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Ministry of Energy and Mines

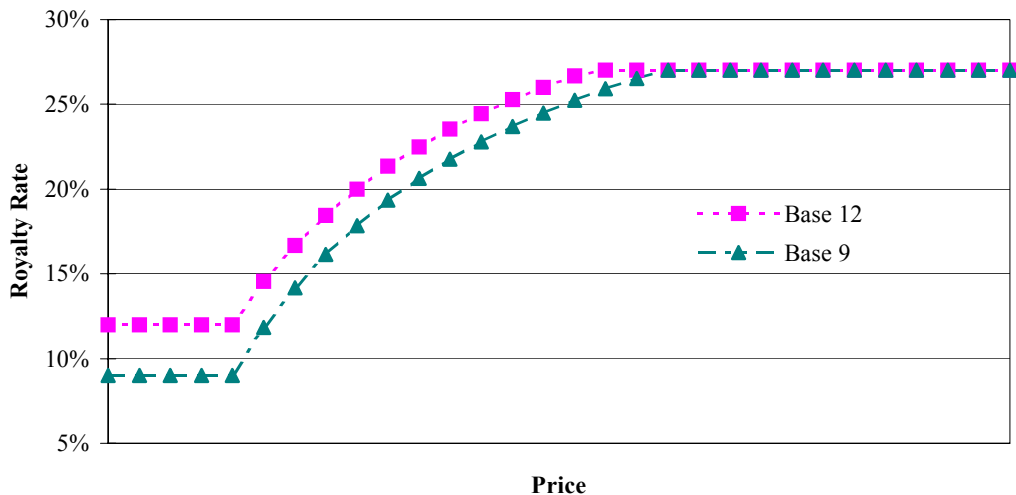
**CHANGES EXTEND BASE 9 ROYALTY
AND CREATE NEW COALBED METHANE ROYALTY**

VICTORIA – Changes to the petroleum and natural gas royalty and freehold production tax regulation introduced in the 2002 provincial budget mean a two-year extension of the eligibility for Base 9 royalty for conventional gas and a new royalty regime for coalbed methane.

The first change to the petroleum and natural gas royalty and freehold production tax regulation extends the eligibility period for acquiring lands for which the Base 9 royalty rate applies. Introduced in June 1998, the Base 9 royalty is a minimum nine-per-cent royalty on new production from tenure acquired between June 1, 1998 and Dec. 31, 2001, that is drilled within five years of acquisition. Without this change, lands acquired after Dec. 31, 2001 would have been subject to a minimum rate of 12 per cent (Base 12) royalty.

The change extends the Base 9 royalty eligibility by two years to Dec. 31, 2003, and makes the regulation retroactive to Jan.1, 2002.

The following chart shows the difference between the Base 9 and Base 12 royalty curves.



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The second change to the regulation provides for a new royalty regime for coalbed methane, which reflects the unique development and production costs of this resource. It also provides the framework for the expeditious and orderly development of the industry. Effective March 1, 2002, the new regime:

- includes produced-water handling costs in the producer cost of service allowance to address the added water management costs;
- creates a royalty bank to collect excess allowance to be used against future assessed coalbed methane royalties;
- increases the marginal well adjustment factor threshold to 600,000 cubic feet per day from 180,000 cubic feet per day to address the lower production rates; and
- provides a \$50,000 royalty credit for coalbed methane wells drilled within the next two years.

The new royalty regime is the result of a collaborative effort between government and industry over the past year. It will ensure that British Columbia's fiscal regime remains competitive with other jurisdictions, encourages coalbed methane development, and in turn increases direct revenue to the province. Developing coalbed methane will also create jobs in the oil and gas sector and diversify petroleum industry activity in all regions of the province.

Both changes are part of government's strategy to double oil and gas production by 2011, and generate \$20-billion worth of cumulative investment in British Columbia's oil and gas industry by 2008.

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