

January 6, 2012

## **OIL SANDS INFORMATION BULLETIN 2012-01**

### **Subject: Return Allowance and Revenue Valuation at End of Period**

As communicated in the November 15, 2011 OASIS review session, various royalty reporting template changes are necessary to facilitate OASIS' development and in some cases, to align better with regulations currently in place. The changes with respect to the Return Allowance for Pre-Payout Projects and the End of Period Revenue Valuation for Post-Payout Projects are two specific changes that are necessary to align business with regulatory requirements. While these changes are not expected to significantly impact past Project royalty, the reporting for all non-statute barred Periods must reflect these requirements. Specific changes and outcomes are outlined below.

#### Pre-Payout Return Allowance

Pursuant with Schedule 1, 4 (c), Schedule 2, 4(c) of the *Oil Sands Royalty Regulation, 1997* and Section 15(3) of the *Oil Sands Allowed Cost Regulation, 2009*, the Return Allowance calculated for a month in a Pre-Payout Period is to be included as an allowed cost in the following month. As such, we have modified the Pre-Payout End of Period (EOP) royalty templates to show both the return allowance calculated for the Period and the return allowance that will be included as an allowed cost for the Period. The last month's return allowance calculated in a Period will be included in the allowed cost in the first month of the next Period. In the final Pre-Payout Period, the last month's return allowance will be included in the allowed cost of the first Good Faith Estimated (GFE) in the Post-Payout Period.

This reporting correction needs to be done for all non-statute barred Periods (ie. 2008 and onward). The department will recalculate the return allowances that are included as allowed costs (Return Allowance Earned) on all Pre-Payout EOPS from Period 2008 and restate the subsequent cumulative net balances for operators by mid February 2012. Oil Sands Royalty Operations staff will then advise affected Project Operators of the Return Allowance calculated, the Return Allowance earned, and the revised Payout Balances in each Period from 2008, before the end of February 2012.

Operators will not be required to re-file their Pre-Payout End of Period Statement (EOPS) unless they want to amend other information on the statements. However, for Projects that have reached Payout since 2008, Operators will need to amend the initial Post-Payout EOPS to reflect the last month's Return Allowance from the final Pre-Payout Period as an allowed cost.

It is unlikely that the revised Return Allowances will change the Payout Dates of the Projects that have already reached Payout. If the Payout Date does change, Royalty Operations staff at the Department will contact Operators to discuss filing instructions.

## End of Period Revenue Valuation for Post-Payout Projects

Pursuant with Section 32 (3), (5), (6) (7) and (8) of the *Oil Sands Royalty Regulation, 2009*, the Post-Payout Project Revenue will be calculated at the end of the Period using a weighted average Unit Price calculation methodology. The Post-Payout EOP royalty template for Periods beginning 2009 and onward has been revised accordingly to calculate Project Revenue in this manner.

The End of Period Revenue Valuation could potentially affect all Projects that have been in Post-Payout since 2009 because of different valuation methodologies and related rounding differences. Projects that have varying levels of third party dispositions during the year will have correspondingly greater valuation variances, hence royalty differences.

This reporting correction needs to be done for Periods beginning 2009 and onward. Operators will not be required to re-file their Post-Payout EOPS unless they want to amend other information on the statements. Operators are required to use the new Post Payout EOP royalty template beginning in February 2012, which will result in the appropriate End of Period revenue valuation. The department will initialize a recalculation of all Post Payout EOPS in September 2012 when OASIS Royalty is implemented. At that time, any outstanding EOPS that have not been amended through the normal course of filing by operators would be recalculated. Operators would be notified of any royalty adjustments through the new OASIS Royalty processes.

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