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Potential Implications For Suncor In A Move To A Bitumen-Based Royalty

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In Thursday's globeandmail.com, [David Ebner](#) wrote the following:

Suncor Energy Inc. ([SU](#)) and **Syncrude Canada Ltd.** have individual royalty deals with the government of Alberta, which set the two oil sands giants apart from the rest of the industry that operates under what's called a generic royalty regime in the oil sands. Suncor and Syncrude, in fact, will likely pay far lower royalties starting in 2009, regardless of how much Alberta decides to hike royalties in general.

...

Regardless, when 2009 arrives, Suncor and likely Syncrude will see their royalty burden fall as they begin to pay on cheap bitumen rather than synthetic oil. Suncor had estimated that with oil at \$50 (U.S.) a barrel, it would pay about 8.5 per cent of its gross revenues as royalty in 2007-08, which could fall as low as 5 per cent in 2009-2012. Syncrude hasn't yet officially decided to make the switch.

While it is true that both companies can elect to move to a bitumen based royalty, what is not clear is whether both companies would be required to make restitution to the Alberta government for the royalty lost, inflated by the long term bond rate, because past upgrader investments were allowed as part of the cost base for royalty calculations.

The companies might be required to make a choice: You can choose either to remain with the royalty based on the synthetic crude oil [SCO] as you currently are, with all the benefits you derived from having the upgrader costs as part of the cost base for royalty purposes, or to move to a bitumen based royalty and pay back the royalty deductions, inflated at the long term bond rate, you received from having the upgrader costs as part of the cost base for royalty purposes. This choice, in effect, places the company on a SCO or bitumen based royalty from day one, with several years to consider the option of bitumen or SCO based royalty.

Put differently, I suspect the Alberta government might put a clawback mechanism in place to recapture the earlier benefits of having upgrader costs deductible. I will comment further on the SCO and bitumen royalty when I provide my comments on the Alberta Royalty Review.

Disclosure: I am long [Suncor Energy Inc.](#) and [Canadian Oil Sands Trust \(COS-UN.TO\)](#).

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