



July 31, 2013

OIL SANDS INFORMATION BULLETIN 2013-14

Subject: Determination and Treatment of “Solely Dedicated” Employee Costs

This information bulletin provides clarification on the intent and interpretation of Item 57, Schedule 1 of the [Oil Sands Allowed Costs \(Ministerial\) Regulation](#) (OSACR), in particular the issue of when an employee is considered “solely dedicated” to Project operations.

This information bulletin was developed taking into consideration pertinent provisions of the [Oil Sands Royalty Regulation, 2009 \(OSRR 2009\)](#) and OSACR which are as follows:

Oil Sands Royalty Regulation, 2009

Interpretation

1(1)(kk) “Project operations” means

- (i) *in relation to a Project other than a Prior Project, the description referred to in section 14(1)(a) of the approval granted under section 11 in respect of the Project, as that description may be amended from time to time,*

Project Description

14(1) A description of a Project specified or amended under section 11 or 12 must include

- (a) *a description of the operations that will be undertaken pursuant to the Project, including the major activities to be undertaken, and the principal technologies and methodologies to be employed, for or in respect of the operations,*

Oil Sands Allowed Costs (Ministerial) Regulation

Interpretation

1(1)(b) “corporate overhead”, in respect of a Project, means costs that are not directly and solely incurred for the purposes of Project operations, including, without limitation, expenses in relation to

- (i) *information technology,*
- (ii) *performance of human resource functions,*
- (iii) *office space and office operations,*
- (iv) *accounting services,*
- (v) *any other corporate operation or purpose;*

Allowed costs

- 3(1) A cost is an allowed cost of a Project to the extent that
- (a) the cost
 - (i) is incurred by or on behalf of the lessee or operator of the Project,
 - (ii) is incurred on or after the later of January 1, 2009 and the effective date of the Project,
 - (iii) is incurred to carry out Project operations,
 - (iv) is reasonable under the circumstances in which it is incurred, and
 - (v) is adequately evidenced in accordance with section 6 and affirmatively established to the satisfaction of the Minister,
 - (b) the cost is one of the following:
 - (i) a specifically included cost;
 - (ii) a fundamental cost of the Project under section 4;
 - (iii) a cost approved by the Minister under section 5,
- and
- (c) the cost is not a specifically excluded cost or a cost excluded from allowed costs under subsection (2).

Fundamental costs

- 4(1) Fundamental costs of a Project are costs incurred directly
- (a) to recover, obtain, process or transport oil sands or oil sands products, or to market oil sands products, pursuant to the Project,
 - (b) to reclaim or abandon Project lands, or
 - (c) to comply with environmental laws applicable to the Project or applicable to a lessee or operator of the Project in respect of the Project.
- (2) Fundamental costs of a Project do not include costs incurred in respect of
- (a) corporate overhead,

Evidence of costs

- 6 The lessee or operator of a Project must be capable of providing contracts, invoices, receipts, time sheets and other documents or records that clearly establish
- (a) that a cost has been incurred,
 - (b) the gross and net amounts of the cost, and
 - (c) that the cost has actually been paid and the date of payment.

Definition of “solely dedicated”

Item 57 provides that the costs for employees who are solely dedicated to Project operations (i.e., their wages, salaries, benefits, training, travel, accommodation, relocation and severance) are specifically included costs of a Project. An employee is “solely dedicated” to Project operations if, in the normal course of performing his/her duties or functions, he/she works exclusively for the Project and his/her services are rendered exclusively for the Project and not shared with other Projects and/or non-project entities/units within the company.

Application

This definition of “solely dedicated” and the rules governing its application will apply to employees performing corporate overhead functions or activities as well as to management employees.

Corporate employees. Corporate employees are those employees performing functions or activities that are not directly related to Project operations, such as, but not limited to, the following:

- (i) information technology,
- (ii) performance of human resource functions,
- (iii) office space and office operations,
- (iv) accounting services,
- (v) research, and
- (vi) any other corporate operation or purpose

Management employees. Management employees are those who customarily and regularly manage, direct or supervise the work of two or more subordinate employees. An employee who does not have subordinate employees may still be considered a management employee if his primary responsibility is the completion of work assignments through the delegation of work to employees based on a work plan. Employees who may have employees working under them but whose primary tasks are functional or technical rather than supervisory are not considered management employees.

Rules regarding “solely dedicated” employee costs:

- The costs for employees performing corporate overhead activities or functions are allowed provided those employees are solely dedicated to Project operations.
- The costs for management employees will be allowed costs of a Project provided that those management employees are solely dedicated to Project operations.
 - An employee who is a member of a “management team”, whose primary responsibility is to provide leadership to the different units or entities within the company, including the Project, is not considered solely dedicated to Project operations, hence his costs will not be allowed costs of the Project.

Exceptions

This definition of “solely dedicated” and the related rules do not apply to employees in the following situations:

1. Employees or personnel performing an activity or function that is fundamental to Project operations.

Activities considered fundamental to Project operations are identified in section 4(1) of the OSACR and include,

- a. the recovery, obtaining, processing or transporting of oil sands or oil sands products, or the marketing of oil sands products, pursuant to the Project,
- b. the reclamation or abandonment of Project lands, or
- c. compliance with environmental laws applicable to the Project or applicable to a lessee or operator of the Project in respect of the Project.

As indicated in section 3(1)(b)(ii), fundamental costs are allowed costs of a Project. The costs associated with employees performing fundamental activities or functions are allowed costs to the extent that those employees carry out Project operations. The costs claimed to the Project must be supported by verifiable evidence that is submitted to Alberta Energy for audit purposes.

2. Employees or personnel performing an activity or function related to the construction, acquisition, operation or maintenance of assets or engineering systems, including site-wide shared services, whose costs have been determined to be allowed costs of the Project.

The costs for these employees allocated to the Project will be determined following the cost allocation methodology prescribed in the OSACR for the assets or engineering systems and specified in the Cost Allocation Order issued by the Minister.

3. Contract employees

The costs for employees who provide services to a Project on a contract basis will be determined by the terms in the contract agreed to between the employee, or the entity supplying the employee, and the Project operator.

4. Employees identified under paragraph 3, Column 1 of Item 57 whose costs to the Project are determined to the extent that they carry out Project operations.

Employees under this circumstances include:

- legal counsel for matters integral to furthering Project operations
- providing production accounting and royalty accounting for oil sands products
- purchasing assets, materials or supplies delivered for use in, or disposing from, Project operations
- conducting recruitment, classification, employee relations activities for employees carrying out Project operations
- carrying out engineering activities for Project operations
- carrying out marketing activities for oil sands products

Standard of Evidence

All costs submitted for royalty calculation purposes must be auditable, properly documented and supported by evidence. Evidence must be valid, contemporaneous, relevant and impartial to be considered appropriate. Acceptable standard of evidence may include:

- auditors' direct, personal knowledge, obtained through physical observation, or mathematical computation
- documentary evidence obtained directly from independent external sources (external evidence)
- documentary evidence that has originated outside the Project operator's system, but which has been received and processed by the Project operator (external-internal evidence)
- internal evidence consisting of documents that are produced, circulated, and stored within the Project operator's system (internal evidence)

Examples of acceptable documentary evidence include, but not limited to, the following:

- Organizational charts
- Job offer letters
- Job description
- Timesheets
- Itineraries
- Work schedules
- Electronic transaction details
- Employment contracts

Questions regarding this Information Bulletin may be directed to:

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