



Ministry of Energy Mines and Petroleum Resources
Province of British Columbia

Request for Information (RFI)

RFI # 01-2008

Net Profit Royalty Program

Contact: Sadaf Mirza, Senior Market Economist
Oil and Gas Policy Branch

Phone: (250) 953-3740

Facsimile: (250) 952-0251

Email: Sadaf.Mirza@gov.bc.ca

Courier: Ministry of Energy, Mines and Petroleum Resources
Oil and Gas Policy Branch
5th floor – 1810 Blanshard Street
Victoria, BC V8W 9N3

Issue date: September 25, 2008

Closing date: October 31, 2008

Note:

Respondents should note that this Request for Information is NOT a formal solicitation (Request for Applications) document for contract purposes or for royalty application purposes. No respondent shall acquire any legal rights or privileges whatsoever in relation to the project, or portion thereof, as a result of this Request for Information.

A. PURPOSE OF THIS REQUEST FOR INFORMATION (RFI)

The Ministry of Energy, Mines and Petroleum Resources (Ministry) is requesting information from interested parties regarding projects that may be eligible for the Net Profit Royalty Program (NPRP).

The purpose of the RFI is:

- To identify the level of industry interest in development opportunities under the NPRP;
- To inform the Ministry's development of internal processes for soliciting and reviewing future applications for candidate NPRP projects; and
- To inform industry as to the type of information that will be solicited in future NPRP applications.

1. Overview

The Ministry is responsible for the management and development of British Columbia's energy, mining and petroleum resource sectors. Within the Ministry, the Oil and Gas Division develops policy, legislation and operates programs that facilitate the development of an economically vibrant, environmentally sustainable and socially responsible oil and gas industry by ensuring the orderly and timely development of British Columbia's available oil and gas resources.

The Province allows industry to explore, develop and produce Crown-owned oil and natural gas in exchange for a share of the production value in the form of royalty payments.

Due to various competitive challenges (e.g. complex geology, remoteness from markets) the Province has implemented a variety of royalty programs to enable the development of specific oil and natural gas resources that might not otherwise be economically viable. These royalty programs directly or indirectly reduce the total royalty payment that a producer must make.

The NPRP is a government priority under the BC Energy Plan 2007. The NPRP intends to stimulate development of high risk and high cost natural gas and oil resources that are not economic under other royalty programs. The NPRP is administered under the *Net Profit Royalty Regulation*, which came into effect in May 2008.

This RFI will provide information for a future request for applications (RFA) for net profit projects. Note that all terms used in this RFI have the meaning that is designated in the *Net Profit Royalty Regulation*.

2. Background

As part of the Oil and Gas Development Strategy for the Heartlands, Part III, (October 2004), the Ministry requested and obtained approval from Treasury Board, to proceed in the design of a Net Profit Royalty Program. The BC Energy Plan 2007 confirmed the development of a NPRP as a priority and the regulations were subsequently completed and approved in May 2008.

The NPRP is unique in its design, application and administrative process and as such is distinct from existing targeted royalty programs. It will promote the development of resources which are unlikely to be otherwise developed due to high costs and/or high risk. The NPRP will enable producers to pay lower royalty rates in the initial stages of development and production, in exchange for higher royalty rates in later stages of production once projects have recovered their capital investment.

The NPRP is designed with a combination of tiers (royalty rates) and return allowances as explained in the appended Frequently Asked Questions document and the governing *Net Profit Royalty Regulation*.

The NPRP will be administered in the following general process (note that eligibility will be limited and the NPRP will not be automatic). The Ministry will:

- issue a Request for Applications for projects that are high-risk, remote and expensive to produce under the existing royalty programs due to factors such as distance from markets, technology, terrain, geology and depth;
- specify the qualifying criteria for candidate projects; and
- evaluate applications and identify those to be approved.

Successful applicants will then enter into individual agreements with the Province.

The purpose of this RFI that is currently being issued is to inform the future request for application process, refine project evaluation techniques and identify information gaps based on the material submitted.

3. RFI Process

It is expected that the RFI process will be completed according to the following schedule:

RFI issued: September 25, 2008

RFI closes: October 31, 2008

Parties that do not participate in the RFI process are still eligible to participate in the future RFA process. However, the Ministry encourages your involvement in this RFI.

The Ministry may hold technical working meetings with industry to discuss the RFI once it is issued. Please indicate your interest in attending a technical working session by filling out and returning the Receipt Confirmation Form which is in the RFI Appendix (Section 1 of Part D), by October 2, 2008. Those interested will then be contacted regarding meeting dates.

4. Expected Response to RFI – Supplier Information

The Ministry would like to obtain information from potential net profit applicants on the categories listed below. The information provided in response to this RFI will not be used in any way for screening or ranking projects, and will not influence the outcome of any future application by the parties submitting information to this RFI.

The information solicited by this RFI should provide adequate detail for the Ministry to assess the level of interest, degree of work already underway, and the type of projects that could potentially qualify for NPRP status. However, information solicited is not intended to be exhaustive.

If your organization has more than one potential net profit project, please provide the below information for each project separately.

4.1. Organization Profile

- Legal name of company or companies, if joint venture
- Contact name, telephone number and email address
- Corporate overview of your organization including mission, objectives and expertise

4.2. Description of Project(s)

Please provide a description of each project including:

- Information on plans for the drilling and completion of wells.
- Plans on the construction of infrastructure over the life of the project.
- Details on land interests and tenure status.
- Details of seismic information and interpretation of the drilling and production performance expected for the project for the area.
- Details of water-related issues e.g. available water sources for fracing, volumes required, recycling ability, water disposal plans.

4.3. Project Construction Schedule

- Provide an estimate of the timing and schedule for the project.
- Identify all required approvals.
- Identify any potential risks to your schedule.

4.4. Reserves, Production Profile and Gas Composition

Please provide the following:

- A list of primary and secondary zones within the proposed project.
- Actual or expected gas analysis, reserves and pressure data for each zone within the proposed project.
- Data on historical and expected oil and natural gas production from well events already drilled or to be drilled within the proposed project.
- The expected recovery percentage of the initial oil or natural gas in place.
- Production profiles used for economic analysis.

4.5. Project Cost Information

Project cost information is a key component of the Net Profit Royalty Program. For definitions of allowed historical cost, allowed capital cost, allowed operating cost and gross revenue, please refer to the *Net Profit Royalty Regulation*.

Please provide an itemized list of:

- The historical costs (5 year maximum, if available) for the proposed project including seismic costs and land acquisition costs (note that land acquisition costs are not eligible costs under the Net Profit Royalty Program but is being requested for Ministry analysis).
- The capital cost budget for the proposed project (e.g. this could include seismic, exploration drilling, exploration completions, land costs, development drilling, development completions; and all costs of design, construction, engineering, financing, approvals, materials and installation, and any other applicable costs). See Frequently Asked Questions #5 for examples.
- The operating cost forecast for the proposed project. This includes all costs associated with production, gathering, processing and transporting the products produced from wells within the project to market (e.g. fixed costs, cost per well, cost per unit of production). See Frequently Asked Questions #5 for examples.
- The budget for allowed capital and operating costs outside of the proposed project ring fence.

4.6. Risk Analysis

Internal Risks to the Project:

- Please provide risk information on the chance of success (COS) assumptions on various components of the project, e.g. geological risk and economic risk.

External Risks to the Project:

- Please identify any risks and significant issues that may delay or pose a hindrance in commencing the proposed project, e.g. cost increases, environmental issues, First Nations consultations, etc.
- Please explain what steps will be taken to control and mitigate the project risks.

4.7. Market Information

- Provide price forecasts for natural gas, oil and natural gas liquids.
- Describe the destination and/or markets for the products and detail your plans to ensure access to markets for products produced by wells within the project, e.g. pipelines, plants, capacity availability etc.

4.8. Mapping

Please provide mapping of the proposed geographic project ring fence, including:

- Actual and planned locations of project pilot, exploration and development wells. Also include delineation wells and/or seismic information relating to extensions of the project.
- Subsurface rights that are to be included in the project.
- Project water disposal wells and water sources.
- Existing and planned project infrastructure (roads, pipelines and facilities) that will be used to gather, process and transport products from the project to market.

Please provide mapping/cross-sections/seismic of the geological information related to the project, including:

- Geological interpretation of stratigraphy, mineralogy, total organic carbon content, porosity and permeability.
- Interpretation of effectiveness of proposed fracs, including micro-seismic and flow history.
- Geological maps of prospective units, isopach, structure and OGIP (original gas in place for units being targeted).

Format:

- Please provide maps, cross-sections, and other information in Adobe pdf format.
- Please provide ESRI shapefiles of all mapping data with attributes corresponding to information shown on the maps. This data should be provided in either the UTM Zone 10 NAD83 or BC Albers NAD83 projection.

4.9. Net Profit Model Template

- The Ministry will use the *MEMPR Net Profit Model* to assess and evaluate the information submitted by respondents.
- In order to submit the cost and other information identified in this RFI, respondents are required to fill out the *MEMPR Net Profit Model* template, which is in Microsoft Excel and is available to be downloaded and filled out as per the instructions included in the excel file.

In addition to filling out the template, please also:

- identify the project's internal rate of return with and without net profit.
- provide an explanation of your organization's economic hurdle rate (rate of return) or any other economic or financial method(s) used to determine a project's economic viability.

4.10. Benefits Attributable to the Province

Please identify and explain the potential benefits of the proposed project that would be attributable to:

- The province (e.g. ability to “open up” new areas of British Columbia, ability to help reduce footprint by providing access to more than one producer in the area or using existing facilities etc);
- British Columbia residents; and
- Local residents in the region in which the project will be located, if it is proximal to a populated area.

B. TERMS AND CONDITIONS OF THIS REQUEST FOR INFORMATION

Interested parties should be aware that participation in this RFI is not a prerequisite to participation in any subsequent Request for Applications process. The Ministry does, however, strongly encourage your involvement in this RFI.

1. General Notices

Receipt of responses in relation to this RFI will not create a binding agreement of any kind or a contract to purchase goods or services. Respondents will not acquire any legal rights or privileges in relation to a net profit project as a result of this RFI. The Ministry reserves the right to modify the terms of this RFI at any time at its sole discretion, including the right to cancel this RFI at any time.

2. Use of Information

The Ministry will use the submitted information to help inform the future RFA process. Responses to this RFI will not be evaluated or ranked, nor will companies and/or projects receive any advantage in future RFA processes. This RFI will not be used to pre-qualify or screen applicants for any subsequent solicitations.

3. Expenses

Please note that respondents are solely responsible for their own expenses in preparing a response to this RFI and for subsequent discussions or meetings, if any, with the Ministry.

4. Responses

This RFI will be open for response until October 31, 2008 at 2:00 pm Pacific Time (Closing Date). Please be sure to return your response to the contact person indicated on the cover page of this RFI.

The Ministry will review all submissions received by the Closing Date but is not obligated to review responses received after the Closing Date.

The Ministry appreciates respondents' efforts in responding to this RFI. The Ministry will endeavour to respond to questions received at least 7 working days before the Closing Date and may be unable to respond to questions received thereafter.

Please note that respondents are asked to use the following format when responding to this RFI:

- MEMPR Net Profit Model template – to be filled out in Microsoft Excel and supplied in electronic format.
- Maps – to be supplied in Adobe pdf format and ESRI shapefile electronic format as indicated in Section 4.8 of Part A.
- Responses to remaining items in Section 4 of Part A may be supplied in Microsoft Word or Adobe pdf formats.

Please be sure to clearly mark your response with your organization's name, the RFI number and the RFI title.

Responses must include **TWO COMPLETE COPIES PLUS ONE ELECTRONIC COPY ON CD** and should be delivered by **COURIER or HAND delivery only** to the following location **before 2:00 p.m. Pacific Time on October 31, 2008**:

Ministry of Energy, Mines and Petroleum Resources
Oil and Gas Policy Branch
5th floor – 1810 Blanshard Street
Victoria, BC V8W 9N3

Attention: Sadaf Mirza

5. Meetings

The Ministry, at its sole discretion, may meet with selected respondents to clarify information related to this RFI. The Ministry may hold technical working meetings with industry to discuss the RFI once it is issued. **Please indicate your interest in attending a technical working session by filling out and returning the Receipt Confirmation Form which is in the RFI Appendix (Section 1 of Part D), by October 2, 2008. Those interested will then be contacted regarding meeting dates.**

6. Contact

Please direct all inquiries related to this RFI to the contact person identified on the cover page of this RFI.

7. Freedom of Information and Protection of Privacy Act

Please note that all responses to this RFI become the property of the Province and will be held in confidence, subject to the provisions of the *Freedom of Information and Protection of Privacy Act* (FIPPA). It is expected that all information submitted will be kept confidential under the third party business interest provisions of FIPPA.

8. Notification of Subsequent Procurements

If subsequent competitive bidding opportunities are issued, the Ministry is under no obligation to advise any vendor responding to this RFI. Vendors are advised to monitor the BC Bid website (www.bcbid.ca) and the Ministry website for any such opportunities, which will be open to all vendors regardless of whether or not a response to this RFI has been submitted.

C. LINKS

The *Net Profit Royalty Regulation* is available for download from the following website:
http://www.qp.gov.bc.ca/statreg/reg/P/PetNatGas/98_2008.htm

D. APPENDICES

1. Receipt Confirmation Form
2. Frequently Asked Questions
3. MEMPR Net Profit Model template in Microsoft Excel