

INTRODUCTION

Under Part 4 of the Natural Gas Marketing Act, the Alberta Petroleum Marketing Commission (APMC) is authorized to collect information from the natural gas industry. Staff of the Department of Energy located in Calgary administer the responsibilities of the APMC under Part 4. Information is collected for the purposes of:

- ❖ calculating a monthly Reference Price for valuation of the Crown's royalty share of natural gas production,
- ❖ evaluating, formulating or administering any policy or program of the Department of Energy, or
- ❖ administering any other enactment under the administration of the Minister.

The primary sources of this information are the APMC 600-series forms which are completed by persons conducting specific natural gas activities within Alberta. A review of the *Do you have to Report* section of this guide is important in establishing if you are required to submit any of the APMC 600-series forms.

Because of the importance of the data, there are penalties for late and inaccurate / incomplete reporting. In addition to the forms provided, the APMC will accept submissions by fax, facsimile, modem or magnetic media.

The Natural Gas Marketing Act and Natural Gas Marketing Regulation are the final authorities on the reporting process and will prevail over statements made in this guide.

HOW THIS GUIDE WILL HELP YOU

This guide has been prepared to help you determine the following:

- ❖ If you have to report;
- ❖ What forms must be completed and submitted;
- ❖ How to complete the forms using the instructions and examples provided;
- ❖ How to submit and process amendments; and
- ❖ Answers to many of your questions.

In addition, this guide contains an explanation of the Reference Price Calculation and includes various administrative requirements and a Glossary of Terms.

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DESCRIPTION OF THE REFERENCE PRICE CALCULATION

Background

(Excerpt from the *Alberta Natural Gas Royalty Principles and Procedures 1994*) “The petroleum and natural gas industry and the Department recognized that the Crown natural gas royalty administration, originally developed in the early 1970s, was no longer appropriate for the deregulated Alberta natural gas business environment that evolved during the late 1980s. Accordingly, the Department initiated a project with the objective of simplifying the administration of Crown natural gas royalty within the context of the changed business environment.

In 1991 the Department, working with recognized petroleum and natural gas industry associations, organized a Joint Project Team to address the simplification of Crown natural gas royalty administration. ...”

To address the complexity in administration, the Joint Project Team formulated several major business rule changes for implementation in 1994. One of these changes was the creation of a Monthly Reference Price which would be used to value the Crown’s royalty share of gas (raw gas, residue gas and ethane). Royalty clients may elect to value their Crown royalty gas at an annual Corporate Average Price (CAP) and details of this option are found in the Principles and Procedures manual.

The Alberta Petroleum Marketing Commission (APMC) was authorized to manage the reporting and calculation of the Reference Price on the Crown’s behalf. The APMC had previously collected information from industry on the purchase and sale of natural gas under the authority of the Natural Gas Marketing Act and industry will continue to report to the APMC by the last day of the month following the month of production. The Government of Alberta will publish a Reference Price on the 15th day of the second month following the month of production.

Penalties were introduced to ensure that accurate and timely information is provided to the APMC.

Calculation of the Natural Gas Reference Price

The Alberta Natural Gas Reference Price is the weighted average price of Gas Consumed in Alberta and Gas Exported from Alberta (Weighted Average Price of Alberta Gas), less Deductions for Transporting and Marketing, and includes Amendment Adjustments. Once the Reference Price is established for a month, it will not be changed retroactively. All values used in calculating the Reference Price reflect prices derived from arm’s length transactions. Adjustments resulting from amendments to prior months are rolled into the calculations for future months.

Gas Consumed in Alberta

To determine consumption within Alberta, purchase information is collected from Large-volume End Users, APMC Designated Distributors (Alberta gas utilities) and end users’ agents or end users (if no agents) engaged in Buy/Sell transactions with APMC Designated Distributors. This information is used to generate a price at the inlet to each facility of a Large-volume End User or, in the case of an APMC Designated Distributor, at the inlet to the franchise area. Consequently, where purchases are made upstream of a facility or the franchise area, the applicable fuel and transportation costs are reported to enable the APMC to derive the required price. Fuel gas is valued at the weighted average purchase price of the gas consumed.

Quantity and value are collected for an arm’s length transaction; only quantity is collected for a non-arm’s length transaction. The non-arm’s length purchases for Large-volume End Users and Designated Distributors are valued at the weighted average price of the arm’s length purchases for the respective group. Arm’s length and non-arm’s length values and quantities are then combined to arrive at the totals for each of the Large-volume End Users and the APMC Designated

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Distributors. The Delivered Price is the weighted average price for all intra-Alberta consumption.

Gas Exported from Alberta

This information is collected from companies who remove gas from the Province of Alberta and enables the APMC to determine a netback price and quantity at the Alberta border. Therefore, when the sales transaction occurs at a point downstream of the Alberta border, additional information regarding the Canadian transportation cost and fuel is required to calculate the netback price at the Alberta border. Where a sales transaction occurs outside Canada, the reporting company is required to report the netback quantity and value of that sale at the Canadian international border. The netback value is determined by deducting the relevant cost of transporting the gas within the U.S. from the applicable sales revenue. This information is collected for each company for each removal point.

The same basic procedure for valuing non-arm's length quantities is applied as described above. Non-arm's length quantities are valued at the weighted average arm's length price for gas at that removal point. Should the non-arm's length quantities exceed the arm's length quantities for a particular removal point, the weighted average arm's length price for all removal points, including the arm's length purchases at that particular removal point, will be used to value the non-arm's length quantities.

By aggregating all removal points, the total quantity and value will be used by the APMC to derive a weighted average netback price at the Alberta border for all gas removed from Alberta.

Deduction for Transporting and Marketing

The allowances listed below are used by the APMC to derive the netback price in the field. The unit prices for each of these

components are deducted from the Weighted Average Price of Alberta Gas. The various deductions are briefly described below.

1. Intra-Alberta Transportation deduction is the monthly NOVA cost of service divided by total NOVA net billable receipt quantities, as calculated by the APMC.
2. Marketing Allowance is a weighted average of marketing costs and includes the relevant Overhead, Marketing and Administrative Costs (OMAC) of aggregators, as well as marketer costs under the heading of Valuation Point Adjustment (VPA). The Ministry calculates the VPA by annual statistical survey.
3. Average Field Netback Price is the "Weighted Average Price of Alberta Gas" less the above deductions (1 and 2). The "Weighted Average Price of Alberta Gas" reflects the aggregate of intra-Alberta consumption and ex-Alberta disposition.
4. Pipeline Fuel/Loss Factor is NOVA's ratio of net receipts after fuel and losses to total receipts, as calculated by the APMC. This ratio is then applied to the Average Field Netback Price. The result is identified as "Alberta Reference Price before Amendment Adjustment".
5. Amendment Adjustment is the changes to prior periods resulting from reporting errors or omissions by reporting companies. If the effect of these changes is a Reference Price variation for a given month by an amount greater than 2%, the change will be restricted to 2% and the residual value will be carried forward to the next month. The APMC will account for the residual value from month to month.

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SCHEMATIC OF THE GAS REFERENCE PRICE

