



Province of Alberta

MINES AND MINERALS ACT

OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION

Alberta Regulation 231/2008

With amendments up to and including Alberta Regulation 57/2019

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(Consolidated up to 57/2019)

ALBERTA REGULATION 231/2008

Mines and Minerals Act

OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION

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Interpretation

1(1) In this Regulation,

- (a) "basic service", in respect of a Project, means a service
 - (i) without which oil sands or oil sands products to be recovered or obtained pursuant to the Project could not physically be so recovered or obtained, or
 - (ii) necessary for the operation or maintenance of a core or supporting asset referred to in section 1(1)(f)(i) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008),

- performed utilizing a core or supporting asset that is not included in the description of the Project, but does not include a service the cost of which is corporate overhead;
- (b) “corporate overhead”, in respect of a Project, means costs that are not directly and solely incurred for the purposes of Project operations, including, without limitation, expenses in relation to
- (i) information technology,
 - (ii) performance of human resource functions,
 - (iii) office space and office operations,
 - (iv) accounting services,
 - (v) research, and
 - (vi) any other corporate operation or purpose;
- (c) “cost of service”, in respect of a service performed by any person, means the actual cost to the person to perform the service, except that the portion of the actual cost attributable to the use of a capital asset or engineering system is
- (i) an amount determined in accordance with the Minister’s directions as depreciation in respect of the cost of the capital asset or engineering system determined in accordance with section 12.6(1) to (4), and
 - (ii) a return on the undepreciated portion of the cost of the capital asset or engineering system determined in accordance with section 12.4;
- (d) “cumulative cost” has the meaning given to it in section 1(1)(h.1) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008);
- (e) “cumulative revenue” has the meaning given to it in section 1(1)(h.2) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008);
- (f) “environmental laws” means legally enforceable obligations in respect of the environment imposed by Acts or regulations of the Government of Alberta or Canada or bylaws of a municipality in Alberta, and includes any levies or charges based on levels of production, consumption or emissions, but does not include taxes;

- (g) “fair market value” means fair market value as determined by the Minister in accordance with section 10;
- (h) “fundamental cost” means a cost described in section 4, but does not include a specifically included cost, a specifically excluded cost or a cost excluded from allowed costs under section 3(2);
- (i) repealed AR 19/2012 s2;
- (j) “return allowance rate” means return allowance rate as determined under section 2;
- (k) “specifically excluded costs” means, in respect of costs incurred in the periods of time specified in section 16.1, those costs listed in, or those costs of activities listed in, column 2 of Schedule 1 or column 2 of Schedule 1.1, as the case may be;
- (l) “specifically included costs” means, in respect of costs incurred in the periods of time specified in section 16.1, those costs listed in, or those costs of activities listed in, column 1 of Schedule 1 or column 1 of Schedule 1.1, as the case may be;
- (m) “syngas” means a mixture of gases mainly comprising carbon monoxide and hydrogen produced by the gasification of asphaltenes, petroleum coke or coal;
- (n) “upgrader produced fuel gas” means a mixture of primarily hydrocarbon gases, natural gas liquids and olefins produced by upgrading operations.

(2) Sections 1, 2, 3, 4, 5, 6, 8.1, 10(2.1), (2.2) and (4), 11.1(5) 14, 18, 19, 39, 48, 49 and 50 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) apply with respect to this Regulation unless otherwise specified in this Regulation or otherwise required by necessary implication.

AR 231/2008 s1;19/2012;104/2013;37/2017

Return allowance rate

2(1) The return allowance rate for any month is the rate calculated in accordance with the following formula:

$$mr = (1+LTBR)^{(1/12)}-1$$

where

mr is the return allowance rate for the month;

LTBR is the simple average of the Selected Government of Canada long-term benchmark yields, published as a percentage and for the purposes of this formula expressed in a decimal format, specified for the Wednesdays of the preceding month in the *Weekly Financial Statistics* next published by the Bank of Canada after the last of those Wednesdays of that preceding month.

(2) The return allowance rate for a Period is the simple average of the Selected Government of Canada long-term benchmark yields specified for the last Wednesday of each month of the Period in *Weekly Financial Statistics* next published by the Bank of Canada after each of those Wednesdays.

(3) If the long-term benchmark yields referred to in subsections (1) and (2) cease to be published by the Bank of Canada for any period of time, the Minister may prescribe a substitute benchmark yield to be used for the purposes of subsections (1) and (2) in the place of those long-term benchmark yields.

Part 1

Requirements for Allowed Costs

Allowed costs

3(1) A cost is an allowed cost of a Project to the extent that

- (a) the cost
 - (i) is incurred by or on behalf of the lessee or operator of the Project,
 - (ii) is incurred on or after the later of January 1, 2009 and the effective date of the Project,
 - (iii) is incurred to carry out Project operations,
 - (iv) is reasonable under the circumstances in which it is incurred, and
 - (v) is adequately evidenced in accordance with section 6 and affirmatively established to the satisfaction of the Minister,
- (b) the cost is one of the following:
 - (i) a specifically included cost;
 - (ii) a fundamental cost of the Project under section 4;
 - (iii) a cost approved by the Minister under section 5,

and

- (c) the cost is not a specifically excluded cost or a cost excluded from allowed costs under subsection (2).

(1.1) Subject to the other provisions of this Regulation, the amount of the capital cost of a core or supporting asset that is included in the description of a Project is an allowed cost of the Project.

(2) If the lessee or operator of a Project obtains a core or supporting asset that is not included in the description of the Project, that core or supporting asset does not form part of the Project, and no cost associated with that core or supporting asset may be included as an allowed cost, except in accordance with section 12.2(1)(a).

AR 231/2008 s3;19/2012;37/2017

Fundamental costs

4(1) Fundamental costs of a Project are costs incurred directly

- (a) to recover, obtain, process or transport oil sands or oil sands products, or to market oil sands products, pursuant to the Project,
- (b) to reclaim or abandon Project lands, or
- (c) to comply with environmental laws applicable to the Project or applicable to a lessee or operator of the Project in respect of the Project.

(2) Fundamental costs of a Project do not include costs incurred in respect of

- (a) corporate overhead,
- (b) lands other than Project lands, or
- (c) an expansion of the Project before the effective date of the Project expansion.

Discretionary allowed costs

5(1) The operator of a Project may apply to the Minister for approval of any of the following as an approved cost of the Project:

- (a) a cost that has been incurred;
- (b) a cost that is being incurred;
- (c) a cost that will be incurred.

(2) The Minister may approve a cost as an approved cost of the Project if

- (a) the Minister is satisfied that
 - (i) the requirements of section 5(2) and (3) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) have been complied with in relation to the application, and
 - (ii) approving the cost would not expose the Crown to the risk of overstated or unverifiable costs being included in allowed costs of the Project,

and

- (b) in the Minister's opinion, incurring the cost directly and materially benefits the Project operations and is not too remote from the Project operations.

(3) An approval granted under subsection (2) may specify

- (a) a term for the approval, which may include a period of time that precedes the date of the approval, and
- (b) the terms and conditions to which the approval is subject.

(4) If the Minister is of the opinion that a requirement set out in subsection (2) or a term or condition specified in an approval has not been or is not being met or complied with, the Minister may by notice to the operator of the Project

- (a) terminate the approval granted under subsection (2), effective from the date of termination, or
- (b) revoke the approval granted under subsection (2), effective from the date of revocation or from a date that precedes the date of revocation.

(5) Termination of an approval in relation to a cost does not preclude a further application under subsection (1) in relation to the cost, and the cost ceases to be treated as an approved cost on the effective date of the termination.

(6) Revocation of an approval in relation to a cost precludes a further application under subsection (1) in relation to the cost, and the cost ceases to be treated as an approved cost on the effective date of the revocation.

Evidence of costs

6 The lessee or operator of a Project must be capable of providing contracts, invoices, receipts, time sheets and other documents or records that clearly establish

- (a) that a cost has been incurred,
- (b) the gross and net amounts of the cost, and
- (c) that the cost has actually been paid and the date of payment.

Reduction of allowed cost

7(1) An allowed cost of a Project is reduced

- (a) to the extent it would not be allowed as a deduction in computing income under the *Income Tax Act* (Canada), if it is in respect of the human consumption of food or beverages or the enjoyment of entertainment,
- (b) by the amount of any credit or discount received by the operator or lessee of the Project, or by an affiliate of either of them, that is intended to reduce or offset the cost,
- (c) by the amount of any economic assistance, other than economic assistance in the form of a reduction in income tax payable, that is
 - (i) provided by the Province of Alberta or the Government of Canada, or an agency of either, to the operator or lessee of the Project, or to an affiliate of either of them, and
 - (ii) intended to reduce or offset the cost,

and

- (d) to the extent that
 - (i) the cost was an allowed cost of a Project or a cost previously used in the calculation of royalty in respect of a Project, or
 - (ii) with respect to a Project for the recovery of oil sands products, the royalty determination for which is the subject-matter of a contract under section 9(a) of the Act, the cost
 - (A) was included in “Allowed Capital Costs” or in “Allowed Operating Costs”, or

(B) was previously used in the calculation of royalty.

(2) The amount of an allowed cost does not include the amount of any taxes paid or payable under Part IX of the *Excise Tax Act* (Canada) by or on behalf of the lessee of a Project.

AR 231/2008 s7;340/2009;19/2012;57/2019

Part 2 Amount of Costs and Charges

Division 1 Allocation of Allowed Costs

Allocation

8 Subject to sections 8.1 to 8.4, where a cost incurred by or on behalf of a lessee of a Project may be an allowed cost only in part, the cost must be allocated by the operator such that a portion of the cost is treated as an allowed cost and the remaining portion of the cost is not treated as an allowed cost.

AR 231/2008 s8;19/2012

Allocation for a Project that is part of an integrated project

8.1(1) The methodology for allocating, in respect of a Project that forms part of an integrated project, a portion of the cost of a capital asset or engineering system that is an allowed cost, the portion that is allocable to the integrated upgrader that is not an allowed cost and the portion that is allocable to integrated shared operations as an allowed cost is that set out in Schedules 2 and 3 to this Regulation.

(2) Where a methodology for allocating a cost in respect of an integrated project is set out in Schedule 2, an operator must use that methodology for the purpose of allocating that cost.

(3) The methodology for allocating, in respect of any costs of an integrated project that have been allocated to integrated shared operations, the portion of those costs that are allowed costs of the Project and the portion of those costs that are allocated to the integrated upgrader is that set out in Schedule 3 to this Regulation.

(4) Where a methodology for allocating a cost in respect of integrated shared operations is set out in Schedule 3, an operator must use that methodology for the purpose of allocating that cost.

(5) For the purpose of applying the methodology in Schedule 3 to determine the percentage of the value of energy used by a Project that forms part of an integrated project, the Minister may, by order

or otherwise, specify the price per unit of each energy source used by the Project in relation to one or more of the following:

- (a) steam;
- (b) electricity;
- (c) manufactured fuel gases, including syngas and upgrader produced fuel gas;
- (d) petroleum coke;
- (e) carbon monoxide gas derived from the combustion of petroleum coke;
- (f) natural gas.

(6) In respect of a cost that must be allocated pursuant to subsection (1), if an operator is of the opinion that a cost cannot be allocated in accordance with Schedule 2, or a cost that is to be allocated is not listed in Schedule 2, the operator may apply to the Minister, in the manner specified by the Minister, stating its reasoning as to why Schedule 2 cannot be applied to allocate that cost.

(7) Subject to subsection (8), in an application made under subsection (6), an operator must provide its suggestion as to how the cost should be allocated among the Project, the integrated upgrader and the integrated shared operations.

(8) The allocation suggested by the operator in an application made under subsection (6) must allocate a portion of the cost to each of the Project, the integrated upgrader and the integrated shared operations and must apply one or more of the following methodologies:

- (a) head count ratios for costs related to facilities or functions that serve personnel, including but not limited to cafeterias, catering and medical facilities;
- (b) geographic location for costs relating to facilities, including but not limited to shared parking lots and roads located on Project lands;
- (c) the capital cost ratio for the Project, as specified by the Minister by order, for costs including, but not limited to security, fences, site maintenance and procurement staff.

(9) Repealed AR 37/2017 s4.

(9.1) If the Minister disagrees with the operator's opinion that Schedule 2 cannot be applied, Schedule 2 must be applied in the manner directed by the Minister.

(9.2) If the Minister agrees with the operator's opinion that Schedule 2 cannot be applied, and agrees with the methodology or methodologies applied by the operator in its application under subsection (6) and the manner in which they are applied, the methodology or methodologies and the manner in which they are to be applied shall be specified in an order issued under section 11.1 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) or in an instrument in writing that the Minister considers appropriate.

(9.3) If the Minister agrees with the operator's opinion that Schedule 2 cannot be applied, but disagrees

- (a) with the manner in which the operator applied the methodology or methodologies in the allocation suggested in its application under subsection (6), the Minister may, by order under section 11.1 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) or in an instrument in writing that the Minister considers appropriate, specify the methodology or methodologies suggested by the operator as the methodology or methodologies to be applied, and direct the manner in which they are to be applied, to allocate that cost, or
- (b) with the methodology or methodologies applied by the operator in the allocation suggested in its application under subsection (6), the Minister may, by order under section 11.1 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) or in an instrument in writing that the Minister considers appropriate, specify the methodology or methodologies to be applied, and direct the manner in which they are to be applied, to allocate that cost.

(10) A cost referred to in subsection (6) must be allocated to the Project, the integrated upgrader and the integrated shared operations in accordance with subsection (9.1), (9.2) or (9.3), and any costs allocated to the integrated shared operations must be further allocated to the Project pursuant to Schedule 3.

AR 19/2012 s5;37/2017

Allocation for a Project that is not part of an integrated project

8.2(1) The methodology for allocating, with respect to a Project that does not form part of an integrated project, a portion of the cost of a capital asset or engineering system that is an allowed cost, the portion that is not allocable to the Project, and therefore is not an allowed cost, is that set out in Schedule 2.

(2) Where a methodology for allocating a cost in respect of a Project that does not form part of an integrated project is set out in Schedule 2, an operator must use that methodology for the purpose of allocating that cost.

(3) In respect of a cost that must be allocated pursuant to subsection (2), if an operator of a Project that does not form part of an integrated project is of the opinion that a cost cannot be allocated in accordance with Schedule 2, or a cost that is to be allocated is not listed in Schedule 2, the operator may apply to the Minister, in the manner specified by the Minister, stating its reasoning as to why Schedule 2 cannot be applied to allocate that cost.

(4) In an application made under subsection (3), an operator must provide its suggestion as to how the cost should be allocated between the Project and the portion not allocable to the Project.

(4.1) If the Minister disagrees with the operator's opinion that Schedule 2 cannot be applied, Schedule 2 must be applied in the manner directed by the Minister.

(5) The Minister may, by order issued under section 11.1 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) or in an instrument in writing that the Minister considers appropriate, approve an operator's application under subsection (3) if the Minister is satisfied

(a) that

- (i) the methodology set out in Schedule 2 cannot, on a sound engineering or economic basis, be applied in respect of the operator's Project, or
- (ii) the methodology for allocating a portion of the cost that is an allowed cost is not listed in Schedule 2,

and

(b) that approving the operator's suggestion as to how a cost should be allocated will not expose the Crown to the risk of overstated or unverifiable costs being allocated to the Project as allowed costs.

(6) If the Minister agrees with the operator's opinion that Schedule 2 cannot be applied but disagrees

(a) with the manner in which the operator applied the methodology or methodologies in the allocation suggested in its application under subsection (3), the Minister may, by order under section 11.1 of the *Oil Sands Royalty*

Regulation, 2009 (AR 223/2008) or in an instrument in writing that the Minister considers appropriate, specify the methodology or methodologies suggested by the operator as the methodology or methodologies to be applied, and direct the manner in which they are to be applied, to allocate that cost, or

- (b) with the methodology or methodologies applied by the operator in the allocation suggested in its application under subsection (3), the Minister may, by order under section 11.1 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) or in an instrument in writing that the Minister considers appropriate, specify the methodology or methodologies to be applied, and direct the manner in which they are to be applied, to allocate that cost.

(7) A cost referred to in subsection (3) must be allocated between the portion that is an allowed cost of a Project and the portion that is not an allowed cost of the Project in accordance with subsection (4.1), (5) or (6).

AR 19/2012 s5;37/2017

Ministerial determination

8.3(1) The Minister may, with respect to any amount reported to the Minister as an allowed cost of a Project, give the operator a notice requiring the operator to disclose to the Minister within the time specified in the notice

- (a) any allocation used by the operator, whether or not included in Schedule 2 or 3, to determine the amount of the allowed costs reported,
- (b) the basis and justification for the allocation, and
- (c) any documentation and records supporting the allocation.

(2) If the Minister is of the opinion that an allocation disclosed under subsection (1) or otherwise is not fair and reasonable or is not justified by adequate supporting documentation, the Minister may, by notice, direct the operator to supply additional information or otherwise justify the allocation within the time specified in the notice.

(3) After the expiry of the period set out in the notice given under subsection (1) or (2), or both, the Minister may, by order or in an instrument in writing that the Minister considers appropriate, determine the allocation and the amount of the portion of the cost that is an allowed cost, and must provide the determination of the allocation to the operator.

- (4) The Minister may refrain from making a determination under subsection (3) if
- (a) the Minister did not receive, in accordance with and within the time specified in a notice given under subsection (1), the items required to be provided pursuant to the notice,
 - (b) the Minister did not receive, in accordance with and within the time specified in a notice given to the operator under subsection (2), the additional information or further justification required to be provided pursuant to the notice, if a notice was given under that subsection,
 - (c) the operator did not comply with section 5(2) or (3) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) in relation to submission of the items, information or further justification required to be provided pursuant to a notice given under subsection (1) or (2), as the case may be, or
 - (d) the items received by the Minister pursuant to a notice given under subsection (1), or the additional information or further justification received pursuant to a notice, if any, given under subsection (2) are not, in the Minister's opinion, adequate for the Minister to make the determination.
- (5) If the Minister has made a determination under subsection (3), the portion of the cost that is determined to be an allowed cost is the amount of the allowed cost for the purposes of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008).
- (6) If the Minister refrains from making a determination under subsection (3), then no portion of the cost that was the subject of the notice given under subsection (1) or (2), as the case may be, is an allowed cost for the purposes of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008).
- (7) The making of a determination by the Minister under subsection (3) in relation to a cost does not preclude the making of a further determination pursuant to this section in relation to the same cost.

AR 19/2012 s5;37/2017

Terms and conditions respecting determinations under section 8.3(3)

8.4(1) An order or other written instrument made by the Minister pursuant to section 8.3(3) may contain any terms and conditions the Minister considers necessary and, in respect of an order or other

written instrument that establishes an allocation, must contain the date on which the allocation is effective.

(2) The effective date of an order or other written instrument of the Minister referred to in subsection (1) may be earlier than the date on which the order or other written instrument is made, but must not be earlier than January 1, 2011.

AR 19/2012 s5;37/2017

Division 2 Non-arm's Length Costs and Charges

Application of this Division

9(1) This Division applies, in conjunction with Part 1 and sections 8 to 8.4, to the determination of the amount of allowed costs relating to goods, services, capital assets or engineering systems other than goods, services, capital assets or engineering systems acquired pursuant to an arm's length transaction.

(2) This Division applies to the determination of the amount

- (a) of handling charges as defined in section 32(1)(a) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008), other than such handling charges that arise pursuant to an arm's length transaction, and
- (b) of charges included in TRC and DRC, as those terms are defined in section 5(2) and (4) of the *Bitumen Valuation Methodology (Ministerial) Regulation* (AR 232/2008), other than such charges that arise pursuant to an arm's length transaction.

(3) Despite the other sections of this Division, if the Minister is of the opinion that a fair market value, calculated value or cost of service determined under this Division duplicates, in whole or in part, a cost or charge of a kind referred to in subsection (1) or (2) that arises pursuant to an arm's length transaction, the amount of that cost or charge is, as of the date the cost or charge is incurred, deemed to be reduced to the extent of the duplication.

(4) For the purposes of this Division,

- (a) the providing of thermal energy for the purposes of a Project is a service,
- (b) the transmission and distribution of electricity and the provision of ancillary services as defined in the *Electric Utilities Act* are services, and

- (c) electricity is a good.

AR 231/2008 s9;19/2012;104/2013

Fair market value for costs

10(1) The amount of any fair market value referred to in this Division in relation to a good, service or other asset is the value determined by the Minister in accordance with this section.

(2) Subject to this section, in determining for the purposes of this Division, the fair market value of a good, service or asset, other than the service of transporting a substance by pipeline, the Minister may, without limiting any other method of determining fair market value, adopt

- (a) the price of comparable goods, services or assets, if that price is published and generally adopted by buyers and sellers of such goods, services or assets,
- (b) a price for comparable goods, services or assets prescribed or determined pursuant to any Act or regulation of the Government of Alberta or Canada, or
- (c) an average of the prices paid for comparable goods, services or assets in arm's length transactions.

(3) The Minister may adjust a price or average of prices referred to in subsection (2) to reflect the most cost effective means of delivery from the place at which the price is determined.

(4) Subject to this section, in determining for the purposes of section 12(1)(a) the fair market value of the service of transporting a substance by pipeline, the Minister may, without limiting any other method of determining fair market value, adopt

- (a) a tariff charged for the service, if the tariff is fixed or approved for such service by a regulatory authority having jurisdiction to do so,
- (b) the tariff charged for the service by the owner of the pipeline, if, in the Minister's opinion,
 - (i) clause (a) does not apply,
 - (ii) the pipeline is subject to regulation on a complaints basis,
 - (iii) the tariff is generally agreed to and paid by persons who obtain the service in arm's length transactions,
 - (iv) the tariff is just and reasonable in the circumstances,

- (v) all tariffs charged for transporting substances by means of the pipeline are published, and
- (vi) no tariff or any other term for transporting substances by means of the pipeline unjustly discriminates among persons seeking to obtain or obtaining such service,

or

- (c) the weighted average of the prices paid by persons pursuant to arm's length transactions for comparable service, or if the Minister is satisfied no comparable service is provided, for transporting the substances by means of the pipeline, if, in the Minister's opinion,
 - (i) clauses (a) and (b) do not apply,
 - (ii) the pipeline is subject to regulation on a complaints basis,
 - (iii) not less than 2/3 of the quantities of oil sands products transported by means of the pipeline during the period the weighted average is adopted are transported pursuant to arm's length transactions, and
 - (iv) the weighted average of prices is just and reasonable in the circumstances.

(5) The Minister may adjust a tariff or weighted average of prices referred to in subsection (4) to reflect differences between the terms of service applicable in respect of the tariff or weighted average of prices and the terms of service applicable in respect of the transportation service actually provided.

(6) For the purposes of subsection (4)(b)(ii) and (c)(ii), "subject to regulation on a complaints basis" means subject to a process pursuant to legislation whereby a customer or potential customer for the transportation service can complain regarding the charge for or terms of such service, or both, to a regulatory authority having jurisdiction to hear such a complaint and to fix the charge and terms of service.

(7) Subject to subsection (8), a price, an average of prices or a tariff may be adopted by the Minister pursuant to subsection (2) or (4) for such period or periods as the Minister may specify from time to time.

(8) A price, an average of prices or a tariff adopted by the Minister pursuant to subsection (2) or (4) ceases to apply prior to the end of the period or periods specified under subsection (7) if any

requirement specified in subsection (2) or (4) with respect to the adoption of the price, average of prices or tariff ceases to be met.

11 Repealed AR 19/2012 s7.

Cost of non-arm's length goods and services

12(1) Subject to subsection (3) and section 14, the amount of a cost or charge referred to in section 9(1) or (2) incurred for a good or service, other than a basic service, is

(a) where the Minister is satisfied that a fair market value can reasonably be determined for the good or service, the lesser of

(i) the amount charged for the good or service, and

(ii) the fair market value of the good or service,

or

(b) where the Minister is satisfied that a fair market value cannot reasonably be determined for the good or service, and that the service is performed without utilizing a capital asset or engineering system, the lesser of

(i) the amount charged for the good or service, and

(ii) the actual cost to produce the good or perform the service, incurred by the person who produced the good or performed the service.

(2) Subject to subsection (4) and sections 12.1 to 12.7 and 14, the amount of

(a) an allowed cost of a Project incurred for a basic service, or

(b) a cost or charge referred to in section 9(1) or (2) for any other service for which the Minister is satisfied that a fair market value cannot reasonably be determined and that is performed utilizing a capital asset or engineering system

is the lesser of the amount charged for the service and the cost of service of the person who performs the service.

(3) If a service is performed in order to produce a good referred to in subsection (1)(b) and that service is performed utilizing a capital asset or engineering system, the portion of the actual cost incurred to produce the good that is attributable to the service is, subject to subsection (4),

- (a) the fair market value of the service, if the Minister is satisfied that a fair market value can reasonably be determined for the service, or
- (b) the cost of service of the person who performs the service, in any other case.

(4) If the Minister is of the opinion that a cost of service cannot be determined for the purposes of subsection (2) or (3) because, in the Minister's opinion, the circumstances do not reasonably permit the determination of a cost of service, the Minister shall, by notice to the operator of the Project in respect of which the determination is required, provide an estimate of the value of the service for the purposes of subsections (2) and (3).

AR 231/2008 s12;19/2012

Cost of service determination definitions

12.1(1) In this section and sections 12.2 to 13,

- (a) "annual capital charge" in respect of a capital asset or engineering system, for a calendar year, means the sum of the depreciation charge for that capital asset or engineering system for the calendar year and the return on capital for that capital asset or engineering system for the calendar year;
- (b) "annual operating charge" in respect of a capital asset or engineering system for all or a portion of a calendar year following the date it is commissioned means the costs incurred during the calendar year to operate the capital asset or engineering system, provided that such costs would be allowed costs, had the capital asset or engineering system formed part of the Project receiving a service;
- (c) "capital unit charge", in respect of a capital asset or engineering system that, in the opinion of the Minister, has a readily identifiable measure of capacity, for a calendar year means, subject to section 12.5(2) and (3), the annual capital charge divided by the units of capacity of that capital asset or engineering system;
- (d) "cumulative capital cost" in respect of a capital asset or engineering system for a calendar year means the cumulative capital cost determined in accordance with sections 12.2 and 12.3;
- (e) "depreciation charge" in respect of a capital asset or engineering system is the amount determined in accordance with sections 12.6 and 12.7;

- (f) “End Capital” in respect of a capital asset or engineering system for a calendar year means the End Capital determined in accordance with section 12.4;
- (g) “Initial Capital” in respect of a capital asset or engineering system as of January 1 of a calendar year means the Initial Capital determined in accordance with section 12.4;
- (h) “net book value” of a capital asset or engineering system, or part thereof, for the purposes of this Division is the undepreciated portion of the cost to the lessee, operator or other person for whom net book value is being determined, according to
 - (i) the records of the Department, or
 - (ii) if the Department has no records, the records of the lessee, operator or other person;
- (i) “operating unit charge”, in respect of a capital asset or engineering system that in the opinion of the Minister has a readily identifiable measure of capacity, for a calendar year means, subject to section 12.5(2) and (3), the annual operating charge divided by the actual measured throughput of that capital asset or engineering system during that calendar year;
- (j) “rate of return on capital”
 - (i) as it relates to determining the cost of service where a capital asset or engineering system is used to provide a basic service, is equal to the return allowance rate for the calendar year, as calculated pursuant to section 2(2) and (3), but, for the purposes of this Part, as if section 2(2) referred to “calendar year” instead of “Period”, and
 - (ii) is equal to the return allowance rate referred to in subclause (i) plus an additional amount, if any, specified by the Minister from time to time by order or otherwise in respect of the capital asset or engineering system, in the case of a capital asset or engineering system utilized to perform any other kind of service;
- (k) “retirement” means, in respect of all or a part of a capital asset or engineering system, the operator has, in the Minister’s opinion, discontinued the use of the capital asset or engineering system by the operator;

- (l) “return on capital” means that amount determined in accordance with sections 12.4 and 12.7 for a capital asset or engineering system, for a calendar year;
- (m) “unit charge” means that amount determined in accordance with section 12.5 in respect of a capital asset or engineering system;
- (n) “units of capacity”, in respect of a capital asset or engineering system having a readily identifiable measure of capacity for a calendar year, means, subject to section 12.5(2) and (3), the greater of
 - (i) the actual measured throughput during the calendar year, and
 - (ii) 75% of the expected capacity of that capital asset or engineering system under normal operating conditions for the calendar year as determined by the Minister, taking into account all retirements from the capital asset or engineering system.

(2) For the purposes of this Regulation, costs incurred to construct a capital asset or engineering system do not include

- (a) interest or any other borrowing or financing charges that may have been charged during the construction of the capital asset or engineering system, or
- (b) the financing component of capital leases.

AR 19/2012 s9;37/2017

Cost of service determination for capital asset or engineering system

12.2(1) For the purposes of determining cost of service

- (a) when determining the allowed cost to a Project when a non-Project capital asset or engineering system is providing goods or services to the Project, or
- (b) when determining the other net proceeds when using a capital asset or engineering system of the Project to provide goods and services for purposes other than the Project,

the cost of service must be determined in accordance with subsection (2).

(2) The cost of service for a capital asset or engineering system providing a service is

- (a) where the capital asset or engineering system has, in the Minister's opinion, a readily identifiable measure of capacity, the unit charge of the capital asset or engineering system multiplied by the number of units produced for the Project, or
 - (b) where the capital asset or engineering system does not, in the Minister's opinion, have a readily identifiable measure of capacity, the sum of the annual capital charge and annual operating charge of the asset or engineering system.
- (3) For the purposes of determining cost of service, the Minister may require the operator to propose the amount of the cumulative capital cost and the amount of the Initial Capital of a capital asset or engineering system.
- (4) A proposal provided under subsection (3) must
- (a) be provided in accordance with the directions of the Minister,
 - (b) contain information satisfactory to the Minister supporting the operator's proposal, and
 - (c) adhere to the provisions of this Regulation in respect of the determination of the cumulative capital cost and Initial Capital of a capital asset and an engineering system.
- (5) The Minister may agree or disagree with the operator's proposals for the cumulative capital cost or the Initial Capital of a capital asset or engineering system made under subsection (3), or both.
- (6) Subject to subsection (11),
- (a) a proposed cumulative capital cost of a capital asset or engineering system agreed to by the Minister is the cumulative capital cost of the capital asset or engineering system, and
 - (b) a proposed Initial Capital of a capital asset or engineering system agreed to by the Minister is the Initial Capital of a capital asset or engineering system.
- (7) Subject to subsection (11), if the Minister disagrees with a proposal provided under subsection (3), the Minister may
- (a) require the operator to provide additional information in the form and manner and within the time specified by the Minister, or

- (b) refrain from determining the cumulative capital cost or Initial Capital of the capital asset or engineering system, or both.

(8) Subject to subsection (11), after reviewing any additional information provided under subsection (7), the Minister may determine the cumulative capital cost or Initial Capital of the capital asset or engineering system, or both, as the case may be.

(9) Subject to subsection (11), if in the Minister's opinion,

- (a) the information provided is not satisfactory to support the determination of the cumulative capital cost or Initial Capital of the capital asset or engineering system, or both, as the case may be, or
- (b) the information was not provided within the time specified

the Minister may

- (c) deem the cumulative capital cost and Initial Capital of the capital asset or engineering system to be the net book value of the capital asset or engineering system
 - (i) as of December 31, 2010, in the case of a capital asset or engineering system referred to in section 12.3(1)(a), or
 - (ii) as of the first day of the calendar year in which the capital asset or engineering system was commissioned, in the case of a capital asset or engineering system referred to in section 12.3(1)(b),

or

- (d) refrain from determining the cumulative capital cost or Initial Capital of the capital asset or engineering system, or both, as the case may be.

(10) If under subsection (7) or (9) the Minister does not agree with the operator's proposal and refrains from determining the cumulative capital cost or Initial Capital of a capital asset or engineering system, no portion of the capital unit charge or annual capital charge of the capital asset or engineering system is an allowed cost for the purposes of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008).

(11) The making of a determination by the Minister under this section in relation to the cumulative capital cost or Initial Capital of a capital asset or engineering system does not preclude the making

of a further determination by the Minister pursuant to an audit, or other process, of the cumulative capital cost or Initial Capital in relation to the same capital asset or engineering system.

AR 19/2012 s9;37/2017

Determination of cumulative capital cost

12.3(1) The cumulative capital cost of a capital asset or engineering system is determined as follows:

- (a) subject to section 12.2(9), in the case of a capital asset or engineering system that was commissioned prior to January 1, 2011, the cumulative capital cost of the capital asset or engineering system on January 1, 2011, is the sum of
 - (i) the costs incurred prior to January 1, 2011
 - (A) to construct or acquire the capital asset or engineering system, and
 - (B) to complete the capital asset or engineering system after it was commissioned, if any,
 - and
 - (ii) the costs incurred prior to January 1, 2011
 - (A) to construct or acquire each capital addition to the capital asset or engineering system that was commissioned prior to January 1, 2011, and
 - (B) to complete a capital addition referred to in paragraph (A) after the capital addition was commissioned, if any,
- less the sum of
 - (iii) the costs incurred to construct or acquire each part of the capital asset or engineering system that was placed into retirement prior to January 1, 2011, and
 - (iv) the costs incurred to construct or acquire each part of each capital addition to the capital asset or engineering system that was placed into retirement prior to January 1, 2011;
- (b) subject to section 12.2(9), in the case of a capital asset or engineering system that is commissioned on or after January 1, 2011, the cumulative capital cost of the capital asset or engineering system on the first day of the calendar year in which it is commissioned is the costs

incurred prior to that day to construct or acquire the capital asset or engineering system less the costs incurred to construct or acquire each part of the capital asset or engineering system that was placed into retirement prior to that day.

(2) A reference to “costs incurred” in subsection (1)(a) means

- (a) the costs incurred according to the records of the Department, or
- (b) if the Department does not have a record of the costs incurred, the costs incurred, as approved by the Minister, according to the records of the lessee, operator or another person.

(3) If, on or after the date as of which the cumulative capital cost of a capital asset or engineering system is determined under subsection (1)(a) or (b), costs are incurred during a calendar year to complete the construction or acquisition of the capital asset or engineering system, those costs shall, on January 1 of the next calendar year, be added to the cumulative capital cost of the capital asset or engineering system.

(4) If a capital addition is made to a capital asset or engineering system and the capital addition is commissioned during a calendar year that includes or follows the date as of which the cumulative capital cost of that capital asset or engineering system is determined under subsection (1)(a) or (b), the costs to construct or acquire that capital addition incurred prior to the date of such commissioning and the costs incurred to complete the capital addition incurred on or after that date and prior to the end of that calendar year shall be added to the cumulative capital cost of that capital asset or engineering system on January 1 of the next calendar year unless those costs are deemed by section 12.7(1.1) to be costs to operate the capital asset or engineering system.

(5) If, following the calendar year in which a capital addition to a capital asset or engineering system is commissioned as described in subsection (4), further capital costs are incurred in a calendar year to complete that capital addition, the capital costs shall be added to the cumulative capital cost of the capital asset or engineering system on January 1 of the next calendar year unless those costs are deemed by section 12.7(1.2) to be costs to operate the capital asset or engineering system.

(6) If, during a calendar year following the date as of which the cumulative capital cost of a capital asset or engineering system is determined under subsection (1)(a) or (b),

- (a) a part of the capital asset or engineering system is placed into retirement, or
- (b) a part of a capital addition to the capital asset or engineering system is placed into retirement,

the sum of the costs incurred to construct or acquire

- (c) the retired part of the capital asset or engineering system, or
- (d) the retired part of the capital addition to the capital asset or engineering system

shall, on January 1 of the next calendar year, be subtracted from the cumulative capital cost of the capital asset or engineering system.

AR 19/2012 s9;37/2017

Determination of Initial Capital, End Capital, and return on capital

12.4(1) In the case of a capital asset or engineering system that was commissioned prior to January 1, 2011, the Initial Capital of the capital asset or engineering system on January 1, 2011 is an amount equal to the net book value of the capital asset or engineering system on December 31, 2010.

(2) In the case of a capital asset or engineering system commissioned on or after January 1, 2011, the Initial Capital of the capital asset or engineering system on January 1 of the calendar year in which it is commissioned is an amount equal to the cumulative capital cost of the capital asset or engineering system determined under section 12.3(1)(b).

(3) Subject to subsection (4), the Initial Capital of a capital asset or engineering system on January 1 of a calendar year following the calendar year in which the Initial Capital of the capital asset or engineering system is first determined under subsection (1) or (2) is the sum of

- (a) the End Capital of the capital asset or engineering system for the preceding calendar year,
- (b) the costs incurred during the preceding calendar year to complete the construction or acquisition of the capital asset or engineering system, as determined under section 12.3(3), and
- (c) the costs to construct or acquire each capital addition to the capital asset or engineering system commissioned

during the preceding calendar year, as determined under section 12.3(4), unless those costs are deemed by section 12.7(1.1) to be costs to operate the capital asset or engineering system

less the sum of

- (d) the net book value of each part of the capital asset or engineering system that was placed into retirement during the preceding calendar year, and
- (e) the net book value of each part of each capital addition to the capital asset or engineering system that was placed into retirement during the preceding calendar year.

(4) If, following the calendar year in which a capital addition to a capital asset or engineering is commissioned, further capital costs are incurred in a calendar year to complete the capital addition, such capital costs shall be added to the Initial Capital of the capital asset or engineering system on January 1 of the next calendar year unless those costs are deemed by section 12.7(1.2) to be costs to operate the capital asset or engineering system.

(5) If the Initial Capital of a capital asset or engineering system on January 1 of a calendar year would otherwise be less than zero, the Initial Capital is zero.

(6) The End Capital of a capital asset or engineering system for a calendar year is the greater of

- (a) the difference between the Initial Capital of the capital asset or engineering system for the calendar year and the depreciation charge on the capital asset or engineering system for the calendar year, and
- (b) zero.

(7) Subject to section 12.7(8) and (9), return on capital in respect of a capital asset or engineering system for a calendar year is determined in accordance with the following formula:

$$\frac{(IC + EC)}{2} \times RRC \times \frac{\text{number of days}}{365}$$

where

EC is the End Capital of the capital asset or engineering system for the calendar year;

IC is the Initial Capital of the capital asset or engineering system for the calendar year;

number of days is

- (a) in respect of a capital asset or engineering system in service immediately prior to January 1, 2011, for a calendar year in which the capital asset or engineering system is not in retirement, 365,
- (b) in respect of a capital asset or engineering system that is commissioned on or after January 1, 2011, for the calendar year in which the capital asset or engineering system is commissioned, the number of days in the calendar year following the day the capital asset or engineering system is commissioned, provided that the capital asset or engineering system continued to provide service for the balance of the calendar year,
- (c) in respect of a capital asset or engineering system that is in service at the beginning of a calendar year and is placed into retirement during the calendar year, the number of days in the calendar year prior to the capital asset or engineering system being placed into retirement, and
- (d) in respect of a capital asset or engineering system commissioned on or after January 1, 2011 that is also placed into retirement during the same calendar year, the number of days in the calendar year following the day the capital asset or engineering system was commissioned to the date the capital asset or engineering system was placed into retirement;

RRC is the rate of return on capital for the calendar year.
AR 19/2012 s9;37/2017

Determination of unit charge

12.5(1) Subject to subsection (2), if a capital asset or engineering system has, in the opinion of the Minister, a readily identifiable measure of capacity, the unit charge for that capital asset or engineering system for a calendar year is the sum of the capital unit charge for the calendar year and the operating unit charge for the calendar year.

(2) If an operator can demonstrate to the satisfaction of the Minister that in accordance with sound engineering practice a capital asset or engineering system has been over-sized for the

benefit of the Project, when calculating the unit charge under subsection (1), the units of capacity to be used in the determination of both the capital unit charge and the operating unit charge of that capital asset or engineering system are the actual measured throughput of the capital asset or engineering system during that calendar year.

(3) For the purpose of determining units of capacity, the Minister may specify, by order, one or more classes of capital assets or engineering systems where section 12.1(1)(n)(ii) does not apply, so that for a capital asset or engineering system in a class so prescribed, “units of capacity” in respect of that capital asset or engineering system are its actual measured throughput during the calendar year.

(4) For a capital asset or engineering system that does not, in the opinion of the Minister, have a readily identifiable measure of capacity, the cost of service for a calendar year is the sum of the annual capital charge for that calendar year and the annual operating charge for that calendar year.

(5) If there is a need to calculate on a monthly basis the capital unit charge of a capital asset or engineering system providing non-arm’s length services to a Project calculated under subsection (1), or the annual capital charge of a capital asset or engineering system calculated under subsection (3), then the operator must estimate the applicable amount on an annualized basis, and divide the estimate by 12.

(6) The report filed by an operator pursuant to section 39 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) in respect of a Period must reflect the actual capital unit charge, if applicable, and the cost of service for each capital asset or engineering system for the Period.

AR 19/2012 s9

Determination of depreciation charge

12.6(1) Subject to section 12.7, the depreciation charge, in respect of a capital asset or engineering system, for a calendar year during which that capital asset or engineering system is providing a service for all or a portion of that calendar year is

- (a) for the calendar year in which the capital asset or engineering system is commissioned on or after January 1, 2011, the product of the cumulative capital cost of that capital asset or engineering system at the beginning of that calendar year multiplied by 0.04, multiplied by the number of days remaining in that calendar year after the date it was commissioned, divided by 365, and

(b) for each calendar year subsequent to the year in which the capital asset or engineering system is commissioned, the product of the cumulative capital cost of that capital asset or engineering system at the beginning of that calendar year multiplied by 0.04, provided that if the depreciation charge normally determined for a calendar year is greater than the Initial Capital for that calendar year, then the depreciation charge for that year will be deemed to be equal to the Initial Capital.

(2) Subject to subsection (3), if, prior to January 1, 2011, a capital asset or engineering system has been depreciated, according to the records of the Department, on a basis other than as described in subsection (1), the capital asset or engineering system shall continue to be depreciated on that basis for the 2011 and subsequent calendar years.

(3) If a capital addition to a capital asset or engineering system referred to in subsection (2) is commissioned on or after January 1, 2011, and as of end of the calendar year in which the capital addition is commissioned the costs to construct, acquire and complete the capital addition equal or exceed 10% of the cumulative capital cost of the capital asset or engineering system for that calendar year, the depreciation charge in respect of the capital asset or engineering system shall be determined in accordance with subsection (1)(b) for calendar years subsequent to the calendar year in which the capital addition is commissioned.

(4) In determining the depreciation charge in respect of a capital asset or engineering system, the cost of land is not included in the determination.

AR 19/2012 s9;104/2013;37/2017

Rules used to determine depreciation and return on capital

12.7(1) The rules set out in this section apply for the purpose of determining the cumulative capital cost of, the depreciation on, and return on capital in respect of, a capital asset or engineering system.

(1.1) If the costs of any capital addition to a capital asset or engineering system as determined under section 12.3(4) or 12.4(3)(c) or the costs of any capital addition to a capital asset or engineering system referred to in section 12.6(3)

- (a) are less than 10% of the cumulative capital cost of the capital asset or engineering system at the time the capital addition is commissioned, and
- (b) would otherwise satisfy the eligibility requirements under this Regulation as an allowed cost had the capital asset or engineering system formed part of the Project receiving

the service,

the costs of the capital addition are deemed to be costs to operate the capital asset or engineering system, as the case may be, and are not included in the Initial Capital or the cumulative capital cost of the capital asset or engineering system.

(1.2) If the costs to complete any capital addition to a capital asset or engineering system as determined under section 12.3(5) or 12.4(4)

- (a) are less than 10% of the cumulative capital cost of the capital asset or engineering system in respect of the calendar year in which the further completion costs are incurred, and
- (b) would otherwise satisfy the eligibility requirements under this Regulation as an allowed cost had the capital asset or engineering system formed part of the Project receiving the service,

the costs to complete the capital addition are deemed to be costs to operate the capital asset or engineering system, as the case may be.

(2) to (7) Repealed AR 37/2017 s12.

(8) If a capital asset or engineering system breaks down or otherwise ceases to provide service during a calendar year, depreciation on, and return on capital in respect of, that capital asset or engineering system for that calendar year will continue to be calculated as though the breakdown or loss of service had not occurred.

(9) For greater certainty, subsection (8) applies regardless of the length of the period of breakdown or loss of service and regardless of whether it is temporary or permanent.

(10) If there is any dispute between the Minister and the operator

- (a) as to whether a capital asset, engineering system or capital addition has been commissioned, or
- (b) as to the calendar year in which a capital asset, engineering system or capital addition was commissioned,

the Minister may in the Minister's discretion make such determination.

AR 19/2012 s9;104/2013;37/2017

**Cost of non-arm's length capital assets
or engineering systems**

13 The amount of an allowed cost of the Project incurred for a capital asset or engineering system that is included in the description of the Project is the least of

- (a) the amount charged to the Project for the capital asset or engineering system,
- (b) the fair market value of the capital asset or engineering system, where the Minister is satisfied that a fair market value can reasonably be determined, and
- (c) the net book value of the capital asset or engineering system
 - (i) to the lessee or operator of the Project, as the case may be, if the capital asset or engineering system is not obtained by either from another person, or
 - (ii) to any other person from whom the capital asset or engineering system is obtained by the lessee or operator of the Project,

at the time when the capital asset or engineering system is delivered to the Project site.

AR 231/2008 s13;19/2012

Definitions for valuation of transferred heat

13.1(1) In this section and sections 13.2 to 13.6,

- (a) "average hourly bitumen production rate" is the rate determined under section 13.3(b), expressed in cubic metres per hour;
- (b) "GRP" for a month is the Gas Reference Price for that month as prescribed by the Minister pursuant to section 7 of the *Natural Gas Royalty Regulation, 2009* (AR 221/2008);
- (c) "net hourly average synergy-adjusted useful heat transfer rate" is the rate determined under section 13.3(a), expressed in gigajoules per hour, which will be greater than zero if, on a net basis, useful heat is transferred from the non-Project components of an integrated project to the Project, and will be less than zero if, on a net basis, useful heat is transferred from the Project to the non-Project components of the integrated project;

- (d) “net synergy-adjusted useful heat transfer per unit of bitumen” means, in respect of a Project that comprises part of an integrated project, the quotient obtained by dividing the net hourly average synergy-adjusted useful heat transfer rate by the average hourly bitumen production rate, expressed in gigajoules per cubic metre;
- (e) “net synergy-adjusted useful heat transfer quantity” means, in respect of a Project that comprises part of an integrated project, in any month or Period, the product of the net synergy-adjusted useful heat transfer per unit of bitumen for that Project and the quantity of bitumen, in cubic metres, delivered in that month or Period to the royalty calculation point of the Project, expressed in gigajoules;
- (f) “site wide thermal energy value” with respect to an integrated project, in any month or Period, is the energy-weighted average cost, expressed in dollars per gigajoule, of all fuels used to produce heat in the integrated project, for that month or Period;
- (g) “synergy factor” is 0.66;
- (h) “useful heat” means heat that is put to use in Project operations.

AR 19/2012 s11

Determining the value of useful heat

13.2 For the purposes of determining the value of useful heat in process streams transferred to or from a Project that forms part of an integrated project, the Minister may, by order or otherwise, specify any of the following or specify methodologies for determining any of the following:

- (a) the value of
 - (i) transferred heat,
 - (ii) manufactured fuel gases, including syngas and upgrader produced fuel gas,
 - (iii) petroleum coke,
 - (iv) carbon monoxide gas derived from the combustion of petroleum coke, and
 - (v) natural gas;

- (b) the net synergy-adjusted useful heat transfer per unit of bitumen;
- (c) the site wide thermal energy value.

AR 19/2012 s11

Determining components for calculating value of useful heat transferred

13.3 For each Project that comprises part of an integrated project, the Minister shall determine

- (a) the net hourly average synergy-adjusted useful heat transfer rate, with respect to heat in process streams, according to engineering design specifications and under normal operating conditions, between the non-Project components of the integrated project and the Project, expressed in gigajoules per hour,
- (b) the average hourly bitumen production rate of the Project, expressed in cubic metres per hour, according to engineering design specifications and under normal operating conditions, and
- (c) the site wide thermal energy value, expressed in dollars per gigajoule.

AR 19/2012 s11

Methodologies may be specified

13.4(1) The Minister may, by order or otherwise, specify the methodologies required to calculate

- (a) the net hourly average synergy-adjusted useful heat transfer rate of an integrated project,
- (b) the average hourly bitumen production rate of a Project that forms part of an integrated project, and
- (c) the site wide thermal energy value of an integrated project.

(2) If the operator of a Project that comprises part of a integrated project is of the opinion that one or more of the methodologies specified by the Minister in respect of those items listed in subsection (1) are not applicable to or appropriate for the Project that forms part of the integrated project, the operator may apply to the Minister, in the manner specified by the Minister, stating its reasoning as to why the methodology or methodologies are not applicable or appropriate.

(3) In an application made under subsection (2), an operator must provide its suggestion as to what methodology or methodologies it considers applicable or appropriate.

(4) Where the Minister disagrees with the methodology or methodologies suggested by the operator pursuant to subsection (3), the Minister may by order specify the methodology or methodologies to be used, which may differ from the methodology or methodologies prescribed in subsection (1) and those suggested by the operator under subsection (3).

(5) The Minister may, on his own initiative or on the request of an operator or lessee, from time to time recalculate one or more of the items referred to in subsections 13.3(a) to (c).

AR 19/2012 s11

Calculation of site wide thermal energy value

13.5 In determining the site wide thermal energy value for an integrated project,

- (a) the cost of any natural gas used to generate heat must be calculated in accordance with this Regulation,
- (b) the cost of any syngas used to generate heat in a month must be calculated as 100% of the GRP for that month,
- (c) the cost of any upgrader produced fuel gas used to generate heat in a month must be calculated as 90% of the GRP for that month, and
- (d) the cost of any petroleum coke used to generate heat is deemed to be zero.

AR 19/2012 s11

Results of calculation of value of useful heat transferred

13.6(1) If the product of the net synergy-adjusted useful heat transfer quantity for an integrated project and the site wide thermal energy value of that integrated project for a month or Period is greater than zero, that product is an allowed cost of the Project that forms part of the integrated project for that month or Period.

(2) If the product of the net useful synergy-adjusted heat transfer quantity for an integrated project and the site wide thermal energy value of that integrated project for a month or Period is less than zero, the additive inverse of that product forms an other net proceed of the royalty Project that forms part of the integrated project for that month or Period.

AR 19/2012 s11

Calculated value

14(1) If the Minister is of the opinion that a fair market value or a cost of service, that is required by a provision of this Division to be used in determining the amount of an allowed cost, cannot reasonably be determined pursuant to this Division, the Minister may, employing engineering, economic or financial principles, determine a calculated value for the fair market value or cost of service, as the case may be.

(2) If the Minister has determined a calculated value pursuant to subsection (1), the calculated value is to be used in the relevant provision of this Division in place of the required fair market value or cost of service, as the case may be.

**Part 3
Deemed Allowed Costs**

Allowed costs on and after January 1, 2009

15(1) The net loss of a Project for a post-payout Period commencing on or after January 1, 2009 is an allowed cost of the Project for the next post-payout Period.

(2) Any royalty compensation paid in respect of royalty calculated under section 29(2)(a) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) in respect of a Project for a post-payout Period commencing on or after January 1, 2009 is, to the extent it exceeds the royalty compensation that would otherwise have been paid in respect of royalty calculated under section 29(2)(b) of that Regulation in respect of the Project for the same Period, an allowed cost of the Project for the next post-payout Period.

(3) The product calculated by multiplying

(a) the excess, if any, of

(i) the cumulative cost of a Project as of the last day of a month of a pre-payout Period of the Project commencing on or after January 1, 2009,

over

(ii) the cumulative revenue of the Project as of the same day,

by

(b) the return allowance rate for the month

is an allowed cost of the Project for the following month, unless subsection (6) applies.

(4) The product calculated by multiplying the return allowance rate of a Project for a post-payout Period commencing on or after January 1, 2009

- (a) by the product of 183/365 and the net loss, if any, of the Project for the Period, if
 - (i) the preceding post-payout Period also commenced on or after January 1, 2009 and a net loss did not also arise in respect of the Project for that preceding post-payout Period, or
 - (ii) the preceding post-payout Period ended on December 31, 2008 and a net loss, as defined in the Prior Regulation, did not also arise in respect of the Project for that preceding post-payout Period,
- (b) by the net loss, if any, of the Project for the Period, if
 - (i) the preceding post-payout Period also commenced on or after January 1, 2009 and a net loss also arose in respect of the Project for that preceding post-payout Period, or
 - (ii) the preceding post-payout Period ended on December 31, 2008 and a net loss, as defined in the Prior Regulation, also arose in respect of the Project for that preceding post-payout Period,

or

- (c) by the portion specified by the Minister of the net loss, if any, of the Project for the Period, in any other case,

is an allowed cost of the Project for the next post-payout Period, unless subsection (6) applies.

(5) The prior net cumulative balance of a Project expansion is, to the extent it is a positive amount, an allowed cost of the Project to which the expansion relates, for the Period in which the effective date of the Project expansion occurs, if that Period is a post-payout Period.

(6) The products referred to in subsection (3) in respect of any month of a pre-payout Period of a Project and in subsection (4) in respect of a post-payout Period of the Project, as the case may be, are not allowed costs of the Project for the next month or next post-payout Period, respectively, if the Minister has notified the operator of the Project that the Minister is of the opinion that operations in respect of the Project have been or are substantially

suspended or abandoned for a period of time and the month or post-payout Period, respectively, falls within that period.

(7) The excess, if any, of

- (a) the cumulative cost of a Project as of the day preceding the Project payout date, where the Project payout date is on or after January 1, 2009,

over

- (b) the cumulative revenue of the Project as of the same day

is an allowed cost of the Project for the Period starting on the Project payout date.

(8) If the unit price applicable to the quantity of blended bitumen containing the Crown's royalty share of cleaned crude bitumen obtained pursuant to a Project and delivered at a royalty calculation point for the cleaned crude bitumen in a month of a pre-payout Period or in a post-payout Period

- (a) is zero or a negative amount, the cost of diluent included in the blended bitumen is an allowed cost of the Project for the next month or Period, respectively, or
- (b) is a positive amount, the excess, if any, of
 - (i) the cost of diluent included in the blended bitumen,over
 - (ii) the product of the unit price and the quantity of the blended bitumen

is an allowed cost of the Project for the next month or Period, respectively.

(9) If an amendment of a Project is approved under section 11(2) of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008) that provides for the amalgamation of

- (a) a Project for which the Project payout date has not occurred as of the day preceding the effective date of the amendment, and
- (b) one or more other Projects for at least one of which the Project payout date has occurred as of the day preceding the effective date of the amendment,

the excess, if any, of

- (c) the cumulative cost of the Project referred to in clause (a) as of the last day preceding the amendment Period of the Project,

over

- (d) the cumulative revenue of the Project as of that last day

is an allowed cost of the amalgamated Project for the first amalgamated Period of the amalgamated Project.

(10) In subsection (9), “amendment Period”, “amalgamated Project” and “first amalgamated Period” have the meaning given to those terms in section 24 of the *Oil Sands Royalty Regulation, 2009* (AR 223/2008).

AR 231/2008 s15;104/2013

Carry-over of allowed costs under Prior Regulation

16(1) If an amount is, pursuant to section 4(a), (b) or (d) of Schedule 1 or 2 of the Prior Regulation, as the case may be, an allowed cost of a Project for a next post-payout Period of the Project and that next Period commences on January 1, 2009, that amount is, for the purposes of this Regulation and without duplication, an allowed cost of the Project for that next Period, unless subsection (3) applies.

(2) If an amount is, pursuant to section 4(c) of Schedule 1 or 2 of the Prior Regulation, as the case may be, an allowed cost of a Project for a following month and that following month is January 2009, that amount is, for the purposes of this Regulation and without duplication, an allowed cost of the Project for January 2009, unless subsection (3) applies.

(3) The products referred to in section 4(c) and (d) of Schedules 1 and 2 of the Prior Regulation that are otherwise deemed by subsection (1) or (2) of this section, respectively, to be allowed costs of a Project in respect of the post-payout Period of the Project commencing January 1, 2009, or in respect of January 2009, as the case may be, are not allowed costs of the Project if the Minister has notified the operator of the Project that the Minister is of the opinion that operations in respect of the Project have been or are substantially suspended or abandoned for a period of time and the post-payout Period of the Project ending December 31, 2008, or December of 2008, respectively, falls within that period.

**Part 4
Application of Schedules 1 and 1.1
and Coming into Force**

Application of Schedules 1 and 1.1

16.1(1) Schedule 1 is effective in respect of costs incurred in the period January 1, 2009 to December 31, 2016.

(2) Schedule 1.1 is effective in respect of costs incurred in the period beginning January 1, 2017.

AR 37/2017 s14

17 Repealed AR 37/2017 s15.

Coming into force

18 This Regulation comes into force on January 1, 2009.

**Schedule 1
(Effective in respect of costs incurred in the period
January 1, 2009 to December 31, 2016)**

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
1	Obtaining Regulator approvals required for the Project as follows: <ul style="list-style-type: none"> - preparing and presenting the application to the Regulator (“Regulator application”) for approval of Project operations, or facilities, to be included in the Project - acquiring baseline environmental data required for the Regulator application - preparing and supporting environmental impact assessments for those areas required by the Regulator - holding community or stakeholder meetings to obtain feedback and concerns regarding the Regulator application 	

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
2	Preparation of the Project lands for oil sands mining, including: <ul style="list-style-type: none"> - tree clearing and removing and stockpiling overburden on Project lands, and drilling geotechnical wells on Project lands for siting Project mines and facilities 	
2.1	Construction of facilities or assets on Project lands, including well pads, access roads and containment berms, including: <ul style="list-style-type: none"> - the quarrying on Project lands of construction materials required for these activities 	
2.2	Construction of those facilities or assets located off Project lands and specifically listed within the description of the Project as being a Project facility or asset	
3	In relation to oil sands mining Projects, the acquisition and operation of: <ul style="list-style-type: none"> - shovels, dozers, trucks, mining and construction equipment and similar earth moving equipment In relation to oil sands mining Projects, the construction, acquisition and operation on Project lands of: <ul style="list-style-type: none"> - haulage roads - power lines and service facilities - mine pits and site drainage - mine utilities, including those required for power and steam generation 	
4	In relation to recovering in-situ oil sands products, the following activities on Project lands: <ul style="list-style-type: none"> - drilling, re-drilling, completing, recompleting, plugging and abandoning and deepening wells for the recovery of oil sands product - constructing well pads and surface facilities - pumping systems for the recovery of oil sands products 	

Schedule 1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<ul style="list-style-type: none"> - gathering and processing solution gas, unless the assets required are removed from the description of the Project - installing lift gas systems, casing gas and solution gas separation and conservation equipment - removing basic sediment and water, gas and solvents using crude bitumen separators - heating bitumen in tank heaters - treating raw water, de-oiling produced water and bitumen and recycling produced water - installing fuel gas compression and distribution systems - installing and operating flare systems composed of flare headers, knock-out drums and flare stacks - blending diluent and operating diluent blending facilities - constructing and operating steam generation facilities for in-situ operations - drilling or converting existing wells to observation wells, water source wells, water disposal wells or injection wells for water, steam or emulsion - enhancing primary production with water, polymer and solvent floods and gas injection - constructing and operating water, effluent, bitumen, steam, gas and solvent pipelines - constructing and operating surface disposal pits 	
5		<p>Drilling and completing gas wells, or converting bitumen or other wells to a crude oil or natural gas well</p> <p>Any work on any portion of a crude oil or natural gas well</p>

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
6	<p>In relation to recovering oil sands from mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - truck dump hoppers - crushers and sizers - surge bins, conveyors, feeders - separation cell feed sumps, conditioning drums, feed conveyors, rotary breakers, vibrating screens - reject conveyors, oversize rejects bin - pump boxes, hot and fresh water pipelines - power transmission lines to ore preparation and conditioning facilities - hot process water exchangers, hydro transport units, including pumps, surge cells and pipelines 	
7	<p>In relation to primary extraction of oil sands products from oil sands in mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - separation cells, secondary flotation systems, hydro cyclone banks and tertiary flotation systems - tailings pump stations and separation bottoms density control systems - feed pumps, pipelines and electrical systems 	
8	<p>In relation to secondary extraction of oil sands products from oil sands in mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - raw bitumen pipelines - froth launderers, settlers, de-aerators, froth recycle system and feed pumps 	

Schedule 1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<ul style="list-style-type: none"> - centrifuge feed systems, flotation banks or scavenger banks and interstage storage tanks - froth pumps, froth settler bottoms pumps, inclined plate separation units, cyclone banks, sumps and pumping systems - diluent storage and handling systems and diluent pipelines - froth treatment filters and centrifuges - diluted bitumen tanks (tank farm) and vapour recovery units - condenser and cooling water pumps - diluent recovery units, if specifically included in the description of a Prior Project - flare systems composed of flare headers, knock-out drums and flare stacks 	
9	<p>In relation to tailings management in oil sands mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - consolidated tailings plant, tailings lines, final tailings pump house, all pump trains and support equipment, including hydro cyclones for minerals separation - tailings ponds (including extraction tailings, upgrading process waters and mine pit drainage waters) - dikes - tailings pump house - piezometers - wildlife deterrent systems 	
10	<p>In relation to transportation of oil sands products on Project lands, the construction, acquisition and operation of</p> <ul style="list-style-type: none"> - on-Project pipelines - intra-Project transport of oil sands 	Pipelines that do not begin and terminate on Project lands

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	and oil sands products - oil sands product pumping stations - trucking crude bitumen from Project wells to a central storage facility or to an on-Project pipeline terminal	
11	Natural gas, diesel, gasoline or other fuels not produced from Project leases purchased for consumption in undertaking Project operations	Solution gas exempted from royalty under the <i>Natural Gas Royalty Regulation, 2009</i> (AR 221/2008). Any other fuels arising from Project substances consumed within the Project, prior to those fuels being processed in non-Project operations to produce other kinds of discrete oil sands product
11.1	The value of useful heat, as determined by the Minister, that is transferred from an integrated upgrader to a Project that forms part of an integrated project, for use in the Project's operations	
12	Transporting Project operations personnel or materials to or from Project lands and on Project lands	
13	In relation to storage of oil sands products on Project lands, the construction, acquisition and operation of: - tank farms In relation to storage facilities of oil sands products on Project lands, the labour and materials for the construction, acquisition and operation of the following: - pumping facilities - dikes - fire foam injection systems and inert gas blanket systems - dewatering facilities - vapour recovery units - slop oil tanks	
14	Processing of crude bitumen recovered from the Project leases in one or more non-Project processing plants to produce cleaned crude bitumen before the cleaned crude bitumen so produced is delivered to a royalty calculation point	

Schedule 1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
15	Transporting crude bitumen recovered from the development area of the Project from the Project to a non-Project processing plant where cleaned crude bitumen is obtained from the crude bitumen before the cleaned crude bitumen is delivered at a royalty calculation point for the cleaned crude bitumen	
16	Purchasing, transporting and handling of non-Project oil sands products, for processing or reprocessing in one or more processing plants that are part of the Project	
17	Diluent used by a Project, provided the diluent does not form part of handling charges in determining unit price	
18	<p>In relation to utilities required for Projects, the construction, acquisition and operation of the following equipment and facilities on Project lands:</p> <ul style="list-style-type: none"> - boiler feed water system, including water clarifying, filtering and treatment facilities, softeners and demineralization units, boiler feed water pumps and distribution system, and de-aerators if not a dedicated part of a boiler - raw water system, including raw water pump houses and pumps, flow lines and valves, tanks and basins, raw water filtering and treatment facilities - cooling water system, including cooling water pump houses and pumps, flow lines, cooling water towers, cooling water filtering and chemical treatment facilities - steam generation system, including main boilers, once through steam generators, back pressure steam turbine generators, gas turbine waste heat boilers, steam distribution systems and other heat recovery steam generator system cogeneration units - backup steam units used as standby steam production units 	

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<ul style="list-style-type: none"> - fuel gas system providing fuel and natural gas to fired heaters and steam methane reformers, composed of flowlines, valves, odoriser, knockout and mixing drums and pressure reducers - electricity transmission system, including transmission lines, insulating and support structures, substations, transformers and switchgear, operational, telecommunication and control devices - electrostatic precipitator units - utilities plant flue gas desulphurization units - hot water pipelines - natural gas pipelines - diesel pipelines - (gypsum) tailings pipelines - recycled water pipelines - instrument air system, including instrument air compressors, air treatment facilities and air distribution system - other utility distribution systems including potable water lines, waste water lines, sewer lines, sour water lines and slop oil lines - fire water system, comprising fire water tank and basins, fire hydrants and monitors, fire water mains and distribution system, fire water pumps and fire water pump building - emergency power system, including backup and emergency generation equipment, dedicated transformers, cables, controls and switchgear - control system, including control room equipment (panels, cabinets, operator interface), field instruments, junction boxes, multiplex, cables and cable trays, control room building and field auxiliary rooms 	

Schedule 1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<ul style="list-style-type: none"> - flare systems composed of flare headers, knock-out drums and flare stacks In relation to utilities required for mining Projects, the construction, acquisition and operation of the following equipment and facilities on Project lands: <ul style="list-style-type: none"> - (gypsum) tailings pipelines In relation to utilities required for in situ Projects, the construction, acquisition and operation of the following equipment and facilities on Project lands <ul style="list-style-type: none"> - water treatment plants, settling ponds, filters, softeners and de-aerators - boiler water feed pumps - water storage and distribution systems, fire water systems and potable water systems - pumping stations and pump houses - gas fired package boiler facilities - compressor building - steam distribution systems - air systems - waste water systems - waste heat recovery systems, cooling towers and ponds - oil spill preparedness systems - natural gas import pipeline and distribution pipelines 	
19	<p>The construction, acquisition and operation of the following equipment and facilities used on Project lands:</p> <ul style="list-style-type: none"> - ecology pits, land fill sites, waste management, wastewater treatment, sewage systems and hazardous waste storage buildings 	

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<ul style="list-style-type: none"> - closed sewer system, separators for oil-contaminated water, slop oil tanks, settling tanks, sewage treatment system and sour water treatment system to treat waste water - fire hall, fire prevention and suppression systems - emergency health and safety systems and buildings - maintenance shops and fuelling stations - truck loading and offloading facilities - air and heating utilities - cogeneration plants - non-cogeneration electricity generation equipment, including backup and emergency generation equipment - power transmission lines and substations - control rooms and buildings - instrumentation, monitoring and control systems - camps, including food services facilities - equipment trailer - road use charges paid to third parties to access Project lands - buildings, equipment and service complexes, used for maintaining heavy equipment - roads and bridges included in the description of the Project, connecting Project facilities - airstrips and associated facilities included in the Project description 	

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
20	Except as set out in Column 2, complying with Board or Alberta Environment and Sustainable Resource Development requirements regarding Project air and water quality, soil and wildlife monitoring	A contribution, whether monetary or otherwise, made in support of the activities set out in the approved annual monitoring plan developed in accordance with the Oil Sands Environmental Monitoring Program
21	Acquiring, modifying or installing, operating and maintaining equipment on Project lands to reduce, or capture and dispose of, greenhouse gas emissions	
22	Abandonment, reclamation and decommissioning as a result of Project operations as follows: <ul style="list-style-type: none"> - deposits paid to the Crown to ensure the proper reclamation of Project lands - payments required by the Crown to secure reclamation of Project lands - performing reclamation work on the Project lands - abandoning and decommissioning surface and subsurface facilities 	Cost of abandonment of non-Project wells (PNG, etc.), regardless of whether such activities promote bitumen recovery and regardless of whether required by the Regulator The cost of orphan well levies imposed by the Regulator
23	Communications infrastructure located on Project lands Equipment used for remote control of Project facilities	
24	Repair and maintenance of Project assets, including direct labour, benefits, materials and supplies, and work performed by other companies or individuals expended in performing such repair and maintenance	
25	Safety equipment and safety manuals, and costs of preparing and implementing emergency and disaster recovery procedures for the Project	
26	Insurance premiums under a contract of insurance, as defined in the <i>Insurance Act</i> , providing for property insurance in relation to profits, earnings, pecuniary interests and indirect losses of the lessees or operator of the Project	
27	Acquiring surface lands included in Project lands	Purchasing oil sands agreements from prior lessees

Schedule 1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	<p>Annual rental required as part of Crown oil sands agreements within Project lands</p> <p>Rent or lease payments for use of surface areas included in Project lands</p> <p>Work performed on or in respect of the mineral rights in the development area of the Project or to create wells, facilities, roads, pipelines or other assets or infrastructure that is part of the Project in order to earn the interest or estate (i.e., farm-ins)</p>	<p>Bonus bids paid to the Crown for an oil sands agreement</p> <p>Escalating rental payments made under the <i>Oil Sands Tenure Regulation</i> (AR 50/2000) or the <i>Oil Sands Tenure Regulation, 2010</i> (AR 196/2010)</p>
28	Municipal taxes and improvement fees of the type common to all individuals or industries	
29	Compensation paid to registered individual trappers whose trap lines are impacted directly by Project operations	
30	Purchasing a licence or the right to use intellectual property that is used directly for the recovery, production, or processing activities within Project operations	
31	<p>Any training facility or area exclusively dedicated toward providing training services to one or more approved Projects</p> <p>Any warehouse exclusively dedicated toward providing inventory services to one or more approved Projects</p>	<p>Any training facility or area not exclusively dedicated toward providing training services to one or more approved Projects</p> <p>Any warehouse not exclusively dedicated toward providing inventory services to one or more approved Projects</p>
32	<p>Exploration and delineation drilling, geophysical surveys on Project lands</p> <p>Evaluating data acquired with respect to Project lands</p>	Costs of exploration or delineation drilling, geophysical surveys outside Project lands or evaluating the data acquired
33	Planning, designing and engineering Project facilities	
34	Penalties or other compensation paid to an arm's length party, not including any government, that are required to be paid under a written contractual obligation when the operator is unable to complete the terms of a contract	Penalties for late or deficient payment on any borrowing charge
35	Legal services in relation to a claimed breach of private law matters arising as a result of	Legal services required in relation to a claimed breach of applicable laws, rules or regulations of any

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
	undertaking Project operations	government or government agency Legal services required in relation to the shutting in of natural gas in oil sands areas, where the Crown is one of the parties
36	Recruitment advertising solely to attract potential employees to undertake Project operations Travel and accommodation costs of the potential candidate attending an interview for a position to perform Project operations The travel and accommodation costs of non-Project staff that attend recruitment fairs or specific recruitment initiatives in search solely of employees to undertake Project operations	
37	Employee gifts, rewards and similar products arising from Project specific recognition and awards programs	Gifts, rewards and similar products or promotional items for non-Project employees Employee gifts, rewards and products arising from corporate initiatives or corporate recognition and reward programs Promotional items not associated with a recognition and reward program
38	Bonuses given to Project employees based on those employees or the Project achieving or exceeding specific, pre-defined performance criteria for the individual or the Project, as the case may be Signing bonus or retention bonus payments	Bonuses given based on achieving or exceeding non-Project based performance criteria
39	Hosting and entertainment costs limited to employees conducting Project operations and their immediate family, to the extent allowed as a deduction in computing income under the <i>Income Tax Act</i> (Canada)	Any hosting and entertainment costs which are not exclusive to Project operations, Project employees and their immediate family
40	Information technology hardware on Project lands and dedicated to Project operations Project specific software licenses for personnel conducting Project operations	

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
41	<p>Supplies and labour for administration in field offices located on Project lands</p> <p>Parking areas and security gates on Project lands</p> <p>Administration buildings for general administration, office support and engineering on Project lands</p>	
42	<p>Subscriptions to periodicals and journals where any individual subscription is \$500.00 or less per year</p>	
43		<p>Sponsorship, donations or gifts to cultural, charitable, sporting or community initiatives</p> <p>Matching employee contributions to any of the above</p> <p>Purchase of naming rights for buildings or other facilities</p>
44		<p>Funding provided for scholarships</p>
45	<p>Business and economic feasibility studies exclusively prepared to address problems of immediate applicability for the recovery, production or processing activities within Project operation</p> <p>Contracts that hedge price risk specifically in relation to allowed costs of a Project or currency required to pay those costs</p>	<p>Any activity related to debt or equity financing</p> <p>Foregone opportunity costs resulting from the non-arms length supply of goods and services to Project operations even though potentially more profitable third party transactions are available with respect to those goods and services</p> <p>Any business or economic feasibility studies not included in Column 1</p>
46		<p>Production of promotional or informational material for investors or potential investors</p> <p>Arranging and hosting tours of the Project</p>
47	<p>Consultation in respect of the proposed or current Project operations, limited to:</p> <ul style="list-style-type: none"> - notifying stakeholders - meeting facilities - conducting meetings of stakeholders, including hosting 	<p>Consultation initiatives or studies concerning regional matters</p> <p>Any amount paid or the costs of items given to stakeholders not arising from:</p> <ul style="list-style-type: none"> - participation in regulatory proceedings or consultation in respect of the proposed or current Project operations as limited to Column 1

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - trapper compensation under Column 1 <p>The following costs of consultation or of membership or participation in associations, organizations or corporations:</p> <ul style="list-style-type: none"> - membership and participation in, or contributions to, business or industry associations or organizations, including but not limited to: Canadian Association Petroleum Producers (CAPP), Small Explorers and Producers Association of Canada (SEPAC), The Oil Sands Developers Group, Canadian Oil Sands Network for Research and Development (CONRAD), Petroleum Technology Alliance of Canada (PTAC), Alberta Chamber of Resources (ACR), the In-Situ Oil Sands Alliance or the Conference Board of Canada, Canada's Oil Sands Innovation Alliance (COSIA), Solvent Heat Assisted Recovery Process Research Consortium (SHARP) or Canadian Crude Quality Technical Association (CCQTA) - membership and participation in, or contributions to, local or community organizations, regional organizations or interest groups, including but not limited to: the Cumulative Effects Management Association (CEMA), the Lakeland Industry and Community Association (LICA) and the Athabasca Tribal Council (ATC)
48		<p>Any loss arising as a result of a disposition of accounts receivable</p> <p>Uncollected portions of any account receivable</p>
49		<p>Any amount deducted in the determination of unit price</p>
50		<p>Interest or any other borrowing or financing charges, including the financing component of capital leases</p>

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<p>Charges for late payment or payment shortfalls</p> <p>Any fines, penalties or payments made for non-compliance with any legally enforceable obligation imposed by <u>any government</u></p>
51	<p>External audits required for the purposes of reporting called for by the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008), in relation to the Project</p>	<p>Audits other than those required under the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008)</p>
52		<p>Amounts assessed by the Regulator as part of industry's share of the Regulator's funding (Regulator levies)</p>
53		<p>Depreciation, except as specifically permitted in this Regulation</p>
54		<p>Dispute resolution processes, including a referral under section 35 of the Prior Regulation or under section 48 of the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008) of arbitration or of litigation, of any dispute with the Crown in connection with any matter relating to royalty, royalty compensation, interest or any penalty payable or paid to the Crown in relation to the Project</p>
55	<p>Amounts paid as Overriding Royalty as specified in Schedule 3, section 101(n) of the <i>Metis Settlements Act</i></p>	<p>Overriding royalty interests, carried interests, net profit interests or any similar interest</p>
56	<p>Research personnel and their consumed supplies toward the development of technology to solve a problem of immediate applicability for the recovery, production or processing activities within Project operations</p> <p>Any research facility, laboratory or area exclusively dedicated toward the development of technology to solve problems of immediate applicability for the recovery, production or processing activities within Project operations</p>	<p>Research that provides the foundation for further research, or research conducted without any defined practical end pointing to practical applications</p> <p>Any research facility, laboratory or area not exclusively dedicated toward the development of technology to solve problems of immediate applicability for the recovery, production, or processing activities within Project operations</p> <p>Management fees or membership fees in research organizations</p> <p>Research grants, research chairs and research fellowships to educational and research institutions</p>

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
57	<p>Salaries, wages, benefits, training, travel and accommodations for employees solely dedicated to carrying out Project operations</p> <p>Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing information technology, administration, accounts payable or office support work and solely dedicated to Project operations</p> <p>Salaries, wages, benefits, training, travel and accommodations, for employees to the extent those employees carry out Project operations in the following circumstances:</p> <ul style="list-style-type: none"> - legal counsel for matters integral to furthering Project operations - providing production accounting and royalty accounting for oil sands products - purchasing assets, materials or supplies delivered for use in, or disposing from, Project operations - conducting recruitment, classification, employee relations activities for employees carrying out Project operations - carrying out engineering activities for Project operations - carrying out marketing activities for oil sands products <p>Relocation and severance (including associated relocation and training expenses in respect of that severance) for employees solely dedicated to Project operations</p>	<p>Salaries, wages, benefits, bonuses, stock options, training, travel and accommodations, relocation and severance (including associated relocation and training expenses in respect of that severance) for executive or management employees not solely dedicated to Project operations</p> <p>Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing information technology, administration, accounts payable or office support work and not solely dedicated to Project operations</p> <p>Relocation and severance (including associated relocation and training expenses in respect of that severance) for employees not solely dedicated to Project operations</p>
58	<p>Office assets and equipment (and their maintenance) exclusively used for the Project regardless of location.</p>	<p>The following items not exclusively used for the Project, regardless of whether a portion of the labour cost of the user may be an allowed cost:</p> <ul style="list-style-type: none"> - office assets and equipment (and their maintenance) not located on Project lands - telecommunications and

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		information technology support, where the items supported are not located on Project lands - all line charges associated with telephones or other telecommunications equipment, not used for remote control of facilities or operations, where those telephones or other telecommunications equipment are not located on Project lands
59	Third party office space leases, including operating costs associated therewith, for office space located off Project lands, exclusively accommodating Project personnel carrying out Project operations	Office space leases, including operating costs associated therewith, for office space located off Project lands which accommodates Project and non-Project personnel
60	Repealed AR 340/2009 s3	

AR 231/2008 Sched. 1.;340/2009;19/2012 s13;104/2013; 40/2014;45/2014;37/2017

**Schedule 1.1
(Effective in respect of costs incurred in the period beginning
January 1, 2017)**

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
1	Abandonment and reclamation	Abandonment, reclamation and decommissioning as a result of Project operations as follows: - cash payments to the Crown, Regulator, or another person approved by the Minister, which are required by the Crown or Regulator to provide security to ensure the proper reclamation of Project lands	Cost of abandonment of non-Project wells (PNG, etc.), regardless of whether such activities promote crude bitumen recovery and regardless of whether required by the Regulator The cost of levies imposed by the Regulator in respect of orphan wells and orphan facilities

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - administration fees paid to a financial institution to obtain a letter of credit which is used to provide security, as required by the Crown or the Regulator, to ensure the proper reclamation of Project lands - performing reclamation work on Project lands - abandoning and decommissioning surface and subsurface facilities 	<p>Payments required by the Regulator in respect of the Licensee Liability Rating Program, Large Facility Liability Management Program, and the Oilfield Waste Liability Program</p>
2	Accounts receivable losses		<p>Any loss arising as a result of a disposition of accounts receivable</p> <p>Uncollected portions of any account receivable</p>
3	Audit	<p>External audits required for the purposes of reporting as required by the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008)</p>	<p>Audits other than those required under the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008)</p>
4	Bonuses	<p>Bonuses given to a Project employee, based on that employee or the Project achieving or exceeding specific, pre-defined performance criteria for the employee or the Project, as the case may be, to the extent and in the same proportion as that employee's salary, wages and benefits are an allowed cost pursuant to this Regulation</p> <p>Signing bonus or retention bonus payments given to a Project employee, to the extent and in the same proportion as that employee's salary, wages and benefits are an allowed cost pursuant to this Regulation</p> <p>Cash payments made in the settlement year, to an employee performing Project Operations, other than to an executive or management employee, to settle stock option plans to the extent of, and in the same proportion as, that</p>	<p>Bonuses and stock options other than as set forth in Column 1 of this item</p>

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<p>employee's salary, wages and benefits are an allowed cost pursuant to this Regulation</p> <p>Cash payments made in the settlement year, to an executive or management employee, solely performing Project operations, to settle stock option plans</p>	
5	Common to in-situ and mining — facilities and equipment	<p>The construction, acquisition and operation of the following equipment and facilities used on Project lands:</p> <ul style="list-style-type: none"> - ecology pits, land fill sites, waste management, waste water treatment, sewage systems and hazardous waste storage buildings - closed sewer system, separators for oil-contaminated water, slop oil tanks, settling tanks, sewage treatment system and sour water treatment system to treat waste water - fire hall, fire prevention and suppression systems - emergency health and safety systems and buildings - maintenance shops and fuelling stations - truck loading and offloading facilities - air and heating utilities - cogeneration plants - non-cogeneration electricity generation equipment, including backup and emergency generation equipment - power transmission lines and substations - control rooms and buildings - instrumentation, monitoring and control systems - camps, including food services facilities - equipment trailers - road use charges paid to third parties to access Project lands 	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - buildings, equipment and service complexes, used for maintaining heavy equipment - roads and bridges included in the description of the Project, connecting Project facilities - airstrips and associated facilities included in the description of the Project 	
6	Common to in-situ and mining — recovering bitumen	<p>In relation to recovering oil sands products, the following activities on Project land:</p> <ul style="list-style-type: none"> - treating raw water, de-oiling produced water and bitumen and recycling produced water - installing and operating flare systems composed of flare headers, knock-out drums and flare stacks - constructing and operating surface disposal pits 	
7	Common to in-situ and mining — utilities and engineering systems	<p>In relation to utilities required for Projects, the construction, acquisition and operation of the following equipment and facilities on Project lands:</p> <ul style="list-style-type: none"> - boiler feed water system, including water clarifying, filtering and treatment facilities, softeners and demineralization units, boiler feed water pumps and distribution system, and de-aerators if not a dedicated part of a boiler - raw water system, including raw water pump houses and pumps, flow lines and valves, tanks and basins, raw water filtering and treatment facilities - cooling water system, including cooling water pump houses and pumps, flow lines, cooling water towers, cooling water filtering and chemical treatment facilities 	

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - steam generation system, including main boilers, once through steam generators, back pressure steam turbine generators, gas turbine waste heat boilers, steam distribution systems and other heat recovery steam generator system cogeneration units - backup steam units used as standby steam production units - fuel gas system providing fuel and natural gas to fired heaters and steam methane reformers, composed of flow lines, valves, odorizers, knockout and mixing drums and pressure reducers - electricity transmission system, including transmission lines, insulating and support structures, substations, transformers and switchgear, operational telecommunication and control devices - electrostatic precipitator units - utilities plant flue gas desulphurization units - hot water pipelines - natural gas pipelines - diesel pipelines - recycled water pipelines - instrument air system, including instrument air compressors, air treatment facilities and air distribution systems - other utility distribution systems including potable water lines, waste water lines, sewer lines, sour water lines and slop oil lines - fire water system, comprising fire water tank and basins, fire hydrants and monitors, fire water mains and distribution system, fire water pumps and fire water pump building 	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - emergency power system, including backup and emergency generation equipment, dedicated transformers, cables, controls and switchgear - control system, including control room equipment (panels, cabinets, operator interface), field instruments, junction boxes, multiplex, cables and cable trays, control room building and field auxiliary rooms - flare systems composed of flare headers, knock-out drums and flare stacks - boiler water feed pumps - water storage and distribution systems, fire water systems and potable water systems - pumping stations and pump houses - gas fired package boiler facilities - compressor building - steam distribution systems - air systems - waste water systems - waste heat recovery systems, cooling towers and ponds - oil spill preparedness systems - natural gas import pipeline and distribution pipelines 	
8	Communication Infrastructure	Communications infrastructure located on Project lands Equipment used for remote control of Project facilities or Project operations	
9	Construction off Project lands	Construction of those facilities or assets located off Project lands and specifically listed within the description of the Project as being a Project facility or asset	
10	Construction on Project lands	Construction of facilities or assets on Project lands, including well pads, access roads and containment	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		berms	
11	Consultation	<p>Amounts paid for consulting with stakeholders in respect of proposed or current Project operations, limited to:</p> <ul style="list-style-type: none"> - Travel costs of operator personnel and stakeholders - Notifying stakeholders of the consultation initiative or meeting - Meeting facilities rental - Conducting meetings of stakeholders, including hosting 	<p>Consultation initiatives or studies concerning regional matters</p> <p>Any amount paid in relation to stakeholder consultation other than as set forth in Column 1 of this item</p> <p>Costs of consultation with, contributions to, or of membership or participation in, the following associations, organizations or corporations:</p> <ul style="list-style-type: none"> - business or industry associations or organizations, including but not limited to: Canadian Association of Petroleum Producers (CAPP), Small Explorers and Producers Association of Canada (SEPAC), the Oil Sands Developers Group, Canadian Oil Sands Network for Research and Development (CONRAD), Petroleum Technology Alliance of Canada (PTAC), Alberta Chamber of Resources (ACR), the In-Situ Oil Sands Alliance or the Conference Board of Canada, Canada's Oil Sands Innovation Alliance (COSIA), Solvent Heat Assisted Recovery Process Research Consortium (SHARP) or Canadian Crude Quality Technical Association (CCQTA) - local or community organizations, regional organizations or interest groups, including but not limited to: the Cumulative Effects Management Association (CEMA), the Lakeland Industry and Community Association (LICA) and the Athabasca

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
			Tribal Council (ATC)
12	Contractual penalties	Penalties or other compensation paid to an arm's length party, not including any government, that are required to be paid under a written contractual obligation when the operator is unable to complete the terms of a contract in respect of the Project	Penalties for late or deficient payment on any borrowing charge
13	Delineation and exploration drilling	Exploration and delineation drilling, geophysical surveys on Project lands Evaluating data acquired with respect to Project lands	Costs of exploration or delineation drilling, geophysical surveys outside Project lands or evaluating the data acquired in respect to those lands
14	Depreciation		Depreciation, except as specifically permitted in this Regulation Any depreciation on land
15	Diluent	Diluent used by a Project, provided the diluent does not form part of handling charges in determining unit price	
16	Environmental requirements — greenhouse gas	Acquiring, modifying or installing, operating and maintaining equipment on Project lands to reduce, or capture and dispose of, greenhouse gas emissions	
17	Environmental requirements — monitoring	Complying with Regulator or Alberta Environment and Parks requirements regarding Project specific air and water quality, soil and wildlife monitoring	A contribution, whether monetary or otherwise, made in support of the activities set out in the approved annual monitoring plan developed in accordance with the Oil Sands Environmental Monitoring Program
18	Feasibility studies	Business and economic feasibility studies solely prepared to address problems of immediate applicability for the recovery, production or processing activities within Project operations	Any business or economic feasibility studies not included in Column 1 of this item

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
19	Fuel cost	Natural gas (including solution gas), diesel, gasoline, or other fuels which are not produced from Project leases, and which are purchased or otherwise obtained for consumption in Project operations	<p>Solution gas on which royalty is not payable in accordance with section 13 of the <i>Natural Gas Royalty Regulation, 2009</i> (AR 221/2008) or in accordance with section 14 of the <i>Natural Gas Royalty Regulation, 2017</i> (AR 211/2016), where such solution gas is produced from a Project's leases, and consumed in that Project's operations</p> <p>Solution gas exempted from royalty in accordance with section 14 of the <i>Natural Gas Royalty Regulation, 2009</i> (AR 221/2008) or in accordance with section 15 of the <i>Natural Gas Royalty Regulation, 2017</i> (AR 211/2016), where such solution gas is produced from a Project's leases, and consumed in that Project's operations</p> <p>Any other fuels arising from Project substances consumed within the Project, prior to those fuels being processed in non-Project operations to produce other kinds of discrete oil sands product</p>
20	Gas or crude oil wells		<p>Drilling and completing gas wells, or converting crude bitumen or other wells to a crude oil or natural gas well</p> <p>Any work on any portion of a crude oil or natural gas well</p>
21	Gifts and rewards		Gifts, rewards and similar products or promotional items for Project or non-Project employees, regardless of the reason
22	Hardware and software	<p>Information technology hardware on Project lands used solely for Project operations</p> <p>Project specific software licenses for personnel performing Project</p>	<p>Information technology hardware on Project lands not used solely for Project operations</p> <p>Software licenses that are not</p>

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		operations	Project specific
23	Heat	The value of useful heat, as determined by the Minister, that is transferred from an integrated upgrader to a Project that forms part of an integrated project, for use in the Project's operations	
24	Hedging and financing activities	Contracts that hedge price risk specifically in relation to allowed costs of a Project or currency required to pay those costs	Foregone opportunity costs resulting from a non-arm's length transaction supplying goods and services to operations of one or more Projects, even though potentially more profitable arm's length transactions are available with respect to those goods and services Any activity related to debt or equity financing
25	Hosting and entertainment		Any hosting and entertainment costs
26	Insurance	Insurance premiums paid to an insurance provider pursuant to an arm's length transaction under a contract of insurance, as defined in the <i>Insurance Act</i> , providing for property insurance in relation to the Project, including property insurance in relation to profits, earnings, pecuniary interests and indirect losses of the lessees or operator of the Project	Insurance premiums paid pursuant to a non-arm's length transaction to an insurance provider under a contract of insurance, as defined in the <i>Insurance Act</i> , providing for any insurance
27	Interest, charges and fines		Interest or any other borrowing or financing charges, including the financing component of capital leases Any fines, penalties or payments made for non-compliance with any legally enforceable obligation imposed by any government Charges for late payment or payment shortfalls

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
28	In-situ — recovering bitumen	<p>In relation to recovering in-situ oil sands products, the following activities on Project lands:</p> <ul style="list-style-type: none"> - drilling, re-drilling, completing, recompleting, plugging and abandoning and deepening wells for the recovery of oil sands products - constructing well pads and surface facilities - operating pumping systems for the recovery of oil sands products - gathering and processing solution gas, unless the assets required are removed from the description of the Project - installing lift gas systems, casing gas and solution gas separation and conservation equipment - removing basic sediment and water, gas and solvents using crude bitumen separators - heating crude bitumen in tank heaters - installing fuel gas compression and distribution systems - constructing and operating steam generation facilities for in-situ operations - drilling or converting existing wells to observation wells, water source wells, water disposal wells or injection wells for water, steam or emulsion - enhancing primary production with water, polymer and solvent floods and gas injection - constructing and operating water, effluent, crude bitumen, steam, gas and solvent pipelines 	
29	Land preparation	<p>Preparation of the Project lands for Project operations, including:</p> <ul style="list-style-type: none"> - tree clearing and removing and stockpiling overburden on Project lands 	

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		- drilling geotechnical wells on Project lands for siting Project mines, wells and facilities	
30	Land rent or lease	Annual rental required as part of Crown oil sands agreements within Project lands Rent or lease payments for use of surface areas included in Project lands Work performed on or in respect of the mineral rights in the development area of the Project or to create wells, facilities, roads, pipelines or other assets or infrastructure that is part of the Project in order to earn the interest or estate (i.e., farm-ins)	Acquiring lands, whether or not included as Project lands Purchasing oil sands agreements from prior lessees Any amount paid to the Crown to acquire an oil sands agreement Escalating rental payments made under the <i>Oil Sands Tenure Regulation</i> (AR 50/2000) or the <i>Oil Sands Tenure Regulation, 2010</i> (AR 196/2010)
31	Legal — disputes with the Crown		Any administration and litigation costs related to any dispute resolution process with the Crown or its agencies, boards and corporations, including dispute resolution arising from a referral under section 35 of the Prior Regulation, under section 48 of the <i>Oil Sands Royalty Regulation, 2009</i> (AR 223/2008), or under the <i>Mines and Minerals Dispute Resolution Regulation</i> (AR 170/2015) Any costs related to mediation, arbitration or litigation of any dispute with the Crown or its agencies, boards and corporations, in connection with any matter relating to royalty share, royalty compensation, interest or any penalty paid or payable in relation to a Project
32	Legal — general	Legal services in relation to a claimed breach of civil law matters arising as a result of undertaking Project operations	Legal services required in relation to a claimed breach of laws, rules or regulations of any government or government

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
			agency Legal services required in relation to the shutting in of natural gas in oil sands areas, where the Crown is one of the parties
33	Legal — regulatory or criminal prosecution		Any costs related to defending a regulatory or criminal prosecution
34	Levies		Amounts assessed by the Regulator as part of industry's share of the Regulator's funding (Regulator levies)
35	Licence	Purchasing a Project site specific licence to use intellectual property that is used directly for the recovery, production or processing activities within Project operations	
36	Maintenance	Repair and maintenance of Project assets, including direct labour, benefits, materials and supplies, and work performed by other companies or individuals expended in performing such repair and maintenance	
37	Mining — equipment and facilities	<p>In relation to recovering oil sands from mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - shovels, dozers, trucks, mining and construction equipment and similar earth moving equipment - truck dump hoppers - crushers and sizers - surge bins, conveyors, feeders - separation cell feed sumps, condit - reject conveyors, oversized rejects bin - pump boxes, hot and fresh water 	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<p>pipelines</p> <ul style="list-style-type: none"> - power transmission lines to ore preparation and conditioning facilities - hot process water exchangers, hydro transport units, including pumps, surge cells and pipelines - haulage roads - power lines and service facilities - mine pits and site drainage - mine utilities, including those required for power and steam generation 	
38	Mining — primary extraction	<p>In relation to primary extraction of oil sands products from oil sands in mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - separation cells, secondary flotation systems, hydro cyclone banks and tertiary flotation systems - tailings pump stations and separation bottoms density control systems - feed pumps, pipelines and electrical systems 	
39	Mining — recovering bitumen	<p>In relation to recovering oil sands products from mining Projects, the following activities on Project lands:</p> <ul style="list-style-type: none"> - treating raw water, de-oiling produced water and bitumen and recycling produced water - installing fuel gas compression and distribution systems - installing and operating flare systems - blending diluent with oil sands products - drilling or converting existing wells to observation wells, water source wells, water disposal wells or injection wells for water, steam or emulsion 	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
40	Mining — secondary extraction	<p>In relation to secondary extraction of oil sands products from oil sands in mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - raw bitumen pipelines - froth launderers, settlers, de-aerators, froth recycle system and feed pumps - centrifuge feed systems, flotation banks or scavenger banks and inter-stage storage tanks - froth pumps, froth settler bottoms pumps, inclined plate separation units, cyclone banks, sumps and pumping systems - diluent storage and handling systems and diluent pipelines - froth treatment filters and centrifuges - diluted crude bitumen tanks (tank farm) and vapour recovery units - condenser and cooling water pumps - flare systems composed of flare headers, knock-out drums and flare stacks 	
41	Mining – tailing management	<p>In relation to tailings management in oil sands mining Projects, the construction, acquisition and operation of the following equipment or facilities on Project lands:</p> <ul style="list-style-type: none"> - consolidated tailings plant, tailings lines, final tailings pump house, all pump trains and support equipment, including hydro cyclones for minerals separation - tailings ponds (including extraction tailings, upgrading process waters and mine pit drainage waters) - dikes 	

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - tailings pump house - piezometers - wildlife deterrent systems 	
42	Mining — tailing pipeline	In relation to mining Projects, the construction, acquisition and operation of (gypsum) tailings pipelines on Project lands	
43	Municipal taxes and fees	Municipal taxes and improvement fees of the type common to all individuals or industries	
44	Office assets and equipment	Office assets and equipment (and their maintenance) exclusively used for the Project regardless of location	<p>The following items not exclusively used for the Project, regardless of whether a portion of the labour cost of the user may be an allowed cost:</p> <ul style="list-style-type: none"> - office assets and equipment (and their maintenance) not located on Project lands - telecommunications and information technology support, where the items supported are not located on Project lands - all line charges associated with telephones or other telecommunications equipment, not used for remote control of facilities or operations, where those telephones or other telecommunications equipment are not located on Project lands
45	Offices — field and on-site administration	<p>Supplies and labour for administration in respect of field offices located on Project lands</p> <p>Parking areas and security gates on Project lands</p> <p>Administration buildings located on Project lands for general administration, office support and engineering in respect of Project operations</p>	

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Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
46	Offices — third party lease	Third party office space leases, including operating costs associated therewith, for office space located off Project lands, exclusively accommodating Project personnel carrying out Project operations	Office space leases, including operating costs associated therewith, for office space located off Project lands which accommodates Project and non-Project personnel
47	Overriding royalty	Amounts paid to the extent that these amounts fall within the definition of “Overriding Royalty” contained in the “Co-Management Agreement”, as may be amended from time to time, among the Metis Settlement General Council, Buffalo Lake Metis Settlement, East Prairie Metis Settlement, Elizabeth Metis Settlement, Fishing Lake Metis Settlement, Gift Lake Metis Settlement, Kikino Metis Settlement, Paddle Prairie Metis Settlement, Peavine Metis Settlement, and their successors and assigns, and the Crown	Overriding royalty interests, carried interests, net profit interests or any similar interest, other than as set forth in Column 1 of this item
48	Planning, Designing and Engineering	Planning, designing and engineering Project facilities	
49	Processing fees	Processing of crude bitumen recovered from the Project leases in one or more non-Project processing plants to produce cleaned crude bitumen before the cleaned crude bitumen so produced is delivered to a royalty calculation point	
50	Promotional activities		Production of promotional or informational material for investors or potential investors Arranging and hosting tours of the Project
51	Purchasing oil sands products from non-Project operations	Purchasing, transporting and handling of non-Project oil sands products, for processing or reprocessing in one or more processing plants that are included	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		in the description of the Project	
52	Quarrying	The quarrying on Project lands of construction materials required for Project operations	
53	Recruitment		Any costs related to the recruitment of employees or personnel, including but not limited to costs: <ul style="list-style-type: none"> - for recruitment advertising - for travel and accommodation of potential employees or personnel attending interviews, or for current staff attending interviews or recruitment fairs
54	Regulatory approval for Projects	Obtaining Regulator approvals required for the Project as follows: <ul style="list-style-type: none"> - preparing and presenting the application to the Regulator (“Regulator application”) for approval of Project operations, or facilities to be included in the Project - acquiring baseline environmental data required for the Regulator application - preparing and supporting environmental impact assessments for those areas required by the Regulator - conducting community or stakeholder meetings to obtain feedback and discuss concerns regarding the Regulator application - costs incurred by stakeholders determined by the Regulator to be interveners in respect of the Regulator application, and which costs are ordered or directed by the Regulator to be paid for or reimbursed by the lessee or operator of the Project - travel and legal expenses incurred by the lessee or operator for its participation in the above 	Any amount paid to a stakeholder or intervener in respect of participation in a regulatory proceeding that is not included in Column 1 of this item

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		noted activities	
55	Relocation and severance	Relocation and severance (including associated relocation and training expenses in respect of that severance) for employees solely dedicated to operations of one or more Projects	Relocation and severance (including associated relocation and training expenses in respect of that severance) for employees not solely dedicated to operations of one or more Projects
56	Research facility and personnel	Any research facility, laboratory or area solely dedicated towards the development of technology to solve problems of immediate applicability for the recovery, production or processing activities within operations of a single Project Research personnel and their consumed supplies towards the development of technology to solve a problem of immediate applicability for the recovery, production or processing activities within operations of a single Project	Any research facility, laboratory or area not solely dedicated towards the development of technology to solve problems of immediate applicability for the recovery, production or processing activities within operations of a single Project Research that provides the foundation for further research, or research conducted without any defined practical end pointing to practical applications Management fees or membership fees in research organizations Research grants, research chairs and research fellowships to educational and research institutions
57	Safety	Safety equipment and safety manuals, and costs of preparing and implementing emergency and disaster recovery procedures for the Project	
58	Salaries, wages, benefits, training, travel and accommodation	Salaries, wages, benefits, training, travel and accommodations for employees solely dedicated to carrying out Project operations Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing the following functions and solely dedicated to operations of one or more Projects operated by the same operator: - information technology	Salaries, wages, benefits, training, travel and accommodations for executive or management employees not solely dedicated to carrying out Project operations Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing the following functions and not solely dedicated to the

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - accounts payable - office administration and support - capital and operating accounting Salaries, wages, benefits, training, travel and accommodations, for employees to the extent those employees carry out Project operations in the following circumstances: - legal counsel for matters integral to furthering Project operations - providing production accounting and royalty accounting for oil sands products - purchasing or disposing of assets, materials or supplies used in Project operations - conducting employee classification or employee relations activities for employees carrying out Project operations - engineers, geologists, geo-scientists or biologists carrying out engineering, geological, geo-physical or environmental activities for Project operations - carrying out marketing activities for oil sands products 	<p>operations of one or more Projects operated by the same operator:</p> <ul style="list-style-type: none"> - information technology - accounts payable - office administration and support - capital and operating accounting
59	Scholarship		Funding provided for scholarships
60	Sponsorship		<p>Sponsorship, donations or gifts to cultural, charitable, sporting or community initiatives</p> <p>Matching employee contributions to any of the above</p> <p>Purchase of naming rights for buildings or other facilities</p>
61	Storage facility	<p>In relation to storage facilities of oil sands products on Project lands, the labour and materials for the construction, acquisition and operation of the following:</p> <ul style="list-style-type: none"> - pumping facilities - dikes 	

Schedule 1.1 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
		<ul style="list-style-type: none"> - fire foam injection systems and inert gas blanket systems - dewatering facilities - vapour recovery units - slop oil tanks - tank farms 	
62	Subscriptions to publications		Subscriptions to periodicals and journals
63	Training facility	Any training facility or area solely dedicated towards providing training services to one or more Projects	Any training facility or area not solely dedicated towards providing training services to one or more Projects
64	Transportation of bitumen to non-Project processing plant	Transporting crude bitumen recovered from Project leases to a non-Project processing plant where cleaned crude bitumen is obtained from the crude bitumen before the cleaned crude bitumen is delivered at a royalty calculation point for the cleaned crude bitumen	
65	Transportation of bitumen on Project lands	<p>In relation to transportation of oil sands products on Project lands, the construction, acquisition and operation of</p> <ul style="list-style-type: none"> - pipelines on Project lands - intra-Project transport of oil sands and oil sands products - oil sands product pumping stations - trucking crude bitumen from Project wells to a central storage facility or to a pipeline terminal on Project lands 	Pipelines that do not begin and terminate on Project lands
66	Transportation of personnel and materials	Transporting Project operations personnel or materials to or from Project lands and on Project lands	
67	Trapper compensation	Compensation paid to registered individual trappers whose trap lines are impacted directly by Project operations	Any amount paid in relation to trapper compensation other than as set forth in Column 1 of this item

Schedule 2 OIL SANDS ALLOWED COSTS (MINISTERIAL) REGULATION AR 231/2008

Item	Description (for convenience of reference only)	Column 1 Specifically Included Costs	Column 2 Specifically Excluded Costs
68	Unit price calculation		Any amount deducted in the determination of unit price
69	Warehouse facility	Any warehouse solely dedicated towards providing inventory services to one or more Projects Any warehouse to the extent it provides inventory services to a Project that is an integrated project, and to any other Projects, but provided that the warehouse does not provide any services for non-Project operations, other than in respect of the upgrader that forms a part of the integrated project	
70	Water treatment	In relation to utilities required for in-situ Projects, the construction, acquisition and operation of water treatment plants, settling ponds, filters, softeners and de-aerators on Project lands	

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Schedule 2

A Direct Measurement of Use

The costs of each of the following engineering systems for a Period must be allocated based on the actual measured use of engineering system output by each of

- (a) the Project,
- (b) the integrated shared operations, if any, and
- (c) operations that are neither part of the Project nor of the integrated shared operations,

as a percentage of the total of the engineering system output during the Period.

Engineering System

Boiler feed water (BFW) treatment system

Raw water system

Fuel gas system

Engineering System Output

Actual BFW use in m³

Actual raw water use in m³

Actual fuel gas use in gigajoules

Steam generation system	Actual net steam energy use in gigajoules
Electricity transmission system	Actual net power use in megawatt hours

In accordance with this Regulation,

- (a) a cost allocated to the Project is an allowed cost of the Project,
- (b) a cost allocated to the integrated shared operations, if any, is subject to further allocation under Schedule 3, and
- (c) a cost allocated to the operations that are neither part of the Project nor of the integrated shared operations is not an allowed cost of the Project.

B Design Intent

The costs of each of the following engineering systems must be allocated based on the designed use of engineering system output by

- (a) the Project,
- (b) the integrated shared operations, if any, and
- (c) operations that are neither part of the Project nor of the integrated shared operations,

as a percentage of the total of designed use of the engineering system output.

System Type	Engineering System Output
Control system	Designed input/output (I/O) channel count
Cooling water system	Designed cooling water demand in m ³ /hour
Instrument air system	Designed instrument air demand in m ³ /hour
Fire water system	Designed fire hydrants/monitors flow capacity in m ³ /hour
Emergency power system	Designed emergency power demand in megawatts

In accordance with this Regulation,

- (a) a cost allocated to the Project is an allowed cost of the Project,
- (b) a cost allocated to the integrated shared operations, if any, is subject to further allocation under Schedule 3, and

- (c) a cost allocated to the operations that are neither part of the Project nor of the integrated shared operations is not an allowed cost of the Project.

C Ratio of Length

The costs of each of the following engineering systems must be allocated to the Project, the integrated shared operations, if any, and the operations that are not part of the Project or integrated shared operations, based on the length of the engineering system located within

- (a) the Project,
- (b) the integrated shared operations, if any, and
- (c) operations that are neither part of the Project nor of the integrated shared operations,

as a percentage of the total length of the engineering system.

Potable water lines
Waste water lines
Sewer lines
Sour water lines
Slop oil lines
Pipe racks

In accordance with this Regulation,

- (a) a cost allocated to the Project is an allowed cost of the Project,
- (b) a cost allocated to the integrated shared operations, if any, is subject to further allocation under Schedule 3, and
- (c) a cost allocated to the operations that are neither part of the Project nor of the integrated shared operations is not an allowed cost of the Project.

D Miscellaneous

The costs of each of the following items must be allocated to each of

- (a) the Project,
- (b) the integrated shared operations, if any, and
- (c) operations that are neither part of the Project nor of the integrated shared operations,

based on the methodologies described in the following table.

Cost	Methodology
Camps	<p>Costs must be allocated in the following proportions:</p> <p>The number of person days of accommodation provided during the Period to employees, excluding contractors, working on each of</p> <ul style="list-style-type: none"> (i) the Project, (ii) the integrated shared operations, if any, and (iii) the operations that are neither part of the Project nor of the integrated shared operations, <p>as a percentage of the total person days of accommodation provided during the Period to employees, excluding contractors, working on the Project, the integrated shared operations, if any, and the operations that are neither part of the Project nor of the integrated shared operations.</p>
Airstrips and associated facilities	<p>Costs must be allocated in the following proportions:</p> <p>The number of person flights during the Period by persons working on each of</p> <ul style="list-style-type: none"> (i) the Project, (ii) the integrated shared operations, if any, and (iii) the operations that are neither part of the Project nor of the integrated shared operations, <p>as a percentage of the total person flights utilizing the airstrips and associated facilities during the Period.</p>

In accordance with this Regulation,

- (a) a cost allocated to the Project is an allowed cost of the Project,
- (b) a cost allocated to the integrated shared operations, if any, is subject to further allocation under Schedule 3, and
- (c) a cost allocated to the operations that are neither part of the Project nor of the integrated shared operations is not an allowed cost of the Project.

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Schedule 3

Allocation of Costs in Respect of Integrated Shared Operations

Costs that have been attributed to integrated shared operations pursuant to Schedule 2 or section 8.1(10) of the Regulation must be allocated to the Project that forms part of an integrated project as an allowed cost of that Project, unless the Minister determines

otherwise, based on the proportion of the value of energy used by that Project as a percentage of the total value of energy used by the integrated project.

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