



**INFRASTRUCTURE ROYALTY CREDIT PROGRAM
2018 REQUEST FOR APPLICATIONS**

GUIDANCE DOCUMENT

**Regulatory and Infrastructure Branch
Oil and Gas Division
Ministry of Energy, Mines and Petroleum Resources**

February 2018

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B. Introduction

Through the Infrastructure Royalty Credit Program (IRCP), upstream oil and gas producers, regardless of their size, can apply for a deduction from the royalties they pay to the Province. The purpose of the program is to facilitate increased upstream oil or natural gas exploration and production in under-developed areas; and extend the drilling season to allow for year-round activity. This deduction can be as much as 50 percent of the cost of constructing roads or pipelines. The IRCP operates through a competitive Request for Application (RFA) process that evaluates road and/or pipeline applications and has a rigorous evaluation process.

This document is intended to provide guidance to oil and gas producer and pipeline companies interested in submitting an application(s) under the IRCP RFA.

C. Infrastructure Royalty Credit Program Overview

C.1 Application Process

The 2018 instalment of the IRCP has been allocated \$120 million in royalty deductions to be competed through a RFA. Companies can submit one or more project applications under the RFA. Each application is evaluated and then the applications are ranked based on the six ranking and selection factors noted in Section G.3 of the RFA. Projects are approved in rank order until the available royalty deduction has been allocated.

C.2 Approved Projects

Royalty deductions are assigned to an approved project, not to a company. Each project approved under the IRCP is assigned a maximum project royalty deduction based on the estimated project completion cost provided in the project application, and the requested royalty deduction percentage. Approved projects must be completed within 3 years.

C.3 Release of Royalty Deductions

An approval of an IRCP project as a result of the RFA process does not result in an automatic royalty deduction being applied to the producer company's royalty payable account. Once a project is complete and all associated eligible costs have been paid, the producer company must send a written request to the Ministry requesting the release of the royalty deduction.

Schedule B of the Project Agreement lists the required documents that must be completed and submitted as part of the request for release of a royalty deduction. These documents are used to determine the eligible royalty deduction. The eligible royalty deduction is based on the equivalent deduction percentage of either the estimated project completion cost or the final as built cost, whatever is less.

The release of a royalty deduction is also subject to a revenue neutrality requirement. As part of the Schedule B documentation, a company must submit a list of natural gas and/or oil wells associated with the approved project. The revenue generated by these wells is tracked on a monthly basis by the Ministry. Once the actual royalty revenues payable to the Province are greater than the project's eligible royalty deduction, a release will be made. Note any previous royalty deductions associated with this project are also considered.

Once the revenue neutrality requirement has been met, the Royalty Administrator will, subject to the Project Agreement and the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation, allow the royalty deduction.

Once a royalty deduction is approved by the Royalty Administrator, the producer company and the Ministry of Finance are notified in writing of the released royalty deduction amount that can be deducted from oil and gas royalty payments due to the Province. The producer company must complete and submit both a BC-15 Remittance Advice entry form and a BC-22 Application for PCOS form to the Ministry of Finance in order to claim all or some portion of the released royalty deduction amount.

Depending on the amount of the company's monthly oil and gas royalty payable and market prices for oil, natural gas and natural gas liquids, it may take several months or over a year until the entire eligible royalty deduction has been released.

Note the royalty deduction is not transferable between related or unrelated companies, persons or other entities.

Producer companies are required to provide the Ministry with an updated list of wells for the first 5 years following completion of a project. It is recommended a 'Master Well List' be maintained for each completed project. Note that a well can only be attributed to one IRCP project.

C.4 Audit Reviews

The Ministry has the discretion to access any IRCP approved project site or company site with records relating to the project to carry out inspections, monitor progress and conduct audit reviews with reasonable notice.

An audit review may be carried out on any completed Project, or completed Step of a Project under the IRCP. It is typically conducted by a third part accounting firm contracted by the Ministry. Based on the results of the audit, the Ministry reserves the right to reassess and adjust the royalty deduction entitlement if it is found that any of the claimed project costs are ineligible, or where unclaimed eligible costs are identified.

D. Application Considerations

D.1 Selecting a Suitable Project

The IRCP is designed to enhance BC's competitiveness for upstream investment. It is NOT intended to share costs of building infrastructure that has already been built or is under construction.

Companies are encouraged to examine their internal economics for a proposed project, particularly the "hurdle rate", both with and without the infrastructure deduction to help decide if you should apply. If the proposed project is "on the bubble" (ie. close to receiving internal approval, but not quite), then the IRCP might be a good option for you.

Example Projects A and B illustrate two internal economic scenarios that may help an Application decide whether to apply to the IRCP.

D.2 Selecting a Royalty Deduction Percentage

The maximum project royalty deduction is 50% of the estimated project completion cost, however Producers can request less than 50% on their application, as per the Regulation.

Example Project C (below) illustrates why an applicant might request a 25% royalty deduction in their application, rather than 50%.

Project A (makes hurdle without IRCP)

Estimated Completion Cost	\$ 3,000,000
Maximum Royalty Deduction (Requested)	\$ 1,500,000
Incremental Revenues expected in first 5 years	\$ 7,000,000
Benefit/Cost Ratio	3.7

Actual Cost \$8,000,000

Company 'Hurdle Rate' (IRR)	15%
IRR of project BEFORE Deduction	16%
IRR of project AFTER Deduction	21%

In this case, the proposed project does not require a royalty deduction to be economic.

	Before Royalty Deduction		After Royalty Deduction	
	Expenditures	Revenue	Expenditures	Revenue
Y1	-\$ 8,000,000	\$ 200,000	-\$ 6,500,000	\$ 200,000
Y2		\$ 500,000		\$ 500,000
Y3		\$ 1,000,000		\$ 1,000,000
Y4		\$ 2,000,000		\$ 2,000,000
Y5		\$ 2,800,000		\$ 2,800,000
Y6		\$ 3,500,000		\$ 3,500,000
Y7		\$ 3,000,000		\$ 3,000,000
Y8		\$ 2,900,000		\$ 2,900,000
Y9		\$ 1,800,000		\$ 1,800,000
Y10		\$ 1,400,000		\$ 1,400,000
Y11		\$ 1,000,000		\$ 1,000,000
Y12		\$ 800,000		\$ 800,000
IRR:	16%		21%	

Project B (does not make hurdle without IRCP)

Estimated Completion Cost	\$3,000,000
Maximum Royalty Deduction (50% Requested)	\$1,500,000
Incremental Revenues expected in first 5 years	\$7,000,000
Benefit/Cost Ratio	3.7

Actual Cost \$9,000,000

Company 'Hurdle Rate' (IRR)	15%
IRR of project BEFORE Deduction	14%
IRR of project AFTER Deduction	18%

In this case, the proposed project is close to being economic without the deduction, but doesn't meet the Hurdle Rate. Therefore, the project would benefit from a royalty deduction to be economic, but may not need 50% (see example Project C).

	Before Royalty Deduction		After Royalty Deduction	
	Expenditures	Revenue	Expenditures	Revenue
Y1	-\$ 9,000,000	\$ 200,000	\$ 7,500,000	\$ 200,000
Y2		\$ 500,000		\$ 500,000
Y3		\$1,000,000		\$1,000,000
Y4		\$2,000,000		\$2,000,000
Y5		\$2,800,000		\$2,800,000
Y6		\$3,500,000		\$3,500,000
Y7		\$3,000,000		\$3,000,000
Y8		\$2,900,000		\$2,900,000
Y9		\$1,800,000		\$1,800,000
Y10		\$1,400,000		\$1,400,000
Y11		\$1,000,000		\$1,000,000
Y12		\$ 800,000		\$ 800,000
IRR:	14%		18%	

Project C (does not make hurdle without IRCP, 25% requested)

Estimated Completion Cost	\$3,000,000
Maximum Royalty Deduction (25% Requested)	\$ 750,000
Incremental Revenues expected in first 5 years	\$7,000,000
Benefit/Cost Ratio	8.3
Actual Cost	\$9,000,000
Company 'Hurdle Rate' (IRR)	15%
IRR of project BEFORE Deduction	14%
IRR of project AFTER Deduction	16%

In this case, the proposed project is close to being economic without the deduction, but doesn't meet the Hurdle Rate. With the 25% royalty deduction request, the project makes the hurdle rate, with an IRR of 16%. This increases the benefit to the Province (as compared to Project B) and increases the chance of the project being approved.

	Before Royalty Deduction		After Royalty Deduction	
	Expenditures	Revenue	Expenditures	Revenue
Y1	-\$ 9,000,000	\$ 200,000	\$ 8,250,000	\$ 200,000
Y2		\$ 500,000		\$ 500,000
Y3		\$1,000,000		\$1,000,000
Y4		\$2,000,000		\$2,000,000
Y5		\$2,800,000		\$2,800,000
Y6		\$3,500,000		\$3,500,000
Y7		\$3,000,000		\$3,000,000
Y8		\$2,900,000		\$2,900,000
Y9		\$1,800,000		\$1,800,000
Y10		\$1,400,000		\$1,400,000
Y11		\$1,000,000		\$1,000,000
Y12		\$ 800,000		\$ 800,000
IRR:	14%		16%	

D.3 Common Submission Errors

This section highlights some common errors found in applications received from prior years. The Ministry encourages applicants to review these issues prior to submission to ensure their applications are complete.

DOCUMENT	ISSUE
Authorization	<ul style="list-style-type: none"> • Missing from submission • Not fully completed • Not signed
Cover Letter	<ul style="list-style-type: none"> • Missing from submission • Lacks information about the project • Not on company letterhead
Supporting Letter(s) (if a partner application)	<ul style="list-style-type: none"> • Missing from submission • Does not indicate royalty allocation percentage • Not on company letterhead
RFA Response Template	<ul style="list-style-type: none"> • Legal company name not provided • Partner company name not provided • Questions unanswered • Vague description of project • Number of years not specified for project acceleration • Pipeline applications only includes facilities, not pipeline construction
Proposed Project Schedule	<ul style="list-style-type: none"> • Missing from submission • Not fully completed • Template not used • Template modified
Drilling, Production and Royalty Estimates Table	<ul style="list-style-type: none"> • Missing well information • Volumes not submitted in proper units (e3m3; m3 etc.) • Wells not entered on separate rows • Incorrect calculation of deductions • Currently producing wells are listed • Listed wells are previously assigned to a different IRCP project • Days on production higher than 365 days • No risk information provided

	<ul style="list-style-type: none"> • Template modified
Mapping Requirements	<ul style="list-style-type: none"> • No polyline provided in shapefiles • Shapefile format incorrect, template not used • String length too long • PDF of map missing • Printed Map missing
Flash Drive	<ul style="list-style-type: none"> • Not provided • Blank

D.4 Cost Estimate Breakdown

Section 10 of the IRCP Response Template requires submission of an itemized cost estimate breakdown for the proposed project. Examples of cost estimate tables for road and pipeline projects are presented in Appendix A, and outline the minimum level of detail required.

E. Frequently Asked Questions

The following questions and responses have been provided to Applicants during previous IRCP RFAs. Any new questions received during the 2018 RFA will be posted to the IRCP Website.

E.1 Applications

Q. Are submissions required to be completed in the format provided (RFA Response Template) for an application to be considered?

A. Yes.

Q. Are there any other ways some of the components of the required RFA application materials can be submitted to the Ministry for a joint application?

A. Yes. As part of the RFA Application, the Drilling, Production and Royalty Estimates Table must be completed by the Producer(s). If it is not submitted with the completed RFA package, this

Table of information may be submitted confidentially and directly to the Ministry by the Producer or each of the Producers, separate from the overall RFA application submitted. The required Cover Letter to the RFA application should indicate if this Table(s) will be sent separately to the Ministry. The Ministry will then use this Table(s), along with the rest of the complete RFA application package, to evaluate the proposed project. Alternatively, the above Table(s) can be sent with the completed RFA application package.

Q. Will the information provided in the RFA be held confidential from the public?

A. The Ministry realizes that companies are submitting confidential information in their applications and the confidentiality of these applications is a priority. The public has the right to request records held by public bodies under the Freedom of Information and Protection of Privacy Act (FOIPPA). However, Section 21 (Disclosure Harmful to Business Interests of a Third Party) is a mandatory exemption to the public's right to access information. It protects information which, if disclosed, would harm a third party's business interests. Section 21 follows:

21(1) The head of a public body must refuse to disclose to an applicant information: that would reveal trade secrets of a third party, or (ii) commercial, financial, labour relations, scientific or technical information of or about a third party that is supplied, implicitly or explicitly, in confidence, and the disclosure of which could reasonably be expected to harm significantly the competitive position or interfere significantly with the negotiating position of the third party, ... (iii) result in undue financial loss or gain to any person or organization ...

Link to FOIPPA Act:

http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/96165_00

Q. Would the cost of drilling a water disposal well be allowed under the application?

A. No.

Q. Is it possible to submit applications for projects that were completed or where construction work was substantially underway before the RFA closing date?

A. No.

Q. If a project is being built 2/3 in BC and 1/3 in Alberta, would the project costs and related royalty deduction cover only the portion located in BC?

A. Yes, only the portion of the project located in BC would be eligible.

Q. Does the Province have a preference for awarding royalty deductions to small capital projects over large capital projects?

A. No.

Q. We have been in discussion with another company with a possibility of a partnership/joint effort. However, we still don't have a commercial arrangement, but this could be reached soon. If our project is awarded a royalty deduction and a partnership agreement is arranged afterwards, is there an issue with amending the approval to add a partner?

A. In the event the project is approved, the Ministry will allow for changes such as adjustments to the royalty deduction allocation between the respective producers. Please note that no change will be allowed to the total maximum royalty deduction amount of an approved project.

Q. What is required or defined as the "Legal Name of Applicant?"

A. Please use the company name that is registered in British Columbia, including the partnership name, if applicable. This is also the name that will be used to confirm that you have a royalty payor code as an oil and gas royalty payor with the British Columbia Ministry of Finance.

E.2 Royalty Deductions

Q. In a joint application with two or more producers, or one or more producers and a pipeline partner, how will the royalty deduction be split between producers and who decides?

A. The Province has no involvement in the decision of the percentage split of the requested deduction between the Producers. This information is specified by the Applicant when responding to the RFA. See the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation for more information.

Q. Does the amount of the royalty deduction requested affect the ranking process?

A. Yes, this has a direct effect on the ranking process. The amount of royalty deduction requested is used in calculating some of the ranking and selection factors included in the RFA.

Q. Can we apply for a royalty deduction that is less than 50 percent of the eligible costs?

A. Yes. It could be a good strategy to apply for a lower percentage of the eligible costs, as a lower royalty deduction amount will improve a project's royalty return to the Crown and possibly raise its relative ranking position.

E.3 Pipeline Projects

Q. Are Pipeline companies eligible to participate in the IRCP and if so, how?

A. Pipeline companies can only apply jointly with one or more Producer(s) and only for pipeline projects. Pipeline companies cannot receive royalty deductions as they do not pay royalties. Two or more Producers and a Pipeline company partner jointly applying for a proposed pipeline project must privately determine the royalty deduction allocation that each of the two or more Producers are requesting. All project proponents will be required to be part of the project agreement with the Ministry if the project is approved under the IRCP. Refer to the sample Producer and Pipeline Company Pipeline Agreement Template for more information.

Q. Can a Pipeline Company take responsibility for the performance of the Project Agreement for a project approved under the IRCP?

A. Yes, a pipeline company can take responsibility for the performance of a Project Agreement to which they are a party. This includes including taking responsibility for coordinating and

providing all documentation under Schedules B and C of the Project Agreement. However, the Producer(s) is required to provide the completed Royalty Deduction Submission Spreadsheet information (as required in Schedule B of the project agreement) when an approved project is completed. This can be submitted with the other required royalty deduction request documents or can be provided by the Producer(s) separately to the Ministry.

Q. Are compressor stations or dehydration facilities eligible construction costs for a pipeline project?

A. Yes, the definition of “eligible project costs” in the RFA document includes “costs incurred in the construction of the pipeline or road project” as defined in the Project Agreements. Eligible facilities, i.e. compressor stations, dehydrators, and other properties associated with the building of a new pipeline can be included in the application.

Q. Is there a diameter limit for pipeline projects?

A. No.

Q. Are water or other types of liquid pipeline projects eligible to apply for the Royalty Deduction under the IRCP?

A. Yes, water or other type of liquid pipelines do qualify as an eligible infrastructure project if it is used for the production of natural gas or oil. Pipeline is defined in section 1 of the Petroleum and Natural Gas Act. Please also refer to the eligible pipeline project definition in the RFA document.

E.4 Road Projects

Q. Can bridge construction costs be included as part of a road application?

A. Yes, bridge construction can be part of a road application as the definition of “eligible project costs” in the RFA document includes “costs incurred in the construction of the pipeline or road

project as defined in the Project Agreements”. Eligible bridges and other properties associated with the road project can be included in the application.

E.5 Drilling, Production, and Royalty Estimates Table

Q. Instead of loading in each and every well for the application, could we roll up the wells each year rather than individually? Our forecast is based on type curves which average out individual well performance so the same data would appear for each well.

A. No. To be in compliance with the RFA submission, one of the requirements is to fill the Drilling, Production and Royalty Estimates Table with individual onset of well information as instructed in the table. The determination of the timing of the drilling and production of wells associated with the project is a significant part of the Ministry’s evaluation and selection process.

Q. Should we consider inflation?

A. Yes, you should calculate your costs as you would usually do for a regular project.

Q. Should the entire future well development program for the project area be included in the table?

A. The Drilling, Production and Royalty Estimates Table asks for “Chance of Success” and “Chance of Occurrence” for each well. Providing the entire well development program could also affect any future RFA infrastructure proposals in the area if all wells were included with one project.

Q. In the ‘Annual Production and Royalty’ worksheet, are the production inputs risked or unrisked?

A. The inputs in the "Annual Production and Royalty" worksheet should be risked. The information provided in that table should be extracted from the "Information & Production

Input" worksheets, where you should include all unrisksed well production figures by month, then risk them by the two risk factors (chance of success and chance of occurrence).

E.6 Mapping

Q. What mapping information is required to identify the location of the project?

A. The shapefiles for the centerline of the road and/or pipeline must be in a polyline format. Facility locations may be submitted in a polygon format. If the shapefiles for the right of way location are available those could be included as well. This information is required to determine where the project is located and how it connects with existing infrastructure. Please refer to the RFA document for additional details related to shapefiles.

Q. What type of mapping information does the Ministry require?

A. You are required to provide mapping information to identify the location of all the major components of your project. For road projects, this includes road location, main intersections and bridge locations. Features such as gravel/borrow pits, right of ways or minor stream crossing/culvert locations that may not be available at the time of the application are not required. For pipeline projects, this includes the pipeline location, major tie-in points and proposed facilities. Features such as metering stations, pigging stations or minor facilities are not required.

F. Appendix A: Examples of Cost Estimate Breakdown Tables

Example of Cost Estimate Breakdown (Road Project)

Description	Quantity	Unit Price	Units	Total
Trucking Construction Equipment		\$ -	Per Hour	\$ -
Road Construction -Pre-build		\$ -	metre	\$ -
Road Construction Upgrade		\$ -	metre	\$ -
Road Construction New		\$ -	metre	\$ -
Blasting required - m of access		\$ -	Cubic Metre	\$ -
Gravel access (supply, deliver, and spread)		\$ -	Cubic Metre	\$ -
Miscellaneous Materials		\$ -	lump sum	\$ -
Geo-Fabric		\$ -	per Roll	\$ -
Silt Fence		\$ -	Per unit	\$ -
Signs		\$ -	Per unit	\$ -
Culverts- 1200 mm		\$ -	meters	\$ -
Culverts- 600 mm		\$ -	meters	\$ -
Culvert Delivery		\$ -	per unit	\$ -
Culvert Markers		\$ -	per unit	\$ -
Rip Rap		\$ -	per culvert	\$ -
Medic		\$ -	per day	\$ -
Supervision		\$ -	per day	\$ -
Camp Site Construction		\$ -	per camp	\$ -
Camp Set up		\$ -	per camp	\$ -
Camp		\$ -	per day	\$ -
Bridge Purchase & Install - 60 '		\$ -	per unit	\$ -
			Total:	\$ -

Example of Cost Estimate Breakdown (Pipeline Project)

Description	Quantity	Unit Price	Units	Total
Materials				
Pipe Description		\$ -		\$ -
External coating		\$ -		\$ -
Pig Launcher		\$ -		\$ -
Pig Receiver		\$ -		\$ -
Weights		\$ -		\$ -
Risers		\$ -		\$ -
materials subtotal:				\$ -
Construction				
ROW Acquisition		\$ -		\$ -
ROW Clearing/salvage		\$ -		\$ -
ROW Preparation		\$ -		\$ -
Ditch, Backfill, Cleanup		\$ -		\$ -
Camp Costs (person days)		\$ -		\$ -
Hydrostatic Testing		\$ -		\$ -
PII Installation		\$ -		\$ -
Weight Installation		\$ -		\$ -
Inspection Pigging		\$ -		\$ -
Creek Crossing - bored		\$ -		\$ -
Road Crossing - bored		\$ -		\$ -
Road Crossing - open		\$ -		\$ -
Cable Crossing		\$ -		\$ -
Railroad Crossing - bored		\$ -		\$ -
Pipeline Crossing - bored		\$ -		\$ -
Directional Drilling (related to bore)		\$ -		\$ -
Corrosion Evaluation		\$ -		\$ -
construction subtotal:				\$ -
Miscellaneous				
Equipment Rentals		\$ -		\$ -
Fuel		\$ -		\$ -
Trucking		\$ -		\$ -
Cortron RU-196 Inhibitor		\$ -		\$ -
Diesel for Batch Inhibitor		\$ -		\$ -
Hydrovacs		\$ -		\$ -
Ambulance		\$ -		\$ -
Labour		\$ -		\$ -
Supervision		\$ -		\$ -
Engineering		\$ -		\$ -
Environmental		\$ -		\$ -
Regulatory		\$ -		\$ -
Communications		\$ -		\$ -
Radiography		\$ -		\$ -
Survey		\$ -		\$ -
Inspection		\$ -		\$ -
BC Mof FLNRORD hectares cut		\$ -		\$ -
Pre-fabricated Assemblies		\$ -		\$ -
miscellaneous subtotal:				\$ -
TOTAL:				\$ -