

Oil Development
Oil Sands Development
Operational Policy

14th floor North Tower, Petroleum Plaza 9945 - 108 Street Edmonton, Alberta T5K 2G6 Telephone 780/644-4771 Fax 780/422-0692

File No.

June 1, 2006

## OIL SANDS INFORMATION BULLETIN 2006-01

SUBJECT: The Alberta Oil Sands Royalty Principles and Procedures

The Alberta Oil Sands Royalty Principles and Procedures (Guidelines) interpret the legislations, particularly the Oil Sands Royalty Regulations, 1997 (AR 185/1997) and describe the principles and procedures involved in approving, reporting, and paying oil sands projects and oil sands royalties.

The June 1, 2006 Guidelines replace the Guidelines dated July 29, 2005 and include clarification of business rules such as: Allowed Costs, Directly Attributable, Road Costs, Overhead, Costs of Evaluation Wells as well as new sections on Cross-Boundary Wells and Grandfathering. The attached list identifies the updates made to the Guidelines since July 29, 2005.

The June 1, 2006 Guidelines may be retrieved from the Department of Energy website: http://www.energy.gov.ab.ca (choose Oil Sands, and then choose Royalty Guidelines).

Oil Sands Royalty clients are encouraged to continually check the department's website as these Guidelines reflect the ongoing policies and procedures of the Oil Sands Royalty Program and are subject to ongoing changes as required.

In cases of conflict, the Mines and Minerals Act and the Oil Sands Royalty Regulations, 1997 will take precedence over these Guidelines.

For more information about Alberta's Oil Sands Royalty regime, please go to the Department of Energy website and choose 'Our Business', 'Oil Sands' or 'Contacts' to receive further clarifications regarding the Guidelines.

Soheil Asgarpour, Ph.D., P. Eng. Business Unit Leader Oil Sands Development Business Unit

Attachment

Updated Guidelines to clarify the Ministers' role as per the Regulation Section 1.1 Oil Sands Royalty: A Look Back Section 1.3 Alternative Royalty Regimes   Section 2.3.10.2 Back Section 2.3.7.2 Oil Sands Products	<b>Location of Change</b>	Details of Changes as of June 1, 2006
Updated to clarify business rules	Global changes	Undated Guidelines to clarify the Ministers' role as per the Regulation
Removed reference to the Experimental Oil Sands Royalty Regulations - as this program can no longer be applied for Section 2.3.7.2 Oil Sands Products		
Removed reference to the Experimental Oil Sands Royalty Regulations - as this program can no longer be applied for Section 2.3.7.2 Oil Sands Products		epatied to charry business rates
As this program can no longer be applied for		Removed reference to the Experimental Oil Sands Royalty Regulations
Products   Section 2.3.10.2 Excluded Costs	Royalty Regimes	
Section 2.3.10.2 Excluded Costs   1) Added a reference to the Innovative Energy Technologies Regulation and 2) Moved "costs incurred to recoverExperimental Oil Sands" bullet to a "Note" at end of 2.3.10.2	Section 2.3.7.2 Oil Sands	Added bullet on "off-gases" and clarification to dirty crude bitumen
Regulation and 2) Moved "costs incurred to recoverExperimental Oil Sands" bullet to a "Note" at end of 2.3.10.2  Section 2.3.10.3 Timing  1) Clarification added regarding the 4th and 5th years. 2) Example provided and 3) Added cross reference  Section 3.3.2.1 Required Information  Figure 1 - The approval  Process  Updated: 1) "Economic Unit" box, 2) Notes 1 - removed sentence where "the applicant may apply for the OSR and Board approvals concurrently" and 3) added an "additional note" relating to the Application in the Alternative Meter and the Application in the Alternative Meter and the Application in the Alternative Meters and Application and the Application in the Alternative Meters and the Application in the Alternative Meters and the Application in the Alternative Meters and Application and Spansions and the Application in the Alternative Meters and Allowed Costs and Allowed Costs and Allowed Costs and Allowed Construction and Capital Investment costs and Allowed Poperations Costs to Appendix L - New New - clarify cost rules		
provided and 3) Added cross reference		Regulation and 2) Moved "costs incurred to recoverExperimental
Figure 1 - The approval Process	Section 2.3.10.3 Timing	
where "the applicant may apply for the OSR and Board approvals concurrently" and 3) added an "additional note" relating to the Application in the Alternative  Section 3.3.3.1 Project Status  Section 3.3.3.5.1 AEUB Approval Section 3.3.3.5.2 Applying Before EUB Approvals Are Granted  Section 3.3.3.5.8 Signatures  Section 4.2.1.2 The Return Allowance for Post-Payout Projects  Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1.2 The Return Allowance for Post-Payout Projects  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1.2 The Return Allowance for Post-Payout Projects  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Projectly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs		Updated to clarify business rules
Section 3.3.5.1 AEUB Approval Section 3.3.3.5.2 Applying Before EUB Approvals Are Granted Section 3.3.3.5.8 Signatures Section 3.3.3.5.8 Signatures Section 4.2.1.2 The Return Allowance for Post-Payout Projects Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules Section 4.2.2.1 Tost Rules Section 4.2.2.1 Directly Attributable Costs Section 4.2.2.1.1 Reasonable Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Road Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs of Evaluation wills and Seismic Work Incurred Off- Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-		where "the applicant may apply for the OSR and Board approvals concurrently" and 3) added an "additional note" relating to the
Section 3.3.3.5.1 AEUB Approval Section 3.3.3.5.2 Applying Before EUB Approvals Are Granted Section 3.3.3.5.8 Signatures Section 4.2.1.2 The Return Allowance for Post-Payout Projects Section 4.2.2.1 Cost Rules Section 4.2.2.1 Cost Rules Section 4.2.2.1.1 Reasonable Costs Section 4.2.2.1.2 Directly Attributable Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2.1 Road Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.3 Costs of Evaluation wells and Seismic Work Incurred Off- Section 4.2.2.3.3 Costs of New - clarify cost rules Section 4.2.2.3.3 Costs of Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That Services in Support of Marketing and Expansions Section 4.2.2.3 Costs Office Section S		• • • • • • • • • • • • • • • • • • • •
Approval Section 3.3.3.5.2 Applying Before EUB Approvals Are Granted Section 3.3.3.5.8 Signatures  Section 4.2.1.2 The Return Allowance for Post-Payout Projects Section 4.2.2.1 Cost Rules Section 4.2.2.1 Reasonable Costs Section 4.2.2.1.2 Directly Attributable Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Road Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-		
Before EUB Approvals Are Granted  Section 3.3.3.5.8 Signatures  Section 4.2.1.2 The Return Allowance for Post-Payout Projects  Section 4.2.2 Allowed Costs  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Directly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That Section 4.2.2.3 Costs That Section 4.2.2.3 Costs That Section 4.2.2.3 Costs That Section 4.2.2.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  Section 4.2.2.3 Costs of Evaluation Wells and Seismic Work Incurred Off-	Approval	
Granted  Section 3.3.3.5.8 Signatures  1) Updated signature authorization and 2) previously numbered 3.3.3.5.9  Added to point #2 "transitions to post-payout status"  Allowance for Post-Payout Projects  Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Added: 1) "Note" at end of section to clarify cost rules and 2) clarification costs incurred on project lands ("Recover Oil Sands")  Section 4.2.2.1.1 New - clarify costs rules  Section 4.2.2.1.2 Directly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.3 Costs That are Not Allowed  Operations Costs to Appendix L - New  Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead  Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-	Section 3.3.3.5.2 Applying	Removed section as the Department will no longer accept an
Section 3.3.3.5.8 Signatures  Section 4.2.1.2 The Return Allowance for Post-Payout Projects  Section 4.2.2 Allowed Costs Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Page of Allowed Costs Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.3 Costs That are Not Allowed  Costs  Section 4.2.2.3 Costs That are Not Allowed to Appendix L - New  Section 4.2.2.3 Costs That are Not Allowed  Section 4.2.2.3 Costs of Section 4.2.2 Costs of Sect		application without EUB approval
Section 4.2.1.2 The Return Allowance for Post-Payout Projects Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules Section 4.2.2.1 New - clarify costs rules Section 4.2.2.1.2 Directly Attributable Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Costs of Section 4.2.2 Sec		
Allowance for Post-Payout Projects  Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules  Section 4.2.2.1 Cost Rules  Added: 1) "Note" at end of section to clarify cost rules and 2) clarification on costs incurred on project lands ("Recover Oil Sands")  Section 4.2.2.1.1 Reasonable Costs Section 4.2.2.1.2 Directly Attributable Costs Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2.1 Road Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-		3.3.3.5.9
Section 4.2.2 Allowed Costs Section 4.2.2.1 Cost Rules Section 4.2.2.1 Cost Rules Section 4.2.2.1.1 Section 4.2.2.1.1 Reasonable Costs Section 4.2.2.2.1 Directly Attributable Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2 Types of Allowed Costs Section 4.2.2.2.1 Road Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3 Services in support of Marketing and Expansions Section 4.2.2.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  Added a sentence to 1st paragraph to reference Regulation and cost schedules Section to clarify cost rules and 2) Carification on costs incurred on project lands ("Recover Oil Sands")  New - clarify costs rules  Revised section by: 1) Changed opening paragraphs and 2) Moved Allowed Construction and Capital Investment costs and Allowed Operations Costs to Appendix L - New New - to clarify road cost rules  Revised section by: 1) Changed opening paragraph and 2) Moved list of Costs that are Not Allowed to Appendix L - New New - clarify cost rules	Allowance for Post-Payout	Added to point #2 "transitions to post-payout status"
clarification on costs incurred on project lands ("Recover Oil Sands")  Section 4.2.2.1.1 Reasonable Costs  Section 4.2.2.1.2 Directly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-		
Reasonable Costs  Section 4.2.2.1.2 Directly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  Section 4.2.2.3.2 Directly Attributable Costs  New - clarify costs rules  New - clarify cost rules	Section 4.2.2.1 Cost Rules	clarification on costs incurred on project lands ("Recover Oil
Section 4.2.2.1.2 Directly Attributable Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.2 Types of Allowed Costs  Section 4.2.2.3 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  New - clarify costs rules  New - clarify costs rules  New - clarify cost rules		New - clarify costs rules
Revised section by: 1) Changed opening paragraphs and 2) Moved Allowed Costs  Section 4.2.2.2.1 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-	Section 4.2.2.1.2 Directly	New - clarify costs rules
Section 4.2.2.2.1 Road Costs  Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions Section 4.2.2.3.2 Overhead Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  New - to clarify road cost rules  Revised section by: 1) Changed opening paragraph and 2) Moved list of Costs that are Not Allowed to Appendix L - New  New - clarify cost rules  New - clarify cost rules  New - clarify cost rules	Section 4.2.2.2 Types of	Allowed Construction and Capital Investment costs and Allowed
Costs Section 4.2.2.3 Costs That are Not Allowed Section 4.2.2.3.1 Services in support of Marketing and Expansions Section 4.2.2.3.2 Overhead Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  Revised section by: 1) Changed opening paragraph and 2) Moved list of Costs that are Not Allowed to Appendix L - New New - clarify cost rules New - clarify cost rules New - clarify cost rules		
Section 4.2.2.3 Costs That are Not Allowed of Costs that are Not Allowed to Appendix L - New  Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead Section 4.2.2.3.2 Costs of Evaluation Wells and Seismic Work Incurred Off-		New - to clarify road cost rules
Section 4.2.2.3.1 Services in support of Marketing and Expansions  Section 4.2.2.3.2 Overhead  Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-	Section 4.2.2.3 Costs That	
Section 4.2.2.3.2 Overhead Section 4.2.2.3.3 Costs of Evaluation Wells and Seismic Work Incurred Off-  New - clarify cost rules  New - clarify cost rules	Section 4.2.2.3.1 Services in support of Marketing and	
Evaluation Wells and Seismic Work Incurred Off-	Section 4.2.2.3.2 Overhead	·
	Evaluation Wells and Seismic Work Incurred Off-	New - clarify cost rules

<b>Location of Change</b>	Details of Changes as of June 1, 2006
Section 4.2.2.3.4 Evaluation	New - clarify cost rules
Well Costs Incurred More	
than 5 Years Before the	
Effective Date	
Section 4.2.3.1 Types of	Updated to clarify business rules
Revenue	YY 1 . 1 . 1 . 1 . 1 . 1
Section 4.2.4.1 Negative	Updated to clarify business rules
Unit Prices	YY 1 . 1 . 1 . 1 . 1 . 1
Section 4.4 The Royalty	Updated to clarify business rules
Calculation for Post-Payout	
Projects Section 5.1 Solution Gas	Undeted "Note" to elerify timeline to be contingent your
and Fuel Gas	Updated "Note" to clarify timeline to be contingent upon implementation of Regulation
Section 5.2.1.2 Allowed	Updated to clarify business rules.
Costs Based on Cost-of-	Opulied to clarify business rules.
Service Calculations	
Section 5.2.4 Cost Rules for	Updated to clarify business rules
Pipeline Overcapacity	opulated to claimy business rules
Section 5.5 Hedges	Updated to clarify business rules
Section 5.7 Cross-Boundary	New - clarify business rules
Wells	New Clarity business rules
Section 5.8 Grandfathering	New - clarify business rules
Section 6.1.1 Monthly	Clarified paragraph on who completes the MRC
Royalty Calculation	Committee puring up to the completion and training
Reporting Forms (MRC)	
Section 6.1.1.1	Removed sentence. MRC's cannot be amended
Amendments	
Section 6.1.1.2 Timing	Updated to clarify business rules
Section 6.1.2.2	Updated to clarify business rules
Amendments	
Section 6.2.1 Monthly Good	Updated to clarify business rules
Faith Estimates Reporting	
Forms (GFEs)	
Section 6.2.2.2	Updated to clarify business rules
Amendments	
Section 6.4.1.1 Required	Updated: 1) 'who' would submit forms, 2) removed amendment
Information	portion and 3) how forms would be submitted (paper / electronically)
Section 6.5.2 Required	Updated to clarify business rules
Information	
Section 9.2.2 Basic Services	Updated to clarify business rules
Appendix A - Glossary	Updated and added definitions to clarify business rules
Appendix B - Application	Revised form to include new check box: "Application in the
for Royalty Terms Under	Alternative" and adding the definition. Updated signature section
the Oil Sands Royalty	
Regulation, 1997	Walata I Canta ata
Appendix J - Contact	Updated Contacts
Information Appendix L. List of	Now Amandia List of allowed (not allowed 1
Appendix L - List of Allowed and Not Allowed	New Appendix. List of allowed / not allowed costs moved from
Cost Cost	Sections 4.2.2.2 and 4.2.2.3 with additional Illustrative Cost Categories
COSI	