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**Oil and Gas Stimulus Package – Fact Sheet**

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On August 6, 2009, the Province of British Columbia announced an Oil and Gas Stimulus Package to enhance British Columbia's competitive business climate, create momentum in the oil and gas industry and attract significant new investment into the province. This Fact Sheet provides information on the royalty initiatives announced in the package. This Fact Sheet can be electronically downloaded at <http://www.empr.gov.bc.ca/OG/Pages/default.aspx>.

**TWO PER CENT ROYALTY RELIEF PROGRAM**

*One-year, two per cent royalty rate for all natural gas wells drilled in a 10 month window.*

**Regulation changes:** Section 6 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* has been amended.

**Effective date of program:** September 1, 2009.

**Qualification for this program:** All natural gas wells that have a spud date after August 31, 2009 and before July 1, 2010 qualify for this program. Wells have a 10 month window (September 2009 to June 2010) to qualify for the one year, two per cent royalty relief program. This means that all well events within a well spudded after August 31, 2009 and before July 1, 2010, must also occur during that time frame. Completion of the well, and rig releases, can occur after the June 30<sup>th</sup> qualifying period, but the well must come on production before December 31, 2010 in order to get the two per cent royalty rate.

**Length of program:** Once the well qualifies for the two per cent royalty relief program, the royalty reduction is for the first 12 months of production for the well. The 12 months of production are counted starting the first month of production. Therefore, if there is a month where a well is shut-in, that month will count towards the 12 months of production for the purposes of the two per cent royalty relief program. Furthermore, the months will be counted as full calendar months, not part months. For example, if a well starts production on October 15, 2009, then it will pay two per cent royalties until September 30, 2010.

***Time limit for when wells must come on production:*** Wells spudded after August 31, 2009 and before July 1, 2010 must come on production before December 31, 2010 in order to be eligible for the two per cent royalty relief program.

***Exclusions to the two per cent Royalty Relief Program:*** The two percent royalty relief program only applies to natural gas. The two per cent royalty relief program does not apply to oil, by-products, sulphur, coalbed gas, conservation gas, or revenue sharing agreements.

***Qualification for the Summer Royalty Credit Program and the two per cent Royalty Relief Program:*** Wells can qualify for the summer royalty credit program in conjunction with the two per cent royalty relief program, and receive the credit.

***Qualification for the Marginal and Ultra-Marginal Royalty Programs and the two per cent Royalty Relief Program:*** Wells can qualify for the marginal and ultra-marginal royalty programs in conjunction with the two per cent royalty relief program, however wells must pay the minimum royalty rate of two per cent for the one year duration of the two per cent royalty relief program. Once the two per cent royalty relief program ends, the marginal and ultra-marginal royalty rate reductions will apply.

## **DEEP ROYALTY CREDIT PROGRAM**

*Two changes have been made to the Deep Royalty Program (1) an increase of 15 per cent in the existing royalty deductions for natural gas deep drilling, (2) qualification of horizontal wells drilled between 1,900 and 2,300 metres into the Deep Royalty Credit Program.*

### **(1) 15 Per Cent Increase in Deep Credit Tables**

**Regulation changes:** Section 7 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* has been amended.

**Effective date of program:** September 1, 2009.

**Qualification for this program:** All new natural gas wells spudded after August 31, 2009 that qualify for the Deep Royalty Credit Program as per the criteria in Section 1 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* are eligible.

**Length of program:** The 15 per cent increase in the deep credit tables is permanent.

**Reason for 15 per cent in the Deep Credit Tables:** The increase in deep royalty credits provided for deep drilling activity reflects increases in drilling costs since the inception of the program in 2003. This results in a 15 per cent increase in the deduction amounts in the tables in Section 7 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*. The well depth values in the tables remain unchanged. Section 7 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* will have two sets of deep tables, Table 1 is the old deep credit table (applicable to wells drilled prior to September 1, 2009) and Table 2 is the new deep credit table (applicable to wells drilled after September 1, 2009). The new table is provided below:

TABLE 2

West Special Sour			East Special Sour		
Depth (metres)	Cumulative Value \$000	Incremental Value \$/Metre	Depth (metres)	Cumulative Value \$000	Incremental Value \$/Metre
2 500	0	4830	2 500	0	1725
3 000	2415	690	3 000	863	748
3 500	2760	805	3 500	1236	863
4 000	3163	920	4 000	1668	978
4 500	3623	1035	4 500	2156	1150
5 000	4140	1150	5 000	2731	1265
5 500	4715		5 500	3364	
West Sweet			East Sweet		
Depth (metres)	Cumulative Value \$000	Incremental Value \$/Metre	Depth (metres)	Cumulative Value \$000	Incremental Value \$/Metre
2 500	0	4370	2 500	0	1610
3 000	2185	633	3 000	805	690
3 500	2501	690	3 500	1150	805
4 000	2846	805	4 000	1553	920
4 500	3249	920	4 500	2013	1035
5 000	3709	1035	5 000	2530	1150
5 500	4226		5 500	3105	

**Qualification for the Deep Royalty Program and the two per cent Royalty Relief Program:** As part of the Stimulus Package, this change to the Deep Program will co-exist with the two per cent Royalty Relief Program. Nevertheless, in the first 12 months of production the company will only receive the benefits of one program at a time, as deep wells drilled during the two per cent Royalty Relief Program would be assigned the deep credit as they currently are, but the credit would be nominally reduced by the difference between full royalties and two per cent royalties. If any credit is left after the 12 month relief program, it can be used by the producer as usual.

Example:

If you spud a deep well after August 31, 2009, and before July 1, 2010 the well would be assigned the deep credit (plus 15%). The credit would be reduced month by month as if the 2% didn't exist, that is, as if the company were paying full royalties as per the characteristics of the well (let's say, for simplicity, 23%). So, for now, nothing changes except the well gets a credit 15% higher (and certain horizontal wells that did not qualify before now qualify for the deep).

Two possibilities arise then:

- If the deep credit is exhausted before the 12<sup>th</sup> month of production, then instead of paying full royalties the producer pays 2% until the 12<sup>th</sup> month of production is reached. Then the producer reverts back to normal royalties (23% in our example).

<b>Example 1</b>						
<b>Well Qualifies for Deep and Marginal Programs</b>						
	<b>Well A Sales Gas Production</b>	<b>Calculated Roy Rate</b>	<b>Calculated Royalty</b>	<b>Theoretical Royalty Payable</b>	<b>Theoretical 2% Royalty Relief Program</b>	<b>Actual Payable Royalty</b>
	mcf	%	M\$	M\$	M\$	M\$
<b>Royalty Bank (Deep Program)</b>				<b>-553</b>		
<b>Jan-10</b>	138	23.7	221	<b>-332</b>	19	<b>0</b>
<b>Feb-10</b>	107	23.7	171	<b>-161</b>	14	<b>0</b>
<b>Mar-10</b>	92	23.7	147	<b>-14</b>	12	<b>0</b>
<b>Apr-10</b>	87	23.7	139	125	11	<b>11</b>
<b>May-10</b>	82	23.7	130	130	11	<b>11</b>
<b>Jun-10</b>	77	23.7	123	123	10	<b>10</b>
<b>Jul-10</b>	73	23.7	117	117	10	<b>10</b>
<b>Aug-10</b>	69	23.7	111	111	9	<b>9</b>
<b>Sep-10</b>	66	23.6	105	105	9	<b>9</b>
<b>Oct-10</b>	63	23.6	101	101	9	<b>9</b>
<b>Nov-10</b>	60	23.6	96	96	8	<b>8</b>
<b>Dec-10</b>	58	23.6	92	92	8	<b>8</b>
<b>Jan-11</b>	56	23.6	88	88	--	88
<b>Feb-11</b>	53	23.5	85	85	--	85
<b>Mar-11</b>	51	23.5	82	82	--	82

*Figures in this table are for illustration purposes only.*

- If the deep credit is exhausted after the 12<sup>th</sup> month, the producer doesn't pay royalties for all that period anyway. When the credit is exhausted (let's say month 20) the producer goes back to normal royalties (23%).

<b>Example 2</b>		<b>Well Qualifies for Deep and Marginal Programs</b>					
	<b>Well A Sales Gas Production</b>	<b>Calculated Roy Rate</b>	<b>Calculated Royalty</b>	<b>Theoretical Royalty Payable</b>	<b>Theoretical 2% Royalty Relief Program</b>	<b>Actual Payable Royalty</b>	
	mcf	%	M\$	M\$	M\$	M\$	
<b>Royalty Bank (Deep Program)</b>				<b>-1,800</b>			
<b>Jan-10</b>	138	23.7	221	<b>-1,579</b>	19	0	
<b>Feb-10</b>	107	23.7	171	<b>-1,408</b>	14	0	
<b>Mar-10</b>	92	23.7	147	<b>-1,261</b>	12	0	
<b>Apr-10</b>	87	23.7	139	<b>-1,122</b>	12	0	
<b>May-10</b>	82	23.7	130	<b>-992</b>	11	0	
<b>Jun-10</b>	77	23.7	123	<b>-869</b>	10	0	
<b>Jul-10</b>	73	23.7	117	<b>-752</b>	10	0	
<b>Aug-10</b>	69	23.7	111	<b>-641</b>	9	0	
<b>Sep-10</b>	66	23.6	105	<b>-536</b>	9	0	
<b>Oct-10</b>	63	23.6	101	<b>-436</b>	9	0	
<b>Nov-10</b>	60	23.6	96	<b>-339</b>	8	0	
<b>Dec-10</b>	58	23.6	92	<b>-247</b>	8	0	
<b>Jan-11</b>	56	23.6	88	<b>-159</b>	--	0	
<b>Feb-11</b>	53	23.5	85	<b>-74</b>	--	0	
<b>Mar-11</b>	51	23.5	82	7	--	7	

Figures in this table are for illustration purposes only.

## **(2) Eligibility for Horizontal Wells between 1,900 metres and 2,300 metres**

**Regulation changes:** Section 1 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* has been amended.

**Effective date of program:** September 1, 2009.

**Qualification for this program:** All horizontal gas wells that have a spud date after August 31, 2009 are eligible for the new horizontal qualification criteria. The change in qualification criteria only applies to horizontal wells. So, vertical wells must still have a true vertical depth to completion point deeper than 2,500 metres. For horizontal wells, the true vertical depth to completion point is now 1,900 metres instead of 2,300 metres.

**Length of program:** The eligibility for horizontal wells between 1,900 and 2,300 metres to be eligible for the Deep Royalty Credit Program is permanent.

**Reason for changing the depth eligibility for horizontal wells to 1,900 metres:** Evaluation of technical data and resource plays indicates that deep wells in B.C. effectively start at 1,900 metres as costs for such horizontal wells are similar to costs for vertical wells.

**Interaction of this change and the Deep Credit Tables:** The depths in the credit tables remain unchanged. That is, the deep well total measured depth still has to be greater than 2,500 m before a credit is awarded.

**Horizontal Length Factor formula:** There is no change to the horizontal length factor formula. It remains the same,  $\{60 - [0.035 \times (\text{measured depth to completion point} - 2300)] / 100\}$ . The 0.4 lower limit still applies, and is for a gas well event with a measured depth to completion point deeper than 2,875 metres. The upper limit is not explicitly stated, but based on the formula, it would now be 0.74, instead of the previous 0.6.

Note that the change from 2,300 metres qualification to 1,900 metres for horizontal wells is still based on TVD (true vertical depth) to completion point, and MD (measured depth) is only used to calculate the deep well depth after the well qualifies for the program.

**Additional information on classification of horizontal wells:** A horizontal well (which meets the 1,900 metre qualification criteria) with multiple perforations along the horizontal leg, is classified as one well event. Each of the perforations are not classified as separate well events.

If a horizontal well has multiple horizontal legs and the horizontal legs are all in the same formation, then the horizontal length is the sum of the individual horizontal lengths. For example, if one horizontal leg is 500 metres in length, and the second horizontal leg is 1,000 metres, then the total horizontal length for this well is 1,500 metres. Under this scenario each horizontal leg does not individually qualify as a deep well, since the horizontal lengths are added together. There is just one deep well.

**INFRASTRUCTURE ROYALTY CREDIT PROGRAM**

***An additional \$50 million allocation for the Infrastructure Royalty Credit Program to be offered this fall.***

***Regulation changes:*** None

***Effective date of program:*** The Ministry is planning on issuing the \$50 million Infrastructure Request for Applications in September 2009.

***Qualification for this program:*** Qualification will be through a Request for Application process. All submitted projects will be evaluated using the standard Ministry evaluation methodology. Since this is a new RFA, any projects submitted for previous RFA's that were unsuccessful, would have to be re-submitted should a company want those projects to be re-considered for the Infrastructure Royalty Credit Program.

***Allocation for the Infrastructure Royalty Credit Program under the Stimulus package:*** The additional allocation for the Infrastructure Royalty Credit Program is \$50 million.

## **COMMINGLING PRODUCTION IN THE PLAINS AREA**

*Commingling in the Plains will allow producers to combine production from different zones that, individually, might have been uneconomical to develop.*

*Regulation changes:* None

*Effective date of program:* Upon announcement by the Oil and Gas Commission in near future.

*Royalty calculations from a commingled well:* Production comes from the same wellbore, thus reducing costs and allowing for incremental production. Royalties are calculated from the total commingled production.

*Areas are included in the commingling initiative:* Streamlined area based commingling has been implemented in the Deep Basin (introduced in 2005) and Outer Foothills (introduced in 2008). Commingling in the Plains area of B.C. will be implemented as per a forthcoming announcement by the Oil and Gas Commission.

*For further information on Commingling, please visit the Oil and Gas Commission website at <http://www.ogc.gov.bc.ca/>.*

**AMENDMENTS TO THE DRILLING LICENCE REGULATION**

*Amendments to the Drilling Licence Regulation have been made to create flexibility that will allow industry to move wells to production while not losing privileges to convert drilling licences to leases.*

*For further information on amendments to the Drilling Licence Regulation, please visit the following website:*

<http://www.empr.gov.bc.ca/Titles/OGTitles/InfoLetters/IssueDate/Pages/TITLES-09-04.aspx>