

Summer Drilling Credit Program

Petroleum and Natural Gas Act

Summer Drilling Credit Program is Discontinued

Effective April 1, 2013, the Summer Drilling Program has been discontinued. Any wells drilled on or after this date will not be eligible to receive the credit. Previously granted credits received by qualifying wells will not be affected by the termination of the program. Any qualifying wells that were drilled between April 1, 2012 up to and including November 30, 2012 will still be eligible to apply for and receive the credit if the ministry receives the application on or before July 2, 2013. It is important to note that all approved credits are subject to future audit confirmation by the ministry.

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Overview

The Summer Drilling Credit Program was introduced in 2003 to encourage oil and gas producers to drill new oil and gas wells outside of the peak drilling period. The spud date, or date on which the ground is first penetrated for the purposes of drilling a well, needs to be after March 31 and before December 1 to be considered outside the peak drilling period.

Oil or gas well operators can apply for a credit on a portion of the goods and service costs that producers incur as a direct result of drilling the well.

Please see the section below, Applying for the Credit, on application deadlines for the summer drilling credit.

Eligibility Requirements

To qualify for the summer drilling credit, you need to use the same drilling rig from the spud date until the well's final total measured depth is reached, unless the same rig is incapable of drilling the well for the whole period because it has been damaged while drilling.

Calculating the Credit

For each eligible well, the credit amount available to a producer is the lesser of the following, multiplied by the producer's proportionate interest in the well:

- 10% of the goods and service costs attributable to the well, and
- \$100,000.

The credit can only be used to reduce the amount of royalties or taxes owed by a producer who had an interest in the well at the time it was completed. It is a non-refundable credit that cannot be converted to a cash payment, or transferred to another producer.

Applying for the Credit

A *Summer Drilling Credit Application* (BC25) must be submitted by the well operator, on behalf of the producers, for each well that is spud within the prescribed time period. The application is submitted **preferably online** or by mail or fax. For instructions on how to complete the BC25 form online, please visit our website at www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/forms.htm

Applications must be received by the ministry, on, or before, June 30 of the year following the year in which the well was spud. If an application is not filed on, or before, the due date, producers with an interest in the well, will not receive the credits.

Applications must indicate:

- the amount of goods and service costs incurred to drill the well, and
- each producer's proportionate interest in the well.

The ministry reviews all BC25s to determine the costs related to drilling the well and which producers are eligible to deduct portions of the related credit. The ministry will then determine the dollar value of the credit that is to be allocated for each producer and add that amount to an unclaimed summer drilling credit account in each

producer's monthly client statement. Producers may use amounts in their unclaimed summer drilling credit account to reduce royalties payable on production of oil or gas from any well in which the producer has an interest.

The ministry will notify each producer listed on a BC25 of the dollar value of the credit related to the well. Credits related to a well should not be deducted from royalty or tax payments reported on the *Petroleum & Natural Gas Remittance Advice* (BC15) until you have received notification from the ministry. If a credit that has not been approved is claimed on the BC15, the amount will be deducted from the payment allocated on the BC15 for the lowest numbered reporting entity.

Well operators can amend information provided on a previously submitted BC25 and resubmit the form as a replacement application. The ministry will review the amended application and notify producers with an interest in the well of the amended credit amounts.

The percentage of the credit to each producer reported on a BC25 for a well may not be considered as a substitute for reporting interests required on the *Reporting Interest Statement* (BC12).

Please note: Producers with an interest in an eligible well, should remind the well operator to submit a BC25 on their behalf.

Goods and Service Costs

Eligible Goods and Services

Only goods and service costs incurred by the producers that are directly related to the drilling of an eligible well can be claimed.

Examples of eligible goods and service costs are:

- costs associated with the pre-drilling and planning phase, such as lease acquisition, surveying and license fees,
- costs associated with the construction of access roads to the well, on-site inspection, supervision services and lease reclamation,
- rental costs for items, such as well-site trailers, camp buildings and sump pumps,
- service and supply costs, such as directional drilling, waste management, logging services, mud, chemicals and drilling bits,
- costs associated with the casing and cementing phases, such as surface and production casing, cementing services, cement plug logging, and

- completion and testing costs, including the supply of services and materials used at the wellhead, service rig services, completion fluids, and safety and inspection services.

Capital Costs

Only the portion of the capital cost that can be directly related to an eligible well may be claimed. Fixed asset costs, such as those for trucks and camp trailers, must be amortized.

Non-Eligible Goods and Services

You cannot claim a credit for goods and service costs that are not directly related to the drilling of an eligible well. Examples of non-eligible goods and service costs are:

- well gathering lines,
- head office overhead,
- field office rentals,
- costs incurred after the completion of the well, and
- goods and service tax (GST) you paid.

Please note: All claims are subject to audit by the ministry.

Need more info?

Oil and Gas Royalties and Freehold Production Tax website: www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/oil_and_gas_royalties.htm

Telephone (Victoria): 250 952-0192

Telephone toll free in Canada: 1 800 667-1182

Fax: 250 952-0191

E-mail: Oil&GasRoyaltyQuestions@gov.bc.ca

The information in this bulletin 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