



# Ministry of Energy, Mines and Petroleum Resources

## Net Profit Royalty Program

Technical Meeting  
January 21, 2009





## *Net Profit Royalty*

*Submissions Received for  
the Request for Information (RFI)*





# Background

- **The RFI was issued on September 25, 2008 and closed on October 31, 2008.**
- **16 projects were submitted, from 11 producers.**
- **Responses indicated priority for Devonian shale gas (Horn River) and enhanced oil/gas recovery**



# Project Development Stages: Theoretical framework

## Theoretical Stage:

Using analogy to proven basins (e.g. Barnett) to screen potential developments

## Pilot Stage:

Testing and obtaining information to determine technical viability

## “Semi-commercial” Stage:

Drilling, recovery techniques and economics optimized  
Ready to become commercial

## Commercial Stage:

Enough production and certainty to guarantee commercialization





# *Net Profit Royalty*

## *Request for Applications (RFA)*





# Key Dates

- **RFA was released on January 7, 2009.**
- **RFA will close on February 27, 2009.**
- **Purpose of today's meeting is to explain how to fill in templates**
  - **No individual meetings on projects**

# Projects considered in this first RFA round



- **Based on the information received for the RFI, two categories have been selected for this first RFA round:**
  - **Enhanced oil/gas recovery**
  - **Shale gas (primary target) in the Horn River basin**
- **Further RFA rounds might be open to other types of projects.**
- **The Crown will be proactive in receiving feedback from industry for future RFA rounds.**



# RFA Requirements

## 1. RFA Cover Page

- Complete, sign and attach as 1<sup>st</sup> page of submission

## 2. Cover Letter

- Corporate overview, summary of proposed project

## 3. Net Profit Royalty Program RFA Template

- Complete all sections of WORD file
- Description of organization and project
- Reserves, production profile and gas composition
- Project cost information
- Market information
- Project internal rate of return
- Benefits attributable to the Province
- Risks and significant issues



# RFA Requirements continued

## 4. Proposed Development Schedule

- Complete EXCEL file identifying schedule for various components of project

## 5. Geological Information

- Geosciences and petrophysical information to support project
- Maps, core sections, logs, mineralogy, original gas-in-place
- Written geoscience report – interpretation, assumptions, data, logic



# RFA Requirements continued

## 6. Mapping

- Proposed geographic project ring fence
- Subsurface rights
- Actual and planned location of wells
- Existing and planned infrastructure
- See RFA for details on mapping format

## 7. MEMPR Net Profit Model



# MEMPR Net Profit Model

- **Complete EXCEL file**
- **Instructions are in the “Notes” sheet**
- **Only shaded cells in “Inputs” sheet to be filled out**
- **Use the model to submit cost and other information**
  - Identify project’s internal rate of return with and without net profit
- **Changes have been made to the original model based on RFI comments**
  - **Template instructions**



## *Net Profit Royalty*

*Request for Applications (RFA)  
Project Evaluation and Selection*





# Pass/Fail Criteria

- **To be considered for a net profit arrangement, the project has to:**
  - **provide all the mandatory information,**
  - **be relevant to the scope (i.e. either enhanced oil/gas recovery or shale gas development in the Horn River for this first RFA round),**
  - **demonstrate a minimum of \$50 million investment (not including land rights) in the previous five years on tenured lands within the project area, and**
  - **have a positive rate of return (gross revenue minus all operating and capital costs).**



# Project Evaluation

- All projects that “pass” the Pass/Fail stage will be eligible for evaluation.
- The Crown will determine the size of the ring fence.
- The size of the ring fence will be determined using four factors:
  - Minimum required price to make the project economic
  - Benefit to the Crown
  - Project phasing
  - Reserves in place



# Factor 1: Minimum Price

- **Assessment of Discounted Technical Cost**
  - **Defined as long-term real price required for company to pay all operating costs, capital costs, royalties and taxes and earn a specified rate of return on its investment**
  - **Comparison with long-term real energy prices informs company's "go/no go" decision on a project**
  - **Risk is incorporated in the methodology**
  - **Indicator of required geographic/reserve extent of ring fence to make project viable**



## Factor 2: Benefit to the Crown

- **Comparison of the royalties payable under the NPR and existing royalty schemes is an indicator of impact of NPR program on government revenue**
- **Recognition that project may not have gone forward in the absence of the NPR program**
- **NPR program results could inform development of future simplified royalty schemes outside the ring fence**



## Factor 3: Project Phasing

- **Evaluation of 5-year, 10-year, 15-year and full development assist in aligning results and required ring fence to the pilot, semi-commercial and commercial stages of development**
- **Address negative cash flows in early years**



## Factor 4: Reserves in Place

- **Economics are based on reserves**
- **Ring fence is defined based on surface geography**
- **Reserves may be used to define the extent of the ring fence**
- **Location of the ring fence will be determined with input from the operator**



# Ring fence location

- **Because the analysis will only provide the size of the ring fence, there will be an opportunity to discuss with industry its actual geographic location.**
- **The timing is planned as follows:**
  - **Project is approved by the Royalty Administrator, indicating maximum size of ring fence approved.**
  - **Royalty Administrator meets with producer and discusses location of ring fence within tenured lands.**
  - **Royalty Administrator issues an Order determining ring fence size and location, and any other special conditions the net profit arrangement might require.**



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