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## **OIL SANDS INFORMATION BULLETIN 2015-02**

### **Subject: Costs of Offshore Services**

This information bulletin is intended for all Project operators and lessees operating under the generic oil sands regime and claiming the costs of offshore services as allowed Project costs. For the purposes of this information bulletin, offshore services refer to those services provided from outside of Canada to a Project.

In general, the cost of offshore services will be treated as allowed costs subject to the requirements of [Oil Sands Allowed Costs \(Ministerial\) Regulation \(OSACR\)](#). The main section governing the eligibility of costs is section 3 of the OSACR, which provides that a cost is an allowed cost of a Project to the extent that it is:

- (i) incurred by or on behalf of the lessee or operator of the Project,
- (ii) incurred on or after the later of January 1, 2009 and the effective date of the Project,
- (iii) incurred to carry out Project operations,
- (iv) is reasonable under the circumstances in which it is incurred, and
- (v) adequately evidenced in accordance with section 6 of the OSACR and affirmatively established to the satisfaction of the Minister.

In order to be an allowed cost, the cost must also be either a fundamental cost of the Project, a cost approved by the Minister, or a specifically included cost as described in Column 1 of Schedule 1 of the OSACR. The cost must also not be listed as a specifically excluded cost in Column 2 of Schedule 1 of the OSACR.

In addition, allowed costs must be adequately evidenced. Section 6 of the OSACR provides the evidentiary requirements in respect of allowed costs. Lessees and Project operators must be capable of providing documents or records that clearly establish that the cost has been incurred, the gross and net amounts of the cost, and that the cost has actually been paid and the date of the payment.

Furthermore, section 47 of the *Mines and Minerals Act* (MMA) requires that records shall be kept at the lessee's or Project operator's place of business in Alberta and must be accessible and made available to the Minister at any reasonable time for audit and examination purposes.

Given the above provisions, the following apply when claiming offshore services costs:

1. For arm's length transactions, operators may only claim the actual amount paid for the service, not the fair market value (FMV) of the service in Canada. Operators must not charge the Project more than the actual amount paid for the service citing FMV as reason for the higher charge.
2. If the offshore service is provided by an affiliate, the amount of allowed costs to be charged to the Project must reflect the FMV of the service or comparable service from the location where the service took place, and not the FMV of the service in Canada. If the FMV of the offshore service from the location where it was provided cannot be determined, then the operator may claim the lesser of the amount charged or the actual cost to provide the service in the location where the service took place.
3. If the offshore service is not subject to the "solely dedicated" rule ([Information Bulletin 2013-14](#)) and said service is shared between Project and non-Project units within the company, then the operator is responsible for allocating the offshore cost such that the portion of the cost allocated to the Project may be treated as an allowed cost while the remaining portion of the cost allocated for non-Project uses is not an allowed cost. The operator's suggested allocation methodology for this purpose must be appropriate, reasonable and auditable to the satisfaction of the Minister.
4. In providing the documentary evidence in support of section 6 of OSACR, it is necessary that the documentation is verifiable, accessible or made available to the Department at any reasonable time for audit or examination purposes as per section 47 of the MMA. The documentary evidence must sufficiently demonstrate the following:
  - Description of the services to be provided.
  - Terms and conditions of the transaction.
  - Identity of the persons or entities involved in the transaction.
  - Functions, responsibilities and risks assumed by each person or entity in the transaction.
5. For services that are currently not identified in Column 1 of Schedule 1 of the OSACR as specifically included, operators and lessees have to provide justification that such offshore service is necessary to Project operations by identifying the commercial and/or economic benefits as well as the risk to the Project if such service is not provided.

For examples of allowed and not allowed offshore services, please see Appendix 1 of this information bulletin.

Questions regarding this Information Bulletin may be directed to:

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**Appendix 1**  
**Offshore services which may/may not be allowed Project costs.**

Allowed	Not allowed
<ul style="list-style-type: none"> <li>• Preparation of safety manuals or emergency/disaster recovery procedures for the Project (Item 25)</li> </ul>	
<ul style="list-style-type: none"> <li>• Evaluating data acquired with respect to Project lands (Item 32)</li> </ul>	
<ul style="list-style-type: none"> <li>• Business and economic feasibility studies exclusively prepared to address problems of immediate applicability for the recovery, production or processing activities within Project operations (Item 45)</li> </ul>	
<ul style="list-style-type: none"> <li>• External audits required for the purpose of reporting as called for by <i>Oil Sands Royalty Regulation 2009</i> in relation to the Project (Item 51)</li> </ul>	
<ul style="list-style-type: none"> <li>• Research toward the development of technology to solve a problem of immediate applicability for the recovery, production or processing activities within Project operations (Item 56)</li> </ul>	<ul style="list-style-type: none"> <li>• Research that provides the foundation for further research, or research conducted without any defined practical end pointing to practical applications (Item 56)</li> </ul>
	<ul style="list-style-type: none"> <li>• Any activity related to debt or equity financing (Item 45)</li> </ul>
	<ul style="list-style-type: none"> <li>• Production of promotional or informational material for investors or potential investors, (Item 46)</li> </ul>
	<ul style="list-style-type: none"> <li>• Arranging and hosting tours of the Project (Item 46)</li> </ul>
	<ul style="list-style-type: none"> <li>• The costs of incidental benefits to the Project on account of the Project being part of a larger organization, and not due to any specific activity or service being performed for the Project (e.g., company's high credit rating, good reputation) [Section 3(1)(a)(iii)]</li> </ul>
	<ul style="list-style-type: none"> <li>• Services whose costs are unsupported by verifiable evidence (Section 6)</li> </ul>