BRITISH COLUMBIA	**Ministry of Energy, Mines and Low Carbon Innovation** *Issued: August 2024*	*Petroleum and Natural Gas Act* **New Royalty System Implementation** **Information Bulletin PNGA-24-01**

UPDATE: Implementation of B.C.'s new royalty system

Background
In 2021, the Province initiated a comprehensive review of BC's oil and gas royalty system. B.C.'s existing royalty system was set up nearly three decades ago. Since that time, the way natural gas is produced has changed significantly, along with market conditions, drilling technology and costs, and global concerns about the need to address climate change.

As part of the royalty review, an independent assessment concluded that BC's royalty system was broken and outdated and needed to be completely reformed. Extensive public engagement was completed that included industry, First Nations and environmental groups.

In May 2022, the Province released the results of the review and announced that BC would be moving to a new, modernized royalty system based on a revenue-minus-cost framework.

In September 2022, the Ministry of Energy, Mines and Low Carbon Innovation launched a transition phase while working towards full implementation of the new royalty system. This phase included:

- For new gas wells, a flat 5 % royalty rate payable for all commodities during the first 8,760 production hours (approximately 12 months); and
- The elimination of the Deep Well Credit Program and other subsidies for all new wells.

Today, full implementation of BC's new royalty system requires finalization of several technical policies (such as the Processing Allowance,) as well as sufficient time for the necessary systems changes (government's and oil and gas producers') to be completed. For these reasons, full implementation of the new royalty system is being extended to January 1, 2027, with some interim regulatory changes coming into effect September 1, 2024.

Extended Transition Period
To support an extended transition period, the Province will be adjusting the existing transition regulation to better reflect the commodity mix produced and related costs. These changes will apply to wells spud (the start of the drilling) on or after September 1, 2024.

Under the revised transition regulation:

- oil wells will pay a 5 percent royalty for all commodities for the first 4,380 production hours (approx. 6 months);
- dry gas wells will pay a 5 percent royalty for all commodities for the first 12,407 production hours (approx. 17 months); and

- gas wells that are not classified as a dry gas well will continue to pay a 5 percent royalty for all commodities for the first 8,760 production hours (approx. 12 months).

At the end of each time period, the wells will pay royalties based on prevailing royalty rates.

New wells are classified as either gas or oil wells by the British Columbia Energy Regulator based on the first 6 months of production. Those that are classified as gas wells are further evaluated and classified as either gas or dry gas wells at 12 months. A dry gas well is defined as one that produces less than 0.05618 m3 of petroleum (condensate and pentanes plus) per 1,000 m3 of natural gas (Condensate-Gas-Ratio, based on raw wellhead volumes).

Healing the Land and Emissions Reduction

In May 2022, the Province announced its intention to establish a Healing the Land and Emissions Reduction (HLER) program to address the legacy of deep well credits and incentivize investment in land restoration in the Northeast and emissions reduction.

The program will enable companies to repurpose some or all of their deep well credits to a pool that can be used for emissions reduction and land restoration projects. Once allocated to a producer's pool, the royalty deductions will not be available to reduce royalties on the well they were originally associated with.

The HLER program will support work that goes above and beyond regulatory requirements to reduce emissions or impacts on the land base. This could include installing new equipment that eliminates methane emissions by an earlier date than required by provincial regulation, or restoration projects to clean up the legacy impacts of historical oil and gas development.

The HLER program is targeted for implementation in 2025, and will recognize eligible projects that were started on or after January 1, 2023. HLER will be implemented with the following features:

- A valuation method that recognizes the fair value of remaining deep well credits to be transferred to HLER. The method will rely on an independent third-party validation of usable credits based on what wells would foreseeably produce and subject to ministry validation.
- Producers can use their previously-issued deep well credits until an expiry date of September 1, 2027, and if transferred to HLER, will have until December 31, 2035 to enter project agreements to use their deductions for eligible emission reduction or restoration projects.
- An approach to support investment in both restoration and emissions reduction projects.
- An application process for HLER projects, with a streamlined process for certain eligible projects.
- A royalty deduction limit on the amount of HLER deductions a producer could use to reduce royalty invoices in a month.

The Ministry will continue to engage with First Nations, industry and environmental groups on the final design of the valuation process, an approach to support investment in both restoration and emission reduction, application templates, and eligible projects for the streamlined application process.

Keep informed

Please visit our oil and natural gas royalties and taxes website to stay updated on to how royalty taxpayers report and pay royalties under the new system.