

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:

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

“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:

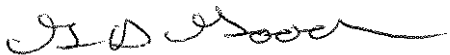
$$\text{oil or natural gas by-product transportation rate} = \frac{1.1 \times (\text{eligible operating costs}) + \text{depreciation} + \text{return on rate base}}{\text{deliveries}}$$

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

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**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;