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Anticipated Outcomes - Impact, Costs and Benefits



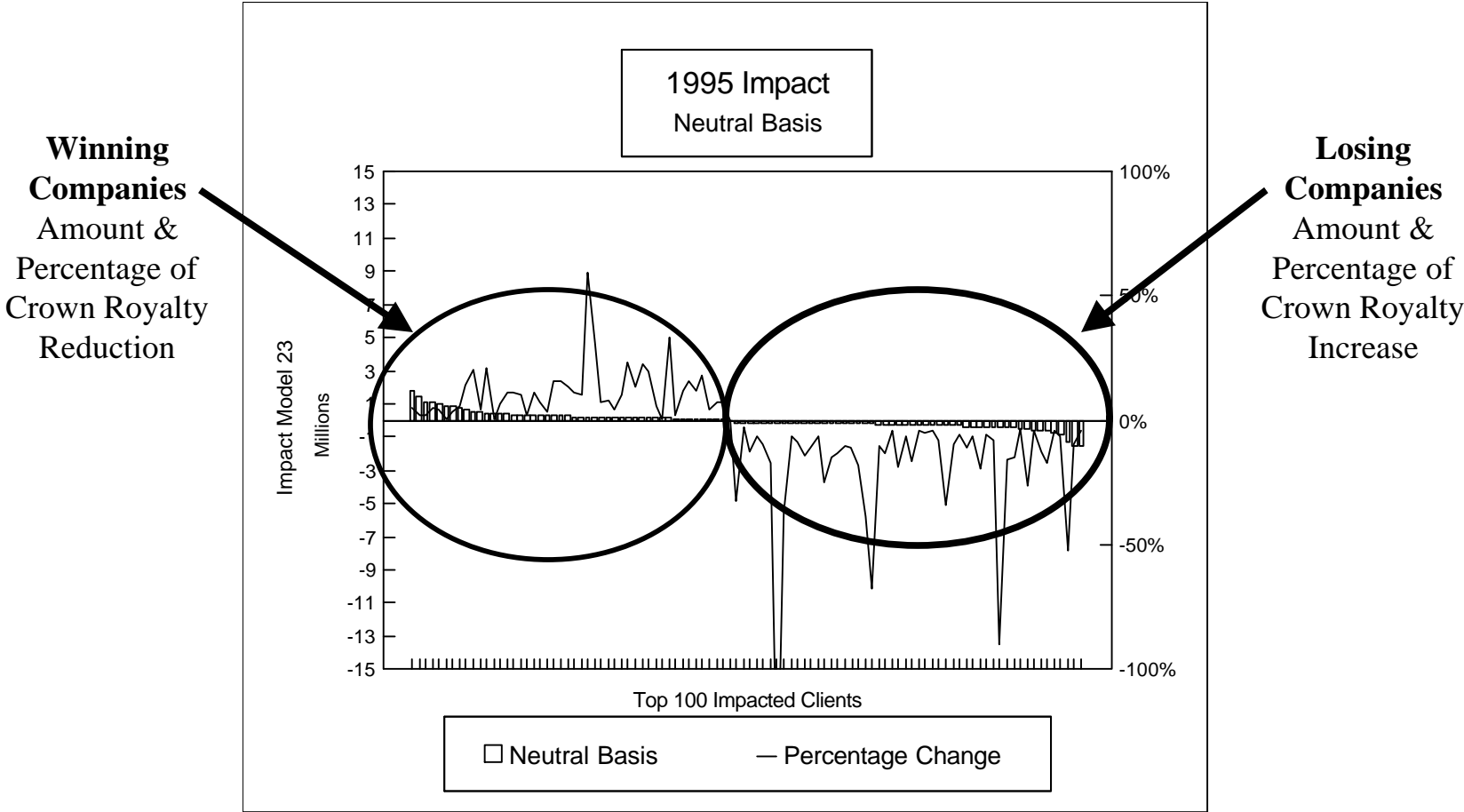
Royalty and Related Information Review
Task Force Recommendations
January 26, 1998



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The royalty regime changes would have redistributed \$23 Million in 1995 with a maximum win of <\$2 Million and maximum loss of ~\$1.3 Million



The Distribution Impact Model was validated by large, intermediate and small companies who calculate actual impacts on royalties paid at specific facilities and compared these with output from the model. The model cannot predict the future impact due to the many changes in ownership and other factors.

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The following summarizes the areas impacted from “13th month” adjustments for Allowable Operating Costs

Costs

- Ministry
 - Additional calculation of 13th month adjustments to operating
 - No change to current 13th month adjustment of capital
- Industry
 - May be some validation of 13th month adjustment to operating

Benefits

- Ministry
 - Reduced information requests and disputes over low and negative rates
- Industry
 - Operating costs for the year go to actual producers for that year
 - Reduced risks in property sales reduces transaction costs
 - Reduced accounting for changes in operating rates in property sales (post closing adjustments) and in annual reporting to management

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The following summarizes the areas of impact from Capital Allocation at the EUB facility Level

Costs

- Ministry
 - Calculation of capital rate in advance for 1800 EUB facilities
 - Calculation of capital allocations (value rated throughput)
- Industry
 - Some may have programming costs for internal validation

Benefits

- Ministry
 - Better estimate of capital cost component of Allowable Costs throughout the year
 - Allows termination of excess capacity custom processing charge administration
 - Costs are properly allocated to products processed
- Industry
 - Properties can be valued the same by clients regardless of their overall royalty position
 - Properties can be evaluated properly on a stand-alone basis
 - Better interim estimates of total capital cost allocation over the year
 - Reduces uncertainty of Corporate Effective Royalty Rate impact on other facilities from a sale or purchase
 - Avoids refile of Corporate Effective Royalty Rate information with facility sales or purchases
 - Eliminates filings associated with the Custom Processing Adjustment Factor

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The following summarizes the areas of impact for Custom Processing Allowances by gas type

Costs

- Ministry
 - Calculation of gas type allowances each year in advance and 13th month adjustments
 - Modify current processes to use Allowances
- Industry
 - Additional importance to filing of existing ownership documents
 - Identification of gas at each well as acid gas or not acid gas via the S4

Benefits

- Ministry
 - No custom processing filings
 - No Custom Processing Adjustment Factor calculations, disputes and reduced uncertainty
 - Removes need for administration of several custom processing exception rules, such as the limitation on previous owners of sold facilities and election for partial facilities
 - Improved compliance
- Industry
 - No custom processing filings
 - No Custom Processing Adjustment Factor calculations, disputes and uncertainty
 - No need to comply with custom processing exception rules
 - Clear and simple compliance
 - Benefits identified of removing between 10 and 50% of Allowable Cost administration cost

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The following summarizes the areas of impact for Allowable Cost definition alignment

Costs

- Ministry
 - Development of standardized rates for some costs such as roads and housing
 - Some over and underpayment compared to detailed actual filings
- Industry
 - Some over and underpayment compared to detailed actual filings

Benefits

- Ministry
 - Reduced auditing requirement
 - Reduced disputes
- Industry
 - Reduced auditing
 - Reduced disputes
 - Better understanding across industry
 - Easier and better compliance

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The tangible costs and benefits of the recommended changes to the royalty regime have been estimated

Costs

- Ministry
 - Approximately \$1.5 million in systems development costs
 - Minimal new administrative costs
- Industry
 - Minimal changes

Benefits

- Ministry
 - Reallocation of five staff due to reduction in filing/validation \$250,000
 - Reduction in invoicing and associated costs \$ 75,000
 - Reduction (five staff) in Mineral Tax administration/audit \$250,000
- Industry
 - 30-50% of identified cost allowance administration cost
Approximately \$1.5-\$2.5 million per year



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The tangible costs and benefits of the recommended mitigating strategy for the minimum royalty proposal

Costs

- Ministry
 - System changes \$250,000
 - to calculate monthly and annual accumulations
 - to apply royalties to amended volumes where appropriate
 - to apply interest as appropriate
 - Value of Royalty not invoiced
 - \$ 125,000 annually for 700 clients
- Industry
 - None

Benefits

- Ministry
 - Costs of sending invoices for small clients
 - \$75,000 annually (\$9 per client for 700 clients for 12 months)
- Industry
 - Value of royalty not invoiced
 - \$125,000 annually across 700 clients
 - Cost of handling invoices
 - \$168,000 annually (1 hour @ \$20 for 700 clients for 12 months)

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The tangible costs and benefit of the recommended mitigating strategy for an annual Corporate Average Price election

Costs

- Ministry
 - System changes
 - flag clients as CAP - minimal
 - Value of royalty
 - \$150,000 annually from 1000 clients paying less than \$30,000 Crown gas royalty annually
 - Increased audit costs, extent dependent on subscription
- Industry
 - Significantly increased cost of calculating Corporate Average Price Undertaken Voluntarily

Benefits

- Ministry
 - None
- Industry
 - Value of royalty
 - \$150,000 annually across the 1000 clients paying less than \$30,000 Crown gas royalty annually

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The tangible costs and benefits of the Mineral Tax proposal are shown below

Costs

Ministry

- Redevelop gas and petroleum mineral tax: independent computer systems
- Addition of gas mineral tax charges to existing gas monthly invoice
- \$2.0 million in new systems costs on a one time basis

Industry

- Some may have programming costs for internal validation and/or mineral tax assessment reallocations
- Minor distributional impact caused by replacement of title owner tax exemption with a well bore tax exemption

Benefits

Ministry

- Reduced administration and audit of unit values
- Further reduces 'programs' resident on an increasingly elderly computer platform
- Removal of risk due to title splitting

Industry

- Elimination of unit values determination, administration and audit
- Single monthly invoicing of crown gas charges
- Tax reduction becomes production / value based - economic link established

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The tangible benefits of modifying the Royalty Regime processes will result in annual Industry and Ministry benefits of \$3M - \$4M

Benefit	Industry	Ministry
Reduced allowable cost administration costs	<ul style="list-style-type: none"> • 30% - 50% of administration cost savings estimated to be \$1.5M - \$2.5M per year 	<ul style="list-style-type: none"> • administrative cost savings, reallocate 5 staff @ \$50K = \$250,000
Reduced royalty invoicing for minimal royalty balances	<ul style="list-style-type: none"> • accumulated, industry savings of \$125,000 per year royalty charges across 700 clients • invoice handling would be reduced by \$168,000 per year 	<ul style="list-style-type: none"> • invoice generation and mailing would realize savings of approximately \$75,000 per year) • ***
Annual CAP election	<ul style="list-style-type: none"> • \$150,000 over 1000 clients under \$30,000 royalty annually 	
Mineral Tax incorporated into the Gas monthly invoice cycle	<ul style="list-style-type: none"> • \$.5M reduced administration and audit of unit values 	<ul style="list-style-type: none"> • \$250,000 in reduced administration and audit of unit values • removal of risk due to title splitting
TOTAL	\$2.5M - \$3.5M	\$575,000

*** Note: the ministry benefits do not include any consideration of audit cost reductions, appeals/adjustment benefits or ARTC.

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An analysis of the Royalty Regime Changes' costs and benefits indicate that the payback across natural gas sector occurs in 2002

Regime Changes	1998-2000	2001	2002	2003
INDUSTRY				
Implementation Capital	0	-	-	-
Increased Annual Ops Cost	-	0	0	0
Annual Program Savings	-	2.0-3.0M	2.0-3.0M	2.0-3.0M
MINISTRY				
Implementation Capital	1.75M	-	-	-
Annual Program Savings	-	50K	50K	50K



Freehold Mineral Tax	1998-2000	2001	2002	2003
INDUSTRY				
Implementation Capital	<1.0M	-	-	-
Annual Program Savings	-	0.5M	0.5M	0.5M
MINISTRY				
Implementation Capital	2.0M	-	-	-
Annual Program Savings	-	0.25M	0.25M	0.25M



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The tangible benefits of integrating the OAS and ‘S’ documents are realized through reduced data volumes and increased accuracy

Benefit	Industry	Ministry
OAS preparation reduced from 12,000 monthly to 1,800	<ul style="list-style-type: none"> • 85% reduction in OAS preparation and improved quality • reduced provisional assessment by 60 –70% per month*** • penalties are reduced due to less inputs therefore less rejects • OAS rejects reduced by 50% to 1000 detail lines • data transmission costs are reduced by \$1.5M per year 	<ul style="list-style-type: none"> • internally balanced document at facility level; eliminates DoE – EUB reconciliation processes • reconciliation processes are eased • potential for 15 day improvement in invoice cycle • eliminates redundant data required by existing carry forwards • reduces edits, lack of filing and mis-filing errors associated with owner level details
Cost avoidance	<ul style="list-style-type: none"> • no need to separately prepare S8, S20 and S21 documents 	<ul style="list-style-type: none"> • eliminates need to replace Gas Gathering Plant (GGP) system (EUB); costs estimated to be approximately \$.5M - \$1.0 M
TOTAL	\$1.5M +	\$.5M - \$1.0M

*** Note:the reduction in provisional assessment would result in a benefit from reduced interest costs, not included in total

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An analysis of the S/OAS Integration costs and benefits indicate that the payback across natural gas sector occurs in 2002

S/OAS Integration	1998-2000	2001	2002	2003
INDUSTRY				
Implementation Capital	0	-	-	-
Increased Annual Ops Cost	-	0	0	0
Annual Program Savings	-	1.5M	1.5M	1.5M
MINISTRY				
Implementation Capital	3.0M	-	-	-
Systems Replacement Avoidance	(0.5-1.0M)			
Annual Program Savings				

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The tangible benefits of a Shared Information Registry include a reduction in rejected documents, rework, and paper for Industry and the Ministry

Benefit	Industry	Ministry
Reduced rework and increased accuracy due to front end edits	<ul style="list-style-type: none"> • reduced compliance fees (EUB / DoE) due to less rejects • OAS rejects reduced by 50% to 1000 detail lines • Other monthly royalty document rejects would be reduced by 50% to 200 	<ul style="list-style-type: none"> • \$1.0 M per year (EUB) • minimal cost savings to DoE
Reduced paper and associated costs		<ul style="list-style-type: none"> • 13,000 monthly paper forms would be received electronically (EUB) • 2,000 monthly paper forms would be received electronically (DoE)
Single source of OAS information	<ul style="list-style-type: none"> • \$1M - \$1.5M reduction in Production Accountants pursuing OAS information 	
Use of registry will provide a larger window for document preparation	<ul style="list-style-type: none"> • \$.5M reduction in overtime for Ministry submissions 	
TOTAL	\$1.5M - \$2.0M	\$1.0M

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An analysis of the Shared Information Registry costs and benefits indicate that the payback across natural gas sector occurs in 2004-5

Shared Information Registry	1998-2000	2001	2002	2003	
INDUSTRY					Payback 2004-2005
Implementation Capital	1.0M	-	-	-	
Increased Annual Ops Cost	-	0	0	0	
Annual Program Savings	-	1.5-2.0M	1.5-2.0M	1.5-2.0M	
MINISTRY					
Implementation Capital	2.4-4.6M	-	-	-	
Increased Annual Ops Cost		(0.8-1.5M)	(0.8-1.5M)	(0.8-1.5M)	
Annual Program Savings		1.0M	1.0M	1.0M	

Note: Investing in a shared information registry will trigger additional one time costs (\$2.8M - \$3.0M) within the Ministry to modify existing automated applications. The net result is the 2004/2005 payback.

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