

Oil Valuation: Reporting Requirements for Subsequent Purchaser, Sales to Subsequent Purchaser, Buy/Sell Agreements, and Deliveries to Refineries

Release/Revision Date	Location of Change in this Document	Comment
November 27, 2012		Initial Release

Audience: All Saskatchewan Users

Purpose: To explain the reporting requirements with respect to Industry submissions of pipeline stream purchases, sales and deliveries to refineries.

Background: In order to value the royalty/tax share of raw crude oil produced in Saskatchewan, oil producers are required to submit details with respect to the sale of the oil. For price validation purposes, purchasers are required to submit details with respect to the purchase of that same oil. However, since much of the oil is blended or streamed prior to being sold for the first time, the Ministry of the Economy (ECON) requires details with respect to stream oil sales and purchases for oil price validation purposes. In Petrinex, stream oil sales are referred to as "Sales to Subsequent Purchasers" and stream oil purchases are referred to as "Subsequent Purchases".

NOTE: **Stream** refers to crude oil production that has been blended with condensate or mixed with other crude oil production and satisfies a specific stream quality specification for transportation by major pipelines.

Subsection 106(1) of *The Oil and Gas Conservation Regulations, 2012* currently requires that every person who, during a month:

- purchases an oil stream that contains oil produced in Saskatchewan; or
- sells to another purchaser or delivers to a refinery:

including any oil stream that also contains oil produced outside of Saskatchewan, shall submit to the Minister through the Registry (Petrinex) details with respect to the sale.

Given that oil can be purchased and resold numerous times before reaching its final destination, Industry has questioned ECON with respect to how literally this regulation is to be interpreted and what the ultimate purpose for the information might be. As a means to clarify ECON's reporting expectations and the regulatory requirements, ECON has agreed to provide clarity on the reporting requirements in a directive. This tip will form a basis for the changes to the reporting directive. Regulation amendments will also be made in the near future to provide additional clarity with respect to submission requirements.

Key Principles:

Oil sales information is required to be reported by the producer/owner and validated by an arm's length purchaser. In addition, for statistical purposes, ECON needs to know the volumes delivered to refineries.

NOTE: Arm's-length means a sales transaction or agreement in which the purchaser and seller are not associates. **Associates** means any corporations that are considered to be associated corporations within the meaning of section 256 of the *Income Tax Act (Canada)* and includes any other persons or corporations that are considered by the Minister to be associates for purposes of the regulations.

Generally, from a price validation perspective, only details with respect to the first arm's length sale (both seller and purchaser) need to be reported.

For Sales to Subsequent Purchasers:

- Submissions should only be made for the first arm's length transaction. Any other subsequent sales should not be reported. For example, a marketer that buys Saskatchewan stream oil, but has no working interest in Saskatchewan production and is not purchasing from an affiliated Saskatchewan producer, is not required to submit details for any "Sales to Subsequent Purchasers".
- In cases where previous month submissions have been made for sales which occurred after the first arm's length sale of stream oil, ECON is asking that those "Sales to Subsequent Purchaser" submissions be retracted.

For Subsequent Purchasers:

- Any outstanding auto-populated "Subsequent Purchaser" records that are pending must be responded to prior to the oil valuation reporting deadline for the January 2013 production month (i.e. prior to the end of February 2013) to avoid being assessed a non-compliance penalty. If you believe that the "Sales to Subsequent Purchaser" record that created the pending record should not have been submitted because the sale was after the first arm's length transaction for any of the oil, you might want to contact the company that submitted the sale and inquire.

- Any “Subsequent Purchaser” records that have already been submitted, but aren’t required based on this tip, will not create any error messages or warnings and can be left as is.

For **Buy/Sell Arrangements**:

- In situations where a producer enters into an agreement with a single shipper pipeline and is thereby required to sell the oil at the pipeline inlet and buy back a related volume from the pipeline at the outlet, ECON considers this to be a transportation arrangement. Consequently, these transactions should not be reported.
- Producers that have such arrangements are asked to report the sale to themselves (i.e. their BA code is reported as both the buyer and seller). The initial transaction price should reflect the gain or loss that results from the arm’s length resale at or downstream of the pipeline outlet. Refer to the example below.
- ECON is also asking that producers who have buy/sell arrangements submit supporting documentation respecting those agreements to SERSupport@gov.sk.ca or by mail to:

Ministry of the Economy
Petroleum Data Management and
Compliance Branch
200 - 2101 Scarth Street
Regina SK S4P 2H9

