



Added by the  
Minister of NR  
2017-11-15  
Gordon

Government of Newfoundland and Labrador  
Department of Natural Resources  
Office of the Deputy Minister

OCT 31 2017

Mr. R. Paul Barnes  
Director, Atlantic Canada & Arctic  
Canadian Association of Petroleum Producers (CAPP)  
Suite 1004, Scotia Centre  
235 Water Street  
A1C 1B6

Dear Mr. Barnes: Paul,

**Re: New Generic Offshore Oil Royalty Regime**

The framework for a new generic oil royalty regime was publicly released on November 2, 2015 (Attachment 1). Recognizing the need for fiscal and regulatory certainty, improved regulatory processes, as well as an attractive and stable business environment, the Department of Natural Resources (NR) engaged in further consultation with industry and other stakeholders and undertook additional analysis of the new royalty terms.

On November 9, 2016, the Provincial Government released *The Way Forward* which committed to various strategic oil and gas sector actions including implementation of the generic oil royalty regime through finalization of detailed regulations under the *Petroleum and Natural Gas Act (PNG)*. This letter is to inform you that the new regulations, *Offshore Oil Royalty Regulations*, will be publically released through the *Newfoundland and Labrador Gazette* on November 1, 2017.

There will be no retroactive application of the new regime to existing projects where regulated or negotiated royalty terms are in place.

The Provincial Government understands the importance of international competitiveness to continued investment in exploration and development. Collaborative work in this area is ongoing through both the Newfoundland and Labrador Oil and Gas Industry Development Council and the Atlantic Competitiveness Roundtable. In particular, NR recently contracted Wood Mackenzie to complete an international competitiveness review of our offshore oil and gas sector vis-à-vis other jurisdictions with initial results expected in early November 2017.

If you have any questions on the new generic oil royalty regime, I can be reached at (709) 729-2356 or [gordonmcintosh@gov.nl.ca](mailto:gordonmcintosh@gov.nl.ca).

Sincerely,

**GORDON MCINTOSH**  
Deputy Minister

Attachment (1) – New Generic Offshore Oil Royalty Regime

**Attachment 1**

**Generic Offshore Oil Royalty Regime**

**Basic Royalty:**

- to begin at first production and increase with project cost recovery
- fixed basic royalty rates linked to revenue over cost index (R Factor)

R Factor (R)	Basic Royalty Rate (BRR)
First Oil to $R < 0.25$	1%
$0.25 \leq R < 1$	2.5%
$1 \leq R < 1.25$	5%
$R \geq 1.25$	7.5%

where  $R = (\text{cumulative gross sales revenue and incidental revenue less cumulative transportation costs less cumulative basic and net royalty paid to prior month}) \div (\text{cumulative pre-development, capital \& operating costs})$

**Basic royalty = (gross sales revenue - transportation costs) x BRR**

**Net Royalty:**

- to begin with project cost recovery
- sliding scale net royalty rates driven by revenue over cost index (R Factor)

R Factor (R)	Net Royalty Rate (NRR)
$R < 1$ ( $R_{min}$ )	0%
$1 \leq R \leq 3$	10% ( $NRR_{min}$ ) - 50% ( $NRR_{max}$ )
$R > 3$ ( $R_{max}$ )	50%

R has the same definition and calculation as for the basic royalty above

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

**Net royalty = (gross sales revenue + incidental revenue - transportation costs - project capital & operating costs) x NRR**

**Notes:**

1. The new regime will comprise a basic and net royalty with both linked to cost recovery and profitability as measured by one R Factor calculation.
2. Basic royalty rates will range from 1% to 7.5% with step increases linked to the R Factor.
3. Net royalty set to one tier with sliding scale flexible rates ranging from 10% to 50%. Rates linked to same R Factor as defined for basic royalty.
4. Basic royalty is a credit against net royalty.
5. Royalty calculations are to be compiled on a monthly basis.
6. The new regime does not include return allowances, uplifts and consumer price index adjustments on project costs.

OCT 31 2017

Mr. Andrew Bell, Chair  
NOIA (Newfoundland & Labrador Oil & Gas Industries Association)  
Box 44, Suite 602, Atlantic Place  
215 Water Street  
St. John's, NL A1C 6C9

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Deputy Minister

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