



Canada Energy
Regulator

Régie de l'énergie
du Canada

Canada

Essentials of Cost Recovery at the Canada Energy Regulator (CER)





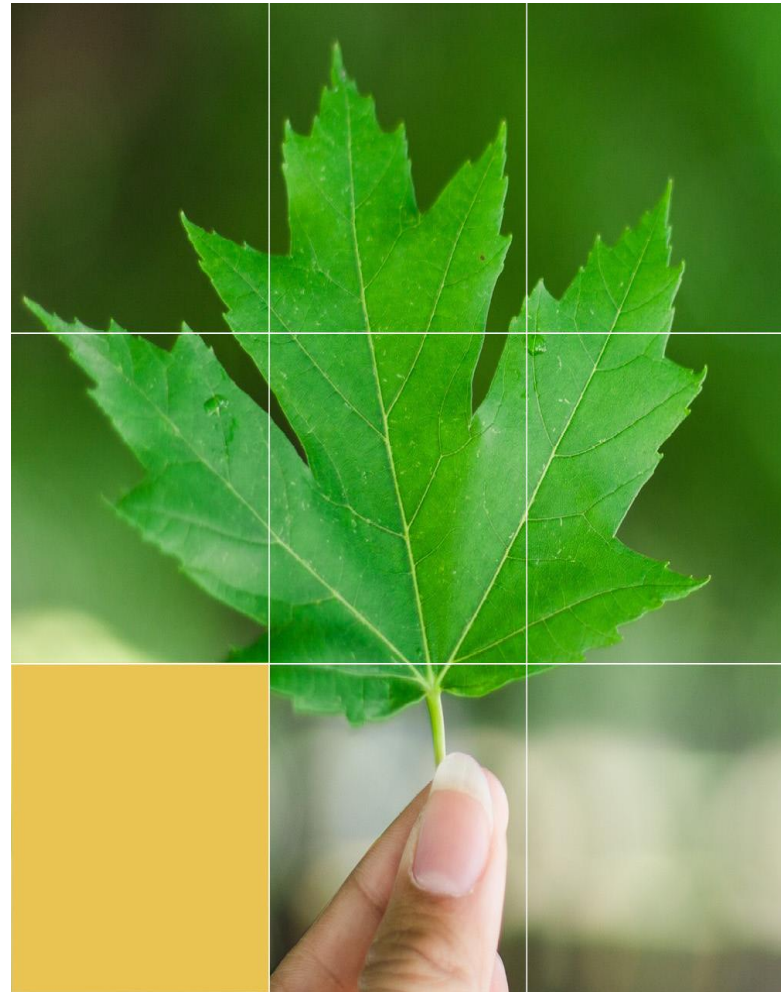
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CER Cost Recovery

- A. Principles**
- B. Concepts (Allocation)**
- C. Billing Processes**
- D. Cost Recovery Liaison Committee**
- E. Cost Recovery Contact Information**

Canada





A. PRINCIPLES

- ❖ The *Canadian Energy Regulator Act* (section 87(1)) empowers the CER to make regulations with approval of the Treasury Board for:
 - a. providing for fees or levies to recover costs to be attributable to its mandates; and
 - b. providing for the manner of calculating those fees or levies payable.
- ❖ Specifics are set out in the *National Energy Board Cost Recovery Regulations* (Regulations)



A. PRINCIPLES (Cont'd)

- ❖ Recoverable costs are defined as follows:

$$\begin{aligned} & \text{CER Operating \& Capital Costs} \\ & \text{PLUS} \\ & \text{Cost of Services provided without charges to the CER} \\ & \text{DEDUCT} \\ & \text{"Frontier" Costs} \\ & = \text{CER Recoverable Costs} \end{aligned}$$

- ❖ Others not included in recoverable costs:
 - a. Cost of work and associated overheads performed on behalf of other government departments and agencies under Memorandum Of Understanding (MOU)
 - b. Costs specifically excluded by Treasury Board or other authorities (i.e. Arctic Review)



A. PRINCIPLES (Cont'd)

❖ Other

- a. For the purpose of cost recovery, the fiscal period is based on the calendar year
- b. The Office of the Auditor General performs an annual audit of the CER Cost Recovery financial statements



B. CONCEPTS (Allocation)

- ❖ The CER Cost Recovery applies only to CER regulated companies and facilities.
- ❖ Cost recovery is premised on commodity charging. This means that costs are allocated to the principal commodities regulated by the CER before being allocated to specific entities within the following sectors.
 - a. Oil – oil pipeline(s)
 - b. Gas – gas pipeline(s)
 - c. IPL – large international and interprovincial power lines, as of January 1, 2010 (previously electricity exporters)
 - d. Commodity pipelines (e.g. water, stream, CO₂, etc.) are charged fixed levies

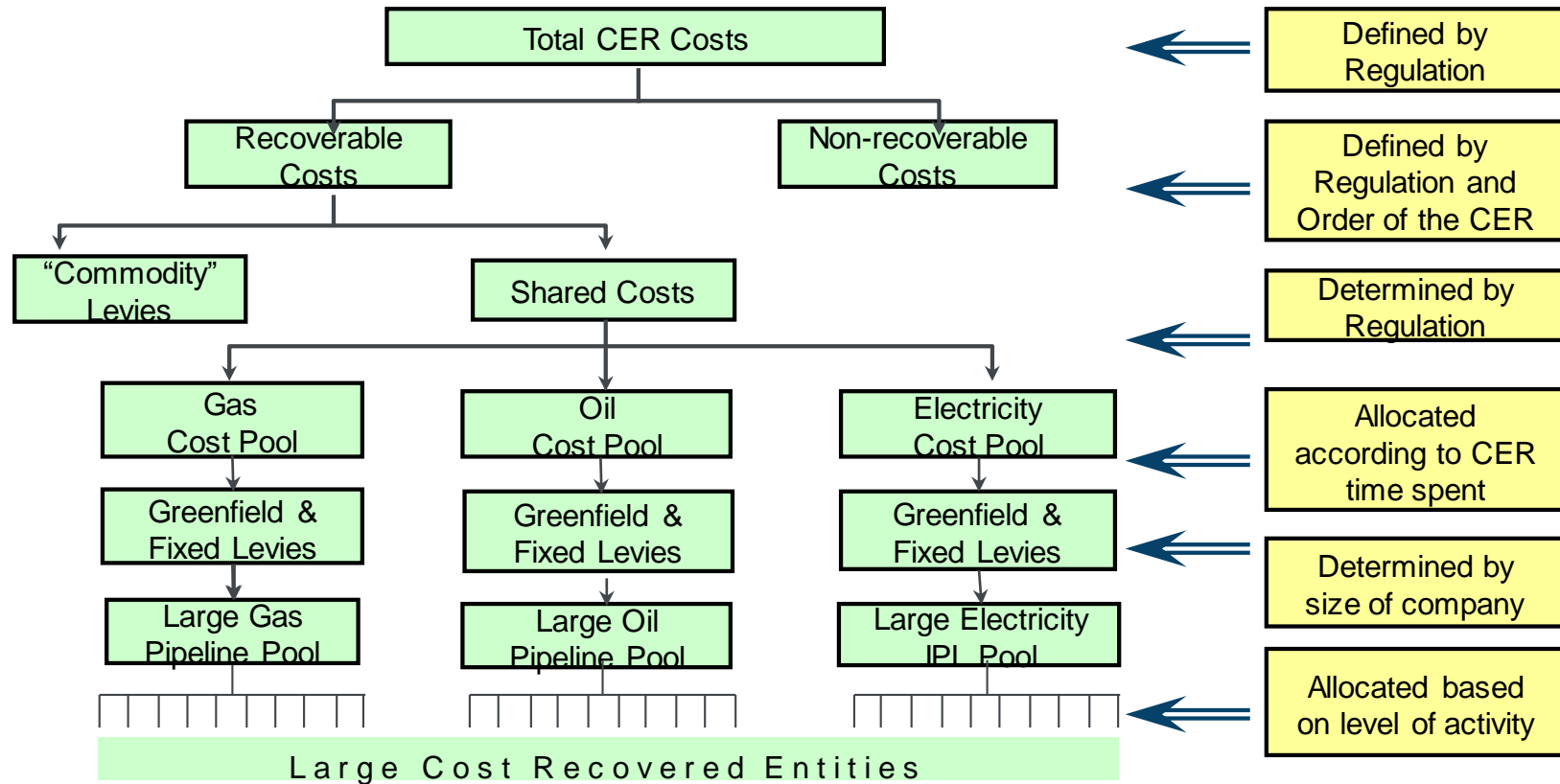


B. CONCEPTS (Allocation)(cont'd)

- ❖ Companies pay their portion of recoverable costs in three (3) ways:
 - a. Levies under section 5.2 and 5.3 of the Regulations are applied to new companies that are not already regulated by the CER (also known as “Greenfield” levies)
 - b. Fixed levies (small, intermediate pipeline companies and other commodities)
 - c. Proportional levies for large companies



The Allocation "Cascade"





B. CONCEPTS (Allocation)(cont'd)

❖ Allocation Principles

- a. Allocation of costs to commodity categories is based on time spent on each commodity – gas, oil, and electricity
- b. Within each commodity group, costs are shared according to activity levels – throughputs, transmissions



C. BILLING PROCESSES

1. Obtain relevant company's operating data by end of August each year
 - a. Throughputs, power line transmissions, and cost of service
 - i. Actuals for previous year(s); and
 - ii. Forecasts for next year



C. BILLING PROCESSES(cont'd)

2. Determine estimates of next year's recoverable costs for the CER
 - a. Obtain the CER budgets for current and next fiscal years
 - b. Adjust fiscal years to calculate estimated budget for next calendar year
 - c. Calculate estimates of recoverable costs for next calendar year



C. BILLING PROCESSES (cont'd)

3. Obtain audited results for previous calendar year
4. Calculate difference between previous year's estimated costs and audited actual costs
5. Determine adjustment (if any) for each company
6. Calculate estimated billing for each company for the coming year – adjusted for differences determined in Step 5
7. Issue information package with preliminary estimated billing information around by end of September each year

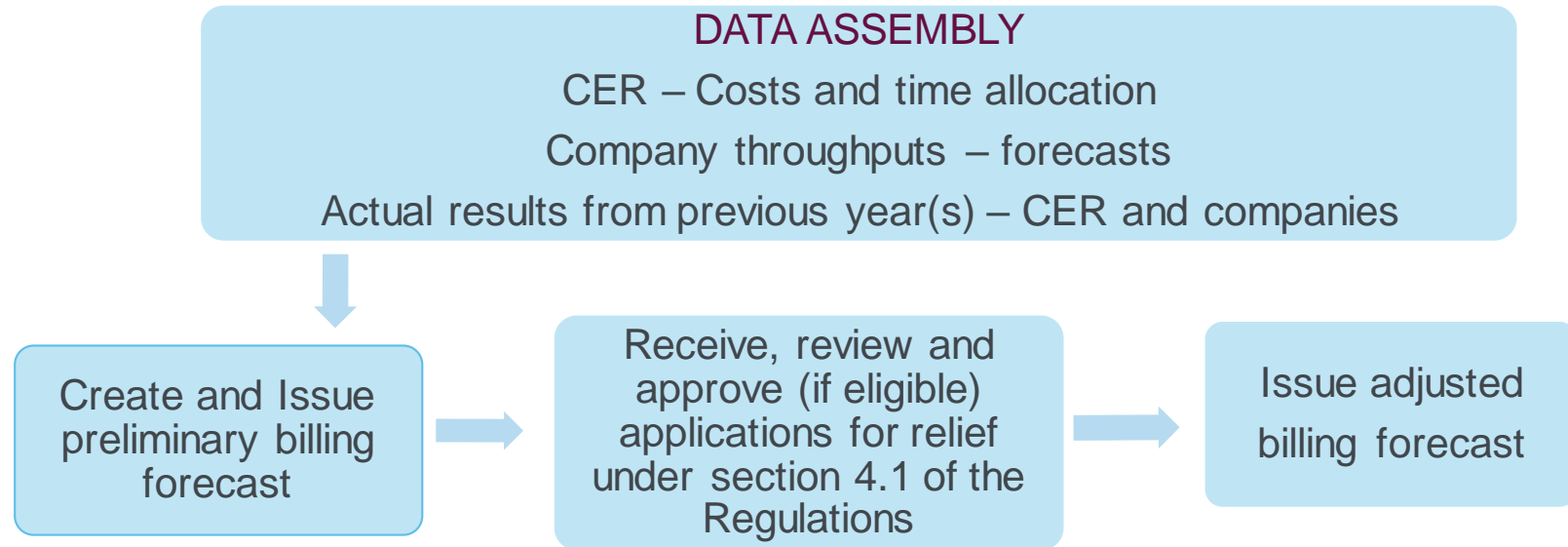


C. BILLING PROCESSES (cont'd)

8. Receive applications for relief under section 4.1 of the Regulations by end of October each year
9. By end of December each year, issue final estimated billing costs for upcoming year reflecting re-allocations arising from approved applications for relief
10. During the next year, issue quarterly invoices to large companies determined in Step 9 and single annual invoices at mid-year to small and intermediate companies



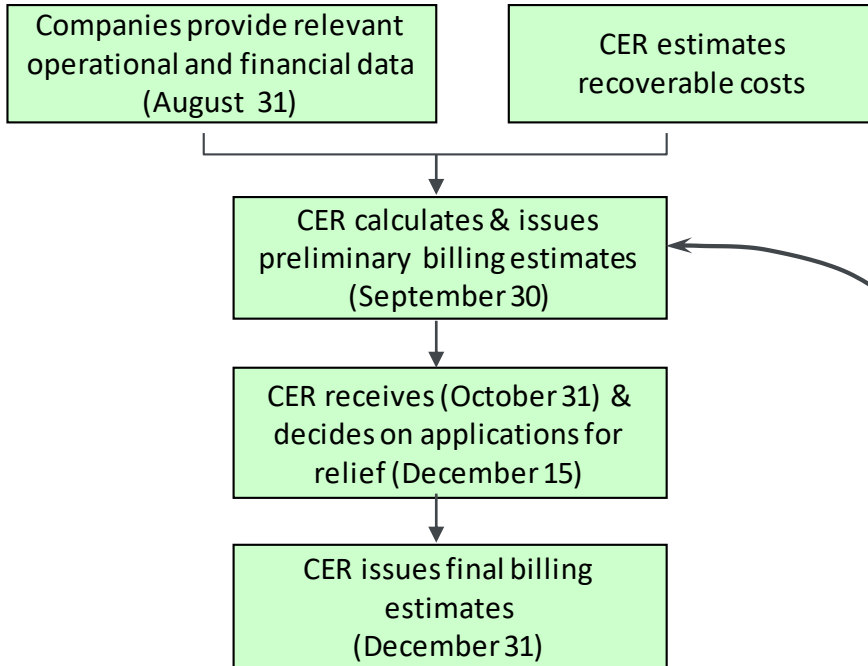
Cost Recovery Billing Process Summary



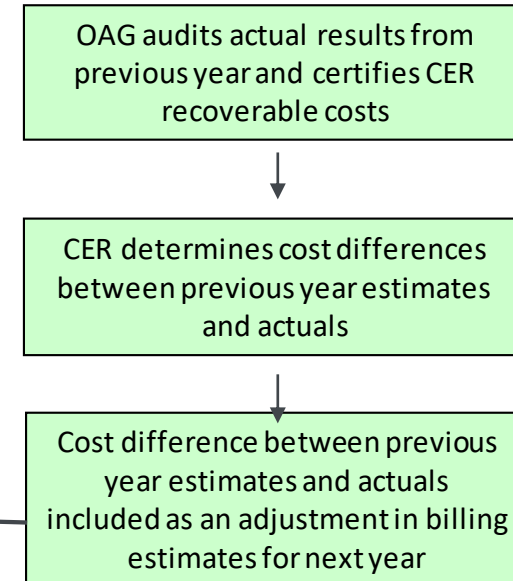


Cost Recovery Estimated Billing Process

PREPARE ESTIMATES FOR NEXT YEAR



CALCULATE ACTUALS FOR PREVIOUS YEAR





D. Cost Recovery Liaison Committee (CRLC)

- ❖ Formal/informal in nature – initiated by the CER and Terms of Reference published in Canada Gazette, but no defined membership, structure or processes
- ❖ Presently the CRLC consists of industry associations and a few companies
- ❖ CRLC Meetings are held twice a year, usually at the CER Calgary offices but sometimes elsewhere
- ❖ Purposes:
 - to provide a forum to raise issues or concerns relating to cost recovery matters;
 - to discuss the Regulations and accountability reports by the CER; and
 - to discuss upcoming estimates, etc.
- ❖ Invites you to consider participation



CER Cost Recovery Contact Information

For more information on Cost Recovery matters:

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