ORDER OF THE ADMINISTRATOR 2008-07

OIL OR NATURAL GAS BY-PRODUCT TRANSPORTATION RATE
ORDER OF THE ADMINISTRATOR

NET PROFIT ROYALTY REGULATION

Pursuant to subsection 2(j) of the *Net Profit Royalty Regulation,* I order as follows:

An oil or natural gas by-product transportation rate is calculated in accordance with the method outlined in this order:

## A. Definitions

"capital additions" or $cap_a$ means the amount of eligible capital costs for a calendar year multiplied by 1.01;

"closing capital" or $cap_c$ means the amount determined by the following formula:

$$cap_c = cap_o + cap_a - \text{depreciation}$$

"deliveries" is equal to the oil and natural gas by-product deliveries in $m^3$ delivered in the calendar year to eligible producer-owned infrastructure;

"depreciation" means the amount for a calendar year determined by the following formula:

$$\text{depreciation} = (cap_o + cap_a) \times .05 \times (\text{operating months}/12)$$

"eligible capital cost" means an amount of capital costs for a calendar year that meet the eligibility criteria set out in section B of this Order and are considered capital in nature under GAAP;

"eligible operating cost" means an amount of operating costs for a calendar year that meet the eligibility criteria set out in section B of this Order and are considered operating in nature under GAAP;

"eligible producer-owned infrastructure" means producer-owned oil batteries, producer-owned oil or natural gas by-product sales lines and producer-owned natural gas by-product processing equipment that are directly related to the delivery of the oil or natural gas by-products to market and are located outside the project ring fence of a net profit royalty project;

"GAAP" means Canadian Generally Accepted Accounting Principles;

"land cost" is an amount equal to the purchase cost of the land and does not include land tenure payments;

"opening capital" or $cap_o$ means for a calendar year that is

(i) the first calendar year of operation, an amount equal to all capital additions incurred prior to the first calendar month of operation, or

(ii) not the first calendar year of operation, an amount of eligible capital cost at January 1 of the calendar year and is equal to the amount of eligible capital costs incurred in calendar years preceding the calendar year reduced by depreciation for all previous years;

"operating months" means the number of full or partial months the eligible producer-owned infrastructure operated in the calendar year;

"rate base" for a calendar year is equal to the amount determined by the following formula:

$$\text{rate base} = (cap_o + cap_c)/2 + \text{land cost} + 1.1 \times \text{eligible operating costs}/6$$

"return on rate base" is an amount for a calendar year determined by the following formula:

$$\text{return on rate base} = 0.15 \times \text{rate base} \times \text{operating months}/12$$

## B. Method for calculating an oil or natural gas by-product transportation rate

An oil or natural gas by-product transportation rate must be determined in accordance with the following formula:

$$\text{oil or natural gas by-product transportation rate} = \frac{1.1 \times (\text{eligible operating costs}) + \text{depreciation} + \text{return on rate base}}{\text{deliveries}}$$

**C. Eligible capital costs and operating costs**

To qualify as an eligible capital cost or eligible operating cost under this order, a cost must:

- be directly attributable to eligible producer-owned infrastructure;
- be incurred by the producer;
- be considered by the administrator to be reasonable in the circumstances;
- not have been recovered from another party; and
- not be excluded pursuant to Schedule I of this order.

Original signed by

Gordon Goodman

Royalty Administrator

Dated at Victoria, British Columbia

this 26th day of December

ORDER OF THE ADMINISTRATOR 2008-07

**OIL OR NATURAL GAS BY-PRODUCT TRANSPORTATION RATE ORDER OF THE ADMINISTRATOR**

**NET PROFIT ROYALTY REGULATION**

**SCHEDULE 1: NON-ELIGIBLE CAPITAL AND OPERATING EXPENDITURES**

## Non-Eligible Capital Expenditures

- Capital expenditures that relate to eligible producer-owned infrastructure located within the project ring fence of a project and have been deducted in the calculation of a net profit royalty;
- Interest costs;
- Producer-owned roads;
- Vehicles, Aircraft and mobile equipment

## Non-Eligible Operating Expenditures

- Goods & Services Tax;
- Income taxes;
- Interest costs;
- Loss of revenue insurance;
- Losses on disposal of capital
- Oil & Gas Commission Levy;
- Operating expenditures that have been deducted in the calculation of a net profit royalty;
- Operating expenditures associated with non-allowed capital expenditures;
- Overhead, administrative and indirect charges;