

Net Profit Royalty Program

Petroleum and Natural Gas Act

Do you have approval from the Ministry of Energy, Mines and Petroleum Resources to operate under the net profit royalty program (NPRP)?

Do you need to know your reporting requirements for the NPRP?

This bulletin provides specific information to help producers and operators understand the royalty program for approved net profit projects.

For general royalty information that applies to all well events, please see the [Oil and Gas Royalty Handbook](#).

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Overview

The NPRP was introduced in May 2008 and designed to stimulate development of high-risk oil and natural gas resources that are not economic under other royalty programs. This program enables producers to pay lower royalty rates in the initial stages of a project in exchange for higher royalty rates once the producers have recovered their capital costs.

The Ministry of Energy, Mines and Petroleum Resources issues requests for application for projects that may be eligible under the NPRP and approves qualifying projects. The project approval defines the project ring fence as an area of land, and oil or gas pools underlying that area of land. Production of oil and natural gas from any well events

within the project ring fence is subject to royalties under the NPRP. The project approval may also specify other conditions.

An NPRP project may include well events that were producing before the project was approved. However, NPRP royalties do not apply to production that occurred from such well events before project approval.

After approval, the Ministry of Finance (the ministry) will calculate and assess NPRP royalties on production of oil and gas from NPRP well events. If you are an operator of an approved NPRP project, you are required to file additional monthly reports to the ministry.

Please note: Although this bulletin refers to royalties, the NPRP applies to tax on production from freehold land in the same manner.

Reporting Requirements for Operators

Historical Cost Reporting BC50

You report and allocate allowed historical costs to each of the producers for an approved NPRP project on the *Net Profit Historical Allowable Costs (BC50)*. Historical costs are allowed capital and operating costs that have been incurred within 60 months prior to, and including, the application month. The project application month is the month that the producer submits an application to the Ministry of Energy, Mines and Petroleum Resources for approval under the NPRP. For a list of allowed costs, please see the [*Net Profit Royalty Project Allowed Cost Order of the Administrator*](#).

If an NPRP project includes well events in wells that were spud before the project was approved, and summer drilling credits that were received prior to May, 2008, you are required to deduct the credits from the project's historical costs. If an NPRP project includes well events in wells that produced marketable gas before the project was approved, and deep well credits were applied to those wells, you are required to deduct the credits from the project's historical costs.

The BC50 is due on the last day of the second month following the month the project was approved. For example, if a producer applies for the NPRP in June and receives approval in October, the BC50 is due to the ministry by December 31st.

Monthly Costs Reporting BC51

You report monthly costs for an approved NPRP project on the *Net Profit Monthly Allowable Capital and Operating Costs (BC51)*. You report the allowed capital and operating costs, and allocate the costs to each of the producers of the project.

Eligibility criteria for allowable costs are set out in the *Net Profit Royalty Project Allowed Cost Order of the Administrator*. Allowable costs must be directly attributable to the project, incurred by the producer, reasonable in the circumstances, not recovered from another party and not specifically excluded. For a list of excluded costs, please see the *Net Profit Royalty Project Allowed Cost Order of the Administrator*.

Allowable capital and operating costs must be incurred in the project application month or later. You file your first BC51 for the month following the project application month.

For months prior to the project approval month, the BC51 is due on the last day of the second month after the project approval month. For example, if a producer applies for the NPRP in June and receives approval in October, the reports for July to October are due to the ministry by December 31st.

For months after project approval, the BC51 is due on the last day of the second month following the month in which the costs were incurred. A penalty is applied at a rate of \$100 for each month, or partial month, the report is late.

Cost Reductions

If gas from non-NPRP well events is produced through facilities in an NPRP project and the gas is not owned by a producer with an interest in the NPRP project, you are required to reduce allowable NPRP project operating costs by fees paid from the owner of that gas.

If gas from non-NPRP well events is produced through facilities in an NPRP project and the gas is owned by a producer with an interest in the NPRP project, you are required to reduce allowable NPRP project operating costs by a monthly transportation allowance.

You calculate the allowance by multiplying the producer's volume of gas delivered from non-NPRP well events to NPRP facilities in the month by the transportation allowance rate. You calculate the transportation allowance rate annually by dividing the sum of eligible project operating costs and capital cost depreciation for the year by the volume of gas produced through the project facilities in the year. Annual depreciation is equal to 5% of the depreciated eligible capital costs at the beginning of the year plus the eligible capital cost additions during the year. If the project operates for fewer than 12 months in the year, annual depreciation is reduced to the proportion of operating months in the year.

Please note: The ministry may audit the costs you claim on the BC50 and BC51.

Revenue Reporting

The ministry gathers revenue information required to assess the NPRP royalties from existing reports that continue to be required for NPRP well events and facilities.

Gas Revenue – The *Marketable Gas and By-Product Producer Allocations Report (BC08)* provides the ministry with the producer’s share of marketable gas volumes from an NPRP well event. To determine the gas revenue for each NPRP well event, the ministry multiplies the marketable gas volume by the producer’s gas price for the project. The ministry then adds the gas revenues for each well event together to determine the producer’s total gas revenue for an NPRP project. The Ministry of Energy, Mines and Petroleum Resources calculates the producer’s gas price for the project in accordance with the *Natural Gas Pricing Order*.

By-Product Revenue – The BC08 provides the ministry with the producer’s by-product revenue from each NPRP well event. The ministry adds the by-product revenue from all NPRP well events together to determine the producer’s total NPRP by-product revenue.

Oil Revenue – The *Monthly Production Statement (S1)* provides the ministry with the volume of oil produced from each NPRP well event. To determine a producer’s oil revenue for an NPRP well event, the ministry multiplies the producer’s oil sales price at the facility by the producer’s share of oil produced. The ministry then adds the oil revenue for each well event together to determine the producer’s oil revenue for an NPRP project. The ministry calculates the oil sales price from the producer’s *Monthly Oil Sales Statement (BC09)*. In months when sales have not occurred, the price reported in a subsequent month is used to determine oil revenue for the well event.

Producer Payout Statement and Royalty Invoice

Payout Statement

If you have an interest in an approved NPRP project, the ministry calculates and sends you a monthly payout statement that reports balances and activity for each tier. The payout statement includes the opening payout account balance, project revenue, project cost, return on investment and the closing payout balance. The payout statement is included with your monthly royalty invoice that is sent to you around the 10th of each month.

The first payout statement that you receive is for the project approval month. For example, if a producer applies for the NPRP in June and receives approval in October, payout statements are produced starting with July.

The ministry calculates your first statement using the original opening net allowed cost balance, which the ministry determines from the information reported on the BC50.

The ministry uses the payout balances in each tier to determine the tier of your project. Tier payout is reached when the closing balance in that tier reaches zero. The ministry calculates the closing balance by adding the opening balance together with the net allowed costs and the return on investment. The opening balance is the closing balance from the previous month.

The net allowed costs are the total of the monthly costs, as reported on the BC51, minus the calculated net revenue. The reported costs are accumulated in the allowed cost balance and included in the monthly payout balance. The ministry increases the costs reported by a project uplift factor of 10% for operating costs and 1% for capital costs.

Where there is production from an NPRP well event, the ministry begins to calculate your return on investment in the month following the project approval month. The ministry does not calculate a return on investment for the project application month, or for the months leading up to, and including, the project approval month.

The rate the ministry uses to calculate the return on investment is the sum of the long term bond rate (LTBR) and the tier return on investment rate. The LTBR is the Government of Canada 10-year benchmark bond yield as published by the Bank of Canada. The return on investment rate is shown by tier in the table below.

Tier	Return on Investment Rate
Pre-payout tier	LTBR
Tier 1	LTBR + 25%
Tier 2	LTBR + 100%
Tier 3	Not applicable

The ministry uses the following formula to calculate the return on investment for each tier.

$$\text{Return on investment} = \frac{A + B}{2} \times \frac{C}{12}$$

A = opening net allowed cost balance

B = closing net allowed cost balance

C = return on investment rate

Example

The opening net allowed cost balance is \$50,000,000 and the closing net allowed cost balance is \$60,000,000.

The average net allowed cost balance is calculated as follows:

$$\$50,000,000 + \$60,000,000 = \$110,000,000$$

$$\frac{\$110,000,000}{2} = \$55,000,000$$

The return on investment for each tier is calculated as follows:

Pre-payout tier

$$\frac{\$55,000,000 \times 5\%}{12} = \$229,166.67$$

The return on investment for pre-payout tier is \$229,166.67.

Tier 1

$$\frac{\$55,000,000 \times 30\%}{12} = \$1,375,000$$

The return on investment for tier 1 is \$1,375,000.

Tier 2

$$\frac{\$55,000,000 \times 105\%}{12} = \$4,812,500$$

The return on investment for tier 2 is \$4,812,500.

Royalty Invoice

The ministry sends you a monthly invoice for royalties around the 10th of each month. Royalty charges for an NPRP project are included on this invoice. Prior to project approval, royalties continue to be assessed under the [*Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*](#). The NPRP royalties begin the first month following the project approval month. The royalty rate for an approved NPRP project depends on the tier that the project is in.

Tier Royalty	
Pre-payout tier	2% of gross revenue
Tier 1	Greater of 5% of gross revenue and 15% of net revenue
Tier 2	Greater of 5% of gross revenue and 20% of net revenue
Tier 3	Greater of 5% of gross revenue and 35% of net revenue

The ministry determines the gross revenue monthly. Gross revenue is equal to the sum of the values of the oil, marketable gas and natural gas by-products produced in a month. Net revenue is also determined monthly and is equal to the gross revenue for a month minus the eligible operating and capital costs incurred during the month. If the eligible operating and capital costs exceed revenue in a month after a project has reached tier 1, 2 or 3, the difference is carried forward to future months. An NPRP project cannot go back to a lower tier.

Included with your monthly royalty invoice, the ministry sends you a statement reporting an estimated allocation of royalties to each NPRP well event. The royalties are prorated to each well event based on the net revenue for each well event. This is an estimated allocation of royalties only and is intended to help you process the invoices. The actual royalty amount payable is determined at the project level. You are required to pay the actual amount of royalties within 15 days of receiving your monthly royalty invoice.

You are required to maintain a deposit for total oil and gas royalties payable. This deposit should include an amount for royalties for an NPRP project by the 25th day of the second month following a production month. You can adjust the deposit on a monthly basis to reflect any changes to royalties payable. This process is consistent with the current gas royalty payment schedule.

For information on how to make royalty payments, please see www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/filing_and_payment.htm

For information on reporting due dates for the oil and natural gas industry, please see www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/reporting_due_dates.htm

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

Toll free in Canada: 1 800 667-1182

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