Ministry of Finance
British Columbia
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Royalty Rates for Ultra-Marginal Gas Wells

Petroleum and Natural Gas Act

As part of its oil and gas development strategy, the Government of British Columbia has introduced a new incentive for ultra-marginal gas well events. The measure is intended to increase development of shallow gas reserves with low rates of production.

The new incentive is similar to existing incentives for marginal and low productivity gas well events, which progressively reduce the royalty rate when the average daily rate of natural gas production is below prescribed amounts. The ultra-marginal rate reduction is more significant than the rate reduction for marginal well events because it takes effect at higher rates of production. However, the conditions for a well event to qualify for the ultra-marginal rate reduction are more stringent.

Only one of the production-based royalty reductions (low productivity, marginal and ultra-marginal) can be applied to the same well event. Well events that qualify for both marginal and ultra-marginal rate reductions will be given ultra-marginal status.

A well event qualifies for the ultra-marginal rate reduction if it satisfies the following five criteria.

1. Its primary product is natural gas, but it is not part of a coalbed methane project. The ultra-marginal rate reduction does not apply to conservation or non-conservation gas produced from an oil well event.
2. It is in a well with a spud date after December 31, 2005, or it is a reactivated well event with a re-entry date after December 31, 2005, in a well with a spud date after May 1998.
3. It is in a vertical well and has a true vertical depth (TVD) that is less than 2,500 m, or it is in a horizontal well and has a TVD that is less than 2,300 m. This limits the ultra-marginal rate reduction to wells that do not qualify for a deep well credit.

   Note: TVD is the distance between the well bore's intersection with the pay of the well event to the point directly above that intersection point that is the same elevation as the kelly bushing used in drilling that well.

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4. If the well event is in an exploratory wildcat well, its average daily rate of production per metre of ultra-marginal well depth (UWD) is less than 17 in the 12-month period that begins with the first month in which it produces marketable gas. If the well event is in an exploratory outpost well or a development well, its average daily rate of production per metre of UWD is less than 11 in the 12-month period that begins with the first month in which it produces marketable gas.

   Note: The UWD of a well event is different for well events in vertical and horizontal wells, as follows.

   - For a well event in a vertical well, UWD is the TVD to the top of pay.
   - For a well event in a horizontal well:
     - if the total measured depth (TMD) less the measured depth to the top of pay (MDTP) is less than 1,000 m, UWD = TMD, and
     - if TMD less MDTP is equal to, or greater than, 1,000 m, UWD = MDTP + 1,000 + [TMD – (MDTP + 1,000)] / 2.

   TMD is the length of all the vertically and horizontally oriented well bores that constitute the well event.

   The average daily rate of production per metre of UWD is calculated using the following formula:

   $$\frac{(TP / TPH) \times 24}{UWD}$$

   where

   TP = the total raw gas production from the well event in the 12 consecutive calendar months starting with the month in which marketable gas is first produced from the well event. In the case of a reactivated well event, the 12 consecutive calendar months start with the month in which marketable gas is first produced following reactivation.

   TPH = the total number of hours during which the well event produced marketable gas over the 12-month test period.

   UWD = the ultra-marginal well depth of the well event.

5. The 12-month test period in which gas production is measured to determine whether a well event qualifies for ultra-marginal status must end after January 2007.

If a well event qualifies for the ultra-marginal rate reduction, the reduction is realized in those months in which average daily production from the well event is less than 60,000 m^3. For this purpose, average daily production = (TP / TPH) x 24

where

TP = total raw gas production from the well event during the month, as reported on the *Monthly Production Statement* (**BCS1**).

TPH = the total measured and prorated number of hours during which the well event produced natural gas during the month.

If the average daily production from an ultra-marginal well event during a month is less than 60,000 m^3, the royalty rate for the well event is reduced by the base royalty rate multiplied by the ultra-marginal reduction factor, which is calculated by the following formula:

$[(60{,}000 - S) / 60{,}000]^{1.5}$

where

S = average daily production from the well event during the month.

The royalty rate payable on production from ultra-marginal well events is calculated as follows:

Base Royalty Rate - (Ultra-marginal Reduction Factor x Base Royalty Rate)

Producers are not required to take any action to realize the benefit of the ultra-marginal incentive. The Ministry of Finance will determine the ultra-marginal eligibility for all gas well events in wells with spud dates after December 31, 2005, and reactivated gas well events with re-entry dates after December 31, 2005. The ministry will calculate the average daily rate of production per metre of UWD in the 13th calendar month after the first month in which those well events produce marketable gas.

If the ministry determines that a well event qualifies for the ultra-marginal reduction, a notice will be sent to all producers with an ownership interest in the well event. If you do not receive a notice for a well event that you believe should be eligible, please contact us at 250 952-0192 in Victoria, toll-free at 1 800 667-1182, or by e-mail at **Oil&GasRoyaltyQuestions@gov.bc.ca**

The ministry will calculate the reduction for each ultra-marginal well event based on the information provided on the BCS1 and will apply the reduced royalty rate to volumes of marketable gas reported on the *Marketable Gas and By-Product Producer Allocations* report (**BC08**).

At the end of the 12-month period in which a well event is determined to be an ultra-marginal well event, royalties that were paid in those months will be reassessed to apply the ultra-marginal rate reduction to those months.

Further Information

If you have any questions, please call us at 250 952-0192 in Victoria, or toll-free at 1 800 667-1182, or e-mail your questions to **Oil&GasRoyaltyQuestions@gov.bc.ca**

You can also find information on our website at **www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/oil_and_gas_royalties.htm**

The information in this letter is for your convenience and guidance and is not a replacement for the legislation. The *Petroleum and Natural Gas Act* and Regulations are on our website at **www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/legislation.htm**