

Department of Energy

Sulphur Emission Control Assistance Program (SECAP) Guidelines

February 7, 2003

INTRODUCTION

In the summer of 1988, Alberta Environment (AE) and the Energy Resources Conversation Board (ERCB) completed a review of sulphur recovery guidelines for sour gas plants in Alberta. The ERCB's Information Letter 88-13 (IL 88-13) established a minimum sulphur recovery requirement of 70 percent of equivalent contained in the raw gas for plants with a design capacity for a sulphur equivalent inlet rate of 1 to 5 tonnes per day. Because of the high marginal costs incurred in removal of the sulphur at plants within this size range, AE and ERCB recommended that the public share in such incremental costs through a government program.

As a result of the review, the Government of Alberta introduced the Sulphur Emission Control Assistance Program (SECAP), which is administered by the Gas Royalty Calculation Branch of Alberta Energy. SECAP is intended to provide financial assistance to operators of small sour gas plants in meeting the revised sulphur emission standards. This assistance covers one-half of the costs incurred in reducing sulphur emissions.

In August, 2001, the Energy Utilities Board (EUB) issued updated sulphur recovery guidelines specified in EUB Interim Directive ID 2001-03: Sulphur Recovery Guidelines for the Province of Alberta. Under these guidelines, the IL 88-13 sulphur recovery requirements are phased in for grandfathered sour gas plants that were not initially required to meet these recovery levels. The Gas Plant Efficiency Assistance Regulation (GPEAR) was subsequently approved to assist large plants in achieving these higher sulphur recovery requirements. Specifically, the regulation extends SECAP eligibility to large grandfathered sour gas plants with a sulphur inlet design rate in excess of 5 tonnes per day. Royalty credits will be granted equal to 50% of the eligible capital cost of approved equipment. No royalty credits will be granted for operating costs related to the approved equipment.

ELIGIBILITY

To qualify for capital and operating cost assistance under SECAP, a gas processing plant must utilize an eligible process approved after July 6, 1988 and have a sulphur equivalent inlet rate of 1 to 5 tonnes per day. An eligible process is one approved by the EUB and which will achieve a minimum sulphur recovery of 70 percent. These processes include, but are not limited to; sulphur recovery processes such as klaus, direct oxidation and recycle selectox. A scheme for subsurface injection of acid gas or the transportation of acid gas to another plant for sulphur recovery is also eligible.

To qualify for capital cost assistance under SECAP, large grandfathered sour gas plants must utilize an eligible process and have a sulphur equivalent inlet rate in excess of 5 tonnes per day. An eligible process is one approved by the EUB that achieves the phased-in sulphur recovery criteria established by the EUB in ID 2001-3, Section 3.1. In addition, eligible capital costs must increase sulphur recovery and be incurred between May 1, 2001 and April 30, 2006.

BENEFITS

Dependent upon the size of the gas plant, assistance will cover one-half of the approved costs incurred to recover sulphur at eligible plants. A royalty credit program has been established to pass the level of assistance on to the participants. These royalty credits may be transferred in whole or in part to another royalty client. In all cases these credits must be applied to natural gas and by-product **royalties**. The level of assistance will be established as follows:

Small gas plants (sulphur inlet rate of 1-5 tonnes per day)

Capital Costs- Benefit will be 50% of the eligible capital cost for approved equipment. The Minister must receive an application for credits (Form 595) for approved equipment within 12 months following the date on which the approved equipment commenced operation, or within any extension of that period granted.

Operating Costs- Benefit will be 50% of eligible operating expenses for approved equipment relating to any eligible plant. The application (Form 595) for credits shall relate to eligible operating expenses incurred in the preceding calendar year. The Minister must receive an application for credits (Form 595) for operating expenses within the 3-month period following the year in which the operating expenses were incurred, or within any extension of that period granted.

Large grandfathered gas plants (sulphur inlet rate in excess of 5 tonnes per day)

Capital Costs- Benefit will be 50% of eligible capital cost for approved equipment. The Minister must receive an application for the capital cost credit (Form 595) within 12 months following the date on which the approved equipment commenced operation, or within any extension of that period granted.

The plant operator is responsible to provide the department with the names of the participants and the percentage of credits to be allocated to each participant. The department will then establish royalty credits for each of the participants.

LIMITATION ON BENEFITS

The Minister may refuse to grant credits to a person if he believes that regulations have been contravened or that business arrangements were made that artificially affected the determination of royalty credits. Also, he may cancel and/or reduce accordingly any credits approved under such circumstances.

The operator of the facility will be required to repay royalty, including interest (Treasury Branch prime rate plus 1%), if credits were allocated and redeemed and it is subsequently determined that all or parts of the costs submitted are ineligible.

CLAIMING YOUR BENEFIT

Royalty clients participating in the Sulphur Emission Control Assistance Program will see the benefit granted under SECAP as a line item appearing on the royalty client's royalty invoice under the Credits portion of the invoice.

APPLICATION PROCEDURES

The plant operator may apply for SECAP by completing the application form (Form 595) after receiving approval from the EUB to build a new facility or utilize an eligible process in an existing facility. The SECAP application should be sent directly to the attention of:

Manager, Royalty Billings
Alberta Energy
Petroleum Plaza, North Tower
9945 – 108 Street
Edmonton, Alberta T5K 2G6

To expedite the approval process and **prior** to the actual SECAP submission, a process flow diagram and site diagram (including mass flow and stream composition) of the sulphur emission control equipment and connected facilities should be submitted to the department. The approved processes will be identified to the SECAP applicant prior to the supporting documentation submission date.

Royalty clients may also submit plans to be reviewed by the department for new capital expenditures relating to SECAP prior to actual capital outlays. Approved eligible processes will be identified and confirmed to be eligible for SECAP credits.

The following supporting documentation for the approved processes must be submitted with Form 595 to be considered complete:

- A detailed listing of major equipment with an original cost in excess of \$100,000.00
- Approval For Expenditures (AFE's).
- Copies of invoices, purchase orders and work orders in support of all items where the individual cost exceeds \$1,000.00 for the approved processes.
- Identification of the major equipment that each expense claimed for additions, repairs or maintenance relates to.
- A detailed listing of major chemicals used in the approved process.
- Allocation percentages for common costs claimed for SECAP (including but not limited to heat, power, fuel, electricity and plant turnaround costs). Include a brief

description of the cost allocation methodology and provide supporting data for the allocations.

Incorrect applications or incomplete applications will be returned.

For the purposes of applying for SECAP the following definitions and clarifications apply:

ELIGIBLE EQUIPMENT

Sulphur Recovery Facilities

- Only sulphur facilities that recover sulphur from the acid gas stream by oxidation are eligible. Examples of eligible facilities are the Klaus, Sulfeen and Lo-Cat units. Dehydration and Amine Unit processes are non-eligible.
- Equipment for use in an approved process at the eligible plant.
- Sulphur recovery requirement for small gas plants: Facilities are required to remove at least 70% of equivalent sulphur in the acid gas stream.
- Sulphur recovery requirements for large grandfathered plants: Sulphur recovery equipment must increase sulphur recovery and achieves the sulphur recovery criteria established by the EUB in ID 2001-3.

Acid Gas Disposal Facilities

- Where the acid gas is removed at the eligible plant, certain facilities for the injection of acid gas into an underground formation are eligible. This includes incremental costs of converting production wells and related facilities to acid gas injection.
- Pipeline and related facilities, where acid gas removed at the eligible plant is transported by pipeline from the eligible plant to another plant for processing.
- Only acid gas disposal facilities that achieve the sulphur recovery criteria established by the EUB are eligible.

ELIGIBLE COSTS

The department will assess the reasonableness of all costs in determining eligible costs. Eligible costs include:

- Capital and operating costs incurred for equipment used in an eligible process.
- Capital costs must be incurred before costs are eligible.
- Approved equipment must be installed and operational before costs are eligible.
- Capital Costs incurred between May 1, 2001 and May 1, 2006 that increases sulphur recovery for equipment used in an eligible process at a large grandfathered gas plant.
- Costs incurred by the original purchaser for transactions among connected parties.
- Cost of conversion of existing equipment is eligible if equipment is dedicated to the approved process.

- Cost of used approved equipment will be determined on a fair market value basis.
- If existing sulphur emission control equipment is replaced the cost of new equipment, less salvage value of old, is eligible.
- For small gas plants, expenses incurred in operating and maintaining approved equipment that handles the acid gas stream, including labour, materials, parts and supplies. Large grandfathered gas plants are not eligible for operating costs.

Eligible capital costs and operating costs for approved equipment shall be reduced by the extent of:

- Amounts reimbursed under the policy of insurance
- Salvage value of equipment replaced by new approved equipment
- Any grant or benefit provided by Government of Alberta or the Government of Canada or any agency of either Government if the Minister is satisfied that the grant or benefit is referable to the approved equipment in whole or in part or referable to the operation or maintenance of the approved equipment.

NON-ELIGIBLE COSTS

Include but are not limited to the following:

- Capital costs that have not been approved by the DOE as part of the eligible process.
- Capital costs, repairs and maintenance, chemical waste disposal and waste pits, and turnaround costs relating to an unapproved process. (e.g. amine unit, dehydration process)
- Operating costs related to non-eligible capital costs.
- Capital costs of equipment at an approved plant that has not commenced operation.
- Capital costs or operating expenses that are not actually incurred.
- Administration, management or financing costs.
- EUB Administration fees.
- Depreciation.
- Cost of borrowed money that is deductible from income under Section 21 of the Income Tax Act (Canada).
- Amounts that would be deductible under the Income Tax Act (Canada) or the Income Tax Regulations under the Act as a capital cost of property.
- Capital costs/operating expenses claimed under the Allowable Cost program. (The operator must select either SECAP or Allowable Costs. The operator's decision on the choice of program will be final).
- Expenses incurred for salaries or benefits paid to an employee or fee payable to a contractor for services that are not directly related to the operation and maintenance of the approved equipment for the acid gas stream.
- Property taxes.
- Insurance for property or vehicles.
- Capital costs relating to road, bridges, walkways and fences.
- Operating costs relating to road lease maintenance.

- Indirect charges or deemed allocations from Head Office or other ex-plant gate locations.
- Soil monitoring/testing not specifically related to the acid gas stream.
- Mobile telecommunication equipment.
- Sulphur block and sulphur pit.
- Sulphur loading facilities.
- Incinerators and flare stacks.
- Noise abatement testing expenses.
- Operating expenses that may be regarded as having occurred by or for the benefit of the gas plant owner in relation to approved equipment in respect of:
 - The use of property in which another person has an interest and with whom the operator, the gas plant owner or any co-owner of the gas plant is connected.
 - The acquisition of any materials, parts or supplies from another person with whom the operator, the gas plant owner or any co-owner of the gas plant is connected.
 - The payment of compensation for the performance of a service for his benefit by any other person with whom the operator, the gas plant owner or any co-owner of the gas plant is connected to the extent that the expense exceeds the least of those amounts, each of which is the aggregate of the expenditures incurred by another person with whom the operator, the gas plant owner or any co-owner of the gas plant is connected.

CONNECTED PERSON

A person and another person are connected with each other if:

- (i) The person and that other person are not dealing at arm's length;
- (ii) The person has an equity percentage in that other person that is not less than 10%,
or;
- (iii) Where the person is a corporation, the corporation and the other person are linked by another person who has an equity percentage in each of them of not less than 10%.

INFORMATION

Information regarding eligible facilities and eligible processes can be obtained by contacting:

Manager, Royalty Billing
 Alberta Energy
 Petroleum Plaza, North Tower
 9945 – 108 Street
 Edmonton, AB T5K 2G6
 Telephone: (780) 422-6684