



Province of Alberta

MINES AND MINERALS ACT

HORIZONTAL RE-ENTRY WELL ROYALTY REDUCTION REGULATION

Alberta Regulation 348/1992

With amendments up to and including Alberta Regulation 159/2013

Office Consolidation

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(Consolidated up to 159/2013)

ALBERTA REGULATION 348/92

Mines and Minerals Act

**HORIZONTAL RE-ENTRY WELL ROYALTY
REDUCTION REGULATION**

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Definitions

1(1) In this Regulation,

- (a) repealed AR 89/2013 s11;
- (b) “conventional royalty” means the royalty share of crude oil or oil sands that would, except for this Regulation, be reserved to the Crown under
 - (i) the *Petroleum Royalty Regulation*, or
 - (ii) the *Oil Sands Royalty Regulation, 1984*;
 - (iii) repealed AR 205/2006 s2;
- (c) “Crown interest”, in respect of a well or well event for any period, means

- (i) in the case of a well or well event that is subject to a unit agreement, a unit operation order or an order of the Regulator under section 80 or 81 of the *Oil and Gas Conservation Act*, the percentage of any production obtained during the period from the area subject to that agreement or order that would be allocated pursuant to the agreement or order to all the Crown tracts in that area, or
- (ii) in the case of a well or well event that is not referred to in subclause (i), the percentage of the area of the production entity, as defined in the *Petroleum Royalty Regulation*, containing the well or well event that consists of one or more Crown tracts;
- (d) “Crown production”, in respect of crude oil or oil sands obtained from a well or well event in a period, means the total production of crude oil or oil sands from the well or well event in the period multiplied by the Crown interest for the well or well event for the period;
- (d.1) “Crown tract” means the whole or part of a location;
- (e) “eligible oil” means crude oil or oil sands that is determined to be eligible oil under section 1.1;
- (f) “eligible well” means a well
 - (i) that has a horizontal extension,
 - (ii) that was spudded in at least 5 years before the commencement of the drilling of the horizontal extension,
 - (iii) from which crude oil or oil sands has been obtained from a qualifying pool in at least 12 months of the well’s maintenance period or that has a maintenance volume established by the Minister under section 2(3), and
 - (iv) that is not an ineligible well;
- (g) “horizontal extension” means a well bore that
 - (i) is created by re-entering and drilling away from the course of the pre-existing bore of a well, deviates 80° from vertical at some point and extends beyond that point at least 100 metres, or

- (ii) extends, by at least 100 metres, the pre-existing bore of a well that deviates 80° from vertical at some point,

and that is created in a continuous drilling operation that commences after September 30, 1992 and before November 1, 2006 and is separate from the drilling operation that created the pre-existing bore;
- (h) repealed AR 205/2006 s2;
- (i) “ineligible well” means a well
 - (i) that is in whole or in part within the area enclosed by a scheme boundary or less than 0.8 kilometres from a scheme boundary, unless the Minister has made a declaration in respect of the well under section 1.2, or
 - (ii) whose production is subject to a royalty that has been prescribed under section 10 of the *Petroleum Royalty Regulation*;
- (j) “maintenance period” means the period comprising
 - (i) the portion of the year that precedes the commencement of the drilling of a horizontal extension, and
 - (ii) the preceding 4 years;
- (k) “maintenance royalty” means the maintenance royalty determined under section 3;
- (l) “maintenance volume” means the maintenance volume referred to in section 2 or, if the Minister has established a maintenance volume under section 7, the maintenance volume referred to in that section;
- (m) “*Oil Sands Royalty Regulation, 1984*” means the *Oil Sands Royalty Regulation, 1984* (AR 166/84);
- (n) “oil sands well” means a well that produces oil sands, other than a gas well as defined in the *Oil and Gas Conservation Rules* (AR 151/71);
- (n.1) “oil sands well event” means a well event that is part of an oil sands well;
- (o) “oil well” means an oil well as defined in the *Oil and Gas Conservation Rules* (AR 151/71);

- (o.1) “oil well event” means a well event that is part of an oil well;
- (o.2) “operator”, in respect of a well, means the person who is the operator of the well according to the records of the Department;
- (p) “*Petroleum Royalty Regulation*” means the *Petroleum Royalty Regulation* (AR 248/90);
- (p.1) “production month”, in respect of a well, means a month in which crude oil or oil sands is obtained from the well;
- (q) “qualifying pool” means a pool or oil sands deposit that is
 - (i) penetrated by the bore of a well in one drilling operation, and
 - (ii) penetrated by a horizontal extension of that well in a later drilling operation;
- (q.1) “Regulator” means the Alberta Energy Regulator;
- (r) “royalty reduction” means the royalty reduction referred to in section 5;
- (s) “scheme boundary” means, in respect of a scheme that has received a benefit from the Minister under section 11 of the *Petroleum Royalty Regulation* or that is an approved scheme under the *Enhanced Recovery of Oil Royalty Reduction Regulation*,
 - (i) the boundaries of the scheme as described in an order issued by the Regulator approving the scheme, or
 - (ii) if the boundaries of the scheme are not so described, the boundaries of the pool or pools containing the whole or any part of the scheme and designated by order of the Regulator,

including any changes to those boundaries that extend those boundaries outward;
- (t) “well event” means
 - (i) a part of a well completed in a zone and given a unique well identifier by the Regulator,
 - (ii) parts of a well completed in 2 or more zones and given a single unique well identifier by the Regulator,

- (iii) a part of a well completed in and recovering crude oil or oil sands from a zone but which has not yet been given a unique well identifier by the Regulator, or
- (iv) parts of a well completed in and recovering crude oil or oil sands from 2 or more zones during the period when the parts are considered by the Minister as a single well event for the purposes of this Regulation and before the Regulator makes a decision whether or not to give the parts a single unique well identifier.

(2) A reference in this Regulation to a month, whether by its name or not, shall be construed as the period commencing at 7:00 a.m. Mountain Standard Time on the first day of the month and ending immediately before 7:00 a.m. Mountain Standard Time on the first day of the next month.

AR 348/92 s1;348/93;205/2006;254/2007;89/2013;159/2013

Eligible oil

1.1 Crude oil or oil sands is eligible oil if it is obtained on or before December 31, 2008

- (a) from a horizontal extension of an eligible well,
- (b) from an oil well event or oil sands well event that meets all of the following requirements:
 - (i) the well event is part of the horizontal extension referred to in clause (a);
 - (ii) the Crown interest in the well event is greater than 0%;
 - (iii) any crude oil or oil sands obtained from the well event is subject to the payment of royalty under the *Petroleum Royalty Regulation* or the *Oil Sands Royalty Regulation, 1984*,
- (c) from a qualifying pool, and
- (d) in segregation from crude oil or oil sands obtained from any other pool or oil sands deposit that is penetrated by the well referred to in clause (a).

AR 205/2006 s3;222/2008

Declaration that well not ineligible well

1.2(1) The Minister may, by order, declare that a well that is in whole or in part within the area enclosed by the scheme boundary

of a scheme or less than 0.8 kilometres from the scheme boundary of a scheme is not an ineligible well if

- (a) the Regulator has cancelled its requirement for or approval of the scheme under section 38 or 39, respectively, of the *Oil and Gas Conservation Act*, or
- (b) the t-factor for the scheme, if any, for the purposes of the *Enhanced Recovery of Oil Royalty Reduction Regulation* (AR 348/93) is zero.

(2) An order by the Minister under subsection (1) may be made effective on a date earlier than the date the order is made, but may not be effective in respect of any period of time for which the Minister's power under section 38 of the Act to recalculate or make additional calculations of the Crown's royalty share of a mineral has expired.

AR 205/2006 s3;89/2013

Maintenance volume

2(1) In this section, "maintenance production month" means, in respect of a well, a month that crude oil or oil sands is produced from a qualifying pool of the well during the well's maintenance period.

(2) The maintenance volume of a well is the quotient of the total volume of crude oil or oil sands obtained from a qualifying pool of the well in the latest 12 maintenance production months of the well, including other crude oil or oil sands obtained without segregation during those months, divided by 12.

(3) Despite subsection (2), the Minister may establish the maintenance volume of an injection well if

- (a) the Minister is satisfied that the injection well did not produce crude oil or oil sands from a qualifying pool in at least 12 months during the well's maintenance period because the well was used for the injection of substances, and
- (b) in at least 12 months during the injection well's maintenance period, crude oil or oil sands was obtained from a pool or oil sands deposit that is a qualifying pool of the injection well
 - (i) from one or more wells whose production from that pool or oil sands deposit was, in the Minister's opinion, materially enhanced by the injection of substances by the injection well, or

- (ii) from the injection well and one or more of the other wells referred to in subclause (i).

(4) The maintenance volume for an injection well established by the Minister is based on the volume of crude oil or oil sands from the injection well or other wells referred to in subsection (3)(b) obtained in the latest 12 of the months referred to in subsection (3)(b), including other crude oil or oil sands obtained from those wells without segregation during those months.

AR 348/92 s2;205/2006

Maintenance royalty

3 The maintenance royalty of the eligible oil obtained in a month from a horizontal extension of an eligible well is the greater of

- (a) 5% of the volume of the eligible oil obtained in the month times the Crown interest in the well event from which the eligible oil is obtained, and
- (b) the product of $A \times \frac{B}{C}$

where

- (i) A is the volume of the eligible oil obtained in the month times the Crown interest in the well event from which the eligible oil is obtained;
- (ii) B is the volume of conventional royalty, before any exemption or reduction under the Act, for the maintenance volume for that well calculated as though the maintenance volume had been obtained from the well in the month;
- (iii) C is the maintenance volume for that well in the month times the Crown interest in the well event from which the eligible oil is obtained.

AR 348/92 s3;205/2006

Declaration

4(1) No eligible oil from an eligible well is entitled to a royalty reduction unless the Minister is satisfied that crude oil or oil sands obtained from a horizontal extension of an eligible well is eligible oil from an eligible well and issues a declaration to that effect.

(2) No declaration may be issued unless the operator of the eligible well or the holder of a licence issued for the eligible well under the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act* applies to the Minister for the declaration.

- (3) The application must be received by the Minister within 6 months after the month in which the drilling of the horizontal extension was, according to the records of the Regulator, finished.
- (4) The application must contain the information required by the Minister.
- (5) The effective date of the declaration is the first day of the first month after September 30, 1992 in which eligible oil is obtained through the horizontal extension of an eligible well.

AR 348/92 s4;205/2006;89/2013

Royalty reduction

5(1) The royalty payable under the *Petroleum Royalty Regulation* and the *Oil Sands Royalty Regulation, 1984* on eligible oil that is obtained in a production month occurring on or before December 31, 2008 from a horizontal extension of an eligible well having a maintenance volume exceeding 184 m³ is reduced to the maintenance royalty for such eligible oil.

(2) The royalty payable under the *Petroleum Royalty Regulation* and the *Oil Sands Royalty Regulation, 1984* on eligible oil that is obtained in a production month occurring on or before December 31, 2008 from a horizontal extension of an eligible well having a maintenance volume equal to or less than 184 m³ is reduced to the sum of

- (a) the maintenance royalty for the portion of the eligible oil that equals the maintenance volume, and
- (b) the amount calculated as 1/2 of the maintenance royalty for the balance of the eligible oil.

(3) Subsections (1) and (2) do not apply if the conventional royalty for the eligible oil is less than the applicable reduced royalty.

AR 348/92 s5;205/2006;222/2008

Termination of royalty reduction

6(1) A royalty reduction in respect of an eligible well terminates

- (a) at the beginning of the month in which a royalty reduction under the *Low Productivity Well Royalty Reduction Regulation* (AR 350/92) applies to crude oil or oil sands obtained from the well, unless the royalty reduction for the well under that Regulation is wholly revoked under section 7 of that Regulation,
- (b) at the beginning of the month in which the well becomes a reactivated well under the *Reactivated Well Royalty*

Exemption Regulation (AR 352/92), unless the royalty exemption in respect of the well under that regulation is wholly revoked under section 7 of that Regulation,

- (c) at the beginning of the month in which the well becomes an ineligible well,
- (d) at the beginning of the month after the month in which the well is abandoned,
- (e) on August 31, 2007, if on or before that date the value of the royalty reduction for the well determined under subsection (2) exceeds the maximum value determined for the well under subsection (4), or
- (f) when the value of the royalty reduction for the well determined under subsection (2) exceeds the maximum value determined for the well under subsection (4), if that occurs after August 31, 2007 and on or before December 31, 2008.

(2) The value of the royalty reduction for an eligible well for the purposes of subsection (1)(e) and (f) is the aggregate of the amounts determined under subsection (3).

(3) For each month that a royalty is reduced in respect of a well pursuant to section 5, the Minister shall determine the value of the royalty reduction for that month by

- (a) subtracting the reduced royalty from the conventional royalty that would otherwise have been payable in respect of the production from the well for that month, and
- (b) multiplying the difference obtained under clause (a) by the par price prescribed under section 1.1(4) of the *Petroleum Royalty Regulation* for that month that would otherwise have applied to the calculation of the conventional royalty on production from the well for that month.

(4) The maximum value for the purposes of subsection (1)(e) and (f) of a well is the product of \$900 000 multiplied by the Crown interest for the well for the first production month in which a royalty reduction applied in respect of the well.

AR 348/92 s6;205/2006;222/2008

Factors affecting entitlement

7(1) If the Minister is of the opinion that

- (a) production of eligible oil from an eligible well that is receiving a royalty reduction has resulted in a material

reduction in the production of crude oil or oil sands that is not eligible oil from another well,

- (b) there are circumstances that, had they been known when a declaration was issued under section 4, would have resulted in a refusal of the application for the declaration,
- (c) section 8 or 9 has not been complied with in relation to a well,
- (d) the crude oil or oil sands referred to in section 2(2) in respect of a well was materially curtailed during the whole or any part of the 12 production months referred to in that section,
 - (d.1) compliance with section 47(6) of the Act in connection with an audit or examination relating to a royalty reduction in respect of a well has been inadequate, or
- (e) one or more acts, agreements, arrangements, transactions or operations were, before or after the coming into force of this Regulation, effected for the purpose of improperly, artificially or unduly obtaining or increasing a royalty reduction under this Regulation in respect of a well,

the Minister may refuse an application under section 4 in respect of the well, may revoke a declaration made in respect of the well or may specify a volume as the maintenance volume of the well that is greater than the maintenance volume under section 2.

(2) If the Minister revokes a declaration under subsection (1), Crown royalty on the eligible oil obtained from the well is calculated as if entitlement to the royalty reduction never arose.

(3) If the Minister specifies a volume under subsection (1) as the maintenance volume of a well, the royalty reduction on eligible oil obtained from the well is calculated as if the volume so specified was always the maintenance volume of the well.

AR 348/92 s7;205/2006

Request to revoke declaration

7.1(1) The Minister may wholly revoke a declaration issued in respect of an eligible well on receiving a written request to do so from the operator of the well or the holder of a licence issued for the well under the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act*.

(2) A written request under subsection (1) must be received by the Minister within 6 months after the end of the month in which the

declaration in respect of eligible oil obtained from the well is effective.

(3) If the Minister revokes a declaration under subsection (1), Crown royalty on the eligible oil obtained from the well is calculated as if entitlement to the royalty reduction never arose.

AR 205/2006 s10

Reinstatement of declaration

7.2(1) If the Minister considers it appropriate to do so, the Minister may reinstate a declaration that was revoked wholly or in part under section 7 or 7.1.

(2) If the Minister reinstates a declaration under subsection (1) in respect of an eligible well, royalty on the eligible oil obtained from the well is calculated as if the declaration was never revoked.

(3) A reinstatement made by the Minister under subsection (1) may be made effective on a date earlier than the date the reinstatement is made, but may not be effective in respect of any period of time for which the Minister's power under section 38 of the Act to recalculate or make additional calculations of the Crown's royalty share of a mineral has expired.

AR 205/2006 s10

Limit on royalty adjustments

7.3 Despite any other provisions of this Regulation, oil obtained from an oil well or oil sands obtained from an oil sands well does not qualify for a royalty reduction under this Regulation in any month in which any of the following royalty adjustments have been made in respect of the oil or oil sands:

- (a) the royalty reduction provided for in the *Low Productivity Well Royalty Reduction Regulation* (AR 350/92);
- (b) the royalty exemption provided for in the *Reactivated Well Royalty Exemption Regulation* (AR 352/92);
- (c) the royalty exemption provided for in the *Third Tier Exploratory Well Royalty Exemption Regulation* (AR 16/93).

AR 205/2006 s10

Additional information

8 For the purposes of administering this Regulation or evaluating, formulating or administering the policies and programs of the Department regarding royalties, the Minister may at any time request in writing that an applicant under section 4, a holder of a

licence issued for an eligible well under the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act*, or the operator of an eligible well, or any of them, provide the Minister with the information respecting the eligible well or a horizontal extension of the eligible well, including information respecting the cost of recovering crude oil or oil sands from the horizontal extension.

AR 348/92 s8;205/2006

Reporting errors

9 A person who has, due to a royalty reduction, paid less royalty than would be payable in the absence of the royalty reduction shall forthwith notify the Minister in writing on learning of any circumstances that, had they been known when the Minister issued a declaration under section 4, would have resulted in the Minister refusing to issue the declaration or specifying a volume under section 7.

Expiry

10 This Regulation expires on June 30, 2014.

AR 348/92 s10;205/2006;222/2008



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