdn\$8 (NP_{max})	10% (BRR_{max})

where Netback Price is the calculated price to the project net of transportation costs

$$BRR = BRR_{min} + \left[\frac{(NP - NP_{min})}{(NP_{max} - NP_{min})} \right] \times (BRR_{max} - BRR_{min})$$

Basic Royalty = (revenue – transportation costs) x BRR

Net Royalty:

- to begin with project cost recovery
- net royalty rates driven by revenue to cost index

R Factor (R)	Net Royalty Rate (NRR)
< 1 (R_{min})	0% (NRR_{min})
> 4 (R_{max})	50% (NRR_{max})

where $R = (\text{cumulative revenue less cumulative transportation costs less cumulative royalty paid}) \div (\text{cumulative project capital \& operating costs})$

$$NRR = NRR_{min} + \left[\frac{(R - R_{min})}{(R_{max} - R_{min})} \right] \times (NRR_{max} - NRR_{min})$$

Net Royalty = (revenue – transportation costs – project capital & operating costs – basic royalty paid) x NRR