



# 030 – Offshore Norge Recommended guidelines for definition of joint costs and 100 per cent operator costs

## PREFACE

This guideline is supported by Offshore Norge Referansegruppe økonomi and by the Forum for skatt og fiskale rammebetingelser. It has also been approved by the director general.

The responsible manager in Offshore Norge is the manager for fiscal issues, who can be contacted via the switchboard at +47 51 84 65 00.

This guideline has been prepared in collaboration with AkerBP, ConocoPhillips, Centrica, Engie, ExxonMobil, Norske Shell, Petoro, Statoil, TOTAL og Wintershall. This guideline represents an update of Offshore Norge guideline published 01.01.93, and represents changes in Samarbeidsavtalen og Regnskapsavtalen (JOA) of 01.01.17. The Industry Forum has been presented with the revised guideline.

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# 1 INTRODUCTION - PURPOSE

The purpose of developing guidelines for the above-mentioned subject is to improve industry practice for costs which are to be defined as 100 per cent operator costs (hereafter referred to as the 100 per cent own costs) and principles which can be recommended as a basis for allocating costs between the operator's own account and the joint account. With clear guidelines, the industry can secure uniform treatment of the same type of costs and avoid lengthy discussion concerning the allocation principles.

This recommendation has been prepared by AkerBP, ConocoPhillips, Centrica, Engie, ExxonMobil, Norske Shell, Petoro, Statoil, Total and Wintershall. These guidelines are an updating and expansion of the Norwegian Oil and Gas guidelines published on 1 January 1993, and reflect later changes to the joint operating and accounting agreement effective from 1 January 2017. The guidelines have been treated by the Industry Forum.

# 2 DESCRIPTION OF THE PROBLEM AREA

100 per cent own costs represent relatively small amounts compared with the total expenditure incurred in a joint venture. However, disagreement concerning charges has traditionally been greatest in this area, and the industry has everything to gain from finding simple rules for charging costs to the joint account. In the remainder of this recommendation, costs are categorised as follows:

- Cost types regarded as 100 per cent own costs
- Costs regarded as joint costs
- Costs which can be both 100 per cent own costs and joint costs, depending on their purpose and/or specific circumstances.

Although an attempt has been made to group the issues in accordance with this classification, some practical modifications can be found

# 3 COSTS REGARDED AS BEING 100 PER CENT OWN COSTS

Article 2 of the accounting agreement contains the following definition of “charges to joint account”:

All expenditures necessary to properly conduct of the Joint Operations shall be charged to the Joint Account. The charges shall be fair in relation to the nature and extent of the Joint Operations and shall be adequately documented.

It follows from this that costs primarily incurred by the operator in following up its own owner interests and in developing new business opportunities cannot be charged to the joint account. These include the following:

- follow-up of affiliated companies, see the joint operating agreement
- corporate management and corporate staffs
- follow-up of partner-operated joint ventures
- tasks for the general meeting, board of directors and corporate assembly
- downstream activities, including the operator's sale of its own petroleum products
- foreign activities which do not directly benefit the operator's activities on the Norwegian continental shelf (NCS)
- company profiling and public affairs
- R&D which does not benefit the upstream activities
- costs related to licensing round applications (individual applications)
- costs related to pre-round/regional studies
- mark-up on internal corporate services

### 3.1 The operator's annual report

Costs for preparing and printing the operator's annual report of its activities are regarded as being 100 per cent operator's own costs. The annual report is prepared for the operator's shareholders, and no account is taken of the fact that the joint operations are mentioned in it. Nevertheless, this does not apply to annual reports which the operator's technical departments (the joint operation) might prepare. Assuming their purpose and distribution differs from the operator's shareholders and/or PR purposes for the operator, these are to be regarded as part of the joint operation and their costs can be allocated in the same way as other costs for the unit.

### 3.2 The operator's board of directors

The operator's directors are charged with safeguarding the interests of the operator's owners. These costs must therefore be fully covered by the operator.

### 3.3 Oil exhibitions

Costs associated with stands at oil exhibitions are intended to promote the operator's own interests, and must be regarded as 100 per cent own costs.

### 3.4 Public relations - Advertisements

Public relations advertisements which only show the operator's name and/or logo are intended to promote the operator's own interests and will therefore be 100 per cent operator's own costs.

### 3.5 Sponsor expenses

Financial contributions are generally regarded as 100 per cent own costs. That also applies to support for universities and educational institutions, and other contributions in the form of study places, training or study reports that entailing no returns. Sponsor expenses and other contributions approved by the management committee can be charged to the relevant licence.

### 3.6 Land lots

Land lot expenses shall be considered as 100 per cent operator's own costs until such time as the land is taken into use for the joint operation.

### 3.7 Tax

Work on tax issues, such as own tax return, acquisition/sale of assets and international tax advice, are 100 per cent operator's own costs. Tax issues related to the operator role on the NCS can be charged to the joint operation.

### 3.8 Corporate planning and business development

The chosen allocation keys must reflect the operator's own business development, purchase and sale of interests in production licences, shareholdings in other companies and international activity. The organisational placement of these tasks will vary from company to company, but it is important that their costs are separated out and met wholly by the operator.

### 3.9 Licence applications

Applications for new licences must be covered wholly by the operator. With new forms of cooperation, where an operator applies for a licence on behalf of the partnership, or has obtained advance approval from the other partners, the costs may be charged to the partnership.

### 3.10 Regional studies

Regional studies and geological data acquired by the operator for seeking new licences or for use in a different business context are 100 per cent operator's own costs.

## 4 JOINT COSTS

### 4.1 Office costs where the operator owns the premises

Annual rent will consist of depreciation and financing costs which cover the operator's costs. These are normally calculated in the following way:

- depreciation: linear depreciation – maximum three per cent per annum
- basis of depreciation: capital invested or purchase price
- financing: average Nibor (three months) plus one percentage point
- interest: calculated on the depreciated balance

The depreciation basis, which will include imputed interest during the construction period, will be calculated as an average of the opening and closing balances for the year.

If the premises are rented from an affiliated company (the accounting agreement), rent will be calculated in the same way as if the operator itself owned the premises.

Loss and gain from sale of premises owned by the operator or an affiliated company are for the operator's own account.

Rent can be charged from the first day the building is taken into use for the joint operation.

### 4.2 Office costs where the operator' pension fund owns the premises

If office premises owned by the operator's pension fund are rented, the agreed rent will be used as the allocation basis. Rent must not exceed the market level for similar premises. Should doubt exist over the market rent, an assessment by an independent expert will be used.

### 4.3 Office costs where a third party owns the premises

The contractual rent is used as the allocation basis.

### 4.4 Vacant office premises, vacating

Premises previously charged for which are vacated completely may still be charged for a period of up to 6 (six) months after the bulk of the activity/personnel have moved out, but not after they have been sold or taken into use for other purposes.



#### 4.5 Vacant office premises, flexibility

If only parts of the building(s) are used, the operator may charge *pro rata* for the number of square metres utilised. "Building" in this context means buildings which naturally belong together in relation to the operator's space management and their geographical location. In addition, the operator can charge up to 15 per cent extra as a flexibility factor calculated in relation to the area in use. This factor cannot result in the theoretical/chargeable square metres exceeding the total area of the building(s). Common areas accessible to everyone, including third parties, will be distributed *pro rata* in accordance with the area in use.

#### 4.6 Rental of office premises to others who work for the operator's joint operation (travel agencies, service companies, etc.)

Office premises utilised by the operator for rental to contractors/cooperation partners who work solely for the operator's joint operation can be charged to the joint account in the usual way. Any rental income shall be credited to the joint account.

#### 4.7 Rental of office premises to another third party

Income and expenses related to office space rented to another third party are kept separate from the joint account. Common practice is to establish a separate agreement. Expenses will be allocated directly if possible and appropriate, but calculations based on allocation keys are also used.

#### 4.8 Personnel costs

Compensation arrangements and welfare provision will vary from operator to operator. These will form part of the operator's general compensation scheme and will be chargeable to the joint operation in the same way as other costs. Examples of chargeable costs are courses, events/gifts for anniversaries, Christmas dinners and other welfare provisions which are common in the industry.

#### 4.9 NHO dues

Dues to the Confederation of Norwegian Enterprise (NHO) are invoiced in accordance with the companies' level of activity (payroll) and may be allocated as a joint cost.

#### 4.10 Macroeconomic analyses

Whether such analyses benefit the joint operation must be assessed in each case. However, analyses related to the plan for operation and development (PDO) may be charged to the partnership.

#### 4.11 Costs related to administrative errors

As a general rule, interest charges or additional costs related to transactions will be tied to the principal. Examples include late payment of invoices and failure to deduct VAT.

#### 4.12 Licence-financed research and development (R&D)

R&D financed by the licence must be charged to it directly.

## 5 COSTS WHICH SHOULD BE DIVIDED BETWEEN 100 PER CENT OWN COSTS AND THE JOINT ACCOUNT

### 5.1 Dues to Norwegian Oil and Gas

The total Norwegian Oil and Gas budget will be financed in accordance with the resolution of the general meeting as:

- dues from the supplier companies
- dues from the oil companies
- payments from the oil companies for joint activities.

Dues from the oil companies will be divided into two parts. One will be allocated equally between the companies, while the other is allocated in accordance with total costs in the licence budgets per operator for the fiscal year.

On that basis, it is proposed that the share of the dues allocated equally, shall be treated as 100 per cent own cost, while the share allocated in accordance with licence budgets shall be treated as a joint cost in relation to the activity level. Other joint Norwegian Oil and Gas costs are chargeable.

Employee participation in ad hoc and standing committees related to Norwegian Oil and Gas projects will be charged to the joint account.

## 5.2 Fees for external auditors

Fees for external auditing will be allocated between 100 per cent own costs and joint costs in accordance with the external auditor's recommendation, which will reflect how much of the external auditor's work is related to the joint operation and to 100 per cent own costs respectively.

If no other allocation has been made, the recommendation is to divide audit expenses equally between 100 per cent own costs and joint costs.

Pursuant to section 74 of the petroleum regulations, audit fees related to the state's direct financial interest (SDØE) are charged directly to the licence.

## 5.3 Accounting and control

The operator is responsible for keeping accounts in Norway covering all activities under the agreement in accordance with statutes, statutory regulations and Norwegian generally accepted accounting principles, and for adopting the necessary routines to monitor and document the operator activities.

When new requirements for generally accepted accounting principles, routines and documentation also comprise requirements for consolidated accounts, reporting to the board and the like, a proportionate deduction will be made for the consolidation element and treated by the operator as 100 per cent own costs. Other costs will be allocated between the other activities in accordance with fair allocation principles in the industry.

## 5.4 Public meetings, entertaining guests, dinners, etc

Such costs must be evaluated in each case. Charges must always be documented with a list of participants and the purpose.

## APPENDIX A SPECIFICATION OF AMENDMENTS TO THE GUIDELINES

See attachement A.