

# VIPIR News

## Volumetric and Infrastructure Petroleum Information Registry

Volume 1, Issue 8

March 2000

### GAS ROYALTY REGIME CHANGES

On February 24, 2000 the VIPIR steering committee approved the removal of these gas royalty regime-related initiatives from the **scope** of the VIPIR project:

- 13th-month unit operating cost rate (UOCR) adjustment;
- changes to the custom-processing adjustment factor (CPAF);
- streamlining the mechanics of custom-processing cost claims;
- replacement of the corporate effective royalty rate (CERR) with a facility effective royalty rate (FERR);
- introduction of royalty-payer-specific allowable capital, recognized at an EUB facility level;
- suspension or write-off of minimal annual royalty charges.

The above-listed changes were recommended in the Royalty and Related Information Review (RRIR). Their removal from the VIPIR project does not reduce the ministry's commitment to implementing these initiatives. **They have not been cancelled. Rather, they have been deferred for completion in the future.**

The steering committee's decision to remove the gas royalty regime component from the VIPIR project's scope reflects work priorities identified by the Department of Resource Development. The department's immediate priorities are the natural gas and NGL royalty policy initiative, NOVA tolls, and the information management component of the VIPIR project.

VIPIR involves both parts of the ministry—the Department of Resource Development and the Alberta Energy and Utilities Board—and is being managed in

cooperation with industry partners. At present, the VIPIR project and other priority initiatives require the full deployment of all available ministry and industry resources.

Once resources are freed up, work plans will be re-examined. The ministry and industry will work together to identify new priorities: these will determine how and when the gas royalty regime changes are implemented. Appropriate resources will be assigned at that time, and the appropriate forum and mechanisms for dealing with these changes will be established. ❖

### INSIDE THIS ISSUE

#### 2 Jim Nichols: Thriving on Challenge

*VIPIR's new project leader is a former swimming coach and football player who has tested his theories on project management in many challenging environments. Jim plans to use his tried and true "70:30" rule. And he's already developing a risk management plan for VIPIR.*

#### 3 Allocation Factors: What Are They?

*Registry Advisory Group chairman Dave van Kampen explains all you ever wanted to know about allocation factors and how they work. Dave was involved in developing this concept during the project's conceptual design phase. He even offers some options for people who don't like factors and would rather report volumes.*

#### 4 VIPIR Reports

#### 5 Profiles

*The EUB's Eileen Dickson is an expert on oil and gas flow data and field data. Find out why Eileen thinks VIPIR is a project whose day has come.*

#### 5 Advisory Group News: Darren O'Dell

#### 6 Coffee, Anyone?

*VIPIR's first coffeehouse takes place on March 15 with the Triangle User Group Issues Subcommittee.*

## Thriving on Challenge

...introducing VIPIR Project Director

### Jim Nichols

Whether it's playing football, changing careers, or managing mega-projects, Jim Nichols thrives on challenge.

That's what attracted him to the VIPIR project.

"In terms of management processes, VIPIR is just like any other project," says Jim. "What's challenging is the number and diversity of stakeholder groups. I want every one of those groups to be able to say, 'This product is excellent. This meets all our expectations.'"

Jim knows it won't be easy, and that's why he'll use his 70:30 rule.

---

*"The first time through...you're likely to drive out 70% of the requirements. When you repeat the exercise, you get 70% of the 30% you missed..."*

---

"It works like this," Jim explains. "The first time through a process—like business area analysis—you're likely to drive out 70% of the requirements. When you repeat the exercise, you get 70% of the 30% you missed—so now you've got 91% of your total. With a third iteration, you get up to 97%."

Since the VIPIR project isn't a brand new concept, Jim thinks a second iteration is all that's needed. "Of course, it's important to get the right people involved," he adds. "That means including line staff, because they're the ones who really see the day-to-day operations—and that's normally where the 30% of missed requirements occur. Good communication is important, too. And it has to work two ways. It can't just be 'bottom up.'"

Jim completed an associate diploma in mathematics on a football scholarship at Northeastern Oklahoma A&M College. He enlisted in the US Army, and met and married his Edmonton-born wife, Marie, while he was stationed in Hawaii.

Marie challenged Jim to try living in Edmonton for a year. That was 35 years ago and Jim has finally decided to stay! He became a Canadian citizen on February 21 of this year.

After 11 years in the computer industry, Jim set out to earn a Bachelor of Physical Education degree at the University of Alberta. He had always wanted to be

a coach, and he focused his degree on a sport that would let him coach *and* spend time with his daughters—Michelle, Darcelle, Colette, and Danielle. Girls' ball teams weren't too common back then, so Jim chose competitive swimming—and mastered a sport that was completely new to him.

Jim spent six years as a professional swimming coach—six days a week, with his girls logging 12,000 swimming meters per day. In 1981, he was the national coach of the Canadian Deaf Olympic Team which competed in Germany.

Jim returned to computers that year, and it wasn't long before he added project management to his repertoire of skills. He is a member of the international Project Management Institute and he launched his own consulting company, **Jimini Software Systems**, in 1986.

Most recently, Jim headed up the Telus project that launched the 780 area code for Northern Alberta. "The due date was fixed," says Jim. "It was an 18-month, \$25 million project that had a 36-hour window in which the implementation had to be completed." Nerve-wracking? "It took me two months to recover!" laughs Jim. "Risk management was critically important."

Jim is already developing a risk management process for VIPIR. "The first step is to get your SMEs (subject matter experts) to identify every potential risk that might affect the project," Jim explains. "Then you identify the severity factor by multiplying the probability that the risk will take place by the impact on the project if it does."

---

*"Risk management is critically important."*

---

"Once you have your list, you identify the triggers or symptoms of each risk. And then you look at what you will do if it *does* happen. How will you respond? What will you do to mitigate the risk, or avoid it altogether? It's an ongoing process," explains Jim.

When he's not managing mega-projects, Jim enjoys researching investments and genealogy. He has traced his Welsh and Irish background to the 1300s and his Native American roots back to the early 1800s. The family tree he has built has 2,500 names.

Jim also enjoys spending time with his granddaughters, Cassandra, Chelsea, Caileigh, and Kennedy. There's another grandchild due this April. After four daughters and four granddaughters, Jim's pretty sure this one will be a boy. (Yeah, right!) ❖

# ALLOCATION FACTORS: WHAT ARE THEY AND WHY WOULD WE USE THEM?

an educational feature by Dave van Kampen

One of the most contentious issues within the proposed data structure for VIPIR concerns allocation factors. In an accounting environment where volume-based flow and allocation reporting are routine, the term **allocation factor** seems foreign.

What may be less foreign to production and revenue accountants is the concept of **division of interest**, or DOI.

Essentially, the term DOI refers to a set of factors that add up to 1 (or 100%) and that can be applied to expenses or production volumes to calculate a participant's interest. For example, a DOI of 0.600000 to a company named Aco and 0.400000 to a company named Beco can be reliably applied to any number of different operating expenses or production volumes to arrive at each participant's individual share. The allocated shares will always sum to the total amount because they were *derived* from that total amount.

**Allocation factors apply the principles of division of interest to the task of reporting volume allocation.** They are used at two levels:

1. **Stream allocation factors** are like a DOI to allocate from the volume total to the stream-level total.
2. **Owner allocation factors** are like a DOI to allocate from the stream level to the owner-share level within a stream.

Consider the following example:

*GS2000 delivers* 1,000 e<sup>3</sup>m<sup>3</sup> (38,000 GJs) of gas to NOVA. 100 e<sup>3</sup>m<sup>3</sup> is lost to fuel, flare, and metering differences.

*Two wells feed GS2000: W01 and W02.* W01 is owned 60% by Aco and 40% by Beco. W02 is owned 50% by Aco and 50% by Beco.

*Gas production* from the two wells is:  
W01: 770 e<sup>3</sup>m<sup>3</sup>                      W02: 330 e<sup>3</sup>m<sup>3</sup>

Allocation of residue gas to the wells is based on relative gas production.

**Today's reporting would require owner activity statement (OAS) allocation as follows:**

Co	Stream	Volume	Heat
Aco	W01	420	15,960
Aco	W02	150	5,700
Beco	W01	280	10,640
Beco	W02	150	5,700
<b>Total</b>		<b>1000</b>	<b>38,000</b>

One of the principles agreed to in the VIPIR conceptual design was that the registry system would contain a **single view of any given volume**. This is because the existence of more than one view of the same volume is the root of today's problems with provisional assessments and Crown-royalty-favour volumes. With multiple views, the sum of allocated volumes can either fall short or exceed the reported volume (or control total) that is being allocated.

**Tomorrow's registry-based, allocation factor reporting would be as follows:**

## STREAM ALLOCATION FACTORS

Stream	Volume	Heat
W01	.7000000000	.7000000000
W02	.3000000000	.3000000000

## OWNER ALLOCATION FACTORS

Stream	Owner	Volume	Heat
W01	Aco	.6000000000	.6000000000
W01	Beco	.4000000000	.4000000000
W02	Aco	.5000000000	.5000000000
W02	Beco	.5000000000	.5000000000

*continued on page 4*

In this simple example, it seems like the new, VIPIR method requires more data than today's method.

Why would we want that?

1. Using factors means that volumetric allocation will always sum to the control total. This helps to eliminate provisional assessments and Crown-favour volumes.
2. Owner allocation factors may stay constant for long periods of time. New factors are supplied on an as-required basis rather than monthly.
3. For liquids, allocation factors for different products may be common to all streams or to all owners. This means that a single factor can be used to report all products. There is potential for data reduction.
4. For a gathering system receiving a cascade from a gas plant, it's not necessary to wait for the cascaded volume to be reported before allocation factors are filed. The factors can be supplied in advance. In some cases, this reduces the dependency on downstream information.
5. If the control total changes to 1,050  $\text{e}^3\text{m}^3$  but the criteria for allocation (in this case, gas production) are unchanged, the allocation factors remain correct. There is no provisional assessment due to short-reported volume or pending the receipt of a new set of allocation factors.

OK. But what if I still don't like allocation factors and would rather report volumes?

The registry will provide the following utilities to make it possible for you to deal exclusively in volumes.

1. **Volume Upload Translation/Validation:** The registry will allow you to upload or key in allocation results in the form of volumes. It will compare the sum of your volumes to the control total in the system and feed back any discrepancies. Once correctly loaded, the system will translate and store your volume upload in the form of allocation factors.

2. **Online Volume Editing Facility:** The registry will allow you to edit allocated volumes online. That means you'll be able to make corrections easily, in a familiar format.
3. **Electronic Notification of Downstream Volumetric or Allocation Changes:** The registry will notify you if a downstream allocation or volumetric total changes. Changes to these totals will also trigger a change to your allocated volumes. The registry will make this change automatically. It will use the allocation factors on file (from previously submitted volumes) to calculate new volumetric totals. These new totals will be used as a proxy until you submit a new volumetric allocation. This is preferable to the current situation, which uses provisional assessments as proxies for revised allocations.
4. **Auditing Capability for Out-of-Date Allocation Factors:** The system will provide an auditing function which identifies out-of-date allocation factors that you have supplied or that have been derived from your volume-based submissions. If you think you may have missed a notification, you can check the system yourself, at any time, to confirm that your original allocation has not been revised.

The overall strategy is intended to achieve two objectives. It will give data submitters flexibility and avoid reintroducing the reconciliation-point problems that exist within the current S report/OAS system. Using allocation factors and providing a strong, volumetric-based, submission and editing utility will meet both of these objectives. ❖

---

## VIPIR Reports

The VIPIR Project: [Conceptual Design Report](#) (November 1999) is available on request, in hard-copy format. Please contact the VIPIR project office if you would like to have a copy sent to you. ❖

---

# Profiles

## Eileen Dickson

Staff Business Analyst, Production and Well Data Services, Alberta Energy and Utilities Board

Production Reporting Lead, VIPIR Business Area Analysis Team

Does Eileen Dickson know about oil and gas data? You bet she does!

Eileen hails from a small town in England. She married a Canadian and followed him “home” to Calgary. For the last 21 years, she has worked in the production and well data services area of the EUB. For the last 15, she’s held a supervisory role. And she’s seen and managed a lot of data system and business process changes along the way.

Eileen is an expert on how flow data and field data are obtained, derived, exchanged, and stored. She’s had loads of experience in dealing with industry, and she understands the oil and gas royalty side of the DRD’s business, too. “My area is the primary source of data for the DRD, so when people have problems, they come to me,” she explains.

How did Eileen get involved with the VIPIR project? “Under duress!” she laughs. “My boss made me do it.

“But now, I’m really *quite* excited. I feel confident that this is the right time for this type of registry project. It will mean some big leaps for the ministry. But now that we’ve started, I can’t see any *other* way for us to do business.”

The VIPIR project will have a major impact on Eileen’s day-to-day work and on the EUB’s business as a whole.

---

*“A lot of our systems need updating. The registry will give us a technological solution.”*

---

“A lot of our systems need updating,” Eileen says, “and we’re still relying on manual processes. The registry will give us a technological solution. It will give us data of better quality, available in a more timely manner.”

The registry will also mean the EUB is out of the business of editing data. “The task of getting data correct will be put back in hands of industry,” Eileen explains. “Production accountants themselves will be

able to access data and make corrections or amendments. That means some of the EUB’s work will no longer be performed. We won’t need to edit data, and we won’t need to impose many compliance fees or penalties.”

---

*“We need to understand how production accountants work when they’re sitting at their desks.”*

---

VIPIR’s business area analysis phase is looking at the processes industry production accountants will need to use to interact with the registry and get data in and out. “We need to understand how production accountants work when they’re sitting at their desks,” Eileen explains, “or it will be difficult to build a system they will actually use.

“We’ve got a great group of people from industry,” she adds, “and now we’re ‘walking through.’ We’re looking at their processes. We’re modeling, identifying functions, examining what they have to do, when they’re going to need the data, who can access the data, who can’t.

“I understand flow data and field data,” says Eileen, “but trying to understand the production accounting side has been a new challenge for me.”

And what does Eileen do when she’s not directing data? She and her husband and their dogs, Sparky and Buddy, live on an acreage, where Eileen indulges her passion for gardening. She grows flowers, vegetables, and variety of trees.

Spring’s just around the corner, and Eileen’s getting her gardening gear ready now. ❖

### News from the Registry Advisory Group

The last issue of *VIPIR News* went to press before we could get a bio for the Registry Advisory Group’s newest member. We’re happy to present...

DARREN O’DELL

**Coordinator, Regulatory Reporting  
PricewaterhouseCoopers, BPO Solutions Inc.**

Calgary native Darren O’Dell is a royalty specialist who is currently providing services for BP Amoco. Having worked in the oil and gas industry for over 15 years, Darren is no stranger to information management. He was involved in the VIPIR project’s precursor (the Royalty and Related Information Review) and in the ministry/industry PRIDE initiative. “Over the long-term, VIPIR is the way we need to do business,” says Darren. “It lets us get rid of all that paper. And I’m all for *that*” ❖

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 News** IS DISTRIBUTED WITH THE ASSISTANCE OF:

Canadian Association of Petroleum Production Accounting  
Gas Royalty Help Desk, Department of Resource Development  
Production Accountants Society of Canada  
Production and Well Data Services, Alberta Energy and Utilities Board  
Small Explorers and Producers Association of Canada

*Special thanks to Sharron Baker, Marilyn Davidson, Carol Hark e, Nabat Kassam, Tracey Maskell, Nadyne Shafe, and Salim Sumar for your help with distribution.*

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

8<sup>th</sup> 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](mailto:VIPIR.ResDev@gov.ab.ca)

**WRITER & EDITOR:** MARIE LESOWAY  
**CONTRIBUTORS:** DAVE VAN KAMPEN  
**REVIEWERS:** DAVID BREAKWELL  
CARLENE EDDEN  
MIKE EKELUND  
JOHN FINLAISON  
LYNDA FLEMING  
WALLY GOERES  
GRAHAM JENKINSON  
DENNIS McRAE  
JIM NICHOLS  
JOANNE ROSNAU  
WENDY WONG

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

---

## Coffee, Anyone?

In the last issue of *VIPIR News* we invited our readers to contact us if they were interested in arranging an informal session to have coffee and chat about the VIPIR project.

**Elaine Mahe** of Numac Energy Inc. took us up on our offer and invited members of the **Triangle User Group Issues Subcommittee**. The result is that 14 production accountants from 7 different companies will take part in VIPIR's very first coffeehouse session at Monenco Place in Calgary on **March 15**. Thanks for getting in touch, Elaine!

*If you're interested*, you can arrange your own coffeehouse by contacting the VIPIR Project Office. The VIPIR team will be glad to answer your questions and share the latest news about their work. ❖

---

## READERS' FORUM

*Do you have a question about the VIPIR project? Do you have a viewpoint you would like to share with our readers? Is there anything you would like us to feature in VIPIR News?*

*Send your comments and questions to the VIPIR Project Office and we'll do our best to respond in upcoming issues of the newsletter.*

*Letters to the editor are also welcome. Space considerations may limit the number of submissions we can print.*

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

---