



February 3, 2006

INFORMATION LETTER #OGC 06-03

SUBJECT: TAX FOR ORPHAN SITE RECLAMATION FUND

To Industry Clients:

A tax on oil and gas production will take effect on April 1, 2006. On that date, legislation¹ for a newly created Orphan Site Reclamation Fund (“Orphan Fund”) will be brought into force with an amendment to the *Oil and Gas Commission Act*, and an amendment to the Oil and Gas Commission Levy Regulation².

The purposes of the Orphan Fund are:

- (a) to pay the costs of abandonment and restoration of orphan wells, test holes, production facilities and pipelines (under the *Petroleum and Natural Gas Act* or the *Pipeline Act*);
- (b) to pay costs incurred in pursuing reimbursement for the costs referred to in (a), above, from the person responsible for paying them;
- (c) to pay any other costs directly related to the operations of the Oil and Gas Commission (OGC) in respect of the fund;
- (d) to pay compensation to land owners on whose land the OGC expends money on an orphan site, if, on application by a land owner, the OGC is satisfied that the operator has failed to make payments due to the land owner under a surface lease, and subject to the maximums, conditions and limitations prescribed by regulation.

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¹ Bill No. 16, Miscellaneous Statutes Amendment Act (No. 2), 2005:
http://www.legis.gov.bc.ca/38th1st/3rd_read/gov16-3.htm

OIC No. 5, deposited as BC Reg 3/2006 on January 12, 2006
http://www.ogc.gov.bc.ca/documents/informationletters/OIC_No_5_Jan_12_2006-v33n01_0005.pdf

² The Oil and Gas Commission Levy Regulation will be renamed to the Oil and Gas Commission Levy and Orphan Site Reclamation Fund Tax Regulation.

The Orphan Fund Tax will be payable by producers³ on their monthly production at the following rates:

- (a) \$0.03 per 1 000 cubic metres of marketable gas;
- (b) \$0.06 per cubic metre of petroleum.

The Orphan Fund tax will be administered in the same manner as the existing Oil and Gas Commission levy. The monthly invoices that producers receive will include the tax, but will show the levy and the tax as separate amounts.

At forecast production rates, the tax is expected to raise approximately \$1 million per year for the Orphan Site Reclamation Fund. The Fund will be administered by the OGC.

The legislation includes a provision that the tax may be suspended. The intent is that the tax will be suspended once all known orphan sites are restored and there is a reasonable contingency amount in the Fund.

Currently, there are 24 orphan wells identified in British Columbia, out of a total well population of more than 17,000 drilled. A rough cost estimate to abandon and restore these orphan wells is about \$1 million. Further site inspection work is required by the OGC in order to determine the condition of the wells and sites, and thus establish a more accurate estimate of cleanup costs. The OGC is planning to commence well plugging and site cleanup work in 2007.

For further information, please contact:

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Original Signed

Derek Doyle
Commissioner

³ "Producer" means

- ❖ a holder of a location who markets or otherwise disposes of petroleum, natural gas or both, produced by
 - the holder of the location, or
 - a person authorized to produce the petroleum, natural gas or both by the holder of the location, and
- ❖ a person authorized by a holder of a location to produce and market or otherwise dispose of, on the holder's behalf, petroleum, natural gas or both.

"location" means the land described in a permit, drilling licence or lease issued under the *Petroleum and Natural Gas Act*