

# Table of Contents

<b>Notice .....</b>	<b>viii</b>
<i>The Act and the Regulation.....</i>	<i>ix</i>
<i>Related Legislation.....</i>	<i>ix</i>
<b>About This Document .....</b>	<b>x</b>
<i>Chapters and Appendices .....</i>	<i>x</i>
<i>Additional Information .....</i>	<i>xi</i>
<b>1. Alberta’s Oil Sands Royalty System .....</b>	<b>1-1</b>
<i>1.1 Oil Sands Royalty: A Look Back.....</i>	<i>1-1</i>
1.1.1 The Impetus for Change .....	1-2
<i>1.2 Generic Oil Sands Royalty.....</i>	<i>1-2</i>
1.2.1 What Is “Generic” Royalty? .....	1-2
1.2.2 A “Revenue Minus Cost” Approach.....	1-2
1.2.3 Objectives .....	1-3
1.2.4 Applicability: Who Pays Generic Royalty Rates? .....	1-4
1.2.5 Components of the Generic Royalty Regime .....	1-4
1.2.5.1 The Mines and Minerals Act.....	1-4
1.2.5.2 The Oil Sands Royalty Regulation, 1997 (AR 185/97) .....	1-5
1.2.5.3 Policies, Guidelines and Business Rules.....	1-5
<i>1.3 Alternative Royalty Regimes.....</i>	<i>1-5</i>
<b>2. Oil Sands Royalty Projects .....</b>	<b>2-1</b>
<i>2.1 What Is an Oil Sands Royalty Project?.....</i>	<i>2-1</i>
2.1.1 Types of OSR Projects.....	2-2
2.1.1.1 New Projects.....	2-2
2.1.1.2 Project Amendments.....	2-2
2.1.1.2.1 Examples of Project Amendments .....	2-3
<i>2.2 OSR Project Requirements .....</i>	<i>2-4</i>
<b>2.2.1 EUB Approval .....</b>	<b>2-4</b>
2.2.2 Exclusions.....	2-4

2.2.3	Minimum Considerations .....	2-4
2.2.3.1	Common Management.....	2-5
2.2.3.2	Location Requirements .....	2-5
2.2.3.2.1	Project Components (Except Upgraders).....	2-5
2.2.3.2.2	Upgraders.....	2-5
2.2.3.2.3	Exceptions.....	2-5
2.2.3.3	Projects as Economic Units .....	2-6
2.2.3.3.1	Economic Justification for Project Expansions.....	2-6
2.2.3.3.2	Economic Justification for Project Amalgamations.....	2-6
2.2.3.4	Protecting the Crown's Royalty Share.....	2-7
2.2.3.4.1	Crown Royalty and Project Expansions.....	2-7
2.3	<i>The Components of an Oil Sands Royalty Project</i> .....	2-8
2.3.1	The Project Name .....	2-8
2.3.2	The Project Approval Order Number.....	2-9
2.3.3	The Project Owner.....	2-9
2.3.4	Ownership Considerations.....	2-9
2.3.4.1	Freehold Interests.....	2-9
2.3.4.2	Qualifying Joint Ventures.....	2-10
2.3.5	The Project Operator.....	2-10
2.3.6	Lands, Leases and Mineral Rights.....	2-11
2.3.6.1	Project Leases.....	2-11
2.3.6.2	Project Lands.....	2-11
2.3.7	Project Operations .....	2-12
2.3.7.1	Recovery Methods and Other Technology.....	2-12
2.3.7.2	Oil Sands Products.....	2-12
2.3.8	Facilities and Capital Assets.....	2-13
2.3.8.1	Shared Facilities.....	2-14
<b>2.3.9</b>	<b>The Effective Date</b> .....	2-14
2.3.9.1	Deferrals.....	2-15
2.3.9.2	EUB Approvals and Effective Dates.....	2-15
2.3.10	Prior Net Cumulative Balance.....	2-15
2.3.10.1	Eligible Costs.....	2-16
2.3.10.1.1	Pre-project Royalty.....	2-16
2.3.10.2	Excluded Costs.....	2-16
2.3.10.3	Timing.....	2-17
<b>3.</b>	<b>Applying for Generic Royalty Terms.....</b>	<b>3-1</b>
3.1	<i>When Is an Application Required?</i> .....	3-1
3.2	<i>Who Can Apply?</i> .....	3-1
3.3	<i>The Application Process</i> .....	3-1
<b>3.3.1</b>	<b>Consulting with the Department</b> .....	3-1
3.3.2	Making an Application.....	3-2
3.3.2.1	Required Information.....	3-2
<b>3.3.2.2</b>	<b>Submitting a Completed Application</b> .....	3-2
3.3.3	Completing the Application Form.....	3-4
3.3.3.1	Project Status.....	3-4
3.3.3.2	Project Ownership.....	3-4
3.3.3.3	Project Identification.....	3-4
3.3.3.4	Project Overview.....	3-5
<b>3.3.3.5</b>	<b>Project Description</b> .....	3-6
<b>3.3.3.5.1</b>	<b>Alberta Energy and Utilities Board Approvals</b> .....	3-6

3.3.3.5.2	Lands, Leases and Mineral Rights .....	3-6
3.3.3.5.3	Project Operations .....	3-7
<b>3.3.3.5.4</b>	<b>Facilities and Other Capital Assets</b> .....	3-7
3.3.3.5.5	Wells .....	3-7
3.3.3.5.6	Financial Details .....	3-8
3.3.3.5.7	Forecast Data .....	3-9
3.3.3.5.8	Signatures.....	3-10
3.4	<i>The Approval Process</i> .....	3-11
3.4.1	Department Review .....	3-11
3.4.2	Project Approval: The Ministerial Order .....	3-11
3.4.3	How Long It Takes .....	3-12
<b>4.</b>	<b>Calculating Oil Sands Royalty</b> .....	<b>4-1</b>
4.1	<i>The Royalty Calculation Point</i> .....	4-1
4.2	<i>Elements of the Royalty Calculation</i> .....	4-1
4.2.1	The Return Allowance .....	4-2
4.2.1.1	The Return Allowance for Pre-Payout Projects .....	4-2
4.2.1.2	The Return Allowance for Post-Payout Projects .....	4-2
4.2.1.3	The Return Allowance for Suspended or Abandoned Projects.....	4-3
4.2.2	Allowed Costs.....	4-3
4.2.2.1	Cost Rules.....	4-3
4.2.2.1.1	Reasonable Costs .....	4-5
4.2.2.1.2	Directly Attributable Costs .....	4-5
4.2.2.1.3	Approval .....	4-6
4.2.2.1.4	Timing.....	4-7
4.2.2.2	Types of Allowed Costs.....	4-7
4.2.2.2.1	Example: Road Costs .....	4-7
4.2.2.3	Costs That Are Not Allowed.....	4-9
4.2.2.3.1	Services in support of Marketing and Expansions .....	4-9
4.2.2.3.2	Overhead.....	4-9
4.2.2.3.3	Costs of Evaluation Wells and Seismic Work Incurred Off-Project .....	4-9
4.2.2.3.4	Evaluation Well Costs Incurred More than 5 Years Before the Effective Date .....	4-10
4.2.2.4	Claiming Allowed Costs .....	4-11
4.2.3	Project Revenues .....	4-11
4.2.3.1	Types of Revenue .....	4-11
4.2.4	Unit Price .....	4-12
4.2.4.1	Negative Unit Prices .....	4-13
4.3	<i>The Royalty Calculation for Pre-Payout Projects</i> .....	4-14
4.4	<i>The Royalty Calculation for Post-Payout Projects</i> .....	4-14
4.5	<i>Royalty Rules</i> .....	4-15
4.6	<i>Project Configurations and Royalty</i> .....	4-15
4.6.1	An OSR Project that Produces Crude Bitumen.....	4-16
4.6.2	An OSR Project with Processing Facilities.....	4-18
4.6.3	OSR Projects with Jointly Owned Facilities.....	4-19
4.6.4	An OSR Project that Provides Custom Processing Services.....	4-20
<b>5.</b>	<b>Specific Cost Allocation Rules</b> .....	<b>5-1</b>
5.1	<i>Solution Gas and Fuel Gas</i> .....	5-1

5.2	<i>Pipeline Services</i> .....	5-1
5.2.1	Calculating Allowed Costs for Non-Basic Pipeline Services .....	5-2
5.2.1.1	Allowed Cost Based on Fair Market Value .....	5-2
5.2.1.2	Allowed Costs Based on Cost-of-Service Calculations .....	5-3
5.2.2	Line Fill Costs.....	5-5
5.2.3	Cost Rules for Sales of Pipelines .....	5-6
5.2.3.1.1	Calculating the Adjustment Factor.....	5-6
5.2.4	Cost Rules for Pipeline Overcapacity .....	5-8
5.2.5	Cost Rules for Capital Additions to Non-Basic Pipelines.....	5-9
5.3	<i>Cogeneration Plants</i> .....	5-10
5.3.1	Valuing Steam and Electricity .....	5-10
5.3.1.1	Fair Market Value–Based Valuation for Electricity .....	5-11
5.3.1.2	Cost of Service–Based Valuation for Electricity and Steam.....	5-14
5.3.1.3	Valuing Steam and Electricity from a Cogeneration Plant .....	5-15
5.3.1.3.1	Sample Calculations.....	5-17
5.3.2	Allocating Capital and Operating Costs.....	5-21
5.3.3	Shared Costs .....	5-21
5.3.4	Depreciation.....	5-21
5.3.5	Rate of Return on Capital .....	5-21
5.3.5.1	Steam .....	5-21
5.3.5.2	Electricity.....	5-22
5.3.6	Cost Rules for Sales of Cogeneration Plants .....	5-22
5.3.6.1	Calculating the Adjustment Factor .....	5-22
5.4	<i>Custom Processing</i> .....	5-23
5.5	<i>Hedges</i> .....	5-23
5.6	<i>Research</i> .....	5-24
5.6.1	Cost Rules for Research.....	5-24
5.6.2	Examples of Allowed Research Costs .....	5-27
5.6.3	Examples of Research Costs That Are Not Allowed .....	5-27
5.6.4	Concept Audits .....	5-27
5.6.5	Claiming Research Costs .....	5-29
5.7	<i>Cross-Boundary Wells</i> .....	5-29
5.8	<i>Grandfathering</i> .....	5-30
<b>6.</b>	<b>Royalty Reporting and Payment .....</b>	<b>6-1</b>
6.1	<i>Reporting Requirements for Pre-Payout Projects</i> .....	6-1
6.1.1	Monthly Royalty Calculation Reporting Forms (MRC) .....	6-1
6.1.1.1	Amendments .....	6-2
6.1.1.2	Timing .....	6-2
<b>6.1.2</b>	<b>End of Period Statement Reporting Forms (Pre-Payout)</b> .....	<b>6-3</b>
6.1.2.1	Contents of Pre-Payout Reporting Package .....	6-3
6.1.2.1.1	Auditor’s Letter Requirement (PRE-1) .....	6-3
6.1.2.1.2	Project Payout Status (PRE-2) .....	6-3
6.1.2.1.3	Allowed Costs Summary (PRE-3, PRE-3a and PRE-3b).....	6-4
6.1.2.1.4	Return Allowance (PRE-4) .....	6-4
6.1.2.1.5	Revenue Summary (PRE-5).....	6-4
6.1.2.1.6	Royalty Summary (PRE-6) .....	6-4
6.1.2.1.7	Royalty Detail (PRE-6a to PRE-6d).....	6-5
<b>6.1.2.2</b>	<b>Amendments</b> .....	<b>6-5</b>
6.1.2.3	Timing .....	6-5

6.2	<i>Reporting Requirements for Post-Payout Projects</i> .....	6-5
6.2.1	Monthly Good Faith Estimates Reporting Forms (GFEs) .....	6-6
6.2.1.1	Timing .....	6-7
6.2.2	End of Period Statements Reporting Forms (Post-Payout).....	6-7
6.2.2.1	Contents of Post-Payout Reporting Package .....	6-7
6.2.2.1.1	Auditor's Letter Requirement (PST-1) .....	6-7
6.2.2.1.2	Royalty Payable (PST-2).....	6-8
6.2.2.1.3	Royalty Calculations (PST-3) .....	6-8
6.2.2.1.4	Allowed Cost Summary (PST-4, PST-4a and PST-4b).....	6-8
6.2.2.1.5	Other Net Proceeds (PST-5).....	6-9
6.2.2.1.6	Return Allowance (PST-6).....	6-9
6.2.2.1.7	Project Revenue (PST-7).....	6-9
6.2.2.1.8	Carry Forward Amounts (PST-8).....	6-9
6.2.2.2	Amendments .....	6-9
6.2.2.3	Timing .....	6-9
6.3	<i>The Operator's Forecast</i> .....	6-10
6.3.1	Explanatory Notes .....	6-11
6.3.2	Timing .....	6-14
6.4	<i>Reporting Formats and Timing</i> .....	6-14
6.4.1	Forms.....	6-14
6.4.1.1	<b>Required Information</b> .....	6-15
6.4.1.2	Reporting Standards.....	6-15
6.4.1.2.1	Volumetric Reporting .....	6-15
6.4.1.2.2	Monetary Values .....	6-16
6.4.1.2.3	Negative Values .....	6-16
6.4.1.3	<b>Submissions</b> .....	6-16
6.4.2	Timing .....	6-16
6.5	<i>Royalty Payment</i> .....	6-17
6.5.1	<b>Methods of Payment</b> .....	6-17
6.5.2	Required Information.....	6-19
6.5.3	Timing .....	6-19
6.5.4	Information and Assistance .....	6-19
6.6	<i>Penalties</i> .....	6-19
6.7	<i>Interest</i> .....	6-20
6.7.1	Interest Charged by the Crown .....	6-20
6.7.2	Interest Paid by the Crown.....	6-21
6.7.3	The Rate of Interest Charged or Paid.....	6-22
6.8	<i>Financial Audits</i> .....	6-22
<b>7.</b>	<b>Advance Rulings</b> .....	<b>7-1</b>
7.1	<i>Requesting an Advance Ruling</i> .....	7-1
7.2	<i>Required Information</i> .....	7-1
7.3	<i>Review and Approval</i> .....	7-2
7.4	<i>Rescinding an Advance Ruling</i> .....	7-2
<b>8.</b>	<b>Dispute Resolution and Appeals</b> .....	<b>8-1</b>
8.1	<i>Issues That May Be Appealed</i> .....	8-1

8.2	<i>Time Limits</i> .....	8-2
8.3	<i>The Dispute Resolution Process</i> .....	8-2
8.3.1	Requesting an Appeal .....	8-3
8.3.2	Review by the Director of Dispute Resolution .....	8-3
8.3.3	Requests to Establish a Dispute Resolution Committee .....	8-4
8.3.3.1	Selecting a Committee .....	8-4
8.3.3.2	The Role of the Committee .....	8-5
8.3.3.3	The Minister's Decision .....	8-5
8.3.3.4	Notification and Publication .....	8-5
8.3.3.5	Costs .....	8-6
8.4	<i>Informal Mediation</i> .....	8-6
<b>9.</b>	<b>General Non-Arm's Length Rules</b> .....	<b>9-1</b>
9.1	<i>Non-Arm's Length Transactions</i> .....	9-1
9.1.1	Affiliates .....	9-1
9.1.2	Capital Assets .....	9-2
9.1.3	Net Book Value .....	9-2
9.1.4	Fair Market Value .....	9-2
9.2	<i>Cost Rules Associated with Non-Arm's-Length Transactions</i> .....	9-4
9.2.1	Goods and Services .....	9-4
9.2.2	Basic Services .....	9-4
9.2.3	Goods and Non-Basic Services .....	9-5
9.2.3.1	Fair Market Value for Goods and Non-Basic Services Can Be Determined .....	9-5
9.2.3.2	Fair Market Value for Goods and Non-Basic Services Cannot Be Determined .....	9-5
9.2.4	Non-Basic Services Using Non-Project Capital Assets .....	9-5
9.2.4.1	Fair Market Value for Non-Basic Service from a Non-Project Capital Asset Can Be Determined .....	9-6
9.2.4.2	Fair Market Value for Non-Basic Service from a Non-Project Capital Asset Cannot Be Determined .....	9-6
9.2.5	Non-Basic Service Using a Project Capital Asset (Custom Processing) .....	9-6
9.2.6	Non-Basic Pipelines .....	9-7
9.2.6.1	Fair Market Value for Transportation Can Be Determined .....	9-7
9.2.6.2	Fair Market Value for Transportation Cannot Be Determined .....	9-8
9.2.6.3	Cost of Service Calculation Methodology for Non-Basic Pipelines .....	9-8
9.3	<i>Revenue Rules Associated with Non-Arm's-Length Transactions</i> .....	9-9

## List of Figures

<b>Figure 1: The approval process for oil sands royalty projects</b> .....	3-3
<b>Figure 2: An oil sands royalty project with no processing facilities</b> .....	4-16
<b>Figure 3: An oil sands royalty project with processing facilities</b> .....	4-18
<b>Figure 4: Two projects with joint ownership of processing facilities</b> .....	4-19
<b>Figure 5: An oil sands royalty project with processing facilities that processes the output (production) from another project</b> .....	4-20
<b>Figure 6: Calculating line fill costs</b> .....	5-5
<b>Figure 7: Calculating the toll adjustment factor when a pipeline is sold</b> .....	5-7
<b>Figure 8: Allowed costs for non-arm's-length cogeneration</b> .....	5-19
<b>Figure 9 - Approving and auditing research projects</b> .....	5-26
<b>Figure 10: The information required for oil sands royalty payments</b> .....	6-18
<b>Figure 11 Cost rules for non-arm's-length assets</b> .....	9-10

## Appendix

Due to the size of this document Appendices A through L are under separate cover.