TIP

Oil Valuation – OVE003 and OVE008 Errors May Still Generate with Correct Reporting Under Specific Volumetric Scenarios

Jurisdiction	Release/Revision Date	Location of Change in this Document	Comment
SK	April 7, 2017	End of Document	Link to tip – Implementation of the new Oil Valuation Error – OVE008 for the Province of Saskatchewan
SK	February 10, 2017		Initial Release

Audience: All Saskatchewan Users

Purpose: To inform Industry that under very specific volumetric scenarios, coupled with specific pipeline split submissions, oil valuation errors OVE003 and OVE008 may be generated even when the Oil Valuation Royalty Tax Payer (OVRTP) submission and Oil Valuation Purchaser (OVPurchaser) submissions are correct.

Background:

Oil valuation non-compliance error OVE003 is generated when the difference between the gross price submitted by the Royalty Tax Payer (RTP) and the gross price submitted by the Purchaser exceeds the predefined tolerance (i.e. greater than 0.1 percent and actual difference of fifty cents). The OVE003 error is in effect for the production months 2012-03 to 2016-08, inclusive.

Effective the 2016-09 production month, the Ministry of the Economy (ECON) also introduced the oil valuation non-compliance error OVE008. The OVE008 error is generated when the difference between the gross price submitted by the RTP and the gross price submitted by the Purchaser is greater than five cents.

Under very specific volumetric scenarios that involve multiple sales transactions (i.e. the use of contract numbers), Petrinex pipeline splits functionality creates four OVPurchaser records and two OVRTP records which may result in the generation of false OVE003 and OVE008 errors. The volumetric scenarios, described below, occur infrequently, and therefore, only impact a small number of Business Associates each month.

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Key Messages:

False OVE003 or OVE008 errors may be generated in specific scenarios where:

- an oil volume, as it moves to market, diverges and then later converges at a common custody transfer point (CTP), (see Diagrams 1 and 2 below); and
- more than one sales transaction has occurred for that volume and contract numbers are used in the Petrinex pipeline splits functionality to differentiate the sales transactions

(see Example A, below).

Industry should not attempt to reduce the number of false errors by removing the contract numbers from the records, since all of the false errors cannot be eliminated and doing so makes it difficult to verify that the specific volumetric and sales scenario exists.

ECON recognizes that there is a functionality issue that is causing false errors in these situations. If Industry demonstrates that the specific scenario exists and provides the relevant information and documentation, ECON will verify the scenario and waive the applicable penalty, as necessary.

To determine whether the specific scenario exists, Industry should:

- Examine its Oil Valuation records to determine whether:
  - the gross price submitted by the Royalty Tax Payer matches the gross price submitted by the Purchaser; and
  - the Purchaser did purchase more than one volume at different prices and contract numbers were required and used in the applicable pipeline split.

- Examine its Volumetric records to determine whether :
  - the oil took a route from the source facility to market where it diverged (i.e. takes alternate routes) and then later converged at a volume requiring split (VRS) generating CTP facility (see Diagrams 1 and 2, below); or
  - a fictitious terminal (TM facility type) facility identifier has been used in the volumetric reporting sequence.
    - The use of fictitious terminals creates the volumetric scenario identified in Diagram 2, below.

    - The creation of fictitious terminals had been authorized previously in order to alleviate balancing issues and facilitate the generation of oil valuation.
    - Volumetric balancing at Custom Treater facility subtypes should be accomplished through the proper use of proration factors. Operators must discontinue their use of fictitious TM facilities for reporting purposes

Diagram 1 - Note that in the scenario identified below, the BT facility type may be replaced by either IF, or CT facility types.

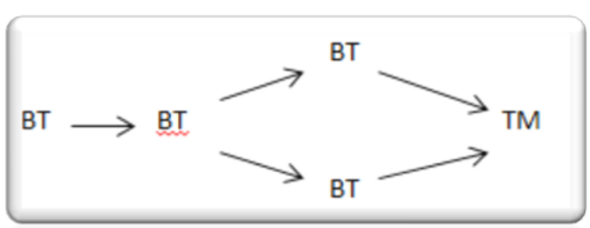


Diagram 2

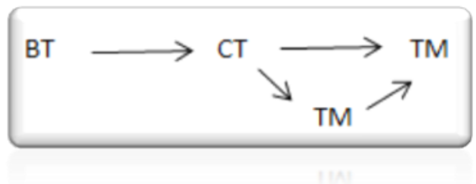
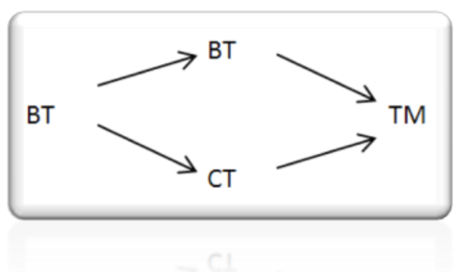
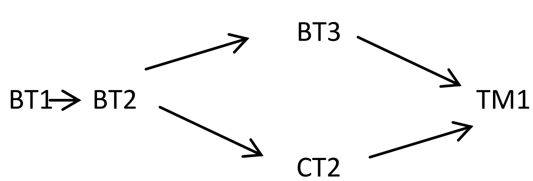


Diagram 3 - The following scenario DOES NOT generate extra OV Purchaser records and therefore DOES NOT generate false OVE errors.



Example A:

Sales Scenario: BA 33333 is the operator of battery BT1 and is selling 60 m^3 of oil produced at BT1 to purchaser BA 77777 for \$280 per cubic metre, and is also selling 40 m^3 of oil produced at BT1 to purchaser BA 77777 for \$300 per cubic metre (i.e. two separate sales transactions). The CTP for both sales is at terminal TM1.



Volumetric Scenario:

BA 33333 delivers 60 m3 of oil to terminal TM1 by the path BT1-BT2-BT3-TM1.

BA 33333 also delivers 40 m3 of oil by the path BT1-BT2-CT2-TM1.

Through Pipeline Splits functionality, Petrinex creates the following two OVRTP records for the transactions:

OVRTP

Delivering	Receiving	CTP	Contract #	Purchaser	Petrinex Volume	Price
BT1	BT2	TM1	44	77777	60	280.00
BT1	BT2	TM1	88	77777	40	300.00

Petrinex also creates the following four OV Purchaser records for the transactions:

OV Purchaser

Producer	Delivering	Receiving	CTP	Contract #	Petrinex Volume	Price
33333	BT3	TM1	TM1	44	36	280.00
33333	CT2	TM1	TM1	44	24	300.00
33333	BT3	TM1	TM1	88	24	280.00
33333	CT2	TM1	TM1	88	16	300.00

When the above purchaser records are closely examined, it can be seen that the contract numbers on the OV Purchaser records are not aligned with the proper price as shown on the corresponding OVRTP records. The contract numbers appear to have "crossed" (as highlighted below).

OV Purchaser

Producer	Delivering	Receiving	CTP	Contract #	Petrinex Volume	Price
33333	BT3	TM1	TM1	44	36	280.00
33333	CT2	TM1	TM1	44	24	300.00
33333	BT3	TM1	TM1	88	24	280.00
33333	CT2	TM1	TM1	88	16	300.00

For the Pipeline Split ID CT2-TM1-TM1, contract number 88 should be displayed for both OV Purchaser records. Similarly, for Pipeline Split ID BT3-TM1-TM1, contract number 44 should be displayed for both OV Purchaser records. The contract number is considered in the generation of the Oil Valuation non-compliance. This "crossing" of contract numbers will trigger the generation of false Oil Valuation OVE003 or OVE008 non-compliance errors.

More information:

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Note: for additional information on the implementation of the new chargeable oil valuation error - OVE008 and shadow billing period, please review the following tip:

- Oil Valuation – Implementation of New Oil Valuation Error – OVE008 for the Province of Saskatchewan.