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# Oil Infrastructure Investment Program

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Policy Guidelines

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October 2021

Revision 2.0

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Governing Legislation:

Act: *The Financial Administration Act, 1993*

Regulation: *The Oil Infrastructure Investment Program Regulations*

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### Record of Change

<b>Revision</b>	<b>Date</b>	<b>Author</b>	<b>Description</b>
1.0	April 1, 2020	JKK	Original
2.0	October 2021	RDD	Program amendments, additional clarification.

These guidelines serve to define the administrative policy that the Ministry of Energy and Resources will follow for implementation of *The Oil Infrastructure Investment Program* (OIIP). *The Oil Infrastructure Investment Program Regulations* empower the Minister of Energy and Resources 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 Oil Infrastructure Investment Program Regulations*. For easy reference, the text of that clause states:

*4 Subject to these regulations, an oil or carbon dioxide pipeline project is eligible for approval if the applicant satisfies the minister that the project:*

- (a) directly increases oil or carbon dioxide pipeline capacity in Saskatchewan;*
- (b) is not considered to be redundant service;*
- (c) has not become operational, as determined by the minister, before the eligible project application is submitted; and*
- (d) involves a minimum investment of \$10 million in eligible costs.*

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

## Section 2: Oil or Carbon Dioxide Pipeline Project Definition

*4 Subject to these regulations, an oil or carbon dioxide pipeline project is eligible for approval if the applicant satisfies the minister that the project:*

An ‘oil pipeline project’ is a project that enables the transportation of oil, refined petroleum product or natural gas liquids from the production field to markets.

A ‘carbon dioxide pipeline project’ is intended to encompass all projects that enable the transportation of carbon dioxide (CO<sub>2</sub>).

Eligible pipeline systems are limited to systems that move oil or CO<sub>2</sub> from and between field facilities, batteries, and storage to and through long-haul transmission lines (Figure 1).

Ineligible projects include:

- Pipeline systems that move oil, an emulsion of oil, CO<sub>2</sub>, and other products from and between the wellhead to field facilities, batteries, and storage;
- Natural gas pipelines; and,
- Oil by rail infrastructure.

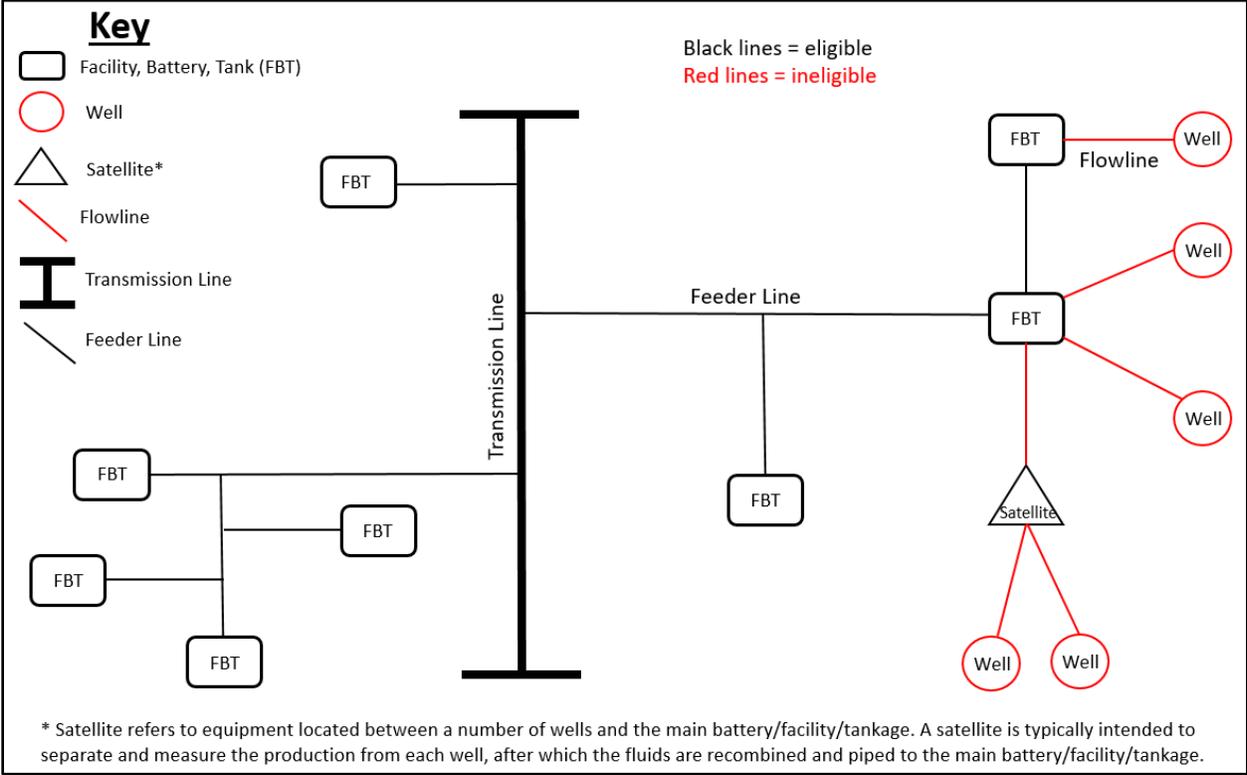


Figure 1: Pipeline Types

**Section 3: Improvements to Pipeline Service**

*4(a) directly increases oil or carbon dioxide pipeline capacity in Saskatchewan;*

Increases to the nameplate capacity or the utilization of existing capacity are both eligible. Projects related to investments in pipeline feeder systems will not be considered an eligible increase in the nameplate capacity, but, may be eligible if they increase the utilization of existing capacity of the larger integrated pipeline system they are connected to.

Projects proposing an increase in the utilization of existing capacity must clearly demonstrate a multi-year baseline for historic shipping volumes and how the proposed investments directly

enable more oil or CO<sub>2</sub> to be shipped. The onus is on the applicant to provide sufficient evidence of the increase. Examples of evidence could include, but are not limited to:

- Forecasted increases to production in the pipeline catchment area; and/or,
- Contractual commitments by producers to increase shipping volumes.

#### Section 4: Redundant Service

*4(b) Is not considered to be redundant service;*

The Ministry of Energy and Resources will consider a project to be a redundant service if:

- i. The new/expanded pipeline service has the same terminus as an existing pipeline system(s) in the catchment area; and
- ii. The existing pipeline system(s) operated at an average of less than 75 per cent of nameplate capacity over the twelve consecutive months prior to the new project's application submission.

'Terminus' refers to an important point of pipeline inter-connection. The 'Terminus' points include, but are not limited to, connections at Kerrobert, Regina, Cromer, and Hardisty, AB.

Project proponents should seek to demonstrate the need for additional service in the proposed project's area.

When the Ministry of Energy and Resources deems a project as a redundant service, the project proponent will be provided written reasons for the decision.

#### Section 5: Application Timing

*4(c) has not become operational, as determined by the minister, before the eligible project application is submitted;*

The Ministry of Energy and Resources will not accept retroactive submissions of pipeline projects. If a pipeline project has been brought into commercial service (i.e., fluid flowing the pipeline) before an application is received, it will be deemed ineligible.

A pipeline is considered to be brought into commercial service even if it is operating at low utilization levels (i.e., partial service).

## Section 6: Minimum Spending Threshold

*4(d) Involves a minimum investment of \$10 million in eligible costs.*

To be eligible, proposed projects must meet a minimum investment threshold of CAD\$10 million in recognized eligible costs.

Project costs incurred must be necessary and directly linked to bringing the pipeline project into service to be considered eligible. Goods and services can be procured from vendors outside of Saskatchewan; however, components of an otherwise eligible project located in jurisdictions other than Saskatchewan will be considered outside the eligible project's scope.

### Example

If a pipeline project collects oil or CO<sub>2</sub> in Saskatchewan and delivers it to Alberta, the portion of the pipeline, pumping stations, and other infrastructure located in Alberta will not be considered part of the eligible project to adjudicate eligible costs.

As per section 7(7) of *The Oil Infrastructure Investment Program Regulations*, the Minister of Energy and Resources may prorate recognition of eligible costs to align with the proportion of the project attributable to servicing Saskatchewan.

Eligible costs will be recognized as long as they were incurred on or after January 1, 2018.

The onus is on the project proponent to ensure the minimum cost threshold is met. If an approved project fails to meet the minimum eligible cost threshold, no royalty credits will be issued.

### Eligible Cost Evaluation Process

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

During the application stage, the Ministry of Energy and Resources will consider whether the proposed project is likely to meet the minimum spending threshold for eligible costs. Applicants should initially provide sufficient detail about anticipated costs to allow the Ministry of Energy and Resources to determine:

- i. If proposed project costs fall into an eligible category; and

- ii. Whether total eligible costs are likely to exceed the minimum spending threshold.

**Note:** see [The Oil Infrastructure Investment Program Regulations](#) for more details on the requirements of the application stage.

The agreement stage only occurs if an applicant is granted Conditional Approval. During the agreement stage, the project proponent enters into a contractual agreement with the Ministry of Energy and Resources. The agreement defines the project scope and includes a detailed itemization of estimated eligible and ineligible costs. 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 being a program “participant.”

The detailed, itemized list of eligible and ineligible costs identified in the agreement serves as the basis for determining the number of royalty credits that are expected to be earned. The cost list should include sufficient detail to determine what category each cost falls into and allow retroactive verification that the cost has been incurred.

**Note:** see [The Oil Infrastructure Investment Program Regulations](#) for more details on the requirements of the agreement stage.

Once the eligible project is completed, per the terms of the agreement with the Ministry of Energy and Resources, the participant must submit a final detailed, itemized breakdown of all approved and actual eligible costs. While estimated contingency costs are considered eligible for approval, all final costs submitted will be actuals and listed under a detailed 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 project proponent and the Ministry of Energy and Resources will identify a detailed itemized breakdown of the eligible costs. Any expense or cost that is not deemed eligible, as established in the agreement, or that is claimed in excess of the maximum authorized eligible cost amount, established in the agreement, will not be eligible to include in the calculation of earned royalty credits. Royalty credits will be assigned in an amount equal to 20 per cent of total eligible costs.

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 Oil Infrastructure Investment Program Regulations*, eligible costs may be incurred directly or indirectly by an entity other than the participant.

#### Eligible Costs

- Any real property and depreciable assets including, but not limited to, pipes, pumps, terminals, leak detection systems, and tankage.
- 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 associated with the project, whether in-house or third party.
- The capitalized costs of installing the real property and depreciable assets, whether in-house or third party, or of a capital lease.
- The capitalized cost of transporting the depreciable property, whether in-house or third party, or of a capital lease.
- Intellectual property licensing costs directly related to the project's design or operation.
- Labour costs directly related to project engineering and design.
- Any site preparation and project construction costs (contracting, labour, equipment leasing, safety and materials included).
- Any necessary utilities servicing costs directly related to the construction of the eligible project.
- The capitalized cost of line-fill necessary to bring the project into service.
- 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.

#### Ineligible Costs

- Administration and overhead.
- Office supplies and furnishings.
- Land that is not directly related to and/or necessary for the eligible project.
- Any travel costs.
- The use and handling of drag-reducing agents.

- Any promotional or marketing costs.
- Generic software and/or computer costs.
- Feasibility study costs.
- First Nation, Metis and stakeholder engagement or community benefit agreements.
- Federal Goods and Services Tax (GST).
- Provincial Sales Tax (PST).
- Harmonized Sales Tax (HST).
- Insurance.
- Operating costs including but not limited to utilities, transportation and labour associated with ongoing pipeline operation.
- Treating, capital asset turnover, maintenance, servicing, and other materials directly related to the operations/functioning of pre-existing assets or the project post-construction.

## **Section 7: Other Requirements and Considerations**

### Joint Projects

Projects involving multiple corporate entities will be evaluated as a single project and are therefore, subject to the same minimum spending thresholds and maximum benefits as a single project.

The use of separate evaluation and contracting processes for individual project components or phases is possible, but will be subject to the Ministry of Energy and Resources' discretion.

### Aggregated Project

A single project application can include an aggregation of investments that occur over multiple years and across multiple components of a pipeline system, as long as there is clear evidence that the components are part of a single integrated pipeline system and all other program criteria are met (i.e., increase in pipeline capacity and over CAD\$10 million of eligible cost).

### **Example – Aggregated Pipeline Project**

Company A proposes to add five branches to a pipeline system over a three-year period with a total combined cost of over CAD\$10 million. This project can be submitted as a single eligible project (i.e., one application), as long as all of the branches connect to the same integrated pipeline system and result in an increase to either the nameplate capacity or utilization capacity on that system.

### Third Party Audit of Eligible Costs

Once the project has become operational, the participant can request that approved eligible costs that were incurred, during the project's construction, become officially recognized by the Ministry of Energy and Resources. The credits will be calculated as earned royalty credits, as per the schedule outline within *The Oil Infrastructure Investment Program Regulations*.

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 statement 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 6 of the OIIP 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 bringing new pipeline capacity into service.

- 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 prior to the project becoming operational. 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\$40 million per project

To propose an amendment to a signed agreement, please email [oiip@gov.sk.ca](mailto:oiip@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 the new owner agreeing upon the eligibility of associated costs and distribution of approved royalty credits.

#### 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 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*.