

File: 280-30

December 2, 2005

BY EMAIL

To: Interior Regional Managers

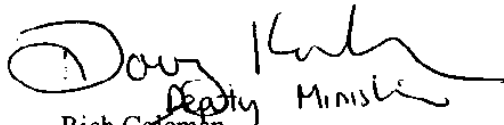
From: The Honourable Rich Coleman
Minister of Forests and Range
and Minister Responsible for Housing

Re: Amendment No. 8 to the *Interior Appraisal Manual*

I hereby approve Amendment No. 8 to the *Interior Appraisal Manual* and attach a copy for your use. The following sections have been amended.

- Section 7.2.4(3): Revised text refers to Section 7.5 for the calculation of the upset stumpage rate and enables the upset and bonus to apply to both saw logs and Grade 3 logs.
- Section 7.5.1: Revised text describes the methodology for adjusting the discounted market stumpage price using the Grade 3 fraction and defines the term "Grade 3 fraction".
- Section 7.5.2: Revised equation for determining the upset stumpage rate.

This amendment will come into force on December 2, 2005. Further amendments or revisions to this manual require my approval.



Rich Coleman
Minister

Attachment

pc: Bill Howard, Director, Revenue Branch



FOR FURTHER INFORMATION CONTACT:

Bob Bull
Senior Timber Pricing Forester (Interior)

Revenue Branch
Ministry of Forests and Range
PO Box 9511 Stn Prov Govt
Victoria, B.C. V8W 9C2

Phone: 356-7709
Email: Bob.Bull@gems1.gov.bc.ca
FAX: 387-5670

MANUAL TITLE Interior Appraisal Manual	
REVISION No. Amendment No. 8	ISSUE DATE December 2, 2005
MANUAL CO-ORDINATOR Judy Laton Revenue Branch	
AUTHORIZATION (Name, Title) W. Howard Director, Revenue Branch	

Please make the following changes to your copy of the above Ministry manual. Please insert the following specified pages and **file this notice** immediately after the Amendments Tab.

ACTION (Remove/Insert)	(VOL.) CHAPTER-SECTION-SUBJECT	PAGE(S)	COMMENTS
	TABLE OF CONTENTS		
REMOVE	Chapter 7	3 - 4 9 - 12	After Chapter 7 Tab
INSERT	Chapter 7	3 - 4 9 - 12	
INSERT	Minister's Letter and Manual Revision Transmittal		After Amendments Tab

7.2 MPS Principles and Procedures

7.2.1 MPS Appraisals

The upset stumpage rate will be calculated using the *Interior Appraisal Manual* and monthly parameters (selling prices and consumer price index (CPI)) in effect on the date of calculating (appraisal effective date). This rate plus the bonus bid remains in effect from the date of award of the sale until the sale expires. All MPS stumpage rates on Section 20 timber sale licences advertised on or after November 1, 2003 and Forestry Licences to Cut awarded under section 47.6 (3) of the *Forest Act* are fixed for the term of the timber sale and all extensions.

7.2.2 MPS Stumpage Adjustments

For cutting authorities that were advertised prior to November 1, 2003, that elected to have, or have adjustable stumpage rates, the stumpage rates are adjusted quarterly on January 1, April 1, July 1, and October 1, of each year.

At the time of the quarterly adjustment, the MPS upset rate will be re-calculated based on the equations applicable for the appraisal effective date and the cutting authority data. The monthly parameters effective for the month of the adjustment will be used in the calculation instead of the original values. All other data remain unchanged.

This process is repeated quarterly until the cutting authority is reappraised.

7.2.3 Reappraisals for MPS Appraisals

Revised data and revised monthly parameters will be used with the equations in effect on the reappraisal date. Any reappraisal will follow the policy direction of chapter 2 of this manual. The original bonus bid remains in effect.

7.2.4 Methodology

Calculating the upset stumpage rate for BC Timber Sales, issued under section 20 of the *Forest Act*, will be done using the following methodology:

1. Calculate a selling price (SP) of the products that can be recovered from the stand using sections 7.3.1 and 7.3.2 with the variables as defined.
2. Calculate the market stumpage price using the equation in section 7.4.2, the variables for the stand, and the SP calculated in section 7.3.
3. Calculate the **MPS** upset stumpage rate **according to section 7.5**.

One stumpage rate is determined for all appraised coniferous sawlogs in each cutting authority area unless the upset stumpage rate has been calculated under section 7.5.1 (5), in which case one stumpage rate is determined for all appraised coniferous and deciduous sawlogs in each cutting authority area. Other products are priced using miscellaneous stumpage rates as specified under section 6.8.

7.4.2 Market Stumpage Price Equation

Using the variables defined in section 7.4.1, the selling price calculated in section 7.3.2 and the equation below, calculate the market stumpage price (MSP).

$$\begin{aligned} \text{MSP} = & [44.1590 + 0.1895 * \text{SP/CPIF} - 0.9615 * \text{DC/CPIF} + 0.1747 * (\text{VOL}/1000) \\ & - 0.1327 * \text{S}\% + 9.0319 * \ln(\text{VPT}) + 0.009378 * \text{VPH} - 12.7571 * \\ & (\text{BWDN}\%/100) - 7.7502 * (\text{CY}\%/100) - 35.8595 * (\text{HP}\%/100) - 9.7689 * \\ & (\text{HORSE}\%/100) - 21.9802 * (\text{BURN}\%/100) - 2.0871 * \text{CYCLE} - 7.8954 * \\ & \text{HECE} + 29.5252 * (\text{WH}\%/100) - 7.9152 * \text{Z9} - 5.4166 * \text{SAL} - 0.5179 * \\ & (1/\text{VPT})] * \text{CPIF} \end{aligned}$$

For the above equation the following definitions apply:

1. If the percentage of hemlock, balsam and cedar volume in the cutting authority is greater than or equal to 50 percent of the total net cruise coniferous volume, then HECE = 1, otherwise enter 0.
2. If the selling price zone is Fort Nelson Peace (9) then Z9 = 1, otherwise enter 0.
3. If the total net cruise coniferous volume is greater than 50 000, then VOL = 50 000.
4. If horse or helicopter log appraisals, then VPT = 0.5490.
5. Where for salvage (SAL):
 - a. greater than one-third of the net cruise volume for the cutting authority has been physically damaged by ice storm, blowdown, fire, snow press, or
 - b. greater than one-third of the net cruise volume for the cutting authority has been attacked by mountain pine beetle, or other forest pests, that will result in the death of the attacked trees within one year, as determined by the district manager. Salvage (SAL) shall be = 1, or
 - c. except as provided in subsection 5 (a) and (b) SAL shall be = 0.

7.5 MPS Stumpage Rate

7.5.1 MPS Upset Stumpage Rate

1. Subject to subsections (2) (3) (4) (5) and (6) for timber sale licences advertised on or after December 2, 2005, the MPS upset stumpage rate is determined by the Timber Sales Manager by multiplying the upset stumpage rate calculated in section 7.5.2 by the green log fraction.

The green log fraction is determined as follows:

$$\frac{\text{District Grade Code (blank) volume (m}^3\text{)*}}{\text{District Grade Code (blank) volume (m}^3\text{)*} + \text{District Grade 3 volume (m}^3\text{)*}}$$

* The volumes are determined from the billing history records of the Revenue Branch for BCTS auctions in each forest district for the six-month ending November 30, 2005.

2. Where applications for a timber sale licence with an upset stumpage rate determined under section 7.5.1 (1) have been invited but no applications have been received, the upset stumpage rate shall be equal to the variable cost per cubic metre of preparing the timber for sale when that is requested by the BC Timber Sales manager.
3. Where the director of BC Timber Sales does not anticipate that applications for a timber sale licence with an upset stumpage rate determined under section 7.5.1 (1) will be received because of market conditions, the upset stumpage rate shall be equal to the variable cost per cubic metre of preparing the timber for sale when that is requested by the BC Timber Sales manager.
4. The upset stumpage rate for timber that has been decked for over three years, as determined by the BC Timber Sales manager, shall be equal to the prescribed minimum stumpage rate when that is requested by the BC Timber Sales manager. The deck shall be auctioned by bonus offer.
5. The upset stumpage rate for timber sale licences with a minimum deciduous content of seventy percent of the net cruise volume, will be the greater of:
 - i. The variable cost per cubic metre of preparing the timber for sale, or
 - ii. $\$/\text{m}^3 = \frac{0.70 [(\text{NCV deciduous (m}^3) \times 0.50 (\$/\text{m}^3)) + (\text{NCV coniferous (m}^3) \times 40.78 (\$/\text{m}^3))]}{\text{TNCV (m}^3)}$

where: NCV = net cruise volume (cubic metres)
 TNCV = Net cruise volume deciduous + net cruise volume
 coniferous

6. The upset stumpage rate for a cutting authority issued under section 47.6 (3) of the Forest Act shall be the market stumpage price for that cutting authority.
7. The variable cost per cubic metre of preparing the timber for sale shall be calculated by the BC Timber Sales manager.
8. Notwithstanding anything contained in this section the upset stumpage rate must not be lower than the prescribed minimum rate.

7.5.2 Upset Stumpage Rate Calculation

The upset stumpage rate (USR) is calculated by multiplying the Market Stumpage Price (MSP) by the difference between 1 and the discount factor (DF) as follows:

$$\text{USR} = \text{MSP} * (1 - \text{DF})$$

Where:

USR = Upset stumpage rate
 MSP = Market Stumpage Price as defined in Section 7.4.2
 DF = 0.00 if section 7.5.1 (5) or (6) applies, otherwise DF = 0.30

7.5.3 Prescribed Minimum Stumpage Rate

The minimum stumpage rate is prescribed by the minimum stumpage rate regulation (BC Regulation 354/87). The current minimum stumpage rate is \$0.25 per cubic metre.

7.5.4 Total MPS Stumpage Rate

The total stumpage rate is the upset stumpage rate **determined under section 7.5.1(1), 7.5.1(2), 7.5.1(3) or 7.5.2 plus any bonus bid and applies to coniferous logs of Grade Code (blank) and Grade 3 unless the upset was calculated under section 7.5.1(5), then the total stumpage rate applies to coniferous and deciduous logs of Grade Code (blank) and Grade 3.**

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