

## Enhanced Valuation Audit Program (EVAP)

Jurisdiction	Release/Revision Date	Location of Change in this Document	Comment
SK	December 09, 2013	Purpose – update Section 2e – updated theme information.	Added information with regard to new job aid and updated theme information.
SK	October 03, 2013		Initial Release

**Audience:** All Saskatchewan Users

**Purpose:** The purpose of this tip is to:

- inform users of a new Saskatchewan Ministry of the Economy’s (ECON) directive that has been published related to the new Enhanced Valuation Audit Program (EVAP). (Refer to the attached Appendix for a table that summarizes the types of transactions that trigger a requirement for EVAP and who is impacted).
- inform users of new functionality that has been introduced to Petrinex, effective October 3, 2013 to support EVAP.
- provide BAs with high-level readiness recommendations associated with EVAP.
- A job aid titled “[How to Use the Petrinex Enhanced Valuation Audit Program \(EVAP\) Functionality](#)” has been posted to the Petrinex Website under Resource Centre – Training Job Aids - Miscellaneous.

**Comment [SM1]:** Will add a link to the document when posted.

**Background:** Based on a recommendation from Industry, ECON is implementing EVAP as a tool to ensure/enhance Industry’s compliance with regulatory requirements around oil price determination and reporting. EVAP, which is a program similar to Alberta’s Enhanced Production Audit Program (EPAP), will require an annual senior executive signoff (an EVAP Declaration) with respect to a Royalty Tax Payer’s (RTP’s) compliance and compliance controls related to oil price determination and reporting requirements.

- EVAP does not apply to RTP’s that sell their raw crude oil at arm’s length at an upstream facility such as a battery, terminal



## TIP

or pipeline inlet (i.e. situations where an arm's length purchaser can validate the RTP reported raw crude oil price).

- EVAP does apply to RTP's that, during the declaration year, have any sales that meet the following conditions prior to be sold for the first time at arm's length:
  - their crude oil production is blended with condensate and/or natural gas liquids;
  - their crude oil is transported downstream of any (SK and/or out of province) terminal / pipeline inlet / rail transloader facility;
  - their oil is transported to the outlet of a single shipper pipeline via a buy/sell arrangement with the pipeline operator.

These situations all require the RTP to calculate and report a raw crude oil price that can't be validated directly by the oil purchaser.

The first EVAP Declaration, which will be due by the end of February 2014, will cover the 2013 calendar year.

In anticipation of the introduction of EVAP, Petrinex "Subsequent Purchaser" and "Sales to Subsequent Purchaser" functionality was terminated effective August 8, 2013. ([See tip posted July 12, 2013](#))

### Key Principles:

#### 1. Directive R02-EVAP Program and Petrinex Reporting

ECON has issued Directive R02-EVAP Program and Petrinex Reporting which can be found at <http://www.er.gov.sk.ca/ReportingDirectives>. Saskatchewan BA's are strongly encouraged to review this directive in detail to fully understand their obligations and responsibilities (if any) associated with EVAP. This Directive is the underpinning of the new EVAP functionality being introduced in Petrinex.

#### 2. New Petrinex Functionality to Support EVAP

The following new EVAP functionality is introduced to Petrinex effective October 3, 2013 to support ECON EVAP reporting requirements:

##### a. "Audit" Menu for SK

This new menu includes access to the following EVAP functionality:

- Edit EVAP Declaration
- Query EVAP Declaration



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- Edit Declaration Signatories
- Query Declaration Signatories
- Edit Related Business Associate
- Query Related Business Associate
- Request EVAP Declaration Required Report

### **b. Related Business Associate Functionality**

The requirement for EVAP reporting is triggered whenever the owner (RTP) and purchaser BA IDs identified within a pipeline split are related BAs (e.g. non-arm's length BAs). The new Related Business Associate functionality in Petrinex facilitates the identification by RTP of their related BAs that may be involved in crude transactions.

### **c. EVAP Declaration Required Report**

A new EVAP Declaration Required Report has been developed. This report will automatically be run by Petrinex on a monthly "sweep" basis and is also available on a "user-requested" basis. This report will list monthly occurrences for which a pipeline split has been made by a facility operator that identifies a related BA as being the purchaser of the RTP's oil. If any such transactions have been made, the RTP is required to participate in EVAP reporting. Where no such transactions have been made, the RTP has no reporting requirement under EVAP. This report will be run on the last day of each month and will be available to users on the first working day of the next month. See the Petrinex Saskatchewan Reporting Calendars for the scheduled report release dates.

### **d. Declaration Signatories Functionality**

BAs are required to specify who at their company will be responsible for signing the EVAP Declaration. This functionality allows the RTP to identify their EVAP signatory (or signatories) and to identify the start and end dates associated with their signing responsibilities.

### **e. EVAP Declaration Functionality**

This is the functionality that supports submission of the signed declaration and all related Appendices applicable to the three EVAP "Themes" (Gross Price Calculation, Trucking Expense Calculation\* and Oil Price Reporting\*).

Appendices are as follows:

- Appendix A. Controls and Evaluations
- Appendix B. Remediation of Control Deficiencies
- Appendix C. Proposed Improvements to Evaluations



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### 3. Recommended Steps to Readiness for EVAP Reporting

The following are recommendations for RTPs to consider in preparing for EVAP.

**a) Read and fully understand ECON's Directive R02-EVAP Program and Petrinex Reporting**

Ensure everyone at your BA that will be involved in the EVAP-related activities fully understand their obligations and responsibilities under the Directive. Among others, these will include:

- The BA User Security Administrator (USA) who will have to create and assign roles for Petrinex EVAP users.
- Those responsible for the calculation of gross prices, the calculation of trucking expenses and reporting of RTP oil valuation to ECON through Petrinex.
- Those responsible for controls, evaluation of controls and remediation activities associated with price/expense calculations and reporting.
- The Executive(s) who will sign the Declaration.

**b) Identify those at your BA that will take responsibility for administering EVAP reporting in Petrinex**

Since in most cases the signing Executive will not be the individual accessing the EVAP functionality in Petrinex, it may make sense to identify which BA staff members will be entering the information into Petrinex as well as others that may require query access in order to monitor information submitted to Petrinex and to run reports.

**c) Have your BA USA set up any new users with IDs and access to Petrinex, and assign appropriate roles for users of EVAP functionality**

The EVAP tasks have not been added to the "Comprehensive" role or "Read Only" roles, therefore the BA USA will have to create and assign custom EVAP roles (e.g. "EVAP Comprehensive" or "EVAP Read Only").

- An EVAP Comprehensive Role should include the following tasks:
  - Edit Declaration Signatories
  - Edit EVAP Declaration
  - Edit Related business Associate
  - Query Declaration Signatories
  - Query EVAP Declaration
  - Query Related Business Associate
  - Request EVAP Declaration Required Report
- An EVAP Read Only Role should include the following tasks:
  - Query Declaration Signatories
  - Query EVAP Declaration
  - Query Related Business Associate
  - Request EVAP Declaration Required Report



## TIP

**d) Submit Related Business Associate information**

Users are strongly encouraged to setup/complete the related Business Associate information before the end of November 2013 as per Directive 02-EVAP Program and Petrinex Reporting. This will allow for Petrinex notifications to BAs in situations that require an EVAP Declaration and the EVAP Declaration Required Report keys off transactions where the owner and purchaser are the same BA or are related BAs.

**e) Monitor the EVAP Declaration Required Report**

This report should be monitored regularly to identify circumstances that trigger the requirement to submit an EVAP declaration.

- The EVAP Declaration Required Report will only display results for production months 2013 09 forward. Any EVAP declaration required transactions that occurred during previous months in 2013 will not be captured in the report.

Note: in order to identify specific sales transactions giving rise to records on the EVAP Declaration Required Report, users will have to query Pipeline Splits records in Petrinex or run a Pipeline Split Owner Report in csv which allows sorting and filtering of the information.

**f) Proactively assess and remediate as required any deficiencies associated with the three themes you will be required to report on through EVAP**

While the actual EVAP declaration for 2013 does not have to be filed until the end of February 2014, your review of controls and evaluation of controls should begin as soon as possible.

Note: The EVAP functionality in Petrinex will continue to evolve. Discussions continue with Saskatchewan stakeholders that may result in enhancements being introduced in the coming months.

Reminder: EVAP Declarations cover calendar years and must be submitted by the end of February following the year to which the declaration applies. The first EVAP declaration will cover all EVAP-related transactions that took place in 2013 and must be filed by February 28, 2014.

**For More information:**

Related to Directive 02-EVAP Program and Petrinex Reporting, please contact ECON Support at [png.support@gov.sk.ca](mailto:png.support@gov.sk.ca) or 1-855-219-9373

Related to Petrinex functionality, please contact the Petrinex Service Desk at [petrinexsupport@petrinex.ca](mailto:petrinexsupport@petrinex.ca) or 403-297-6111 or 1-800-992-1144 (Toll Free)

Appendix

## Oil Valuation for Royalty Purposes in Saskatchewan

Type of Oil Sale	Royalty/Tax Payer (RTP) Oil Valuation Required	Purchaser Oil Valuation Required	EVAP Declaration required
	<b>YES</b>	<b>YES</b>	<b>NO</b>
Sale of <u>Raw Crude Oil to an arm's length purchaser</u> at an upstream facility (e.g. battery, terminal or pipeline inlet)	<b>UNCHANGED:</b> RTP reports as today using Petrinex Oil Valuation: RTP functionality	<b>UNCHANGED:</b> Purchaser reports as today using Petrinex Oil Valuation: Purchaser functionality	Price validation is provided directly by the purchaser of the crude oil.
	<b>YES</b>	<b>NO</b>	<b>YES</b>
Sales that meet the following conditions <u>prior</u> to being sold for the first time at arm's length: <ul style="list-style-type: none"> <li>• crude oil production is blended with condensate and/or natural gas liquids</li> <li>• crude oil is transported downstream of any (SK and out of province) terminal/pipeline inlet/rail transloader facility</li> <li>• oil is transported to the outlet of a single shipper pipeline via a buy/sell arrangement with the pipeline operator</li> </ul>	<b>UNCHANGED:</b> RTP reports as today using Petrinex Oil Valuation: RTP functionality	<b>NEW:</b> Since the purchaser of the oil identified in the pipeline split is a related BA, having the related BA report the purchase price does not provide effective raw crude oil price validation.	<b>NEW:</b> Since the raw crude sale price in these circumstances can't be validated by an arm's length buyer, a senior executive at the RTP is required to declare that the price reported by the RTP through the Petrinex Oil Valuation RTP functionality is correct and that the RTP has controls in place to assure that price is correctly calculated and reported.