

**BRITISH COLUMBIA ROYALTY CREDIT PROGRAM**  
**PIPELINE DEVELOPMENT ROYALTY DEDUCTION AGREEMENT**

**NAME OF PRODUCER & PIPELINE COMPANY PROJECT**

**THIS AGREEMENT** dated for reference      , 2008

Between:

PRODUCER COMPANY NAME,

(the “Producer”) and,

PRODUCER COMPANY NAME,

(the “Producer”)

(collectively referred to as the “Producers”)

- and -

PIPELINE COMPANY NAME,

(the “Pipeline Company”)

(collectively referred to as the “Proponents”)

- and -

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF BRITISH COLUMBIA,  
represented by the Royalty Administrator of the Ministry of Energy, Mines and Petroleum  
Resources

(the “Administrator”)

**BACKGROUND**

- A. The Pipeline Company has advised the Administrator pursuant to subsection 4(9.1) of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation* (the “Regulation”) that it intends to undertake a project to construct or upgrade a pipeline in support of resource exploration or development. The current version of Section 4 of the Regulation is attached to this Agreement as Schedule “D”.
- B. The Parties have agreed to enter into this Agreement to determine the Producers’ eligibility to deduct from royalty or tax otherwise payable by the Producers under the *Petroleum and Natural Gas Act, RSBC 1996, c. 361* (the “Act”) a portion of the costs attributable to the project.

- C. If the Administrator agrees that the Producers are eligible to deduct a portion of the costs attributable to its project from royalty or tax otherwise payable by the Producers under the Act, the amount of the deduction is determined by paragraph 4(9.1)(c), as limited by subsection 4(10), of the Regulation, except as otherwise provided in this Agreement.
- D. The Pipeline Company has obtained, or is in the process of obtaining, all necessary permits or authorizations under the *National Energy Board Act*.

## AGREEMENT

### Definitions and Interpretation

1. In this Agreement:

“**Act**” has the meaning given in the Background;

“**Agreement**” means this agreement;

“**Eligible Costs**” means the following costs, actually paid by the Proponents, to complete the Project:

(a) costs paid for planning, designing, surveying, mapping, obtaining licenses and approvals and engineering expenditures; and

(b) all materials, labour and equipment charge-out costs incurred during construction and mobilization and demobilization;

but excludes

(c) maintenance costs;

(d) goods and services tax (GST); and

(e) contingency allowances, costs related to administration, overhead, accounting, interest, and purchase of, and amortization and depreciation on, capital equipment.

“**Fiscal Year**” means a period commencing April 1st and terminating March 31<sup>st</sup> of the following year;

“**Incremental Royalty Revenues**” means royalties payable to the Province of British Columbia from production of oil or gas, that would not otherwise have been payable but for the construction of the Project;

“**Parties**” means the Administrator, the Pipeline Company, and the Producers and  
“**Party**” means any one of them as applicable;

“**Pipeline**” has the meaning given in the Regulation;

**“Pipeline Company”** has the meaning given in the Regulation;

**“Project”** means the project described in Schedule A and constructed according to the specifications described in Schedule C, and includes the project as changed pursuant to the acceptance of the Administrator in accordance with clause 9;

**“Proponents”** means the Pipeline Company and the Producers;

**“Regulation”** has the meaning given in the Background;

**“Step”** means a step of the Project as set out in Schedule A.

2. Any headings or titles are for convenience of reference and do not affect the construction or interpretation of this Agreement.

### **Schedules**

3. The following attached schedules form a part of this Agreement:
  - (a) Schedule A – Summary of Project Work and Step(s);
  - (b) Schedule B – Documentation Required for Release of Deductions;
  - (c) Schedule C – Construction Schedule, Project Map, and Approvals; and
  - (d) Schedule D – Regulation, Section 4.

### **Producers and Pipeline Company**

4. The Administrator agrees that the Producers are “Producers” within the meaning of that term in Section 1 of the Regulation, and that the Pipeline Company is a “pipeline company” within the meaning of that term in subsection 4(9.2) of the Regulation.

### **Project**

5. The Administrator agrees that the Project qualifies as a “Project” pursuant to subsection 4(9.1) of the Regulation.

### **Project Amendments**

6. The Parties may agree to amend the Agreement. No such amendment will be effective unless it is made in writing.
7. If the Proponents wish to make a change to the Project, the Proponents must provide to the Administrator written information describing the proposed change and a request to amend Schedules A and C, as applicable.
8. The Administrator may, at his sole discretion, accept or reject the proposed change to the Project. The Administrator must inform the Proponents of his decision to accept or reject the proposed change.

9. If the Administrator accepts the proposed change, the Parties may amend Schedules A and C, as applicable, in accordance with the accepted change.
10. If the Administrator does not accept the proposed change, but the Pipeline Company constructs the Project in accordance with the proposed change, then the Administrator may demand from the Proponents, and if he does so the Proponents must pay to the Administrator, an amount equal to any deductions that have been allowed by the Administrator under this Agreement, and the Administrator need not review a subsequent application for a deduction under this Agreement.

### **Completion of Project**

11. The Pipeline Company must complete the Project on or before <insert date >.
12. The Administrator agrees that he will consider the Project to be complete on the Completion of Construction Date stated on the Statutory Declaration respecting the final Step of the Project, in the form attached to Schedule B, that has been duly executed by the designated Proponent and received by the Administrator.
13. If the Pipeline Company has not completed the Project on or before <insert date >, or a later date agreed to, in writing, by the Parties, then the Administrator may, at his or her sole discretion, demand from the Proponents, and if he does so the Proponents must pay to the Administrator, an amount equal to any deductions that have been allowed by the Administrator under this Agreement, and the Administrator need not review a subsequent application for a deduction under this Agreement.

### **Project Supervisor**

14. The Proponents must identify to the Administrator a supervisor for the Project and ensure that the supervisor is available, with reasonable notification, to meet with, and provide information to the Administrator throughout construction of the Project.

### **Inspections, Audits and Safety**

15. The Administrator, or designated representative, may, at reasonable times, with written notice to and with the permission of the Pipeline Company, access the Project site for the purpose of conducting inspections, monitoring progress of the Project and conducting audits.
16. At any time during construction of the Project and within 24 months following the completion of the Project the Administrator may request that all relevant records and information related to the Project be made available to him or her, and the Administrator may conduct, or cause to be conducted, an audit of the records and information for the purpose of determining if costs claimed by the Proponents under this Agreement constitute Eligible Costs, and if the costs have actually been paid by the Proponents. The Proponents must comply with this request within 30 days.

## **Application for Royalty Deduction**

17. The Producers may apply to the Administrator for a deduction from royalty or tax otherwise payable by the Producers under the Act for Eligible Costs expended for each Step identified in Schedule A upon completion of the Step.
18. The application for a deduction must be accompanied by:
  - (a) executed versions of all documents within Schedule B. The Administrator may release a deduction before receiving the Certificate of Operation, however the Certificate of Operation is required to be provided to the Administrator once the Producers have received the Certificate of Operation.
19. Subject to clause 22, upon receipt of an application for deduction, the Administrator must review the application within 60 days, and if the application meets the requirements of the Regulation and this Agreement, the Administrator must allow the deduction. If the Administrator accepts a change to the Project under clause 9 of this Agreement, the Administrator must allow the resulting deduction accordingly.
20. If the Administrator allows the deduction, the Parties agree that the Producers are entitled to the deduction in the following proportions:
  - i. <insert % entitlement of each Producer for each Step>
21. If the Administrator reasonably believes that any information accompanying the application for deduction is incorrect or inadequate, he or she must provide written notification to the Proponents of the inadequacy. The Proponents must, within 30 days of receiving the notification from the Administrator, provide further information to the Administrator. The Administrator need not review the application for a deduction or subsequent applications for deductions concerning the Project until the further information requested of the Proponents has been provided to the Administrator and until the Administrator has notified the Proponents that the information accompanying the application is adequate and correct.
22. If the Proponents' application for a deduction in relation to a Step is received by the Administrator more than six months after the completion date set out in Schedule A with respect to the Step, then the Administrator may, at his sole discretion, refuse to review the application.

## **Incremental Royalties**

23. In clauses 24 and 25 and Schedule A, "Maximum Deduction" means an amount which is the lesser of \$\_\_\_\_\_ or 50% of eligible costs actually spent by the Proponents to complete that Step.
24. If the anticipated Incremental Royalty Revenues identified by the Proponents in the executed Well Production And Estimated Incremental Royalties, provided to the Administrator at the time of making a request for a deduction under clause 17, are greater than or equal to the Maximum Deduction plus any deduction allowed for a previous Step

in the same fiscal year, then the Administrator, must, subject to this Agreement and the Regulation, allow the deduction for the Step.

25. If the anticipated Incremental Royalty Revenues identified by the Proponents are less than the Maximum Deduction plus any deduction allowed for a previous Step in the same fiscal year, then the Administrator, at his or her sole discretion, may allow a deduction in an amount less than the Maximum Deduction and will allocate the reduced amount in the portions set out in clause 20.

### **Notification to the Ministry of Finance**

26. After the Administrator has allowed a deduction, he or she must promptly notify the Proponents and the British Columbia Ministry of Finance of the amount of the Producers' deductions. The Ministry of Finance and the Producers will adjust the capital cost to that paid by the Producers for the Project for the purpose of adjusting the Producer Cost of Service Rate applicable to the Project.

### **Reporting**

27. On or before April 30<sup>th</sup> in each of the five calendar years commencing with 2009, each of the Proponents must provide to the Administrator a list of the well authorizations, as described in the Act, that have been granted and are attributable due to the Project.

### **Defaults**

28. The Proponents are not eligible to make an application for royalty deductions under this Agreement if any of the Producers are in arrears in making any royalty payments to the Province of British Columbia.
29. If the Administrator determines that a deduction allowed pursuant to this Agreement was greater than the amount to which the Producers are eligible, the Administrator may demand from the Proponents, and if he does so the Proponents must pay to the Administrator, an amount equal to the difference between the amount allowed and the amount to which the Producers are eligible.

### **Arbitration**

30. The Parties agree to negotiate all disputes arising from this Agreement in good faith after receiving written notification of the existence of a dispute.
31. If a dispute arising out of this Agreement cannot be settled through negotiation, then the Parties agree that any Party may refer the dispute to a single arbitrator pursuant to the *Commercial Arbitration Act* of British Columbia, and the determination of such arbitrator shall be final and binding upon the Parties.

### **Proponents' Indemnity Related to Work**

32. The Proponents must jointly assume the defence of and must indemnify and save harmless the Administrator, and its servants, agents, representatives or consultants, from and against all claims, liabilities, demands, costs and expenses, fines, penalties,

assessments and levies made against or incurred, suffered or sustained by the Administrator, or its servants, agents, representatives or consultants, or any of them at the same time or times before on or after the completion of the Project or early termination of this Agreement where the same or any of them are based upon or arise out of the negligence of, or for anything done or omitted to be done by, or the gross negligence or wilful misconduct of the Proponents, their employees, agents or subcontractors, in connection with carrying out the Proponents' obligations under this Agreement, or the Project, which indemnity will survive the completion of the Project or early termination of this Agreement, whichever comes first, for a period not exceeding 36 months.

### **Termination**

33. This Agreement terminates on the earlier of:
- (a) the written mutual consent of the Parties; and
  - (b) termination in accordance with clause 34.
34. Subject to clause 35, the Administrator may terminate this Agreement in the event of a breach by the Proponents of any obligation under this Agreement if, after giving 60 days written notice to the Proponents, the Proponents have not rectified or commenced to rectify the breach.
35. If the Proponents dispute the existence of a breach in an arbitration under clause 31, the Parties agree that the period of 60 days referred to in clause 34 is extended until a decision confirming the existence of the breach is made in the arbitration.

### **Governing Law**

36. This Agreement must be interpreted in accordance with the laws of the Province of British Columbia.

### **Enurement**

37. This Agreement may not be assigned by a Party without the prior written consent of the other Parties. No Party may unreasonably withhold consent to assignment of this Agreement. This Agreement is binding upon and enures to the benefit of the Parties and their respective administrators, trustees, receivers, successors and permitted assigns.

### **Waiver**

38. Any Party may waive a breach of an obligation set out in this Agreement. However, no waiver has any effect, or binds the Party making the waiver, unless it is in writing. A waiver does not limit or affect the rights of a Party with respect to any other breach.

### **Counterpart Execution**

39. This Agreement may be executed in counterpart and all executed counterparts together constitute one agreement.

## Notices

40. All communications between the Parties must be in writing. Any communication is deemed to have been received:
- (a) if served personally, on the date of receipt;
  - (b) if mailed first class, on the third day following mailing; and
  - (c) if delivered by electronic mail or facsimile, on the day following the day on which it was sent.

The addresses for the Parties are:

**Royalty Administrator:** Ministry of Energy, Mines and Petroleum Resources  
Physical Address: 5<sup>th</sup> Floor, 1810 Blanshard Street, Victoria, B.C. V8T 4J1  
Mailing Address: P.O. Box 9323 Stn Prov Government Victoria, BC V8W 9N3  
Email Address: Project Manager email:  
Fax Number: 250-952-0255

**Pipeline Company:**

Physical Address:  
Mailing Address:  
Email Address:  
Fax Number:

**Producer:**

Physical Address:  
Mailing Address:  
Email Address:  
Fax Number:

**Producer:**

Physical Address:  
Mailing Address:  
Email Address:  
Fax Number:

## Project Track Number

41. All invoices and correspondence provided by the Proponents to the Administrator under this Agreement must reference Project Tracking Number **2008500**, and the Administrator need not accept an invoice that does not reference that number.

**Joint and Several Liability**

- 42. In the event that any liability of any kinds whatsoever is incurred under this Agreement by any of the Proponents, each of them shall be jointly and severally liable for such liability.
- 43. For the purposes of this Agreement, the Administrator shall be entitled to treat any act or communication made by any one of the Proponents as being made as an agent of the remaining <add number or remaining Proponents> and the Administrator may rely on that presumption of agency, unless that Party expressly states in writing that it is acting or communicating solely on its own behalf.

**SIGNATURES:**

\_\_\_\_\_  
Name: Gordon Goodman  
ADMINISTRATOR

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name:  
Title:  
PRODUCER

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name:  
Title:  
PRODUCER

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name:  
Title:  
PIPELINE COMPANY

\_\_\_\_\_  
Date

*Schedule A - Summary of Project Work and Step(s)*

**Description of Project:**

**Construction:**

**Start date and completion date**

<b>Project Step(s)</b>	<b>Completion Date</b>	<b>Estimated Completion Cost</b>	<b>Maximum Deduction</b>
<i>Step 1:</i> <b>Design</b> (planning, applications and surveying) <b>Construction</b> (install a compressor, gas dehydrator and fuel plant) <b>Testing</b> (hydro or pneumatic)			
<b>Total</b>			

## *Schedule B – Documentation Required for Release of Deductions*

(All Schedule B materials to be provided by a Proponent to the Administrator when applying for a deduction.)

Evidence of “Leave to Open” for the Project from the Oil and Gas Commission granted pursuant to Section 36 of the *Pipeline Act* or a “Leave to Open” granted by the National Energy Board pursuant to Section 47 of the *National Energy Board Act* to be provided to the Administrator by a Proponent

Written statement from a Proponent indicating that a valid Certificate of Operation from the Oil and Gas Commission will be provided to the Administrator or applicable National Energy Board approval

Well Production and Estimated Incremental Royalties (sample attached)

Statutory Declaration (attached)

Summary of Final As Built Costs Per Step(s) (sample attached)

Detailed List of Invoices of Final As Built Actual Costs Per Step(s) (sample attached)





Ministry of Energy  
Mines and  
Petroleum Resources

STATUTORY DECLARATION

IN THE MATTER OF THE EVIDENCE ACT, 1996 RSBC c.124 AND IN THE MATTER OF CERTAIN DISBURSEMENTS MADE IN CONNECTION WITH THE AGREEMENT

dated the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ between:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF BRITISH COLUMBIA, represented by the Royalty Administrator of the Ministry of Energy, Mines and Petroleum Resources

(the Province)

and:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(the Proponents)

pertaining to Project Name: \_\_\_\_\_

I, \_\_\_\_\_, being the  
(PRINT OR TYPE FULL NAME AND POSITION OR TITLE)

duly authorized representative of and agent for the Proponents, solemnly declare and attest that:

- i) the Step identified below has been completed in the manner and to the extent required by the Agreement on the completion of construction date below,
- ii) the Proponents intends to complete the project, and
- iii) the completion costs for which the deduction amount is calculated has actually been paid

Project Step(s): \_\_\_\_\_

OIL AND GAS COMMISSION PIPELINE No. \_\_\_\_\_

Date of "Leave to Open" from the Oil and Gas Commission or NEB \_\_\_\_\_

Completion of Construction Date of applicable Step \_\_\_\_\_  
(yyyy/mm/dd)

I MAKE THIS SOLEMN DECLARATION, conscientiously believing it to be true and knowing that it is of the same legal force and effect as if made under Oath.

DECLARED BEFORE ME AT THE \_\_\_\_\_ )

\_\_\_\_\_ )

\_\_\_\_\_ )

\_\_\_\_\_ )

of \_\_\_\_\_, in the) \_\_\_\_\_

Signature of Proponents; Authorized Representative

Province of \_\_\_\_\_, on this) \_\_\_\_\_

\_\_\_\_\_ )

\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ )

\_\_\_\_\_ )

\_\_\_\_\_ )

A Commissioner for taking Affidavits for \_\_\_\_\_ )

(Province)

**SUMMARY OF FINAL AS BUILT COSTS PER STEP(S)**

*(Summary to be provided by the Proponents should include the following information. Layout below is for illustrative purposes – alternative format to be submitted by the Proponents is acceptable.)*

<b>Component (per Schedule A)</b>	<b>Estimated Completion Cost (per Schedule A)</b>	<b>Final As Built Costs</b>
<b>Step 1:</b> <b>Design</b> (planning, applications and surveying) <b>Construction</b> (install a compressor, gas dehydrator and fuel plant) <b>Testing</b> (hydro or pneumatic) <b>Commissioning</b>		
<b>TOTAL</b>		

**Detailed List of Invoices of Final As Built Actual Costs Per Step(s)**

*(List to be provided by the Proponents should include the following information, layout below is for illustrative purposes- an alternate format submitted by Proponents is acceptable.)*

<b>STEP(S)</b>	<b>Invoice Number</b>	<b>Project Tracking #</b>	<b>Item</b>	<b>Supplier</b>	<b>Location of Supplier</b>	<b>Actual Project Costs Paid</b>
<b>Step 1:</b>						
<b>Design</b> (planning, applications and surveying)	1. 2. 3. 4. 5.					
<b>Construction</b> (clearing, ditching, stringing and welding)	1. 2. 3. 4. 5.					
<b>Testing</b> (hydro or pneumatic)	1. 2. 3. 4. 5.					
<b>Commissioning</b> Planning and surveying	1. 2. 3. 4. 5.					
<b>TOTAL</b>						

*Schedule C – Construction Schedule, Project Map, and Approvals*

Construction Schedule (attached)

Project Map (attached)

A Proponent to attach a copy of all authorized approvals to construct the project by the Oil and Gas Commission or the National Energy Board.



**PROJECT MAP:**

**CONSTRUCTION APPROVALS:**

Insert Approvals

*Schedule D - Regulation – Section 4*

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*Petroleum and Natural Gas Act*  
PETROLEUM AND NATURAL GAS ROYALTY AND  
FREEHOLD PRODUCTION TAX REGULATION

[includes amendments up to B.C. Reg. 35/2008, February 19, 2008]

**Royalty and tax payment**

**4** (1) On or before the 25th day of each calendar month, a producer is to pay to the government royalty and tax based on an estimate of the value of

(a) oil produced by the producer in the producing month that is the calendar month before the calendar month of the royalty or tax payment,

(b) marketable gas made available for sale by the producer in the producing month that is the second calendar month before the calendar month of the royalty or tax payment, and

(c) natural gas by-products sold by the producer in the producing month that is the second calendar month before the calendar month of the royalty or tax payment.

(2) A producer to whom Crown invoices are delivered under section 9 (1) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1) (a) of this section in respect of the producing month.

(2.1) A producer to whom Crown invoices are delivered under section 9 (1.1) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1) (b) and (c) of this section in respect of the producing month.

(2.2) Repealed. [B.C. Reg. 191/2005, Sch. 2, s. 1.]

(2.3) A producer to whom Crown invoices are delivered under section 9 (1.2) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1), (2) and (2.1) of this section in respect of the producing month.

(3) A producer may deduct an overpayment in accordance with section 9 (7).

(4) In addition to any deduction allowed under subsection (3), a producer may deduct a summer drilling deduction amount determined under subsection (5) in respect of a well if

(a) the producer has an interest in the well at the time the well is completed, and

(b) the well has a spud date after June 30, 2003 and before December 1, 2003, or, in any subsequent year, after March 31 of that year and before December 1 of that year,

(c) the same drilling rig drills the well from the spud date of the well until the well reaches its final total measured depth, or if, in the opinion of the collector, the same drilling rig is incapable of drilling the well for the whole of that period due to damage, 2 or more drilling rigs drill the well from the spud date of the well until the well reaches its final total measured depth, and

(d) the producer files a report for the summer drilling credit in accordance with section 8 (1) (l).

(5) The summer drilling deduction amount is, for each well referred to in subsection (4), the producer's proportionate interest in the well multiplied by the lesser of the following:

(a) 10% of the goods and service costs attributable to the well;

(b) \$100 000.

(6) In addition to any deductions allowed under subsections (3) and (4), a producer may deduct

(a) an infrastructure charge deduction amount if and to the extent that that deduction amount is available to the producer under subsections (7) and (8), and

(b) a project deduction amount if and to the extent that that deduction amount is available to the producer under subsections (9) and (10).

(7) Subsection (8) applies to a producer if

(a) the producer enters into an agreement with the minister or the BC Transportation Financing Authority under which the producer agrees, for the purpose of providing cost recovery for the use of bridges, roads, rails, trails, utilities or other structures or works, to pay specified charges for specified activities in a specified area,

(b) the producer is obliged to pay charges or tolls established for the purpose referred to in paragraph (a) under Part 3 of the *Transportation Act*, or

(c) the producer is obliged to pay tolls prescribed for the purpose referred to in paragraph (a) under the *Ministry of Energy and Mines Act*.

(8) The infrastructure charge deduction amount available to a producer referred to in subsection (7) is 50% of so many of the charges and tolls referred to in that subsection as the administrator is satisfied

(a) represent cost recovery for the use of bridges, roads, rails, trails, utilities or other structures or works, and

(b) have been paid by the producer.

(9) If a producer advises the administrator that the producer intends to undertake a project to construct or upgrade pipelines, bridges, roads, rails or trails in support of resource exploration or development,

(a) the administrator may agree that the producer is entitled to deduct from the royalty or tax otherwise payable by the producer under this Act a portion of the costs attributable to that project,

(b) the administrator may, for the purposes of paragraph (a), enter into an agreement with the producer identifying the various steps that constitute the project and specifying what constitutes the completion of each step, what the estimated completion cost of each step is to be and what the estimated completion cost for the project is to be, and

(c) the project deduction amount available to a producer who has entered into an agreement under paragraph (b) for each of the specified steps of the project is 50% of the lesser of the estimated completion cost for that step and the amount actually spent by the producer to complete that step, if the administrator is satisfied that

(i) the step has been completed in the manner and to the extent required by the agreement,

(ii) the producer intends to complete the project, and

(iii) the completion cost for which the deduction amount is calculated has actually been paid by the producer.

(9.1) If a pipeline company advises the administrator that the pipeline company intends to undertake a project, in a contractual arrangement with one or more Producer(s), to construct or upgrade pipelines in British Columbia in support of resource exploration or development in British Columbia,

(a) the administrator may agree that the producer or producer(s) are entitled to deduct from the royalty or tax otherwise payable by the producer or producer(s) under this Act a portion of the costs attributable to that project,

(b) the administrator may, for the purpose of paragraph (a), enter into an agreement with the parties to the contractual arrangement, identifying the various steps that constitute the project, and specifying what constitutes the completion of each step, what the estimated completion cost of each step is to be and what the estimated completion cost for the project is to be,

(c) the project deduction amount available, for each of the specified steps of the project, to all Producer(s) who have entered into an agreement for that project under paragraph (b), is 50% of the lesser of the estimated completion cost for that step and the amount actually spent by the parties to the contractual arrangement to complete that step, if the administrator is satisfied that

(i) the step has been completed in the manner and to the extent required by the agreement,

(ii) the parties to the contractual arrangement intend to complete the project, and

(iii) the completion cost for which the deduction amount is calculated has actually been paid by the parties to the contractual arrangement.

(9.2) For the purposes of subsection (9.1):

**"pipeline"** means a pipe or system or arrangement of pipes by which is conveyed petroleum or natural gas, or water used or obtained in drilling for or in the production of petroleum or natural gas, and property used for, with or incidental to their operation, but does not include a pipe or system or arrangement of pipes to distribute natural gas in a community to ultimate consumers;

**"pipeline company"** means a person that owns, constructs or operates a pipeline.

(10) Despite subsections (9) and (9.1), the total amount of project deduction amounts that may be deducted from the amount of royalty or tax payable by a producer must not exceed 50% of the lesser of

(a) the estimated completion cost for the project, and

(b) the amount actually spent by the producer or the parties to the contractual arrangement, as the case may be, to complete the project.

[am. B.C. Regs. 21/98, s. 3; 50/2001, s. 3; 250/2003, s. 3; 442/2003, s. 2; 546/2004, App. s. 24; 191/2005, Sch. 2, s. 1; 317/2005; 73/2006, s. 5; 35/2008.]