
Saskatchewan Petroleum Innovation Incentive

Policy Guidelines

August 2023

Revision 6.0

Governing Legislation:

Act: *The Financial Administration Act, 1993*

Regulation: *The Petroleum Innovation Incentive Regulations*

Record of Change

Revision	Date	Author	Description
1.0	June 5, 2019	RDD	<ul style="list-style-type: none"> • Original
2.0	April 2020	RDD	<ul style="list-style-type: none"> • Additional clarification, formatting.
3.0	June 2021	RDD	<ul style="list-style-type: none"> • Program amendments • Additional clarification
4.0	October 2021	RDD	<ul style="list-style-type: none"> • Program amendments • Additional clarification
5.0	November 2022	RDD	<ul style="list-style-type: none"> • Program Amendments to include innovations in the lithium industry as eligible project types. • Additional clarification for eligible/ineligible costs. • Addition of final technical report requirements.
6.0	August 2023	RDD	<ul style="list-style-type: none"> • Additional clarification for eligible project types. • Additional clarification for eligible/ineligible costs

These guidelines serve to define the administrative policy that the Ministry of Energy and Resources will follow for implementation of *The Saskatchewan Petroleum Innovation Incentive* (SPII). [The Petroleum Innovation Incentive Regulations](#) empower the Minister of Energy and Resources (Minister) with the authority to make final determinations concerning whether an application has met the program’s eligibility criteria. In any conflict between these guidelines and the Minister’s determination, the guidelines defer to the Minister’s authority.

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Section 1: The Regulations

Program eligibility is primarily defined by clause 4 of *The Petroleum Innovation Incentive Regulations*. For easy reference, the text of that clause states:

4 Subject to these regulations, a project is eligible for approval pursuant to these regulations if the applicant satisfies the minister that the project:

- (a) is an eligible innovation that:
 - (i) is new to Saskatchewan’s oil, gas, helium, or lithium industry and does not have an equivalent in the Saskatchewan market; or,*
 - (ii) has an equivalent in Saskatchewan’s oil, gas, helium, or lithium industry, but is being demonstrated on a significantly different scale or under significantly different conditions that add a degree of novelty or new technical challenges.**

- (b) concerns an activity the aim of which is:
 - (i) to improve oil, gas, helium, or lithium recovery;*
 - (ii) to manage adverse environmental impacts;*
 - (iii) to increase value-added processing capacity; or,*
 - (iv) to commercialize oil, gas, helium, or lithium production byproducts or waste.**

- (c) involves a minimum investment of \$1 million in eligible costs; and,*

- (d) has not become operational, as determined by the minister, before the eligible project application is submitted.*

The guidelines for interpreting each element of clause 4 are set out in the following sections.

Section 2: Eligible Projects

4 (a) is an eligible innovation that:

- (i) is new to Saskatchewan’s oil, gas, helium, or lithium industry and does not have an equivalent in the Saskatchewan market; or,
- (ii) has an equivalent in Saskatchewan’s oil, gas, helium, or lithium industry, but is being demonstrated on a significantly different scale or under significantly different conditions that add a degree of novelty or new technical challenges.

Eligible Innovation

As per *The Petroleum Innovation Incentive Regulations*: an **“eligible innovation”** means a proposed product, service, process, or operation that:

- (i) the Minister is satisfied meets the criteria set out in clause 4(a); and,
- (ii) is at a technological readiness level satisfactory to the Minister.

The Petroleum Innovation Incentive Regulations require that the proposed project includes the field deployment of an eligible innovation as determined by the program’s required minimum SPII Technology Readiness Level. In order for a product, service, process, or operation to be considered an eligible innovation, it must be assessed to be at minimum Level 7 on the SPII Technology Readiness Level Scale, as described below. More information regarding the SPII Technology Readiness Level Scale can be found in Appendix 1.

- **SPII Technology Readiness Level 7:** Prototype is at a planned operational level and is ready for demonstration in an operational environment. Activities include prototype field testing.
- **SPII Technology Readiness Level 8:** Technology has been proven to work in its final form and under expected conditions. Activities include developmental testing and evaluation of whether it will meet operational requirements.
- **SPII Technology Readiness Level 9:** Actual application of the technology in its final form and under real-life conditions, such as those encountered in operational tests and evaluations. Activities include using the innovation under operational conditions.

Note: Projects performed for feasibility studies and/or exploration activities, including but not limited to those for the purpose of upgrading resource and reserve estimates, are not eligible.

Eligible Project Type #1 – New to Saskatchewan’s Oil, Gas, Helium, or Lithium Industry

An innovation that satisfies the minimum SPII Technology Readiness Level criteria may be considered eligible for the program if the project can clearly be demonstrated to be new to Saskatchewan’s oil, gas, helium, or lithium industry.

A project will be considered as new to Saskatchewan’s oil, gas, helium, or lithium industry if it is:

- the first-of-its-kind deployment in Saskatchewan’s oil, gas, helium, or lithium industry; or,
- a significant advancement on the current state of the art in terms of concept, function, or design, relative to any similar innovation currently deployed in Saskatchewan’s oil, gas, helium, or lithium industry.

Note: Technical validation and proof of concept projects may also be considered (see below).

Technical Validation and Proof of Concept Projects

In recognition of the critical and substantial technical validation and proof of concept challenges that occur in advancing a first-of-its-kind project or a project that is advancing the current state of the art in Saskatchewan’s oil, gas, helium, or lithium industry, the program may recognize a second and third deployment of the eligible project if it occurs in the same production area (i.e., Lloydminster/Kindersley – 1, Swift Current – 2, Estevan – 3 (Appendix 2)). In this instance, the project proponent must provide a detailed technical description, to the Minister’s satisfaction, demonstrating why subsequent deployment(s) are necessary to overcome any substantial remaining technical validation challenges or proof of concept challenges.

Additionally, an eligible innovation or project, that has been approved as part of the program in one of the province’s production areas, may also be considered eligible in another production area. However, this type of project will only be approved if it can be clearly demonstrated that the new deployment is occurring in a different operational environment that **poses significant new technical challenges** when compared to the preceding eligible project(s) that occurred in the original production area.

Note: A technical challenge requires significant innovative adaptation (actions described in the TRL Scale in Appendix 1) which is not solely based on economics.

Eligible Project Type #2 – Commercial Scaling

An innovation that satisfies the minimum SPII Technology Readiness Level criteria may be considered eligible for the program, if the eligible project can be clearly demonstrated to be at a new and significantly different commercial scale which has no technical equivalent in Saskatchewan's oil, gas, helium, or lithium industry.

To be eligible under the commercial scaling criteria, it must be demonstrated that the project possesses unique features and/or benefits that offer significant differentiation from current competitive offerings in the Saskatchewan marketplace. Additionally, to be considered an eligible project of this type, the scaling of the project must:

- pose new and significant technical challenges as a direct result of attempting to successfully deploy the eligible innovation at the new scale; or,
- be demonstrated to be a significant advancement on the current state of the art in Saskatchewan's oil, gas, helium, or lithium industry in terms of the novelty of the concept, function, or design, relative to similar innovations at different scales.

Aggregated Multi-Site Project

For projects that do not meet the minimum investment threshold of CAD\$1 million in eligible costs criteria, but meet all other program eligibility requirements, the Ministry of Energy and Resources may consider the aggregation of two or more highly similar or directly complementary projects into the submission of a single eligible project application.

- The aggregated multi-site project must take place exclusively within one of the following three production areas: Lloydminster/Kindersley – 1, Swift Current – 2, Estevan – 3 (Appendix 2).
- An aggregated multi-site project can only include project components by a single corporate entity. A parent company and its subsidiaries would be considered a single corporate entity; a partnership agreement between two standalone companies would not be considered eligible.
- The aggregated multi-site project must meet the minimum investment threshold of CAD\$1 million in eligible costs.
- For aggregated projects, royalty credits will not be earned until all of the independent projects included within the application are operational.

Example – Aggregated multi-site project

A company has identified three similar greenhouse gas emission mitigation projects within a single production area. Each project will include CAD\$400,000 in eligible costs. Each project will be identified in detail in the company's application form along with its eligible costs and anticipated timelines to enter operation. The application for the aggregated project will be accepted for review as long as the projects have a combined minimum

investment of CAD\$1 million in eligible costs, and each project meets all other eligibility criteria set out within *The Petroleum Innovation Incentive Regulations*.

Phased Projects

For any project that is planned to be constructed and/or deployed in distinct phases, the project proponent can submit a single application, that includes details regarding all phases of the project, for approval to the program.

Each subsequent phase of the project must be directly connected or linked to the first phase of the project, and the phased project must meet the eligibility criteria established within *The Petroleum Innovation Incentive Regulations*, including a minimum investment of CAD\$1 million in eligible costs incurred before any royalty credits can be earned.

As identified in the application form, the subsequent project phases (i.e., second phase, third phase etc.) do not need to individually meet the eligible cost threshold of a minimum investment of CAD\$1 million if the preceding phase(s) of the project have already met this part of the program's criteria. Any eligible costs in excess of CAD\$20 million per project, will not be included in the calculation of earned royalty credits, as credits awarded in excess of CAD\$5 million (25 per cent of CAD\$20 million in eligible costs) would exceed the program's project-specific maximum.

Example – Modular lithium extraction from produced water facility

The project is to be deployed in three phases. Phase 1 will be operational for a 12-month period before Phase 2 and Phase 3 become operational over the following 12-month period. Phase 1 includes CAD\$600,000 in eligible costs, while Phases 2 and 3 each include CAD\$500,000 in eligible costs. Therefore, the entire project has eligible costs of CAD\$1.6 million and meets all other eligibility criteria set out within *The Petroleum Innovation Incentive Regulations*. The earned royalty credits can be awarded, per the agreement, once the threshold of a minimum investment of CAD\$1 million in eligible costs is confirmed.

Technology Supplier Letter

All applications should include a statement from technology vendors and/or partners confirming the applicant's claim that the proposed project involves the deployment of an eligible innovation, as defined by the *SPII Policy Guidelines*.

Section 3: Eligible Project Activity

4 (b) concerns an activity the aim of which is:

- (i) to improve oil, gas, helium, or lithium recovery;*
- (ii) to manage adverse environmental impacts;*
- (iii) to increase value-added processing capacity; or,*
- (iv) to commercialize oil, gas, helium, or lithium production byproducts or waste;*

There are four categories of eligible project activities. Any project that satisfies the eligible innovation criteria in 4(a) must also be directly related to one of the four eligible project activity categories to be considered eligible for the program.

(i) to improve oil, gas, helium, or lithium recovery

Improving oil, gas, helium, or lithium recovery means that the project is intended to increase oil, gas, helium, or lithium production or recovery rates. This can be achieved by generating production efficiencies, optimizing recovery processes, reducing downtime, executing new secondary and tertiary recovery techniques, enhancing reservoir management outcomes, or by conducting other activities of this nature.

(ii) to manage adverse environmental impacts

Managing adverse environmental impacts means that the project is intended to improve the measurement or monitoring of adverse environmental impacts, or the project is intended to better mitigate or reduce adverse environmental impacts. Projects under this category include, but are not limited to, managing:

- greenhouse gas emissions;
- land/soil contamination or reclamation;
- water usage, contamination, or reclamation; and/or,
- chemicals or hazardous waste.

(iii) to increase value-added processing capacity

Increasing value-added processing capacity means that the project is intended to raise or operationally enhance capacity for oil, gas, helium, or lithium processing (i.e., oil refining and upgrading, petrochemicals, gas commercialization, or any other value-added project approved by the Ministry of Energy and Resources) at new or existing facilities in the province. This category applies only to projects that are directly engaged in value-added

processing activities and, as such, it does not apply to a standalone infrastructure project that is built with the sole purposes of oil, gas, helium, or lithium transportation or providing feedstock to processing operations.

(iv) to commercialize oil, gas, helium, or lithium production byproducts or waste

Commercializing oil, gas, helium, or lithium production byproducts or waste products means that the project is intended to monetize a substance or material that is currently unused, discarded, or treated as waste. This category applies to innovative associated gas capture and commercialization projects and all other oil, gas, helium, or lithium production byproducts or waste products, such as: fluid tailings, produced/wastewater, asphaltenes, sediments, chemicals, and other non-commercialized hydrocarbons.

In assessing whether a sufficient increase in processing capacity occurs as a result of a proposed new (greenfield) or existing expansion (brownfield) project being completed, factors to be considered include:

- processing is occurring to create and/or recover a new saleable product at a commercial scale that was not achieved prior to the project;
- creating a significant increase in the quantity of an existing saleable product;
- creating or recovering a saleable product of higher quality or value in the marketplace;
- creating an incremental increase in the commercialization of oil, gas, helium, or lithium production byproducts and/or waste products; and/or,
- the proportionality between the volume of input oil, gas, helium, or lithium, and the scale of the project's total eligible costs.

Note: A saleable product is considered a product that can be monetized, and that is directly and positively impacted by the related processing, value-added, or commercialization activity.

Section 4: Minimum Investment Threshold

4(c) involves a minimum investment of \$1 million in eligible costs; and

Estimated eligible costs are evaluated at two stages – the application stage and the agreement stage.

To be considered eligible, project costs incurred must be necessary, and directly and irrefutably linked to bringing an eligible project into a commercially operable status. Additionally, select operational costs incurred, that are directly and irrefutably linked to the ongoing operation of an eligible project, may be considered eligible for a **maximum of 24 consecutive months** with respect to the provisions established in an agreement – these consecutive months will begin immediately once the project begins operations. If the project is phased, the 24-month period will not restart as each phase comes into operation. Costs related to the development of the innovation up to and including TRL 6 are not eligible. Additional details of eligible costs will be outlined in an agreement between the project proponent and the Ministry of Energy and Resources.

Final Approved Eligible Costs of a Project

As part of the eligible project application stage [Section 5 of *The Petroleum Innovation Incentive Regulations*], the Ministry of Energy and Resources will give consideration as to whether the proposed project will be highly likely to result in a minimum investment threshold of CAD\$1 million in eligible costs to qualify for *The Saskatchewan Petroleum Innovation Incentive*.

Final eligible project costs – upon which all earned royalty credits are determined – are established as part of the agreement stage [Section 6 of *The Petroleum Innovation Incentive Regulations*]. The agreement is entered into by the project proponent and the Ministry of Energy and Resources after the eligible project application stage is successfully completed. Once the project proponent and the Ministry of Energy and Resources enter into an agreement, the project proponent moves from being a program “applicant” to a program “participant”.

Once the participant has incurred CAD\$1 million in eligible costs, related to the eligible project, they must submit a detailed itemized breakdown of the costs incurred, per the terms of the agreement with the Ministry of Energy and Resources, to receive credits. While estimated contingency costs are considered eligible for approval, all costs submitted will be actual and under a detail category other than contingency. The costs must be audited by a licensed Chartered Professional Accountant and any other third-party expert required by the Ministry of Energy and Resources.

As previously noted, the agreement, and related amendments, established between the participant and the Ministry of Energy and Resources will identify a detailed itemized breakdown of eligible costs. Any expense or cost that is not deemed to be eligible as established in the agreement, or that is claimed in excess of the maximum authorized

eligible cost amount as established in the agreement, will not be eligible to be included in the calculation of earned royalty credits.

Note the following:

- Eligible costs must be directly related to the eligible project and must have been incurred on or after January 1, 2018.
- According to Section 10 of *The Petroleum Innovation Incentive Regulations*, eligible costs may be incurred directly or indirectly by an entity other than the participant.

Note: Incurred costs are a definite and absolute liability to pay an amount because of receiving goods and services. To be eligible, the costs cannot be incurred through a share payment, bonds or other negotiable instruments, cryptocurrency, profit or revenue sharing arrangements, barter, or exchange. Incurred costs must be equivalent Canadian dollars.

Eligible Costs

- Any real property and depreciable assets.
- The land on which the project is built and operates.
 - Land costs will be recognized at the lesser of actual costs or fair market value.
 - Costs associated with excess land will be excluded. Excess land includes land the applicant may re-sell, offer for lease, or develop for another purpose.
- The capitalized costs of qualified professional services directly associated and prorated with the project, whether in-house or third party.
- The capitalized costs of installing the depreciable assets, whether in-house, third party, or of a capital lease.
- The capitalized cost of transporting the depreciable assets, whether in-house, third party, or of a capital lease.
- The cost of mobile or modular equipment and infrastructure that essential to the successful operation of the project. *
- Intellectual property licensing costs directly related to the project's design or operation.
- Specialized software costs essential to the successful operation of the project.
- Labour costs directly related to project engineering and design.
- Any site preparation and project construction costs (contracting, labour, equipment leasing or renting, and materials included).
- Any necessary utilities servicing costs directly related to the construction of the eligible new or expanded facility.
- Well drilling and completion costs directly related and essential to the eligible project.
- Regulatory, licensing, and other necessary development fees directly related to the project's approval, permitting, and/or construction.

- Direct costs of contracting any independent expert third party accountants, engineers, and real estate appraisers as requested by the Ministry of Energy and Resources or as required by the terms of the agreement entered into by the project proponent and the Ministry of Energy and Resources.
- Capitalized interest.
- Front-End Engineering Design (FEED) studies.

*Note: For any mobile or modular equipment and infrastructure that the project proponent seeks to include as eligible costs within the agreement, the project proponent must commit to keeping the assets in Saskatchewan for a minimum of 10 consecutive years. This time period will begin when the participant receives their first earned royalty credits in relation to the eligible project.

Possible Eligible Costs up to a Maximum of 24 Months as Determined in the Agreement

- Direct operating utility costs.
- Direct operating transportation costs.
- Direct operating labour costs.
- Treating, maintenance (including costs related to routine well workovers), servicing, and other necessary input materials directly related to the operations/functioning of the project.

Ineligible Costs

- Administration and overhead costs.
- Office supplies and furnishings.
- Land that is not directly related to and/or necessary for the eligible project.
- Any travel or subsistence costs.
- Any promotional or advertising costs.
- Capital asset turnover.
- Generic software and/or computer costs.
- Feasibility study costs.
- Insurance.
- Selling and marketing costs.
- Costs related to asset ownership transfer.
- Federal Goods and Services Tax (GST).
- Provincial Sales Tax (PST).
- Harmonized Sales Tax (HST).
- Spare equipment.

- Non-compliance fees, fines, and penalties.
- Stakeholder engagement, consultation, or community benefit agreements.
- Costs already submitted under another SPII submission.
- Non arms length transactions.

Section 5: Operational Status

4(d) has not become operational, as determined by the minister, before the eligible project application is submitted.

Projects cannot be submitted retroactively. Any project that is operational prior to submission of the application will be rejected.

The wide variety of project types eligible under SPII requires that the operational status of each project be assessed individually.

Section 6: Other Requirements and Considerations

Third Party Audit of Eligible Costs

Once CAD\$1 million in eligible costs have been incurred, the participant can request that the approved eligible costs incurred throughout the project become officially recognized by the Ministry of Energy and Resources to calculate earned royalty credits, as per the terms of the agreement.

For the eligible costs to be reviewed by the Ministry of Energy and Resources, the final statement of eligible costs must be audited by a relevant expert third party, as determined in the agreement between the project proponent and the Ministry of Energy and Resources. Unless otherwise noted in the project agreement, this must come in the form of an **Assurance Report**, issued by a licensed Chartered Professional Accountant, that provides the Ministry of Energy and Resources with reasonable assurance in accordance with the guidelines established under the Canadian Auditing Standards (CAS) 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement. The Assurance Report will provide an opinion on the project proponent’s Eligible Cost Submission Form, and should include an audit of the proponent’s statements of eligible expenditures, while considering the following:

- All proposed eligible costs were actually incurred;

- All proposed eligible costs (including contingency-related costs) are within eligible cost categories, as established in Section 4 of the *SPII Policy Guidelines*, and in the project agreement;
- All proposed eligible costs are directly related to the eligible project, as described in the project agreement; and,
- All proposed eligible costs were incurred within the eligible timelines, as established in the project agreement.

Types of Qualified Independent Expert Third Parties

- A licensed Chartered Professional Accountant in good standing with all relevant professional associations and standards, operating at arm's length from the project proponent and all other direct and indirect project partners, for the purpose of assessing eligible costs contained in the agreement and identifying them as either eligible or ineligible.
- A licensed engineer in good standing with their province/territory's licensing body, operating at arm's length from the project proponent and all direct and indirect project partners, for the purpose of verifying that the eligible costs were directly made for the purpose of expanding productive or value-added capacity at an existing facility.
- An Accredited Appraiser Canadian Institute (AACI™) licensed real estate appraiser, operating at arm's length from the project proponent and all direct and indirect project partners, for the purpose of adjudicating the fair market value of land as an eligible cost.

Amending Eligible Costs in an Agreement

Minor changes to an eligible project's costs are expected to be accommodated through a contingency cost category allocation in an agreement; however, a participant can request an amendment to the project's signed agreement, for a significant eligible cost amendment and/or project scope changes, with the Ministry of Energy and Resources at any point. This significant amendment will only be permitted once per project, and the amended project must continue to meet all eligibility requirements.

If the request to amend the eligible costs, as outlined in the agreement, is an increase from the agreed-upon total value of eligible costs (and, therefore, an increase in the resulting conditional earned royalty credits), there must be available credits under the program's total royalty credit allocation amount, as determined by Cabinet, to accommodate the request. Additionally, such a request must not result in the maximum project-specific awarded credit cap of CAD\$5 million per project.

To propose an amendment to a signed agreement, please e-mail spii@gov.sk.ca.

Asset Ownership Transfer

If assets related to the eligible project are transferred before obligations in the agreement are fulfilled (i.e., the project is completed), the Ministry of Energy and Resources must receive written confirmation from both the participant/applicant (previous owner) and new owner agreeing upon the eligibility of associated costs and distribution of approved royalty credits.

Final Technical Report Requirements:

The project proponent must submit a Final Technical Report no later than **180 business days** after the eligible project is completed. Once complete, the Final Technical Report will be published online via Saskatchewan.ca.

The Final Technical Report must contain the following components:

- Cover page – project title, company name, date
- Table of contents
- Project background – description of the project and innovation, simplified schematics, project schedule, and other relevant information
- Project results – discussion, comparison to conventional techniques, description of learnings and challenges, project results, operating conditions, the rationale for operational changes, and an evaluation of the overall project performance
- Relevant diagrams, tables, pictures, data, design drawings, and schematics
- Generalized summary of costs – cost schedule, economic analysis
- Conclusion – recommendations, learning, future projects

Specific details regarding the Final Technical Report components will be outlined within the signed SPII agreement.

Note: Business days exclude statutory holidays in Saskatchewan.

Confidentiality

The Ministry of Energy and Resources complies with *The Freedom of Information and Protection of Privacy Act* (FOIPPA). The protection of commercially sensitive information provided by FOIPPA is indefinite or until the point in time at which the information becomes part of the public record. No project-specific information will be released publicly by the Ministry of Energy and Resources, unless companies have provided their consent.

The Government of Saskatchewan's annual *Public Accounts Report* will show aggregated totals, at a company level, for entities that redeem and utilize royalty credits worth CAD\$50,000 or more in a fiscal year. Transfer of royalty credits without utilization will not be recorded in the *Public Accounts Report*.

Appendix 1: SPII Technology Readiness Level Scale

Level of Readiness	Description of Level of Readiness
Level 1: Basic principles of concept observed and reported	Scientific research begins to be translated into applied research and development. Activities might include paper studies of a technology’s basic properties
Level 2: Technology concept and/or application formulated	Invention begins. Once basic principles are observed, practical applications can be invented. Activities are limited to analytic studies.
Level 3: Analytical and experimental critical function and/or proof of concept	Active research and development is initiated. This includes analytical studies and/or laboratory studies. Activities might include components that are not yet integrated or representative.
Level 4: Component and/or validation in a laboratory environment	Basic technological components are integrated to establish that they will work together. Activities include integration of “ad hoc” hardware in the laboratory.
Level 5: Component and/or validation in a simulated environment	The basic technological components are integrated for testing in a simulated environment. Activities include laboratory integration of components.
Level 6: System/subsystem model or prototype demonstration in a simulated environment	A model or prototype that represents a near desired configuration. Activities include testing in a simulated operational environment or laboratory.
Level 7: Prototype ready for demonstration in an appropriate operational environment	A prototype at the planned operational level that is ready for demonstration in an operational environment. Activities include prototype field testing.
Level 8: Actual technology completed and qualified through tests and demonstrations	Technology has been proven to work in its final form and under expected conditions. Activities include developmental testing and evaluation of whether it will meet operational requirements.
Level 9: Actual technology proven through successful deployment in an operational setting	Actual application of the technology in its final form and under real-life conditions, such as those encountered in operational tests and evaluations. Activities include using the innovation under operational conditions.

Appendix 2: OGPII/SPII Production Zone Map

