



January 18, 2017

## OIL SANDS INFORMATION BULLETIN 2017-01

### Subject: Return on Capital Calculation for Non-Basic Pipelines

This Information Bulletin is an update to Oil Sands Information Bulletin 2012-05.

Non-basic pipelines are pipelines that transport oil sands products from the royalty calculation point(s) of an oil sands Project to their point of disposition or transport diluent to an oil sands Project. Where these pipelines provide services to the Project on a non-arm's length basis, a cost of service calculation is required to value those services.

Under the [Oil Sands Royalty Regulation, 2009](#), the rate of return on capital for all assets providing non-basic services to a Project is the long term bond rate (LTBR), unless specified otherwise by the Minister.

In the case of non-basic pipelines, the rate of return on capital (RORC) to be used in the calculation of the cost of service is specified as follows, effective January 1, 2011.

$$\text{RORC} = \{[\text{Deemed Debt \%}] \times [\text{Deemed Cost of Debt}]\} + \{[\text{Deemed Equity \%}] \times [\text{Deemed Cost of Equity}/1 - \text{Deemed Corporate Income Tax Rate}]\}$$

Where:

Deemed Debt % = 45%

Deemed Cost of Debt = LTBR+1%

Deemed Equity % = 55%

Deemed Cost of Equity = the annual multi-pipeline return on equity (ROE) rate (for group 1 pipelines) as published by the National Energy Board (NEB)

Deemed Corporate Income Tax Rate = the sum of the Alberta and federal corporate tax rates.

In 2009, the National Energy Board (NEB) indicated that it would no longer publish the ROE rate for years after 2011. However, the Board indicated that because some settlements between pipeline companies and shippers reference the ROE generated by the RH-2-94 Formula, the Board would continue to publish this ROE value for the convenience of parties. Department of Energy will continue to depend on NEB published ROE rates for the purpose of Cost-of-Service calculation. An Information Bulletin will be published by the Department of Energy each year to inform the oil sands Project operators on the status of ROE rate for the specified year.

The NEB determined that the resulting ROE for 2016 as determined in accordance with the discontinued RH-2-94 Formula is 7.38%.

The Department will continue to publish the yearly Return Allowance Rate, Rate of Return on Capital (RORC) and, Deemed Corporate Income Tax Rate on its website, for the convenience of Project operators. The link is: <http://www.energy.alberta.ca/OilSands/799.asp>

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