

Ministry of Finance

Oil & Gas Transition Notice



Issued: August 2018 Revised: October 2018

Notice 004

gov.bc.ca/oilandnaturalgastaxes

Deemed Royalty

Petroleum and Natural Gas Act

Latest Revision: *The revision bar (|) identifies changes to the previous version of this notice dated August 2018. For a summary of the changes, see Latest Revision at the end of this document.*

Reporting requirements for oil and gas activities in BC are changing with the implementation of Petrinex. Facility operators, royalty taxpayers and oil purchasers may be subject to deemed royalties, penalties and interest if they do not meet their reporting requirements. More information on what is considered a reporting facility is provided in [Oil & Gas Transition Notice 011](#), *Reporting Requirements*.

This notice explains what a deemed royalty assessment is, who may be assessed and how it is calculated. A list of the Petrinex error messages that will result in a deemed royalty is also provided.

A deemed royalty assessment is not a penalty. Information about penalties can be found in [Oil & Gas Transition Notice 003](#), *Penalties and Reporting Errors*. Information about how interest rules apply to deemed royalties is provided in [Oil & Gas Transition Notice 007](#), *Interest*.

Deemed Royalty

If a reporting facility operator (the person on our record as the operator of the facility at that point in time) does not report information on unaccounted for quantities (unallocated volumes) of product on time and as required we are unable to determine royalty attributes, such as royalty taxpayer(s), prices and applicable royalty rates, delaying the calculation and invoicing of royalties to the producer until an audit is performed. In these situations, a deemed royalty assessment ensures royalty revenue is protected and that reporting omissions are resolved as quickly as possible.

Marketable Gas and Natural Gas By-Products

As a reporting facility operator of marketable gas or natural gas by-products, you will need to allocate volumes if you encounter an allocation trigger. The first allocation trigger differs by product. For example, the first allocation trigger for marketable gas is

the delivery of non-royalty paid marketable gas during a producing month to be sold or stored. However, the first allocation trigger for natural gas by-products is when the product is processed, such as at a gas plant.

Further information about allocation triggers is provided in [Oil & Gas Transition Notice 011](#), *Reporting Requirements*.

By the 25th day of the calendar month following each producing month, a reporting facility operator must allocate volumes that have a royalty implication:

- to a producer's share of a well event or unitized operation, or
- if the operator is unable to allocate to a producer's share of a well event or unitized operation, to the reporting facility that received the volumes.

When you allocate gas or by-products, you are assigning volumes containing the Crown's royalty share to the stream and royalty taxpayer of those volumes. If you do not indicate how the volumes are allocated, a deemed royalty may be assessed to the reporting facility operator.

You will know you may be assessed a deemed royalty if you receive a Petrinex Error Message (see Appendix A – Petrinex Error Messages Resulting in a Deemed Royalty). These error messages are available to you in real time. Petrinex also provides compliance reports prior to the reporting deadlines, and you may generate a report at any time. These messages and reports allow you to correct reporting deficiencies and prevent a deemed royalty (for more information about correcting reporting errors, see [Oil & Gas Transition Notice 003](#), *Penalties and Reporting Errors*).

Deemed royalty takes effect beginning with the October 2018 production period and may first be seen on invoices issued on December 23, 2018.

If a reporting facility operator subsequently completes their reporting requirements, the assessed amount will be credited back to them.

Example: You had a deemed royalty error message for the November 2018 production month and did not correct it by the reporting deadline in December 2018 so you are assessed a deemed royalty on January 23, 2019:

- You need to pay the deemed royalty by January 31, 2019 to prevent any further interest, even if you correct the deemed royalty error message before January 31, 2019 (this includes correcting the error message after the November reporting date and before the invoice date)

- You will need to correct the error message by the December reporting deadline for the relevant information in January 2019 in order for the adjustment to be reflected on your next invoice on February 23, 2019

For reporting deadlines, see the [Petrinex Reporting Calendar](#) or [Oil & Gas Transition Notice 001, Reporting Invoicing and Payment Due Dates](#). For interest implications, please see [Oil & Gas Transition Notice 007, Interest](#).

See Appendix A for a list of Petrinex error messages that result in a deemed royalty assessment.

Oil and Condensate

By the 21st day of the calendar month following each producing month, a reporting facility operator must account for oil, as required, and provide volumetric information. Volumetric information includes data on the production, receipt, disposition, use and storage of oil in a producing month.

Deemed royalty on oil will be triggered when an oil/condensate facility has a volumetric imbalance. We use this information to recognize the type of well and producers who the sold volumes belong to.

You will know you may be assessed a deemed royalty if you receive a Petrinex Error Message (see Appendix A – Petrinex Error Messages Resulting in a Deemed Royalty). These error messages are available to you in real time. Petrinex also provides compliance reports prior to the reporting deadlines, and you may generate a report at any time. These messages and reports allow you to correct reporting deficiencies and prevent a deemed royalty (for more information about correcting reporting errors, see [Oil & Gas Transition Notice 003, Penalties and Reporting Errors](#)).

Deemed royalty takes effect beginning with the October 2018 production period and may first be seen on invoices issued on December 23, 2018.

If a reporting facility operator subsequently completes their reporting requirements, the assessed amount will be credited back to them.

Example: You had a deemed royalty error message for the November 2018 production month and did not correct it by the reporting deadline in December 2018 so you are assessed a deemed royalty on January 23, 2019:

- You need to pay the deemed royalty by January 31, 2019 to prevent any further interest, even if you correct the deemed royalty error message before January 31, 2019 (this includes correcting the error message after the November reporting date and before the invoice date)

- You will need to correct the error message by the December reporting deadline for the relevant information in January 2019 in order for the adjustment to be reflected on your next invoice on February 23, 2019

Note: If the reporting facility operator corrects the deemed royalty error message by the subsequent reporting deadline, the producer will receive a royalty Crown invoice based on the latest data submitted. The reporting facility operator will still receive the deemed royalty assessment. Using the above example:

- If the deemed royalty error message for November 2018 production month is corrected before the January 2019 reporting deadline, the producer will receive a royalty Crown invoice based on the corrected information submitted before the January reporting deadline and the reporting facility operator will receive a deemed royalty assessment from the December 2018 deemed royalty reporting error
- As the reporting error message has been corrected before the January 2019 reporting deadline, the reporting facility operator will receive a credit for the deemed royalty assessment on their February 2019 invoice

In the above example, you are both a producer and reporting facility operator and you may receive both a royalty Crown invoice and a Deemed royalty for the same production month.

For reporting deadlines, see the [Petrinex Reporting Calendar](#) or [Oil & Gas Transition Notice 001, Reporting Invoicing and Payment Due Dates](#). For interest implications, please see [Oil & Gas Transition Notice 007, Interest](#).

See Appendix A for a list of Petrinex error messages that result in a deemed royalty assessment.

Deemed Royalty Calculation

Oil

If a reporting facility has a volumetric imbalance, the amount may be subject to a deemed royalty. For example, if a reporting facility reports 1,000 m3 of oil delivered or stored in a producing month, 1,000 m3 must be reported as received in the producing month. A deemed royalty would be calculated using the following formula:

Unaccounted Quantity	X	Crown Interest (100%)	X	Royalty Rate (40%)	X	120% of Average Price
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- Unaccounted for Quantity: Volumes of oil not accounted for as required in a reporting month.

Note: Condensate produced from a gas well being sold along with oil will be deemed a royalty as if it were oil. This is because Petrinex is unable to distinguish between condensate and oil at a reporting facility when volumes have not yet been allocated back to a well.

- **Crown Interest:** Volumes will be assumed to be 100% Crown owned. In order for volumes to be recognized as Freehold or Net Profit, imbalances need to be reconciled.
- **Royalty Rate:** Volumes will have a 40% rate.
- **Price:** Volumes will be assumed to have been sold at 120% of the average price of oil sold in BC in the same production month. Deemed royalty assessment prices (120% average) will not exceed the highest price for oil sold in the same production month.

Marketable Gas (Methane)

Deemed royalty assessments for marketable gas are calculated using the following formula:

Unaccounted Quantity	X	Crown Interest (100%)	X	Royalty Rate (27%)	X	Highest Reference Price in B.C.
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- **Unaccounted for Quantity:** Volume of marketable gas not allocated as required in a reporting month.
- **Crown Interest:** The unaccounted for quantity will be assumed to be 100% Crown owned. In order for volumes to be recognized as Freehold or Net Profit, imbalances need to be reconciled.
- **Royalty Rate:** The unaccounted for quantity will be assumed to have the highest rate possible under the Royalty Regulation. The highest rate currently possible is 27%.
- **Price:** The unaccounted for quantity will be assumed to have been sold at the highest reference price for marketable gas determined for any producer during the month the gas is treated as having been sold.

Natural Gas By-Products

A deemed royalty assessment for each natural gas by-product is calculated using the following formula:

Unaccounted Quantity	X	Crown Interest (100%)	X	NGL Royalty Rate (20%) Sulphur Royalty Rate (16.667%)	X	120%Average Price
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- Unaccounted for Quantity: Volume of natural gas by-products not allocated as required in a reporting month. Petrinex will inform us of the unaccounted for quantity volume per by-product type:
 - Ethane
 - Propane
 - Butane
 - Pentane
 - Condensate
 - Sulphur
- Crown interest: The unaccounted for quantity volumes will be assumed to be 100% Crown owned. In order for volumes to be recognized as Freehold or Net Profit, imbalances need to be reconciled.
- Royalty Rate: The unaccounted for quantity will be assumed to have the highest rate possible under the Royalty Regulation.
 - The highest rate currently possible for Natural Gas Liquids is 20%.
 - The highest rate currently possible for Sulphur is 16.667%.
- Price: The unaccounted for quantity will be assumed to have been sold at 120% of the average price of natural gas by-products sold in BC in the same production month. Deemed royalty assessment prices (120% average) will not exceed the highest price for natural gas by-products sold in the same production month.

Note: If deemed royalty assessment prices (120% average) exceed the highest price for that product type sold in a month, the highest price for that month will be used. This means that each by-product type will have a unique fixed price associated with it.

Credits and Allowances

Credits and allowances will not be applied to deemed royalty assessments. This is consistent with Alberta and Saskatchewan.

Deemed Royalty Assessments (Crown Deemed Invoice)

Deemed royalties will be assessed on a Crown Deemed Invoice issued on the 23rd day of Prod +2. Payment is due on the last day of the month the invoice is issued.

- The invoice will be uploaded to Petrinex and will be available under 'Ministry Invoices and Statements'
- You may also view your invoice on your [eTaxBC](#) account (information about eTaxBC enrolment will be sent to you if you are billed a deemed royalty)

Additional information on how invoicing is changing is provided in [Oil & Gas Transition Notice 009](#), *Invoices*.

Interest

Compound interest will be calculated on unpaid deemed royalty assessments. Interest will not be paid on any amount of deemed royalty that was paid and subsequently reversed because the data was corrected.

Further Petrinex Information

The [Petrinex Industry Readiness Handbook](#) contains additional information on Petrinex reporting.

The Petrinex Business Desk is available to assist you in preparing for and using Petrinex. They can be reached by:

Phone: 403 297-6111 (Calgary) or 1 800-992-1144 (other locations)

Fax: 403 297-3665

Email: petrinexsupport@petrinex.ca

Website: www.petrinex.ca

Further Information

Online: gov.bc.ca/oilandnaturalgastaxes

Toll free: 1 800 667-1182 or 250 952-0192

Email: Oil&GasRoyaltyQuestions@gov.bc.ca

Subscribe to our [What's New](#) page to receive email updates when information changes.

The information in this notice is for your convenience and guidance and is not a replacement for the legislation.

Latest Revision

October 2018

- Updated Appendix A – Petrinex Error Messages Resulting in a Deemed Royalty to remove Error Number ENC005, update Error Number ENC014 and add Error Number WPE0004.
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Appendix A – Petrinex Error Messages Resulting in a Deemed Royalty

Allocations – Ensure Complete SAF/OAF Errors/Warnings (Gas)

Error Number	Error Message	Result	For BC
ENC001	Missing SAF.	Error	Deemed Royalty
ENC002	Missing SAF (Cascaded).	Error	Deemed Royalty
ENC004	Invalid Stream ID [value].	Error	Deemed Royalty <i>Petrinex does not prevent these errors</i>
ENC005	Invalid Owner ID [value]	Error	Deemed Royalty <i>Petrinex does not prevent these errors</i>
ENC013	Invalid RTP ID [value]	Error	Deemed Royalty <i>Petrinex does not prevent these errors</i>
ENC008	Stream Allocation contains no Stream ID details.	Error	Deemed Royalty <i>Petrinex does not prevent these errors</i>
ENC010	Stream [value] creates a circular reference.	Error	Deemed Royalty
ENC011	Owner ID [{0}] does not have the role of Working Interest Owner for this production month.	Warning	Message but no Deemed Royalty
ENC014	RTP ID [{0}] does not have the role of Working Interest Owner for this production month.	Error	Deemed Royalty
WPE0004	VOL imbalance	Error	Deemed Royalty

Special Processing

ENC008 is issued only when there is no corresponding allocation remaining for the reporting facility.

- Cascaded allocation: When an allocation is deleted and there are no responding allocation remaining, the ENC008 error message is displayed along with the ENC002 Missing SAF (Cascade).
- Parent allocation: When the allocation is deleted and there is no allocation for the facility, the ENC008 message is issued.

Volumetrics Incomplete and Missing Data

Error Number	Error Message	Error Description	For BC
VME0018	Message: Imbalance is other than 0.0 Details: [Product Group] IMBAL [volume] IMBAL percentage = [Imbalance Percent]	Petrinex has calculated an imbalance indicating a product at the facility is out of balance.	Deemed Royalty