

Minimum Royalty Program

Petroleum and Natural Gas Act

Latest Revision: *This bulletin has been completely rewritten and replaces the previous version dated April 2013.*

This bulletin provides information on the minimum royalty program for wells that receive deep gas well credits.

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Minimum Royalty Program

Producers must pay a minimum royalty on wells if their net royalty payable is zero after deducting deep gas well credits from the gross royalty payable less producer cost of service (PCOS). The minimum royalty program began with the April 2013 production period and was shown on the gas royalty invoices starting in July 2013.

Determine if the net royalty payable is zero using the following formula:

$$\text{Gross Royalty Less PCOS} - \text{Available Deep Well Credit}$$

Effective April 1, 2014, wells that qualify for deep gas well credits are now classified as either tier 1 wells or tier 2 wells. The tier of the well depends on the type of deep gas well and the well spud date. For information on qualifying deep gas well credits, see [Bulletin PNG 001](#), *Royalty Programs for Deep Gas Wells*.

Minimum Royalty Rates

The minimum royalty rates are 6% for tier 1 wells and 3% for tier 2 wells.

Please note: the rate between April 1, 2013 and March 31, 2014 was 3%.

For detailed information on the updated gas royalty invoice and its .csv file please refer to section 7.0 in the [Oil and Gas Royalty Handbook](#).

Calculating the Minimum Royalty

On the monthly royalty invoice, the minimum royalty is calculated separately from the calculation of natural gas and by-product royalties. The minimum royalty amount is not taken from the deep well credit bank in that production month; lengthening the time the deep well credit bank is drawn down. The minimum royalty is based on gross revenues for royalty purposes and is calculated as follows:

$$\begin{aligned} \text{Minimum Royalty} &= \text{Gross Revenue} \times \text{Minimum Royalty Rate} \\ \text{Formula} &= (\text{Marketable Gas Volume} \times \text{Reference Price}) + \text{Natural Gas} \\ &\quad \text{Liquids Sales Value}^* + \text{Sulphur Sales Value}^* \times \text{Minimum} \\ &\quad \text{Royalty Rate} \end{aligned}$$

*Sales Value from BC08

Examples

The following examples show how to determine if the minimum royalty applies and how to calculate the minimum royalty payable.

Example 1 – Deep Well Credits If Minimum Royalty Does Not Apply

Opening Tier 2 Deep Well Credit Balance (A):	\$10,000
Gross Royalty owed less PCOS (B):	\$25,000

First, determine if the minimum royalty applies as follows:

$$\begin{aligned} &\text{Gross Royalty Less PCOS} - \text{Available Credits to Bring Royalties to Zero} \\ &\$25,000 - \$10,000 = \mathbf{\$15,000} \end{aligned}$$

The net royalty calculation is \$15,000 (not zero); therefore, the minimum royalty amount is not calculated. The deep well credit bank is used up in this month and the monthly transaction is shown as follows:

Deep Well Credit Bank Monthly Transaction

Opening Deep Well Credit Balance (A)	Gross Royalty less PCOS (B)	3% Minimum Royalty (C)	Closing Deep Well Credit Balance (A – B + C)	Total Deep Well Credits Used
\$10,000	\$25,000	\$N/A	\$0	\$10,000

Example 2 – Deep Well Credits If Minimum Royalty Applies

Opening Tier 1 Deep Well Credit Balance (A):	\$40,000
Gross Royalty Owed Less PCOS (B):	\$25,000
Marketable Gas Volume Produced:	300 10 ³ m ³
Natural Gas Reference Price:	\$100/10 ³ m ³
Natural Gas Liquids Sales Value:	\$22,320
Sulphur Sales Value:	\$945

First, determine if the minimum royalty applies as follows:

$$\text{Gross Royalty Less PCOS} - \text{Available Credits to Bring Royalties to Zero}$$

$$\$25,000 - \$25,000 = \$0$$

Since the net royalty calculation is zero, the minimum royalty applies.

Calculate the minimum royalty payable as follows:

$$(\text{Marketable Gas Volume} \times \text{Reference Price}) + \text{Natural Gas Liquids Sales Value}^* + \text{Sulphur Sales Value}^* \times \text{Minimum Royalty Rate}$$

$$(300 \times \$100) + \$22,320 + \$945 = \$53,265$$

$$\$53,265 \times 6\% = \mathbf{\$3,195.90}$$

The minimum royalty payable is \$3,195.90 and the deep well credit bank for the monthly transaction is shown as follows:

Deep Well Credit Bank Monthly Transaction

Opening Deep Well Credit Balance (A)	Gross Royalty less PCOS (B)	6% Minimum Royalty (C)	Closing Deep Well Credit Balance (A – B + C)	Total Deep Well Credits Used
\$40,000	\$25,000	\$3,195.90	\$18,195.90	\$21,804.10

Example 3 – Deep Well Credits If Minimum Royalty Applies

Opening Tier 2 Deep Well Credit Balance (A):	\$10,000
Gross Royalty owed less PCOS (B):	\$2,000
Marketable Gas Volume Produced:	450 10 ³ m ³
Natural Gas Reference Price:	\$110/10 ³ m ³
Natural Gas Liquids Sales Value:	\$41,000
Sulphur Sales Value:	\$1,600

First, determine if the minimum royalty applies as follows:

$$\text{Gross Royalty less PCOS} - \text{Available Credits to Bring Royalty to Zero}$$

$$\$2,000 - \$2,000 = \$0$$

Since the net royalty calculation is zero, the minimum royalty applies.

Calculate the minimum royalty payable as follows:

$$(450 \times \$110) + \$41,000 + \$1,600 = \$92,100$$

$$\$92,100 \times 3\% = \mathbf{\$2,763}$$

The minimum royalty payable is \$2,763 which is greater than the original gross royalty less PCOS. This means, the opening deep well credit balance will increase by the difference between the gross royalty less PCOS and the minimum royalty. The monthly transaction is shown as follows:

Deep Well Credit Bank Monthly Transaction				
Opening Deep Well Credit Balance (A)	Gross Royalty less PCOS (B)	3% Minimum Royalty (C)	Closing Deep Well Credit Balance (A – B + C)	Total Deep Well Credits Used
\$10,000	\$2,000	\$2,763	\$10,763	-\$763

Need more info?

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

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