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:

\[
    \text{depreciation} = (cap_o + cap_a) \times 0.05 \times \text{(operating months/12)}
\]

"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 \( \text{cap}_0 \) 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:

\[
\text{rate base} = \frac{\text{cap}_0 + \text{cap}_1}{2} + \text{land cost} + \frac{(1.1 \times \text{eligible operating costs})}{6}
\]

“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:

\[
\text{return on rate base} = 0.15 \times \text{rate base} \times \frac{\text{operating months}}{12}
\]

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.

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*Original signed by*

[Signature]

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;