

GOVERNMENT NOTICE NO. 957 published on 6/12/2019

THE PETROLEUM ACT
(CAP.392)

REGULATIONS

(Made under section 258)

THE PETROLEUM (COST RECOVERY ACCOUNTING) REGULATIONS, 2019

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THE PETROLEUM ACT
(CAP.392)

REGULATIONS

(Made under section 258)

THE PETROLEUM (COST RECOVERY ACCOUNTING) REGULATIONS, 2019

PART I
PRELIMINARY PROVISIONS

- Citation 1. These Regulations may be cited as the Petroleum (Cost Recovery Accounting) Regulations, 2019.
- Application 2. These Regulations shall govern accounting and monitoring of costs, expenditures, production and receipts in the conduct of Petroleum Operations.
- Interpretation
n
Cap. 392 3. In these Regulations, unless the context otherwise requires-
“ Act” means the Petroleum Act;
“abandonment” means decommissioning, removal or disposal of structures, facilities, installations and including pipeline equipments and other property used in petroleum operations in the area, cleaning up of the area, plugging and secure of wells, restoration of land, safety clearance of an area, in connection with cessation or partial cessation of Petroleum Operations in an area or part of an area;
“affiliate company” ” means any company holding directly or indirectly majority shares in company which is controlled directly or indirectly the aforesaid company. For the purposes of this definition-
(a) a company is directly controlled by another company or companies holding shares carrying in the aggregate the majority of votes exercised at general meetings;
(b) a company is indirectly controlled by a company or companies hereinafter called “the parent company or companies” if a series of companies can be specified, beginning with

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- the parent company, are so related that each company of the series, except the parent company or companies, is directly controlled by one or more of the earlier in the series;
- “agreement” means the production sharing agreement and its annexes, if any executed among the ministry responsible for petroleum affairs, Tanzania Petroleum development Company and the contractor;
- "arm's length" means relationship that between two or more entities, where neither of such entities exerts or is in position to exert significant influence of any of the other entities having regard to all relevant factors;
- “Authority” means Petroleum Upstream Regulatory Authority or in its acronym PURA;
- “BTU” (British thermal unit) means an energy unit contain the quantity of heat necessary to raise the temperature of one pound-mass of water one degree Fahrenheit from 58.5°F to 59.5°F under a standard pressure of 30 inches of mercury at 32°F;
- “business day” means a day excluding a Saturday or Sunday or public holiday on which banks in the United Republic of Tanzania are open for business;
- “calendar quarter” means the four (4) standardcalendar quarters that make up the year and it includes January, February, and March for first quarter (Q1); April, May, and June for second quarter (Q2); a July, August, and September for third quarter (Q3); and October, November, and December for fourth quarter (Q4). A quarter shall shown with its relevant year, as in Q1 2018 or Q1/18 which represents the first quarter of the year 2018.
- “Calendar year” or “year” means a period of twelve consecutive months according to the Gregorian calendar beginning on January 1 and ending on December 31;
- “contract area” means an area in which at any is subject to an exploration licence or development licence granted to a licence holder or as defined in the relevant agreement;
- “contract expenses” means expenses incurred in relation to the Petroleum Operations, as more fully set forth in the agreement;
- “contract year” means a period, and successive periods, of twelve consecutive months according to the Gregorian calendar beginning on the effective date of the agreement in question;
- “contractor” means second party as well as any entity to which any interest may be transferred in application of the

provisions provided for in the agreement;

"cost gas" means the volume of natural gas, capped at an agreed percentage between the parties in respective agreement, which the contractor is entitled to take out of produced volume after deducting royalty due to government, and apply it to recover all recoverable contract expenses incurred under the contracted area;

"cost oil" means the amount of crude oil, capped at an agreed percentage between the Parties in respective agreement, which the contractor is entitled to take out of produced volume after deducting royalty due to government, and apply it to recover all recoverable contract expenses incurred under the contracted area;

"development operations," means operations for or in connection with the production of Petroleum and shall include the activity carried out to prepare the development Plan and the activity carried out after the grant of the development licence in the respective development Area such activity shall include-

- (a) reservoir, geological and geophysical studies and surveys;
- (b) drilling of producing and injection wells;
- (c) design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants, and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressuring, recycling and other secondary or tertiary recovery projects;

"Development Plan" means the proposals accompanying an application for a development licence pursuant to the Act and the Agreement;

"effective date" means the date on which, the exploration licence is granted by the Minister after the signature of the agreement by the parties;

"field units" means a system of units used for the measurement of various parameters in the petroleum industry such primary units includes as volume, mass, heat, temperature, pressure, area, and length.

The primary field units includes; barrel (bbl), gallons, standard cubic feet (SCF), Pound per Square inch (psi), acre, Fahrenheit (°F), Kelvin (K), Rankine (°R), pound (lbm), and British thermal unit (Btu or BTU).

"integrated project" means a project prescribed in a single

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development plan which comprises of development, production, processing, liquefaction, storage, transportation, shipping and marketing of petroleum.

“joint operations” means the petroleum operations in respect of which National oil Company has elected to contribute expenses or has been carried by the contractor pursuant to the agreement;

“Petroleum Operations” means any and all operations and activities in connection with exploration operations, appraisal operations, development operations, and production operations, including all the abandonment activities as required under the provision of the agreement;

“recoverable contract expenses” means all expenses incurred in carrying out petroleum operations within the licence area and development licence as categorized in these regulations, which the contractor and, where joint operations have been formed, are entitled to recover out of cost oil or cost gas;

PART II

COST RECOVERY PRINCIPLES

Costs
recovery
limitation

4.-(1) All recoverable contract Expenses incurred by the contractor and, in a situation where the joint operations have been established, shall be recovered by freely taking and disposing from a total volume of crude oil or natural gas produced saved from the contract area and not used in petroleum operations.

(2) Recoverable contract expenses shall be limited, in any calendar year, to an amount not exceeding a percentage, to be determined in respective agreement, of the total crude oil or natural gas production from the contract area in any calendar year net of royalty.

(3) Recoverable contract expenses shall be recovered as from the date they have been prudently incurred without any adjustment or indexation.

(4) To the extent that, in any calendar year, the recoverable contract Expenses exceed the cost oil or cost gas available in each calendar year under the unrecovered excess shall be carried forward for recovery in the next succeeding calendar year.

(5) Any excess unrecovered contract expenses under sub regulation (4) shall be recovered in the subsequent year until fully recovered or until the termination of the agreement, where such termination occurs earlier, whatever the reason thereof.

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- (6) In the event of termination of agreement as stated in sub regulation (5), unrecovered costs shall be recovered by the contractor or in the case of joint operations, by the National oil company or as the case may be.
- (7) Where the balance of recoverable contract expenses are less than set cost recovery limitation for cost gas or oil during the year, recovery shall be limited to amount of the balance of the recoverable contract costs, and the excess shall revert to profit oil or profit gas during that year.
- (8) Royalty shall have a first charge on gross volume on petroleum recovered at the delivery point before determining the proportion to be allocated to cost oil or gas and profit oil or gas;
- (9) The license holder and the contractor shall before determining the proportion to be allocated to cost petroleum and profit petroleum pay royalty to the Government in respect of gross volume on petroleum recovered at the delivery point.

Ring fencing
on
recoverable
cost of
exploration
and
development
licence

5.-(1) Recoverable contract expenses shall be ring fenced based on exploration licence or development licence as stipulated in the Act;

(2) Where there is an exploration license or more than one development license in a contract area, exploration expenses shall be recovered from petroleum revenue to the extent that they were incurred prior to commencement of petroleum production from each development area;

(3) Costs to be recovered for each contract area shall be limited to exploration costs prior to commencement of petroleum production from the respective development area and subsequent development and operating costs.

(4) Where the holder of development licence undertakes further exploration activities in the development area for enhancement of petroleum production, such further exploration cost shall be recoverable from the respective development licence.

(5) Where a license holder and contractor undertake an integrated project, all costs incurred by the license holder and the contractor for the construction and operation of midstream facilities including processing, liquefaction, storage and loading facilities shall not form part of recoverable costs under the production sharing agreements.

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Cost
recovery
hierarchy.

- 6.-(1) The available cost oil or cost gas shall be applied first to recover operating expenses, and where Joint operations have been established, the license holder and contractor shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered operating expenses;
- (2) After recovery of operating expenses under subregulation (1) has been done any excess cost oil or cost gas available for distribution shall be applied to recover exploration Expenses;
- (3) After recovery of operating expenses and exploration expenses any excess cost oil or cost gas available for distribution shall be applied, and the contractor and license holder shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered development expenses.
- (4) Any unrecovered recoverable contract expenses shall be recovered out of the costs oil or cost gas available in the next succeeding calendar year or years in the same manner as set out under subregulation (1).

PART III

OBLIGATION AND RESPONSIBILITIES

Accounting
method

7. The accounting method used by the contractor in reporting the account and other operational activities shall follow accrual method of accounting.

Submission
of
operational
reports

- 8.-(1) The Authority shall prepare a template to be used for all contractors in reporting the accounting and other operational activities.
- (2) The contractor shall, within sixty days from the effective date, submit to the Authority a complete chart of accounts, accounting system, policies, manuals and sets of records to be used by contractor for approval by the Authority.
- (3) The Authority and contractor shall, within one hundred and eighty days after the effective date, agree on the outline of charts of accounts, accounting system, policies, manuals and sets of records.
- (4) The charts of accounts, operating records and reports in subregulation (4) shall describe the basis of the accounting system and procedures to be developed for use under the agreement.

Submission
of chart of

9.-(1) Where applicable, the contractor shall prepare and

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accounts and
other
operational
reports

submit to the Authority regular statements for reports relating to petroleum operations including-

- (a) production statement ;
- (b) decommissioning fund statement ;
- (c) value of production, pricing and royalty payable statement ;
- (d) statement of receipts and expenditures;
- (e) cost recovery statement ;
- (f) additional profit tax statement ;
- (g) end-of-year- statement ;
- (h) budget statement ;
- (i) annual audited financial statements; and
- (j) any other statement that the Authority may prescribe.

(2) Contractor shall ensure that all reports and statements in subregulation (1) are prepared in accordance with the relevant laws of Tanzania and in case of lacuna the normal practice of the international petroleum industry shall apply.

Language,
units of
account and
currencies

10.-(1) English language shall be used as business language in keeping and presenting all records, reports and statements.

- (2) All measurements in the conduct of petroleum operations shall be either in metric units or field units.
- (3) A contractor shall maintain accounts in Tanzanian shillings and United States dollars
- (4) In case of currency conflict in subregulation (3), the United States dollar shall prevail over the Tanzanian shillings.

Exchange
rate
treatment

11.-(1) Any payment made or amount received in Tanzanian shillings or in United States Dollars shall be converted from Tanzanian shillings into United States Dollars, or from United States dollars into Tanzanian shillings on the basis of the monthly average of the mean of the daily official buying and selling exchange rates between the currencies in question as published by the Bank of Tanzania or failing such publication, any other publication as determined by the Authority for the month in which the relevant transaction occurred.

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(2) Notwithstanding subregulation (1), all transactions in excess of the equivalent of two hundred and fifty thousand United States dollars (US\$ 250,000) shall be converted at the mean of the buying and selling exchange rates published by the Bank of Tanzania on the day the transaction occurred.

(3) Amounts received and expenditures made in currencies other than United States Dollars or Tanzanian Shillings shall be converted into United States dollars or Tanzanian shillings on the basis of the monthly average of the mean of the daily buying and selling exchange rates between the currencies in question as published by the Bank of Tanzania or, failing such publication, as published in the Financial Times (London edition) for the Month in which the relevant transaction occurred.

(4) The average monthly exchange rate calculated in accordance with subregulation (1) and, where relevant, the exchange rates employed pursuant to subregulation (3), shall be identified in the relevant statements required under these Regulations.

(5) Any gain or loss from exchange of currency arising in the course of transactions while undertaking petroleum operations shall be credited or charged to the accounts of a respective operating license.

(6) Treatment of amounts received and costs and expenditures involved in petroleum operations regarding exchange rates shall be in the manner prescribed in the guidelines.

Payments

12.-(1) All payments between the parties shall, unless otherwise agreed, be in United States Dollars through a local bank designated by each receiving party.

(2) Discharge of the contractor's obligation with respect to Government's share shall be made in accordance with the provisions of the Act, these Regulations and the relevant Agreement.

(3) All sums due from one party to the other under these Regulations or relevant agreement during any calendar quarter shall, for each day such sums are overdue during such quarter, bear interest compounded daily at an annual rate equal to the average London Interbank Offer Rate (LIBOR) for six (6) months US dollars as quoted at 11.00 a.m. London time on the first business day of such quarter by the London office of National Westminster Bank, or such other bank as determined by the Authority.

Accounting records

13.-(1) The Contractor shall maintain all accounting records related to petroleum operations in the contract area for

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duration of the exploration or development licence.

(2) Contractor shall submit accounting records within ninety days of the end of each calendar year for auditing purposes.

(3) For purposes of auditing, the Authority shall examine and verify all charges and credits relating to the contractor's activities under the agreement and all books of accounts, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits.

(4) In the course of conducting audit, the Authority may require the contractor to provide further information in connection with the submitted accounting records.

(5) The auditors shall have the right in connection with such audit to visit and inspect all sites, plants, facilities, warehouses and offices of the contractor directly or indirectly, serving its activities under the agreement and to visit and inquire from personnel associated with those activities

(6) Where the Authority requires verification of charges made by an affiliate Company, the Authority may require the contractor to provide further supporting document in connection with the affiliated charges and other charges from parent company or third party confirmation determined by the Authority.

Notice of
exception

14. Where the Authority observes any discrepancy, anomaly or exceptions with respect to accounting records as provided under these Regulations-

- (a) the Authority shall within sixty days of completion of audit communicate such discrepancy, anomaly or exceptions on the accounts to the contractor through a notice of exception;
- (b) upon receipt of notice of exception, the Contractor shall within sixty days provide a substantive response the Authority; and
- (c) where a contractor fails to make a defence referred to in paragraph (b), the Authority's exception shall be considered as a accepted by the contractor, and the accounted shall be adjusted accordingly.

Notice of
clearance

15.-(1) Where the Authority observes no discrepancy, anomalies or exceptions after completion of audit, the Authority shall within thirty days issue a notice of clearance to the contractor.

(2) Where the Authority and the contractor have resolved all issues raised in the notice of exceptions as provided under regulation 14, the Authority shall within thirty days issue a notice

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of clearance to the contractor.

(3) Where the Authority adjusts the accounts of contractor in accordance to subregulation 14 (c), the Authority shall within thirty days issue a notice of clearance to the contractor.

(4) Pursuant to subregulation (2) and (3), the Authority shall communicate the revised cost recovery statement to the contractor.

(5) Where the Authority and the contractor fail to resolve any issue with regard to notice of exception, such matter shall be settled in accordance with regulation 31.

Classification,
definition
allocation
of costs and
expenditures

16.-(1) The contractor shall segregate expenditures in accordance with the objectives for which such expenditure was made.

(2) The Authority shall qualify the expenditures which have been approved and included in the approved work plan and budget for the year in which the expenditure is made and other items which the Authority may authorize from time to time.

(3) The contractor shall classify, define and allocate all allowable expenditures relating to petroleum operations.

(4) The Authority shall verify the allowable expenditures relating to petroleum operations in accordance with these Regulations.

(5) The classification, definition and allocation of all costs and expenditures in subregulation (3) shall be as set out in First schedule.

(6) The contractor shall, in the event of petroleum discovery maintain a separate expenditure records for each development licence.

Recoverable
costs

17.-(1) The contractor shall bear and pay all costs and expenses in respect of petroleum operations carried out in the contract Area.

(2) The costs and expenses in subregulation (1) shall be as classified under regulation 5.

(3) The contractor shall recover the following costs and expenses without further approval from the Authority out of cost oil or cost gas:

- (a) labour and associated costs;
- (b) transportation;
- (c) charges for services;
- (d) exclusively owned property;
- (e) material and equipment;

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- (f) value of material charged to the accounts under the contract area;
 - (g) duties and other assessments;
 - (h) insurance and losses;
 - (i) legal expenses;
 - (j) training costs;
 - (k) service costs or rental; and
 - (l) general and administrative costs
- (4) The contractor shall be required to submit its insurance plans and proposed policy covers when submitting annual work plan and budget for review and approval by the Authority.
- (5) The uninsured risk shall be at a limit acceptable by the Authority.
- (6) The recoverable costs in subregulation (3) shall be as prescribed in the Second Schedule.

Costs not recoverable

- 18.-(1) For the purposes of sharing profit oil or profit gas, the following costs shall not be recoverable:-
- (a) annual charges, which cover all direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of conducting petroleum operations in a contract area;
 - (b) all costs incurred before the effective date including charges incurred by a contractor for copying and shipping of data relating to the contract area;
 - (c) income tax, withholding taxes and all other taxes related expenses arising from income derived from petroleum operations;
 - (d) petroleum marketing or transportation costs beyond the delivery Point;
 - (e) the costs of any bank guarantee or letter of guarantee required under the agreement and any other amounts spent on indemnities with regard to nonfulfillment of contractual obligations;
 - (f) costs of arbitration and the sole expert in respect of any dispute under Agreement;
 - (g) fines and penalties imposed by PURA or any other competent authority;
 - (h) costs incurred as a result of misconduct or negligence of the contractor;
 - (i) an annual overhead charges for services rendered outside the United Republic of Tanzania;
 - (j) donations and contributions made by the contractor;
 - (k) signature bonus and production bonus;

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- (l) expenditure on fundamental research into development of new equipment, materials and techniques for use in search for, developing and producing petroleum except to the extent that such research and development is directly carried out in support of petroleum operations in the United Republic of Tanzania whereby such a research is conducted in collaboration with National oil Company;
- (m) interest and financing charges paid to the creditors or financier of the contractor;
- (n) bonuses paid to employees and directors;
- (o) cost incurred whose supporting document are submitted in or language other than English or Swahili;
- (p) language translation costs relating to documents which were executed using languages other than English or Swahili;
- (q) Expenses which have been disallowed by the Authority; and
- (r) any extra costs which, by reference to the Best International Petroleum Industry Practices, can be shown to be excessive.

Expenses
and other
costs

19. Any other costs and expenses not covered or dealt with in regulation 17, and which are incurred by the contractor for the necessary and proper conduct of petroleum operations are recoverable only with the prior approval in writing of the Authority.

Net Proceeds

20.-(1) Net proceeds received from transactions related to petroleum operations other than the proceeds from the sale of crude oil and natural gas shall be credited to the accounts under the agreement.

(2) The transaction referred in subregulation (1) shall include but not limited to the following:

- (a) net proceeds of any insurance or claim in connection with petroleum operations or any assets charged to the accounts under the agreement when such operations or assets were insured and the premia charged to the accounts under the agreement;
- (b) legal expenses charged to the accounts under regulation 17 (3) (i) and subsequently recovered by the contractor;

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- (c) revenue received from third parties including affiliate companies for the use of property or assets charged to the accounts under the agreement;
 - (d) any adjustment received by the contractor from the suppliers manufacturers or their agents in connection with defective material, the cost of which was previously charged by the contractor to the accounts under the agreement;
 - (e) rentals, refunds or other credits received by the contractor which apply to any charge which has been made to the accounts under the agreement but excluding any award granted to the contractor under arbitration or sole expert proceedings;
 - (f) the net proceeds for material originally charged to the accounts under the agreement and subsequently exported from the United Republic of Tanzania without being used in petroleum operations;
 - (g) the net proceeds from the sale or exchange by the contractor of materials, equipment, plant or facilities, the acquisition costs of which have been charged to the accounts under the agreement;
 - (h) the proceeds from the sale of any petroleum information which relates to the contract area provided that the acquisition costs of such rights and information have been charged to the accounts under the agreement;
 - (i) the proceeds derived from the sale or license of any intellectual property the development costs of which were incurred under the agreement; and
 - (j) any other proceeds of the same nature as approved by the Authority.
- (3) For the purposes of sharing profit oil or profit gas, such credits under this regulation shall be offset against recoverable contract expenses.

Duplication
of charges or
credits

21. Notwithstanding any provision to the contrary in these Regulations, there shall be no duplication of charges or credits to the accounts under the agreement.

Detailed
records of
property and
assets

22.-(1) The contractor shall maintain detailed records of property and assets in use for petroleum operations in accordance with principles set out under these Regulations and best practices in exploration and production activities of the international

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petroleum industry.

(2) After every six months, the contractor shall notify the Authority in writing of all assets acquired during the preceding six months indicating the quantities, costs and location of each asset.

(3) At reasonable intervals but at least once yearly with respect to movable assets and once every four years with respect to immovable assets, the contractor shall take inventories of the property and assets under the agreement.

(4) The contractor shall give the Authority at least thirty days written notice of its intention to take such inventory.

(5) Subject to subregulations (3) and (4), the Authority shall confirm its participation on such exercise with the list of names of its representative within fourteen days after receiving such notice.

(6) The contractor shall clearly the principles upon which valuation of the inventory is based.

(7) When an assignment of rights under the agreement takes place, a special inventory may be taken by the contractor at the request of the assignee provided that the costs of such inventory are borne by the assignee.

Monthly
Production
statement

23.-(1) Upon commencement of production from the contract area, the contractor shall submit a monthly production statement to the Authority showing the following information for each development area and for the contract area:

- (a) the quantity and quality of crude oil produced and saved;
- (b) the quantity, quality and composition of natural gas produced and saved;
- (c) the quantities of petroleum used for the purposes of carrying on drilling and production operations and pumping to field storage as well as quantities injected into the formation;
- (d) the quantities of petroleum unavoidably lost;
- (e) the size of petroleum stocks held at the beginning of the month in question;
- (f) the size of petroleum stocks held at the end of the month in question;
- (g) the number of days in a month during which petroleum was produced from each development area within the contract area.

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(2) The operator shall prepare and submit an aggregated production statement in consideration of the item (a) to (g) in subregulation (1), at the end of each quarter of calendar year.

(3) The average daily production rate for the quarter shall be calculated in accordance with provision provided in these Regulations.

(4) The production statement for each month or quarter shall be submitted to Ministry responsible for Petroleum and the Authority not later than seven days after the end of such month or quarter.

Value of
production,
pricing and
royalty
statements

24.-(1) The licence holder shall prepare a value of production, pricing and royalty payable statement providing calculations of the value of crude oil or natural gas produced and saved statement during each calendar quarter in accordance with these Regulations.

(2) The statement prescribed in subregulation (1), shall contain the following information:

- (a) the quantities, prices and receipts realized by the contractor in third party;
- (b) sales of Tanzanian crude oil or natural gas during the calendar quarter in question;
- (c) the quantities, prices and receipts realized by the contractor in sales of Tanzanian crude oil or natural gas during the calendar quarter in question, other than in third party sales;
- (d) the value of stocks of crude oil or natural gas held at the beginning of the calendar quarter in question;
- (e) the value of stocks of crude oil or natural gas held at the end of the calendar quarter in question;
- (f) the percentage volume of total sales of Tanzanian crude oil or natural gas made by the contractor during the calendar quarter that are the third party sales;
- (g) all information available to the contractor, if relevant for the purposes of these regulations, concerning the prices of the selection of major competitive crude oils or gas, including contract prices, discounts and premiums, and prices obtained on the spot markets; and
- (h) the statement of royalty payable.

(3) The value of production and pricing statement for each calendar quarter shall be submitted to Ministry responsible for petroleum and the Authority not later than twenty - days after the end of such calendar quarter.

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Statement of
receipts and
expenditure

25.-(1) The contractor shall prepare with respect to each calendar month a statement of receipts and expenditure.

(2) The statement under sub-regulation (1) shall distinguish between exploration expenses, development expenses and operating expenses and shall separately identify all significant items of expenditures within these categories

(3) In addition to sub-regulation (2) the statement shall contain the following:-

- (a) actual receipts and expenditure including all credits pursuant to regulation 19 for the month in question showing variances from the budget and explanations thereof;
- (b) cumulative receipts and expenditure including all credits pursuant to regulation 19 for the budget year in question;
- (c) latest forecast of cumulative expenditure at the Year-end; and
- (d) variations between budget forecast and latest forecast, with explanation thereof.

(4) Where the Authority is not satisfied with the degree of desegregation within the categories, it shall be entitled to ask for a more detailed breakdown.

(5) Aggregated statements in respect of the three months comprising quarter shall be submitted for each of the paragraph (a) to (d) in sub-regulation (3) at the end of each calendar quarter.

(6) The statement of receipts and expenditure for each calendar month or quarter shall be submitted to the Ministry responsible for petroleum and the Authority within thirty days after the end of such month or quarter.

Quarterly
cost recovery
statement

26.-(1) The contractor shall prepare with respect to each calendar quarter a cost recovery statement containing the following information:-

- (a) recoverable contract expenses carried forward from the previous quarter;
- (b) recoverable contract expenses for the quarter in question;
- (c) total recoverable contract expenses for the quarter in question which is the sum of (a) and (b) above;
- (d) quantity and value of cost oil and or cost gas taken and disposed of by the contractor for the quarter in question;
- (e) contract expenses recovered for the quarter in question;

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- (f) total cumulative amount of contract expenses recovered up to the end of the quarter in question;
- (g) amount of recoverable contract expenses to be carried forward into the next quarter; and
- (h) proceeds and balance of the decommissioning fund;

(2) The cost recovery information required pursuant to sub-regulation (1) shall be presented in sufficient detail so as to enable Ministry responsible for Petroleum Affairs and Authority to identify how the cost of assets are being recovered for the purposes of provisions provided in these regulation and relevant agreement.

(3) The cost recovery statement for each quarter shall be submitted to the Ministry responsible for Petroleum Affairs and the Authority not later than twenty one days after the end of such quarter.

Contractor's decommissioning fund statement

27.-(1) On quarterly basis, the contractor shall prepare decommissioning Fund statement , as provided in the law, containing the following information:

- (a) cumulative balance of the fund brought forward to the beginning of respective quarter;
- (b) amount credited to the fund during the quarter;
- (c) amount of expenses by type used during the quarter; and
- (d) total funds required to cover potential decommissioning costs as provided for in the decommissioning studies/feasibility study.

(2) The decommissioning fund statement for each quarter shall be submitted to the Ministry responsible for petroleum affairs and the authority not later than twenty one (21) days after the end of such quarter.

End-of-year statement

28.-(1) The contractor shall prepare a definitive end-of-year statement.

(2) The statement shall contain aggregated information for they in the same format as required in the value of production, pricing statement, royalty payable statement , decommissioning fund statement , cost recovery statement and statement of receipts and expenditure to be based on the actual quantities of Petroleum produced and the costs and expenses incurred.

(3)The end-of-year statement for each calendar year shall be submitted to the Authority within sixty days of the end of such calendar year.

Budget

29.-(1) The contractor shall submit statutory annual

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statement audited financial statements prepared in accordance with international financial reporting standards as pronounced by NBAA and audited in accordance with international auditing standards by an audit firm registered with NBAA within four months after the end of every financial year to the Authority.

(2) The contractor shall also submit management audit report along with audited financial statements to the Authority.

Formation and composition 30.-(1) The contractor shall prepare an annual budget statement.

(2) The statement under subregulation (1) shall set out separately exploration expenses, appraisal, development expenses, decommissioning expenses, and operating expenses and shall show the following:

- (a) forecast expenditure and receipts for the budget year;
- (b) cumulative expenditures and receipts to the end of the said budget year; and
- (c) a schedule showing the most important and individual items of development expenses for the said budget year.

(3) The Budget statement with respect to each budget year shall be submitted to the Authority no less than ninety days before the start of the year.

(4) Where the effective date falls within the calendar year, the contractor shall within thirty days of the effective date submit the budget statement to the Authority.

Auditing dispute settlement 31.-(1) Any dispute arising in the process of audit of recoverable cost and receipts under the petroleum operations shall be settled in the following manner:-

- (a) within thirty days after receiving contractor's response on notice of exception pursuant to regulation 14, the audit team from the Authority and the contractor shall meet and discuss any audit findings with discrepancy, anomaly or exceptions with respect to accounting records disagreed by the contractor;
- (b) any unresolved dispute under sub regulation (1) (a) shall be tabled to the management meeting of both parties for further discussion and resolution;
- (c) within 30 days after confirmation of the disputed issues under sub-regulation (1) (b), parties to the dispute shall refer any unresolved disagreement to the pre-qualified independent expert to be appointed

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jointly by the Authority and the contractor for recommendation and final determination;

- (d) all costs associated with the implementation of sub regulation (1) (c) shall be met by the contractor;
- (e) upon receipt of independent expert's recommendations, and if the parties agree on the submitted report, parties shall resolve issues in dispute on the basis of the expert's recommendation, and the resolution shall be final and binding and the accounts shall be adjusted accordingly;
- (f) where the parties, within sixty days from the receipt of expert's recommendation, have not reached a resolution in accordance with sub-regulation (e), either party may refer the matter to arbitration. The arbitration shall be conducted in accordance with the laws of Tanzania; and
- (g) where dissatisfied party has not referred the matter to arbitration within thirty days, the independent expert's recommendations shall be final and conclusive.

(2) For the purpose of sub-regulation (1) (c) parties shall establish criteria for prequalification of independent experts.

PART IV

GENERAL PROVISIONS

Work plan
and budget
approval
committee

32.-(1) There shall be a Work Plan and Budget Approval Committee (WPBAC) formed by the Authority.

(2) The work plan and budget approval committee shall meet at least once in every calendar year or whenever a need arises.

(3) The work plan and budget approval committee shall be composed of six members appointed by the Director General among PURA's staff.

(4) The Ministry representative may attend the advisory committee meetings as an observer.

(5) The Government shall be entitled to receive any information that is relevant for the advisory committee.

(6) The advisory committee meetings cannot take place unless at least four (4) of its members are present inclusive a representative from the Licence holder and the contractor.

(7) The advisory committee shall meet from time to time as may be convened by the chairman.

Functions of
advisory

33. The advisory committee shall perform the following

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committee functions:

- (a) review and discuss the approved annual work programme and budget of a preceding year and any amendment thereof;
- (b) review and discuss the proposed annual work programme and budget of the subsequent year.
- (c) review and discuss the production plan and any amendment thereof;
- (d) review and discuss the lifting schedule and amendment thereof;
- (e) review of expenditures and compliance with the operating and accounting records with the rules established herein and in the applicable Law; and
- (f) any other matter as may be requested by either party.

Appointment of chairperson

34-(1) The advisory committee shall be headed by a chairperson who shall be appointed by the Authority from among its representatives.

(2) In case of an impediment to the chairperson of the advisory committee the work of any meeting will be chaired by the other member appointed by the Authority.

Functions of chairperson

35.-The Chairperson shall perform the following functions:

- (a) to coordinate all the advisory committee's activities;
- (b) to chair the meetings and to notify the licence holder and the contractor of the timing and location of such meetings;
- (c) to establish the agenda of the meetings, which shall include all matters which the Parties have asked to be discussed;
- (d) To give out final decision on matters requiring decision during the meeting.

(2) At the request of the Authority, licence holder or contractor, the advisory committee shall establish and approve its internal regulations, which shall comply with the procedures established in these Regulations.

(3) Members or observers who attend a meeting of the advisory committee may be accompanied by advisers and experts to assist with the conduct of such meeting.

(5) Advisers and experts under sub-regulation (9) may contribute in a non-binding way to discussions and debates of the advisory committee.

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- Appointment of secretary 36.-(1) The contractor shall appoint the Secretary of the advisory committee from among its representatives.
- (2) In case of an impediment to the secretary of advisory committee the functions of the secretary will be performed by other member appointed by the contractor.
- Functions of the secretary 37.The responsibilities of the secretary shall be the following:
- (a) to prepare the minutes of the advisory committee meeting;
- (b) to make sure that the minutes are in appropriate record book and signed on behalf of the Authority, licence holder and the contractor; and
- (c) within five (5) working days after the meeting send the draft copies of the minutes to the Authority and licence holder for their review.
- Approval of work programme and budget 38. After review of the proposed work programme and budget by the committee, the chairperson may approve the work programme and budget.
- Records of the committee meeting 39.-(1) The secretary shall within five (5) working days after the advisory committee Meeting submit to the Authority and licence holder the draft minutes for review and endorsement.
- (2) The minutes shall be deemed approved if no objection is raised within twenty one) working days from the date of receipt of the draft minutes.
- Guidelines 40.-(1) The Authority may make guidelines for better implementation of these Regulations.
- (2) The Authority may issue guidelines with respect to:
- (a) auditing and monitoring of expenditures, production and receipts in the conduct of Petroleum operations; and
- (b) forms required under these Regulations.
- Consultation between licence holder and contractor 41.-(1) In fulfilling the submission requirements under these Regulations, the contractor shall discuss and agree with Licence holder.
- (2) All discussions and consultations under sub-regulation (1) shall be done prior to submission of the relevant document to

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the Authority.

General offences

42. Any person who contravenes the provisions of these Regulations commits an offence and shall be liable on conviction to a fine of not less than one hundred million Tanzanian Shillings;

Penalty for obstructing authorized officer

43.-(1) Any person who obstructs, molest or hinders an Authorized officer in the exercise of power under these Regulations or who makes a statement or produces a document that is false or misleading in material particular to an authorized officer engaged in the implementation of these regulations, commits an offence and shall be liable on conviction to a fine of not less than twenty million Tanzanian Shillings.

FIRST SCHEDULE

(Regulation 16 (5))

Classification, definition and allocation of costs and Expenditure

All Petroleum Operation costs shall be classified according to each exploration licence and development licence in issue. Costs will be grouped into the following categories:

Exploration expenses

1. All direct and allocated indirect expenditures incurred in the search for Petroleum during exploration and appraisal operations in an area which is or was, at the time when such Expenses were incurred, part of the contract area including-
 - (i) aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation;
 - (ii) deep exploration well and bore hole drilling and water well drilling;
 - (iii) labor, materials and services used in drilling wells with the object of finding new Petroleum reservoirs, or for the purposes of appraising the extent of Petroleum provided such wells are not completed as producing wells;
 - (iv) facilities used solely in support of the purposes described in (i), (ii) and (iii) above including access roads, fixed assets and purchased geological and geophysical equipment, all identified separately;
 - (v) any general and administrative costs and service costs directly incurred on exploration operations and identifiable as such; and a portion of the remaining general and administrative costs and service costs allocated to the exploration operations, determined by the proportionate share of total contract expenses (excluding

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- Development expenses
- unallocated general and administrative costs and service costs) represented by all other exploration expenses;
2. Development expenses shall consist of all expenditures incurred in-
- (a) studies of the subsurface for the purpose of determining the best manner of recovering hydrocarbons, which include geological and geophysical surveys, production geology, modeling and simulation of reservoir as an integral part of economic reservoir exploitation and conservation;
 - (a) drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum reservoir already discovered whether these wells are dry or producing, and drilling wells for the injection to enhance recovery of Petroleum;
 - (b) completing wells by way of installation of casing or equipment or otherwise, after a well has been drilled for the purpose of bringing the well into use as a producing well, or as a well for the injection to enhance recovery of Petroleum;
 - (c) the cost of petroleum production, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, petroleum storage facilities and access roads for production activities;
 - (d) the costs of engineering and design studies for facilities referred to in item (2) (iv);
 - (e) any general and administrative costs and service costs directly incurred on development activities and identifiable as such; and a portion of the remaining general and administrative costs and service costs allocated to development activities, determined by the proportionate share of total contract expenses (excluding unallocated general and administrative costs and service costs) represented by all other development Expenses.
- Operating expenses
- 3.-(1) All expenditures incurred in the Petroleum operations after the start of commercial production including general and administrative costs and service costs not allocated to exploration, decommissioning, or development expenses shall be allocated to operating expenses.

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(2) The expenditure referred in item (1) shall not include the following:

- (a) exploration expenses after issuance of development licence,
- (b) development expenses during production,
- (c) general and administrative costs and service costs directly incurred on operating activities and identifiable as exploration expenses, decommissioning expenses or development expenses as well as the balance of general and administrative costs and service costs.

Service Costs

4.-(1) These are direct and indirect expenditures in support of the Petroleum operations including warehouses, export terminals, harbors, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities.

- (2) Service costs in any calendar year shall include costs incurred in such year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same, each to be identified separately.
- (3) All service costs shall be regularly allocated as specified in paragraph (1) (d), (2) (e) and (3) (g) to exploration expenses, development expenses and operating expenses and shall be separately shown under each of these categories.

General and administrative costs

5. General and administrative costs shall include-

- (a) all main office, field office and general administrative Expenses in the United Republic of Tanzania including but not limited to supervisory, accounting and employee relations services, but excluding commissions paid to intermediaries by the contractor;
- (i) (b) all general and administrative costs will be regularly allocated as specified in items (1) (d), (2) (e) and (3) (g) to exploration expenses, development expenses and operating expenses and shall be separately shown under each of these categories.

Decommissioning costs

6. Decommissioning costs are all direct and allocated indirect costs and expenditures incurred in carrying out decommissioning operations and include:

- (a) any general and administrative costs and service costs directly attributable to decommissioning operations and identifiable as such, and a portion of

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the remaining general and administrative costs and service costs allocated to decommissioning operations, determined by the proportionate share of total recoverable contract expenses (excluding unallocated general and administrative costs and service costs) represented by all other decommissioning costs; and

(b) such costs and expenditures in respect of the decommissioning Fund, (including contributions to the decommissioning fund) as provided in Act.

SECOND SCHEDULE
(Regulation 17 (4))

Recoverable costs

Labor and associated costs

1. (1) Gross salaries and wages of the contractor's employees directly and necessarily engaged in the Petroleum operations in Tanzania, it is being understood that in case of those personnel only a portion of whose time is wholly dedicated to Petroleum operations, only that pro-rata portion of applicable wages and salaries will be charged. The detailed and signed time sheet shall be used to substantiate labor and associated cost allocation.
- (2) For purposes of costs recovery, gross salaries and wages for the contractor's employees shall not exceed commercial obtainable salaries and wages in national best petroleum industry practice and shall be reviewed and approved by the Authority on annual basis.
- (3) Cost to the contractor of established plans for employees' group life insurance, hospitalization, company pension, retirement and other benefits of a like nature customarily granted to the employees and the costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under item (6) (1) above shall be allowed at actual cost, provided however that such total costs shall not exceed twenty-five per-cent (25%) of the total labor costs under item (6) (1) above.
- (4) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of the United Republic of Tanzania, which are applicable to the cost of salaries and wages chargeable under item (6) above.
- (5) Reasonable travel and personal expenses of employees of the contractor including those made for travel and relocation of the expatriate employees assigned to the United Republic of Tanzania all of which shall be in accordance with the normal practice.

Transportation

2. The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the petroleum operations and not provided for elsewhere using the most cost effective mode.

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Charges for services

3. (1) The actual costs of contracts, for technical and other services entered into by the contractor for petroleum operations, made with third parties other than affiliate companies are recoverable; provided that the costs paid by the contractor are not higher than those generally charged by other international or domestic suppliers for comparable work and services.

(2) For services rendered by affiliate companies, in the case of general services, advice and assistance rendered to the petroleum operations by any company, the affiliated charges will be based on actual costs without profits and will be competitive.

(3) The charges described in item (2) above should not be higher than the most favorable prices charged by the affiliate company to third parties for comparable services under similar terms and conditions elsewhere.

(4) The contractor shall, if requested by the Authority, specify the amount of charges which constitutes an allocated proportion of the general material, management, technical and other costs of the affiliate Company, and the amount which is the direct cost of providing the services concerned.

(5) The contractor shall avail further evidence regarding the basis of prices charged from affiliated Company as may be determined and requested by Authority.

(6) In the event that the prices and charges referred to in items (1)-(5) above are shown to be uncompetitive then the Authority shall have, the right to disallow that portion as it deems fit for cost recovery purposes.

Exclusively owned property

4. For services rendered to Petroleum operations through the use of property exclusively owned by the contractor, the accounts shall be charged at rates, not exceeding those prevailing in the region, which reflect the cost of ownership and operation of such property, or at rates to be agreed.

Material and equipment

5.-(1) Contractor shall purchase or furnish only such materials for use in the petroleum operations as may be required for use in the reasonably foreseeable future and shall avoid the accumulation of surplus stocks.-

(2) Warranty of Material: The contractor shall not warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by contractor from the supplier/manufacturer or their agents shall be credited to the respective accounts under the contract Area.

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Value of Material
charged to the
accounts under the
contract area

6.-(1) Except as otherwise provided in paragraph (3)(b), material purchased by the contractor for use in Petroleum operations shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties consular fees, other items chargeable against imported material and, where applicable, handling and transportation Expenses from point of importation to warehouse or operating site.

(2) The costs of the materials referred in paragraph (1) shall not exceed those currently prevailing in normal Arm's length transactions in the open market.

(3) Material purchased from or sold to affiliate Companies or transferred to or from activities of the contractor, other than Petroleum operations under the contract area, shall be priced and charged or credited at the prices specified in subparagraph (a) and (b) below:

(a) New material (condition "A") shall be valued at the current international price, which shall not exceed price prevailing in normal arm's length transactions on the open market.

(b) Used material (conditions "B" and "C")-

(i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as condition "B" and priced at not more than seventy-five percent (75%) of the current price of new materials defined in (a) above

(ii) Material which cannot be classified as condition "B" but which-

(1) after reconditioning will be further serviceable for original function as good second hand material condition 'B', or

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- (2) is serviceable for original function but substantially not suitable for reconditioning, shall be classified as condition “C” and priced at not more than fifty percent (50%) of the current price of new material (condition “A”) as defined in subparagraph (a) above.
 - (3) The cost of reconditioning shall be charged to reconditioned material provided that the condition “C” material value plus the cost of reconditioning does not exceed the value of condition “B” material.
 - (c) Material that cannot be classified as condition “B” or condition “C” shall be priced at a value to be agreed between the Authority and the contractor.
 - (d) Material involving erection costs shall be charged at applicable condition percentage of the current knocked-down price of new material as defined in (a) above.
 - (e) When the use of material is temporary and its service to Petroleum operations does not justify the reduction in prices as provided for in sub-regulation (b) (ii) above, such material shall be priced on a basis that will result in a net charge to the accounts under the contract Area consistent with the value of the service rendered.
- Rentals, duties and other assessments 7.-(1) These includes all rentals, taxes (other than income tax, withholding tax, remittance tax and additional profits tax), levies, charges, fees, contributions and any other assessments and charges levied by the Government in connection with Petroleum operations and paid directly by the contractor.
- (2) For the avoidance of doubt, annual charges for licenses shall not be recovered.
- Insurance and losses 8. Insurance premiums and the costs incurred for insurance shall be recoverable provided they are incurred in accordance with the Authority approved process; and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are recoverable unless such costs have resulted from the contractor’s failure to follow the terms, clauses, conditions or warranties of the insurance policy(s) and/or the contractor negligence and/or the negligence of the contractor or sub-contractors.
- Legal expenses 9.-(1) All reasonable costs and expenses of litigation and legal or related services necessary or expedient for perfecting, retention and protection of the contract area, and in defending or prosecuting lawsuits involving the area or any third party claim

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arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the joint interest of Government, Authority and the contractor are recoverable.

(2) Where legal services are rendered in such matters by salaried or regularly retained lawyers of the contractor or an affiliate company, such compensation shall be included instead under paragraph (6) or (8) as applicable.

Training costs

10. All costs and expenses incurred by the contractor in training of Tanzanian employees engaged in Petroleum operations and such other training as is required in the Act and respective agreement.

General and administrative costs

11. These include all costs described in paragraph (5) of the First Schedule of these regulations.

Dodoma,
27th November, 2019

MEDARD M. C. KALEMANI
Minister for Energy