

'PILOT' PIPELINE ROYALTY CREDIT PROGRAM QUESTIONS AND ANSWERS

QUESTION 1:

On page 5 of the Request for Applications, it indicates the province has committed up to \$6.5 million in royalty credits for the fiscal year ended March 31, 2006. Under the program, are the credits paid to the Applicant(s) upon completion of the pipeline project? If not, how are credits to be paid out? If the latter, is there a time limit by which the credits must be paid out by the MEM?

ANSWER 1:

Credits are "released" to the Applicant by way of a notification letter signed by the Province of BC's Royalty Administrator, this letter advises the royalty payer that they may apply the credits, as an offset to royalties invoice and payable to the Province of BC, by completing the BC-15 Petroleum and Natural Gas Remittance Advice form. The Applicant must be a royalty payer in BC – must be a producer of oil or natural gas products.

Credits are released only after the project is complete, project work, costs and the volume of royalty bearing production flowing through the completed pipeline project has been verified. No time limit is imposed on the Province to release credits – although the Province has been diligent to release credits into road projects where the company has provided all relevant records, declarations and statements and enabled timely completion of the verification phase. Credits will not be released while the project is work in progress. Royalty credits will not be released to support the construction phase.

QUESTION 2:

Company is a non-producer and as such would likely submit an application as part of a joint venture with another producer(s). Do the royalty credits have to be paid to a producer? If so, does the application have to indicate how the royalty credits are to be allocated among the producers?

ANSWER 2:

Credits will only be released to a producer. If more than one producer is involved in the project, the approximate distribution of total requested credits between producers must be described at time of application – the Ministry recognizes the distribution may change between application and time of requesting release, this is acceptable however total credits released is capped at time of approval. See Section 16 of Request for Applications - Definitions and Administrative Requirements regarding joint venture applications.

QUESTION 3:

The program is intended for the incentive of pipelines, which would target stranded oil and/or gas reserves. The definitions on page 5 and 6 indicate how a pipeline is defined. Is there a detailed listing of program costs which are eligible and those that are not? A couple of examples... are in house engineering costs related to the pipeline an eligible cost? ROW and land acquisition costs?

ANSWER 3:

At this time the ministry has not determined a detailed list of eligible cost components – your submission should propose eligible components within the confines of the BC *Pipeline Act*. All direct costs related to the construction of the project will be considered – only a very small portion of administrative overhead may not be matched by credits. Restrict your costs for the most part to direct engineering, materials, supplies and labour and other procurement costs including land.

QUESTION 4:

Under 4.2.1. c) Incremental Royalty Payments, the Applicant needs to include a detailed description of the risks of projected new annual royalty payments attributable to the project. Is it required to apply a risk factor to the estimated royalties attributable from stranded wells and new wells? The royalty will be dependant on the price forecast used - are applicants required to use an approved price forecast?

ANSWER 4:

For the purpose of the pilot project the risks associated with the production characteristics of the stranded wells or new wells should be minimal. The Ministry acknowledges that the underlying characteristics of these wells only, becomes known when these wells are tied into pipeline and flowing for some period of time. “Pilot” credits are intended to support one or more low-risk projects. Your submission must specifically address the risk to the royalty returns to the Province of BC. All proposals will be equally adjusted for market price risk.

QUESTION 5:

If an applicant is successful, is there a requirement or expectation that the pipeline would have common carrier status? i.e would all producers would have equal access to pipeline capacity regardless of whether or not they were an applicant?

ANSWER 5:

Reference Section 4.1.5 a) Pipelines support by royalty credits must be available for multiple users.

QUESTION 6:

Section 4.2.2 a) Benefits Attributable to the Project - how would an affirmative (or negative) answer impact an Applicants score under Section 6.2 Desirable Criteria?

ANSWER 6:

Your answer should specifically consider the incentive value of the pilot initiative. Either response should be followed by clear clarification of the rationale supporting your response. An affirmative response should go further to outline the extent to which the incentive “accelerates or brings forward” a project you might otherwise undertake in 2-3 years time or conversely, in the negative response describe the extent to which credits improve the financial viability of the project.

QUESTION 7:

Section 6.4 .1 Ranking and Selection - The benefit cost ratio for each project is to be calculated by dividing the estimated incremental royalty payments over a standardized time period (to be determined). When is it anticipated that the standardized time period will be determined?

ANSWER 7:

We have not yet determined the standardized time period – the nature of good quality proposals received will either push out or compress this time period.

QUESTION 8:

Section 6.4 Ranking and Selection. If an applicant has the highest score based on the benefit cost ratio, will applicant receive full amount of estimated royalty credit (1/2 of project cost) with the next highest ranking applicant receiving its estimated royalty credit and so on until the \$6.5 million has been fully allocated across competing projects? Can two or more projects receive partial credits (i.e less than 1/2 of project cost)?

ANSWER 8:

Project ranking on the measurement of benefit / cost over a standardized time period will drive the allocation of the pilot installment of credits (\$6.5 million). The ministry may divide credits between applications deemed to be “tied” within a narrow margin.

QUESTION 9:

Is incremental royalty determined before any deductions for GCA and PCOS? How do royalty credits received under project affect PCOS?

ANSWER 9:

Adjustments for GCA and PCOS will be made for those projects awarded royalty credits.

QUESTION 10:

Can we make an application for a project that was started and completed this past winter?

ANSWER 10:

No, these are for new projects.

QUESTION 11:

Where it says that the pipeline must be authorized by the Oil and Gas Commission (OGC) what exactly does this mean? I think it means that the OGC under its' review of applications must have to say that it qualifies for the Royalty Credit Program and not that the pipeline approval has to be achieved before the May 13th, 2005 deadline.

ANSWER 11:

Your partly correct, the OGC approval process will determine if the pipeline is approved/authorized. To be clear, the OGC has no role in the approving of royalty credits awarded to a project. The project will be approved by Treasury Board based on recommendation of the Ministry of Energy and Mines' (MEM). MEM and TB require the pipeline will meet all approval requirements as set out by the OGC.

QUESTION 12:

Does the money for which the program qualifies have to be spent before March 31, 2006?

ANSWER 12:

Yes, the approved pipeline project must be completed by March 31, 2006. So if the approved project is \$2.0 million in scope and \$1.0 million in royalty credits, the full \$2.0 million must be spent by March 31, 2006. The province's \$1.0 million royalty credit will be released only after the full \$2.0 million investment has been verified.

QUESTION 13:

Does the well or wells have to be producing before the March 31st 2006 fiscal year-end?

ANSWER 13:

Preferably, wells must be producing gas/royalties very soon after the pipeline project is completed by March 31, 2006. Releasing of credits is based on the incremental revenue generated through the pipeline.

QUESTION 14:

Would a pipeline and facility project that would result in tying in gas to Nova's system in Alberta qualify? And if yes does all monies spent qualify?

ANSWER 14:

No, this program is to benefit BC and it's facilities.

QUESTION 15:

What part of the royalty would be credited to the project spending i.e. if we expected to spend 2\$KK and the projected credit was 1\$KK, however we ended up spending 3\$KK would we be credited for 1.5\$KK?

ANSWER 15:

No, royalty credit amounts are firm once the project is approved. We suggest that cost estimates are close to what you expect your final costs to be. When you submit your proposal you should be aware that the royalty credits are limited and other parties are also submitting proposals. We will try and allocate the funds as best we can dependent on the response. This is partly why we cannot increase credits.

QUESTION 16:

Is the 'pilot' program just for pipelines? The RFA document seems to define pipelines to include facilities like compressor stations and gas plants. Is this correct?

ANSWER 16:

Yes, eligible components of a pipeline project - as defined under the RFA and the *Pipeline Act* - would include compressor stations and gas plants. However, for the purpose of the "pilot" program, involving only \$6.5 million royalty credits, we likely would not approve a gas plant, but focus on a pipeline to stranded gas, which may include a need for compression.

QUESTION 17:

If this is the case - for example our total project (pipelines and facilities) cost is about \$20 mm and would far exceed the potential 50% rebate available. Should we be applying for the whole project or for a portion of it that more closely matches the funds available now or potentially available next year?

ANSWER 17:

We would prefer you apply on a project as a whole basis. Much easier, and more sensible to measure the project outcomes / success on this basis - we would expect it would be much easier for you to describe the volume of new gas accessed through a discrete (standalone) and completed project.

You have to build the whole project to complete the take-away of the stranded gas - so focusing only on say 60% of the whole project does not make sense. However, we only have \$6.5 million royalty credits to award at this time - so the full \$6.5 million into a \$20 million project represents participation at only the 32% level. This 32% would have to be characterized in your project as creating sufficient incentive to undertake a pipeline project you would otherwise not do without the incentive. This is a 'pilot' program to indicate interest in this initiative and has potential to expand funds into next year.