

Royalty & Related Information Review Instruction Sheet

The Natural Gas Royalty and Related Information Review project is an industry-led initiative directed towards reducing administrative cost and complexity associated with managing Alberta Crown natural gas royalty. The project was initiated in response to the increasing difficulty that industry is experiencing in its efforts to comply with the reporting associated with the existing natural gas royalty regulations and being able to forecast revenues and costs.

The following step-by-step instructions are to be used to determine the long term royalty impact by comparing the current royalty methodology and the Related Information Review methodology. This comparison uses reported royalty information for production year 1995. **All calculations are at an EUB facility level; thus each step (with the exception of the first) has been designed with the intention the calculations are performed one facility at a time.** It is the responsibility of the royalty client to determine the most efficient approach to calculate royalty dollars on a corporate level.

Part A - Calculate Revised Net Royalty for Production Year 1995

The purpose of this section is to adjust the net royalty as originally reported for Production Year 1995. A new net royalty is to be calculated by adjusting the original royalty variables used to calculate the 1995 reported net royalty.

Step 1 – Recalculate the Corporate Effective Royalty Rate (CERR)

For Production Year 1995, a royalty client's CERR was calculated as the crown royalty value of the client's corporate production for the year (excluding holiday volumes) divided by the client's corporate value of the client's corporate production for the year. Recalculate the 1995 CERR for your company by:

- For each respective 1995 production month, add the crown royalty holiday volumes (from the "Corporate Effective Royalty Rate (CERR) Calculation Detail" report, under the field named "Royalty Exemption, Numerator") to the net crown royalty quantity amounts (from the same report, under field named "Net CRQ, Numerator") to determine the revised Crown royalty volumes total.
- Multiply the revised "Crown Royalty Quantity" from the step above for each production month of 1995 by the applicable "Product Unit Value" to determine the monthly Crown royalty value. For example, the January net Crown Royalty Quantity total for Gas is multiplied by the January Product Unit Value for Gas.
- The sum of the 1995 monthly Crown royalty value is the annual Crown royalty value of your corporate production for production year 1995.
- Divide the sum of the annual Crown royalty value for 1995 by the corporate value of your corporate production. The corporate value is reported under the field named "Corporate Value (\$)" on your "Corporate Effective Royalty Rate (CERR) Calculation Detail" report. This is your revised CERR and should be used for Steps 6 and 7 below.

NOTE: If your company has no holiday production in 1995, use the 1995 CERR as already presented within your "CERR Calculation Detail" report. No further adjustments are necessary.

Step 2 – Determine Original Annual Gross Royalty

- Add the monthly Gross Royalty amounts for all production months in 1995 for your facility. These amounts are reported on the monthly Crown Royalty Detail Report, under the field named "Gross Royalty"

Step 3– Calculate Allowable Operating Costs

- Determine the total annual volumes for production year 1995 that are eligible for operating costs by:
 - 1) grouping your processing facility into its respective plant type or designated facility classification;
 - 2) for each plant type or designated classification group, determine the annual crown royalty volumes by adding the monthly volumes as reported on the “Crown Royalty Detail Report” on a like product basis. For example, add the propane volumes for all production months for each facility classified as Plant Type 1 to get the total annual propane volumes for Plant Type 1;
 - 3) for each product, use the Conversion Factors on Schedule 2 to convert the total annual product volume to the Energy Adjusted Gas Equivalent Volume;
 - 4) for each plant type or designated classification group, sum the EAGEV obtained from 3 above
 - 5) To calculate the Annual Operating Cost deduction for each respective Plant Type or designated facility group, multiply the total EAGEV determined in 4 above by the “Actual UOCR Rates” from Schedule 1

NOTE 1: Ineligible Crown Royalty volumes must not be included in any of the above calculations. Ineligible Crown Royalty volumes are Raw Gas Sales volumes reported on the Crown Royalty Detail report.

NOTE 2: Although previous UOCR calculations have revised the annual rate within the month of February of each year, apply the rates as shown on Schedule 1 for the entire 1995 production year (from 1995-01 to 1995-12 inclusive), for all steps in this package which reference Schedule I.

Step 4 – Recalculate Allowable Capital Cost Deductions

- Using your most current “Capital Cost Allowance Recapture For Enhanced Oil Recovery and Royalty Paid Bank Settlement Summary” report for Production Year 1995, take the annual Enhanced Oil Recovery and Royalty Paid Bank recapture amounts as reported under field named “EOR Recapture \$ and RPBs Recapture \$”.
- Add the Enhanced Oil Recovery and Royalty Paid Bank amounts into the total Allowable Capital costs as reported in the “Capital Cost Allowance Recapture For Enhanced Oil Recovery and Royalty Paid Bank Settlement Summary”, under field named “Client CCA After EOR and RPBS Recapture(\$)”. This gives you your total allowable Capital Cost amount.

Step 5 – Recalculate Allowable Custom Processing Fees Deduction

- If your EUB facility was reported under Part 3 of the 1995 AC5 form, replace the Delayed Rates as reported on your most current “Annual Custom Processing (CP) Fees Net of Operating Costs Detail” report for Production Year 1995 with the new Delayed Rates as reported on Schedule 1. If your EUB facility was reported under Part 2 of the 1995 AC5 form, use the respective Plant Type UOCR as reported under Schedule 1. This calculation gives you your new “Operating Cost Reduction (\$)”.
- Add the calculated “Operating Cost Reduction (\$)” amounts from above to determine the total amount for the 1995 Production Year.
- Subtract the amount calculated above (bullet #2) from the total amount reported under the field named “AC5 Custom Fees Paid (\$)” on the “Annual Custom Processing (CP) Fees Net of Operating Costs Summary”. This gives you your total allowable Custom Processing Fees amount.

Step 6 – Recalculate the Crown Share of Capital Costs

- To recalculate your crown share of capital costs, take your total allowable capital as determined in Step 4 and multiply this by your CERR as determined in Step 1.

Step 7 – Recalculate the Crown Share of Custom Processing Fees

- To recalculate your crown share of custom processing fees, take your total allowable custom processing fees as determined in Step 5, and multiply this by your CERR as determined in Step 1.

Step 8 – Determine Revised Net Royalty for Production Year 1995

1995 REVISED NET ROYALTY = STEP 2 TOTAL minus STEP 3 TOTAL minus STEP 6 TOTAL minus STEP 7 TOTAL

Part B - Calculate RRIR Net Royalty for Production Year 1995

This purpose of this section is to adjust the net royalty as originally reported for Production Year 1995. A new net royalty is to be calculated by replacing the original royalty variables used to calculate the 1995 reported net royalty with the proposed RRIR methodology.

Step 1 – Determine Original Annual Gross Royalty

- Add the monthly Gross Royalty amounts for all production months in 1995. These amounts are reported on the monthly Crown Royalty Detail Report, under the field named “Gross Royalty”

NOTE:

Before proceeding to Steps 2 and 3, please read the following carefully:

If you have a working interest ownership in a processing facility, calculate your allowable operating and capital costs in accordance with Steps 2 and 3 instructions.

If you do not have a working interest ownership in a processing facility, calculate your allowable operating and capital costs in accordance with Steps 4 and 5 instructions.

Step 2– Calculate Allowable Operating Costs – Owner in Processing

- Determine the total annual volumes for production year 1995 that are eligible for operating costs by:
 - 1) grouping your processing facilities into their respective plant type or designated facility classification;
 - 2) for each plant type or designated classification group, determine the annual crown royalty volumes by adding the monthly volumes as reported on the “Crown Royalty Detail Report” on a like product basis. For example, add the propane volumes for all production months for all facilities classified as Plant Type 1 to get the total annual propane volumes for Plant Type 1;
 - 3) for each product, use the Conversion Factors on Schedule 2 to convert the total annual product volume to the Energy Adjusted Gas Equivalent Volume;

- 4) for each plant type or designated classification group, sum the EAGEV obtained from 3 above
- 5) To get the Annual Operating Cost deduction for each respective Plant Type or designated facility group, multiply the total EAGEV calculated in 4 by the “Actual UOCR Rates” from Schedule 1

NOTE: Ineligible Crown Royalty volumes must not be included in any of the above calculations. Ineligible Crown Royalty volumes are Raw Gas Sales volumes reported on the Crown Royalty Detail report.

Step 3– Calculate Allowable Capital Costs – Owner in Processing

- Determine the total annual volumes for production year 1995 that are eligible for capital costs by:
 - 1) determine the annual crown royalty volumes for each product for each respective EUB facility by adding the monthly volumes as reported on the “Crown Royalty Detail Report” on a like product basis. For example, add the propane volumes for all production months for facility AB-GP-1234 to get the total annual propane volumes for facility AB-GP-1234. For gas add the monthly GJs.
 - 2) Multiply the annual crown royalty volumes for each product from 1 above by the respective product “GE Factor” and “Heat Factor” from Schedule 3 to convert the volume to GJs.
 - 3) Multiply the GJs for each product from 2 above and the gas GJs from 1 above by the respective “Price Per GJ” from Schedule 3 to calculate the Gross Capital Cost Allowance for each product.
 - 4) Sum the amounts as calculated in 3 above
 - 5) Multiply the Gross Capital Cost Allowance for each facility from 4 above by the respective facility “EUB Capital Rate” from Schedule 4 to determine your Allowable Capital Cost.

Step 4– Calculate Allowable Operating Costs – Non-Owner in Processing

- Determine the total annual volumes for production year 1995 that are eligible for operating costs by:
 - 1) grouping your processing facilities into their respective plant type classification;
 - 2) for each plant type classification group, determine the annual crown royalty volumes by adding the monthly volumes as reported on the “Crown Royalty Detail Report” on a like product basis. For example, add the propane volumes for all production months for all facilities classified as Plant Type 1 to get the total annual propane volumes for Plant Type 1;
 - 3) for each product, use the Conversion Factors on Schedule 2 to convert the total annual product volume to the Energy Adjusted Gas Equivalent Volume;
 - 4) for each plant type classification group, sum the EAGEV obtained from 3 above
 - 5) To get the Annual Operating Cost deduction for each respective Plant Type, multiply the total EAGEV calculated in 4 by the “Actual UOCR Rates” from Schedule 1

NOTE 1: Ineligible Crown Royalty volumes must not be included in any of the above calculations. Ineligible Crown Royalty volumes are Raw Gas Sales volumes reported on the Crown Royalty Detail report.

NOTE 2: If volumes are processed at a Plant Type 2 but no liquids are extracted, use the plant type 1 rate to determine the Allowable Operating Cost.

Step 5– Calculate Allowable Capital Costs – Non Owner in Processing

- Determine the total annual volumes for production year 1995 that are eligible for capital costs by:
 - 1) determine the annual crown royalty volumes for each product for each respective plant type by adding the monthly volumes as reported on the “Crown Royalty Detail Report” on a like product basis. For example, add the propane volumes for all production months for facility AB-GP-1234 to get the total annual propane volumes for facility AB-GP-1234. For gas add the monthly GJs.
 - 2) Multiply the annual crown royalty volumes for each product from 1 above by the respective product “GE Factor” and “Heat Factor” from Schedule 3 to convert the volume to GJs.
 - 3) Multiply the GJs for each product from 2 above and the gas GJs from 1 above by the respective “Price Per GJ” from Schedule 3 to get the Gross Capital Cost Allowance.
 - 4) Sum the amounts as calculated in 3 above.
 - 5) Multiply the Gross Capital Cost Allowance for each plant type from 4 above by the respective facility “CP Capital Rate” from Schedule 5 to get your Allowable Capital Cost.

NOTE: If volumes are processed at a Plant Type 2 but no liquids are extracted, use the plant type 1 rate to determine Allowable Capital Cost.

Step 6 – Determine RRIR Net Royalty for Production Year 1995

a) If you are an owner in a processing facility your:

1995 RRIR NET ROYALTY = [STEP 1 TOTAL minus STEP 2 TOTAL minus STEP 3 TOTAL] multiplied by 1.0079 (Neutrality Factor)

b) If you are not an owner in a processing facility your:

1995 RRIR NET ROYALTY = [STEP 1 TOTAL minus STEP 4 TOTAL minus STEP 5 TOTAL] multiplied by 1.0079 (Neutrality Factor)

Part C - Calculate RRIR Net Royalty Impact

Part A Step 8 minus Part B Step 6(a); or

Part A Step 8 minus Part B Step 6(b).