

**GAS ROYALTY CALCULATION  
SUPPLEMENT - INFORMATION BULLETIN  
February 2010**

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## *Alberta Natural Gas Royalty Guidelines, 2009*

Effective January 2009, numerous changes were introduced to the Gas Cost Allowance (GCA) regime. The first phase of these changes eliminated the Unit Operating Cost Rate (UOCR) process used to calculate the Crown share of operating costs and replaced it with a new estimated Operating Cost (OP) deduction. In addition, the Crown share of capital and operating costs and custom processing fees are now calculated at a facility level using a Facility Effective Royalty Rate (FERR), in place of the Corporate Effective Royalty Rate (CERR).

The second phase of the changes pertains to the new forms submitted by industry to report the capital and operating costs and custom processing fees, as well as changes to the annual cost calculations that reconcile the monthly estimated costs.

We have attached comprehensive excerpts from the Guidelines that address the changes to the GCA regime. Refer to [attachments 1, 2, and 3](#).

As we are in the process of updating the operational guidelines, the content of these excerpts may be subject to further change. However, should any changes be deemed necessary prior to publication, the updated copy will be forwarded via an updated Information Bulletin supplement.

The July 2006 edition is still applicable for periods prior to January 2009.

If you have any questions, please contact Wayne Taljit, Manager, Client Services, at (780) 422-9296.



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### **3. Capital and Operating Cost Allowances**

#### **3.1 Business Summary**

A.R. 221/2008 S.18 (2)(3)(4)(5)(6)(7)

The Crown deducts costs for compressing, gathering and processing its royalty share of gas and gas products through the Crown share of capital and operating costs incurred and paid in Alberta.

A.R. 221/2008 S.18(12)

Effective January 2009, the application of operating cost deductions against royalties is similar to that of the capital cost deduction process. The Facility Cost Centre (FCC) operators must report actual operating costs annually. The annual capital and operating costs are reported on the Capital & Operating Cost Allowance (AC2-V4).

The Crown share of capital and operating costs is calculated individually at a client/facility level, by multiplying the allocated client/facility cost by its Facility Effective Royalty Rate (FERR). The Crown share of costs calculated for each facility is summarized as an individual deduction for each charge type on the client's invoice. The Crown share of costs is only deducted by way of reductions from royalty compensation owing to the Crown for natural gas and gas products.

The Crown share of capital and operating costs is deducted monthly on an estimated basis and adjusted in the April Initial Annual Billing Period (IABP) invoice, issued in the calendar month of June, when the Crown share is calculated based on the actual costs reported. The Crown share of capital and operating costs is deducted for each royalty client who is allocated a percentage of the reported costs.

The Crown share of costs deducted for a royalty client in a year must not exceed the total royalty compensation otherwise owed to the Crown for natural gas and gas products at each facility for that year. The Crown share of costs calculated for a year, which is not recovered in that year, is not carried forward to a subsequent year.

Allowable and non-allowable capital costs are described in *Appendix G*, and allowable and non-allowable operating costs are described in *Appendix H*.

#### **3.2 Greenhouse Gas (GHG) Emission Compliance Costs**

The department does not require capital costs associated with GHG emission compliance costs to be reported separately from allowable capital costs as it does not distinguish between the two. However, operating costs associated with GHG emission compliance costs must be reported separately for Crown royalty purposes.

### **Reporting of Operating Costs Associated with Greenhouse Gas Emission Compliance Costs for Production Years 2007 and 2008 (Natural Gas Royalty Regulation, 2002)**

The Allowable Operating Cost (AC4-V2) has no provision to report GHG emission compliance costs separately from other allowable operating costs. The operator of an ERCB facility required under the *Specified Gas Emitters Regulation* (SGER) to reduce GHG emissions, or the operator of an ERCB facility that has sold a performance credit to a facility to assist in compliance obligations, must submit a letter to the department, with supporting documentation, to claim the operating costs for the production years 2007 and 2008. GHG emission compliance costs are to be claimed at an ERCB facility level. If applicable, facility operators must include the percentage of operating costs that is to be allocated to each working interest owner or designated royalty client.

Requests should be sent to the department before a production year becomes statute barred. Once the department has completed its review, an amendment is processed and reflected as a Financial and Volumetric adjustment on the facility operator's invoice. It is the operator's responsibility to allocate the credit amongst the working interest owners. An allowable cost restriction is applied at the working interest owner level if the Crown share of allowable cost deduction exceeds the total royalty compensation owed to the Crown by the royalty client. The department monitors this adjustment until the production year becomes statute barred.

### **Reporting of Operating Costs Associated with Greenhouse Gas Emission Compliance Costs for Production Years Effective 2009 (Natural Gas Royalty Regulation, 2009)**

A separate line item is included on the Capital and Operating Cost Allowance (AC2-V4) to capture GHG emission compliance costs. The costs should be reported separately from the other allowable operating costs as they are not eligible to receive overhead and working capital allowance.

## **3.3 Annual Allowable Capital Costs**

The allowable capital costs incurred and paid in Alberta that may be included in the calculation of capital cost allowances for an FCC are described in *Appendix G*. *Appendix G* also includes a description of non-allowable capital costs and a schematic depicting the general definition of allowable and non-allowable capital costs.

### **3.3.1 Calculating Annual Capital Cost Allowance**

The amount of allowable capital cost at an FCC for the beginning of the year is the net book value of the allowable capital cost at the end of the previous year, as reported to the department.

The amount of allowable capital cost at the end of the year before depreciation at an FCC is:

Allowable capital cost at the beginning of the year ... <b>plus</b> ... Acquisition and payment of new assets in Alberta during the year at cost <sup>(1)</sup> ... <b>plus</b> ... Acquisition and payment of previously depreciated assets in Alberta at net book value <sup>(2)</sup> ... <b>plus</b> ... Assets returned to service at net book value <sup>(3)</sup> ... <b>minus</b> ... Dispositions of assets at net book value <sup>(4)</sup> ... <b>minus</b> ... Out-of-service assets at net book value <sup>(5)</sup> ... <b>minus</b> ... Retirements at net book value <sup>(6)</sup>
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- (1) The amount of an allowable capital cost is either:
  - The amount paid, net of any recoverable tax (e.g., GST), in an arm’s length transaction; or
  - The amount paid, net of any recoverable tax (e.g., GST), in a non-arm’s length transaction if the department agrees that the amount is fair
- (2) If previously depreciated assets (according to department records) are acquired for processing new reserves, an FCC operator may apply to the department, and upon receiving approval may value those assets at other than the net book value.
- (3) The net book value of a retired or terminated asset is zero.
- (4) If the net book value of a disposed asset is not identifiable, the asset may be removed at a net book value estimated by a professional engineer.
- (5) Out-of-service assets include assets that are shut-in or abandoned. These assets may be removed from the facility capital pool after one full year (12 months) of out-of-service status. These assets can be reactivated when production commences to match revenues with costs. The reinstatement value will be the net book value of the asset at the time of shut-in.
- (6) Any remaining allowable capital cost is added to the capital cost allowance in the year in which the asset is retired or terminated.

The total annual capital cost allowance for an FCC is calculated as:

Retired assets at the net book value in the year ... <b>plus</b> ... Annual depreciation on allowable capital costs ... <b>plus</b> ... Return on average capital
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The return on average capital for an FCC is calculated as:

<p>([Allowable capital cost at the beginning of the year ... <b>plus</b> ... allowable capital cost at the end of the year after depreciation] ... <b>divided by</b> ... 2)</p> <p style="text-align: center;">... <b>plus</b> ...</p> <p style="text-align: center;">Original capital cost of the site (<i>land</i>) on which the facility cost centre is located</p> <p style="text-align: center;">... <b>plus</b> ...</p> <p style="text-align: center;">([Spare parts inventory at the beginning of the year ... <b>plus</b> ... spare parts inventory at the end of the year] ... <b>divided by</b> ... 2)</p> <p style="text-align: center;">... <b>multiplied by</b> ...</p> <p style="text-align: center;">Rate of return for the year</p>
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- ACC<sub>BY</sub> = ALLOWABLE CAPITAL COST AT THE BEGINNING OF THE YEAR
- ACC<sub>EY</sub> = ALLOWABLE CAPITAL COST AT THE END OF THE YEAR AFTER DEPRECIATION
- OCC<sub>L</sub> = ORIGINAL CAPITAL COST OF THE SITE (LAND)
- SPI<sub>BY</sub> = SPARE PARTS INVENTORY AT THE BEGINNING OF THE YEAR
- SPI<sub>EY</sub> = SPARE PARTS INVENTORY AT THE END OF THE YEAR
- RR = RATE OF RETURN FOR THE YEAR

The Minister has established the rate of return at 15% for 1994 and subsequent years.

The allowable capital cost at the end of the year after depreciation is calculated as:

<p>Allowable capital cost at the end of the year before depreciation</p> <p style="text-align: center;">... <b>minus</b> ...</p> <p style="text-align: center;">Depreciation</p>
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The annual depreciation on allowable capital costs for an FCC is calculated as:

<p>Allowable capital costs at the end of the year before depreciation</p> <p style="text-align: center;">... <b>divided by</b> ...</p> <p style="text-align: center;">Remaining Useful Life (RUL) of the facility cost centre (in years)</p>
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For capital cost allowance purposes, the department uses the straight-line method to depreciate the capital cost of the FCC over the RUL (refer to *Ch VI, Sec 2*).

### 3.3.2 Custom Processing Adjustment Factor (CPAF) For Capital Cost

The capital cost allowance calculation is reduced by a CPAF to eliminate the capital cost allowances attributable to custom processing.

If an FCC does not have any custom user volumes, an appropriate version of the AC2 must report the CPAF factor as 0.00000%. This field must not be left blank; otherwise, the AC2 will be rejected.

The capital cost allowance after the custom processing adjustment that may be allocated to royalty clients at an FCC is calculated as:

Capital cost allowance ... <b>multiplied by</b> ... (100 ... <b>minus</b> ... custom processing adjustment factor) ... <b>divided by</b> ... 100
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FCC operators must calculate the CPAF annually via an appropriate version of the AC2. Supporting information must be reported on Part 6 of the AC2 to substantiate the reported CPAF. FCC operators must keep track of the custom processing volumes to calculate the CPAF accurately.

To accurately calculate the CPAF, FCC owners must inform FCC operators of all custom processing arrangements. An owner who fails to comply with this requirement may be subject to an audit assessment. The audit assessment does not impact the capital cost allowance of other owners in the FCC.

### 3.3.3 Capital Cost Allowance Allocation to Other Delivery Facilities

Operators may allocate capital costs attributable to volumes delivered to other facilities. Allowable costs must be aligned with the facilities where volumes are reported for Crown royalty purposes as the Crown share of allowable cost is calculated at a client/facility level. The FCC operator must report the distribution percentage of costs attributable to volumes processed at other delivery facilities. MRIS edits will reject this allocation if there is no evidence that volumes were delivered to other ERCB facilities.

### 3.3.4 Capital Cost Allowance Adjustment

Capital cost allowance attributed to Enhanced Oil Recovery (EOR) volumes will be recaptured through an annual adjustment at a client/ERCB facility level. However, at no time will the capital cost allowance after recapture at a client/ERCB facility level be reduced to below zero (refer to *Ch. V, Sec. 5.3*).

## 3.4 Annual Allowable Operating Costs

The allowable operating costs incurred and paid in Alberta that may be included in the calculation of operating costs for an FCC are described in *Appendix H*. *Appendix H* also includes a description of non-allowable operating costs.

The amount of an allowable operating cost is either:

- The amount paid, net of any recoverable tax (e.g. GST), in an arm's-length transaction; or
- The amount paid, net of any recoverable tax (e.g. GST), in a non-arm's-length transaction if the department agrees that the amount is fair

### 3.4.1 Calculating Annual Operating Cost Allowance

The total operating cost allowance is calculated as:

Direct allowable operating cost for the year <sup>(1)</sup> ... <b>plus</b> ... Overhead <sup>(2)</sup> ... <b>plus</b> ... Working capital allowance <sup>(3)</sup> ... <b>plus</b> ... Greenhouse gas emission cost <sup>(4)</sup>
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- (1) Actual standard allowable operating costs plus co-generation utilities plus other allowable operating costs incurred and paid in Alberta for the year at an FCC
- (2) Overhead is calculated at 10% of direct allowable operating cost
- (3) Working capital allowance is calculated by multiplying the product of direct allowable operating costs and overhead by 0.025
- (4) Operating costs associated with GHG Emission compliance costs must be distinguished and shown separately, net of all debits and credits

### 3.4.2 Custom Processing Adjustment Factor (CPAF) For Operating Cost

The operating cost allowance calculation is reduced by a CPAF to eliminate the operating costs attributable to custom processing.

If an FCC does not have any custom user volumes, an appropriate version of the AC2 must report the CPAF factor as 0.00000%. This field must not be left blank; otherwise, the AC2 will be rejected.

The operating cost allowance after the custom processing adjustment that may be allocated to royalty clients at an FCC is calculated as:

Operating cost allowance ... <b>multiplied by</b> ... (100 ... <b>minus</b> ... custom processing adjustment factor) ... <b>divided by</b> ... 100
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FCC operators must calculate the CPAF annually via an appropriate version of the AC2. Supporting information must be reported on Part 10 of the AC2 to substantiate the reported CPAF. FCC operators must keep track of the custom processing volumes to calculate the CPAF accurately.

To accurately calculate the CPAF, FCC owners must inform FCC operators of all custom processing arrangements. An owner who fails to comply with this requirement may be subject to an audit assessment. The audit assessment does not impact the operating cost allowance of other owners in the FCC.

### **3.4.3 Operating Cost Allowance Allocation to Other Delivery Facilities**

Operators may allocate operating costs attributable to volumes delivered to other facilities. Allowable costs must be aligned with the facilities where volumes are reported for Crown royalty purposes as the Crown share of allowable cost is calculated at a client/facility level. The FCC operator must report the distribution percentage of costs attributable to volumes processed at other delivery facilities. MRIS edits will reject this allocation if there is no evidence that volumes were delivered to other ERCB facilities.

### **3.4.4 Operating Cost Allowance Adjustment**

Operating cost allowance attributed to Enhanced Oil Recovery (EOR) volumes will be recaptured through an annual adjustment at a client/ERCB facility level. However, at no time will the operating cost allowance after recapture at a client/ERCB facility level be reduced to below zero (refer to *Ch. V, Sec. 5.3*).

## **3.5 Capital & Operating Cost Allowance**

### **AC2- V4 FORM – CAPITAL & OPERATING COST ALLOWANCE PRODUCTION YEARS 2009 AND ONWARDS**

#### **Purpose**

FCC operators must use the AC2-V4 to report:

- a) Changes in the allowable capital and operating cost allowances at an FCC over a production year
- b) Calculation of the capital and operating cost allowances for an FCC for a production year
- c) Allocation of the capital and operating cost allowances to the royalty clients at the FCC for a production year.

The FCC operator should submit the information for a) b) and c) as at December 31<sup>st</sup> of the production year.

#### **Fully Depreciated FCC**

FCC operators must continue to file an AC2 even after the RUL of the FCC becomes zero. As long as an FCC is active, an AC2 is required to identify distribution percentages for capital cost and operating cost allowances, and custom processing adjustment factors.

Capital costs for a fully depreciated FCC are expected to be zero unless there are capital additions that are amortized over a deemed useful life of one year.

Clients should consider setting up additional FCCs if a major capital expansion is added at a previously depreciated facility for processing new reserves. The RUL for the new FCC would be based on the new reserves in accordance with *Ch. VI, Sec.2.4*.

## **New FCC Procedures**

In order to ensure that annual capital costs are calculated correctly for new FCCs, the following procedures must be followed:

Eligible capital costs incurred prior to start-up for any new FCC should be entered in both fields 2.1 and 2.2. Capital additions coded in this manner must be clearly identified as start-up costs (code "S") in Part 3 and must not be included in field 2.3. If amounts are transferred from previous FCC(s), the capital costs reported in field 2.4 (Cumulative Allowable Capital Dec 31 Or) and field 2.7 (Allowable Capital Cost After Depreciation Dec 31 Or) of the last AC2 filed for the previous FCC(s) should be included in field 2.1 (Cumulative Allowable Capital Jan 1 Or) and field 2.2 (Allowable Capital Cost Jan 1 Or), respectively, of the first AC2 filed for the new FCC.

For new FCCs, Part 3 should include a detailed breakdown of capital expenditures including an Authorization for Expenditure (AFE) identification where possible.

Eligible capital costs incurred subsequent to start-up for any new FCC should be included in field 2.3 only. If amounts are transferred from an existing FCC that is not terminated, the transferred capital must be clearly identified as transfers (code "T") in Part 3 and must be included in field 2.3. The corresponding capital must also be removed from the existing FCC at the same time.

## **Timing**

The department must receive a system acceptable AC2-V4 on or before April 30<sup>th</sup> of the year following the production year to which the AC2-V4 relates. If the 30<sup>th</sup> day falls on a non-business day, the next business day will apply.

## **Submission of an AC2-V4**

AC2-V4 forms are required to be filed on the Registry. They can be entered online or by batch. Instructions for filing an AC2-V4 via the Registry are provided in the Registry's training modules. Use of the Registry to file AC2 data is mandatory for operators.

## **Amending an AC2-V4**

An amended AC2-V4 must be completed in full in the same manner as an initial AC2-V4.

## **Validation of an AC2-V4**

The department is the final point of validation for allowable cost forms. Clients receive an initial response from the Registry that their submission was accepted, however, final validation and acceptance or rejection of the submission is made by the department's Mineral Revenues Information System (MRIS).

MRIS edits will disallow an allocation of costs to other ERCB facilities when the allocation is not substantiated by a volumetric flow. A rejected cost allocation reverts to the original facility/client.

### **Consequences of Non-Compliance**

Failure to submit an AC2-V4 will disallow the capital and operating cost allowance applicable to the working interest owners of the FCC, for the production year to which the AC2-V4 relates. When an FCC has a SHUT IN status for a year, there is no requirement for an AC2-V4 to be filed for that year.

The penalty for failure to submit an AC2-V4 by its due date is \$100 per month, or part of a month, to a maximum of \$600, until the form is accepted by the department.

#### **NOTE:**

The department allows a 15-day grace period for penalty levy if an AC2-V4 is received on or before the due date, but is rejected because of MRIS edits, and the corrected system acceptable AC2-V4 is received within the grace period.

## **3.5.1 AC2-V4 – Completion Instructions**

### **PART 1: IDENTIFICATION**

#### **1.1 FACILITY CODE**

- PROV. - the province in which the facility is located, i.e., Alberta (AB)
- ERCB FAC. TYPE - the type of facility, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - the unique 7-digit code assigned by the ERCB which identifies the facility

1.2 FACILITY COST CENTRE CODE - The FCC code as assigned by the department.

1.3 DESCRIPTION OF FACILITY COST CENTRE - The name and legal description that identifies the FCC.

1.4 FACILITY COST CENTRE OPERATOR ID - The four-character client ID assigned by the department to the operator of the FCC.

1.5 FACILITY COST CENTRE OPERATOR NAME - The full name of the operator of the FCC.

1.6 PRODUCTION YEAR - The production year to which the reported information applies.

1.7 DATE PREPARED - The numeric year, month, and day on which the AC2-V4 is prepared.

- 1.8 CONTACT PERSON - The name of the person the department can contact concerning the submission.
- 1.9 TELEPHONE - The telephone number, including area code of the contact person.

**PART 2: CAPITAL COST ALLOWANCE CALCULATION (amounts must be reported to the nearest dollar)**

**ALLOWABLE CAPITAL COSTS**

- 2.1 CUMULATIVE ALLOWABLE CAPITAL, JAN 1 OR \_\_\_\_\_. The cumulative allowable capital at the beginning of the year is either:
- The cumulative allowable capital at December 31<sup>st</sup> of the previous year brought forward from the submission for that year; or
  - The allowable capital and allowable overhead on construction, in the case of a new facility

If the FCC started or resumed operations other than on January 1<sup>st</sup>, enter the date of commencement or resumption in the space provided.

- 2.2 ALLOWABLE CAPITAL COST, JAN 1 OR \_\_\_\_\_. The allowable capital cost at the beginning of the year is either:
- The allowable capital cost at December 31<sup>st</sup> of the previous year brought forward from the submission for that year; or
  - The allowable capital, allowable overhead on construction, and other allowable costs (AFE), in the case of a new facility

If the FCC started or resumed operations other than on January 1<sup>st</sup>, enter the start or resumption date in the space provided.

- 2.3 CAPITAL ADJUSTMENTS (TOTAL OF A, D, R, AND T FROM PART 3) - If the AC2-V4 submission is for an existing facility, enter the total of additions/dispositions/retirements/transfers recorded in field 3.5. If the AC2-V4 is for a new facility, enter only the capital additions/dispositions/retirements/transfers that occurred after the facility commenced operation. In this case, the total recorded in field 3.5 will equal the sum of field 2.2 ... plus ... field 2.3.

- 2.4 CUMULATIVE ALLOWABLE CAPITAL, DEC 31 OR \_\_\_\_\_. The sum of cumulative allowable capital, January 1 shown in field 2.1 ... plus ... capital additions shown in field 2.3 (this field must be completed).

If a facility operation is terminated before December 31<sup>st</sup>, enter the date on which the facility terminated operations in the space provided.

- 2.5 ALLOWABLE CAPITAL COST BEFORE DEPRECIATION, DEC 31 OR \_\_\_\_\_. The sum of allowable capital cost, January 1 shown in field 2.2 ... plus ... capital additions shown in field 2.3.
- 2.6 DEPRECIATION \_\_\_/12 - allowable capital cost before depreciation, December 31 shown in field 2.5 ... divided by ... the remaining useful life of the FCC.

If the FCC started operations at other than January 1<sup>st</sup>, or terminated operations at other than December 31<sup>st</sup> of the production year, enter the number of months of operation in the space provided (\_\_\_/12) and multiply the product obtained in the above calculation by the resulting fraction (e.g., 9/12).

- 2.7 ALLOWABLE CAPITAL COST AFTER DEPRECIATION, DEC 31 OR \_\_\_\_\_. The sum of allowable capital cost before depreciation, December 31 shown in field 2.5 ... minus ... depreciation shown in field 2.6.

If a facility operation is terminated before December 31<sup>st</sup>, enter the date on which the facility terminated operations in the space provided.

#### **RETURN ON AVERAGE CAPITAL**

- 2.8 AVERAGE CAPITAL - The sum of (allowable capital cost, January 1 shown in field 2.2 ... plus ... allowable capital cost after depreciation, December 31 shown in field 2.7) ... divided by ... 2.
- 2.9 LAND - The original capital cost of the site on which the FCC is located. Land costs refer only to land that was purchased and does not relate to leases or surface rights access costs. For allowable cost purposes, the value of land does not change.
- 2.10 AVERAGE SPARE PARTS INVENTORY - The sum of (spare parts inventory at the beginning of the period ... plus ... spare parts inventory at the end of the period) ... divided by ... 2. Spare parts inventory must be determined annually and reflect the actual purchase cost of the inventory.
- 2.11 TOTAL - The sum of average capital (field 2.8) ... plus ... Land (field 2.9) ... plus ... average spare parts inventory (field 2.10).

#### **CAPITAL COST ALLOWANCE**

- 2.12 RETIREMENTS - Enter the absolute (positive) amount for retirements (CODE "R") to match the amount included in field 3.4.
- 2.13 DEPRECIATION - Enter the amount shown as depreciation \_\_\_/12 at field 2.6.

- 2.14 RETURN ON AVERAGE CAPITAL \_\_\_/12 - Total average capital (field 2.11) ... multiplied by ... 0.15 (15% rate of return). If the FCC started operations at other than January 1<sup>st</sup>, or terminated operations at other than December 31<sup>st</sup> of the production year, enter the number of months of operation in the space provided (\_\_\_/12) and multiply the product obtained in the above calculation by the resulting fraction (e.g., 9/12).
- 2.15 CAPITAL COST ALLOWANCE - The sum of retirements (field 2.12) ... plus ... depreciation (field 2.13) ... plus ... Return on average capital (field 2.14).
- 2.16 REMAINING USEFUL LIFE (Years) - Indicate the remaining useful life of the FCC in years. FCC operators must continue to file an AC2 even after the remaining useful life of the FCC becomes zero, if the FCC is still active.

**PART 3: CAPITAL ADJUSTMENTS (amounts must be reported to the nearest dollar)**

- 3.1 DESCRIPTION OF ADJUSTMENTS - A description of each allowable capital addition, disposition, retirement, transfer or start-up cost by category. Small additions should be grouped under the heading "miscellaneous."

If the AC2-V4 is for a new facility, a description of capital adjustments in field 3.1 must include start-up costs, indicated as cumulative allowable capital, January 1<sup>st</sup>, in field 2.1, as well as capital adjustments (additions, dispositions, retirements and transfers), after the commencement of operations, in field 2.3.

- 3.2 FCC CODE - The FCC code(s) related to the amount(s) for transfers (CODE "T") included in field 3.4.
- 3.3 TYPE - For each item entered in field 3.1, identify the type of transaction as Addition (A), Disposition (D), Retirement (R), Transfer (T) or Start-up cost (S).
- 3.4 AMOUNT OF CAPITAL ADJUSTMENTS - The actual cost of each capital addition, transfer or start-up cost, or net book value of each disposition or retirement described in field 3.1. Start-up costs and capital additions are positive, while transfers may be either positive or negative. Dispositions and retirements are treated as negative values even though they are entered as a positive value.
- 3.5 TOTAL - The sum of all of the allowable costs entered in field 3.4, including the allowable costs recorded on any attached schedule that may be required.

**PART 4: CAPITAL COST ALLOWANCE ALLOCATIONS**

- 4.1 CLIENT ID - The four-character client ID assigned to the owner or designated royalty client who is allocated capital cost allowances.

- 4.2 CLIENT NAME - The full name of the owner or designated royalty client identified in field 4.1.
- 4.3 CAPITAL COST ALLOWANCE DISTRIBUTIONS % (to five decimal places) - The percentage of the FCC capital cost allowance that is allocated to each owner or designated royalty client identified in field 4.1 and field 4.2.
- If the FCC has a custom processing factor (other than zero), the capital cost allowance distributions % must be reduced to take that factor into account.
- 4.4 CUSTOM PROCESSING ADJUSTMENT FACTOR % (carried from Part 6) - The custom processing adjustment factor recorded in field 6.7.
- 4.5 TOTAL CAPITAL COST ALLOWANCE ALLOCATED (100%) - The total capital cost allowance allocation percentage, including the facility custom processing adjustment factor, must equal 100%.

**PART 5: CAPITAL COST ALLOWANCE ALLOCATIONS (TO OTHER DELIVERY FACILITIES)**

**NOTE:**

Use this section ONLY if capital costs need to be allocated to account for volumes delivered to other ERCB facilities.

- 5.1 ERCB FACILITY CODE
- PROV. - The province in which the facility is located, i.e., Alberta (AB)
  - FAC. TYPE - The type of facility, i.e., Gas Plant (GP) or Gathering System (GS)
  - ERCB FACILITY CODE - the unique 7-digit code assigned by the ERCB which identifies the facility
- 5.2 CAPITAL COST ALLOWANCE DISTRIBUTION % (to five decimal places) - The percentage of the FCC capital cost allowance that is allocated to each facility identified in field 5.1.
- 5.3 TOTAL CAPITAL COST ALLOWANCE ALLOCATION – The total distribution percentage must add up to 100 %.

**PART 6: CUSTOM PROCESSING ADJUSTMENT FACTOR CALCULATION FOR CAPITAL COST**

- 6.1 CLIENT ID - The four-character client ID assigned to the royalty client whose volumes are subject to custom processing fees at the FCC.
- 6.2 CLIENT NAME - The full name of the custom user identified in field 6.1.

- 6.3 UNIT - The unit of measure ( $10^3 \text{m}^3/\text{m}^3/\text{tonnes}$  - check (✓) one) of the custom volumes reported in field 6.4 and field 6.5 and the total FCC throughput reported in field 6.6.
- 6.4 CUSTOM VOLUMES - The FCC inlet volume of gas and gas products custom processed for the custom user identified in field 6.1 and field 6.2. The custom volumes must also include excess capacity volumes of the owners who are charged custom processing fees. If the FCC has more than one product, convert the volumes to gas equivalent volumes. To calculate the gas equivalent volume for each custom processed product, multiply the product volume in its base unit ( $10^3 \text{m}^3/\text{m}^3/\text{tonnes}$ ) by its gas equivalent factor. The gas equivalent factors are provided in *Ch. VI, Sec. 3.6*. Sum up each product's gas equivalent volume to determine the total gas equivalent volume for each royalty client.
- 6.5 TOTAL CUSTOM VOLUMES - The sum of all custom volumes entered in field 6.4.
- 6.6 TOTAL FACILITY COST CENTRE THROUGHPUT - The total volume of gas and gas products compressed, gathered, and/or processed at the FCC. Convert the volumes to gas equivalent volumes if the FCC processes gas and gas products.
- 6.7 CUSTOM PROCESSING ADJUSTMENT FACTOR % (to five decimal places) - The total custom volumes (field 6.5) ... divided by ... the total FCC throughput (field 6.6) ... multiplied by ... 100. If there is no custom processing at the FCC, then the CPAF must be indicated as 0.00000%.

**PART 7: ALLOWABLE OPERATING COSTS INCURRED AND PAID IN ALBERTA (amounts must be reported to the nearest dollar)**

- 7.1 STANDARD ALLOWABLE OPERATING COSTS - The actual standard allowable operating costs incurred and paid in Alberta during the year at the facility cost centre. Costs that are to be included under standard allowable operating costs include: Labour, Materials, Chemicals, Transportation, Contract Services, Utilities, Maintenance, Automotive, Insurance, Property Taxes, and Surface Rentals. Negative values in this field will result in the submission being rejected.
- 7.2 CO-GENERATION UTILITIES - The actual allowable co-generation utilities costs incurred and paid in Alberta during the year at the FCC that is the subject of the report. Negative values in this field will result in the submission being rejected. (Applies only to facilities that were approved for the Energy Efficiency Credit Program – EECF.)
- 7.3 OTHER ALLOWABLES (DESCRIPTION) - A description of other allowable costs (other than those shown in fields 7.1 and 7.2 above) incurred and paid in Alberta during the year at the facility cost centre, by major

category. This field will also be used to record the department's audit adjustments for prior production years and to report a gain on disposal of capital assets.

- 7.4 OTHER ALLOWABLES (ACTUAL OPERATING COSTS) - Enter the actual other allowable operating costs incurred and paid in Alberta during the year on the same line as the related description in field 7.3.
- 7.5 DIRECT ALLOWABLE OPERATING COSTS - Enter the sum of actual costs paid and reported in fields 7.1 and 7.2 ... plus ... actual costs incurred and reported in field 7.4.
- 7.6 OVERHEAD \_\_\_\_\_ % - Overhead calculated at 10% of direct allowable operating costs reported in field 7.5.
- 7.7 DIRECT ALLOWABLE OPERATING COSTS AND OVERHEAD - The sum of direct allowable operating costs (field 7.5) ... plus ... overhead (field 7.6).
- 7.8 WORKING CAPITAL ALLOWANCE - The direct allowable operating costs and overhead (field 7.7) ... multiplied by ... 0.025.
- 7.9 GREENHOUSE GAS EMISSION COMPLIANCE COST - The actual Greenhouse Gas Emission Compliance Cost (net of debits and credits). Negative values will be accepted in this field.
- 7.10 TOTAL ALLOWABLE OPERATING COSTS – The sum of direct allowable operating costs and overhead (field 7.7) ... plus ... working capital allowance (field 7.8) ... plus ... Greenhouse Gas Emission Compliance Cost (field 7.9).

#### **PART 8: OPERATING COST ALLOWANCE ALLOCATIONS**

- 8.1 CLIENT ID - The four-character client ID assigned to the owner or designated royalty client who is allocated operating cost allowances.
- 8.2 CLIENT NAME - The full name of the owner or designated royalty client identified in field 8.1.
- 8.3 OPERATING COST ALLOWANCE DISTRIBUTIONS % (to five decimal places) - The percentage of the FCC operating cost allowance that is allocated to each owner or designated royalty client identified in field 8.1 and field 8.2.
- If the FCC has a custom processing factor (other than zero), the operating cost allowance distributions % must be reduced to take that factor into account.
- 8.4 CUSTOM PROCESSING ADJUSTMENT FACTOR % (carried from Part 10) - The custom processing adjustment factor recorded in field 10.7.

- 8.5 TOTAL OPERATING COST ALLOWANCE ALLOCATED (100%) - The total operating cost allowance allocation percentage, including the facility custom processing adjustment factor, must equal 100%.

**PART 9: OPERATING COST ALLOWANCE ALLOCATIONS (TO OTHER DELIVERY FACILITIES)**

NOTE:

Use this section ONLY if the operating costs need to be allocated to account for volumes delivered to other ERCB facilities.

9.1 ERCB FACILITY CODE

- PROV. - The province in which the facility is located, i.e., Alberta (AB)
- FAC. TYPE - The type of facility, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - the unique 7-digit code assigned by the ERCB which identifies the facility

- 9.2 OPERATING COST ALLOWANCE DISTRIBUTION % (to five decimal places) - The percentage of the FCC operating cost allowance that is allocated to each facility identified in field 9.1.

- 9.3 TOTAL OPERATING COST ALLOWANCE ALLOCATION – Total distribution percentage must add up to 100 %.

**PART 10: CUSTOM PROCESSING ADJUSTMENT FACTOR CALCULATION FOR OPERATING COST**

- 10.1 CLIENT ID - The four-character client ID assigned to the royalty client whose volumes are subject to custom processing fees at the FCC.

- 10.2 CLIENT NAME - The full name of the custom user identified in field 10.1.

- 10.3 UNIT - The unit of measure ( $10^3\text{m}^3/\text{m}^3/\text{tonnes}$  - check (√) one) of the custom volumes reported in field 10.4 and field 10.5 and the total FCC throughput reported in field 10.6.

- 10.4 CUSTOM VOLUMES - The FCC inlet volume of gas and gas products custom processed for the custom user identified in field 10.1 and field 10.2. The custom volumes must also include excess capacity volumes of the owners who are charged custom processing fees. If the FCC has more than one product, convert the volumes to gas equivalent volumes. To calculate the gas equivalent volume for each custom processed product, multiply the product volume in its base unit ( $10^3\text{m}^3/\text{m}^3/\text{tonnes}$ ) by its gas equivalent factor. The gas equivalent factors are provided in *Ch. VI, Sec. 3.6*. Sum up each product's gas equivalent volume to determine the total gas equivalent volume for each royalty client.

- 10.5 TOTAL CUSTOM VOLUMES - The sum of all custom volumes entered in field 10.4.
- 10.6 TOTAL FACILITY COST CENTRE THROUGHPUT - The total volume of gas and gas products compressed, gathered, and/or processed at the FCC. Convert the volumes to gas equivalent volumes if the FCC processes gas and gas products.
- 10.7 CUSTOM PROCESSING ADJUSTMENT FACTOR % (to five decimal places) - The total custom volumes (field 10.5) ... divided by ... the total FCC throughput (field 10.6) ... multiplied by ... 100. If there is no custom processing at the FCC, then the CPAF must be indicated as 0.00000%.

The following arithmetic edits will apply to all AC2-V4 forms submitted for new FCCs and existing FCCs. An edit failure will result in the full rejection of the form.

**NEW FACILITY COST CENTRES:**

- Fields 2.1 = 2.2
- Fields 2.4 = 2.1 + 2.3 = 2.5
- Fields 2.5 = 2.2 + 2.3 = 3.5
- Field 3.5 = (the sum of the absolute value of all start-up costs type (S) amounts ... plus ... the sum of all additions type (A) amounts ... minus ... the sum of the absolute value of all dispositions type (D) amounts ... minus ... the sum of the absolute value of all retirements type (R) amounts ... plus ... the sum of all transfers (T) type amounts)
- For new FCCs, field 2.3 will be accepted if it is numeric and positive. Also, a breakdown of the cumulative allowable capital (field 2.1) must be reported in Part 3 as start-up costs (with a type (S) in 3.3). Therefore, field 3.5 will equal the sum of field 2.1 and field 2.3 for new FCCs.

**NOTE:**

This does not apply to new FCCs that were set up to combine/separate existing FCCs.

**EXISTING FACILITY COST CENTRES:**

- Field 2.3 = 3.5
- Field 3.5 will only equal field 2.3 for existing FCCs.

### 3.6 Energy Adjusted Gas Equivalent Volume

The energy-adjusted gas equivalent volume factors for gas and gas products are:

<u>Equivalent Product/Base Unit</u> <u>10<sup>3</sup> m<sup>3</sup></u>	<u>Gas Equivalent Factor</u>	<u>Energy Adjustment Factor</u>	<u>Energy Adjusted Gas Factor</u>
GAS in 10 <sup>3</sup> m <sup>3</sup>	1.00000 <sup>(1)</sup>	1.00 <sup>(1)</sup>	1.00000 <sup>(1)</sup>
Ethane	0.28132	1.00 <sup>(2)</sup>	0.28132
Propane	0.27201	2.41	0.65554
Butanes	0.23331	3.12	0.72793
Pentanes-Plus in m <sup>3</sup>	0.20570	3.83	0.78783
Sulphur	0.73750	1.00	0.73750
Other	0.00000	0.00	0.00000

- (1) The energy adjustment factor for propane, butanes and pentanes-plus includes a conversion to 39 GJ per m<sup>3</sup> of residue gas.
- (2) The energy adjustment factor for ethane is the same as that of gas after it is converted to gas equivalent.

The energy-adjusted gas equivalent volume of gas or a gas product is calculated as:

Quantity of gas or gas product ( <i>expressed in base units</i> )
<b>... multiplied by ...</b>
Gas equivalent factor for the gas or gas product
<b>... equals ...</b>
Gas equivalent volume of the gas or gas product in 10 <sup>3</sup> m <sup>3</sup>
<b>... multiplied by ...</b>
Energy adjustment factor for the gas or gas product
<b>... equals ...</b>
Energy-adjusted gas equivalent volume of the gas or gas product in 10 <sup>3</sup> m <sup>3</sup>

The energy-adjusted gas equivalent volume (in 10<sup>3</sup>m<sup>3</sup>) may also be calculated by multiplying the gas or gas product (in its base unit of measurement) by the composite energy-adjusted gas equivalent factor.

The energy-adjusted gas equivalent volume factor for "other gas products" for which the Minister has prescribed a reference price of zero is also zero.

The gas equivalent conversion factors are industry standard factors specified in the "Table of Physical Constants of Paraffin Hydrocarbons and Other Components of Natural Gas," as approved by the Gas Processors Association (SI Engineering Data Book, GPA Publication 2145 SI-90).



**ALLOWABLE COSTS  
CAPITAL & OPERATING COST ALLOWANCE  
AC2-V4  
PRODUCTION YEARS 2009 AND ONWARDS**

<b>PART 1: IDENTIFICATION</b>			
1.1	PROV. FAC. TYPE ERCB FACILITY CODE	1.2	FACILITY COST CENTRE (FCC) CODE
1.3	DESCRIPTION OF FACILITY COST CENTRE		
1.4	FACILITY COST CENTRE OPERATOR ID	1.5	FACILITY COST CENTRE OPERATOR NAME
1.6	PRODUCTION YEAR	1.7	DATE PREPARED (YYYY-MM-DD) YR. MO. DY.
1.8	CONTACT PERSON		1.9 TELEPHONE
<b>PART 2: CAPITAL COST ALLOWANCE CALCULATION</b>			
2.1	CUMULATIVE ALLOWABLE CAPITAL JAN 1 OR ____	ALLOWABLE CAPITAL COSTS (\$)	2.8 AVERAGE CAPITAL
2.2	ALLOWABLE CAPITAL COST JAN 1 OR ____		2.9 LAND
2.3	CAPITAL ADJUSTMENTS (TOTAL OF A,D,R, AND T FROM PART 3)		2.10 AVERAGE SPARE PARTS INVENTORY
2.4	CUMULATIVE ALLOWABLE CAPITAL DEC 31 OR ____		2.11 TOTAL
2.5	ALLOWABLE CAPITAL COST BEFORE DEPRECIATION DEC 31 OR ____		
2.6	DEPRECIATION ____ / 12		
2.7	ALLOWABLE CAPITAL COST AFTER DEPRECIATION DEC 31 OR ____		CAPITAL COST ALLOWANCE (\$)
			2.12 RETIREMENTS
			2.13 DEPRECIATION
			2.14 RETURN ON AVERAGE CAPITAL __/12
			2.15 TOTAL CAPITAL COST ALLOWANCE
2.16	REMAINING USEFUL LIFE (yrs)		
<b>PART 3: CAPITAL ADJUSTMENTS</b>			
3.1 DESCRIPTION OF ADJUSTMENTS		3.2 FCC CODE	*3.3 TYPE
			3.4 AMOUNT (\$)
*ADDITIONS/DISPOSITIONS/RETIREMENTS/TRANSFERS/START-UP COSTS		3.5 TOTAL	
<b>PART 4: CAPITAL COST ALLOWANCE ALLOCATIONS (TO WORKING INTEREST OWNERS)</b>			
4.1 CLIENT ID	4.2 CLIENT NAME	4.3 CAPITAL COST ALLOWANCE DISTRIBUTIONS (%)	
4.4 CUSTOM PROCESSING ADJUSTMENT FACTOR % FOR CAPITAL COSTS			
4.5 TOTAL CAPITAL COST ALLOWANCE ALLOCATED		100.00000%	



**ALLOWABLE COSTS  
CAPITAL & OPERATING COST ALLOWANCE  
AC2-V4  
PRODUCTION YEARS 2009 AND ONWARDS**

<b>PART 1: IDENTIFICATION</b>			
1.1 _____ PROV. FAC. TYPE ERCB FACILITY CODE	1.2 _____ FACILITY COST CENTRE (FCC) CODE		
1.3 _____ DESCRIPTION OF FACILITY COST CENTRE			
1.4 _____ FACILITY COST CENTRE OPERATOR ID	1.5 _____ FACILITY COST CENTRE OPERATOR NAME		
1.6 PRODUCTION YEAR _____	1.7 DATE PREPARED _____ (YYYY-MM-DD) YR. MO. DY.		
1.8 _____ CONTACT PERSON		1.9 _____ TELEPHONE	
<b>PART 5: CAPITAL COST ALLOWANCE ALLOCATIONS (TO OTHER DELIVERY FACILITIES)</b> <small>(To be completed if capital costs are allocated to other delivery facilities)</small>			
5.1 ERCB FACILITY CODE	5.2 CAPITAL COST ALLOWANCE DISTRIBUTIONS (%)	5.1 ERCB FACILITY CODE	5.2 CAPITAL COST ALLOWANCE DISTRIBUTIONS (%)
5.3 TOTAL CAPITAL COST ALLOWANCE ALLOCATION			100.00000%
<b>PART 6: CUSTOM PROCESSING ADJUSTMENT FACTOR CALCULATION FOR CAPITAL COST</b>			
6.3 UNIT    10 <sup>3</sup> m <sup>3</sup> <input type="text"/> m <sup>3</sup> <input type="text"/> t <input type="text"/>			
6.1 CLIENT ID	6.2 CLIENT NAME	6.4 CUSTOM VOLUMES	
6.5 TOTAL CUSTOM VOLUMES			
6.6 TOTAL FACILITY COST CENTRE THROUGHPUT			
6.7 CUSTOM PROCESSING ADJUSTMENT FACTOR % FOR CAPITAL COST			



**ALLOWABLE COSTS  
CAPITAL & OPERATING COST ALLOWANCE  
AC2-V4  
PRODUCTION YEARS 2009 AND ONWARDS**

<b>PART 1: IDENTIFICATION</b>		
1.1 <u>PROV. FAC. TYPE ERCB FACILITY CODE</u>	1.2 <u>FACILITY COST CENTRE (FCC) CODE</u>	
1.3 <u>DESCRIPTION OF FACILITY COST CENTRE</u>		
1.4 <u>FACILITY COST CENTRE OPERATOR ID</u>	1.5 <u>FACILITY COST CENTRE OPERATOR NAME</u>	
1.6 <u>PRODUCTION YEAR</u>	1.7 <u>DATE PREPARED</u> (YYYY-MM-DD)	<u>YR. MO. DY.</u>
1.8 <u>CONTACT PERSON</u>	1.9 <u>TELEPHONE</u>	
<b>PART 7: OPERATING COST ALLOWANCE CALCULATION</b>		
7.1 STANDARD ALLOWABLE OPERATING COSTS (\$) (EXCEPT FOR UTILITIES IN 7.2)	<input type="text"/>	
7.2 CO-GENERATION UTILITIES	<input type="text"/>	
7.3 OTHER ALLOWABLES (DESCRIPTION)	7.4 OTHER ALLOWABLES (ACTUAL OPERATING COSTS) (\$)	
7.5 DIRECT ALLOWABLE OPERATING COSTS	<input type="text"/>	
7.6 OVERHEAD	<input type="text"/>	
7.7 DIRECT ALLOWABLE OPERATING COST & OVERHEAD	<input type="text"/>	
7.8 WORKING CAPITAL ALLOWANCE	<input type="text"/>	
7.9 GREENHOUSE GAS EMISSION COMPLIANCE COST (net of debits and credits)	<input type="text"/>	
7.10 TOTAL OPERATING COST ALLOWANCE	<input type="text"/>	
<b>PART 8: OPERATING COST ALLOWANCE ALLOCATIONS (TO WORKING INTEREST OWNERS)</b>		
8.1 CLIENT ID	8.2 CLIENT NAME	8.3 OPERATING COST ALLOWANCE DISTRIBUTIONS (%)
8.4 CUSTOM PROCESSING ADJUSTMENT FACTOR % FOR OPERATING COST		
8.5 TOTAL OPERATING COST ALLOWANCE ALLOCATED		100.00000%



**ALLOWABLE COSTS  
CAPITAL & OPERATING COST ALLOWANCE  
AC2-V4  
PRODUCTION YEARS 2009 AND ONWARDS**

<b>PART 1: IDENTIFICATION</b>			
1.1	<u>PROV. FAC. TYPE ERCB FACILITY CODE</u>	1.2	<u>FACILITY COST CENTRE (FCC) CODE</u>
1.3	<u>DESCRIPTION OF FACILITY COST CENTRE</u>		
1.4	<u>FACILITY COST CENTRE OPERATOR ID</u>	1.5	<u>FACILITY COST CENTRE OPERATOR NAME</u>
1.6	<u>PRODUCTION YEAR</u>	1.7	<u>DATE PREPARED (YYYY-MM-DD) YR. MO. DY.</u>
1.8	<u>CONTACT PERSON</u>	1.9	<u>TELEPHONE</u>
<b>PART 9: OPERATING COST ALLOWANCE ALLOCATIONS (TO OTHER DELIVERY FACILITIES)</b> <small>(To be completed if operating costs are allocated to other delivery facilities)</small>			
9.1 ERCB FACILITY CODE	9.2 OPERATING COST ALLOWANCE DISTRIBUTIONS (%)	9.1 ERCB FACILITY CODE	9.2 OPERATING COST ALLOWANCE DISTRIBUTIONS (%)
9.3 TOTAL OPERATING COST ALLOWANCE ALLOCATION			100.00000%
<b>PART 10: CUSTOM PROCESSING ADJUSTMENT FACTOR CALCULATION FOR OPERATING COST</b>			
10.3 UNIT    10 <sup>3</sup> m <sup>3</sup> <input type="text"/> m <sup>3</sup> <input type="text"/> t <input type="text"/>			
10.1 CLIENT ID	10.2 CLIENT NAME	10.4 CUSTOM VOLUMES	
10.5 TOTAL CUSTOM VOLUMES			
10.6 TOTAL FACILITY COST CENTRE THROUGHPUT			
10.7 CUSTOM PROCESSING ADJUSTMENT FACTOR % for OPERATING COSTS			

## 4. Reallocation of Capital & Operating Cost Allowance

### 4.1 Business Summary

A.R. 221/2008 S.18 (15)

A royalty client who has been allocated capital or operating costs at a Facility Cost Centre (FCC) may make a further allocation of costs to other ERCB facilities and royalty clients.

Operators must file the Capital & Operating Cost Allowance Reallocations (AC3-V3) on the Registry, showing the details of the reallocation of costs to other ERCB facilities and/or owners, with the reallocation percentages.

The information provided in the AC3-V3 is included in the calculation of the Crown share of capital and operating costs payable to each royalty client for a production year as:

(Total cost allocated from all facility cost centres for the year
<i>... plus ...</i>
Total cost reallocated from other royalty clients/facilities for the year
<i>... minus ...</i>
Total cost reallocated to other royalty clients/facilities for the year)
<i>... multiplied by ...</i>
Royalty client's Facility Effective Royalty Rate (FERR) for the year

### 4.2 Capital & Operating Cost Allowance Reallocations

#### AC3-V3 Form – CAPITAL & OPERATING COST ALLOWANCE PRODUCTION YEARS 2009 AND ONWARDS

##### Purpose

A royalty client who has been allocated capital and/or operating costs at an FCC on the AC2-V4 may make a further allocation of either type of cost to one or more royalty clients who are owners of that facility, or to other facilities. Royalty clients must use the AC3-V3 to reallocate capital and operating costs at an FCC.

##### Timing

The department must receive a system acceptable AC3-V3 on or before May 15<sup>th</sup> of the year following the production year to which the AC3-V3 relates. If the 15<sup>th</sup> day falls on a non-business day, the next business day will apply.

##### Submission of an AC3-V3

AC3-V3 submissions are required to be filed on the Registry. They can be entered online or by batch. Instructions for filing an AC3-V3 via the Registry are provided in the Registry's training modules. Use of the Registry to file AC3 data is mandatory for

operators; but it remains voluntary for non-operators. Non-operators are strongly encouraged to use the Registry to submit and retrieve their AC3 data.

### **Amending an AC3-V3**

An amended AC3-V3 must be completed in full in the same manner as an initial AC3-V3.

### **Validation of an AC3-V3**

The department is the final point of validation for allowable cost forms. Royalty clients receive an initial response from the Registry that their submission was accepted, however, final validation and acceptance or rejection of the submission is made by the department's Mineral Revenues Information System (MRIS).

MRIS edits will disallow a reallocation of costs to other ERCB facilities when the reallocation is not substantiated by a volumetric flow. A rejected cost reallocation reverts to the original facility/client.

### **Consequences of Non-Compliance**

Failure to submit an AC3-V3 will disallow the capital and operating cost reallocations applicable to the working interest owners of the FCC, for the production year to which the AC3-V3 relates.

If the AC3-V3 is not submitted, capital cost and operating cost reallocations will not be completed.

## **4.1.1 AC3-V3 – Completion Instructions**

### **PART 1: IDENTIFICATION**

#### **1.1 FACILITY CODE**

- PROV. - The province in which the facility is located, i.e., Alberta (AB)
- ERCB FAC. TYPE - The type of facility, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB that identifies the facility

1.2 FACILITY COST CENTRE CODE - The FCC code as assigned by the department.

1.3 DESCRIPTION OF FACILITY COST CENTRE - The name and legal description that identifies the FCC.

1.4 CLIENT ID - The four-character client ID assigned to the client who is reallocating capital or operating cost allowances.

- 1.5 CLIENT NAME - The full name of the client who is reallocating capital or operating cost allowances.
- 1.6 PRODUCTION YEAR - The production year to which the reported information applies.
- 1.7 DATE PREPARED - The numeric year, month, and day on which the AC3-V3 is prepared.
- 1.8 CONTACT PERSON - The name of the person the department can contact regarding the submission.
- 1.9 TELEPHONE - The telephone number, including area code, of the contact person.

## **PART 2: CAPITAL COST ALLOWANCE REALLOCATIONS**

- 2.1 FROM FACILITY - PROV. - The province for the facility from which the reallocation of capital cost is being made, i.e., Alberta (AB)
- ERCB FAC. TYPE - The type of facility from which the reallocation of capital cost is being made, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB that identifies the facility from which the reallocation of capital cost is being made
- 2.2 TO FACILITY - PROV. - The province for the facility to which the reallocation of capital cost is being made, i.e., Alberta (AB).
- ERCB FAC. TYPE - The type of facility to which the reallocation of capital cost is being made, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB that identifies the facility to which the reallocation of capital cost is being made
- 2.3 CLIENT ID - The four-character client ID assigned to the client who is reallocated capital cost allowances.
- 2.4 REALLOCATION % - The percentage of the capital cost allowance originally allocated that is reallocated to each facility/client identified in field 2.1, 2.2, and 2.3 to five decimal places (e.g., if company A receives the original AC2-V4 allocation of 10% and wishes to reallocate 50% of it to company B, the percentage shown on the AC3-V3 from company A to company B will be 50%).

## **PART 3: OPERATING COST ALLOWANCE REALLOCATIONS**

- 3.1 FROM FACILITY - PROV. - The province for the facility from which the reallocation of operating cost is being made, i.e., Alberta (AB)

ERCB FAC. TYPE - The type of facility from which the reallocation of operating cost is being made, i.e., Gas Plant (GP) or Gathering System (GS)

ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB that identifies the facility from which the reallocation of operating cost is being made

- 3.2 TO FACILITY - PROV. - The province for the facility to which the reallocation of operating cost is being made, i.e., Alberta (AB)

ERCB FAC. TYPE - The type of facility to which the reallocation of operating cost is being made, i.e., Gas Plant (GP) or Gathering System (GS)

ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB that identifies the facility to which the reallocation of operating cost is being made

- 3.3 CLIENT ID - The four-character client ID assigned to the client who is reallocated operating cost allowances.

- 3.4 REALLOCATION % - The percentage of the operating cost allowance originally allocated that is reallocated to each facility/client identified in field 3.1, 3.2, and 3.3 to five decimal places (e.g., if company A receives the original AC2-V4 allocation of 10% and wishes to reallocate 50% of it to company B, the percentage shown on the AC3-V3 from company A to company B will be 50%).





## **5. Custom Processing Cost Allowance**

### **5.1 Business Summary**

A.R. 221/2008 S.18 (2)(3)(4)(5)(6)(7)

The Crown deducts costs for royalty clients who pay for compressing, gathering and processing its royalty share of gas and gas products on a fee for service basis. through the Crown share of custom processing fees incurred and paid in Alberta.

The Crown share of custom processing fees is calculated individually at a client/facility level, by multiplying the reported facility cost by its Facility Effective Royalty Rate (FERR). The Crown share of custom processing fees calculated for each facility is summarized as an individual deduction on the royalty client's invoice. The Crown share of costs is only deducted by way of reductions from royalty compensation owing to the Crown for natural gas and gas products.

The Crown share of custom processing fees is deducted monthly on an estimated basis and adjusted in the April Initial Annual Billing Period (IABP) invoice, issued in the calendar month of June, when the Crown share is calculated based on the actual fees reported. The Crown share of custom processing fees is deducted for each royalty client who pays for compressing, gathering and processing on a fee-for-service basis.

The Crown share of custom processing fees deducted for a royalty client in a year must not exceed the total royalty compensation otherwise owed to the Crown for natural gas and gas products at each facility for that year. The Crown share of custom processing fees calculated for a facility for a year, which is not recovered in that year, is not carried forward to a subsequent year.

Effective January 2009, the Unit Operating Cost Rate (UOCR) and the UOCR recapture process are eliminated. Royalty clients are not required to separate the custom processing fees paid on properties with ownership for excess capacity on the AC5-V4. The custom processing fees paid for properties with ownership or without ownership must be combined under one total and shown in Part 2 of the AC5-V4 form. Part 3, Owner in Facility Cost Centres tied to ERCB Facility, is removed from the AC5-V4.

#### **NOTE:**

The department accepts allowable custom processing fees as being those incurred and paid in Alberta in the year, as opposed to the year the fees pertain to, unless the procedure is judged to disadvantage the Crown. Royalty clients may make cost adjustments for a prior year against the current year reporting as long as the prior year falls within the specified date range of the appropriate version of the AC5 for the current year, the facility is not terminated or they have not sold or acquired an interest in the facility. If any of these exceptions exist, the royalty client must amend the appropriate version of the AC5 for the prior year.

Once a method of reporting has been decided upon for a facility, this must be applied consistently from year to year. The decision of the department will be considered final in respect of any issues pertaining to the interpretation and application of this business rule.

### 5.1.1 Custom Processing Fees For Facilities that are 100% Freehold

Royalty clients who have 100% freehold facilities are not required to file an AC5-V4 for the related facility for the production year, as long as they do not acquire any Crown interest volumes for that facility in the same production year. In the event that the freehold status changes during the year, royalty clients must submit an AC5-V4 to claim custom processing fees.

### 5.1.2 Calculating the Crown Share of Custom Processing Fees

The department calculates the Crown share of custom processing fees at a client/facility level as:

<p>Custom processing fees paid for the facility in a production year  <i>... multiplied by ...</i>          The royalty client's Facility Effective Royalty Rate for the year</p>
---

Calculation of a royalty client's Facility Effective Royalty Rate is described in *Ch. VI, Sec. 6*.

### 5.1.3 Eligible Custom Processing Fees

Eligible custom processing fees paid are arm's-length fees paid by the royalty client in Alberta:

- For compressing, gathering or processing services at an ERCB facility in which the royalty client has no ownership interest; *or*
- To co-owners of an FCC, in which the royalty client has an ownership interest, for the quantity of gas and gas products processed that exceed the royalty client's ownership share (these fees must be defined clearly in writing in the partnership or joint venture agreement)

A.R. 221/2008 S.18 (14)

NOTE:

Eligible custom processing fees do not include offsetting considerations between the royalty client and the processor, or where transactions are essentially a financing mechanism. The Crown may limit custom processing fees to a reasonable amount for a royalty client who pays fees for compressing, gathering or processing at an ERCB facility in which the royalty client previously had an ownership interest.

A royalty client reporting custom processing fees must have either SAF/OAF or RMF2 volumes at the facility for that production year. If royalty clients report custom processing fees at a facility where they do not have volumes for the production year, the custom processing fees will be rejected.

If a royalty client obtains custom processing services for a fee or consideration other than money, then:

Where the fee is paid as gas or a gas product, the eligible amount of the fee is:

<p>The quantity of the gas or gas product given in payment</p> <p><b>... multiplied by ...</b></p> <p>The price at which the department values the royalty client's gas or gas product given in payment</p>
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Where the fee is paid with other than gas or a gas product, the eligible amount of the fee is the market value of the goods or services given in payment.

The Crown reserves the right, as defined in *Section 18(3) of the Natural Gas Royalty Regulation 2009*, to limit the custom fees paid by the custom user to a share of total costs at the FCC proportional to the custom user's volumes.

## 5.2 Custom Processing Fees Allowance

### AC5-V4 FORM - CUSTOM PROCESSING FEES PAID FOR PRODUCTION YEARS 2009 AND ONWARDS

#### Purpose

A royalty client who has incurred and paid in Alberta for compressing, gathering, or processing gas and gas products on a fee-for-service basis must claim custom processing fees on gas and gas products (including fees associated with freehold, purchased and out-of-province volumes). Royalty clients must use the AC5-V4 form to report custom processing fees incurred and paid in Alberta.

#### NOTE:

Custom fees will not be allowed as a deduction on raw gas sales that are eligible for 80% gas reference price valuation. However, the amount of fees paid on raw gas sales that were not eligible for 80 % gas reference price valuation must be submitted on an AC5-V4.

If custom processing fees are claimed at a facility where there are no volume allocations either through SAF/OAF or RMF2 submissions, the custom processing fees will be rejected.

An AC5-V4 must be submitted to report all fees paid, for compressing, gathering or processing of gas and gas products.

#### Timing

The department must receive a system acceptable AC5-V4 on or before May 15<sup>th</sup> of the year following the production year to which the AC5-V4 relates. If the 15<sup>th</sup> day falls on a non-business day, the next business day will apply.

### **Submission of an AC5-V4**

AC5-V4 submissions are required to be filed on the Registry. They can be entered online or by batch. Instructions for filing an AC5-V4 via the Registry are provided in the Registry’s training modules. Use of the Registry to file AC5 data is mandatory for operators; but it remains voluntary for non-operators. Non-operators are strongly encouraged to use the Registry to submit and retrieve their AC5 data.

### **Amending an AC5-V4**

An amended AC5-V4 must be completed in full in the same manner as an initial AC5-V4.

### **Validation of an AC5 –V4**

The department is the final point of validation for allowable cost forms. Royalty clients receive an initial response from the Registry that their submission was accepted, however, final validation and acceptance or rejection of the submission is made by the department’s Mineral Revenues Information System (MRIS).

### **Consequences of Non-Compliance**

Failure to submit an AC5-V4 will disallow the custom processing fees for the production year to which the AC5-V4 relates. The penalty for late filing an AC5-V4 by its due date is \$100 per month, or part of a month, to a maximum of \$600, until the form is accepted by the department.

#### **NOTE:**

The department allows a 15-day grace period for penalty levy if an AC5-V4 is received on or before the due date, but is rejected because of MRIS edits, and the corrected system acceptable AC5-V4 is received within the grace period.

## **5.2.1 AC5-V4 – Completion Instructions**

### **PART 1: IDENTIFICATION**

- 1.1 CLIENT ID - The four character client ID assigned to the royalty client.
- 1.2 CLIENT NAME - The full name of the royalty client.
- 1.3 PRODUCTION YEAR - The production year to which the reported information applies.
- 1.4 DATE PREPARED - The numeric year, month, and day on which the AC5-V4 is prepared.
- 1.5 CONTACT PERSON - The name of the person the department can contact regarding the submission.
- 1.6 TELEPHONE - The telephone number, including area code of the contact person.

**PART 2: CUSTOM PROCESSING FEES PAID****NOTE:**

Use this section to report eligible custom processing fees incurred and paid in Alberta, regardless of whether a royalty client has ownership or not in the FCCs involved (i.e., compressing, gathering or processing).

2.1 CUSTOM PROCESSING FEE PAID - The actual amount of the custom-processing fee paid for services at the facility identified in *field 2.2*. The amount must be to the nearest whole dollar, e.g., use \$10 instead of \$9.98.

2.2 ERCB FACILITY CODE

- PROV. - The province in which the facility is located, i.e., Alberta (AB)
- ERCB FAC. TYPE - The type of facility, i.e., Gas Plant (GP) or Gathering System (GS)
- ERCB FACILITY CODE - The unique 7-digit code assigned by the ERCB which identifies the facility

