

## Temporary 2% Gas Royalty to Stimulate Drilling

### *Petroleum and Natural Gas Act*

**Do you drill or have an ownership in a natural gas well?**

**Do you need to know how the Temporary 2% Gas Royalty to Stimulate Drilling Program applies to your production?**

This bulletin provides specific information on the Temporary 2% Gas Royalty to Stimulate Drilling Program (2% gas royalty) for natural gas producers.

### **Overview**

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Effective September 1, 2009, a 2% gas royalty was introduced to encourage activity and investment during a period of very low prices for natural gas.

The 2% gas royalty applies to non-conservation marketable gas produced from new gas wells on Crown and freehold lands. It does not apply to oil, natural gas liquids, sulphur, coalbed gas or conservation gas. It also does not apply to non-conservation marketable gas produced from well events that are subject to revenue sharing agreements with Fort Nelson, Blueberry and Doig First Nation bands.

Producer Cost of Service (PCOS) allowances will be deducted from the 2% gross royalty using a royalty rate that is a weighted average of 2% and the rates for natural gas by-products.

### **The Temporary 2% Gas Royalty Program**

#### **Qualification for the Program**

All natural gas well events in wells with a spud date **after** August 31, 2009, and **before** July 1, 2010, are eligible for the 2% gas royalty provided they commence continuous production before December 31, 2010.

## Length of the Program

Qualified well events receive the 2% gas royalty for the first 12 calendar months after the well event commences continuous production. If a well event is shut in for a month, or part of a month, that month will count toward the 12-month period.

## The Temporary 2% Gas Royalty and Other Royalty Programs

### Summer Drilling Credit

Wells that qualify for the 2% gas royalty may also earn the summer drilling credit if they meet all of the requirements of that program.

### Marginal and Ultra-Marginal Royalty

Well events may qualify for the marginal and ultra-marginal royalty in combination with the 2% gas royalty; however, wells must pay the minimum royalty rate of 2% for the one year duration of the 2% gas royalty. Once the 2% gas royalty ends, the marginal and ultra-marginal reductions in royalty rates will apply.

### Deep Well Credit

Wells that qualify for the 2% gas royalty may also qualify for the deep well credits. The amount of deep well credit that is deducted from royalties will be the lesser of the royalty payable after the PCOS allowance and the remaining unused balance of the credit or, in the month that the deep well credit is used up, a portion of the remaining unused balance. However, reductions in the unused deep well credits will be based on the net royalty that would have been payable if the 2% gas royalty had not been introduced. In the month that a deep well credit is used up, the amount that will be deducted from royalties will be the royalty payable after the PCOS allowance, times the unused balance of the deep well credit, divided by the net royalty that would have been payable if the 2% gas royalty had not been introduced. For more information on changes to the deep well credit that applies to wells with spud dates **after** August 31, 2009, please see [Bulletin PNG 001](#), *Royalty Programs for Deep Gas Wells*.

## Need more info?

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](mailto: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](http://www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/oil_and_gas_royalties.htm)

The information in this notice 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](http://www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/legislation.htm)