

PROVINCE OF BRITISH COLUMBIA

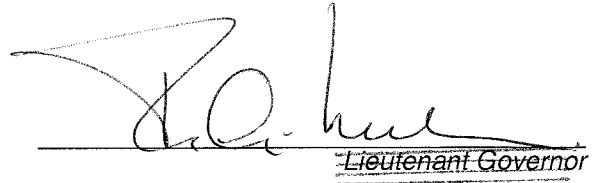
ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No.

210

, Approved and Ordered

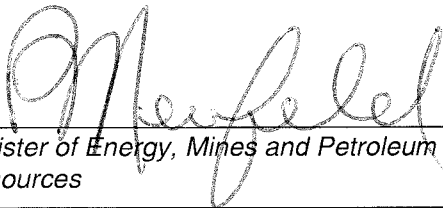
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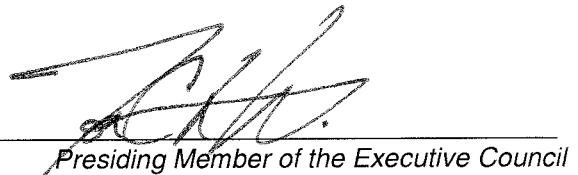
  
Lieutenant Governor

Administrator

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the ~~Lieutenant Governor~~<sup>Administrator</sup>, by and with the advice and consent of the Executive Council, orders that, effective April 1, 2006, the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation, B.C. Reg. 495/92, is amended as set out in the attached Schedule.

  
Minister of Energy, Mines and Petroleum Resources

  
Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section:- Petroleum and Natural Gas Act, R.S.B.C. 1996, c. 361, s. 73 (2)

Other (specify):- oic 1854/92

## SCHEDULE

*1 Section 1 (1) of the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation, B.C. Reg. 495/92, is amended*

*(a) in the definition of “completed well” by striking out “B.C. Reg. 336/91,”,*

*(b) by adding the following definitions:*

“**Crown invoice**” means an invoice delivered under section 9 (1), (1.1) or (1.2);

“**Crown land**” has the same meaning as in the *Land Act*;

“**development well**” means a well or portion of a well that is classified as a development well under section 14 (1) of the Drilling and Production Regulation;

“**dry gas source**” means a reporting facility, other than a natural gas processing plant, that produces natural gas that is not processed at a natural gas processing plant before being sold as marketable gas;

“**exploratory outpost well**” means a well or portion of a well that is classified as an exploratory outpost under section 14 (2) of the Drilling and Production Regulation;

“**exploratory wildcat well**” means a well or portion of a well that is classified as an exploratory wildcat under section 14 (3) of the Drilling and Production Regulation or reclassified as an exploratory wildcat under section 14 (4) of that regulation; ,

*(c) in the definition of “deep discovery well event” by repealing paragraph (c) and substituting the following:*

(c) is in a well that has a spud date after November 30, 2003, and ,

*(d) in the definition of “freehold mineral lands” by striking out “Crown;” and substituting “government;”,*

*(e) by repealing the definition of “gas well event” and substituting the following:*

“**gas well event**” means

(a) all completions in a zone for a well that has a primary product of natural gas, or

(b) all completions in zones in a well that is subject to a commingling approval from the Oil and Gas Commission under section 41 (2) of the Drilling and Production Regulation; ,

*(f) in the definition of “goods and service costs” by adding “or completion” after “drilling”,*

*(g) by repealing the definition of “low productivity well” ,*

*(h) by repealing the definition of “marginal well depth” and substituting the following:*

“**marginal well depth**” means,

- (a) for a well event in a vertical well, the true vertical depth of the wellbore's intersection with the top of the pay of the well event, and
- (b) for a well event in a horizontal well, the total measured depth of the well event; ,

(i) *in the definition of “natural gas liquids” by striking out “propane” and substituting “propane,”*

(j) *by repealing the definitions of “producer cost of service allowance”, “producer cost of service natural gas volume” and “producer cost of service rate” and substituting the following:*

**"producer cost of service allowance"**, in relation to a well event and a producing month, means,

- (a) if the well event is part of a coalbed methane project, the amount determined in accordance with the following formula:

$$A \times B \times C$$

where

A means the weighted average royalty or tax rate in relation to the well event and the producing month,

B means the producer cost of service rate in relation to the coalbed methane project to which natural gas produced by the well event was delivered in the producing month, and

C means the producer cost of service natural gas volume in relation to the well event in the producing month, and

- (b) if the well event is not part of a coalbed methane project, the lesser of

- (i) the amount determined in accordance with the following formula:

$$A \times B \times C$$

where

A means the weighted average royalty or tax rate in relation to the well event and the producing month,

B means the producer cost of service rate in relation to the reporting facility to which natural gas produced by the well event was delivered in the producing month, and

C means the producer cost of service natural gas volume in relation to the well event and the producing month, and

- (ii) 95% of the total gross natural gas royalty or tax determined for the well event for the producing month under section 7 (7) (a);

**"producer cost of service natural gas volume"** means, in relation to a well event in a producing month, the producer's share of the volume of natural gas produced from the well event in the producing month;

**"producer cost of service rate"**, in relation to a producer, means a rate determined by the collector using the methodology established by the administrator under section 2 (8.1), expressed as an amount per 1 000 m<sup>3</sup>, which rate may be used in

the calculation of a producer cost of service allowance to cover the producer's cost of

- (a) main field gathering, dehydration and field compression of non-conservation gas,
- (b) conserving conservation gas,
- (c) processing natural gas for use as fuel in paragraphs (a) and (b), and
- (d) handling water produced from well events in a coalbed methane project; ,

**(k) in the definition of “producer price” by adding “or dry gas source” after “natural gas processing plant”,**

**(l) by repealing the definition of “reactivated well event” and substituting the following:**

**“reactivated well event” means**

- (a) a marginal well event that
  - (i) was suspended or abandoned on or before June 30, 2003, and
  - (ii) after that date, commenced or recommenced producing, or
- (b) an ultramarginal well event that
  - (i) was suspended or abandoned on or before December 31, 2005, and
  - (ii) after that date, commenced or recommenced producing; ,

**(m) by repealing the definitions of “reporting entity”, “reporting entity’s share” and “reporting entity’s well” ,**

**(n) in the definition of “reporting facility” by striking out “B.C. Reg. 362/98.”,**

**(o) in the definition of “royalty share” by repealing paragraphs (b) and (c) and substituting the following:**

- (b) in the case of a class of marketable gas produced in a producing month from a well event, the producer’s share of that marketable gas multiplied by the royalty percentage rate under section 6 that is applicable to the class of marketable gas, the producing month and the well event, and
- (c) in the case of a class of natural gas by-products produced in a producing month from a well event, the producer’s share of those natural gas by-products sold in the producing month multiplied by the royalty percentage rate under section 6 that is applicable to that class of natural gas by-products; ,

**(p) in the definition of “tax share” by repealing paragraphs (b) and (c) and substituting the following:**

- (b) in the case of a class of freehold marketable gas produced in a producing month from a well event, the producer’s share of that freehold marketable gas multiplied by the tax percentage rate under section 6 that is applicable to the class of freehold marketable gas, the producing month and the well event, and

- (c) in the case of a class of freehold natural gas by-products produced in a producing month from a well event, the producer's share of those freehold natural gas by-products sold in the producing month multiplied by the tax percentage rate under section 6 that is applicable to that class of freehold natural gas by-products; ,

*(q) by adding the following definitions:*

**“ultramarginal gas”** means non-conservation gas produced by an ultramarginal well event;

**“ultramarginal well depth”** means,

- (a) for a well event in a vertical well, the true vertical depth of the wellbore’s intersection with the top of the pay of the well event, and
- (b) for a well event in a horizontal well,
  - (i) if the total measured depth less the measured depth to top of pay is less than 1 000 metres, the total measured depth, or
  - (ii) if the total measured depth less the measured depth to top of pay is equal to or greater than 1 000 metres, the amount determined by adding
    - (A) measured depth to top of pay plus 1 000, and
    - (B) one half of the amount determined by subtracting the sum of the measured depth to top of pay plus 1 000 from the total measured depth;

**“ultramarginal well event”** means a well event referred to in subsection (6); , *and*

*(r) by repealing the definition of “weighted average royalty or tax rate” and substituting the following:*

**“weighted average royalty or tax rate”** means, in relation to a well event and producing month, the total gross natural gas royalty or tax determined for the producer’s share of the natural gas produced from the well event for the producing month under section 7 (7) (a) divided by the sum of

- (a) the producer’s share of the marketable gas produced from the well event in the producing month and made available for sale in that month, multiplied by the reference price for the marketable gas,
- (b) the producer’s share of the natural gas liquids produced from the well event in the producing month and sold in that month, multiplied by the reference price for the natural gas liquids, and
- (c) the producer’s share of the sulphur produced from the well event in the producing month and sold in that month, multiplied by the reference price for the sulphur; .

## **2 Section 1 is amended**

*(a) by repealing subsections (2) and (3),*

*(b) in subsection (4) by repealing paragraphs (b) to (d) and substituting the following:*

- (b) the result of the following calculation is less than 23 m<sup>3</sup> for every metre of marginal well depth:

$$(TP/TPH) \times 24$$

where

TP means the total production from the well event in the following applicable period:

- (i) if the well event is not a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which marketable gas is first produced from the well event;
- (ii) if the well event is a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which the reactivated well event commenced or recommenced producing, and

TPH means the total number of hours during which the well event produced natural gas in that 12 calendar month period,

- (c) the 12 calendar month period referred to in paragraph (b) ends after June 30, 2004,
- (d) the well event is in a well that has a spud date after May 31, 1998, and
- (e) the well event is not an ultramarginal well event and is not part of a coalbed methane project. , **and**

**(c) by adding the following subsection:**

- (6) A well event is an ultramarginal well event if
  - (a) the well event is a gas well event,
  - (b) the well event is either in a vertical well with an ultramarginal well depth of less than 2 500 metres or in a horizontal well with an ultramarginal well depth of less than 2 300 metres,
  - (c) one of the following applies to the well event:
    - (i) the well event is in an exploratory wildcat well and the result of the following calculation is less than 17 m<sup>3</sup> for every metre of ultramarginal well depth:

$$(TP/TPH) \times 24$$

where

TP means the total production from the well event in the following applicable period:

- (A) if the well event is not a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which marketable gas is first produced from the well event;

(B) if the well event is a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which the reactivated well event commenced or recommenced producing, and

TPH means the total number of hours during which the well event produced natural gas in that 12 calendar month period;

(ii) the well event is in an exploratory outpost well or a development well and the result of the following calculation is less than  $11 \text{ m}^3$  for every metre of ultramarginal well depth:

$$(TP/TPH) \times 24$$

where

TP means the total production from the well event in the following applicable period:

(A) if the well event is not a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which marketable gas is first produced from the well event;

(B) if the well event is a reactivated well event, the period of 12 consecutive calendar months that begins with the calendar month in which the reactivated well event commenced or recommenced producing, and

TPH means the total number of hours during which the well event produced natural gas in that 12 calendar month period,

(d) the 12 calendar month period referred to in paragraph (c) (i) and (ii) ends after January 31, 2007,

(e) the well event is either

(i) a reactivated well event with a re-entry date after December 31, 2005 in a well with a spud date after May 31, 1998, or

(ii) in a well that has a spud date after December 31, 2005, and

(f) the well event is not part of a coalbed methane project.

**3 Section 2 is amended by adding the following subsections:**

(11) The collector may review the production history of any marginal well event or ultramarginal well event and the operator of the well event must, on request, provide to the collector all documents within the power or control of the operator that relate to the matters that are or might have been included or reflected in that production history.

(12) If the collector believes that the operator limited the production of a well event for the primary purpose of having the well event qualify as a marginal well event or an ultramarginal well event, the collector may disqualify that well event from qualifying for a royalty rate reduction under section 6 (1.3) (b) or (c).

- (13) The collector may apply the well depth deduction amount determined for a producer in relation to a well under section 7 (7) (c) to the producer's interest in any one or more deep well events or deep re-entry well events in that well.
- (14) The collector may apply the deep re-entry deduction amount determined for a producer in relation to a well under section 7 (7) (d) to the producer's interest in any one or more deep well events or deep re-entry well events in that well.

**4 Sections 3 (3) (a) and (b) is amended by striking out "Crown's" and substituting "government's".**

**5 Section 4 is amended**

**(a) in subsection (1) by adding "to the government" after "pay",**

**(b) by adding the following subsection:**

(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. , **and**

**(c) by repealing subsection (4) and substituting the following:**

- (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) (1);.

**6 Section 5 (1.1) is amended**

**(a) in Column 1 of Item 4.2 by striking out "not", and**

**(b) in Column 1 of Item 9 by striking out "greater than" and substituting "exceeding".**

**7 Section 6 is amended**



- (a) *in Column 1 of Item 1.1 of in subsection (1) by striking out “and marginal gas,” and substituting “, marginal gas and ultramarginal gas,”*
- (b) *in subparagraphs (i) and (ii) of paragraph (a) of Column 1 of Item 1.1 of in subsection (1) by striking out “and before July 1, 2008,”*
- (c) *in Column 1 of Item 1.2 of in subsection (1) by adding “, marginal gas and ultramarginal gas” after “Non-conservation gas”,*
- (d) *by repealing subsections (1.1) to (1.3) and substituting the following:*

- (1.1) The royalty percentage rate that is, under subsection (1), applicable to a class of marketable gas produced in a producing month from a well event may be reduced by a reduction factor determined under subsection (1.2) or (1.3) (a), (b) and (c), multiplied by the royalty percentage rate determined under Item 1, 1.1, 1.2 or 3 in subsection (1) for the class of marketable gas produced from the well event.
- (1.2) There may be determined for a well event that is not a marginal well event or an ultramarginal well event and that is not part of a coalbed methane project, a reduction factor in accordance with the following formula:

$$\left(\frac{(5\,000 - S)}{5\,000}\right)^2$$

where

S is equal to the lesser of the average daily natural gas production volume for the well event in the producing month and 5 000.

- (1.3) A reduction factor may be determined for a well event in relation to a producing month in accordance with the following applicable formula:
- (a) if the well event is part of a coalbed methane project, the reduction factor may be determined in accordance with the following formula:

$$\left(\frac{(17\,000 - S)}{17\,000}\right)^2$$

where

S is equal to the lesser of the average daily natural gas production volume for the well event in the producing month and 17 000;

- (b) if the well event is a marginal well event, the reduction factor may be determined in accordance with the following formula:

$$\left(\frac{(25\,000 - S)}{25\,000}\right)^2$$

where

S is equal to the lesser of the average daily natural gas production volume for the marginal well event in the producing month and 25 000;

- (c) if the well event is an ultramarginal well event, the reduction factor may be determined in accordance with the following formula:

$$\left( \frac{(60\,000 - S)}{60\,000} \right)^{1.5}$$

where

S is equal to the lesser of the average daily natural gas production volume for the ultramarginal well event in the producing month and 60 000. ,

**(e) in Column 1 of Item 3 of in subsection (2) by striking out** “November 30, 2003 and before July 1, 2008.” **and substituting** “November 30, 2003.” , **and**

**(f) in subsection (5) by adding** “event” **after** “gas well”.

**8 Section 7 is amended**

**(a) in subsection (5) by striking out** “Crown for natural gas in relation to a reporting entity” **and substituting** “government for natural gas in relation to a well event” ,

**(b) by repealing subsection (5) (c) and (d) and substituting the following:**

(c) subject to subsection (8), if the royalty or tax is payable in relation to a deep well event that is the deepest well event located in a well that has a spud date after November 30, 2003, the lesser of

(i) the portion of the well depth deduction amount determined under subsection (7) (c) that, when added to the amounts referred to in paragraphs (a) and (b) of this subsection, reduces to zero the total gross natural gas royalty or tax determined under subsection (7) (a), and

(ii) the positive difference obtained by reducing the amount of the well depth deduction amount determined under subsection (7) (c) by the total of all previous deductions made under subparagraph (i) of this paragraph, and

(d) subject to subsection (9), if the royalty or tax payable in relation to a deep re-entry well event that is located in a well that has a re-entry date after November 30, 2003, the lesser of

(i) that portion of the deep re-entry incremental deduction amount determined under subsection (7) (d) that, when added to the amounts referred to in paragraphs (a) to (c) of this subsection, reduces to zero the total gross natural gas royalty or tax determined under subsection (7) (a), and

(ii) the positive difference obtained by reducing the amount of the deep re-entry incremental deduction amount determined under subsection (7) (d) by the total of all previous deductions made under subparagraph (i) of this paragraph. ,

**(c) by repealing subsection (5.1) and substituting the following:**

- (5.1) For well events in a coalbed methane project, the amount of royalty or tax payable to the government for natural gas in relation to a producing month is the sum of the amounts determined for that producing month under subsection (5) for each well event in the coalbed methane project less the lesser of
- (a) the balance in the producer's coalbed methane producer cost of service bank referred to in section 7.1 for the coalbed methane project at the end of the immediately preceding producing month, and
  - (b) the portion of that balance that is necessary to reduce to zero the royalty or tax payable to the government under this subsection for all well events in the coalbed methane project. ,

**(d) in subsection (7) (a) by striking out “reporting entity” wherever it appears and substituting “well event”,**

**(e) by repealing subsection (7) (b) and substituting the following:**

- (b) the royalty or tax exempt value in relation to a well event and producing month means the amount determined by the following formula:

$$\frac{\text{PVEP}}{\text{TPV}} \times (\text{TGNRT} - \text{PCSA})$$

where

- PVEP means the production volume exempt from payment under Item 3 of section 6 (2) for the well event and producing month;
- TPV means the total production volume attributable to the well event in the producing month;
- TGNRT means the total gross natural gas royalty or tax determined for the well event and the producing month under paragraph (a);
- PCSA means the applicable producer cost of service allowance, and ,

**(f) in subsection (7) (c) by striking out “each reporting entity that consists of nothing more than” and substituting “a producer with”,**

**(g) in subsection (7) (c) and (d) by striking out “PS” wherever it appears and substituting “PI”,**

**(h) in subsection (7) (c) and (d) in the definition of “PI” by striking out “reporting entity’s proportionate” and substituting “producer’s”, and**

**(i) in subsection (7) (d) by striking out “each reporting entity that includes” and substituting “a producer with”.**

**9 Sections 7 (3) and (3.1) and 9 (1), (1.1) and (2) (b) are amended by striking out “to the Crown” and substituting “to the government”.**

**10 Section 7.1 is amended**

**(a) in subsection (2) by striking out** “coalbed methane project and that has a completion date prior to July 1, 2008,” **and substituting** “coalbed methane project,” **and**

**(b) by repealing the definition of “C” in subsection (4) and substituting the following:**

C means the amount, if any, by which the aggregate of the producer’s producer cost of service allowances for the producing month for all well events in the coalbed methane project exceeds the producer’s total gross natural gas royalty or tax determined under section 7 (7) (a) for the producing month for those well events, .

## **11 Section 8 is amended**

**(a) in subsection (1) (b) by striking out** “is, on or before the last day of the calendar month following each producing month, to file” **and substituting** “must, on or before the last day of the calendar month following each producing month, file”,

**(b) by repealing subsection (1) (c) and substituting the following:**

(c) every producer of natural gas must, on or before the last day of the second calendar month following each producing month, file a report indicating, for that producing month,

(i) the producer’s share of the volumes of marketable gas produced from each well event in which the producer has an interest,

(ii) the producer’s share of the sales volumes and values of natural gas by-products produced from each well event in which the producer has an interest, and

(iii) the producer’s share of the volume of natural gas produced from each well event in which the producer has an interest; ,

**(c) in subsection (1) (d) (i) by striking out** “reporting entity and”,

**(d) in subsection (1) (f) by striking out** “well event;” **and substituting** “natural gas and oil produced from each well event in which the producer has an interest; , **and**

**(e) by repealing subsection (2) and substituting the following:**

(2) Subject to subsection (2.1). a person may amend a report filed under subsection (1) by filing an amended report with the collector.

(2.1) A person must not file an amended report under subsection (2) more than 72 months after the month in relation to which the amended report is being filed.

## **12 Section 9 is amended**

**(a) by adding the following subsection:**

(1.2) After a producer files an amended report under section 8 (2) to amend a report filed under section 8 (1) (b) or 8 (1) (c), the collector is to deliver an amended Crown invoice to the producer, on or before the 10th day of the second calendar month following the calendar month in which the amended report was filed, showing for the producing month the amount of royalties and taxes that is

payable to the government in respect of the marketable gas and natural gas by-products to which the amended report applies. ,

(b) in subsection (2) by striking out “report or amended report,” and substituting “report filed under section 8 (1) or an amended report filed under section 8 (2),” ,

(c) *in subsection (2) (a) by striking out* “producer” *and substituting* “person who filed the report or amended report”, *and*

(d) *in subsection (8) by striking out* “producer” *and substituting* “person”.

**13 Section 13 is amended**

(a) *in subsection (2) (b) and (e) by striking out* “subsection (1.2),” *and substituting* “subsection (1.2) of this section;” , *and*

(b) *by repealing subsections (4) and (5) and substituting the following:*

(4) If a person fails to file, within the required time, a report required under section 8 (1) (f) in relation to an interest in oil produced from a well event or a report required under section 8 (1) (a), (b), (c), (d), (e), (g) or (h) or (5) or 9 (2) (a), the person may be assessed a penalty of \$20 for each day that the failure to file continues, or for any lesser number of days that the collector considers appropriate, up to a maximum amount payable under this subsection of \$6 000 for each report.

(5) If a person fails to file, within the required time, a report required under section 8 (1) (f) in relation to an interest in natural gas produced from a well event or a report required under section 8 (1) (i), (j) or (k), the person may be assessed a penalty of \$100 for each calendar month or part of a calendar month that the failure continues, or for any lesser number of months that the collector considers appropriate, up to a maximum amount payable under this subsection of \$6 000 for each report.