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Key Issues



Royalty and Related Information Review Task Force Recommendations

January 26, 1998



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Eight strategic issues summarize the problems and issues identified during the consultation process

Policy related issues:

- 1. Optimal role and involvement of government is unclear
- 2. Lack of certainty around fiscal period revenues
- 3. Allowable Cost principles not consistent with business practices
- 4. Royalty regime does not encourage rationalization and efficiency

Information related issues:

- 5. Lack of quality & timely volumetric information
- 6. Cost, complexity and redundancy surrounding data requirements
- 7. Information gathering processes do not facilitate compliance
- 8. Lack of standard industry to industry reporting

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Strategic Issue #1

Optimal role and involvement of government is unclear

- Identify the optimum level of reporting, involvement, and enforcement necessary for the Crown and Industry to manage and exercise rights and obligations
- Identify the role of the Crown in information management
- Identify the Crown's role in helping to minimize costs and maximize resulting benefits for the Western Sedimentary Basin

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Strategic Issue #2

Lack of certainty around fiscal period revenues

- Annual adjustment items create uncertainty; annual adjustments are carried into the following period
- Annual adjustments are difficult to forecast; create a risk of inaccurate annual financial statements and create potential for restatement or qualification of financial statements
- Forecasting is difficult to do given year to year uncertainty of Allowable Costs (operating)

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Strategic Issue #3

Allowable cost principles not consistent with business practice

- Not all costs are Allowable Costs; maintenance of an additional set of books is required; additional books are required when considering Freehold Mineral Rights Tax (FMRT) and Aboriginal lands
- Selected costs do not properly reflect the Crown's share of costs for gathering, compression and processing
- Existing Allowable Cost rules are not sufficiently adaptable to business evolution and new practices (e.g.. mid-stream processors)
- Volatility of Unit Operating Cost Rates (UOCR) makes economic forecasting difficult and uncertain
- Fluctuating UOCR's do not appropriately reflect operating costs

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Strategic Issue #4

Royalty regime does not always encourage rationalization

- Plant rationalization or closure is often a marginal financial decision
- Present royalty regime reflects actual costs in the case of the 38 designated facilities and therefore in these cases the Crown shares in cost reductions (savings) from rationalization investment
- Reductions of the Crown's share of the benefits of rationalization could help in further rationalization
- High levels of activity in asset disposal / acquisition have created a bottleneck of issues in the royalty regime
- Allowable Cost issues do not readily accommodate the disposition of assets to third party processors and subsequent reuse
- Issues have surfaced around claw backs and royalty paid banks that the royalty regime was not designed to address
- Rework and incorrect filings and assessments result from a delay in establishing the legal effective date of asset sales

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Strategic Issue #5 Lack of quality & timely volumetric information

- Error rates and amendments are excessive and create rework
- Owner Activity Statements (OAS) timing does not meet the needs of Industry allocation statements
- OAS errors cause Provisional Assessments resulting in incorrectly stated royalty charges
- OAS errors / Provisional Assessments cause amendments and rework
- S-report errors and late submissions triggers Provisional Assessment and associated rework
- There is no real time access to volumetric and other data (eg. facility codes, working interest ownership, business associates), leading to incorrect decisions and resulting financial impacts
- Well status process is not integrated with volumetric process
- OAS has not facilitated the replacement of the operator allocation report

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Strategic Issue #6

Cost, complexity and redundancy surrounding data requirements

- Requires filing and compiling of redundant data
- Do not lever existing business processes to levy and access Crown charges
- Multiple data stores in EUB and DoE are not "managed redundancy"
- Data stores in DoE, EUB and industry creates duplicate files
- OAS did not replace industry's allocation reports; both are routinely prepared and issued
- Operators maintain separate processes to prepare operator allocation reports and OAS documents
- Multiple Ministry submissions track production and product flows
- OAS has defaulted to become a royalty document and yet contains more information than the Crown requires to levy and access royalty

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Strategic Issue #7

Information gathering processes do not facilitate compliance

- Common data gathering processes must meet certain quality and timing standards to maintain value
- Management of compliance and quality issues is needed; compliance penalties should be reasonable and compliance incentives may be helpful
- Data input processes do not provide for timely feedback on errors and omissions

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Strategic Issue #8

Lack of standardized industry to industry reporting

- Participants record and report information in different ways
- Lack of standard codes and terminology leads to confusion
- No consistent media for exchange of information, resulting in the cost to support all options
- Information is not accurately gathered / shared between companies, resulting in unnecessary and costly amendment processes
- Data is managed in different ways by different companies, resulting in timing, amendment and duplication issues