

Statutory Document No. 2018/0064

*Petroleum Act 1986*

PETROLEUM (ROYALTIES) REGULATIONS 2018

*Approved by Tynwald:**17 April 2018**Coming into Operation: in accordance with regulation 2*

The Department of Infrastructure makes the following Regulations under sections 2(2) and 4(1) of the Petroleum Act 1986, with the consent of the Treasury.

1 Title

These Regulations are the Petroleum (Royalties) Regulations 2018.

2 Commencement

If approved by Tynwald, these Regulations come into operation on the day after they are approved by Tynwald¹.

3 Interpretation

In these Regulations –

“**cumulative field costs**” in relation to a relevant period of a company in respect of a relevant area, means the aggregate of field costs –

- (a) for that relevant period; and
- (b) for any preceding relevant period;

“**cumulative field gross revenue**” in relation to a relevant period of a company in respect of a relevant area means the aggregate of the gross revenues –

- (a) for that relevant period; and
- (b) for any preceding period,

less the aggregate royalty payment payable by the company under regulation 4 in respect of the same relevant area for all preceding relevant periods;

“**the Department**” means the Department of Infrastructure;

“**field costs**” in relation to a relevant period of a company in respect of a relevant area, means the aggregate of all expenditure, including

¹ Tynwald approval is required under section 4(2) of the Petroleum Act 1986.

exploration expenditure, development expenditure and transportation expenditure, wholly and exclusively incurred by the company in the carrying on of petroleum activities in respect of that relevant area;

“**licence**” means a licence granted under section 2 of the Petroleum Act 1986;

“**relevant area**” means an area which is the subject of a licence;

“**relevant period**” means an accounting period or part of an accounting period which commences on the date the licence is issued;

“**R factor**” in relation to a relevant period of a company in respect of a relevant area, means an amount determined by the formula –

$$\frac{A}{B}$$

where—

A is the cumulative field gross revenue of the company in respect of the relevant area in relation to that relevant period; and

B is the cumulative field costs of the company in respect of the relevant area in relation to that relevant period;

“**transportation expenditure**” means expenses incurred wholly and exclusively on the transportation of petroleum from the wellhead in the relevant area to the landing point.

4 Royalties

(1) Following the granting of a licence, a licensee must make a royalty payment to the Department in respect of any petroleum sold, appropriated or otherwise disposed of, for each relevant area in a relevant period. The amount of the royalty payment is calculated in accordance with paragraph (2).

(2) The amount of the royalty payment payable under paragraph (1) is the greater of –

(a) 5% of the gross revenue less transportation expenditure; or

(b) depending on the relevant R factor amount -

(i) 10% of the net income, where the R factor in relation to a relevant area is equal to 1.5;

(ii) an amount determined by the formula –

$$10\% + \left\{ \frac{(R \text{ factor} - 1.5)}{(4.5 - 1.5)} \times (40\% - 10\%) \right\}$$

multiplied by the net income, where the R factor in relation to a relevant area is greater than 1.5 and less than 4.5; or

- (iii) 40 per cent of the net income, where the R factor in relation to a relevant area is equal to or greater than 4.5.

MADE 12 MARCH 2018

R K HARMER
Minister for Infrastructure

EXPLANATORY NOTE***(This note is not part of the Regulations)***

These Regulations set the royalty rate payable to the Department by a licensee in respect of a licence under section 2 of the Petroleum Act 1986.