



Province of British Columbia

BC-26 APPLICATION FOR A COALBED METHANE PRODUCER COST OF SERVICE ALLOWANCE

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Months Operating in Calendar Year	A1	Actual Claim For Calendar Year	A2	Estimated Claim For Calendar Year	A3
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FACILITY	
Facility Code	B1

LAND		COSTS INCURRED \$
C1	Land Cost	

DEPRECIABLE CAPITAL ADDITIONS (DISPOSALS)		COSTS INCURRED \$
D1	1.	
	2.	
	3.	
	4.	
D2	Net Depreciable Capital Additions (Disposals)	

DEPRECIATION		CAPITAL DEPRECIATION \$
E1	Opening Balance of Undepreciated Capital as at January 1	
E2	Total Undepreciated Capital (before depreciation) [D2 + E1]	
E3	Prorated Depreciation [5% OF E2 × A1 / 12]	
E4	Closing Balance of Undepreciated Capital as at December 31	

DIRECT OPERATING COSTS		DIRECT COSTS INCURRED \$	DIRECT COSTS INCURRED \$		
F1	Labour		F1	Direct Insurance	
	Materials			Property Taxes	
	Chemicals			Camp Costs	
	Transportation			Water Handling Costs	
	Contract Services			Other	
	Utilities			Other	
	Maintenance		F2	Total Direct Operating Costs [F1 Total]	
	Purchased Fuel Gas		F3	Overhead Allowance [10% of F2]	
Telecommunications		F4	Total Direct Operating Costs [F2 + F3]		

WORKING CAPITAL ALLOWANCE	
G1	Working Capital Allowance [F4 × 1/6]

APPLICATION FOR A COALBED METHANE PRODUCER COST OF SERVICE ALLOWANCE

RATE BASE

H1	Rate Base	$[(E1 + E4) / 2 + C1 + G1]$		
H2	Return on Rate Base	$[15\% \text{ of } H1 \times A1 / 12]$		

ACTUAL CBM PCOS ALLOWANCE RATE AND CARRY-FORWARD

J1	Total CBM PCOS Costs	$[F4 + E3 + H2]$		
J2	CBM PCOS Allowance Carry-Forward (Prior Year)			
J3	Actual Raw Gas Production Volume (1000 cubic metres raw gas)			
J4	Actual CBM PCOS Rate (Current Year)	$[(J1 + J2) / J3]$		
J5	Approved CBM PCOS Rate			
J6	Total CBM PCOS Allowance Applied	$[J5 \times J3]$		
J7	CBM PCOS Allowance Carry-Forward (Current Year)	$[J1 + J2 - J6]$		

ESTIMATED CBM PCOS ALLOWANCE RATE

K1	Estimated Total CBM PCOS Costs	$[J1 \text{ or } L12]$		
K2	CBM PCOS Allowance Carry-Forward (Current Year)	$[J7]$		
K3	Estimated Raw Gas Production Volume(1000 cubic metres raw gas)			
K4	Estimated CBM PCOS Rate (\$ / 1000 cubic metres)	$[(K1 + K2) / K3]$		

ESTIMATED TOTAL CBM PCOS COST ALLOWANCE

L1	Opening Balance of Undepreciated Capital	$[E4]$		
L2	Depreciable Capital Additions (Disposals)			
L3	Total Undepreciated Capital	$[L1 + L2]$		
L4	1. Prorated Depreciation	$[5\% \text{ of } L3 \times \text{expected operating months} / 12]$		
L5	Closing Balance of Undepreciated Capital	$[L3 - L4]$		
L6	2. Direct Operating Costs (DOC)			
L7	3. Overhead Allowance (10% of DOC)	$[10\% \text{ of } L6]$		
L8	Estimated Total Operating Costs	$[L6 + L7]$		
L9	Working Capital Allowance	$[L8 \times 1/6]$		
L10	Rate Base	$[(L1 + L5) / 2 + C1 + L9]$		
L11	4. Return on Rate Base	$[15\% \text{ of } L10 \times \text{expected operating months} / 12]$		
L12	Estimated Total CBM PCOS Costs	$[L4 + L8 + L11]$		

FACILITY OPERATOR

I hereby certify that the information provided on this form and in supporting documentation is correct.

Signature	M1	Telephone	()	M3
Name	M2	Fax	()	M4

BC-26 APPLICATION FOR A COALBED METHANE PRODUCER COST OF SERVICE ALLOWANCE (CBM APPLICATION)

DESCRIPTION

A Coalbed Methane Producer Cost Of Service (CBM PCOS) allowance is a site-specific deduction from gross natural gas royalties and taxes. This deduction is intended to compensate a producer for field related costs that are associated with the Crown's share of natural gas produced from a coalbed methane project. Field related costs include gathering, dehydration, compression and water handling costs.

PURPOSE

The CBM PCOS Application is used by the operator of a coalbed methane project to report actual costs incurred in each calendar year and to apply for an estimated CBM PCOS rate for the next calendar year.

TIMING

The CBM Application should be submitted to the Mineral, Oil and Gas Revenue Branch for actual operations for each year not later than March 15 of the following year. Each CBM Application must include an estimate of costs and production volumes for the following year.

For a new Coalbed methane project, the details of estimated capital and operating costs should be provided approximately two months prior to the coalbed methane project producing natural gas for sale. This will help ensure that the estimated CBM PCOS rate is as accurate as possible.

METHODOLOGY

An outline of the CBM PCOS allowance methodology is as follows:

Calendar Year One

In the first calendar year that a facility is eligible for a CBM PCOS allowance, an application is submitted for approval of an estimated CBM PCOS rate for the year. The estimated CBM PCOS rate is based upon estimated field costs and estimated raw gas production volumes. See Section K of Application. The approved estimated CBM PCOS rate is used to calculate a CBM PCOS allowance for the gas royalty invoice in year one.

METHODOLOGY cont'd

Calendar Year Two

- (1) Before March 15 of the second calendar year an application is submitted to apply for a CBM PCOS rate for the second calendar year. In this application, the actual costs and actual raw gas production are used to determine the actual CBM PCOS rate for year one.
- (2) The Total CBM PCOS Allowance Applied during the first calendar year is determined by multiplying the approved estimated CBM PCOS rate for the coalbed methane project by the actual raw gas production in year one.
- (3) The difference between the Total CBM PCOS Costs applied for year one and the Total CBM PCOS Allowance Applied during year one results in an adjustment called a CBM PCOS Allowance Carry-Forward (Current Year).
- (4) The Approved CBM PCOS Rate for year two is calculated by dividing the Estimated Total CBM PCOS Costs and the CBM PCOS Allowance Carry-Forward by the estimated raw gas production volume from all well events in the coalbed methane project. Two options may be used for estimating the Total Cost Allowance:

Option A The Estimated Total CBM PCOS Costs for year two is the actual Total CBM PCOS Costs for year one.

Option B The Estimated Total CBM PCOS Costs for year two may be determined by estimating the capital and operating costs and doing new calculations of depreciation, overhead allowance and return on rate base.

Subsequent Years

- (1) At the end of each calendar year, the actual coalbed methane project costs and actual raw gas production are used to develop an Actual CBM PCOS Rate for the coalbed methane project.
- (2) The Total CBM PCOS Allowance Applied during the calendar year is determined by multiplying the Approved Estimated CBM PCOS Rate by the actual raw gas production volume for all well events in the coalbed methane project.
- (3) The CBM PCOS Allowance Carry-forward for the year is determined as the Total CBM PCOS Costs for the year plus the previous year's CBM PCOS Allowance Carry-forward, minus the total CBM PCOS allowance applied.

NOTE:

- (1) *Once an Estimated CBM PCOS Rate is approved by the Ministry, it will be used until a revised rate is approved by the Ministry.*
- (2) *If the difference between the estimated CBM PCOS allowance claimed and the actual CBM PCOS allowance for a year is significant, the Province may retroactively adjust royalty charges for the year.*
- (3) *Where a coalbed methane project is purchased by another producer, who continues to operate the facilities as a coalbed methane project, the capital cost in any CBM PCOS applications shall be equal to the original construction costs plus any allowable capital additions less any depreciation deducted prior to the purchase date.*

GENERAL INFORMATION

- A1 Months Operating in Calendar Year** Enter the number of production months the coalbed methane project operated, or will operate, in the calendar year.
- A2 Actual Claim for Calendar Year** If an actual CBM PCOS rate is being calculated, indicate the calendar year to which the actual CBM PCOS rate applies.
- A3 Estimated Claim for Calendar Year** If an estimated CBM PCOS rate is being calculated, indicate the calendar year to which the estimated CBM PCOS rate applies.

FACILITY

- B1 Facility Code** Insert the 8 digit code assigned to the coalbed methane project. [Facility codes](#) are available at the Ministry of Finance website. If the coalbed methane project has not yet been assigned an identifying code, contact the Ministry.

LAND

- C1 Land Cost** Enter the original cost of the surface location upon which the coalbed methane project is located. In the CBM PCOS rate calculation, land is treated as an asset that does not depreciate in value.

DEPRECIABLE CAPITAL ADDITIONS (DISPOSALS)

- D1** List all allowable depreciable capital additions and disposals claimed for the year as defined in the attached Schedules I and II. Enter the actual costs incurred in the column provided. If there are more than four entries, attach a separate sheet listing the additional items.
- Disposals, excluding land, are to be recorded at net book value using the per annum depreciation allowance specified in E3 (i.e., 5 percent).
- D2 Net Depreciable Capital Additions (Disposals)** Enter the sum of the costs incurred in the year for depreciable assets less the net book value of depreciable assets disposed of in the year.

DEPRECIATION

- E1 Opening Balance of Undepreciated Capital as at January 1** Enter the dollar value of undepreciated capital carried forward from the end of the previous year. (Note: Land is not to be depreciated). In the first year of operations, enter the total cost of depreciable assets as at the commencement date of operations.
- E2 Total Undepreciated Capital (before depreciation)** Enter the sum of Net Depreciable Capital Additions/(Disposals) (D2) and Opening Balance of Undepreciated Capital as at January 1 (E1).
- E3 Prorated Depreciation** Depreciation is the Total Undepreciated Capital (E2) multiplied by 0.05. Prorate the result by multiplying by the number of operating months divided by 12.

$$\text{i.e., } E3 = (E2 \times 0.05) (A1 \div 12)$$

DEPRECIATION cont'd.

- E4 Closing Balance of Undepreciated Capital as at December 31** Subtract Prorated Depreciation from Total Undepreciated Capital.

$$\text{i.e., } E4 = E2 - E3$$

NOTE: Where material capital additions to the coalbed methane project are made part way through a reporting year, the calculation of depreciation will be prorated based on the actual number of months that the asset is in operation.

DIRECT OPERATING COSTS (DOC)

- F1 Direct Operating Costs (\$)** List the actual allowable costs claimed for the year as defined in the attached Schedules III and IV. If there are more than two entries under Other Expenditures, attach a separate sheet listing additional entries.

- F2 Direct Operating Costs** Enter the sum of the Sub-Totals for columns 1 and 2.

- F3 Overhead Allowance (10% of Total DOC)** Enter an amount for overhead that is 10 percent of Total DOC.

$$\text{i.e. } F3 = F2 \times .10$$

- F4 Total Direct Operating Costs (Total DOC + Overhead)** Enter the sum of Total DOC and Overhead.

$$\text{i.e. } F4 = F2 + F3$$

WORKING CAPITAL ALLOWANCE

- G1 Working Capital Allowance** Enter one-sixth of Total Direct Operating Costs.

$$\text{i.e. } G1 = F4 \div 6$$

RATE BASE

- H1 Rate Base** Enter the sum of Average Net Depreciable Capital plus Land Value plus Working Capital Allowance.

$$\text{i.e. } H1 = (E1 + E4) \div 2 + C1 + G1$$

- H2 Return on Rate Base** Enter 15.0 percent of the Rate Base prorated over the operating months in the claim year.

$$\text{i.e. } H2 = .15 \times H1 \times A1 \div 12$$

NOTE: Where material capital additions to the Coalbed methane project are made part way through a reporting year, the calculation of Return on Rate Base will be prorated based on the actual number of months that the capital asset is in operation.

ACTUAL CBM PCOS ALLOWANCE RATE AND CARRY-FORWARD

- J1 Total CBM PCOS Costs** Enter the sum of Total Operating Costs plus Prorated Depreciation plus Return on Rate Base.
i.e. $J1 = F4 + E3 + H2$
- J2 CBM PCOS Allowance Carry-Forward (Prior Year)** Enter the carry-forward amount from J7 of the previous year's application.
- J3 Actual Raw Gas Production Volume (1 000 cubic metres raw gas)** Enter the actual raw gas production for the year in 10^3m^3 of raw gas.
- J4 Actual CBM PCOS Rate (Current Year)** Calculate the Actual CBM PCOS Rate in $\$/10^3\text{m}^3$ by dividing the sum of Total CBM PCOS Costs and CBM PCOS Allowance Carry-Forward (Prior Year) by Actual Raw Gas Production.
i.e., $J4 = (J1 + J2) \div J3$
- J5 Approved CBM PCOS Rate** Enter the Approved CBM PCOS Rate from K4 of the previous year's application.
- J6 Total CBM PCOS Allowance Applied** Calculate the Total CBM PCOS allowance claimed for the current year by multiplying the Approved CBM PCOS Rate by the Actual Raw Gas Production Volume.
i.e., $J6 = J5 \times J3$
- J7 CBM PCOS Allowance Carry-Forward (Current Year)** Subtract the Total CBM PCOS Allowance Applied from the sum of the Total CBM PCOS Costs and the CBM PCOS Allowance Carry-Forward (Prior Year).
i.e., $J7 = J1 + J2 - J6$

ESTIMATED CBM PCOS ALLOWANCE RATE

- K1 Estimated Total Cost Allowance** Enter the Estimated Total CBM PCOS Costs determined using either Option A or B. In calculating the Estimated CBM PCOS Rate, the Estimated Total CBM PCOS Costs may be calculated using one of two options:
Option A Use the Total CBM PCOS Costs for the previous year (J1).
Option B Calculate the Estimated Total CBM PCOS Costs based on estimated costs. Section L may be used to perform this calculation (L12).
- K2 CBM PCOS Allowance Carry-Forward (Current Year)** Enter the CBM PCOS Allowance Carry-Forward calculated in J7.
- K3 Estimated Raw Gas Production Volume (1000 cubic metres raw gas)** Enter a raw gas production volume estimate based on the previous year's actual raw gas production volume or an estimated raw gas production volume for the current year.

ESTIMATED CBM PCOS ALLOWANCE RATE cont'd

- K4 Estimated CBM PCOS Rate (\$ / 1000 cubic metres)** Calculate the Estimated CBM PCOS Rate in $\$/10^3\text{m}^3$ by dividing the sum of the Estimated Total CBM PCOS Costs and CBM PCOS Allowance Carry-Forward (Current Year) by the Estimated Raw Gas Production Volume.

$$\text{i.e., } K4 = (K1 + K2) \div K3$$

ESTIMATED TOTAL CBM PCOS COST ALLOWANCE (Option B)

- L1 Opening Balance of Undepreciated Capital** Enter the dollar value of undepreciated capital carried forward (E4) from the end of the previous year.
In the first year of operations, enter the total undepreciated capital as at the commencement date of operations on line L1. Land is not to be depreciated.
- L2 Depreciable Capital Additions (Disposals)** Enter the sum of the depreciable costs for the estimated capital additions less the net book value of depreciable assets that will be disposed of in the year.
Provide a list of all estimated depreciable capital additions and disposals for the upcoming year as defined in the attached Schedules I and II, as well as the estimated completion or commissioning date of the addition or disposal.
- L3 Total Undepreciated Capital** Enter the sum of Depreciable Capital Additions (Disposals) (L2) and Opening Balance of Undepreciated Capital as at January 1 or the start up date (L1).
- L4 Prorated Depreciation** Enter the Total Undepreciated Capital (L3) multiplied by 0.05 multiplied by the number of operating months divided by 12.
 $\text{i.e. } L4 = (L3 \times 0.05) (\text{Operating Months} \div 12)$
- L5 Closing Balance of Undepreciated Capital** Subtract Prorated Depreciation from Total Undepreciated Capital.
 $\text{i.e. } L5 = L3 - L4$
- L6 Direct Operating Costs** Enter the estimated total of allowable direct operating costs.
- L7 Overhead Allowance (10% of Total DOC)** Enter an amount for overhead that is 10 percent of the estimated Direct Operating Costs.
 $\text{i.e. } L7 = L6 \times .10$
- L8 Estimated Total Operating Costs (Total DOC + Overhead)** Enter the sum of Total DOC and Overhead.
 $\text{i.e. } L8 = L6 + L7$
- L9 Working Capital Allowance** Enter as the Working Capital Allowance one-sixth of the estimated Direct Operating Costs and Overhead Allowance.
 $\text{i.e. } L9 = L8 \div 6$

ESTIMATED TOTAL CBM PCOS COST ALLOWANCE (Option B) cont'd

L10 Rate Base Enter the sum of average net depreciable capital plus Land Value plus Working Capital Allowance.

$$\text{i.e. } L10 = (L1 + L5) \div 2 + C1 + L9$$

L11 Return on Rate Base Enter 15.0 percent (effective June 1, 1998) of the Rate Base prorated over the operating months in the claim year.

$$\text{i.e. } L11 = .15 \times L10 \times A2 \div 12$$

L12 Estimated Total CBM PCOS Costs Enter the sum of Prorated Depreciation, Direct Operating Costs, Overhead Allowance and Return on Rate Base.

$$\text{i.e. } L12 = L4 + L8 + L11$$

FACILITY OPERATOR

M1 Signature An authorized representative of the operator must certify that the preceding information is correct.

M2 Name Print clearly the name of the signatory in M1 above.

M3 Telephone Enter the signatory's telephone number.

M4 Fax Enter the signatory's fax number.

SCHEDULE I ALLOWABLE CAPITAL EXPENDITURES

This schedule includes allowable capital expenditures associated with the calculation of a coalbed methane Producer Cost of Service Rate. Capital costs not listed below may be considered allowable capital expenditures, provided they are approved by the Mineral, Oil & Gas Revenue Branch of the Ministry of Finance.

Direct Depreciable Expenditures

- Air strips
- All weather main access roads located in British Columbia to producer-owned coalbed methane projects located in British Columbia
- Application fees (excludes fees for wells other than water disposal wells)
- Buildings and housing for wellheads and surface facilities
- Commissioning and start-up
- Communication controls not associated with the production function
- Constructed wetlands
- Corrosion protection
- Downhole gas/water separators
- Electrical power installations (including generators, power lines, substations with transformers)
- Emergency flare stacks and relief facilities
- Engineering and inspection services
- Field Compression
- Environmental protection, health and safety equipment
- Facility site surveys, easements or rights-of-way
- Instrumentation and controls
- Holding and treatment ponds
- Interior facility gates, roads, bridges, walkways and fences
- Separators and scrubbers
- Site preparation, easements or rights of way
- Studies that relate directly to the water reuse and/or disposal method used
- Testing and monitoring equipment associated with water handling
- Warehouses, laboratories, facility offices and buildings for water handling
- Water conversion units
- Water disposal wells (i.e., wells drilled exclusively for CBM water disposal; undepreciated costs for CBM producers that are converted to water disposal; incremental [recompletion] costs for CBM producers that have dual completions for water reinjection [i.e., for downhole gas/water separators] and wells outside the CBM project that are converted to CBM water disposal)
- Water filter units
- Water meters and measurement equipment
- Water pipelines and associated equipment, including automatic and manual drainage systems
- Water pumps (well, booster and discharge pumps) and associated piping and equipment
- Water treatment facilities (including tanks and sludge removal equipment) and associated piping

SCHEDULE I – cont'd
ALLOWABLE CAPITAL EXPENDITURES

NOTES:

1. *Construction overhead equal to one percent (1%) of the total capital additions in the claim year may also be included as a depreciable capital addition.*
2. *Where a producer-owned coalbed methane project is purchased by another producer, who continues to operate the production facilities, the capital cost of any PCOS applications shall be equal to the original construction costs plus any allowable capital additions less any depreciation deducted prior to the purchase date.*
3. *Where a coalbed methane project is not in operation for each month in the calendar year, the calculation of depreciation and return on rate base is to be prorated based on the number of operating months divided by twelve.*
4. *Where an all weather main access road has been constructed prior to March 1, 2002, the undepreciated capital costs of the producer-owned road are to be added as an allowable capital expenditure into the rate base of the coalbed methane project.*
5. *When an all weather main access road originates in Alberta, only capital costs associated with the portion of the road located in British Columbia qualify as eligible gas cost allowance expenditures.*
6. *Where a coalbed methane project produces natural gas that requires processing at a natural gas processing plant, eligible capital costs associated with an all weather main access road should be included in the calculation of the gas cost allowance rate for the producer owned plant and not be included in the calculation of the coalbed methane producer cost of service rate.*
7. *Undepreciated capital expenditures for the coalbed methane project prior to when gas is sold are allowed.*

Non-Depreciable Expenditures

- Cost of land

**SCHEDULE II
CAPITAL EXPENDITURES NOT ALLOWED**

This schedule includes capital expenditures not allowed in determining a coalbed methane Producer Cost Of Service rate.

- Capital expenditures associated with gas processing and sales gas transporting functions. A gas cost allowance application (BC23) may be completed to claim these costs;
- Downhole, servicing, testing, and other well capital expenditures not associated with water pumping operations
- Housing, other than those costs directly attributable to the coalbed methane project
- Interest costs
- Roads, bridges, walkways and fences for producer-owned roads other than all weather main access roads to coalbed methane projects located in British Columbia
- Sales Compression
- Storage, separators, dehydrators, scrubbers, boots and any other facilities or equipment relating to gas conservation and oil
- Vehicles, aircraft and mobile equipment

SCHEDULE III ALLOWABLE DIRECT OPERATING COSTS

This schedule includes allowable direct operating costs associated with determining a coalbed methane Producer Cost of Service rate. Operating costs not listed below may be considered allowable costs, provided they are approved by the Mineral, Oil & Gas Revenue Branch of the Ministry of Finance.

- Camp costs
- Cathodic protection and corrosion control
- Chemicals
- Communications
- Contract services
- Direct insurance other than Loss of Revenue
- Direct supervision
- Environmental protection, health and safety services
- Fuel Tax
- Labour
- Licenses, dues, fees, surveys and inspections relating to the field
- Maintenance for all weather main access roads located in British Columbia to coalbed methane projects located in British Columbia
- Materials used during the claim period
- Overhead allowance (equal to 10% of direct operating costs)
- Property taxes (excluding wellsites)
- Purchased fuel gas
- Repairs and maintenance
- Surface rentals
- Transportation of materials and chemicals used in the field
- Water and waste hauling and disposal
- Water monitoring and analysis
- Utilities

NOTES:

1. *Where road maintenance costs are recovered from users of the main access road, the recoveries should be included in the PCOS claim as a reduction of total road maintenance costs.*
2. *When an all weather main access road originates in Alberta, only operating costs associated with the portion of the road located in British Columbia qualify as eligible coalbed methane producer cost of service expenditures.*
3. *Where a coalbed methane project produces natural gas that requires processing at a natural gas processing plant, eligible operating costs associated with an all weather main access road should be included in the calculation of the gas cost allowance rate for the producer owned plant and not be included in the calculation of the coalbed methane producer cost of service rate.*

SCHEDULE IV
OPERATING COSTS NOT ALLOWED

This schedule includes operating costs not allowed in determining a coalbed methane Producer Cost of Service Rate.

- Indirect insurance costs and Loss of Revenue insurance
- Loss on disposal of capital
- Operating costs associated with all non-allowed capital costs
- Operating costs associated with gas processing and sales gas transporting functions. These costs can be claimed using the BC23 Gas Cost Allowance Application (See Schedule I, Note 2)
- Overhead, administrative and indirect charges
- Petroleum and natural gas royalties
- Road maintenance for producer-owned roads other than all weather main access roads to coalbed methane projects located in British Columbia
- Tax levies as applied by the Government of British Columbia