<u>ORDER OF THE ADMINISTRATOR 2008-05</u>

GAS COST ALLOWANCE RATE ORDER OF THE ADMINISTRATOR

PETROLEUM AND NATURAL GAS ROYALTY AND FREEHOLD PRODUCTION TAX REGULATION

I order as follows, Order 1996-01 is rescinded and is replaced with this Order effective January 1, 2009.

Pursuant to subsection 2(8.1) of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*, a gas cost allowance rate is calculated in accordance with the method outlined in this order:

1. 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:

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

"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 3 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 3 of this Order and are considered operating in nature under GAAP;

"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 producer-owned plant or producer-owned sales line operated in the calendar year;

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

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

"raw gas deliveries" is equal to the volume of raw gas delivered in 10^3m^3 to the producer-owned plant or producer-owned sales line for the calendar year.

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

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

2. Method for calculating a gas cost allowance rate:

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

$$\text{gas cost allowance rate} = \frac{1.1 \times (\text{eligible operating costs}) + \text{depreciation} + \text{return on rate base}}{\text{raw gas deliveries}}$$

3. 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 the producer-owned plant or producer-owned sales line;
- 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 Schedules I and II of this order.

Original signed by
Gordon Goodman

Royalty Administrator

Dated at Victoria, British Columbia
this 26th day of December

SCHEDULE I

GAS COST ALLOWANCE ORDER OF THE ADMINISTRATOR

NON-ELIGIBLE CAPITAL COSTS

Capital costs incurred for the following items are not eligible for the purpose of determining a gas cost allowance rate.

- Any portion of an all weather main access road located in Alberta;
- Field related equipment that is located within the plant gate of a producer-owned plant and has been included in the determination of a producer cost of service rate;
- Gathering systems including batteries, line heaters, dehydrators and sweetening and pigging facilities;
- Interest costs;
- Producer-owned roads, other than an all weather main access road to a producer-owned gas plant.
- Storage, separators, dehydrators, scrubbers, boots and any other facilities or equipment relating to gas conservation and oil;
- Vehicles, aircraft and mobile equipment;
- Wellhead equipment relating to the production function;

SCHEDULE II

GAS COST ALLOWANCE ORDER OF THE ADMINISTRATOR

NON-ELIGIBLE OPERATING COSTS

Operating costs incurred for the following items are not eligible for the purpose of determining a gas cost allowance rate.

- Goods & services tax
- Income taxes;
- Interest costs;
- Loss of revenue insurance;
- Losses on disposal of capital;
- Oil and Gas Commission levy;
- Operating costs relating to production, gathering systems, field compression, field dehydration, gas conservation, injection or oil functions;
- Operating expenditures associated with non-eligible capital expenditures;
- Overhead and administrative costs;
- Petroleum and natural gas royalties;
- Production monitoring, controlling and communication costs;
- Road maintenance for producer-owned roads other than for a producer-owned road which is an all weather main access road to the producer-owned plant;