
Oil Infrastructure Investment Program

Policy Guidelines

April 2020

Revision 1.0

Governing Legislation:

Act: *The Financial Administration Act, 1993*

Regulation: *The Oil Infrastructure Investment Program Regulations, 2020*

Record of Change

Revision	Date	Author	Description
0.0	April 1, 2020	JJK	Original

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 pipeline project is eligible for approval if the applicant satisfies the minister that the project:

- (a) directly increases oil 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 Pipeline Project Definition

4 Subject to these regulations, an oil 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.

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

Pipeline systems that move oil or an emulsion of oil and other materials from and between the wellhead to field facilities, batteries, and storage are not eligible.

Natural gas pipelines and oil by rail infrastructure are not eligible projects.

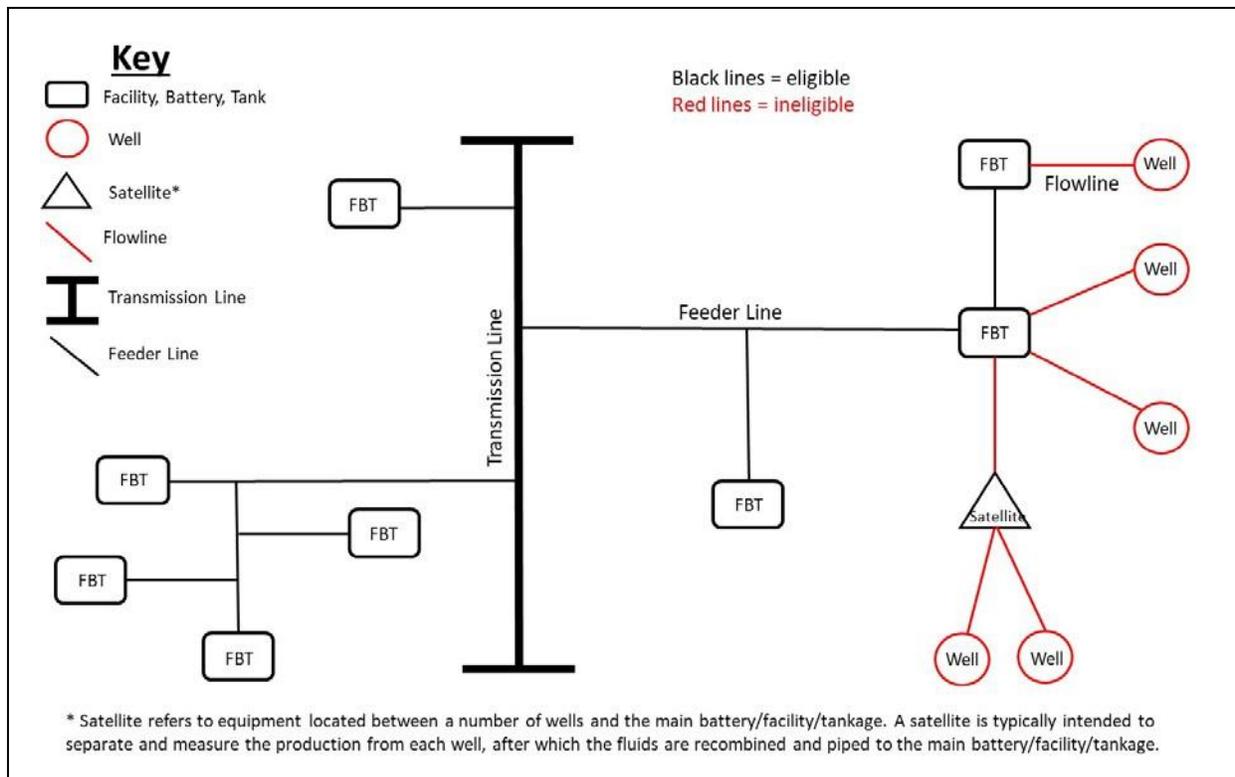


Figure 1: Pipeline Types

Section 3: Improvements to Pipeline Service

4(a) directly increases oil pipeline capacity in Saskatchewan;

Increases to nameplate capacity or utilization of existing capacity are both eligible. Projects related to investments in smaller pipeline feeder systems are only eligible so long as they contribute to an increase in the utilization of capacity on the larger integrated pipeline system they connect to. The smaller feeder systems will not represent an eligible increase in nameplate capacity, and thus not a qualifying oil pipeline project on their own.

Projects proposing an increase to utilization of existing capacity must clearly demonstrate a multi-year baseline for historic shipping volumes and demonstrate how the proposed investments directly enable more oil 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 contractual commitments by producers to increase shipping volumes.

Section 4: Redundant Service

4(b) Is not considered 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. This includes, but is not limited to, connections at Kerrobert, Regina, Cromer, and Hardisty.

Project proponents should seek to demonstrate the need for additional service in the area that will be served by the proposed project.

When the Ministry of Energy and Resources deems a project as 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 retro-active submissions of pipeline projects. If a pipeline project has been brought into commercial service 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 levels of utilization (i.e. partial service).

Section 6: Minimum Spending Threshold

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

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

Project costs must be necessary and directly linked to bringing the pipeline project into service to be 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 as outside the scope of the eligible project. For example, if a pipeline project collects oil in Saskatchewan and delivers it to Alberta, the portion of pipeline, pumping stations and other infrastructure located in Alberta will not be considered part of the eligible project for the purpose of adjudicating eligible costs.

As per section 7(7) of *The Oil Infrastructure Investment Program Regulations*, the Minister of Energy and Resources may pro-rate recognition of eligible costs to align with the proportion of the project attributable to servicing Saskatchewan. For example, if an existing inter-provincial or international pipeline expands by 100,000 barrels per day and Saskatchewan produced oil and gas is expected to utilize 10 per cent of capacity (based on either historic utilization, future contracts or other relevant evidence) 10 per cent of the total eligible costs will be recognized for the purpose of awarding royalty credits.

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.

Where appropriate, eligible projects may utilize the *Oil and Gas Processing Investment Incentive* or the *Saskatchewan Petroleum Innovation Incentive* but costs cannot be duplicated. If costs are recognized by another royalty credit program, they will be deemed ineligible under *the OIIP*.

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 quantity 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 to allow retroactive verification that the cost has been incurred. This list can be modified through standard contract amendments to reflect reasonable changes that emerge as the project is executed.

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 eligible costs. The final submission must be verified by an expert third party (see below for details on the Third Party review requirement).

The final eligible project cost submission will be compared to the contractual agreement, and related amendments, to ensure the executed project is consistent with the proposed project. Once the Ministry of Energy and Resources is satisfied that the final eligible costs are consistent with the contractual agreement, and are eligible, a calculation of earned royalty credits will be initiated. Royalty credits will be assigned in an amount equal to 20 per cent of total eligible costs.

Eligible costs in excess of the maximum authorized eligible cost amount established in the agreement may not be included in the calculation of earned royalty credits.

Note: With respect to *clause 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 necessary for execution of the eligible project.
 - 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 be able to 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, including capitalized interest charges, associated with a capital lease or the installation of real property and depreciable assets, whether in-house or third party
- 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 development fees that are necessary and directly related to the project's approval, permitting, and/or construction.
- Travel costs deemed necessary for the execution of the project.
- Direct costs of contracting any independent expert third party professional services 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.

Ineligible Costs

- Administration and overhead.
- Office supplies and furnishings.
- Land that is not directly related to and/or necessary for the eligible project.
- The use and handling of drag-reducing agents.
- Promotion or marketing.
- Feasibility studies.
- First Nation, Metis and stakeholder engagement or community benefit agreements.
- Taxes including but not limited to PST, HST, and GST.
- 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 aggregate 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 capacity and over \$10 million of eligible cost).

For example, the addition of five branches to a pipeline system over a two-year period (or longer) and at a total combined cost of over \$10 million could be submitted as a single

eligible project as long as all of the branches connect to the same integrated pipeline system and result in an increase to nameplate capacity or utilization on that system.

Third Party Review of Eligible Costs

Once the project has been brought into service, the participant will request official recognition by the Ministry of Energy and Resources of eligible costs incurred in order to initiate calculation of earned royalty credits.

The Ministry of Energy and Resources will not initiate the calculation of earned royalty credits until the detailed final eligible project costs have been reviewed and endorsed by a relevant expert third party, as required by the agreement between the project proponent and the Ministry of Energy and Resources.

The expert third party must provide certification that the costs are deemed to be eligible based upon the criteria outlined within *The Oil Infrastructure Investment Program Regulations*, the *OIIP policy guidelines*, and the agreement. Eligible cost certification will always include a **Compliance Report**, issued by a Chartered Professional Accountant, that provides the Ministry of Energy and Resources with limited assurance in accordance with the guidelines established under the Canadian Standards on Assurance Engagements 3531 (Direct Engagements to Report on Compliance).

The qualified independent, expert third parties must be:

- A 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.

The compliance report may also include input from other independent, expert third parties including:

- A licensed engineer in good standing with the Association of Professional Engineers and Geoscientists (APEGS) and with relevant expertise, 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

A participant is able to request amendments to the project agreement with the Ministry of Energy and Resources at any point prior to the project completion date indicated in the agreement.

Amendment requests that result in a total value of eligible costs greater than the previously agreed to value of eligible costs (and, therefore, an increase in the resulting conditional earned royalty credits) will only be accommodated if the program has remaining fiscal room. Additionally, such a request must not result in the maximum amount of eligible royalty credits exceeding the individual project limit of \$40 million.

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 \$50,000 or more in a fiscal year. Transfer of royalty credits without utilization will not be recorded in the Public Accounts report.