The Petroleum Registry of Alberta

Energizing the flow of information

Special Allowable Cost Q&A Session - February 9, 2010
Questions and Answers

Question: **Why CPAF volumes on both capital and operating? If no difference, why not just fill in capital.**

Answer: During design discussions, Industry indicated that there could be circumstances where the CPAF volumes could be different for capital and operating. Therefore flexibility was built in to accommodate such a case.

Question: **Is there is a carry forward for operating CPAF?**

Answer. Since this is the first year that operating costs are included on the AC2, there is no carry forward from last year. However the carry forward of operating costs information will be available for 2010 submissions.

Question: **Under what circumstances are WIO percentages different between capital and operating costs?**

Answer: During design discussions, Industry indicated that there could be circumstances where the WIO percentages could be different for capital and operating. Therefore flexibility was built in to accommodate such a case. Also you must remember that capital is usually based on investment WIO, and operating expenses are often based on volume throughput.

Question: **If there are no changes in the information between capital and operating costs (ie: ERCB Delivery Facilities and Working Interest Owners), is there any way we can have a button on the page that we could click to copy over what is in the capital section to the operating section. This would alleviate the need to rekey the same information twice.**

Answer: This would be a change to the current functionality and is not part of the design at this time. If there is enough interest from Industry to have this option available, this change could be addressed through normal PRA Change Management processes. It will not be possible however to bring this change forward before the end of this allowable cost season.

Question: **Regarding oil wells with solution gas, what factors can be used for capital, operating costs and custom fees?**

Answer: It is the responsibility of the Operator to determine a reasonable percentage or factor to use to split the costs between oil and gas operations as well as above and below ground functions.

Question: **It is well known that operating costs are frequently coded to the well and not tie-in's or GGS. Does the DOE have any rules when auditing operating costs as to justification of claiming operating costs?**

Answer: As previously stated in the question above, operators are responsible for identifying the percentage of costs that are applicable to gas production/processing activities. Operators are expected to have backup or provided the rationale for claiming allowable operating costs.

Question: **If my gas is being delivered to two (or more) ERCB facilities for sale during the year, but I only have the FFC(s) set up at one of the ERCB facilities, OR my FCC is setup at the wrong ERCB facility. How do I get the capital &/or operating expenses allocated to the correct ERCB facility?**

Answer: There are two options depending on your specific scenario for 2009 and forward submissions.

Scenario 1
There are volumetric submissions in the Registry that show disposition of gas from the ERCB facility the FCC is set up at ABGS1234567. ABGS1234567 has a gas disposition to ABGP2345678 which then delivers gas to another meter station. Note there does not have to be a direct disposition, but the gas volume must be able to be tracked from the FCC's ERCB facility to the other ERCB facility you want to allocate the allowable costs to.

Answer: On the AC2 use the Capital Cost Allowance Allocations to Other Delivery Facilities & Operating Cost Allowance Allocations to Other Delivery Facilities sections to identify all the applicable facilities and their appropriate allocation % of the Capital or Operating allowable costs.

Scenario 2
There are no volumetric submissions in the Registry that show a disposition of gas from the ERCB facility the FCC is setup at to the other facility.

Answer: You will need to have separate FCC's set up at each ERCB facility. You can either terminate (at a point in time), the original FCC(s) if you do not want to claim costs here or dispose a portion of the capital to the new FCC setup at the 2nd ERCB facility if you do want to continue claiming costs at the original ERCB facility. The new FCC you set up can show a transfer for full net capital amount from the terminated (previous) FCC or an addition for the portion of the Capital costs disposed from the original FCC.

Question: I have an upstream facility (i.e. GS & Compressor) that has sends volumes to 2 or more different downstream facilities (i.e. GPs). Currently the FCC is linked to one of the GPs and includes the costs for the GS & Compressor. How do I allocate a portion of the costs from this FCC to the other GP?

Answer: You should terminate the existing FCC at the one facility and continue reporting by setting up a new one at the upstream facility where volumes were split off and sent to the two (or more) facilities. The system would look for volumetric dispositions from this facility and would be able to identify both facilities, allowing an allocation of costs to each of them. Of course, this only works if the upstream facility is a gathering system or another gas plant.

Question: **Explain the 4 levels that the DOE looks at.**

Answer: The DOE will look at the volumetric records in the Registry starting at the ERCB facility the FCC is linked to and track the volumes through to an additional 4 facilities. For Example the FCC is linked to GP1:

GP1 → GS1 → GP2 → GP3 → MS
In this example, allocations to GS1, GP2 & GP3 would all be valid for Allocations to Other Delivery Facilities.

Question: **When a company changes their reporting to reallocate capital and operating costs to a swing facility, will the next Crown invoice show a credit to previous Annual Allowable Cost Restriction Adjustment to correct this, or will the credit go to the Annual Capital Cost Adjustment and the Annual Operating Cost Adjustment?**

Answer: A change in reporting to reallocate capital and operating costs to a swing facility may not result in a significant change in the annual cost adjustments as costs at one facility will be reduced and costs at the other facility will be increased. A reduction in costs at a facility with a previous cost restriction results in either a reduction or a full reversal of the cost restriction and is displayed as a credit adjustment on the invoice.

Question: **Why is there no 10% overhead on GHG emissions especially since it does take a lot of time to administer and should be considered an operating cost?**

Answer: Greenhouse Gas (GHG) Emission Compliance Costs (capital and operating expenses, emission offsets, performance debits/credits and credits purchased from the Fund) are recognized as allowable operating costs in the natural gas royalty regime. However, these costs are not eligible for overhead and working capital allowance as they are not directly related to the compression, gathering and processing of the Crown's royalty share.

For more information, see Department of Energy Gas Royalty Calculation Information Bulletin 09-11 and/or Department of Energy Gas Royalty Information Letter 2009-25

Question: **Why do we put money for CP fees paid rather than a rate? Volumes are always changing and putting in a fixed dollar amount causes problems.**

Answer: This is not new business, when the volumes change and you are charged additional dollars you would/should send in an amendment.

Question: **When will the capital and operating cost data that was submitted via the Registry be available on the Registry reports? Prior to IABP?**

Answer: Operators can request the AC2 – Capital & Operating Report now, however will only see UNCONFIRMED information, as the DOE is not accepting files until this February 13, 2009. CONFIRMED data will be available after the DOE starts sending their approval notices.

This information will be reflected on the April 2010 Invoice in June.

Question: **Drilling Royalty Credit, how will the credit be incorporated with the annual adjustment? How will it affect GCA credits?**

Answer: DRC is independent of Allowable Costs.

Question: **How do you report your operating/capital costs for out of province and freehold?**

Answer: It is recommend that you claim all allowed capital and operating costs for your Alberta facilities even if the volume going through the facility is freehold and/or out of province. Each facility will have its' own royalty rate and therefore if all the volumes are freehold the royalty rate at that facility will be zero. A zero royalty rate implies you wouldn't need to submit the allowable costs claims however if at some point in time in the future any crown volumes start to flow thru the facility there would then be an applicable royalty rate for those costs.