

**ORDER OF THE ADMINISTRATOR 2008-06**

**GAS COST ALLOWANCE RATE ORDER OF THE ADMINISTRATOR  
NET PROFIT ROYALTY REGULATION**

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

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:

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

“raw gas deliveries” is equal to the volume of raw gas delivered in  $10^3 \text{m}^3$  to the producer-owned gathering system, 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 a producer-owned gathering system, 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 specifically 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**  
**NET PROFIT ROYALTY REGULATION**  
**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 a producer-owned gathering system, producer-owned plant or producer-owned sales line located within the project ring fence of a net profit royalty project;
- Any portion of an all weather main access road located in Alberta;
- Interest costs;
- Producer-owned roads, other than an all weather main access road to a producer-owned plant;
- Vehicles, aircraft and mobile equipment;
- Wellhead equipment relating to the production of oil or gas;

**SCHEDULE II**  
**GAS COST ALLOWANCE ORDER OF THE ADMINISTRATOR**  
**NET PROFIT ROYALTY REGULATION**  
**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 associated with non-eligible capital costs;
- Overhead and administrative costs;
- Petroleum and natural gas royalties;
- Production monitoring, controlling and communication costs;

