

GENERAL INSTRUCTION MANUAL**202.309**

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
03-21-2010REPLACES
05-20-03

SUBJECT ALLOCATION OF COSTS – NEW FACILITIES START-UP

APPROVAL
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1 OF 8**CONTENT:**

This instruction covers the financial allocation of costs for new facilities during the period of turnover from the Construction Agency to Operations (See attachment I for the decision table). The administrative/operational procedures relative to the turnover are contained in GI 2.710, Mechanical Completion and Performance Acceptance of Facilities. The text includes:

1. Glossary
 2. General
 3. Definitions
 4. Allocation of Costs
 5. Authority and Responsibility
- Attachment I

1. GLOSSARY:**1.1 ABBREVIATION AND ACRONYMS**

BI	Budget Item
E&PM*	Engineering & Project Management
ER	Expenditure Request
ERC	Expenditure Request Completion
FAPAD*	Financial Analysis & Performance Advisory Department
MCC	Mechanical Completion Certificate
PAC	Performance Acceptance Certificate
P&FAAD*	Projects and Fixed Assets Accounting Division/OAD
PCR	Project Change Request
PDD	Power Distribution Department
PMT	Project Management Team
PS&CD	Project Support & Controls Department
OAD	Operations Accounting Department
WBS	Work Breakdown Structure

1.2 FORMS

SA-7213	Mechanical Completion Certificate
SA-7214	Performance Acceptance Certificate
SA-3000-C	Project Change Request

1.3 INSTRUCTIONS

GI 2.710 Mechanical Completion and Performance Acceptance of Facilities
 GI 20.520 Project Change Request (Saudi Aramco Form 3000-C)
 Accounting Manual Sections 300- 310**

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The Project is responsible for all costs required to obtain performance acceptance for an operable facility in accordance with the approved project scope and identified in the project proposal, as modified by all approved PCRs. Any costs incidental to facility operations are borne by the Proponent Operating Expense and are not to be treated as a project cost.

3. DEFINITIONS:

The following definitions apply to terms contained in this instruction. For more details, refer to GI 2.710.

3.1 APPROVED SCOPE

The detailed description of the new and/or modified facility and the work required to design and construct it is called "Approved Scope". This description is established by the approved ER, Project Proposal and Drawings is modified only by an approved PCR or Redefinition and Supplement ER. Out of scope punch list items shall not be included as exception items unless approved on a PCR prior to final SA-7213 (MCC) approval. For more details, refer to GI 20.520.

3.2 FACILITY

The product of a Saudi Aramco project (capital or non-capital) consisting of: structures, equipment, materials, fabrication and erection. For example, in the case of a marine project, the vessel is the facility. In the case of a petrochemical plant project, the entire plant or a portion identified in the approved project scope is the Facility.

3.3 INITIAL OPERATING PERIOD

Initial operating period starts upon the conclusion of the commissioning and start-up until the facility meets performance specifications. Performance specifications are attained with the approval of SA-7214 (PAC) by the Proponent.

3.4 ON-STREAM DATE

The facility is considered Onstream when it has achieved MCC, the system has been energized or product has been introduced into the facility, and it has been successfully operated during the initial start-up period, although design capacity or specification targets have not yet been attained. The facility specification performance acceptance is defined below. Minor exception items

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may be outstanding at the Onstream Date, which will be handled as exception items.

3.5 PERFORMANCE ACCEPTANCE CERTIFICATE

The date when the Proponent has completed the commissioning and start-up of the facility, and the SA-7214 (PAC) has been signed by the Proponent representative. The facility has been operated during the start-up period at the established design conditions. The commissioning, operating shake-down period and start-up range shall not exceed a maximum limit of 60 days after approval of the final SA -7213 (MCC) (Refer to GI 2.710).

3.6 PROPONENT

The Saudi Aramco organization which will “own” the facility assets.

3.7 SPECIAL TEST RUN PERIOD

The special test run period begins when the facility departs from either initial or normal operations to accommodate special test runs to determine capacity and quality limitations; it will end upon completion of these tests. These tests are normally performed during the 60 days mentioned in Paragraph 3.5 above.

3.8 START-UP PERIOD

Start-up commences after a facility or portion thereof is certified Mechanically Complete (MCC) and the SA-7213 (MCC) (for partial or full facility) has been approved. The service date shown on the SA-7213 (MCC) is the service date of the project. The facility is then commissioned prior to start-up. Following commissioning, start-up occurs with the introduction of feed stock, liquids or gases into the facility to achieve normal operation conditions. Basically, start-up will fall within the maximum 60-day performance acceptance period after the SA-7213 (MCC) is signed by the Proponent. The Saudi Aramco (SA) PMT and the responsible Proponent personnel, according to the type and complexity of the facility, shall determine the length of the start-up period in advance. The period may vary as a result of actual operating conditions encountered during start-up period (See 3.3) as agreed by the SA Project Manager and the Proponent.

4. ALLOCATION OF COSTS:**4.1 PRE-COMMISSIONING COSTS**

Pre-commissioning involves the testing of system components for continuity, operability, and in the case of process plants, their ability to withstand operating pressures prior to the introduction of feed stock or other final

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products into the facility. This activity must be complete before SA-7213 (MCC) is issued and thus occurs prior to commencement of the start-up period.

Costs associated with pre-commissioning activities such as testing (performed and/or witnessed) by the PDD or Projects Inspection Division, will be charged/capitalized to the project. Costs incurred by the Proponent or other organizations, involved with the pre-commissioning effort, are charged to the appropriate operating expense.

4.2 START-UP COSTS

Costs incurred during the start-up period to meet the facility performance specifications and obtain the SA-7214 (PAC) are charged to the project. Such costs include costs of construction forces, maintenance services, consultants, vendors' representatives, contractor technical service personnel etc.

Proponent's facility costs including all labor costs of Proponent Maintenance or PDD associated with participating in or witnessing start-up, cut-over work, loop checks, electrical verification tests, process engineering, and laboratory services are charged to the appropriate Operating Expense.

4.3 INITIAL OPERATING COSTS

All costs accumulated during the initial operating period are charged to Operating Expense. These include costs of facility proponents, technical service personnel, construction or maintenance forces, and consultants or vendors' representatives, as may be requested by Operations.

Construction forces performing outstanding project scope of work and clean-up activities subsequent to issuance of SA-7214 (PAC) are charged to the project.

4.4 SPECIAL TEST RUN COSTS

Special Test Runs will only be charged to the project account, if they take place prior to performance acceptance by the proponent. These test runs would be performed to determine if the project conforms to the project specifications in accordance with the approved scope and intent of the project. Special Test Run costs for any other reason are operational expense.

4.5 TRAINING COSTS

Operating proponent training costs (this also includes third party costs and any other associated costs, including travel) are charged to the appropriate Operating Expense Accounts. Non-operating personnel training costs (such as for maintenance employees) are charged to their departmental overhead accounts.

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5 OF 8**4.6 MISCELLANEOUS COSTS**

- 4.6.1 All expenses incurred during the start-up or initial operating period for repairs or modification as a result of design error, construction error, and/or material failure are charged to the project account.
- 4.6.2 All costs of modifications or additions that are determined to be required through evaluation of the data from the Special Test Run, performed prior to the issuance of the SA-7214 (PAC) and consistent with the project scope, are also charged to the project account.
- 4.6.3 Expenses from Operations necessary to meeting design conditions may be charged to the project account with approval from the PMT. Expenses originated by Operations, which are not applicable to the project scope, are charged to the applicable operational expense.
- 4.6.4 Any parts and/or components that are identified by the Maintenance personnel to be operational in nature (not required to meet the scope of the project nor exceeding the cost limits requiring a new BI) are charged to the Proponent operating expense.
- 4.6.5 All utilities required for commissioning, start-up and test runs of the facility, and the process media shall be supplied to the facility at no cost to the project except for grass roots facility wherein the utilities are provided by the project facility itself**.

5. AUTHORITY & RESPONSIBILITY:

- 5.1 E&PM* and the Proponent are responsible for assuring compliance with this instruction. P&FAAD* is responsible for establishing, upon request of the PMT, suitable project close out WBS accounts to facilitate clearance of costs according to the specified cost distribution. Construction Agency is responsible to monitor and control the project close out WBS accounts and P&FAAD* performs a general review to determine appropriateness where charges are unusual or abnormal. The PMT is responsible for ensuring that account assignment of charges to the Project or Operating Expense is in accordance with Cost and schedule manual, and the applicable instructions.
- 5.2 During project execution and through final approval of the SA-7213 (MCC), the PMT and the Proponent must work closely in order to maintain project cost and schedule control. Their close cooperation is vital to ensure quality construction/installation and compliance with the project performance specifications. During the initial operating period through final approval of the SA-7214 (PAC) the Proponent takes control of the start-up activities and commissioning with support as needed by the PMT. The Proponent with

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support as needed from PMT coordinates activities relating to any special test runs. After final PAC approval, the Proponent takes full control of the facility and the responsibility for the Project Team is limited to completing minor exception items and project close-out.

- 5.3 The duration of the start-up period, on-stream date, initial operation period, and special test run period (if any) are established by mutual agreement between the SA Project Manager and Proponents according to the requirements of GI 2.710. Such agreement is normally established during the Project Proposal & Expenditure Request preparation phase.

- 5.4** The rules and principles laid down in this GI and in the Accounting Manual (http://sharek.aramco.com.sa/orgs/30001621/30001624/Documents/Web%20link%20files/FAPAD_section300_310final.doc.) are not all-inclusive. Final interpretation of project cost vs. expense rulings will be determined by Capital Programs, Forecast & Analysis Division/FAPAD.

Approved: _____

R.A. KRYGSMAN, Manager
Accounting Policies &
Systems Department

ABT
T2556

Attachment I

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The decision table below can be used to assist Saudi Aramco organizations in determining the proper allocation of start-up costs of new facilities in accordance with this policy:

Description of Cost	Project Costs	Expense
All costs in accordance with the approved project scope incurred prior to approval of SA-7213 (MCC) except for costs** specified in the Accounting Manual as expense.	X	
Pre-commissioning costs	X	
Costs incurred by Proponent involved with the pre-commissioning activity		X
<i>Post SA-7213 MCC Cost Allocations:</i>		
Commissioning	X	
Start-up costs: All costs incurred during start-up period to meet performance specifications and attain SA-7214. Such costs include construction forces, consultants, vendors' representatives, contractor technical service personnel, among others.	X	
Proponent's facility costs including all labor costs of maintenance or PDD associated with participating in or witnessing start-up, cut-over work, loop checks, electrical verification tests, process engineering & laboratory services		X
Initial operating costs: All costs incurred from end of start-up period until approval of SA 7214 (PAC)		X
Special test runs – to determine conformity to project specifications in accordance with the approved scope and intent of the project.	X	
	Project	

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Description of Cost	Costs	Expense
Special test runs – other reasons than above		X
Training costs		X
Expenses incurred during start-up or initial operating period for repairs or modification as a result of design error, construction error, and/or material failure	X	
Costs on modifications or additions consistent with project approved project scope and PCRs	X	
Expenses incurred to meet design conditions with approval from PMT	X	
Any parts and/or components not required to meet the scope of the project nor exceeding cost limits requiring new BI		X
Utilities required for commissioning, start-up and test runs in the new facility of an existing plant.		X
Utilities required for commissioning, start-up and test runs in the grass roots facility which are provided by the new plant itself**.	X	
<i>Post SA-7214 PAC Cost Allocations:</i>		
Special test runs – any reason		X
Costs on construction forces performing project scope of work and cleanup activities	X	
Training costs		X