Appendix H

Allowable and Non-Allowable Operating Costs

Overview

The Minister may approve additions/deletions to the list of allowable costs or require additions to the list of non-allowable costs. Where such an addition/deletion occurs, the department:

- Will announce the addition directly to the applicant and in an *Information Letter*; *and*
- Will include that addition in the next update of the *Guidelines*.

Allowable Operating Costs

Generally, any eligible operating cost incurred in Alberta pertaining to the operation of an eligible capital asset (Appendix G) is eligible for allowable cost purposes.

Where operating costs are shared between eligible and ineligible activities, Facility Cost Centre (FCC) operators are permitted to include a portion of the total costs as an allowable operating cost. A reasonable allocation methodology must be used to establish the portion to be included for allowable cost purposes. The department will review the allocation methodology and has final approval. Allocation between eligible and ineligible activities may be based on the reasonable proration of inputs/outputs including, but not limited to: production volumes, kilowatt hours, horsepower, labour time spent, distance, fuel consumed, property or other tax assessments.

Leases

Where an eligible asset is leased, the costs associated with the lease may be considered either an operating expense or a capital expense in nature. The department will make this determination of the type of lease using Generally Accepted Accounting Principles (GAAP). Under these principles, a lease would normally be considered a capital expense, if substantially all of the benefits and risks associated with the property are transferred to the lessee.

Financing charges pertaining to the lease are not eligible as an allowable operating cost

The following are examples of *allowable operating costs incurred in Alberta* identified by the Minister. If a particular operating activity is not identified in the list below, clarification as to eligibility can be obtained by contacting the Gas Royalty Client Services.

- Automotive.
- Chemicals.
- Contract services.
- Gain or loss on disposal of capital assets which are replaced.
- Insurance other than loss of revenue.
- Labour.
- Maintenance.
- Materials.
- Overhead and working capital allowances as specified by the Minister.
- Process licence royalties or fees.
- Property taxes.
- Purchased fuel gas for which royalty has already been paid.
- Repairs.
- Road maintenance for compressing and processing facilities.
- Service costs.
- Surface rentals.
- Transportation.

- Utilities.
- Costs incurred to conduct eco-efficiency audits.
- Training costs incurred off-site provided the costs are directly attributable to the gathering, compression and processing of natural gas and/or related by-products at a specific facility cost centre.

Non-Allowable Operating Costs

The following are *non-allowable operating costs* approved by the Minister:

- EUB tax assessment.
- Compensatory payments to other well owners.
- Compensatory royalty payments.
- Custom processing fees, including management service fee for CO2 extraction.
- Loss of revenue insurance.
- Freehold mineral taxes.
- Operating costs associated with non-allowable capital costs.
- Operating costs that are deemed, indirect or estimated.
- Operating costs related to production, injection or oil functions.
- Petroleum and natural gas royalties.
- Production lease rentals.
- Road maintenance for gathering facilities.
- Operating costs incurred outside of the royalty network.
- Operating costs incurred outside of Alberta.
- Operating costs pertaining to capital assets approved under the Sulphur Emission Control Assistance Program (SECAP), C02 Projects Royalty Credit Program or Gas Processing Efficiency Assistance Program (GPEAR) must be removed from the allowable cost claim.