

# Royalty and Related Information Review

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## Updates

April 18, 2002

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### **Royalty and Related Information Review (RRIR) Gas Royalty Regime Changes**

The Department of Energy in consultation with industry representatives, has proposed a phased release of the RRIR regime changes beginning in 2003 and ending in 2005. This timeline will enable the department to ensure that critical interconnections with the Petroleum Registry of Alberta (formerly VIPIR) and other projects can be identified and coordinated. The RRIR Implementation Task Force will be presenting the completed initiatives to industry associations and department executives for approval.

The following is the updated status on each of the RRIR initiatives:

#### **13<sup>th</sup> Month Unit Operating Cost Rate (UOCR) Adjustment**

Feedback from SEPAC identified that actual cost reporting is not acceptable to small industry producers. Therefore industry members met separately as a group to come up with an alternative to full actual cost reporting. A draft was presented to the department during the April 18, 2002 RRIR meeting. The department representatives have taken the proposal back for further analysis.

The Implementation Task Force identified numerous problems and issues with the current UOCR methodology. The following were identified:

- Lack of credibility and not defensible
- Present clawback methodology (recapture) results in misalignment of the cost adjustments
- Complexity of indexing the UOCR
- Application of UOCR to in-stream components (ISC)
- No additional designated facilities have been allowed
- Need for delayed rates
- Complexity of the 13<sup>th</sup> month UOCR adjustment

Based on the information above, the Implementation Task Force began identifying other options for reporting operating costs. One option was to look at the annual reporting of actual costs by facility operators. Approval to explore this option was provided by the Canadian Association of Petroleum Producers (CAPP) and department executive. The distribution of the operating costs to owners in the facility was also analyzed. Facility Cost Centre operators would be given the choice between two allocation methodologies:

- Allocation based on current AC2 Capital Cost allocation, *or*
- Allocation based on actual volumetric data requiring industry tracking.

Implementation of this option may resolve many of the complexities and reporting anomalies currently being experienced in today's environment. Reporting actual operating costs will eliminate the misalignment of unit operating cost rate recalculations and their application to prior years. The task force is currently exploring transition alternatives to mitigate industry and departmental impacts if actual operating cost reporting is accepted.

### **Unit Operating Cost Rate (UOCR) Indexing**

The department has identified that the current index factor (GDP) used in the calculation of UOCR rates may no longer be appropriate. The department has identified that it would implement a sunset clause and request actual operating cost information every 3 to 5 years to review the GDP index if the option to move to actual cost reporting is not accepted.

### **Custom Processing Adjustment Factor (CPAF) Changes**

Complete elimination of the Custom Processing Adjustment Factor is not acceptable to the department as the royalty impact would be significantly greater than originally forecasted. The position taken by industry is that full elimination of CPAF should still occur. At industry's request a decision regarding CPAF is presently on hold pending resolution of the Producer's Marketing Allowance (PMA) issue. This issue is not part of the RRIR scope and is being tracked by the Industry / Government Business Design Team.

### **Streamlining the Mechanics of Custom Processing Cost Claims**

This initiative has been expanded to include an evaluation of the unit operating cost recapture process and the AC1 ownership registry. In addition, one of the options being discussed is the ability of reallocating custom processing fees to other royalty clients. Redesign of the existing capital and operating cost forms will take place once consensus is reached and business requirements are finalized.

### **Replace the Corporate Effective Royalty Rate (CERR) with a Facility Effective Royalty Rate (FERR)**

Industry members of the Implementation Task Force, have identified that a large portion of their current business involves swing gas activities. The complexities in reporting swing gas activities under the proposed Facility Effective Royalty Rate (FERR) process would cause major concerns for industry. A consensus was reached among industry representatives that the Corporate Effective Royalty Rate (CERR) should be retained. This item is now closed.

### **Allowable Cost Definition**

The department is currently reviewing the allowable operating cost definitions with the goal of improving the clarity of the existing guidelines. Analysis is also underway to determine if there are cost categories that should be added to, or removed from the existing list of allowable operating costs. A draft of the possible changes will be provided to the Implementation Task Force for further discussion.

### **Midstream Operator Process Review**

Work on this initiative has not started.

### **Minimum Royalty**

The department has completed a preliminary analysis of this initiative. Industry input from clients impacted by the proposed minimum royalty administration (small producers) will be required to determine the direction, or need, for further analysis.

### **Review of Decommissioning/Reclamation Costs Study**

A department study, outside the scope of the Implementation Task Force, is being completed on decommissioning/reclamation costs.