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CANADA'S PETROLEUM INFORMATION NETWORK

TIP

# Gas Cost Allowance Business Rules and Submission Process for 2009 Production Year and Onward

| Jurisdiction | Release/Revision Date | Location of Change in this Document | Comment |
|---|---|---|---|
| AB | March 27, 2023 | | Update of the entire document |
| AB | March 30, 2010 | Section Entitled "Questions & Answers related to process. Removed Appendices. | |
| AB | January 13, 2010 | | Initial Release |

**Audience:** All Allowable Cost (AC) Users

**Purpose:** This tip provides users with information related to the new Gas Cost Allowance Business Rules and the respective changes to the 2009 AC submissions.

**Background:** Effective **February 4, 2010**, Petrinex was enhanced to incorporate the new business rules and submission forms affecting the 2009 AC2, AC3, AC4 and AC5, related to the Alberta Royalty Framework changes.

**Key Principles:**

**Facility Effective Royalty Rate (FERR)**

- The FERR will be used to determine the monthly and annual Crown share of allowable costs, including capital, operating and custom processing cost allowances for each royalty client at each AER facility.



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- The Crown share of the facility costs will be summed up and shown on the invoice as one deduction for each charge type.
- The FERR will be calculated for each royalty client at each AER facility based on the following formula, for a given year:

$$\textbf{FERR} = \frac{\textbf{Crown royalty value for the client at the AER facility (\$)}}{\textbf{Total value for the client at the AER facility (\$)}}$$

## Changes to the Allowable Cost Forms

**AC1 – Setup Facility Cost Centre – these changes have been in effect since March, 2009.**

- Changes to the AC1 form consist of the removal of the fields relating to the “Reported AER Facility Code” and “Effective Date”.
- AC1 submissions can be made using either Version 1 (Production Year 2008 or earlier) or Version 2 (Production Year 2009 or greater).
    - Petrinex will automatically determine which version to use based on the FCC Start Date. The title section of the screen will display the version being used.
- For pre-Alberta Royalty Framework (ARF) periods, information may be reported in these fields, and for the ARF periods, these fields will not appear.
- For Batch AC1 submissions, a warning notification will be sent by Petrinex via email that these fields will be ignored if a user includes information in the “Reported AER Facility Code” and “Effective Date” sections.

**AC2 – Capital and Operating Costs**

- Actual operating costs will be filed by all operators, in addition to actual capital costs.
- A new AC2-V4 form has been created and titled “Capital and Operating Cost Allowance: Production Years 2009 and Onwards”.
- This new form is a combination of the AC4 – Operating Costs and the AC2 – Capital Costs Allowance forms.
- The following new sections have been added:
    - Capital costs allocations to multiple delivery facilities for clients with working interest ownership in the FCC.
    - Operating costs allocations to multiple delivery facilities for clients with working interest ownership in the FCC.
    - Distribution of operating cost allowance allocations to working interest owners.


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- Reporting the "Custom Processing Adjustment Factor (CPAF)" for operating costs.
- The due date for submission of this new form will be April 30th.
- The penalty for late submission of the AC2 form will be $100.00 per month (after form due date) to a maximum of 6 months.

**AC3 – Cost Allowances Reallocation**

- A new AC3-V3 form has been created called "Capital and Operating Cost Allowance Reallocation: Production Years 2009 and Onwards".
- This form will allow reallocation of capital and operating costs to multiple clients and AER facilities.
- This form will aid royalty clients to eliminate cost restrictions due to misaligned costs with royalty trigger volumes.

  Note: If a royalty client reallocates costs from a source facility to a destination facility that is not within the same royalty network, then the DOE will disallow this reallocation.

- The pre-ARF version of this form included a section called "Custom Processing Volume Reallocations". This section will no longer be required for the ARF periods and will be deleted from the form.
- The due date for submission of this form is the same as before, that is May 15th. There is no penalty for late submission of this form (no change from pre-ARF).

**AC4 - Operating Costs**

- This form is being discontinued for Production Years 2009 Onward and has been blended into the AC2 – Capital and Operating Costs.

**AC5 – Custom Processing Fees Paid**

- A new AC5-V4 form, "Custom Processing Fees Paid", will be created without Part 3 "Custom Processing fees paid by owners in Facility Cost Centre(s) Tied to AER Facility".
- This part was used to identify custom fees with partial ownership, but will no longer be required since the process to recapture operating costs from non-owners will be eliminated.
- The due date for submission of this form is May 15th (no change from pre-ARF).
- The penalty for late submission of the AC5 form will be $100.00 per month (after form due date) to a maximum of 6 months.



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## Crown Share of Costs

- The Crown share of the actual capital costs, operating costs and custom processing fees will be calculated using the actual FERR for each client/facility.
- The concept of updating the actual capital costs and custom processing fees, and implementing the monthly go-forward estimates at Initial Annual Billing Period (IABP) remains the same, except being applied at a client/facility level.
- The concept of updating the actual operating costs (currently adjusted once a year in the February billing period invoice) and implementing the monthly go-forward estimates will be similar to custom processing fee and capital cost calculated at IABP.
- Further adjustments resulting from amendments filed in any month after IABP will be subject to prior period interest charges for capital, custom processing, and operating costs.
- Since only owners will receive monthly estimated operating cost deductions, the process to recapture operating costs from non-owners will be eliminated.

## Annual Allowable Cost Restrictions (AACR)

The annual Crown share of actual allowable costs will be determined for each client/facility. If the annual Crown share of actual costs (capital + operating + custom fees) exceeds the annual royalties payable at the AER client/facility level, there will be restriction resulting in an AACR adjustment shown on the invoice.

## More information

The following are responses to questions received after the 2010 Q&A Session:

**Question: If you have an FCC where the well is Suspended – can we amend the 2008 AC2 and change the Remaining Life Years to 1 and claim all the GCA in 2008? The capital dollars were spent and in the old system we were able to claim the GCA yearly even though the well wasn't producing. At the time of tie in, you can only project the useful life of the well and should not be penalized if the well stops producing.**

Answer: If it is certain that this well no longer produces, the RUL can be changed to 1 (subject to approval) and still be based on the lesser of the estimated physical life of the FCC assets and the estimated life of the reserves tied to the FCC. If it is not certain whether the well will ever produce again in future, the FCC could be shut in until the well resumes production or the asset(s) could be retired.



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**Question:** **In the case of Freehold wells we were allowed to claim the capital expenditures as part of the Corporate Effective Rate. In the new system, we lose that capital as the FCC won't have a facility rate. Can we change the Remaining Life Years to 1 and claim all the GCA in 2008.**

Answer: Under CERR, capital expenditures associated with freehold wells do not receive a Crown share of capital costs on their own but do contribute to the overall Crown share of a client's corporate pool of capital costs. The presence of freehold, purchased and out-of-province volumes at any facility deflates the CERR for all facilities so freehold costs are allowed to compensate for the perceived shortfall in the Crown share of costs on Crown wells.

Under FERR, capital expenditures and operating costs associated with freehold wells do not receive a Crown share of costs on their own but do contribute to the overall Crown share of a client's facility pool of costs. The presence of freehold, purchased and out-of-province volumes at a facility only deflates the FERR for that facility so there is no similar shortfall, as described for CERR, in the Crown share of costs on Crown wells at other facilities.

If the freehold wells are still producing and the FCC assets are still used and useful, there is no valid reason to change the RUL to 1. Capital that appears to be lost at that facility is offset by a higher Crown share of capital costs (compared to CERR) on Crown wells at other facilities.

**More information:** Please contact the Petrinex Business Desk.


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