



Province of Alberta

## MINES AND MINERALS ACT

# PETROLEUM ROYALTY REGULATION, 2017

### **Alberta Regulation 212/2016**

With amendments up to and including Alberta Regulation 52/2019

Current as of September 30, 2019

### Office Consolidation

© Published by Alberta Queen's Printer

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(Consolidated up to 52/2019)

**ALBERTA REGULATION 212/2016**

**Mines and Minerals Act**

**PETROLEUM ROYALTY REGULATION, 2017**

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**Part 1  
General****Interpretation****1(1)** In this Regulation,

- (a) “crude oil” means a mixture mainly of pentanes and heavier hydrocarbons
  - (i) that may be contaminated with sulphur compounds,
  - (ii) that is recovered or is recoverable at a well from an underground reservoir, and
  - (iii) that is liquid at the conditions under which its volume is measured or estimated,and includes all other hydrocarbon mixtures so recovered or recoverable except natural gas, field condensate or crude bitumen;
- (b) “field condensate” means field condensate as defined in the *Natural Gas Royalty Regulation, 2017*;
- (c) “heavy oil” means the category of crude oil determined under section 4 as heavy oil;
- (d) repealed AR 52/2019 s8;
- (e) “initial activity” means all drilling and fracture operations in a well resulting in a TVD, TLL or TPPE that occur within one year of the well first commencing production;
- (f) “licence” means a licence for a well issued under the *Oil and Gas Conservation Act*;
- (g) “licensee” means the holder of a licence according to the records of the Regulator and includes a trustee or receiver-manager of property of a licensee;
- (h) “light oil” means the category of crude oil determined under section 4 as light oil;
- (i) “medium oil” means the category of crude oil determined under section 4 as medium oil;

- (j) “operator”, in respect of a well, means the person who is the operator according to the records of the Department;
- (k) “opted in well” means a well that has been approved as an early opted in well by the Minister under Part 2 of this Regulation or under Part 3 of the *Natural Gas Royalty Regulation, 2017*;
- (l) “par price” means the par price determined under section 5 applicable to the category of crude oil determined by the Minister under section 4;
- (m) “pool” means a natural underground reservoir containing or appearing to contain an accumulation of petroleum or natural gas separated or appearing to be separated from any other such accumulation;
- (n) “producing interval” means a perforation from which production is obtained;
- (o) “production month” means the month in which petroleum is recovered;
- (p) “re-entry” means all drilling or fracture operations in a well resulting in a change to TVD, TLL or TPPE that occurs at least one year after the first date a well commences production after initial activity or previous re-entry activity;
- (q) “Regulator” means the Alberta Energy Regulator;
- (r) “royalty” means royalty reserved to the Crown in right of Alberta;
- (s) “solution gas” means
  - (i) gas that is separated from crude oil after recovery from a well, and
  - (ii) gas that is dissolved in crude oil under initial reservoir conditions and includes any of that gas that evolves as a result of changes in pressure or temperature, or both, due to human disturbance;
- (t) “TLL” means the total lateral length of a well in metres as determined by the Minister
  - (i) for a single-leg well by subtracting the TVD from the TMD, and
  - (ii) for a multi-leg well by subtracting the deepest TVD in the well from the TMD;

- (u) “TMD” means the total measured depth of a well in metres calculated by using the measured depth of the well bore and adding the length of any legs in the well measured from the end of the leg back to the first unique kickoff point for that leg;
- (v) “TPPe” means the total proppant placed in a well in tonnes as determined by the Minister using the records of the Regulator and the proppant equivalent prescribed by the Minister;
- (w) “TVD” means the true vertical depth of a well in metres determined by measuring the vertical distance in metres in a perpendicular line from the kelly bushing of a well to the base of the deepest drilled leg;
- (x) “ultra-heavy oil” means the category of crude oil determined under section 4 as ultra-heavy oil;
- (y) “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 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 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;
- (z) “zone” means any stratum or any sequence of strata that is designated by the Regulator as a zone.

**(2)** A reference in this Regulation to a month, whether by its name or not, shall be construed as the period commencing at 8:00 a. m. Mountain Standard Time on the first day of the month and ending immediately before 8:00 a.m. Mountain Standard Time on the first day of the next month.

AR 212/2016 s1;52/2019

**Application of Regulation**

**2** This Regulation applies to royalty on crude oil and solution gas obtained from petroleum

- (a) recovered from a well on or after January 1, 2017, and
  - (i) if the well has a spud date of January 1, 2017 or later;
  - (ii) if the well has a spud date earlier than January 1, 2017 and has been subject to re-entry on or after January 1, 2017 and either or both of the following apply:
    - (A) the well has been given a new spud or finished drilling date and the well has been given a new TVD or TMD;
    - (B) new proppant has been placed in the well that meets the minimum equivalency threshold set out in the Schedule,

as long as the well has a C\* amount in dollars remaining as calculated under section 2 of the Schedule;

- (b) recovered from a well on or after July 13, 2016 if the well has been approved as an opted in well, and
- (c) recovered from a well on or after January 1, 2027.

**Section 86 of the Mines and Minerals Act**

**3** Section 86 of the *Mines and Minerals Act* applies to all agreements granting petroleum and natural gas rights or petroleum rights and to crude oil obtained from petroleum recovered pursuant to those agreements.

**Categories and densities of crude oil**

**4(1)** The categories of crude oil and the density of each category are as specified in the following Table:

**Crude Oil Category and Density Table**

<b>Category of Crude Oil</b>	<b>Density</b>
light oil	less than 850 kilograms per cubic metre
medium oil	greater than or equal to 850 kilograms per cubic metre and less than 900 kilograms per cubic metre
heavy oil	greater than or equal to 900 kilograms per cubic metre and less than 925 kilograms per cubic metre
ultra-heavy oil	greater than or equal to 925 kilograms per cubic metre

(2) The category for crude oil recovered from a well event during a month is determined by the Minister based on density information included in records provided to the Minister by the Regulator.

(3) In making a determination under subsection (2), the Minister may request and consider density information from the Alberta Petroleum Marketing Commission and the operator.

(4) If density information is not available to make a determination under subsection (2), the category for crude oil recovered from a well event during a month is light oil.

**Prescribing par prices**

**5** The Minister may, with respect to any month, determine an amount per cubic metre as the par price for each of the following:

- (a) light oil;
- (b) medium oil;
- (c) heavy oil;
- (d) ultra-heavy oil.

**Royalty**

**6(1)** The royalty on petroleum recovered from a well event pursuant to an agreement granting petroleum and natural gas rights, petroleum rights or natural gas rights is

- (a) that part of the crude oil obtained from the petroleum in each month calculated in accordance with the Schedule, and
- (b) that part of the solution gas obtained from the petroleum in each month calculated in accordance with the *Natural Gas Royalty Regulation, 2009* or the *Natural Gas Royalty Regulation, 2017*, as applicable.

(2) The royalty on crude oil and solution gas must be free and clear of all deductions.

#### **Calculation of royalty**

7 The royalty on petroleum recovered from a well event that is also eligible production under the *New Well Royalty Regulation* is the lesser of

- (a) the royalty percentage calculated pursuant to section 6, and
- (b) 5%.

#### **Approved schemes under the Enhanced Oil Recovery Royalty Regulation, the Enhanced Hydrocarbon Recovery Royalty Regulation and the Emerging Resources Royalty Regulation**

8(1) Notwithstanding anything in this Regulation, the *Enhanced Oil Recovery Royalty Regulation* applies to the calculation of royalty under this Regulation on crude oil recovered or produced from, or obtained from petroleum recovered from, a well event to which an approval as defined in the *Enhanced Oil Recovery Royalty Regulation* applies.

(2) Notwithstanding anything in this Regulation, the *Enhanced Hydrocarbon Recovery Royalty Regulation* applies to the calculation of royalty under this Regulation on crude oil recovered or produced from, or obtained from petroleum recovered from, a well event to which an approval as defined in the *Enhanced Hydrocarbon Recovery Royalty Regulation* applies.

(3) Notwithstanding anything in this Regulation, the *Emerging Resources Royalty Regulation* applies to the calculation of royalty under this Regulation on crude oil recovered or produced from, or obtained from petroleum recovered from, a well to which an approval as defined in the *Emerging Resources Royalty Regulation* applies.

**Adjustment of royalty**

**9(1)** Repealed AR 52/2019 s8.

**(2)** Repealed AR 52/2019 s8.

**(3)** Where, by an order made pursuant to the *Oil and Gas Conservation Act*, the maximum allowable production from a well event is determined for a period in excess of one month, the royalty that has been calculated, levied and collected on crude oil shall, on application by the operator or licensee, at the end of that period be recalculated for each month during the period that crude oil was produced from the well event, and for that purpose the production of crude oil is deemed to have been produced at the same rate as specified in the order for each month of the period.

**(4)** If the royalty that has been levied and collected is in excess of the amount recalculated under subsection (3), a payment of the excess amount must be made in accordance with section 15 of the *Petroleum Marketing Regulation* (AR 174/2006) as if the excess amount was an overdelivery of crude oil for the purposes of that section.

AR 212/2016 s9;52/2019

**Crown tract in unit**

**10** If petroleum owned by the Crown is subject to a unit agreement or unit operation order, the unit area under the unit agreement or order is deemed to be a location for the purpose of determining the royalty calculated under sections 3 and 4 of the Schedule applicable to the portion of the production allocated to any tract contained in an agreement.

**Lesser royalty**

**11** Where in the opinion of the Lieutenant Governor in Council it is necessary or desirable in the interests of conservation or of maintaining or increasing the recovery of crude oil or natural gas from one or more well events in one or more wells, a pool or any portion of a pool, the Lieutenant Governor in Council may by order

- (a) prescribe a royalty with respect to the crude oil recovered from the one or more well events, the pool or portion of the pool, that is less than the royalty that would otherwise be deliverable under this Regulation, and
- (b) prescribe the period in respect of which the order is to apply.

**Responsibility of operator**

**12** Where petroleum is recovered from a well in a month pursuant to an agreement, the operator of the well for that month is responsible as the agent of the lessee of the agreement for the delivery of the royalty on crude oil under the agreement in respect of that month.

**Objections**

**13** An operator is authorized to make an objection under section 39 of the Act.

**Minister's decision final**

**14** Where any question arises pertaining to the interpretation or application of this Regulation, the Minister is the sole judge of the question and there is no appeal from the Minister's decision.

**Furnishing documents to the Minister**

**15(1)** If this Regulation requires a document to be furnished to the Minister, or an amount to be paid to the Crown, on or before a day, the document is deemed to be furnished or the amount is deemed to be paid, as the case may be, if it is received by the Department on or before that day.

**(2)** Unless otherwise directed by the Minister, where any document required or permitted to be furnished under this Regulation must be provided in a form required by the Minister, the document must

- (a) contain complete and accurate information required by the form, and
- (b) be completed in accordance with any general directions given by the Minister or any instructions shown in the form.

**(3)** The Minister may refuse to accept a document that does not meet the requirements of subsection (2) and in that case the document is, for the purposes of this Regulation, deemed not to have been furnished.

**Part 2  
Opted In Wells****Definitions**

**16** In this Part, "eligible well" means a well that is an eligible well under section 17.

**Eligible well**

**17(1)** A well that meets all of the following criteria is an eligible well for the purposes of this Part:

- (a) a well with a spud date of July 13, 2016 or later but on or before December 31, 2016;
- (b) a well that does not produce oil sands or crude bitumen;
- (c) the Minister is of the opinion that the well would not have been spud between July 13, 2016 and December 31, 2016 without the approval for opt in by the Minister under this Part.
- (d) the well is not subject to re-entry.

(2) Information must be provided to the Minister by the licensee if required to aid in determining whether a well meets the criteria set out in this section.

**Application**

**18(1)** The licensee of an eligible well may apply, in accordance with this section, to have the royalty on crude oil and solution gas obtained from petroleum recovered from that well determined under this Regulation in accordance with the provisions set out in the Schedule.

(2) The licensee must furnish the application in writing to the Minister before the well's spud date and on or after July 13, 2016.

**Approval**

**19** On receiving an application under section 18, the Minister may approve an application for opt in for an eligible well if, in the opinion of the Minister, it is in the public interest to do so.

**When opt in has effect**

**20** An approval by the Minister in respect of an eligible well has effect from the first day of the first production month of the eligible well.

**When opt in approval ceases to have effect**

**21** An opt in approval by the Minister ceases to have effect in respect of a well on the date on which the well ceases to be an eligible well.

**Part 3**  
**Consequential Amendments and**  
**Coming into Force**

**Consequential amendment**

**22** The *Enhanced Oil Recovery Royalty Regulation* (AR 156/2014) is amended in section 5 by adding “or under section 3 of the Schedule to the *Petroleum Royalty Regulation, 2017*” after “*Petroleum Royalty Regulation, 2009*”.

**Consequential amendment**

**23** The *Petroleum Royalty Regulation, 2009* (AR 222/2008) is amended by repealing section 2 and substituting the following:

**Application of regulation**

**2** Subject to section 2 of the *Petroleum Royalty Regulation, 2017*, this Regulation applies to royalty on crude oil and solution gas obtained from petroleum recovered from a well event on or after January 1, 2009 until December 31, 2026 for wells with a spud date before January 1, 2017.

**Coming into force**

**24** This Regulation is deemed to have come into force on July 13, 2016.

**Schedule**  
**Crown Royalty Share of Crude Oil**

**Definitions**

- 1** In this Schedule,
- (a) “ACCI” means the Alberta Capital Cost Index for a year determined by the Minister on an annual basis;
  - (b) “Crown interest” means the percentage of Crown ownership of crude oil recovered from a well event as determined by the Minister in accordance with section 26.1 of the *Petroleum and Natural Gas Tenure Regulation* (AR 263/97);
  - (c) “C\*” means the drilling and completion cost allowance in dollars calculated for a well under section 2 of this Schedule;
  - (d) “quantity” means the monthly production in cubic metres of crude oil from a well according to the records of the Regulator;

- (e) “TVDa” means the average of the true vertical depths of all drilled legs.

**Calculation of C\* for a Well**

**2(1)** The C\* for a well where the TVD of the well is greater than 2000 metres is the dollar amount calculated in accordance with the following formula:

$$C^* = ACCI \times ((1170 \times (TVD - 249)) + (3120 \times (TVD - 2000)) + (Y \times 800 \times TLL) + (0.6 \times TVDa \times TPPE))$$

where

Y is the linear factor for multi-leg wells, determined in accordance with the following formula:

$$Y = 1.39 - 0.04 \times (TMD/TVDa)$$

but,

- (a) if the ratio of TMD/TVDa is less than 10, Y equals 1
- (b) if Y is calculated as less than 0.24, Y equals 0.24

If TVD is equal to or less than 249, (TVD - 249) equals 0.

**(2)** The C\* for a well where the TVD of the well is 2000 metres or less is the dollar amount calculated in accordance with the following formula:

$$C^* = ACCI \times ((1170 \times (TVD - 249)) + (Y \times 800 \times TLL) + (0.6 \times TVDa \times TPPE))$$

where

Y is the linear factor for multi-leg wells, determined in accordance with the following formula:

$$Y = 1.39 - 0.04 \times (TMD/TVDa)$$

but,

- (a) if the ratio of TMD/TVDa is less than 10, Y equals 1;
- (b) if Y is calculated as less than 0.24, Y equals 0.24.

If TVD is equal to or less than 249, (TVD - 249) equals 0.

**(3)** The incremental C\* for a well where re-entry results in lengthening only is the dollar amount calculated in accordance with the following formula:

$$C^* = ACCI \times (1000 \times TLLi)$$

where

TLLi is the TLL of the incremental drilling done since the last drilling occurrence that resulted in a calculation of C\* under this regulation.

(4) Where re-entry results in fracturing only and at least the minimum amount of proppant equivalent of 50 tonnes for a horizontal well or 10 tonnes for a vertical well is placed, the incremental C\* for the well is the dollar amount calculated in accordance with the following formula:

$$\text{Incremental } C^* = ACCI \times (1.5 \times (0.6 \times TVDp \times TPPi) + 150,000)$$

where

TPPi is the TPPE of the incremental proppant placed since the last proppant was placed that resulted in a calculation of C\* under this regulation;

TVDp is the average of the true vertical depth of the legs where incremental proppant has been placed.

(5) The incremental C\* for a well, where a re-entry results in fracturing, at least the minimum amount of proppant equivalent of 50 tonnes for a horizontal well or 10 tonnes for a vertical well is placed, and the well is also lengthened, is the dollar amount calculated as follows:

- (a) for wells that have a TVD greater than 2000 before and after lengthening:

$$\text{Incremental } C^* = C^*_{\text{new}} - C^*_{\text{prime}}$$

where

C\*<sub>new</sub> is the dollar value calculated using the formula in subsection (1), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well after the re-entry and the ACCI is the ACCI for the year of the re-entry;

C\*<sub>prime</sub> is the dollar value calculated using the formula in subsection (1), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well immediately before the re-entry and the ACCI is the ACCI for the year of the re-entry

- (b) for wells that have a TVD of 2000 metres or less before lengthening, but a TVD greater than 2000 metres after lengthening:

$$\text{Incremental } C^* = C^*_{\text{new}} - C^*_{\text{prime}}$$

where

$C^*_{\text{new}}$  is the dollar value calculated using the formula in subsection (1), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well after the re-entry and the ACCI is the ACCI for the year of the re-entry;

$C^*_{\text{prime}}$  is the dollar value calculated using the formula in subsection (2), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well immediately before the re-entry and the ACCI is the ACCI for the year of the re-entry

- (c) for wells that have a TVD of 2000 metres or less before and after lengthening:

$$\text{Incremental } C^* = C^*_{\text{new}} - C^*_{\text{prime}}$$

where

$C^*_{\text{new}}$  is the dollar value calculated using the formula in subsection (2), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well after the re-entry and the ACCI is the ACCI for the year of the re-entry; and

$C^*_{\text{prime}}$  is the dollar value calculated using the formula in subsection (2), but where TVD, TVDa, TPPE, TLL and Y are measured or calculated for the well immediately before the re-entry and the ACCI is the ACCI for the year of the re-entry.

(6) For the purposes of this section a vertical well is a well that is not determined to be a horizontal well by the Minister under subsection (7).

(7) For the purposes of this section a horizontal well is a well that is determined to be a horizontal well by the Minister based on:

- (a) the well having at least one well event classified by the Regulator as “horizontal”, and

- (b) according to the records of the Regulator, the well having at least one well event that was drilled at a wellbore inclination angle exceeding 80 degrees.

**(8)** Incremental drilling and usage of proppant after the date the C\* for a well is first calculated will result in an increase in the C\* for a well as a result of a recalculation of the C\* under whichever of subsections (3), (4) or (5) are applicable to the incremental drilling and usage of proppant.

**(9)** A well with a spud date before January 1, 2017, other than an opted in well, that is subject to re-entry will receive a C\*, but only for the incremental drilling done in the well and for the proppant used on the well after January 1, 2017.

**(10)** For further clarity, any re-entry activity that takes place within the year following the first date a well commences production after a previous re-entry will result in a recalculation of incremental C\* under whichever of subsections (3), (4) or (5) are applicable instead of a new incremental C\*.

**Calculation of Crown royalty share  
when C\* greater than zero**

**3(1)** Subject to subsection (2), the royalty for a month is the amount calculated in accordance with the following formula:

$$\text{royalty in cubic metres} = (5\%) \times \text{quantity} \times \text{Crown interest}$$

**(2)** Royalty will be calculated according to subsection (1) until a well's total revenue from all hydrocarbon products as determined by the Minister equals C\* or until a well has been abandoned according to the records of the Regulator, whichever comes first.

**(3)** Once a well's total revenue from all hydrocarbon products as determined by the Minister equals C\*, royalty for all subsequent months will be calculated under

- (a) section 4 of this Schedule for
  - (i) wells spud on or after January 1, 2017, and
  - (ii) opted in wells, and
  - (iii) all wells on or after January 1, 2027.
- (b) the *Petroleum Royalty Regulation, 2009* for wells that were spud before January 1, 2017 and are not opted in wells until December 31, 2026.

**(4)** Revenue from a well will be determined by multiplying the volumes of all the hydrocarbons produced from the well by their

respective par prices for the time period in which the well has a C\* greater than or equal to the revenue determined under this subsection. For crude oil the volumes used will be produced volumes and for natural gas and natural gas products the volumes used will be allocated volumes.

(5) The volumes referenced in subsection (4) include freehold volumes.

#### Calculation of Crown royalty share post C\*

4(1) Subject to subsection (2), the royalty for a month is the amount calculated in accordance with the following formula:

$$\text{royalty in cubic metres} = (r_p\% + r_q\%) \times \text{quantity} \times \text{Crown interest}$$

where

$r_p\%$  is the percentage rate for price calculated in accordance with section 5 of this Schedule;

$r_q\%$  is the percentage rate for oil equivalent volume calculated in accordance with section 6 of this Schedule.

(2) Where the calculation of  $(r_p\% + r_q\%)$

(a) is less than 5%, the amount is 5%, or

(b) is more than 40%, the amount is 40%.

#### Calculation of rate for price

5(1) In the case of a production month commencing with and subsequent to the January 2017 production month, the  $r_p\%$  for the purpose of section 4 of this Schedule is calculated in accordance with the following Table:

**Rate for Price Table**

Par Price	Formula
par price less than or equal to \$251.70 per cubic metre	$r_p\% = 10\%$
par price greater than \$251.70 per cubic metre and less than or equal to \$409.02 per cubic metre	$r_p\% = [(\text{par price} - 251.70) \times 0.00071 + 0.10000] \times 100$
par price greater than \$409.02 per cubic metre and less than or equal to \$723.64 per cubic metre	$r_p\% = [(\text{par price} - 409.02) \times 0.00039 + 0.21170] \times 100$

par price greater than \$723.64 per cubic metre	$r_p\% = [(par\ price - 723.64) \times 0.00020 + 0.33440] \times 100$
Maximum/Default	40%

#### Calculation of rate for oil equivalent volume

**6** The  $r_q\%$  for the purpose of section 4 of this Schedule is calculated in accordance with the following Table:

**Rate for Oil Equivalent Volume Table**

Oil Equivalent Volume	Formula
oil equivalent volume greater than zero and less than 194.0 cubic metres	$r_q\% = [(oil\ equivalent\ volume - 194.0) \times 0.001350] \times 100$
oil equivalent volume greater than or equal to 194.0 cubic metres	$r_q\% = 0\%$

Oil equivalent volume is the total of all crude oil volumes, field condensate volumes and gas volumes using a conversion factor of 1.7811.

#### Reporting requirements

**7** For the purposes of determining royalty under this Schedule information required by the Minister must be provided to the Minister by the licensee or operator in the form and in the time prescribed by the Minister.

AR 212/2016 Sched.;27/2017



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