



---

# Enhanced Valuation Audit Program (EVAP)– Program Details and Petrinex Reporting

---

Ministry of Economy

Directive R02-EVAP Program and Petrinex Reporting

---

May 27, 2014

Revision 0.3

---

**Record of Change**

Revision	Date	Author	Description
0.0	September 25, 2013	Bruce Lerner	Initial
0.1	October 22, 2013	Charene Kozak	Section 2.2 add the word “business” between “The last” and “day of February”. Section 2.5 update Edit EVAP Declaration screen shot to accurately reflect field names.
0.2	December 5, 2013	Charene Kozak	Section 2.5 replace” Edit EVAP Declaration” screen shot and add paragraph that indicates no EVAP Declaration is required for 2012. Edit heading numbers for last three headings starting with “Printing and Submitting Declaration” to 2.6.
0.3	May 27, 2014	Charene Kozak	Change logo and add “Ministry of Economy” to cover page.

## Table of Contents

Table of Contents.....	3
1 Program Details .....	4
1.1 Purpose.....	4
1.2 Compliance Assurance.....	4
1.3 Enhanced Valuation Audit Program .....	4
1.4 Situations Requiring a Declaration Under the Enhanced Valuation Audit Program .....	5
1.5 Declaration Regarding the Oil Price Determination and Reporting Requirements.....	5
1.6 Controls.....	6
1.7 Evaluation of Controls .....	7
1.8 Remediation .....	7
2 Petrinex EVAP Reporting.....	7
2.1 Introduction.....	7
2.1 Security .....	8
2.2 Reporting Deadlines.....	8
2.3 Identifying Related Business Associates (BAs).....	8
2.4 Identifying the Declaration Signatories .....	9
2.5 EVAP Declaration .....	10
2.5.1 Themes.....	10
2.5.2 Declaration Signatories .....	10
2.5.3 Declaration Attachments.....	11
2.6 Printing and Submitting Declaration.....	11
2.7 Editing a Submission .....	11
2.8 Approval/Rejection of a Submission .....	11
2.9 Non-compliance Penalty .....	11
Appendix 1.....	12

## 1 Program Details

### 1.1 Purpose

The Saskatchewan Ministry of the Economy (Ministry) has implemented a Royalty Tax Payer (RTP) declaration process as a means to provide greater assurance with respect to RTP compliance with the regulatory requirements around reporting crude oil prices that are used to determine Saskatchewan's Crown royalty and freehold production tax (royalty/tax). This declaration process does not apply to RTPs that sell their raw crude oil at arm's length at an upstream facility such as a battery, terminal or pipeline inlet.

The purpose of the declaration process is to reduce the reliance on manual audit processes currently employed by the Ministry to validate non-arm's length well-head oil prices reported to the Ministry through Petrinex. The model followed by the Ministry in the design of the Enhanced Valuation Audit Program (EVAP) follows established Industry best practices.

This directive sets out the requirements for an RTP to declare its compliance with regulatory requirements with respect to the determination and reporting of the well-head value of oil used for royalty/tax purposes. Refer to Directive R01 – Volumetric, Valuation and Infrastructure Reporting Petrinex (Petroleum Registry) – 7. Oil Valuation (<http://www.economy.gov.sk.ca/ReportingDirectives>) and PR-IC09 Well-Head Value of Crude Oil For Royalty/Tax Purposes Effective April 1, 2000 (<http://www.economy.gov.sk.ca/royaltytaxinfocirc>) for details with respect to the well-head oil price reporting requirements.

### 1.2 Compliance Assurance

The Ministry regulates the process used to determine royalty/tax payable on oil produced from wells located in Saskatchewan. The Ministry may direct an RTP to implement changes to improve the processes, controls or evaluations. This direction will become a condition of compliance with the regulatory requirements.

### 1.3 Enhanced Valuation Audit Program

This directive relates to the Ministry's EVAP program which came into effect in the 2013 calendar year. EVAP is designed to:

- increase the level of assurance regarding RTPs compliance with the Ministry's oil price determination and reporting requirements; and
- increase the level of compliance with the Ministry's oil price determination and reporting requirements.

As part of the EVAP process, RTPs are responsible for:

- an annual declaration signed by one or more senior executives declaring that the RTP is in compliance with the regulatory requirements with respect to the determination and reporting of well-head oil prices;

- reporting on the controls and procedures that exist within the organization to ensure regulatory compliance with well-head oil price determination and reporting requirements;
- reporting on the extent to which the controls have been evaluated;
- reporting on the adequacy and effectiveness of the controls;
- reporting on remediation plans that describe any enhancements that will be made to improve controls or evaluation processes; and
- submitting examples of the calculations used to determine the well-head price of oil. The examples of well-head price calculations will include, but are not limited to, all variables involved for each different type of transaction (e.g. stream, custody transfer point, etc.). They will include actual values with written explanations of each variable.

The Ministry is responsible for:

- administering EVAP and this directive;
- monitoring and analysing data submitted either to Petrinex or to the Ministry;
- regularly providing reports on the results of this analysis to each RTP in support of continuous improvements in the design and evaluation of their controls;
- escalating non-compliance concerns with respect to reported prices; and
- conducting full well-head oil price audits when circumstances warrant.

#### **1.4 Situations Requiring a Declaration Under the Enhanced Valuation Audit Program**

This declaration process is mandatory for those RTPs that have at least one transaction meeting one of the following conditions:

Prior to being 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 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 well-head crude oil price that can't be validated directly by the oil purchaser.

#### **1.5 Declaration Regarding the Oil Price Determination and Reporting Requirements**

EVAP requires that senior executives of each RTP sign and submit an annual declaration attesting to the state of their controls which ensure compliance with the Ministry's oil price determination and reporting requirements. The declaration includes reporting on the existence of controls, the results of the evaluation of controls, plans for remedial action with respect to control deficiencies and the submission of example calculations to demonstrate the methods used to determine the raw crude oil prices reported.

The wording of the declaration, with descriptions of the attachments (Appendices), is located in Appendix 1:

1) **Annual declaration:** An RTP must submit to the Ministry, via Petrinex, a signed declaration regarding its compliance with the Ministry's oil price determination and reporting requirements before the end of February of each year.

2) **Declaration due date:** An RTP must submit its declaration by the end of February of the year following the calendar year in which it meets the criteria set out in section 1.4 (i.e. a declaration for the 2013 calendar year should be made by the end of February 2014).

The Ministry encourages RTPs to develop and test the declaration process early.

3) **Declaration period:** An RTP's declaration must cover the previous calendar year.

If an RTP subject to EVAP amalgamates with or acquires another RTP during a declaration period, a declaration must be submitted to the Ministry, via Petrinex, by the surviving Business Associate.

4) **Form of declaration:** An RTP must submit its annual declaration electronically using the Petrinex EVAP declaration functionality.

A declaration in any other form is not considered valid.

The Appendices to a declaration are generated automatically for an RTP based on data entered into Petrinex using the EVAP declaration process.

The declaration is to be reviewed and approved by senior executives of the RTP that have provincial authority to direct resources.

5) **Declaring executives:** An RTP must submit its annual declaration on behalf of and in the name of one or more senior executives.

6) **Declaring related BAs:** An RTP must provide and maintain a list of related BAs in Petrinex as a means for identifying situations that are subject to the EVAP oil price validation process. Related BAs means related persons, as determined in accordance with the Income Tax Act (Canada).

7) **Retention and provision of declarations:** As proof of electronic submission of a declaration, the RTP must retain a signed copy of the declaration for a period of not less than three years and must provide this copy on request to the Ministry.

8) **Scope of declaration:** An RTP must consider that the declaration includes all oil prices determined and reported that meet the criteria set out in section 1.4 for the previous calendar year.

## 1.6 Controls

1) **Design of controls over oil price determination and reporting requirements:** An RTP must design, maintain and evaluate controls to ensure compliance with the Ministry's oil price determination and reporting requirements.

This directive does not prescribe specific controls or their degree of complexity. RTP's are to design the controls and complexity of controls using judgement, acting reasonably, giving consideration to various factors particular to their operations, including the number of oil marketing situations and the complexity of the oil price determination processes.

- 2) **Retention and provision of controls documentation:** An RTP must maintain up-to-date documentation on controls over oil price determination and reporting requirements and on procedures used to evaluate their effectiveness. This documentation must be provided on request to the Ministry.

## 1.7 Evaluation of Controls

- 1) **Conducting evaluation of controls:** Every year, an RTP must conduct reasonable and adequate evaluations of controls over oil price determination and reporting requirements.

This directive does not specify how the effectiveness of controls is to be evaluated. RTPs are to provide the Ministry with a high level of assurance that they are, in fact, conducting adequate evaluations of controls.

- 2) **Disclosure regarding evaluations controls:** The RTP must declare the number of evaluations of controls that were conducted during the declaration period and the RTP's assessment of whether or not the risk of non-compliance with the requirements is addressed.
- 3) **Retention and provisions of results:** An RTP must prepare and retain for a period of three years documentation on the processes followed and the results obtained for each instance of evaluation of controls and provide these on request to the Ministry.

## 1.8 Remediation

- 1) **Remediation of control deficiencies:** If an RTP's evaluation of controls indicates that the risk of non-compliance with a particular requirement is not adequately addressed, the RTP must prepare and implement a reasonable remediation plan for each control deficiency.
- 2) **Investigation and remediation:** If the Ministry identifies situations that indicate the possibility of non-compliance with one or more oil price determination and reporting requirements, the RTP must investigate and, if necessary, prepare and implement a reasonable remediation plan.
- 3) **Reporting remediation:** If the Ministry has directed that a remediation plan be prepared and implemented, the plan, including expected and actual completion dates, must be reported to the Ministry.

## 2 Petrinex EVAP Reporting

### 2.1 Introduction

EVAP is being introduced effective for the 2013 calendar year reporting period and the first submission is due in Petrinex by the end of February 2014. The EVAP declaration and reporting process will be triggered by pipeline splits submissions. An EVAP declaration will be required from an RTP if a facility operator submits a pipeline split for which the first point of sale (POS) box is checked and the split identifies:

- that RTP's BA ID as both the owner and the purchaser of any volume; or

- that RTP’s BA ID as the owner and a related BA’s ID as the purchaser of any volume.

A monthly report is sent to the BA informing them that an EVAP declaration will be required for the calendar year applicable to the month related to the data submission. Even one such pipeline split submission will require an EVAP declaration. An RTP may also run this report on demand.

## 2.1 Security

For a description of the security, please refer to Section 2 – Business Associate Identifies of Directive R01 – Volumetric, Valuation and Infrastructure Reporting Petrinex.

## 2.2 Reporting Deadlines

The deadline for submission of an EVAP declaration is the last business day of February, for purposes of any calendar year declaration period.

Failure to submit a required declaration prior to the submission deadline will result in non-compliance penalties.

## 2.3 Identifying Related Business Associates (BAs)

Each RTP that will be subject to the EVAP Petrinex process must identify any related BAs on Petrinex using the “Edit Related Business Associate” functionality on Petrinex. This functionality is used to add, delete or edit the list of BAs related to the RTP.

For the start-up year (2013), RTPs are asked to identify their related BAs before the end of November 2013. This will allow for Petrinex notifications to be sent to BAs in situations that require an EVAP declaration.

The screenshot displays the 'Edit Related Business Associate' web application interface. At the top, there is a navigation bar with icons for menu, inbox, help, contacts, and logout. The current user is identified as 'Name: testuser' and the selected Business Associate is 'BA: 00010 ABC OIL AND GAS INC'. Below the navigation bar, there is an '[Audit]' link and the title 'Edit Related Business Associate'. The main content area features a table with the following data:

Delete	BAID	BA Name	Start Date	End Date	
<input type="checkbox"/>	00001	XYZ Energy	2013-10		Edit
<input type="checkbox"/>	00002	REM Corporation	2013-09		Edit
<input type="checkbox"/>	...	...	...		Edit
<input type="checkbox"/>	...	...	...		Edit
<input type="checkbox"/>	00005	DEF Resources	2013-09	2013-12	Edit

Below the table, there are 'Add' and 'Delete' buttons. Further down, there are input fields for 'BA ID', 'Start Date' (with a [YYYY-MM] format hint), and 'End Date' (with a [YYYY-MM] format hint). At the bottom of the form, there are 'Save' and 'Cancel' buttons. A footer link reads 'Menu-Inbox-Help-Contacts-Logout Top-SK'.

## 2.4 Identifying the Declaration Signatories

Each RTP that will be subject to the EVAP Petrinex process must identify Declaration Signatories on Petrinex using the “Edit Declaration Signatories” functionality on Petrinex. This functionality is used to add, delete or edit the list of signatories related to the RTP. One or more of the ‘active’ signatories may subsequently be attached to an EVAP declaration, and are required before the EVAP declaration can be submitted.

The reporting RTP may add a new signatory or modify an existing one. In case of add, the user would be required to enter the signatory’s first name, last name, title, start date and end date (a blank end date means End of Time (EOT)). The modify action would allow the user to change the existing information.

A declaration signatory cannot be deleted or modified if the signatory has been used within a previous declaration; should a person no longer be appropriate as a declaration signatory, the end date for the signatory can be set, making the signatory ‘inactive’. ‘Inactive’ signatories are not included in the selection screen for the declaration.

The screenshot displays the 'Edit Declaration Signatories' web application interface. At the top, there is a navigation bar with icons for Menu, Inbox, Help, Contacts, and Logout. The user's session information is shown as 'BA: 00010 ABC OIL AND GAS INC' and 'SK Name: testuser'. A 'Quicklist' dropdown menu is also present.

The main content area is titled 'Edit Declaration Signatories' and contains a table of existing signatories. The table has the following columns: Delete, First Name, Last Name, Title, Start Date, and End Date. Each row represents a signatory and includes an 'Edit' button.

Delete	First Name	Last Name	Title	Start Date	End Date	
<input type="checkbox"/>	James	Brown	VP of Operations	2013		Edit
<input type="checkbox"/>	James	Borg	Director of Operations	2013		Edit
<input type="checkbox"/>	John	Smith	CEO	2013		Edit
<input type="checkbox"/>	Joseph	Brown	VP Finance	2013		Edit
<input type="checkbox"/>	Mary	Hill	CEO	2013		Edit

Below the table, there are 'Add' and 'Delete' buttons. The 'Add' button is currently selected. Below these buttons are input fields for the signatory details:

First Name :   
 Last Name :   
 Title :   
 Start Date :  [YYYY]  
 End Date :  [YYYY]

At the bottom of the form, there are 'Save' and 'Cancel' buttons. The footer of the page contains the navigation links: 'Menu-Inbox-Help-Contacts-Logout' and '(Top-SK)'.

## 2.5 EVAP Declaration

An EVAP declaration consists of theme items and their responses, one or more signatories, and one or more attached documents.

BA: 00123 ABC Energy Inc.  
SK Name: TestUser  
Quicklist:

[Audit]

### Edit EVAP Declaration

+ EVAP Declaration for 2012	Due: 2013-02-28	Status: Incomplete
- EVAP Declaration for 2013	Due: 2014-02-28	Status: Incomplete
+ Gross Price Calculation	Ref: Directive R02	Status: Incomplete
+ Trucking Expense Calculation	Ref: Directive R02	Status: Incomplete
+ Oil Price Reporting	Ref: Directive R02	Status: Incomplete
+ Declaration Signatories		Status: Incomplete
+ Attached Documents		Status: Incomplete

Print Submit

[Menu-Inbox-Help-Contacts-Logout](#)  
[Top-SK](#)

The EVAP functionality in Petrinex allows for users to see the status of the previous and current years. Since the first EVAP Declaration required by Industry is for 2013, the previous year (2012) status will show as incomplete. ***There is no requirement for Industry to complete an EVAP Declaration for 2012.***

### 2.5.1 Themes

EVAP has three Oil Valuation themes, namely: Gross Price Calculation, Trucking Expense Calculation and Oil Price Reporting. Information required to be submitted for each theme includes the following:

- 1) List and Describe any Controls and the Conclusions of the Evaluations of Controls (will be shown in Appendix A)
- 2) List and Describe any Control Deficiencies and Description of Improvements to address the Deficiencies in the Controls (will be shown in Appendix B)
- 3) List of Evaluation of Control Deficiencies and Description of Improvements to address the Deficiencies in the Evaluation of Controls (will be shown in Appendix C).

### 2.5.2 Declaration Signatories

Signatories for the declaration are selected from the list of signatories specified for the calendar year of the declaration, as described in the section 2.4.

### **2.5.3 Declaration Attachments**

The following attachments to the online submission may be submitted, some of which are required and other of which are optional:

- Description of Controls and Processes (required)
- Signed copy of the EVAP Declaration (required)
- Example well-head oil price calculations (required)
- Other (optional)

## **2.6 Printing and Submitting Declaration**

Appendix A, B, and C are printed along with the EVAP Declaration and form the document that must be signed by the appropriate declaration signatory and then scanned and uploaded to Petrinex. Once all required documents are uploaded, the EVAP Declaration can be submitted to the Ministry.

## **2.7 Editing a Submission**

Declarations can't be edited once they have been submitted. To make changes to the declaration, the RTP must contact the Ministry at (306) 787-2612 and ask that the submission be rejected. Once rejected, the submission can be edited.

## **2.8 Approval/Rejection of a Submission**

The Ministry will approve or reject the declaration in a reasonable time frame. If an EVAP declaration is deemed invalid by the Ministry it will be rejected and the RTP will have to resubmit the declaration. The Ministry will provide the reasoning for the rejection and the areas of the declaration that need improvement.

## **2.9 Non-compliance Penalty**

The maximum penalty for failing to comply with EVAP requirements is \$250,000. The Ministry will consider the relative size of the RTP with respect to Saskatchewan production in setting the penalty level for a specific RTP.

## Appendix 1

### Declaration Regarding the Saskatchewan Ministry of the Economy Oil Valuation

I/We, <Name >, the <title> and <Name >, the <title> on behalf of < Royalty & Tax Payer Name> (the “Payer”), declare the following:

1. This Declaration covers the 12 calendar month period ending <declaration Day, Month and Year>.
2. I am a/We are senior executive(s) of the Payer with responsibility that includes all of the Payer’s oil operations that fall within the jurisdiction of the Saskatchewan Ministry of the Economy (ECON) and with the authority to direct resources with respect to those operations.
3. I/We directly or through those I/we supervise have a competent understanding of the oil well-head price determination and reporting requirements authorized by the *The Oil and Gas Conservation Regulations, 2012*, *The Crown Oil and Gas Royalty Regulations, 2012*, *The Freehold Oil and Gas Production Tax Regulations, 2012* and *The Recovered Crude Oil Tax Regulations, 2012*.
4. I/we recognize my/our responsibility for ensuring compliance with the requirements mentioned in 3. above; and I/we recognize the authority of ECON to make such requirements and enforce compliance with them.
5. The information entered into Petrinex for the purpose of determining the well-head price of oil has been:
  - a. determined in accordance with ECON’s oil valuation requirements.
  - b. reported in accordance with ECON’s oil valuation requirements.
6. I/We have supplied example calculations of the well-head price of oil that accurately demonstrate the process used for the calculation in accordance with ECON’s oil valuation requirements and that can be validated by information submitted to Petrinex during the year.
7. I/We have ensured that all related Business Associates have been accurately entered into Petrinex for the purpose of identifying oil sales situations that are subject to the Enhanced Valuation Audit Program.
8. I/We have ensured that there are controls within the Payer’s business processes that ensure a high level of compliance, subject to 10. and 11., with ECON’s oil valuation requirements. A list of all controls have been documented within Appendix A.

9. I/We follow a process within our organization to evaluate the effectiveness of controls. The conclusions of the evaluations conducted during this declaration period are fairly portrayed in Appendix A.
10. Where our evaluations have identified deficiencies in our controls, including scope and number, as documented in Appendix A, I/we have prepared and are implementing improvements to remediate those deficiencies as described in Appendix B.
11. Where the control evaluation process used during the declaration period is not sufficient to provide a high level of assurance over the effectiveness of our controls, I/we have prepared and are implementing improvements to our evaluation process as described in Appendix C.
12. I/We commit that appropriate resourcing will be provided to execute and measure progress of any improvements described in Appendix A, B and C.

For further information or clarification, please contact *<Name of Person identified as primary contact>*.

This Declaration is due on the last day of *<Submission Month and Year>*.

*<Signature>*

*<Name> <Title>*

Date signed

*<Signature>*

*<Name> <Title>*

Date signed

## **Appendix A: Controls and Evaluations**

Theme #1 – Gross Price Calculation

List and Describe any Controls

Conclusions of the Evaluations of Controls

Theme #2 – Trucking Expense Calculation

List and Describe any Controls

Conclusions of the Evaluations of Controls

Theme #3 – Oil Price Reporting

List and Describe any Controls

Conclusions of the Evaluations of Controls

## **Appendix B: Remediation of Control Deficiencies**

Theme #1 – Gross Price Calculation

List and Describe any Control Deficiencies

Describe Improvements Being Made to the Controls to Address Deficiencies

Theme #2 – Trucking Expense Calculation

List and Describe any Control Deficiencies

Describe Improvements Being Made to the Controls to Address Deficiencies

Theme #3 – Oil Price Reporting

List and Describe any Control Deficiencies

Describe Improvements Being Made to the Controls to Address Deficiencies

## **Appendix C: Proposed Improvements to Evaluations**

Theme #1 – Gross Price Calculation

List and Describe any Deficiencies in the Evaluations of Control Processes

Describe Improvements being made to the Evaluations of Control Processes to Address Deficiencies

Theme #2 – Trucking Expense Calculation

List and Describe any Deficiencies in the Evaluations of Control Processes

Describe Improvements being made to the Evaluations of Control Processes to Address Deficiencies

Theme #3 – Oil Price Reporting

List and Describe any Deficiencies in the Evaluations of Control Processes

Describe Improvements being made to the Evaluations of Control Processes to Address Deficiencies