

March 13, 2012

## **OIL SANDS INFORMATION BULLETIN 2012-05**

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

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 they 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](#), as amended in January 2012, 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 NEB indicated that it would no longer publish this ROE rate for years after 2011. The [Oil Sands Royalty Guidelines](#) were therefore amended to specify the "Deemed Cost of Equity" would be the LTBR + 3%, beginning in 2012.

However, in its letter of December 2, 2011, the NEB changed its position. It has now committed to publish the ROE rate for the calendar years until 2014. Therefore, we will continue to use the NEB ROE rate in the RORC calculation for non-basic pipelines. We will be amending the Royalty Guidelines to reflect this.

The NEB determined the ROE for 2012 is 7.58%.

The Department will continue to publish the ROE rate percentage, the LTBR, and the 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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