

GAS ROYALTY OPERATIONS INFORMATION BULLETIN July 2014

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| <p>PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT</p> |
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A. ANNOUNCEMENTS

Changes to Natural Gas Liquids Reference Prices and Allowances

New Business Processes

The Department of Energy has concluded a review of business processes related to the calculation of Natural Gas Liquids Reference Prices and Allowances. These prices and allowances are used in the calculation of royalties for propane (C₃), butanes (C₄), pentanes plus (C₅⁺) and field condensate (C₅⁺).

Following extensive consultation with representatives of producer associations, new business processes will be implemented effective with July 2014 production. The current system which calculates three Edmonton based reference prices, three types of transportation allowances for each of four regions and a fractionation allowance, will be replaced by two provincial reference prices calculated for each of propane, butanes and pentanes plus. One is for specification grade product and the other is for product contained in a mix. Each reference price will be a provincial average of field purchase prices reported by NGL buyers and no further deductions are required to these prices. The pentanes plus spec product reference price will be used to value field condensate, similar to the current process.

The new process for determining NGL reference prices will be less complex and more transparent without affecting overall Crown royalties. Refer to IL 2013-35 for more information.

<http://inform.energy.gov.ab.ca/ILSummaryResults.aspx?Commodity=Natural+Gas&Status=Active&YearFrom=All&YearTo=All&Topic=All&AdvancedSearch=Y&OrgKey=11&OrgName=Gas+Development>

The detailed business rules for the new NGL reference prices are attached as [Appendix 1](#).

Amendment to Natural Gas Royalty Regulation 2009

New business processes resulted in an Amendment to the Natural Gas Royalty Regulation, 2009.

http://www.gp.alberta.ca/documents/orders/orders_in_council/2014/614/2014_242.html

Reporting Guide for Natural Gas Liquids Purchasers

The Reporting Guide for Natural Gas Liquid Price Reporting outlines the requirements for purchasers of NGLs, effective July 2014 delivery month.

http://www.energy.alberta.ca/NaturalGas/docs/Natural_Gas_Liquids_Price_Reporting_Guide.pdf

***Note: All companies purchasing NGLs at field facilities are required to file NGL price reports to Petrinex. This requirement includes any purchases that are made by gas field facility operators for failure to take volumes under an operating agreement.

NGL Buyer Identification

The new NGL field based provincial reference prices are going to be calculated using information submitted by all NGL buyers. In this regard, we are seeking your assistance

with identifying NGL buyers that purchase product at Alberta field locations. Please review the attached list of NGL buyers ([Appendix 2](#)) that are already known to us and send us an email with the names and contacts of NGL buyers that are not on the list.

We would like to contact the new companies as soon as possible to enable them to prepare for the new reporting requirements.

Contacts

For further information or to submit names and contacts of NGL buyers please contact:

Terry Rayne
Director
Pricing and Analysis
Phone: (403) 297-5467
Email: Terry.Rayne@gov.ab.ca

Winnie Tam
Senior Business Analyst
Pricing and Analysis
Phone: (403) 297-5427
Email: Winnie.Tam@gov.ab.ca

Royalty Information Exchange: Oil & Gas 2014

BOWC and the Department of Energy will be conducting an information exchange session in Calgary on November 25, 2014.

Date/time: Tuesday, November 25, 2014, 9:30 am to 12:00 pm
Doors open at 9:00 AM (refreshments available)
Presentation begins at 9:30 AM

Location: ConocoPhillips Conference Center
Gulf Canada Square
3rd Floor Auditorium
401 - 9th Avenue S.W.
Calgary, Alberta
T2P 2H7



Registration:

Please email Connie Brailean at ODEdmOp@gov.ab.ca by Monday, November 17, 2014 to register for the session. Please include the subject line: **Royalty Info Exchange 2014: Oil and Gas** in your email. As seating is limited, please indicate the number of attendees from your company, their names and email addresses.

The Royalty Information Exchange includes a networking session where members of Oil and Gas Royalty Operations will be available.

Please note this session is not intended to address policy questions, rather focuses on royalty operations.

B. MONTHLY INFORMATION

Pricing for Gas and Gas Products

For Pricing of gas and gas products and transportation information for May 2014 refer to the [Information Letter](#).

The monthly default sulphur price for May 2014 is \$79.62. Below are the annual sulphur default prices:

| 2010 | 2011 | 2012 | 2013 |
|---------|----------|---------|---------|
| \$44.69 | \$116.36 | \$98.02 | \$53.60 |

May 2014 Royalty Due August 31

Royalty clients are to remit the total amount payable shown on the July 2014 Statement of Account by August 31, 2014. If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided. Current period interest will not be charged on current invoice charges for the production month of May if it is paid in full by August 31, 2014.

The August 2014 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your May 2014 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.

Note: If the due date falls on a non-business day, the next business day will apply as the due date except for the month of March due to the Government of Alberta's fiscal year end. In this situation, the due date will apply previous to the non-business day as the due date.

Cheques are made payable to the Government of Alberta.

June 2014 VA4 due August 15

The VA4 forms for the production month of June 2014 are due in the department offices by August 15, 2014.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

Petrinex Deadline Submissions

The Petrinex deadline for SAF, OAF, and Volumetric submissions are posted on the [Petrinex](#) website "Reporting Calendars" under Calendars. **Changes to this calendar will be posted on the Petrinex website home page in "Broadcast Messages."**

Interest Rate July 2014

Alberta Energy’s interest rate for July is 4.00%.

April Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the April 2014 billing period was:

| First Time Provisional Assessment | Reversals of Provisional Assessments (Net) | Net Provisional Assessment |
|--|---|-----------------------------------|
| \$9,616,382.23 | (\$864,637.18) | \$8,751,745.05 |

April Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the April 2014 billing period.

| Forms | Penalty Charges | Penalty Reversals | Net Penalty Charges for 2014/04 |
|--------------|------------------------|--------------------------|--|
| AC2 | \$42,400 | (\$3,000) | \$39,400 |
| AC4 | \$0 | \$0 | \$0 |
| AC5 | \$3,600 | \$0 | \$3,600 |
| NGL1 | \$0 | \$0 | \$0 |
| VA2 | \$0 | \$0 | \$0 |
| VA3 | \$0 | \$0 | \$0 |
| VA4 | \$0 | \$0 | \$0 |
| Total | \$46,000 | (\$3,000) | \$43,000 |

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the April 2014 billing period, the potential royalty dollar impact is estimated as \$3.8 million, distributed as follows by production year:

| 2013 | 2014 |
|---------------|---------------|
| \$0.7 million | \$3.1 million |

Note: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Well Event Measured Depth Determination Letter

The department has issued a “Well Event Measured Depth Determination Letter” under the Report Package DOE – Gas to facility operators via Petrinex on July 2, and July 11, 2014. This letter shows the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not

listed on the letter and does not have a confirmed MD will receive a DF of 1. When the changes to the MD are confirmed by the department, a letter is issued to a facility operator who reports changes through Petrinex to well event attributes affecting MD. All changes to the MD are applied on a go forward basis only. Facility operators are advised to submit well event attribute changes by the last day of the calendar month in order for timely determination of MD.

NGDDP Confidential Wells

Wells designated as “confidential” will be reviewed prior to the removal of the “confidential” status, if the directional surveys and completion reports are provided to the department. Send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Lily Hiew in Gas Royalty Features at 780-427-1550.

C. INFRASTRUCTURE DATA

Business Associate ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, and includes Working Interest Owner (WIO) role start/end dates.

This [report](#) is also published daily on the Petrinex website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.
- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.
- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry/Crown Land Data at 780-422-1395 or CrownLandDataSupport@gov.ab.ca if you have any questions regarding the information supplied in this article.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their

appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client status changes, names, or IDs, please contact Client Registry/Crown Land Data at 780-422-1395 or CrownLandDataSupport@gov.ab.ca.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under [Facility Royalty Trigger Factors and Meter Station Ties](#).

D. REMINDERS

2014 Capital Cost, Operating Cost and Custom Processing Fee Allowances Reminder

For the January through March 2014 billing period invoices, royalty clients received estimated monthly cost deductions that were based on actual allowable costs for the 2012 production year, multiplied by their estimated Facility Effective Royalty Rates (FERR), divided by 12 (months). The information in the 2013 AC2, AC3, and AC5 documents was used to calculate the 2013 actual capital cost, operating cost and custom processing fee allowances. The calculations are reflected in the April 2014 Initial Annual Billing Period (IABP) invoice, issued in June 2014. The 2013 actual allowable costs will become the royalty client's 2014 allowable cost estimates.

Commencing with the April 2014 billing period, royalty clients will receive monthly deductions based on their 2014 allowable cost estimates, multiplied by their new FERR, minus the total deductions received in the January through March 2014 billing period invoices, divided by the number of months remaining in the year (e.g. 9 months as of the April billing period). If a cost estimate is manually processed in the January, February, March or April 2014 production months, the system does not replace it with a new cost estimate in the April Initial Annual Billing Period (IABP) invoice.

If a royalty client requires a change to the 2014 go-forward allowable cost estimates and/or the FERR, a written request with supporting documentation must be submitted to the Gas Royalty Volumetric and Cost Reporting team (see Chapter VI, Section 1 of the Guidelines). These estimates must be calculated and submitted at a client/facility level

Annual CPAF Reporting Reminders

The 2009 audit of CPAF reported on the AC2 for capital and operating costs has found numerous instances where either the CPAF has been incorrectly reported or where operators have failed to file complete CPAF information for both capital and operating costs.

For 2010, FCC operators are requested to review the CPAF information that they have filed and amend any AC2s where the CPAF reporting is incorrect. Planned audit work for 2010 will include a detailed examination of CPAF reporting to ensure that identification of custom users is complete and accurate.

The Alberta Natural Gas Royalty Guidelines state in Chapter VI, Section 3.3.2, “To accurately calculate the CPAF, FCC owners must inform FCC operators of all custom processing arrangements. An owner who fails to comply with this requirement may be subject to an audit assessment. The audit assessment does not impact the capital cost allowance of other owners in the FCC.”

(Note: the same statement can be found in section 3.4.2 for operating costs.)

If you have questions or concerns related to the filing of CPAF information please contact Kris Pretty, Audit Manager Compliance and Assurance at 403-297-8785 or Kris.Pretty@gov.ab.ca.

If you determine that it is necessary to amend your AC2 filings please notify the CPAF Auditor, Tara Carroll at Tara.Carroll@gov.ab.ca.

Royalty Deposit Adjustment

The annual royalty deposit adjustment is calculated as 1/6th of the client’s previous year’s royalty multiplied by a factor. The factor of 1.33 is calculated by dividing the current year’s long term gas price for 2014 of 3.75 by the average 2013 Alberta Reference Price of 2.83.

The adjustment was processed in the Initial Annual Billing Period (IABP), June 2014 calendar month (April 2014 billing period invoice).

If you have any questions, please contact Melanie Al Ramahi at 780-643-0964.

E. BUSINESS CONTACTS

Quick Reference

| Group | Email |
|-----------------------------------|--|
| Petrinex Service Desk | Petrinexsupport@Petrinex.ca |
| Client Registry / Crown Land Data | CrownLandDataSupport@gov.ab.ca |
| Volumetric & Cost Reporting | VCR@gov.ab.ca |
| Management Information | ManagementInformation.Energy@gov.ab.ca |
| Gas Royalty Accounting | GasRoyaltyAccounts.Energy@gov.ab.ca |
| Gas Royalty Features | GasRoyaltyPrograms@gov.ab.ca |

Petrinex Service Desk

The focal point for communications regarding preparations for, access to, or utilization of Petrinex is the Petrinex Service Desk, or Petrinex Support.

Phone: 403-297-6111 or 1-800-992-1144

Fax: 403-297-3665
Email: Petrinexsupport@Petrinex.ca
Website: www.Petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting (V&CR) is the Front Line of contact for inquiries relating to volumetric and cost reporting as well as gas royalty calculation processes. V&CR is made up of four teams as shown below:

| Team | Team Lead |
|------------------|------------------|
| Volumetrics | Nicole Le Blanc |
| Costs | Joyce Chen |
| Process Support | Penny White |
| Special Projects | Oana Jurgea |

Gas Royalty Voicemail: 780-422-8727
Fax: 780-427-3334 or 780-422-8732
Alberta Toll Free: 780-310-0000
Gas Royalty Email: VCR@gov.ab.ca

Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

Management Information

All inquiries or requests that relate to royalty information (e.g. Information Letter, Information Bulletin and other Department of Energy's Natural Gas website publications) and questions related to Commercial Storage and Farm Gas should be forwarded to the Management Information Team at ManagementInformation.Energy@gov.ab.ca.

Gas Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account, Collections and Royalty Deposits) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Gas Royalty Features

All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forwarded to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

Reference Prices and Valuation Allowances Calculation Information

For information related to reference prices, price valuation, and allowances calculation, contact the Pricing & Analysis Team located at the Alberta Energy office in Calgary:

Pricing & Analysis
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2

Telephone: 403-297-5514

Fax: 403-297-5400

Alberta Energy Internet Webpage

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet webpage: www.energy.alberta.ca. From “Our Business”, navigate to “Natural Gas”, “About Natural Gas”, “Prices”, and “Alberta Natural Gas Reference Price (ARP)”. In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under “Our Business”, navigate to “Natural Gas”, “Legislation, Guidelines & Policies”.



Richard Stokl
Director, Gas Royalty Operations
Royalty Operations

F: Appendix

Appendix 1

Natural Gas Liquids (NGLs) Reference Prices Review (excluding Ethane)

Business Rules for Royalty Valuation of NGLs (excluding Ethane)

1. Reference prices are used to value the Crown's royalty share of NGL production for propane (C3), butanes (C4) and pentanes-plus (C5+), either separate (Spec) or in an NGL mix. Reference prices are intended to represent (a proxy for) what an average producer would receive (royalty valuation principle of producer proceeds) in an arms' length sale of their marketable NGL production at field facilities (gas plant, gathering system or battery), where Crown royalty volumes are determined.
2. There will be a single provincial reference price, which is a provincial average price at field facilities, for each of C3 Spec, C4 Spec, C5+ Spec, C3 Mix, C4 Mix and C5+ Mix.
3. Provincial NGL Reference Prices will be based entirely on purchase information submitted to Alberta Energy by buyers of NGLs at field facilities located in Alberta. Alberta Energy will require as many NGL buyers to report, as is practical.
4. It is intended that buyer reported prices include all price components (including quality adjustments) related to the purchase of the production at the field facility, which in most cases would tie into the invoice between the buyer and the producer.
5. NGL buyers are required to report all their arms' length purchases at field facilities. Buy/Sells and exchanges will not be reported because a price cannot be determined.

Prior Period Amendments

1. To ensure published NGL reference prices are representative of market prices received by producers in a production month, NGL reference prices will be restated and royalty invoices will be recalculated where effects of prior period amendments are material. Effects of prior period amendments are considered material if the 'As Amended NGL RP' exceeds +/- 1% of the previously prescribed NGL reference price. Effects of prior period amendments that fall below the threshold are not considered material and will **not** be included in any NGL reference prices.
2. An NGL buyer is required to submit amendments to an original month's purchase information report when the original report differs from their current business records for the production month. Differences may result from submission errors or from business adjustments that are transacted in future business months.
3. To effectively and efficiently manage RP restatements and invoice recalculation, there will be an annual close off process. For example, calendar year 2010 would be closed off August 15th, 2013 (June 2013 Invoice) with potential extension to August 15th 2014. The time lag will allow for completion of the audit and correction process for buyer reports.

4. RP restatements and re-invoicing will occur as part of the close off process. RP restatements and re-invoicing would not occur during the months leading up to close off unless otherwise determined by the Minister.
5. Restatements of RPs will also result in restatements of Par Prices, where applicable.

March 13, 2013

Appendix 2

Natural Gas Liquids Purchasers

BP Canada Energy Group ULC
Canada Imperial Oil Ltd.
Canadian Enterprise Gas Products Ltd.
Canadian Natural Resources Ltd.
Chevron Canada Resources
City Service Valcon
ConocoPhillips Canada
Elbow River Marketing Limited Partnership
Exxonmobil Canada Energy
Flint Hills Resources Canada LP
Gestion Energie
Gibson Gas Liquids Partnership
Husky Oil Operations
Imperial Oil Resources
Keyera Corp
Kiros Energy Marketing ULC
Nexen Marketing
Pembina NGL Corporation
Pembina Pipeline Corporation
Pembina Resource Services Canada
Pengrowth Corporation
Petrogas Marketing Ltd.
Plains Midstream Canada
Shell Canada Limited
Shell Trading Canada
Spectra Energy Transmission
Suncor Marketing Energy Inc.
Superior Gas Liquids
Talisman Energy Inc.
Targa Resources
Tidal Energy Marketing Inc.