# ORDER OF THE ADMINISTRATOR 2010-01

NET PROFIT ROYALTY PROJECT ALLOWED COST
ORDER OF THE ADMINISTRATOR

NET PROFIT ROYALTY REGULATION

I order as follows, Order 2008-02 is rescinded and replaced with this Order effective January 1, 2010.

A. The following eligibility criteria are established for allowed capital costs and allowed operating costs to be determined in the calculation of a net profit royalty:

(i) An allowed operating cost must:

- be operating in nature under Canadian Generally Accepted Accounting Principles;
- be directly attributable to the project;
- be incurred by the producer;
- be considered by the collector to be reasonable in the circumstances;
- not have been recovered from another party; and
- not be specifically excluded pursuant to sections B or C of this Order;

(ii) An allowed capital cost must:

- be capital in nature under Canadian Generally Accepted Accounting Principles;
- be directly attributable to the project;
- be incurred by the producer;
- be considered by the collector to be reasonable in the circumstances;
- not have been recovered from another party; and
- not be specifically excluded pursuant to sections B or C of this Order;

B. Schedule I to this Order sets out those capital and operating costs that are specifically excluded from the calculation of a net profit royalty under the Net Profit Royalty Regulation.

C. Drilling and abandonment costs for dry wells are limited to a maximum of 30% of the actual costs incurred in determining the allowed historical cost for a project. A dry well is a well that is not capable of producing.

D. A disposition of a capital asset through an arms length sale or through a non-arms length disposition is accounted for as a reduction of allowable capital costs for the reporting period in which the capital asset was disposed of. The disposition of the capital asset is to be valued at the actual consideration received for an arms length disposition or at fair market value for a non-arms length disposition.

E. British Columbia Royalty Credits: For the purpose of determining the allowed historical cost of a project:

(i) Deep royalty credits that have been received by a producer for a well event completed in a project and deducted by the producer in determining royalties payable under the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation for a production month prior to the project approval month are to be deducted in determining the allowed historical cost for the project.

(ii) Royalty credits that are directly related to a project and received by a producer in a production month prior to the project approval month are to be deducted in determining the allowed historical cost for a project. Royalty credits include the Summer Drilling Credit Program, Road Infrastructure Program, and Royalty Credit Program – Pipeline Initiative or any other British Columbia royalty credit program.

F. Monthly gas transportation allowance: A monthly gas transportation allowance is to be deducted in determining a producer's monthly allowed operating costs when a producer's well events located outside a project ring fence deliver natural gas to project infrastructure located inside the project ring fence. The monthly gas transportation allowance is to be calculated in accordance with Schedule II of this Order.

*Original signed by*

Gordon Goodman

Royalty Administrator

Dated at Victoria, British Columbia

this 1 th day of January 2010

## SCHEDULE I

## NET PROFIT ALLOWABLE COST ORDER OF THE ADMINISTRATOR

## NON-ALLOWED CAPITAL & OPERATING COSTS FOR NET PROFIT ROYALTY PROJECTS

- Administration and overhead costs;
- Any portion of a cost for which the project has received a credit, discount or government assistance;
- Charitable donations;
- Communications, public relations and marketing materials and periodicals;
- Company stock awarded as a bonus that is redeemable by the recipient;
- Corporate insurance other than direct insurance for the project;
- Costs of supply and demand studies for products produced from net profit well events within the project;
- Costs relating to dispute resolution which involve disputes with the Crown in relation to the project, or that result from an act or omission that is a breach of any applicable law, rule or regulation of a government or government agency.
- Costs that would not be allowed as a deduction under the Income Tax Act (Canada) with respect to the human consumption of food, beverages or entertainment;
- Crown royalty payments;
- Depreciation and depletion costs;
- Financing costs and penalties related to financing;
- Funding for cultural, sporting or community events or infrastructure;
- Funding for scholarships or other academic financial programs;
- Funding for industry regional agreements including regional benefits agreements;
- Generic computer software that is not specifically designed and required for the operations of the project;
- Goods and services tax;
- Harmonized sales tax;
- Income tax;
- Land tenure payments;
- Loss of Revenue insurance;
- Losses on disposal of capital assets
- Membership fees in business or industry associations;
- Orphan site reclamation fund tax;
- Promotional corporate advertising;
- Social events such as company barbecues, Christmas parties;
- Well licenses, drilling deposit fees, and other Oil and Gas Commission or Crown fees;

**SCHEDULE II**

**NET PROFIT ALLOWABLE COST ORDER OF THE ADMINISTRATOR**

MONTHLY GAS TRANSPORTATION ALLOWANCE

A monthly gas transportation allowance is calculated in accordance with the method outlined in this schedule:

## 1. Definitions:

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

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

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

"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 4 of this Schedule 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 4 of this Schedule and are considered operating in nature under GAAP;

"GAAP" means Canadian Generally Accepted Accounting Principles;

"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 in the calendar year that raw gas is transported on project infrastructure;

"project infrastructure" means petroleum and natural gas equipment owned by a producer that is located within the project ring fence and used for the transportation of petroleum and natural gas but does not include downhole or wellsite equipment;

"annual raw gas delivery" is equal to the volume of raw gas that is delivered to project infrastructure in a calendar year;

"monthly raw gas delivery" is equal to the producer's monthly volume of raw gas production from well events not completed in the project and delivered to project infrastructure;

## 2. Method for calculating a monthly gas transportation allowance:

A monthly gas transportation allowance must be determined in accordance with the following formula:

$$\text{monthly gas transportation allowance} = \underline{\text{monthly raw gas delivery x transportation allowance rate}}$$

## 3. Method for calculating a transportation allowance rate:

A transportation allowance rate must be determined in accordance with the following formula:

$$\text{transportation allowance rate} = \frac{\text{eligible operating costs + depreciation}}{\text{annual raw gas delivery}}$$

## 4. Eligible capital costs and operating costs:

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

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