

Upgrade Alberta: Fixing Alberta's Bitumen Valuation Methodology

Issue

The oil sands resource is Alberta's largest economic asset, with proven reserves over 158.9 billion barrels.¹ While nearly two-thirds of oil sands production used to be upgraded, now only about one-third of oil sands production is upgraded. Currently, the Bitumen Valuation Methodology (BVM) is economically disadvantaging value-add opportunities for bitumen production, including upgrading. This is because the current BVM overestimates the value of bitumen relative to the actual market pricing. Revising BVM to reflect market value of bitumen is the most important long-term economic strategy the government can implement to enable market-based investment in technologies that add value to Alberta's resources and diversify Alberta's economy.

Background

In 2009, Alberta implemented the Bitumen Valuation Methodology (BVM) with the intent of ensuring integrated operators generally received the same market basis for royalty pricing whether they integrate the barrel of bitumen into an upgrader or sell to a third-party. This originated during the 2007 royalty review as a result of the termination of crown agreements with existing operators. The intent of BVM was to temporarily set a value on bitumen produced by integrated producers that was reflective of market prices, but the formula has led to inconsistent and substantially higher pricing than the market value of bitumen. A permanent replacement for BVM has not been developed.

BVM formula pricing assigns significantly higher bitumen prices (\$4-8/bbl) than the market. The gap widens when market access issues worsen, and differentials widen because there is a floor price provision linking the price to Mexican Maya heavy crude oil sold into the US Gulf Coast market. Integrated oil sands producers are paying incremental royalties on the value-added product instead of the bitumen production. This erodes upgrading margin and results in a significant competitive disadvantage in building additional processing in the province versus other jurisdictions. This has become Alberta's single largest financial barrier to investment in value added technology for the oil sands.

Alberta's resource is being sold at lower prices instead of being upgraded to create higher-value products that yield a higher price. Planned new upgraders and expansions of existing upgraders have been shelved, while oil sands companies have invested more than \$18 billion in value-added in the United States. Prior to the introduction of BVM, approximately 60 per cent of produced bitumen was upgraded in the province. That share has dropped to about 35 per cent.²

Removing BVM and implementing a method that ensures the royalty for bitumen upgraded in Alberta is based on the same market value as the bitumen sold by producers to third parties, would

¹ Government of Alberta. "Oil Sands Facts and Statistics." <https://www.alberta.ca/oil-sands-facts-and-statistics.aspx>. Accessed February 7, 2024.

² Oil Sands Magazine. "Bitumen Upgrading Explained." <https://www.oilsandsmagazine.com/technical/bitumen-upgrading#:~:text=About%2035%25%20of%20Alberta's%20bitumen,being%20sold%20to%20downstream%20refineries>. Accessed February 7, 2024.

lead to 50 per cent of bitumen being upgraded in the province in the next ten years. This aligns with Alberta Innovates goal of upgrading 20 per cent of in situ production (approximately 500,000 b/d of partial upgrading capacity) and the Government of Alberta's Recovery Plan.¹

Reaching a goal of upgrading 50 per cent of bitumen in the province would:

- Allow for debottlenecking at existing upgraders, adding 100,000 b/d of upgrading capacity and, add an additional 400,000 b/d of upgrading capacity through potential new investments in partial upgraders.
- Create 30,000 construction jobs and more than 11,000 permanent jobs in Alberta.
- Generate an average of over \$700 million in annual government revenue (taxes and royalties) over the life the new assets – 30 years or more.
- Free capacity on existing pipelines, up to an additional 180,000 b/d.
- Create new customers and markets for Alberta's oil sands products.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Remove the existing Bitumen Valuation Methodology and design a method that ensures the royalty for bitumen upgraded in Alberta is based on market value, ensuring competitiveness and value for Albertans and restoring investor confidence; and
2. Adopt the target of upgrading at least 50 per cent of Alberta's bitumen in the province in the next ten years.

¹Alberta Innovates. "Report on partial bitumen upgrading delivers key market insights." <https://albertainnovates.ca/news/report-on-partial-bitumen-upgrading-delivers-key-market-insights/>. Accessed February 7, 2024.