

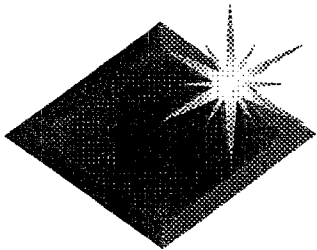
*ALBERTA DEPARTMENT of
ENERGY (DOE)*

Gas Royalty Calculation Unit

June 2004

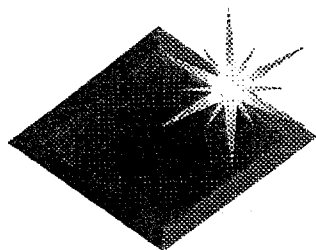
OTR_001027

Rose Ann Summers



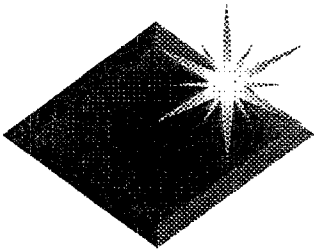
Agenda

- ◆ **Objective**
- ◆ **Background – Crown Rights**
- ◆ **Royalty Assessment Components**
 - ◆ **Volumetric Reporting**
 - ◆ **Crown Share and Valuation**
 - ◆ **Cost Recognition**
- ◆ **Royalty Levy and Collection**
- ◆ **Exemptions, Waivers and Other Royalty Deductions**
- ◆ **General Information**
- ◆ **Statistics**



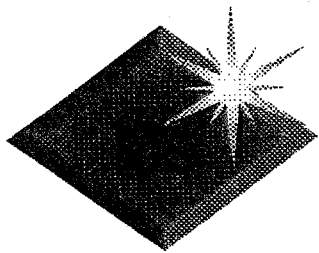
Objective

To provide an overview of the components and variables for the Crown royalty calculation on Alberta gas.



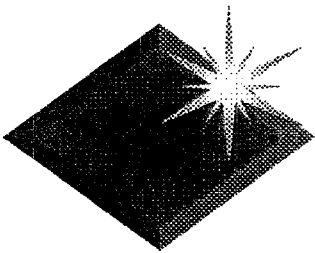
Background – Crown Rights

- ◆ The Crown owns the mineral rights underlying Crown lands.
- ◆ Royalty clients apply to the Crown to obtain lease agreements to produce the natural gas
- ◆ Once a royalty client has a lease, they obtain approval from the Alberta Energy and Utilities Board (AEUB) to drill a well.
- ◆ Based on the land where the well is drilled, the EUB will assign characteristics to the well. These characteristics are used as variables in determining the Crown share of the well production. (e.g. Crown interest %, vintage)
- ◆ A royalty client is a person or company with whom the Department exchanges information.



Royalty Assessment Components

- ◆ **Volumetric Reporting**
- ◆ **Crown Share and Valuation**
- ◆ **Cost Recognition**

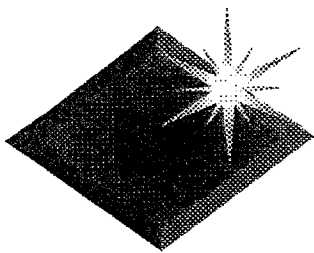


Volumetric Reporting

Facility operators are responsible for reporting volumetric and infrastructure data to the Department of Energy (DOE) and the Alberta Energy and Utilities Board (AEUB) via the Petroleum Registry of Alberta (PRA).

- ◆ Stream Allocation Factor (SAF)
- ◆ Owner Allocation Factor (OAF)

The Department extracts the volumetric and infrastructure data from the Registry.



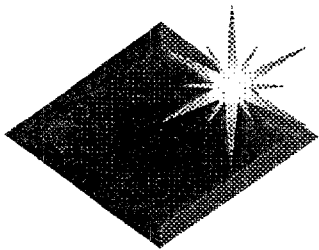
Crown Share and Valuation

Crown Share

- ◆ Based on information submitted to the Registry by stakeholders, the Crown is able to determine who is liable to pay royalties.
- ◆ Crown Interest
- ◆ Vintage
- ◆ Facility Average Royalty Rate (FARR) for Gas
- ◆ Product Royalty Rate
- ◆ Low Productivity

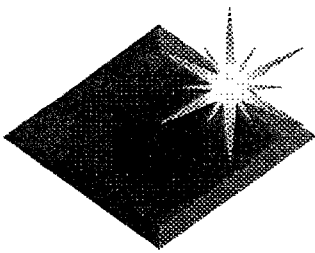
Valuation

- ◆ Corporate Average Price (CAP)
- ◆ Facility Average Price (FAP) for Gas
- ◆ Product Reference Price
- ◆ 80 % of Reference Price (Raw Gas Sales)



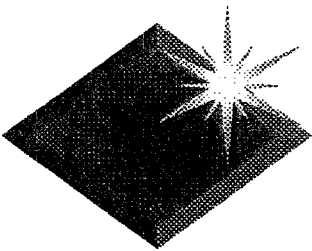
Cost Recognition

- ◆ Since a royalty client produces and processes the Crown's share of natural gas and gas products, the Crown shares in the costs by way of cost allowances.
- ◆ Cost allowances are deducted from royalty owing to the Crown for natural gas and gas products royalty.
- ◆ Cost allowances may never exceed the royalty owing to the Crown in a given production year.
- ◆ Unclaimed cost allowances may not be carried forward to a subsequent production year.
- ◆ Eligible and ineligible costs (see attached)



Cost Recognition

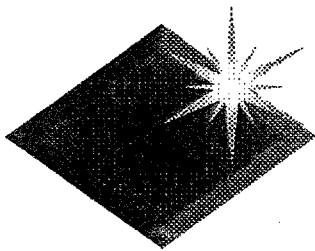
- ◆ **3 Types of Cost Allowances**
 - **Capital Cost Allowance (CCA)**
 - **Custom Processing Cost Allowance (CP)**
 - **Operating Cost Allowance (UOCR)**
- ◆ **A facility cost centre (FCC) is a compression, gathering or processing facility used by the facility operator to report annual capital and operating costs on behalf of its owners.**
- ◆ **Estimated costs are applied monthly based on previous years actual costs.**
- ◆ **Actual costs are calculated in June of the following production year (June 2004 reports actual costs for the 2003 production year).**



Cost Recognition

Capital Cost Allowances

- ◆ **Capital Cost Allowances are deducted for royalty clients who own functional components of compression, gathering and processing facilities.**
- ◆ **Capital cost allowances are reported annually by each FCC operator.**
- ◆ **An important attribute of each FCC is the remaining useful life (RUL). The RUL is based on the number of years an asset will be used to compress, gather and process gas that is produced during the economic life of the natural gas reserves that it serves.**
- ◆ **The RUL is used to determine the period of time the capital asset will be depreciated over.**

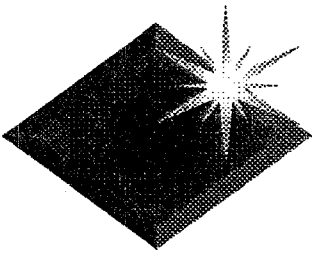


Cost Recognition

Capital Cost Allowances – (cont'd)

- ◆ Each royalty client has its own Corporate Effective Royalty Rate (CERR) for each production year.
- ◆ The CERR represents the portion of a client's corporate production that is Crown.
- ◆ The CERR is used to determine the royalty client's Crown share of the capital allowances.

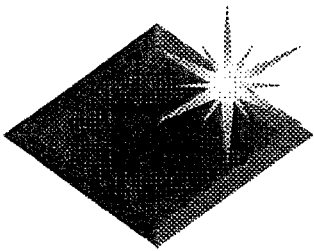
For example, if a client had a CERR of 20% and a total capital cost allowance of \$1,000, the Crown share of the capital cost allowance would be \$200.



Cost Recognition

Custom Processing Cost Allowance

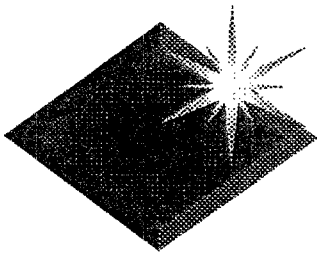
- ◆ Custom Processing Cost Allowances are deducted for royalty clients who pay for the compression, gathering or processing on a fee-for-service basis.
- ◆ The clients CERR is applied to the total Custom Processing Costs claimed to determine the Crown share.



Cost Recognition

Operating Cost Allowances

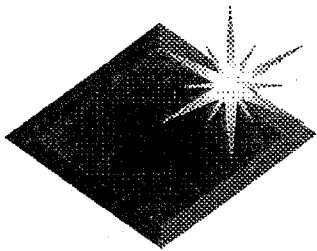
- ◆ **Operating Cost Allowances are deducted monthly for each royalty client based on its Crown royalty share of gas and gas products in the month and the applicable Unit Operating Cost Rate (UOCR) at each facility.**
- ◆ **Effective with the 2004 production year, DOE will be using a Hybrid Model to calculate operating costs:**
 - ◆ **Designated facility operators report actual compression, gathering and processing costs on an annual basis.**
 - ◆ **Non-designated facility operators report actual processing costs on an annual basis but may also be required to provide compression/gathering costs every 5 years through a survey.**



Cost Recognition

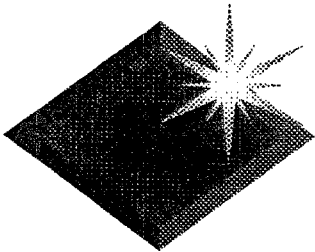
Operating Cost Allowances – (cont'd)

- ◆ There are three types of plant classes:
 - ◆ Dry
 - ◆ Sweet
 - ◆ Sour
- ◆ Costs will be matched to the year they are incurred through an annual adjustment.



Royalty Levy and Collection

- ◆ **Invoice**
- ◆ **Statement of Account**
- ◆ **Royalty Deposit**
- ◆ **Compliance**



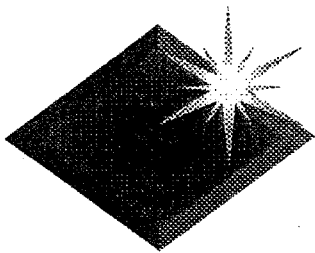
Royalty Levy and Collection

Invoice

- ◆ The DOE issues a monthly invoice to notify clients of all activity that occurred in the billing period, including charges, credits and adjustments.
- ◆ Invoices are issued on or before the last day of the second month following the month of production. (The invoice for January production month is issued in March billing period and is due April 30)

Statement of Account

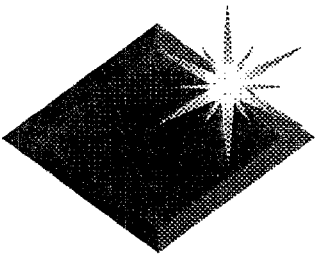
- ◆ Issued on the 75th day following month of production.
- ◆ The statement shows a running balance of invoice charges and credits, payments, refunds, transfers and interest.
- ◆ Collection action.



Royalty Levy and Collection

Royalty Deposit

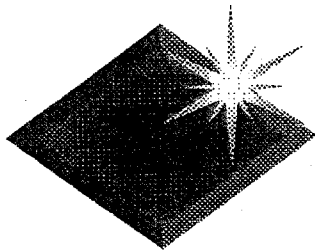
- ◆ The Crown requires that a royalty client maintain a deposit in an account with the Department
 - ◆ based on the first two months of royalty charged
 - ◆ equal to 1/6 (one-sixth) of the total net royalty charged in the previous year
 - ◆ factor method
- ◆ As a part of the year-end process royalty deposits are recalculated for each royalty client and any debits or credits adjustments are applied to the client's Royalty Deposit Account.
- ◆ The Crown does not pay interest on the deposit maintained with the Department, nor does it charge or pay interest on the annual deposit adjustment.



Royalty Levy and Collection

Compliance

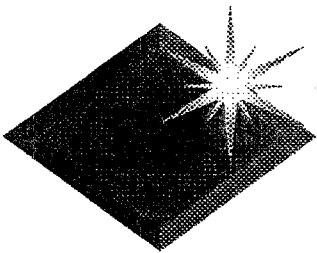
- ◆ **The Department's ability to calculate and collect accurate Crown royalty is dependent on complete, correct, and timely reporting.**
- ◆ **A Provisional Assessment will be levied against a facility operator for situations where the department is provided incomplete information.**
- ◆ **Provisional assessment charges will be reversed providing that the facility operator amends the incorrect information.**
- ◆ **Late filing penalties will be levied against royalty clients who do not file required forms by the prescribed deadlines.**



Exemptions, Waivers and Other Royalty Reductions

Royalty Features

- ◆ The Royalty regime has some features that provide incentives for discovery of new pools, energy conservation and reducing green house gas emissions.
- ◆ Some examples are:
 - Otherwise Flared Solution Gas (OFSG) Royalty Waiver
 - Deep Gas Royalty Holiday (DGRHP)
 - Sulphur Emissions Control Assistance Program (SECAP)
 - Energy Efficiency Credit Program (EECP)



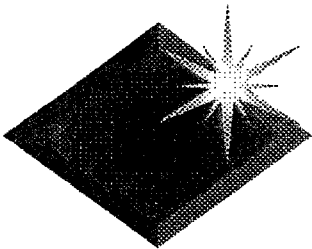
General Information

Systems utilized for Crown Royalty assessment

- ◆ CARS – Corporate Accounting Reporting System
- ◆ LSAS - Land Status Automated Systems
- ◆ MRIS – Mineral Revenues Information System
- ◆ MRS – Mineral Revenues System
- ◆ PRA – Petroleum Registry of Alberta

Communication

- ◆ Information Letter
- ◆ Information Bulletin
- ◆ Principles and Procedures (Guidelines)
- ◆ Website www.energy.gov.ab.ca



Statistics

General Statistics as of December 31, 2003

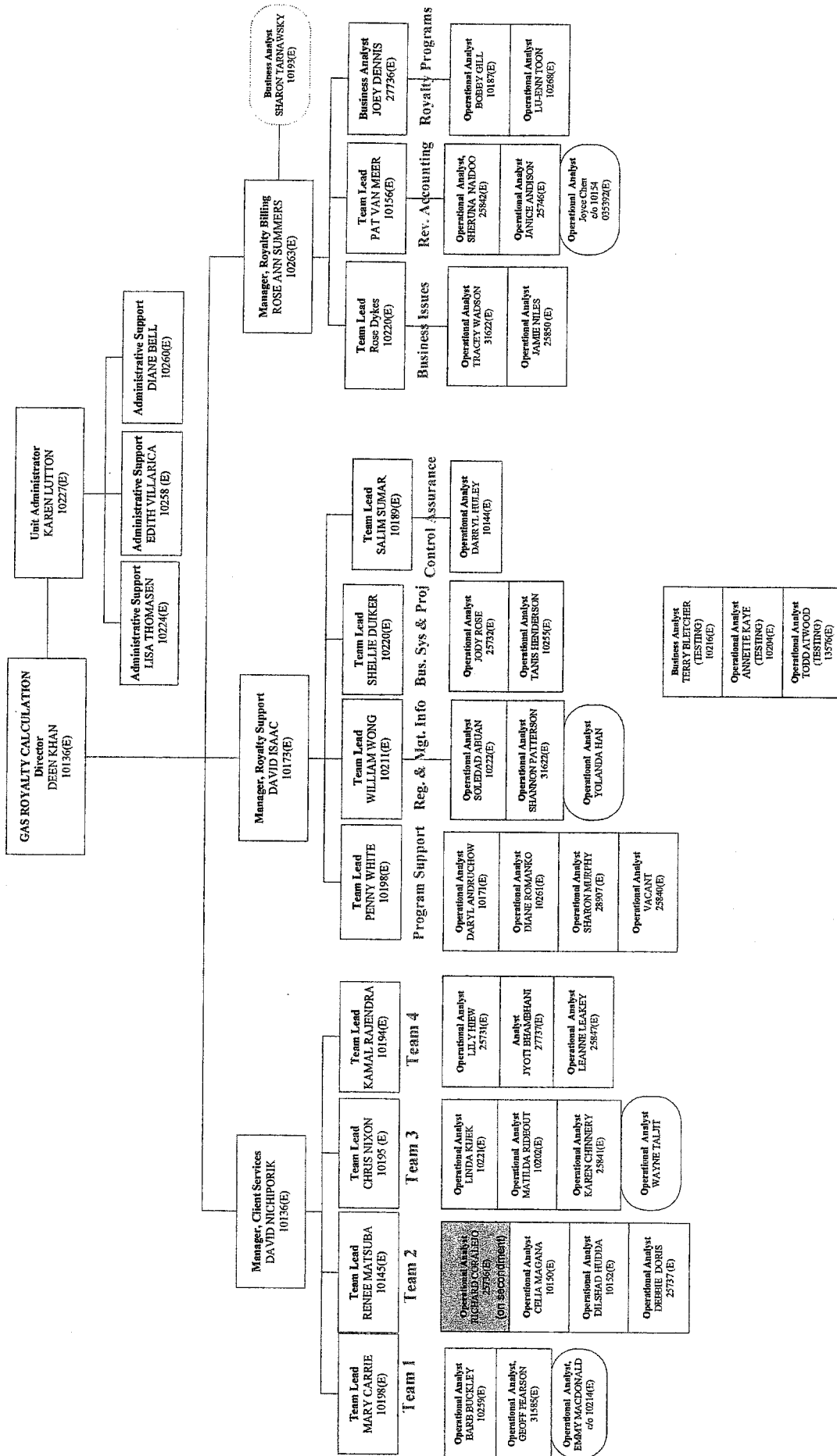
◆ Number of Royalty Clients Invoiced	3,681
◆ Number of Active Wells (gas & oil)	361,031
◆ Number of Active Gas Plants	931
◆ Number of Active Batteries	46,257
◆ Number of Active Gathering Systems	3,246
◆ 2003 Net Royalty*	\$ 6.0B

***Net Royalty includes all invoice charge types.**



**ELECTRICITY & GAS
DIVISION**

GAS ROYALTY CALCULATION UNIT



Last Updated: June 1, 2004