



March 30, 1998

**Attention: Manager, Production and Revenue Accounting  
Royalty Client ID 1234**

**RE: 1995 Crown Royalty Impact of Proposed Regime Changes:**

As part of the Royalty and Related Information Review (RRIR) of the natural gas royalty system, a number of recommendations to changes in the reporting and calculation of royalties have been proposed. In order to assist industry in evaluating the impacts of the recommendations, the RRIR Task Force is providing a 'dollar impact' indicator for each Royalty Payer. Where applicable, the impact therefore sums each Royalty Client's amount to a Royalty Payer level.

Among the more significant recommendations were changes in the calculation of Allowable Costs for deduction from royalties. These changes, if implemented, would be expected to result in some changes in the net gas and by-products royalty paid by individual royalty payers.

As part of the review, a simplified model of Allowable Cost calculations was developed. This model allowed the task force to examine the direction of expected changes across industry and the likely changes to individual unnamed companies. In the RRIR Report (page 121) a graph of the largest 100 likely impacts was presented. The royalty payers involved have not been identified publicly nor to any industry members of the task force. The largest impacts calculated were between \$1 and \$2 million positive or negative.

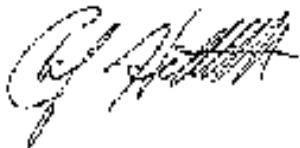
The model was tested with several companies to ensure it calculated the likely impact correctly based on 1995 information filed as of September 25, 1997, and based on a number of simplifying assumptions. Following this, a worksheet was provided to allow royalty payers to determine the impact on their own companies on a facility by facility basis.

Feedback has been received from industry on this process. Royalty payers are fully aware that the task force, and the Department of Energy, do not have the capacity to reconcile information, work through individual calculations, or respond to requests for clarification or alternative scenarios. However, given this knowledge, many royalty payers have requested that the impact calculated from the model for their company be provided simply as directional guidance and not as a number that would be verified or commented on by the task force or the Department of Energy.

On that basis, using the RRIR model, your impact for 1995 has been calculated as \$XXX (rounded to the nearest \$10). This is based on your filings with the Department for the 1995 production year as of September 25, 1997, based on annual weighted average pricing, stream averaged low productivity and vintage, and new UOCR calculations removing the 1994 production year carryover. The details of the calculations involved are in the RRIR worksheet. As this number has a number of simplifying assumptions, and does not include any information about how your business has changed since 1995, it is your responsibility to determine if you need to calculate this number for your own company and what the impact was in 1995 or is likely to be in the future. The number is only intended to give a directional indication of the impact of these proposals with regard to your 1995 production year so you can determine the appropriateness of undertaking the detailed calculations outlined in the previously provided royalty impact worksheet. **The Task Force and the Department of Energy do not represent, warrant or guarantee that this number is correct or its applicability to your present or future business.**

The Department of Energy Help Desk is not in a position to provide any further assistance with respect to any individual royalty payer's calculations of these impacts. Questions/feedback may be directed to the task force via email at: [RRIR@enr.gov.ab.ca](mailto:RRIR@enr.gov.ab.ca). Please note, detailed information regarding the application of the royalty impact worksheet can be found on the Department's website, located at: <http://www.energy.gov.ab.ca>.

Thank you

A handwritten signature in black ink, appearing to read 'Clif Hetherington', written in a cursive style.

Clif Hetherington  
RRIR Task Force