

Oil and Gas Processing Investment Incentive Program

Program Overview and Application Instructions

The *Oil and Gas Processing Investment Incentive* (OGPII) program is a transferable crown royalty and freehold production tax credit program available to qualifying companies that demonstrate new or expanded value-added projects in Saskatchewan's oil, gas, helium, lithium, or chemical fertilizer sectors.

Ministry of Energy and Resources
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Program Overview

The *Oil and Gas Processing Investment Incentive* (OGPII) program is a transferable crown royalty and freehold production tax credit program available to qualifying companies that demonstrate new or expanded value-added projects in Saskatchewan. Launched in June 2019, OGPII is open to a wide variety of value-added processing activities, including oil, associated gas, helium, lithium, or chemical fertilizer project, as outlined in *The Oil and Gas Processing Investment Incentive Regulations*.

Applications to the program will be accepted from July 8, 2019, until March 31, 2024.

Applicants that successfully meet all OGPII requirements will receive transferable crown royalty and freehold production tax credits equal to 15 per cent of approved eligible costs, as outlined in an agreement between the applicant and the Ministry of Energy and Resources. To be considered as an eligible project, the eligible costs must be at least CAD\$10 million. Once an applicant has successfully completed the application process and has entered into an agreement with the Ministry of Energy and Resources, they will begin or continue to carry out the eligible project's construction. Once the project has become commercially operational, the OGPII eligible corporation will be eligible for the following:

- Earn the appropriate amount of credits (at a rate of 20 per cent - Year 1; 30 per cent - Year 2; 50 per cent - Year 3) by providing the Ministry of Energy and Resources with documentation showing that eligible costs have been incurred as well as an expert third party verification of incurred costs; then,
- Transfer earned credits to other corporate entities with an *Integrated Resource Information System* (IRIS) Business Associate Identification (BA ID) number; and/or,
- The Ministry of Energy and Resources will automatically apply the earned credits towards the remission of oil, gas, and helium crown royalties and freehold production taxes owed in Saskatchewan.

Qualifying Criteria

Before making an application to the OGPII program, the applicant must thoroughly review the following:

- [The Financial Administration Act, 1993](#) – section 24
- [The Oil and Gas Processing Investment Incentive Regulations](#); and
- All materials contained on the OGPII program's [webpage](#).

Note: All information and forms pertaining to OGPII can be accessed on the program's webpage.

To qualify for the OGPII program, an applicant must submit a complete application form demonstrating that the company's proposed project meets all of the following eligibility requirements. Additional details regarding each eligibility requirement can be found in the *OGPII Policy Guidelines*.

- a) **is:**
 - i. **a refinery;**
 - ii. **an upgrading facility;**
 - iii. **a petrochemical facility;**
 - iv. **an associated gas commercialization project;**
 - v. **an associated gas pipeline gathering system;**
 - vi. **a carbon capture utilization and storage for enhanced oil recovery project;**
 - vii. **a commercialization of oil and gas production byproducts or waste products projects;**
 - viii. **a helium processing or liquefaction facility;**
 - ix. **a chemical fertilizer facility; or,**
 - x. **a lithium processing facility.**
- b) **will result in a significant increase in processing capacity as determined by the minister;**
- c) **involves a minimum investment of CAD\$10 million in eligible costs; and,**
- d) **has not become operational, as determined by the minister, before the eligible project application is submitted.**

Application Steps

1. The applicant downloads the *OGPII Application Form* from the OGPII [website](#).
2. Once the applicant is prepared to submit the application form, they e-mail the completed form and any supporting documents to the Ministry of Energy and Resources at ogpii@gov.sk.ca.
3. The Ministry of Energy and Resources will confirm receipt of the completed application form or indicate the form as being incomplete by e-mailing the address provided in the Application Form's Section 1: Contact Person Information.
4. The Ministry of Energy and Resources will process the completed application form and assess the proposed project against the eligibility requirements established in [The Oil and Gas Processing Investment Incentive Regulations](#).
5. Once the application assessment has concluded, successful applicants will receive a *Letter of Conditional Approval* to the OGPII program via e-mail to the address provided in the Application Form's Section 1: Contact Person Information.
6. Following conditional approval, and once construction is imminent, the applicant and the Ministry of Energy and Resources will enter into a formal agreement. The agreement will detail the proposed project's description and operational plan, an itemized listing of eligible costs, construction/operational timelines, other relevant parties participating in the project, and other similar information. For the purposes of improving a third party's ability to audit eligible costs, it is recommended that the applicant's auditor be engaged during the agreement drafting phase.
7. After an agreement is finalized, the credits are earmarked, and the applicant will execute the proposed project in accordance with the parameters outlined in the agreement.

For the OGPII program process overview flow chart, see page 7.

Application Review

An applicant may submit an application form to the OGPII program any time between July 8, 2019, and March 31, 2024. Applications may be submitted prior to an applicant's final decision to construct the proposed project. Upon receiving a Letter of Conditional Approval and entering into a formal agreement with the Ministry of Energy and Resources, the applicant may begin, or continue, executing the eligible project knowing that the project, as proposed, meets the OGPII requirements and is eligible to earn credits (assuming that the conditions outlined within the agreement accurately reflect the initial proposal and comply with *The Oil and Gas Processing Investment Incentive Regulations*).

The Ministry of Energy and Resources will assess the application to ensure that the proposed project meets all eligibility requirements.

- a. If it is found that the applicant's proposed project does not meet the eligibility requirements, the applicant will be advised via e-mail, detailing which criteria were not met.
- b. Where an applicant's proposed project does meet the eligibility requirements, they will be issued a *Letter of Conditional Approval* via e-mail.

Upon receiving a *Letter of Conditional Approval*, the applicant will be advised of the steps required to enter into a formal agreement and be fully admitted into the OGPII program; the *Letter of Conditional Approval* will also outline steps necessary to earn credits.

As a result of the program having a royalty credit cap, a Letter of Conditional Approval does not guarantee that royalty credits will be available at the time contract drafting is initiated.

Final Eligibility Review

Once the proponent has entered into an agreement with the Minister of Energy and Resources, the eligible project's construction is complete, and the project has become commercially operational, the applicant must submit an *Eligible Cost Submission Form* through the Royalty Credit Application within ER's Integrated Resource Information System (IRIS), along with all required supporting documentation (including an Assurance Report issued by a third party licensed Chartered Professional Accountant), to verify that eligible costs were incurred in accordance with the agreement.

- a. This form and the supporting documentation will be assessed to ensure that the project and eligible costs meet the conditions of approval (eligibility requirements). If ineligible, in whole or in part, the applicant will receive a letter detailing the Ministry of Energy and Resources' rationale.
- b. If eligible, the applicant will receive a *Certificate of Approval*, and the earned credits will be automatically applied against oil, gas, and helium crown royalties and freehold production taxes owed in Saskatchewan. Additionally, successful participants will be given an opportunity to transfer their royalty credits at any point in time after receiving a *Certificate of Approval*.

Attachments that must be submitted with the *Eligible Cost Submission Form* include:

- Assurance Report, issued by a third-party licensed Chartered Professional Accountant, providing reasonable assurance in accordance with the Canadian Auditing Standards (CAS) 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement.
- Detailed Cost Breakdown – itemized breakdown of the eligible cost made with respect to the eligible project. It must be demonstrated that all eligible costs were incurred in accordance with the agreement established between the participant and the Ministry of Energy and Resources and were made for the purpose of carrying out the approved eligible project.

Attachments that may be required to be submitted with the *Eligible Cost Submission Form* include:

- If requested, a report issued by a licensed engineer verifying eligible costs were made for the purpose of expanding productive capacity and not capital asset turnover or routine maintenance; and,
- If requested, an Appraisal, issued by a licensed real estate appraiser.

Earning Credits

OGPII is a transferable crown royalty and freehold production tax credit program, where credits will be automatically applied against the owner's oil, gas, and helium crown royalties and freehold production taxes in Saskatchewan or, if requested, be transferred to any other corporate entity with an IRIS BA ID in Saskatchewan. All unused credits will expire on March 31, 2035. Once a *Certificate of Approval* is issued, the applicant will have earned credits in association with the eligible costs recognized.

Following the receipt of a *Certificate of Approval*, the applicant may submit a Royalty Credit Transfer Applications(s) to the Ministry of Energy and Resources in order to transfer their credits via the online IRIS platform.

Definitions

Applicant – The corporate entity that submits an application to the OGPII program.

Application Form – An applicant submits this form as the first step of the OGPII qualification process. This contains contact person information, company information, details of the planned project and the applicant's declaration. If eligible, an applicant will receive a *Letter of Conditional Approval* for their project.

Certificate of Approval – A participant may receive this certificate once their eligible project is commercially operational, once they have incurred at least \$10 million in eligible costs, and once they have submitted a complete *Eligible Cost Submission Form* to the Ministry of Energy and Resources. This certificate will identify the amount of eligible costs recognized by the Ministry of Energy and Resources and entitles the participant to transferable royalty credits valued at 15 per cent of eligible costs, to be claimed over a three-year period.

Eligible Costs – Please refer to the *OGPII Policy Guidelines* on the OGPII website.

Eligible Cost Submission Form – A participant submits this form to earn credits. This form contains information that will confirm that the applicant incurred costs in compliance with the agreement, and has completed the eligible project. At this point in time, the Ministry of Energy and Resources will review the submissions and, if confirmed, provide the applicant with a Certificate of Approval that allows them to claim their royalty credits.

Letter of Conditional Approval - This letter will be issued if an *OGPII Application Form* is considered successful. After an applicant receives a *Letter of Conditional Approval*, they must enter into a formal agreement with the Ministry of Energy and Resources to confirm their approval into the OGPII program.

Participant – The corporate entity that has entered into a OGPII agreement with the Ministry of Energy and Resources.

Qualified Third-Party - An auditor, engineer, or real estate appraiser who is a member in good standing of a professional association recognized by the Ministry of Energy and Resources. The qualified person must be arm's-length from the applicant/participant. Details regarding this can be found in the *OGPII Policy Guidelines*.

Real Estate Appraisal – A common report issued by an Accredited Appraiser Canadian Institute (AACI™), which for the purpose of this program, will assess and document the land purchased, if any, and confirm that the entire lot of land purchased – or portion thereof – that is being used for the purpose of the new or expanded value-added agriculture facility. This report will also verify the fair market value of the purchased land.

Frequently Asked Questions

Can our company apply for this program, even if we are receiving tax credits and rebates from other provincial programs?

Yes. OGPII eligibility is not affected by eligibility for any other existing provincial programs.

What are examples of value-added processing activities?

Examples would include but are not limited to regional gas gathering and commercialization systems, oil refineries, upgraders, gas processing plants, waste/flare-gas-to-power, gas-to-liquids, gas-to-chemicals, helium processing, and carbon capture utilization and storage for enhanced oil recovery. Enabling infrastructure directly linked to an OGPII eligible project (like gas gathering pipelines or rail loading terminals) can also be considered as part of the eligible value-added project.

What are not considered to be value-added processing activities?

Oil pipelines or rail loading facilities that are not connected to an eligible value-added project and gas gathering infrastructure with components that involve routine flaring or combusting/incinerating for non-commercial uses.

Who can I contact with questions in respect to this program?

You may send any questions via email to ogpii@gov.sk.ca. A program administrator will respond or call you to discuss your inquiry.

Efficiency/Productivity Analysis Summary

Existing facilities applying for the OGPII may have a baseline and final Efficiency/Productivity Analysis Summary prepared. The baseline report, if requested, must include the following components:

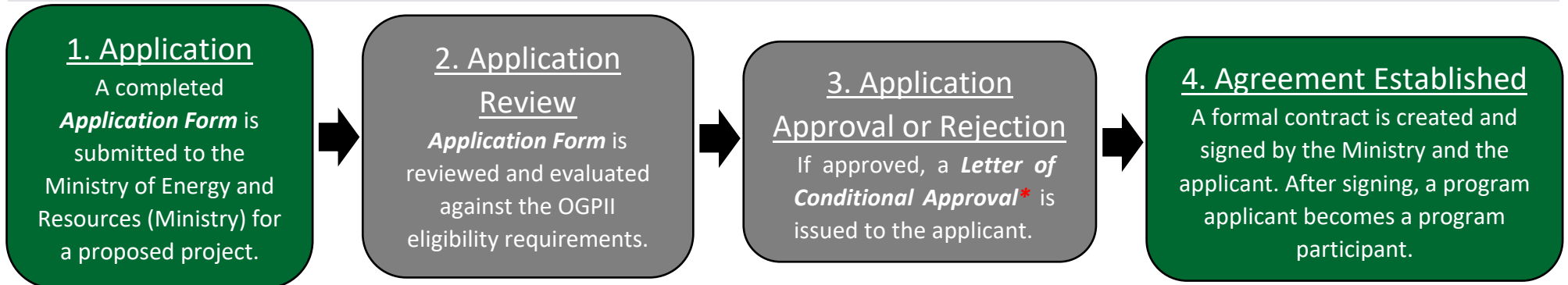
- Current processing capacity
 - Note all of the processes undertaken
 - Include a schematic of the current process.
- Current issue(s)
 - Identify all areas where significant improvements can be achieved.
- Proposed solution(s)
 - How the issue(s) could be solved
 - Explain the process improvements that can be implemented.
- Efficiency/productivity gains
 - Substantiate productivity gains that will be achieved as a result of the proposed solutions
 - Per cent productivity increase
 - Measurement of increase of raw and finished product achieved.

Once the planned investment project is completed and the facility is ready to begin operations, the following table must be prepared, which will describe the increases to efficiency/productivity. The submitted report does not need to be in this format but must include all of the same information.

<p>Work Plan</p> <ul style="list-style-type: none"> - Equipment - Facility Modification 	<p>Example: Equipment Expansion</p>
<p>Estimated Budget</p> <ul style="list-style-type: none"> - (\$\$ including installation) 	<p>\$15 million</p>
<p>Identify & Explain</p> <ul style="list-style-type: none"> - Process Improvement - Automation/Innovation, or - New Technology 	<p>Process improvement and automation:</p> <ul style="list-style-type: none"> - Improved equipment to handle additional capacity - Automate flow rates and pressure rates to optimize throughput - Build enabling takeaway capacity to handle increased volumes
<p>Efficiency/Productivity Gain</p> <ul style="list-style-type: none"> - (Expressed in dollars, per cent or volume) - Increase production capacity - Elimination of wasted inputs - Reduction in processing time 	<ul style="list-style-type: none"> - Throughput processing capacity increased by 15 per cent, or 10,000 barrels per day. - Additional takeaway capacity reduced short-term storage costs

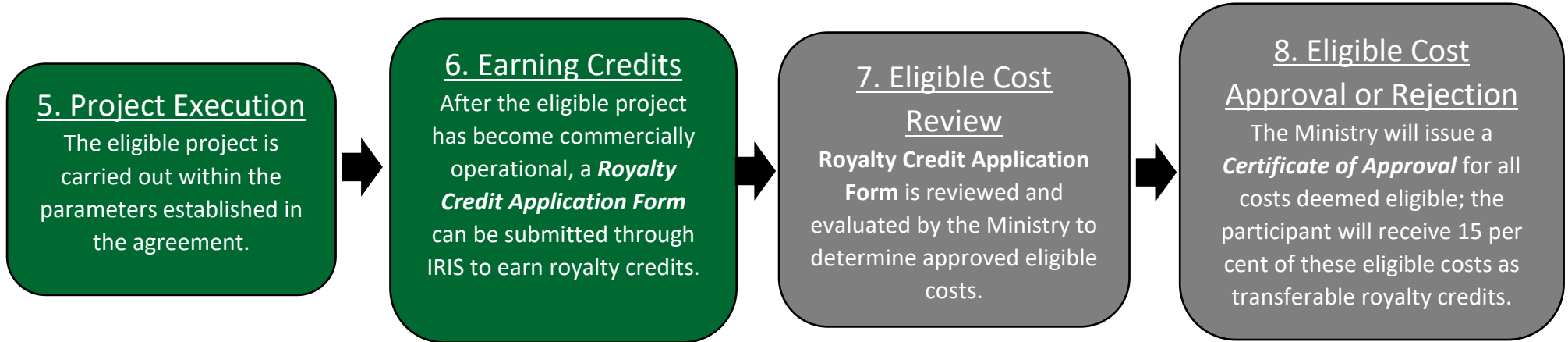
In the case of a **new facility**, and only upon the request of program officials, an applicant may be requested to provide this information, which would mostly describe the current production line and productive outputs.

Stage 1: Application and Approval to the OGPII Program



*As a result of the program having a royalty credit cap, a Letter of Conditional Approval does not guarantee royalty credits will be available at the time contract drafting is initiated.

Stage 2: Executing the Project, Incurring Costs, and Earning Credits



Stage 3: Using Earned Credits

