

VIPIR News

Volume 1, Issue 6

January 2000

GAS ROYALTY REGIME CHANGES

On December 9, 1999 Resource Development Minister Steve West announced changes to Alberta's natural gas and natural gas liquids royalty regime.

An advisory committee representing natural gas producers, the NGL extraction industry, pipeline companies, the petrochemical industry, industrial gas users, the government, and the Alberta public will consult with stakeholders on time lines and implementation mechanics. The results of these consultations may have an impact on the gas royalty regime component of the VIPIR project.

VIPIR's gas royalty regime work has been put "on hold" until the implications of the new gas royalty rules can be fully assessed and analyzed. Proceeding before this analysis is done could mean implementing changes that would need to be revisited once the new royalty regime is established.

Once more information is available, the gas royalty regime changes will be evaluated as a total package and appropriate priorities and action plans will be identified.

FOR MORE DETAILS ABOUT THE NEWLY ANNOUNCED NATURAL GAS AND NATURAL GAS LIQUIDS ROYALTIES, PLEASE SEE THE FOLLOWING DEPARTMENT OF RESOURCE DEVELOPMENT WEB PAGES:

"Alberta announces changes to natural gas and natural gas liquids royalties," December 9, 1999
<http://www.resdev.gov.ab.ca/room/updates/nrelease/120999.htm>

"Natural Gas and NGL Royalty Policy Changes: Background Document"
<http://www.resdev.gov.ab.ca/room/updates/nrelease/background.htm>

"Natural Gas and NGL Royalty Advisory Committee: Terms of Reference" <http://www.resdev.gov.ab.ca/room/updates/nrelease/tor-nql.htm>

"Final Report of the Ethane and NGLs Task Force," July 1999
<http://www.resdev.gov.ab.ca/room/keypubs/index.htm> ❖

INFORMATION MANAGEMENT

The Ministry of Resource Development has committed staff and financial resources to carry out the information management component of the VIPIR project. Work is proceeding as planned.

The recently announced changes to Alberta's natural gas and NGL royalties may mean that additional data elements and business rules will need to be considered. The extent of the impact will not be known until details become available from the natural gas and natural gas liquids advisory committee. ❖

Full Steam Ahead for BAA

"January will see us moving full steam ahead in all our topic areas," says business area analysis team leader Wendy Wong.

This phase of the project deals with five interrelated topics:

- infrastructure data related to wells, facilities, and business associates;
- flow data and pipeline splits;
- the reporting calendar and pricing;
- provisional assessments, including notifications and security requirements; and
- allocation data, including stream and owner allocation factors and other royalty-related calculations.

Team members have initiated discussions with oil and gas pipeline companies and with the Canadian Energy Pipeline Association. ❖

INSIDE THIS ISSUE

- 2 Calling All Infomaniacs
- 3 Profile: Ann Hagedorn
- 4 Readers' Forum **(new!)**

THE VIPIR PROJECT IS AN INITIATIVE OF THE
ALBERTA MINISTRY OF RESOURCE DEVELOPMENT

ALBERTA ENERGY AND UTILITIES BOARD (EUB)
DEPARTMENT OF RESOURCE DEVELOPMENT (DRD)

IN COOPERATION WITH INDUSTRY PARTNERS

VIPIR IS THE IMPLEMENTATION PHASE OF THE INDUSTRY-LED
ROYALTY AND RELATED INFORMATION REVIEW (RRIR). THE
PROJECT HAS TWO PARTS.

- ❖ INFORMATION MANAGEMENT (IN PROGRESS)
- ❖ GAS ROYALTY REGIME CHANGES (ON HOLD)

VIPIR News IS DISTRIBUTED WITH THE ASSISTANCE OF:

Canadian Association of Petroleum Production Accountants
Gas Royalty Help Desk, Department of Resource Development
Production and Well Data Services, Alberta Energy and Utilities
Board

Small Explorers and Producers Association of Canada

*Special thanks to Al Chare, Marilyn Davidson, Nabat
Kassam, Tracey Maskell, Nadyne Shafe, and Pat van
Meer for your help with distribution, and to Eileen Dickson,
Ann Hagedorn, Dave van Kampen, and Betty Yeung for
your help with the copy.*

TO ADD YOUR NAME TO OUR
ELECTRONIC DISTRIBUTION
LIST, PLEASE CONTACT THE
VIPIR PROJECT OFFICE:

8th floor, 108 Street Building
9942 – 108 Street
Edmonton, Alberta T5K 2J5

Phone: (780) 415-6116

Fax: (780) 422-0229

E-mail: VIPIR.ResDev@gov.ab.ca

WRITER & EDITOR: MARIE LESOWAY
REVIEWERS: DAVID BREAKWELL
CARLENE EDDEN
JOHN FINLAISON
LYNDA FLEMING
KEN GERIG
WALLY GOERES
GRAHAM JENKINSON
LINDA WHITE
WENDY WONG

The material in *VIPIR News* may be reprinted with
acknowledgement.

Calling All Infomaniacs

*...that's folks who are passionate about great
info management*

The shared information registry at the heart of the
VIPIR project offers tremendous opportunities to improve
petroleum -related information management—and to save
a lot of money along the way. To ensure that the registry
meets the needs of government *and* industry, it's
important that both groups are involved in the
development process.

The business area analysis phase of the project should
include 4 or 5 industry representatives, each working
three days a week from now to April 2000. The same
industry complement is needed for the business system
design phase scheduled for April through November,
2000. Industry participants are also needed for the
construction, acceptance testing, and implementation
phases of the project.

The VIPIR team is delighted to have Ann Hagedorn
and Joanne Quirk-Williams representing the industry
perspective. We're working hard to enlist even more
industry participation.

Ideally, VIPIR's industry reps will be creative,
adaptable, production accountants with 5 to 10 years of
experience. They should know how to evaluate raw field
data, calculate and report oil and gas splits and oil
transportation allowances, complete and file S and OAS
reports, and analyze Alberta Crown royalty invoices and
reports.

Getting involved with VIPIR means firsthand
knowledge of new business practices, a chance to be at
the centre of the change process, experience in project
work, and great opportunities to network with colleagues.

Interested? Please contact VIPIR Steering Committee
member **Bruce Waterman** @ (403) 237-1363 or **David
Breakwell**, Acting Project Director @ (780) 427-6370. ❖

The Search is On

*The competition for a new project
director closed on December 17. Fifteen
responses were received. The VIPIR
steering committee expects to complete
its selection process and appoint a
director by the beginning of February.*

Profiles

Ann Hagedorn

Industry Representative, VPIR Business Area Analysis Team

...choosing to be part of the solution

When Ann Hagedorn sees a problem, she tries to do something about it.

That's why she has been involved with the VPIR project since the early days of the Royalty and Related Information Review.

Ann wasn't thrilled about the ministry's simplification efforts, so she phoned the committee to see what could be done. That phone call led to her appointment to an RRIR subcommittee as a spokesperson for small oil and gas companies.

Her participation was funded by Prism Petroleum Ltd., but Ann shared the news about RRIR with her other clients. When the VPIR project was launched as RRIR's implementation phase, Alberta Energy Company invited her to serve as their representative. She has worked on VPIR for 3 days a week since then—currently, as a member of the business area analysis team.

"You can put up and shut up—or choose to be part of the solution. But if you don't participate, you don't have the right to complain," says Ann.

Ann began her career in the oil and gas industry over 20 years ago. She has worked as an "independent production, revenue and royalty consultant" since 1986, and has experience with small, medium, and large companies.

Ann's role includes... "making sure the pieces fit together"...

Starting out with a very small company gave her the chance to learn all sides of the oil and gas business. She learned early on that the "Christmas trees" her boss ordered in July were parts of a well, and not the evergreen kind. She also learned how one part of the business relates to another.

In her current VPIR work, Ann's role includes asking questions, keeping the information flowing, and "making sure the pieces fit together" all the way through the business area analysis process.

"My job is to ensure that VPIR really does meet production accountants' needs—and *really* makes things simpler," Ann explains.

"Today, I have to send the same industry information to three different places, and it may take two weeks for data I submit to Calgary to get to the people who need it in Edmonton. With the registry, there's only one place for the information. Access is much quicker. Instantaneous, in most cases. That means everyone can look at the same numbers on the same day."

Ann believes the registry's up-front editing and validation features will make a huge difference too. "Today, if I make a simple mistake—like transposing two numbers—it can cost \$100, \$500, or even \$1,000. And I don't know I've made an error until the invoice comes in—well after the fact."

The registry provides immediate notification if errors are made. "If you've done something stupid, you can fix it before it costs you," says Ann.

Working on the VPIR project has given Ann a better understanding of the internal workings of government agencies—and a new appreciation for the enormity and complexity of the oil and gas industry.

"This business is never boring. It changes all the time—which is both good and bad," laughs Ann. "I find it fascinating. And I'm still learning new things, even after 20 years!"

Ann really loves the oil and gas industry. Where else could you order Christmas trees in July? ❖

STAFF CHANGES

The Gas Royalty Regime Team bids au revoir to **Tom Poskocil** and **Jeff Willan**. Tom is returning to the Gas Royalty Branch of DRD's Mineral Operations Division. Jeff is taking on new duties as part of VPIR's information management group.

"Tom and Jeff have done some terrific work in reviewing the allowable cost reporting and 13th month unit operating cost rate adjustments proposed as part of VPIR," says acting project director Dave Breakwell. "The documentation they've compiled provides an important foundation for gas royalty-related changes—in the old regime or in the new one. It can feed right into any other investigations the Ministry may undertake in these areas."

Thanks for all your hard work, guys!

Readers' Forum

Do you have a question about the VIPIR project? Is there anything you would like us to feature in VIPIR News?

Send your comments and questions to the VIPIR Project Office (see page 2 for our address) and we'll do our best to respond in upcoming issues of the newsletter.

Submissions must be signed and should not exceed 250 words. We reserve the right to edit all materials.

You asked us....

Our company uses complex allocation procedures. We have contracts with a variety of suppliers and owners. How will we maintain control of our business if VIPIR's shared information registry allocates sales and process volumes by means of allocation factors?

The registry uses factors that *you* supply based on allocations *you* make. It makes it possible to report sales and process volumes through industry-generated **stream and owner allocation factors (SAFs and OAFs)**. These factors are not generated by the registry, but simply supplied to the system and used to facilitate royalty- and sales-related calculations.

Say your company has three wells which have natural gas sales totalling $100.0 \times 10^3 \text{m}^3$ in a particular month. The total volume is recorded in the registry. You allocate this volume by assigning factors based on your particular business situation. You can use **static** allocation factors, if the relationship between your facility and a stream is normally consistent from month to month, or **dynamic** factors, which you submit every month.

Based on your company's specific operating agreements, you decide which is the best fit and assign the appropriate factor for each well, well group or unit.

Allocation factors must always add up to one. By way of example, let's use stream allocation factors of 0.3 for Well 1, 0.3 for Well 2, and 0.4 for Well 3. You enter these factors into the registry and the system calculates the total volume assigned to each well.

Well 1 is assigned $30.0 \times 10^3 \text{m}^3$; Well 2 is assigned $30.0 \times 10^3 \text{m}^3$; Well 3 is assigned $40.0 \times 10^3 \text{m}^3$. Further allocations—to owners—are done in a similar manner, using owner allocation factors.

What's the advantage? Once you've input your factors, the system does all the calculations for you, so you don't have to worry about mathematical errors. If your total volume changes, you don't have to reallocate (unless the basis for allocation has also changed). The factors you supply are applied to the revised total volume entered into the registry system—and voila!—your work is done. The system balances itself.

Using factors means that you can't allocate more or less than the total amount. There's no chance of over-allocations, which eliminates Crown-favour volumes—and little chance of under-allocations, which means that provisional assessments are significantly reduced.

Once your allocation factors have been entered into the registry, everyone who needs this information has access to it, assuming they have the required authority, of course. You don't have to chase data and you don't have to wait for reports. ❖

If S reports are eliminated, how can partners access raw data about total well production volumes and operating hours?

This information is available at present, and will continue to be available under the new, registry-based system. The difference is that you won't have to wait to get a photocopy of an S report. If you have authorized access to the registry, you'll be able to call up the information directly, online. ❖
