



Province of Alberta

MINES AND MINERALS ACT

NATURAL GAS ROYALTY REGULATION, 2002

Alberta Regulation 220/2002

With amendments up to and including Alberta Regulation 89/2013

Office Consolidation

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(Consolidated up to 89/2013)

ALBERTA REGULATION 220/2002

Mines and Minerals Act

NATURAL GAS ROYALTY REGULATION, 2002

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**Part 1
General****Definitions**

- 1 In this Regulation,

(a) "Act" means the *Mines and Minerals Act*;

- (a.1) “allocable costs” means allocable costs as defined in the *Innovative Energy Technologies Regulation*;
- (b) “allocation data” means owner allocation data or stream allocation data or both;
- (c) “allowable costs” means costs and allowances for which the Crown is liable under section 20(1);
- (d) “battery” means a pipeline or pipeline installation at which natural gas recovered from one or more wells is collected and measured prior to its delivery to another facility or into a pipeline;
- (e) repealed AR 89/2013 s24;
- (f) “butanes” means, in addition to its normal scientific meaning, a mixture mainly of butanes that ordinarily may contain some propane or pentanes plus;
- (g) “commercial storage facility” means the wells and other facilities used in the operation of a commercial storage scheme and designated by the Minister as a commercial storage facility for the purposes of this Regulation;
- (h) “commercial storage scheme” means a scheme approved or ordered by the Regulator under the *Oil and Gas Conservation Act* for the storage of natural gas or a gas product in an underground formation or subsurface cavern and designated by the Minister as a commercial storage scheme for the purposes of this Regulation;
- (i) “common stream operator”, in relation to natural gas or residue gas delivered from one or more facilities to a receipt meter station in a production month, means the person who is recorded in the Petroleum Registry of Alberta as the common stream operator in relation to that natural gas or residue gas;
- (j) “component analysis” means an analysis of a sample of natural gas or residue gas to determine the respective volumes and quantities of in-stream components of the natural gas or residue gas;
- (j.1) “cost of conservation gas” means the cost of conservation gas determined in accordance with section 7(5) of Schedule 1;
- (k) “Crown lease” means an agreement granting petroleum and natural gas rights, natural gas rights, petroleum rights or oil sands rights;

- (l) “Crown percentage”, in relation to a well group, means the portion of the production from well events in the group that is recovered pursuant to a Crown lease, as shown in the records of the Department;
- (m) “dispose of”, in relation to any natural gas or gas product, means
 - (i) to sell and deliver the natural gas or gas product to a buyer, or
 - (ii) to otherwise dispose of and deliver the natural gas or gas product to a person who by reason of the disposition becomes its owner;
- (n) “document” includes information transmitted electronically;
- (o) “facility” means
 - (i) a battery,
 - (ii) a gathering system,
 - (iii) a gas processing plant,
 - (iv) a reprocessing plant,
 - (v) a gas injection facility, or
 - (vi) a commercial storage facility;
- (p) “field condensate” means products obtained from natural gas or solution gas before it is delivered to a gathering system;
- (q) “field straddle plant” means a reprocessing plant designated by the Minister as a field straddle plant for the purposes of this Regulation in a designation that remains unrevoked;
- (r) “gas injection facility” means
 - (i) the wells and other associated injection facilities, or
 - (ii) a well without any associated injection facilities, used by an operator in the operation of one or more gas injection schemes;
- (s) “gas injection scheme” means a scheme, other than a commercial storage scheme, approved or ordered by the

Regulator under the *Oil and Gas Conservation Act* and respecting the injection of natural gas or a gas product into an underground formation;

- (t) “gas processing plant” means a plant for the processing of natural gas but does not include a reprocessing plant, well head separator, treater or dehydrator;
- (u) “gas product” means residue gas, ethane, propane, butanes, pentanes plus, sulphur or any other product obtained by processing natural gas or by reprocessing residue gas or otherwise, but does not include field condensate;
- (v) “gathering” includes compressing by means of a compressor forming part of a gathering system;
- (w) “gathering system” means a pipeline or pipeline system, including installations and equipment associated with the pipeline or pipeline system, that transmits natural gas from one or more wells to a gas processing plant or other delivery point;
- (x) “in-stream component” or “ISC” means a component of natural gas or residue gas, including, without limitation, methane, ethane, propane, butanes, pentanes plus, carbon dioxide, hydrogen, hydrogen sulphide, helium and nitrogen;
- (y) “ISC reference prices”, in relation to a production month, means, collectively, the Methane ISC Reference Price, Ethane ISC Reference Price, Propane ISC Reference Price, Butanes ISC Reference Price and Pentanes Plus ISC Reference Price for that production month;
- (z) “light-ends” means a gas product that is obtained at a gas processing plant or reprocessing plant and is given by the owner of the product to another person for no consideration and that is, in the Minister’s opinion, not of a kind or quantity sufficient for the owner of the product to dispose of by way of sale;
- (aa) “mainline straddle plant” means a plant for the reprocessing of residue gas that is designated by order of the Minister as a mainline straddle plant for the purposes of this Regulation in a designation that remains unrevoked;
- (bb) “new ethane” means ethane obtained from new gas;

- (cc) “new gas” means natural gas or residue gas that qualifies as new gas under section 1 or 2 of Schedule 7;
- (dd) “new pentanes plus” means pentanes plus that qualifies as new pentanes plus under section 3 of Schedule 7;
- (ee) “1994 Regulation” means the *Natural Gas Royalty Regulation, 1994* (AR 351/93);
- (ff) “old ethane” means ethane other than new ethane;
- (gg) “old gas” means natural gas or residue gas other than new gas;
- (hh) “old pentanes plus” means pentanes plus other than new pentanes plus;
- (ii) “operator”, with reference to a facility, means the person who is the operator of the facility according to the records of the Department;
- (jj) “owner allocation data”, in relation to an allocation of quantities available for sale to a royalty client, means the owner allocation factor or factors for that allocation and the related data referred to in section 25(3)(e)(ii);
- (kk) “owner allocation factor” means an owner allocation factor referred to in section 25(3)(c) or (d);
- (ll) “pentanes plus” means a mixture of hydrocarbons consisting wholly or mainly of pentanes and heavier hydrocarbons and obtained from natural gas by processing or otherwise, but does not include field condensate;
- (mm) “Petroleum Registry of Alberta” or “Registry” means the electronic information system administered by the Department and called the Petroleum Registry of Alberta;
- (nn) “plant gate” means
 - (i) in relation to a gas processing plant, the first point of measurement of the quantity of a gas product after it is obtained at that gas processing plant, or
 - (ii) in relation to a reprocessing plant, the first point of measurement of the quantity of a gas product after it is obtained at that reprocessing plant;
- (oo) “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;

- (pp) “production entity” means
- (i) a drilling spacing unit prescribed by or established pursuant to regulations under the *Oil and Gas Conservation Act* to the extent that it is not included in an area described in subclause (ii) or (iii),
 - (ii) the area of a project as defined in the *Oil and Gas Conservation Act*, or
 - (iii) a unit area;
- (qq) “production month”, in relation to any natural gas, gas product or field condensate, means the month in which it is recovered or obtained;
- (rr) “propane” means, in addition to its normal scientific meaning, a mixture mainly of propane that ordinarily may contain some ethane or butanes;
- (ss) “quantities available for sale”, in relation to a production month, means
- (i) the quantities or volumes of gas products obtained during the production month at a gas processing plant or reprocessing plant,
 - (ii) the quantities or volumes of natural gas or gas products delivered from a gathering system during the production month, except quantities or volumes delivered to a gas processing plant, reprocessing plant or to another gathering system,
 - (iii) the quantities of natural gas delivered during the production month from a battery, or
 - (iv) the quantities or volumes of natural gas or gas products disposed of during the production month before being delivered to a gas processing plant or reprocessing plant;
- (tt) “receipt meter station” means each place on a pipeline at which natural gas or residue gas can be received and the quantity so received can be measured;
- (tt.1) “Regulator” means the Alberta Energy Regulator;
- (uu) “reprocessing plant” means a plant for the reprocessing of residue gas, with or without the capacity of processing natural gas, but does not include a mainline straddle plant;

- (vv) “residue gas” means a gaseous mixture consisting primarily of methane and obtained as a separate product at a gas processing plant or reprocessing plant;
- (ww) “royalty calculation point”, in relation to any natural gas, gas product or field condensate, means the place determined under section 11 as the place at which the Crown’s royalty share of the natural gas, gas product or field condensate is to be calculated;
- (xx) “royalty client” means
 - (i) with reference to a well group, a person shown in the records of the Department as a royalty client for that well group, or
 - (ii) with reference to the Crown’s royalty share of excess or unallocated quantities of natural gas or gas products referred to in section 26, a person who is deemed to be a royalty client in respect of those quantities by reason of the operation of section 26(1)(c) or (2)(c);
- (yy) “royalty client account” means an account maintained by the Department for a royalty client pursuant to section 18(6);
- (zz) “royalty compensation” means money payable to the Crown under this Regulation as compensation in respect of the Crown’s royalty share of natural gas, a gas product or field condensate, the Crown’s title to which is transferred pursuant to section 17;
- (aaa) “royalty invoice” means a monthly invoice issued and sent to a royalty client pursuant to section 18(1);
- (bbb) “solution gas” means
 - (i) gas that is separated from crude oil or crude bitumen after recovery from a well, and
 - (ii) gas that is dissolved in crude oil or crude bitumen 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;
- (ccc) “special pentanes plus” means pentanes plus designated by the Minister as special pentanes plus for the purposes of this Regulation;

- (ddd) “stream allocation data”, in relation to an allocation of quantities available for sale, means the stream allocation factor or factors for that allocation and the related data referred to in section 25(3)(e)(i);
- (eee) “stream allocation factor” means a stream allocation factor referred to in section 25(3)(a) or (b);
- (fff) “unit area” means the unit area under a unit agreement or unit operation order;
- (ggg) “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 natural gas 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 natural gas 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;
- (hhh) “well group” means a well group referred to in section 22.
AR 220/2002 s1;225/2004;250/2004;208/2006;254/2007;
89/2013

Miscellaneous interpretive rules

- 2(1)** Where any reference is made in this Regulation to a month, whether by its name or not, the reference shall be construed as being the period commencing at 8:00 a.m. on the first day of that month and ending immediately before 8:00 a.m. on the first day of the next month.
- (2)** For the purposes of the provisions of this Regulation that refer to persons being associated with each other, persons are associated with each other if they are considered associated with each other by reason of a general or special direction of the Minister.
- (3)** For the purpose of the provisions of this Regulation that refer to persons dealing at arm’s length with each other, persons shall be regarded as not dealing at arm’s length with each other if, at a material time under this Regulation, they are related parties within

the meaning of the CICA Handbook published from time to time by the Canadian Institute of Chartered Accountants.

(4) If any natural gas or gas product is injected into a pool and any question arises as to the purpose for which the gas was injected, then, for the purposes of this Regulation, the question shall be decided by the Minister.

(5) The Minister shall decide any question arising under this Regulation as to whether any particular plant, pipeline or installation is a battery, a gathering system, a gas processing plant, a reprocessing plant, a gas injection facility or a receipt meter station for the purposes of this Regulation.

(6) Where any question arises pertaining to the interpretation or application of this Regulation, the Minister is the sole judge of the question and there shall be no appeal from the Minister's decision.

Furnishing documents to the Minister

3(1) If a provision of 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 shall be considered furnished or the amount shall be considered 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, any document required or permitted to be furnished under this Regulation must

- (a) contain all the information called for by the prescribed form, if any, for the document, and
- (b) be completed in accordance with any general directions given by the Minister or any instructions shown in the prescribed form, if any, for the document.

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

Reporting standards

4(1) In this section,

- (a) "cubic metre of gas" means the volume of natural gas or residue gas which, when dry and at standard temperature and under standard pressure, will fill a space of one cubic metre;

- (b) “gross or higher heating value” means, for the purposes of subsection (3)(a), the total joules obtained by the complete combustion of one cubic metre of natural gas or residue gas and air under conditions where
 - (i) the combination reaction is at constant standard pressure,
 - (ii) the gas, including acid gas components, is free of all water vapour,
 - (iii) the temperature of the gas, air and products of combustion are at standard temperature, and
 - (iv) all water formed by the combustion reaction is condensed to a liquid state;
- (c) “heat content” means the total amount of heat contained in a gas stream, including the sensible heat and latent heat of condensation;
- (d) “standard pressure” means the absolute pressure of 101.325 kilopascals;
- (e) “standard temperature” means 15 degrees Celsius.

(2) In a document furnished to the Minister under the Act or this Regulation,

- (a) volumes of natural gas or residue gas shall be expressed in thousands of cubic metres of gas to the nearest tenth of a thousand cubic metres;
- (b) the heating value of natural gas or residue gas shall be expressed in megajoules per cubic metre to the nearest hundredth of a megajoule per cubic metre;
- (c) quantities of natural gas or residue gas shall be expressed as heat content in gigajoules to the nearest whole gigajoule;
- (d) volumes of ethane, propane, butanes, pentanes plus and field condensate shall be expressed in cubic metres to the nearest tenth of a cubic metre;
- (e) volumes of in-stream components shall be expressed in thousands of cubic metres, to 3 decimal places;
- (f) quantities of in-stream components shall be expressed as heat content in gigajoules, to 3 decimal places;

- (g) quantities of sulphur shall be expressed in tonnes to the nearest tenth of a tonne;
 - (h) prices of natural gas or residue gas shall be expressed in dollars per gigajoule to the nearest cent.
- (3)** Subject to subsection (4), in a document furnished to the Minister under the Act or this Regulation,
- (a) volumes of natural gas, residue gas or ethane in gaseous form shall be converted to gigajoules by multiplying the volumes of the gas by the gross or higher heating value of the gas, and
 - (b) if the gross or higher heating value used under clause (a) is calculated from a component analysis of the gas, the gross or higher heating value of the gas shall be calculated in accordance with *Calculation of Gross Heating Value, Relative Density and Compressibility Factor for Natural Gas Mixtures from Compositional Analysis* (GPA Standard 2172) published from time to time by the Gas Processors Association.
- (4)** If the Minister requires a document furnished under the Act or this Regulation to show volumes or quantities of in-stream components of natural gas or residue gas,
- (a) the respective volumes of the in-stream components of the gas shall be determined from a component analysis of the gas,
 - (b) the respective volumes of the in-stream components of the gas shall be converted to gigajoules by multiplying those volumes by the gross or higher heating value of the respective in-stream components as shown in any edition of *Table of Physical Constants of Paraffin Hydrocarbons and Other Components of Natural Gas* (GPA Standard 2145) published by the Gas Processors Association, and
 - (c) the quantities of the in-stream components calculated under clause (b) shall be normalized so that the aggregate quantities of those in-stream components equal the aggregate quantities of the gas.
- (5)** The conditions of measurement of volume and heating value when not otherwise specified in this section shall be
- (a) in accordance with the provisions of the *Electricity and Gas Inspection Act* (Canada), and

- (b) corrected for actual atmospheric pressure to the nearest 2 kilopascals.

(6) For the purposes of calculating royalty on ethane under this Regulation, volumes of ethane in liquid form shall be converted to the number of cubic metres the ethane would occupy in gaseous form at standard temperature and under standard pressure.

Petroleum Registry of Alberta

(5)(1) Subject to this section, where a provision of this Regulation requires a person to furnish to the Minister

- (a) allocation data,
- (b) information respecting volumes or quantities of in-stream components of natural gas or residue gas,
- (c) information referred to in section 27(4), (5) or (7),
- (d) a report the deadline for the furnishing of which occurs on or after October 31, 2002 and before January 1, 2009, or
- (e) a report related to October 2002 or any subsequent production month up to and including December 2008,

the allocation data, information or report shall be furnished by electronic transmission to the Petroleum Registry of Alberta in accordance with the directions of the Minister respecting the operation of the Registry.

(2) The Minister may by a general direction exempt from the operation of subsection (1)

- (a) any class of persons other than operators, or
- (b) any class of reports, subject to any conditions in the direction.

(3) Section 5 of the *Mines and Minerals Administration Regulation* (AR 262/97) does not apply to the furnishing of allocation data or any information or reports to which subsection (1) applies.

(4) A reference in this Regulation to a report filed with the Regulator, to the extent it applies to a report related to October, 2002 or any subsequent production month, shall be read as a reference to a report filed with the Regulator by electronic transmission to the Registry.

(5) For the purposes of this Regulation, where natural gas or a gas product is delivered in a production month from a facility (the

“sending facility”) to a receipt meter station or another facility, the reports filed with the Regulator showing the volumes of the natural gas or gas product received at the receipt meter station or the other facility from the sending facility in that month shall, subject to subsequent corrections, be considered as the volumes delivered from the sending facility in that month.

(6) Without limiting the operation of section 4 of the *Mines and Minerals Administration Regulation* (AR 262/97),

- (a) the Minister may send to a person a royalty invoice or any notice or other document authorized or required to be sent to that person under this Regulation by electronic transmission to the Petroleum Registry of Alberta in accordance with the directions of the Minister respecting the operation of the Registry, and
- (b) a royalty invoice or a notice or other document sent in accordance with clause (a) is deemed for the purpose of this Regulation to be received by that person when it is transmitted to the Registry.

AR 220/2002 s5;221/2008;89/2013

Prescribed prices, factors, deductions and allowances

6(1) The Minister shall, by order, prescribe an amount per gigajoule as the Gas Reference Price for October 2002 and for each subsequent production month up to and including December 2008.

(2) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe the following, each expressed as an amount per gigajoule:

- (a) the Methane ISC Reference Price;
- (b) the Methane ISC Par Price;
- (c) the Methane ISC Adjusted Intra-Alberta Transportation Deduction.

(3) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe the following, each expressed as an amount per gigajoule:

- (a) the Ethane Reference Price;
- (b) the Ethane Par Price;
- (c) the Ethane ISC Reference Price;
- (d) the Ethane ISC Adjusted Intra-Alberta Transportation Deduction.

(4) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe

- (a) an amount per cubic metre as the Propane Reference Price,
- (b) an amount per gigajoule as the Propane Par Price,
- (c) an amount per gigajoule as the Propane ISC Reference Price, and
- (d) an amount per gigajoule as the Propane ISC Adjusted Intra-Alberta Transportation Deduction.

(5) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe

- (a) an amount per cubic metre as the Butanes Reference Price,
- (b) an amount per gigajoule as the Butanes Par Price,
- (c) an amount per gigajoule as the Butanes ISC Reference Price, and
- (d) an amount per gigajoule as the Butanes ISC Adjusted Intra-Alberta Transportation Deduction.

(6) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe

- (a) an amount per cubic metre as the Pentanes Plus Reference Price,
- (b) an amount per cubic metre as the Pentanes Plus Par Price,
- (c) an amount per gigajoule as the Pentanes Plus ISC Reference Price, and
- (d) an amount per gigajoule as the Pentanes Plus ISC Adjusted Intra-Alberta Transportation Deduction.

(7) The Minister shall, by order, for 2002 and for each subsequent year up to and including 2008, prescribe the following:

- (a) an amount per gigajoule as the New Methane ISC Select Price;

- (b) an amount per gigajoule as the Old Methane ISC Select Price;
- (c) an amount per gigajoule as the New Ethane Select Price;
- (d) an amount per gigajoule as the Old Ethane Select Price;
- (e) an amount per gigajoule as the Propane Select Price;
- (f) an amount per gigajoule as the Butanes Select Price;
- (g) an amount per cubic metre as the Pentanes Plus Select Price.

(8) The Minister shall, by order, for 2002 and for each subsequent year up to and including 2008, prescribe

- (a) the royalty factor for new pentanes plus, and
- (b) the royalty factor for old pentanes plus.

(9) The Minister shall, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe

- (a) the respective Transportation Allowances, expressed as amounts per cubic metre, applicable to
 - (i) propane and butanes obtained as separate products from a natural gas liquids mix by fractionation,
 - (ii) pentanes plus obtained as a separate gas product from a natural gas liquids mix by fractionation, and
 - (iii) propane, butanes and pentanes plus contained in a natural gas liquids mix,for each region of Alberta established pursuant to subsection (10);
- (b) the Fractionation Allowance, expressed as an amount per cubic metre, applicable to propane, butanes and pentanes plus obtained as separate products from a natural gas liquids mix by fractionation occurring downstream from
 - (i) the gas processing plant or reprocessing plant at which the mix was obtained, or
 - (ii) a gathering system, where the mix was not obtained at a gas processing plant or reprocessing plant;

- (c) the Special Pentanes Plus Processing Allowance, expressed as an amount per cubic metre.
- (10)** The Minister shall, by order, divide Alberta into regions for the purposes of subsection (9)(a).
- (11)** The Minister may, by order, for October 2002 and for each subsequent production month up to and including December 2008, prescribe a receipt meter station factor for a receipt meter station.
- (12)** The Minister may, by order, for October 2004 and for each subsequent production month up to and including December 2008, prescribe the following:
- (a) an adjustment factor for the month for any well event completed in the interval from the top of the Wabiskaw member to the base of the McMurray Formation in the Athabasca Oil Sands Area;
 - (b) a quantity of conservation gas for the month for any well event perforated in the interval from the top of the Wabiskaw member to the base of the McMurray Formation in the Athabasca Oil Sands Area.
- (12.1)** The Minister may, by order, for September, 2007 and for each subsequent production month, prescribe the following:
- (a) an adjustment factor for the month for any well event completed in the interval from the top to the base of the Clearwater Formation in the Fisher and Moore fields in the Cold Lake Oil Sands Area;
 - (b) a quantity of conservation gas for the month for any well event perforated in the interval from the top to the base of the Clearwater Formation in the Fisher and Moore fields in the Cold Lake Oil Sands Area.
- (13)** The Minister may, by order, designate or terminate the designation of any well event as a technical solution pilot well event.
- (14)** The adjustment factor for a well event for a production month is deemed to be zero if
- (a) the Minister does not prescribe an adjustment factor for the well event for the production month, or
 - (b) the well event is designated as a technical solution pilot well event.
- (15)** For the purpose of subsection (12), the Athabasca Oil Sands Area is the strata and area designated as the Athabasca Oil Sands

Area by the Regulator pursuant to the *Oil Sands Conservation Act* as of October 1, 2004, and includes any pool that lies in whole or in part within that strata and area.

(16) For the purpose of subsection (12.1), the Cold Lake Oil Sands Area is the strata and area designated as the Cold Lake Oil Sands Area by the Regulator pursuant to the *Oil Sands Conservation Act* as of September 1, 2007, and includes any pool that lies in whole or in part within that strata and area.

AR 220/2002 s6;225/2004;139/2005;212/2005;77/2008;
221/2008;89/2013

Fees

7 The Minister may prescribe fees for information, materials or documents, and training and other services, provided by the Department under this Regulation.

Lessee's liability unaffected

- 8** Nothing in this Regulation operates to relieve a lessee from
- (a) the lessee's liability to the Crown under an agreement for the payment of royalty, or
 - (b) the lessee's liability under this Regulation to pay to the Crown the royalty compensation in respect of the Crown's royalty share of natural gas, gas products or field condensate.

Application of Regulation

9(1) This Regulation applies to royalty on natural gas recovered, and gas products and field condensate obtained, in October 2002 and subsequent production months up to and including December 2008.

(2) This Regulation applies

- (a) to solution gas as though it were natural gas, and
- (b) except as provided in section 10(6) and (7), to products obtained from solution gas.

AR 220/2002 s9;221/2008

Part 2 Royalty

Division 1 Determination of the Crown's Royalty Share

Royalty share of natural gas, gas products and field condensate

10(1) If natural gas is recovered from a well event pursuant to a Crown lease and the natural gas is

- (a) disposed of,
- (b) consumed as a fuel,
- (c) delivered from a gathering system to a mainline straddle plant, or
- (d) removed from Alberta

without having first been processed at a gas processing plant or reprocessing plant, then, subject to this Regulation, the royalty reserved to the Crown on that natural gas shall be that portion of the natural gas so recovered calculated in accordance with Schedule 1.

(2) If

- (a) natural gas is recovered from a well event pursuant to a Crown lease, and
- (b) pentanes plus are obtained from the natural gas and delivered from a gathering system before the natural gas is processed, disposed of, consumed as a fuel or removed from Alberta,

then, subject to this Regulation, the royalty reserved to the Crown on the pentanes plus shall be that portion of the pentanes plus calculated in accordance with Schedule 5.

(3) Where natural gas is recovered from a well event pursuant to a Crown lease and gas products are obtained by processing the natural gas, then, subject to this Regulation, the royalty reserved to the Crown on the natural gas shall instead be calculated in accordance with this Regulation on gas products obtained by processing the natural gas and by reprocessing residue gas obtained from the natural gas.

(4) The royalty reserved to the Crown on gas products referred to in subsection (3) shall be calculated as follows:

- (a) except as provided in clause (b), where natural gas is processed at a gas processing plant or reprocessing plant and
 - (i) the residue gas obtained as a result of the processing is disposed of, consumed as a fuel or removed from Alberta without being reprocessed or is reprocessed at a field straddle plant or mainline straddle plant, or
 - (ii) the gas products, other than residue gas, obtained as a result of the processing are disposed of, consumed as a fuel or removed from Alberta,

the royalty reserved to the Crown on the residue gas and other gas products shall be calculated on the residue gas and other gas products obtained as a result of the processing;

- (b) where residue gas obtained by the processing of natural gas is reprocessed at one or more reprocessing plants other than a field straddle plant before the residue gas is disposed of, consumed as a fuel, delivered to a mainline straddle plant or removed from Alberta,
 - (i) the royalty reserved to the Crown on the residue gas shall be calculated on the quantity of the residue gas obtained at the last of those reprocessing plants, and
 - (ii) the royalty reserved to the Crown on the gas products other than residue gas shall be calculated on the quantities of those gas products obtained at each of those reprocessing plants.

(5) The royalty reserved to the Crown on gas products referred to in subsection (4) is

- (a) with respect to residue gas, the percentage of the residue gas calculated in accordance with Schedule 1;
- (b) with respect to ethane, the percentage of the ethane calculated in accordance with Schedule 2;
- (c) with respect to propane, the percentage of the propane calculated in accordance with Schedule 3;
- (d) with respect to butanes, the percentage of the butanes calculated in accordance with Schedule 4;
- (e) with respect to pentanes plus, the percentage of the pentanes plus calculated in accordance with Schedule 5;

- (f) with respect to sulphur, the percentage of the sulphur prescribed in Schedule 6;
- (g) with respect to any other gas product not mentioned in clauses (a) to (f), 30% of the gas product.

(6) The royalty reserved to the Crown on field condensate shall be determined in accordance with subsection (7) as though the field condensate were non-heavy oil as defined in the *Petroleum Royalty Regulation* (AR 248/90).

(7) For the purposes of subsection (6), the royalty reserved to the Crown on field condensate shall be determined

- (a) under Schedule 3 of the *Petroleum Royalty Regulation* (AR 248/90), if
 - (i) the natural gas from which it is obtained is new gas,
 - (ii) the crude oil from which it is separated when it is obtained from petroleum is new oil by reason of section 5(2) of the *Petroleum Royalty Regulation* (AR 248/90), or
 - (iii) the Minister determines that the royalty reserved on it should be determined under Schedule 3 of the *Petroleum Royalty Regulation* (AR 248/90) in a particular case,

or

- (b) under Schedule 2 of the *Petroleum Royalty Regulation* (AR 248/90), in any other case.

(8) The Crown's royalty share of natural gas and gas products shall be calculated with reference to natural gas and gas products that are quantities available for sale.

(9) The royalty on natural gas, gas products and field condensate shall be free and clear of all deductions.

Royalty calculation point

11 Unless the Minister otherwise determines in a particular case, the place at which the Crown's royalty share of natural gas, gas products or field condensate is to be calculated is the place determined in accordance with the following rules:

- (a) the royalty share of natural gas referred to in section 10(1) shall be calculated at

- (i) the last point of measurement before the natural gas is delivered from the gathering system in which it is transported, or
 - (ii) the point of delivery under the disposition, if the natural gas is disposed of and the point of delivery is upstream from the point referred to in subclause (i);
- (b) the royalty share of pentanes plus referred to in section 10(2) shall be calculated at the first point of measurement after the pentanes plus are delivered from the gathering system;
 - (c) the royalty share of residue gas and other gas products referred to in section 10(4)(a) shall be calculated at the plant gate of the gas processing plant at which the residue gas and other gas products are obtained;
 - (d) the royalty share of residue gas referred to in section 10(4)(b)(i) shall be calculated at the plant gate of the last of the reprocessing plants referred to in that subclause;
 - (e) the royalty share of a gas product referred to in section 10(4)(b)(ii) shall be calculated at the plant gate of the reprocessing plant at which the gas product is obtained;
 - (f) the royalty share of field condensate shall be calculated at its first point of measurement after being obtained from natural gas or solution gas.

Special royalty O.C.

12 Where in the opinion of the Lieutenant Governor in Council it is necessary or desirable in the interest of conservation or of maintaining or increasing the recovery of crude oil or natural gas from a well event, a group of well events, a pool or any portion of a pool, the Lieutenant Governor in Council may by order

- (a) prescribe a royalty payable with respect to natural gas obtained from the well event, the group of well events, the pool or portion of the pool, or any gas products obtained from that natural gas, that is less than the royalty that would otherwise be payable under this Regulation, and
- (b) prescribe the period in respect of which the order is to apply.

Unit operations

13 When natural gas recovered pursuant to a Crown lease is subject to a unit agreement or unit operation order, the unit area

shall be deemed to be a location for the purposes of determining the rate of royalty applicable to the portion of the production allocated to any tract wholly or partly within the location of the Crown lease.

Proportionment of royalty liability

14(1) When the whole or part of a location forms a part only of a production entity other than a unit area, the royalty payable to the Crown under this Regulation on production from a well event or events in the production entity shall be

- (a) in the proportion that the area of the location within the production entity bears to the whole of the area of the production entity, or
- (b) if the production entity is a drilling spacing unit and an order under section 80 or 81 of the *Oil and Gas Conservation Act* is in effect with respect to the drilling spacing unit, in the proportion that the share of the production allocated to the location or the part of the location contained in the drilling spacing unit bears to the whole of the production from the drilling spacing unit,

and the well event or events in the production entity are deemed to be in the location or part of the location.

(2) Where the whole or part of a location forms the whole or part of a drilling spacing unit that is partly inside and partly outside a unit area, then, for the purposes of calculating royalty on the natural gas recovered from a well event in the drilling spacing unit and gas products and field condensate obtained from that natural gas, portions of the natural gas shall be attributed to the parts of the drilling spacing unit inside and outside the unit area, in the proportions that the areas of those respective parts of the drilling spacing unit inside and outside the unit area bear to the whole of the area of the drilling spacing unit.

When royalty not payable

15(1) No royalty is payable to the Crown,

- (a) subject to subsection (3), on natural gas or residue gas consumed as a fuel in operations for gathering or processing natural gas recovered pursuant to a Crown lease, or on residue gas consumed as a fuel in operations for reprocessing residue gas obtained from natural gas recovered pursuant to a Crown lease, where

- (i) the natural gas so consumed is recovered from the same pool as the natural gas that is gathered or processed, or
- (ii) the residue gas so consumed is obtained from natural gas recovered from the same pool as the natural gas that is gathered or processed,

as the case may be, including consumption as a fuel for the purpose of generating electricity and steam in a power plant that is provided for such operations in exchange for the fuel;

- (b) with approval of the Minister given before January 1, 1994, on natural gas or residue gas consumed as a fuel in operations for the recovery or processing of oil sands conducted under a commercial oil sands scheme under the *Oil Sands Conservation Act*, where the scheme is also the subject of a contract entered into pursuant to section 9(a) of the Act;
- (c) unless the Minister otherwise directs in any case, on natural gas or residue gas consumed as a fuel in operations for the recovery or processing of oil sands pursuant to a Project as defined in the *Oil Sands Royalty Regulation, 1997* (AR 185/97) where
 - (i) the consumed natural gas, or the natural gas from which the consumed residue gas was obtained, respectively, was recovered under an agreement under which oil sands are to be recovered pursuant to the Project, and
 - (ii) the oil sands so recovered or processed were recovered from the development area, as defined in the *Oil Sands Royalty Regulation, 1997* (AR 185/97) of the Project;
- (d) unless the Minister otherwise directs in any case, on natural gas or residue gas consumed as a fuel in operations for the recovery or processing of oil sands that is subject to the payment of royalty under the *Oil Sands Royalty Regulation, 1984* (AR 166/84), where the consumed natural gas, or the natural gas from which the consumed residue gas is obtained, respectively, and the oil sands recovered or processed in such operations, are recovered pursuant to the same agreement;
- (e) unless the Minister otherwise directs in any case, on natural gas, or residue gas that is obtained from natural gas, recovered pursuant to an experimental project as

defined in the *Experimental Oil Sands Royalty Regulation* (AR 347/92), where the natural gas or residue gas is consumed as a fuel in the operation of the experimental project;

- (f) with the approval of the Minister, on natural gas or residue gas consumed as a fuel in operations for the production of experimental oil from an experimental project approved under the *Experimental Project Petroleum Royalty Regulation* (AR 65/92) that is subject to the payment of royalty to the Crown;
- (g) unless the Minister otherwise directs in any case, on any natural gas or residue gas, other than natural gas or residue gas referred to in clauses (b) to (f), consumed as fuel for drilling or production operations in respect of a well drilled pursuant to an agreement.

(2) Despite subsection (1), in respect of natural gas or residue gas consumed in a month in accordance with clause (b) or (f) of that subsection,

- (a) an amount equal to the royalty compensation that would be payable on the gas in the absence of subsection (1) shall be paid to the Crown as if subsection (1) did not apply in respect of the gas, and
- (b) the Minister shall credit an equivalent amount to the royalty client account of the royalty client who made the payment, no later than the last day of the month following the month in which the Minister receives from the royalty client a report satisfactory to the Minister concerning the consumption of the gas.

(3) Subsection (1)(a) does not apply to residue gas consumed as a fuel at a gas processing plant where the residue gas is obtained from a field straddle plant.

(4) The Minister may, by written notice given to the person identified by the Minister as the operator of a commercial oil sands scheme referred to in subsection (1)(b), withdraw an approval referred to in that subsection that relates to the scheme.

(5) Subsection (1)(b) ceases to apply to natural gas and residue gas consumed in a commercial oil sands scheme on or after the date indicated in a notice given under subsection (4) as the effective date of withdrawal of the approval referred to in subsection (1)(b) in respect of the scheme.

(6) If any natural gas or residue gas that is subject to the payment of royalty to the Crown is consumed as a fuel without having first

been disposed of, then, unless the Minister otherwise directs, the Crown's royalty share of the natural gas or residue gas may, subject to the other provisions of this Regulation that prescribe the royalty payable with respect to the natural gas or residue gas, be consumed for the same purpose.

Royalty exemptions and adjustments

16(1) In accordance with and to the extent authorized under Schedule 8, natural gas and field condensate are exempted from the payment of royalty to the Crown.

(2) In accordance with and to the extent authorized under Schedule 8, the royalty payable to the Crown on natural gas and field condensate is adjusted.

AR 220/2002 s16;208/2006

Division 2 Royalty Compensation

Liability for royalty compensation

17(1) The Crown's title to the Crown's royalty share of natural gas and gas products is automatically transferred

- (a) at the point immediately downstream from the royalty calculation point for the natural gas or gas products, or
- (b) in the case of sulphur,
 - (i) at the place where it is solidified at the site of the gas processing plant or reprocessing plant at which it is obtained, or
 - (ii) at the place where it leaves the gas processing plant or reprocessing plant at which it is obtained, where it leaves the plant in liquid form without having first been solidified,

to the person who is, in relation to that royalty share, the owner of the lessee's share of the natural gas or gas products.

(2) When the Crown's title to the Crown's royalty share of natural gas or a gas product is transferred pursuant to subsection (1), compensation is payable to the Crown in accordance with this Regulation in respect of that royalty share.

(3) Subject to this Regulation, the compensation payable to the Crown under subsection (2) shall be an amount calculated

- (a) in accordance with Schedule 1, with respect to natural gas referred to in section 10(1) and to residue gas;
 - (b) in accordance with Schedule 2, with respect to ethane;
 - (c) in accordance with Schedule 3, with respect to propane;
 - (d) in accordance with Schedule 4, with respect to butanes;
 - (e) in accordance with Schedule 5, with respect to pentanes plus;
 - (f) in accordance with Schedule 6, with respect to sulphur.
- (4)** Royalty compensation is not payable in respect of
- (a) gas products other than residue gas, ethane, propane, butanes, pentanes plus and sulphur, and
 - (b) light-ends.
- (5)** Where the Crown is entitled to a royalty on field condensate,
- (a) unless the Minister directs otherwise in a particular case, the Crown's title to the Crown's royalty share of the field condensate is automatically transferred at point immediately downstream from its royalty calculation point to the person who is, in relation to that royalty share, the owner of the lessee's share of the field condensate, and
 - (b) the royalty compensation payable to the Crown in respect of the royalty share so transferred shall be an amount calculated by multiplying the quantity of the royalty share by the Pentanes Plus Reference Price for the production month in which the field condensate was obtained less the Transportation Allowance prescribed for the production month pursuant to section 6(9)(a)(iii).

Payment of royalty compensation

18(1) The Minister shall, on or before the last day of the 2nd month following a production month, issue and send an invoice to each royalty client showing for that production month the Minister's calculations of at least the following:

- (a) the aggregate quantities available for sale allocated to the royalty client for the production month and the Crown's royalty share of those quantities available for sale;
- (b) the amount payable to the Crown by the royalty client under this Regulation.

(2) Where the Minister is satisfied that incorrect information in the Registry or information omitted from the Registry may affect the calculation of royalty compensation payable by a royalty client for a production month,

- (a) the Minister may, subject to clause (b), calculate the royalty compensation on the basis of one or more assumptions that, when applied to the calculation, will ensure that the Crown is not financially prejudiced by the incorrect or omitted information, and
- (b) when the incorrect or omitted information is corrected or entered, as the case may be, in the Registry, the Minister shall recalculate the royalty compensation accordingly and have any resulting difference reflected in the royalty client's royalty client account.

(3) On receipt of a royalty invoice in respect of a production month, the royalty client shall pay the Crown the net amount shown in the invoice on or before

- (a) the last day in which the offices of the Department are open during the 3rd month following the production month, where the production month to which the invoice relates is December, or
- (b) the last day of the 3rd month following the production month, in any other case.

(4) Where for any reason the Minister fails to issue and send royalty invoices to royalty clients in respect of a production month by the deadline prescribed by subsection (1) then, despite subsections (1) and (3),

- (a) the Minister may, by general directions to the royalty clients affected, require them to pay amounts on account of royalty compensation in respect of that production month by the deadline prescribed by subsection (3) on the basis of estimates by those royalty clients of the amounts owing or on any other basis specified in the directions, and
- (b) the royalty clients affected must pay the amounts in accordance with the directions.

(5) After the end of each year the Minister shall, with respect to each royalty client,

- (a) calculate the actual quantities available for sale for all of the production months in that year that are allocated to the royalty client;

- (b) calculate the actual royalty compensation payable to the Crown in respect of the Crown's royalty share of the quantities available for sale calculated for the year pursuant to clause (a);
 - (c) if the aggregate amount of the actual royalty compensation calculated for the year under clause (b) exceeds the aggregate of the amounts of royalty compensation calculated for all production months in the year shown in the royalty invoices for those production months, show the excess amount payable to the Crown as an adjustment in the client's next royalty invoice and also show in that invoice how the excess amount was calculated;
 - (d) if the aggregate amount of the actual royalty compensation calculated for the year under clause (b) is less than the aggregate of the amounts of royalty compensation calculated for all production months in the year shown in the royalty invoices for those production months, credit the excess amount to the client in the client's next royalty invoice and also show in that invoice how the excess amount was calculated.
- (6) The Minister shall maintain for each royalty client an account called a "royalty client account" that reflects the amounts debited and credited to the account.
- (7) If the royalty client account for a royalty client shows a net credit balance in the client's favour as of the end of a month, then, unless the Minister or the royalty client directs otherwise, the Crown shall pay the royalty client an amount equal to that credit balance.

Injection credits

- 19(1)** If natural gas or a gas product is injected during a production month up to and including December 2008 into a pool through a gas injection facility for the account of or for the benefit of a royalty client, the Minister shall establish for the royalty client a credit for that production month up to and including December 2008, called an "injection credit", in an amount determined in accordance with this section.
- (2) Except as provided in subsection (5), an injection credit for a royalty client in respect of natural gas or a gas product injected into a pool through a gas injection facility in a production month up to and including December 2008 shall be calculated by
- (a) determining the quantity of the Crown's royalty share of the natural gas or gas products received at the gas

injection facility for the purposes of injection for the account of or for the benefit of the royalty client (without deducting any part of the gas or gas products that are subsequently lost or used as fuel in conducting injection) that would have been payable for that production month up to and including December 2008 if

- (i) the natural gas had instead been recovered from that pool in that production month up to and including December 2008, or
- (ii) the gas products had instead been obtained in that production month up to and including December 2008 from natural gas recovered from that pool,

as the case may be, and

- (b) determining the royalty compensation that would have been payable by the royalty client under this Regulation with respect to the royalty quantity determined under clause (a).

(3) In determining royalty compensation under subsection (2)(b), if

- (a) natural gas or a gas product is injected during a production month up to and including December 2008 into a pool through a gas injection facility,
- (b) the operator of the gas injection facility has informed the Minister pursuant to section 27(4) or (7) of a facility (in this section called the “reproducing facility”) to which natural gas, or gas products obtained from natural gas, that may be recovered from the pool in that production month up to and including December 2008 can be delivered, and
- (c) the Minister is satisfied that natural gas, or gas products obtained from natural gas, recovered from the pool during the month could be delivered to the reproducing facility,

the Minister shall, in addition to considering the natural gas or gas products received at the gas injection facility as having been recovered, or obtained from natural gas recovered, respectively, from the pool in that month, and for the purpose of determining the royalty calculation point for the natural gas or gas products and the royalty trigger factor for the purposes of section 5 of Schedule 1 for that point, also consider the natural gas or gas products as having been delivered to the reproducing facility after being so recovered or obtained.

(4) In determining royalty compensation under subsection (2)(b), if

- (a) natural gas or a gas product is injected during a production month up to and including December 2008 into a pool through a gas injection facility,
- (b) the operator of the gas injection facility has informed the Minister pursuant to section 27(4) or (7) that there is no reproducing facility for that month in respect of the gas injection facility, and
- (c) the Minister is satisfied there is no reproducing facility to which natural gas, or gas products obtained from natural gas, recovered from the pool during the month could be delivered,

the royalty trigger factor for the purpose of applying section 5(1) of Schedule 1 in respect of the natural gas or gas products shall, despite section 5(2) of that Schedule, be 1.0.

(5) If natural gas or residue gas is injected into a pool in a production month up to and including December 2008 through a single well having no associated injection facilities or through a gas injection facility in respect of which there is no reproducing facility for that production month up to and including December 2008, an injection credit for a royalty client for that production month up to and including December 2008 shall be calculated by

- (a) determining the quantity of the Crown's royalty share of the natural gas or residue gas so injected for the account of or for the benefit of the royalty client (without deducting any part of the natural or residue gas that are subsequently lost or used as fuel in conducting injection) that would have been payable for that production month up to and including December 2008 if
 - (i) the natural gas had instead been recovered from that pool in that production month up to and including December 2008, or
 - (ii) the residue gas had instead been obtained in that production month up to and including December 2008 from natural gas recovered from that pool,

as the case may be,

- (b) determining the respective volumes and quantities of the in-stream components of the natural gas or residue gas so injected,

- (c) determining the average of the ISC reference prices for the production month up to and including December 2008, weighted according to the respective proportionate quantities of methane, ethane, propane, butanes and pentanes plus components of the natural gas or residue gas, and
- (d) multiplying the weighted average price determined under clause (c) by the quantities of the natural gas or residue gas injected in that production month up to and including December 2008.

(6) The Minister shall apply an injection credit calculated for a production month up to and including December 2008 as a credit to the royalty client's royalty client account.

(7) In determining royalty compensation for the purposes of subsection (2)(b), no reduction shall be made in respect of the cost of conservation gas or in respect of allocable costs.

AR 220/2002 s19;225/2004;250/2004;221/2008

Allowable costs

20(1) The costs and allowances to which the Minister consents and that are incurred

- (a) in gathering or processing the Crown's royalty share of natural gas or reprocessing the Crown's royalty share of residue gas, and
- (b) in handling the Crown's royalty share of gas products within a gas processing plant or reprocessing plant after the place in the plant where the Crown's royalty share is calculated

shall, subject to this section, be deducted from the royalty compensation otherwise payable in respect of the Crown's royalty share of the natural gas and gas products.

(2) In this section, "facility" does not include a gas injection facility or commercial storage facility.

(2.1) Subsections (3) to (15) do not apply in respect of 2009 and subsequent years.

(3) The Minister may determine the amount of the costs and allowances referred to in subsection (1) in respect of 2002 and each subsequent year up to and including 2008.

(4) Subject to subsection (5), the Minister may for the purposes of this section

- (a) estimate the amount of the allowable costs calculated for a royalty client for a year and, subject to clause (b)(ii), consent to that estimated amount, and
- (b) after the end of the year determine the actual allowable costs calculated for that royalty client for that year and,
 - (i) if the actual costs exceed the estimated amount referred to in clause (a), consent to further costs equal to the difference, or
 - (ii) if the estimated amount referred to in clause (a) exceed the actual allowable costs, invoice the royalty client for the difference.

(5) The allowable costs consented to under this section in respect of a royalty client for a year may not exceed the aggregate royalty compensation calculated under section 17(3) in respect of that royalty client for that year.

(6) The Minister may not consent under subsection (1) to the Crown being liable for any allowable costs in relation to approved equipment as defined in the *Gas Processing Efficiency Assistance Regulation* (AR 275/89) if credits have been established under that Regulation in relation to that approved equipment.

(7) If credits have been established pursuant to a regulation made under the Act

- (a) on the basis of costs the Minister estimates may be saved in the gathering or processing of the Crown's royalty share of natural gas or the reprocessing of the Crown's royalty share of residue gas, and
- (b) that may be applied against the payment of money owing to the Crown under this Regulation,

the Minister may, in determining the amount of costs and allowances under subsection (3) in relation to such gathering, processing or reprocessing, reduce the costs and allowances by an amount or amounts that the Minister considers necessary to ensure that an amount equal to the present value, as of the date the credits are established, of the estimated costs savings is recovered by the Crown.

(8) The operator of a facility that commences operations in 2002 or any subsequent year must furnish to the Minister by March 1 of the following year a report respecting the facility, its owners and their respective percentage interests in the facility, as of December 31 of the year in which the facility commences operations.

(9) If one or more changes occur in the owners of a facility or their respective percentage interests in the facility during a year, other than the year in which the facility commences operations, the operator of the facility must furnish a report to the Minister by the next March 1 respecting the owners and their respective percentage interests as of the end of the year.

(10) Despite subsection (9), the operator of a facility must, on written notice from the Minister, furnish to the Minister, within the time indicated in the notice, a report respecting the owners of the facility and their respective percentage interests in the facility as of the date indicated in the notice.

(11) A person replaced as the operator of a facility shall furnish to the Minister a report respecting the change in operators by the last day of the month following the month in which the change occurs.

(12) The operator of a facility shall furnish to the Minister in respect of 2002 and each subsequent year

- (a) a report respecting the allowable capital costs of the facility for that year, on or before April 30 in the year following the year to which the report relates, and
- (b) if the operator is directed to do so by the Minister, a report respecting the allowable operating costs of the facility
 - (i) for that year, on or before March 31 in the year following the year to which the report relates, or
 - (ii) in the case of an operating cost survey conducted by the Minister from time to time, for that year and the preceding year, on or before August 31 in the year following the latest year to which the report relates.

(13) If a facility commences operations in 2002 or any subsequent year, a report may not be furnished under subsection (12) by the operator of that facility in respect of that year if the operator has not furnished a report under subsection (8) in respect of that facility.

(14) A royalty client must furnish to the Minister in respect of 2002 and each subsequent year a report respecting the consideration given by that client for custom processing fees for that year and, to the extent approved by the Minister, preceding years, for gathering or processing natural gas and reprocessing residue gas during that year or preceding years, as the case may be, and the report must be furnished on or before May 15 of the year following the latest year to which the report relates.

(15) A royalty client may reallocate all or part of

- (a) the allowable costs allocated to it that arise in relation to its facility capital costs to one or more other royalty clients that
 - (i) are owners of that facility,
 - (ii) own natural gas or gas products processed at that facility, or
 - (iii) pay royalty compensation on behalf of an owner of that facility, or
- (b) the custom processing volumes allocated to it to one or more other royalty clients that give consideration for custom processing fees at the same facility,

and must furnish to the Minister a report respecting the reallocation on or before May 15 following the year to which the reallocation relates.

AR 220/2002 s20;153/2004;221/2008

Deposits

21(1) A deposit made by a royalty client pursuant to section 18 of the 1994 Regulation and held by the Crown on October 1, 2002 shall be held as a deposit for the purposes of this section as though it had been paid to the Crown under this section.

(2) A person who initially becomes a royalty client under this Regulation on or after October 1, 2002 up to and including January 1, 2009 shall pay to the Crown, as a deposit, an amount specified by the Minister, in the manner determined by the Minister.

(3) If a royalty client pays a deposit to the Crown under this section during a year, the Minister shall, in each subsequent year, recalculate the deposit to be maintained by the royalty client, as an amount equal to 1/6 of the Minister's estimate of the aggregate amount of royalty compensation for which the royalty client was liable in respect of the preceding year after deducting allowable costs, multiplied by a factor determined by dividing the long term Gas Reference Price on the date on which the recalculation occurs by the average of the Gas Reference Prices for the previous year.

(3.1) In estimating royalty compensation for the purposes of subsection (3), no reduction shall be made in respect of the cost of conservation gas or in respect of allocable costs.

(4) For the purposes of subsection (3), the long term Gas Reference Price on the date on which a recalculation occurs is the Minister's estimate as of that date of the average Gas Reference Price for the period commencing the first day of the year in which

the recalculation occurs and ending on a future date specified from time to time by the Minister.

(5) Despite subsection (3), the Minister may at any time recalculate the deposit in an amount determined by the Minister where the Minister considers the recalculation is warranted in the circumstances.

(6) If the amount of a deposit is recalculated pursuant to subsection (5), the Minister shall

- (a) notify the royalty client of the amount of the recalculated deposit,
- (b) if the amount of the recalculated deposit is greater than the existing deposit, by a notice to the royalty client, require the royalty client to pay the difference to the Crown within the time prescribed by the notice in order to maintain the deposit in the recalculated amount, and
- (c) if the amount of the recalculated deposit is less than the existing deposit, credit the difference to the client's royalty client account unless the Minister directs that the difference is to be paid to the client.

(7) Money paid to the Crown under this section as a deposit or to increase a deposit

- (a) shall be paid into the General Revenue Fund but not credited to the royalty client's royalty client account, and
- (b) shall be refunded to the person maintaining the deposit when that person ceases to be a royalty client, subject to any rights of the Crown to set off against the amount otherwise refundable any debt owing by that person to the Crown.

(8) Interest is not payable to a royalty client on the amount of a deposit maintained by the royalty client under this section.

AR 220/2002 s21;225/2004;250/2004;77/2008;221/2008

Part 3

Administration and Enforcement

Well groups

22(1) For the purposes of this Regulation, 2 or more well events constitute a well group if those well events are

- (a) within a block as defined in the *Oil and Gas Conservation Act*,

- (b) subject to a unit agreement or unit operation order,
- (c) within a pool or part of a pool that is subject to a scheme for enhanced recovery approved pursuant to section 39(1)(a) of the *Oil and Gas Conservation Act*, or
- (d) subject to a commercial storage scheme.

(2) A well event that is not included in a well group under subsection (1) is itself a well group for the purposes of this Regulation.

Royalty clients

23(1) The Department shall maintain records showing the persons who are royalty clients for a well group by reason of

- (a) allocations of quantities available for sale made to those persons pursuant to section 25 in their capacity as royalty clients for that well group, or
- (b) assignments made to those persons pursuant to subsection (2) and relating to that well group.

(2) If a person assigns to another or others responsibility for paying royalty compensation in respect of quantities available for sale allocated pursuant to section 25 to that person in the capacity of a royalty client for a well group, the assignment must be in the form determined by the Minister and must be furnished to the Minister on or before the last day of the third month following the production month in which the assignment is effective.

(3) On the filing by the Minister of an assignment that conforms with subsection (2), the assignee becomes the royalty client in respect of quantities available for sale allocated to the assignor pursuant to section 25 for the production month in which the assignment is effective and for subsequent production months.

(4) A royalty client is authorized to

- (a) make a request to the Minister under section 38(2)(b) of the Act, or
- (b) make an objection to the Minister under section 39 of the Act.

Responsibility for quantities available for sale

24 For the purposes of this Regulation,

- (a) the operator of a reprocessing plant is responsible for quantities available for sale for a production month if they are obtained at that reprocessing plant in a production month;
- (b) the operator of a gas processing plant is responsible for quantities available for sale for a production month if they are obtained at that gas processing plant in that production month;
- (c) the operator of a gathering system is responsible for quantities available for sale for a production month if they are delivered from that gathering system in that production month
 - (i) other than to a gas processing plant or reprocessing plant or to another gathering system, or
 - (ii) to a delivery point outside Alberta;
- (d) the operator of a battery is responsible for quantities available for sale for a production month if they are delivered from that battery in that production month.

Allocations of quantities available for sale

25(1) Unless the Minister otherwise directs in a particular case, quantities available for sale for a production month must be allocated in accordance with the following:

- (a) where an operator of a reprocessing plant is responsible for the quantities available for sale, the operator may make allocations of those quantities to one or more well groups but must allocate the remainder, if any, to the gas processing plants, gathering systems or batteries from which the quantities were delivered;
- (b) where an operator of a gas processing plant is responsible for the quantities available for sale, the operator may make allocations of those quantities, and the quantities available for sale allocated to the operator's gas processing plant pursuant to clause (a), to one or more well groups but must allocate the remainder, if any, to the gathering systems or batteries from which the quantities were delivered for processing;
- (c) where a gathering system operator is responsible for the quantities available for sale, the operator may make allocations of those quantities, and the quantities available for sale allocated to the operator's gathering system pursuant to clause (a) or (b), to one or more well groups

but must allocate the remainder, if any, to the gathering systems or batteries from which the quantities were delivered;

- (d) where a battery operator is responsible for the quantities available for sale, the operator must allocate all of those quantities to one or more well groups;
- (e) where an operator allocates quantities available for sale to a well group pursuant to clause (a), (b), (c) or (d), the operator must further allocate those quantities to the royalty clients for the well group;
- (f) where a well group consists of well events within a unit area, allocations under clause (e) to royalty clients must be in accordance with the tract factors under the unit agreement or unit operation order.

(2) Notwithstanding subsection (1), the Minister may in a particular case direct that a facility operator is to be responsible for specified quantities available for sale and, in that event, the operator must comply with subsection (1) with respect to those quantities available for sale.

(3) Allocations of quantities available for sale under subsection (1) must be made in accordance with the following:

- (a) where an allocation is made to one facility or well group only, the stream allocation factor for that allocation is 1.0;
- (b) where allocations are made to 2 or more facilities or well groups or any combination of them, the stream allocation factor for each allocation to a facility or well group is in the proportion that the quantities allocated to that facility or well group bear to all of the quantities required to be allocated, expressed as a decimal fraction;
- (c) where an allocation is made pursuant to subsection (1)(e) to one royalty client only, the owner allocation factor for that allocation is 1.0;
- (d) where allocations are made pursuant to subsection (1)(e) to 2 or more royalty clients, the owner allocation factor for each allocation to a royalty client is in the proportion that the quantities allocated to that royalty client bear to all of the quantities required to be allocated to the royalty clients for the well group, expressed as a decimal fraction;
- (e) the facility operator making the allocations must furnish to the Minister

- (i) the stream allocation factor or factors for the allocations made to facilities and well groups and any other data related to the factor or factors that the Minister requires, and
- (ii) the owner allocation factor or factors for allocations made to royalty clients pursuant to subsection (1)(e) and any other data related to the factor or factors that the Minister requires.

(4) If natural gas or a gas product is received at a gas injection facility or commercial storage facility in a production month for the account of a royalty client for the purpose of injection or storage, as the case may be, the operator of the facility must furnish to the Minister

- (a) the stream allocation data and owner allocation data respecting the quantities so injected at that facility in that production month, as though those quantities had been recovered from wells at that facility in that production month, and
- (b) information respecting the volumes and quantities of in-stream components of the natural gas or residue gas injected at that facility in that production month.

(5) Allocation data referred to in subsection (3) or (4) must be furnished to the Minister on or before the 15th day of the 2nd month following the end of the production month to which the allocation data relates.

(6) A facility operator may furnish to the Minister amended allocation data for a production month.

(7) If allocation data required to be furnished by subsection (3) is not received by the Minister by the deadline prescribed by subsection (5), the allocation data shall be deemed to be furnished by that deadline for the purpose only of determining responsibility for quantities available for sale and to show nil allocations of quantities available for sale.

Provisional royalty compensation

26(1) If a facility operator is responsible for allocating quantities available for sale pursuant to section 25 but fails to allocate all of those quantities pursuant to that section,

- (a) the unallocated quantities of natural gas are deemed to be recovered pursuant to Crown leases and the unallocated quantities of gas products are deemed to be obtained from natural gas recovered pursuant to Crown leases,

- (b) the unallocated quantities are deemed to be allocated to the facility operator,
- (c) the facility operator is deemed for the purposes of this Regulation to be the royalty client with respect to the Crown's royalty share of those unallocated quantities, and
- (d) the facility operator, in the capacity of a royalty client, is liable to the Crown for the payment of royalty compensation in respect of the Crown's royalty share of those unallocated quantities, calculated in accordance with subsection (3).

(2) Where, according to a report filed with the Regulator in respect of a production month that identifies a common stream operator, the total quantities of natural gas and residue gas received at a receipt meter station exceed the aggregate of the quantities shown as received at the receipt meter station from one or more facilities then, for the purposes of this Regulation and despite any other provision of this Regulation,

- (a) the excess quantities of natural gas are deemed to be recovered pursuant to Crown leases and the excess quantities of residue gas are deemed to be obtained from natural gas recovered pursuant to Crown leases,
- (b) the excess quantities are deemed to be quantities available for sale allocated to the common stream operator,
- (c) the common stream operator is deemed to be the royalty client with respect to the Crown's royalty share of the excess quantities,
- (d) the common stream operator, in the capacity of a royalty client, is liable to the Crown for the payment of royalty compensation in respect of the Crown's royalty share of those excess quantities, calculated in accordance with subsection (3), and
- (e) subsection (6) applies, as far as practicable, to the common stream operator and any royalty compensation owing by the common stream operator under clause (d).

(3) Royalty compensation payable under subsection (1) or (2) shall be called "provisional royalty compensation" and shall be calculated in accordance with the following:

- (a) the Crown's royalty share of the unallocated or excess quantities, as the case may be, shall be deemed to be 35% of those quantities;

- (b) the provisional royalty compensation payable in respect of the Crown's royalty share of those quantities shall be calculated by multiplying the Crown's royalty share of those quantities by
- (i) the Gas Reference Price for the production month, where the quantities consist of natural gas or residue gas,
 - (ii) the Ethane Reference Price for the production month, where the quantities consist of ethane,
 - (iii) 95% of the Propane Reference Price for the production month, where the quantities consist of propane,
 - (iv) 95% of the Butanes Reference Price for the production month, where the quantities consist of butanes,
 - (v) 95% of the Pentanes Plus Reference Price for the production month, where the quantities consist of
 - (A) pentanes plus, or
 - (B) a mixture comprising any two or more of pentanes plus, propane or butanes, where the relative proportions of each such gas product in the mixture has not been reported to the Minister for the purposes of this Regulation in accordance with the Minister's directions,
- or
- (vi) the price determined by the Minister for the production month in accordance with subsections (4) and (5), where the quantities consist of sulphur;
- (c) provisional royalty compensation computed under clause (b) shall not be reduced by an amount for allowable costs.

(4) The price referred to in subsection (3)(b)(vi) shall be determined for each production month by dividing

- (a) the total net revenue for sales of sulphur by all royalty clients in the month to persons at arm's length with the royalty clients and reported to the Minister for the production month pursuant to section 4(1) or (2) of Schedule 6,

by

- (b) the total number of tonnes of sulphur sold in the month under the sales referred to in clause (a).

(5) In determining the total net revenue referred to in subsection (4)(a), the net revenue from any sale included in the determination shall not be less than zero.

(6) Where provisional royalty compensation is owing in respect of unallocated or excess quantities available for sale and the facility operator concerned allocates all or any of those quantities in accordance with section 25 by way of initial or amended allocation data furnished to the Minister or reports filed with the Regulator, the Minister shall recalculate the royalty compensation in respect of those allocated quantities without reference to subsection (3) and any difference shall be reflected in the facility operator's royalty client account.

(7) The Crown is not liable for interest on any amounts of provisional royalty compensation that are reduced pursuant to subsection (6), but will refund any interest received by it under section 31(2)(a) in respect of those amounts to the extent those amounts are so reduced.

(8) Despite section 31, where

- (a) provisional royalty compensation owing by a facility operator in respect of unallocated or excess quantities available for sale is included in a royalty invoice, and
- (b) the provisional royalty compensation is reduced as a result of a recalculation under subsection (6) where the facility operator furnished amended allocation data or filed reports with the Regulator by the 15th day of the month following the month in which the invoice was issued,

no interest is payable by the facility operator under section 31(2)(b) in respect of the provisional royalty compensation to the extent it is so reduced.

AR 220/2002 s26;89/2013

Other reports

27(1) The operator of a gas injection facility must furnish to the Minister a report respecting

- (a) the commencement of the operation of the gas injection facility, if the operation commences after October 1, 2002 and before January 1, 2009, and
- (b) any change in

- (i) the persons having participating interests in a well group that is subject to the gas injection scheme,
- (ii) the Crown percentage for a well group that is subject to the gas injection scheme,
- (iii) the percentage of new gas or new pentanes plus for a well group that is subject to the gas injection scheme,
- (iv) the well events comprising a well group or the code number assigned by the Minister to a well group, where natural gas or a gas product recovered or obtained from the well group is injected into a pool through the gas injection facility,
- (v) the pool or pools into which natural gas or a gas product is injected through that gas injection facility or the Regulator's code number for any of those pools, or
- (vi) the field containing a pool referred to in subclause (v) or the Regulator's code number for that field,

on or before the last day of the month following the production month in which the commencement date occurs or in which the effective date of the change occurs, as the case may be.

(2) A person designated by the Minister as a reporter for the purposes of this section shall furnish to the Minister, on or before the 10th day of the 2nd month following each production month up to and including December 2008, any one or more of the following in accordance with the designation:

- (a) a report respecting the volumes of propane, butanes and pentanes plus purchased by the person in that production month at points in Alberta specified by the Minister, and the purchase prices of the propane, butanes and pentanes plus;
- (b) a report respecting the volumes of propane, butanes and pentanes plus sold by the person in that production month at points in Alberta specified by the Minister, and the selling prices of the propane, butanes and pentanes plus;
- (c) a report respecting the volumes of ethane purchased by that person in that production month at points in Alberta specified by the Minister, and the purchase prices of the ethane;

- (d) a report respecting the volumes of ethane sold by that person in that production month at points in Alberta specified by the Minister, and the selling prices of the ethane.
- (3)** In subsection (2), “pentanes plus” includes field condensate.
- (4)** The operator of a gas injection facility must furnish to the Minister information indicating, for the purposes of section 19(4),
- (a) the reproducing facility referred to in section 19 to which natural gas, or gas products obtained from natural gas, that may be recovered from the receiving pool of the gas injection facility can be delivered, if there is only one such facility when the information is required to be furnished, or indicating one of those facilities if there is more than one, or
 - (b) indicating that there is no reproducing facility to which such natural gas or gas products can be delivered at that time.
- (5)** The operator of a facility shall furnish information to the Minister
- (a) respecting the pipelines to which natural gas or gas products can be delivered from the facility without first passing through an intervening facility, and the receipt meter stations through which such natural gas or gas products can be so delivered, or
 - (b) indicating that there is no pipeline to which the natural gas or gas products can be delivered at that time.
- (6)** Information referred to in subsection (4) or (5) shall be furnished to the Minister on or before the last day of the month following the month in which operation of the gas injection facility or facility commences, if operation commences on or after October 1, 2002 and before January 1, 2009.
- (7)** If any change occurs in respect of the information furnished to the Minister under subsection (4) or (5), the operator of the gas injection facility or facility in respect of which the information was furnished shall furnish the Minister with further information respecting the change on or before the last day of the month following the month in which the change occurs.
- (8)** If natural gas recovered in October 2002 or any subsequent production month up to and including December 2008 is disposed of without having first been processed at a gas processing plant or reprocessing plant, the person who disposed of the natural gas must

furnish to the Minister, on or before the 15th day of the 2nd month following the month in which the natural gas was recovered, a report

- (a) relating to each disposition of the natural gas and the person to whom the disposition was made and containing any other related information the Minister requires, and
- (b) containing or accompanied by a component analysis of the natural gas that is the subject of each disposition.

(9) Where natural gas or residue gas is delivered in October 2002 or any subsequent production month up to and including December 2008 to the first facility downstream from the royalty calculation point for that natural gas or residue gas, the operator of that facility must furnish to the Minister, on or before the 18th day of the month following the production month up to and including December 2008, information respecting the volumes and quantities of in-stream components of the natural gas or residue gas.

(10) Where

- (a) according to a report filed with the Regulator, natural gas or residue gas is received in October 2002 or any subsequent production month up to and including December 2008 at a receipt meter station,
- (b) the natural gas or residue gas is received from one or more facilities at which the royalty calculation point for the natural gas or residue gas is located, and
- (c) the report identifies a person as the common stream operator,

the common stream operator must furnish to the Minister, on or before the 18th day of the following month, information respecting the volumes and quantities of in-stream components of the natural gas or residue gas.

AR 220/2002 s27;221/2008;89/2013

Keeping of records

28(1) A person who is or was required or permitted by this Regulation or the 1994 Regulation to submit or furnish to the Minister any report or other document or information shall keep all records that come or came into that person's possession or the possession of any of that person's agents and that are, were or could be used for the purpose of preparing the report, document or information.

(2) If information furnished to the Minister by one or more persons for the purposes of this Regulation is inconsistent with information furnished to the Minister by any other person or persons for the purposes of this Regulation, the Minister may disclose the information to any or all of those persons to the extent the Minister considers necessary to resolve the inconsistency.

(3) A person required by subsection (1) to keep records must keep those records in the form of paper documents or store them in an electronic medium.

Penalties

29(1) A person who is required to furnish a report to the Minister under section 20(12)(a) or under section 4(1) or (2) of Schedule 6 and fails to do so by the prescribed deadline applicable to the report is liable to pay a penalty of \$100 for each month or part of a month during which the failure continues.

(2) Despite subsection (1), where

- (a) a person who is required to furnish a report to the Minister under section 20(12)(a) in respect of a year fails to do so by the prescribed deadline for the report by reason of the subsequent rejection of the report by the Minister,
- (b) the penalty under subsection (1) is included in the royalty invoice issued following the prescribed deadline for the report, and
- (c) the person furnishes the report by the 15th day of the month following the month in which the invoice was issued,

the person is not liable for the penalty.

(3) Despite subsection (1), if

- (a) a person who is required to furnish a report to the Minister under section 4(1) or (2) of Schedule 6 in respect of a month fails to do so by the prescribed deadline for the report, and
- (b) before furnishing the report or without having furnished the report, furnishes a report to the Minister under section 4(4) of Schedule 6 in respect of the year containing that month,

the person is not liable for a penalty under subsection (1) in relation to the report referred to in clause (a) in respect of any month

occurring after the month following the month in which the report referred to in clause (b) is furnished to the Minister.

(4) A person who is required to furnish a report to the Minister under section 20(12)(b)(i) and fails to do so by the prescribed deadline for the report is liable to pay a penalty of \$200, and an additional penalty of \$200 upon the passing of each subsequent anniversary of the prescribed deadline without the report being furnished.

(4.1) A person who is required to furnish a report to the Minister under section 20(12)(b)(ii) and fails to do so by the prescribed deadline for the report is liable to pay a penalty of \$200, and an additional penalty of \$200 on the passing of each subsequent month without the report being furnished, for a maximum of 7 months.

(5) A person who furnishes a report to the Minister under section 20(14) after the prescribed deadline for the report is liable to pay a penalty of \$100 for each month following the deadline, ending with the month in which the report is furnished.

(6) Despite subsection (5), where

- (a) a person who is required to furnish a report to the Minister under section 20(14) in respect of a year fails to do so by the prescribed deadline for the report by reason of the subsequent rejection of the report by the Minister, and
- (b) the penalty under subsection (5) is included in the first royalty invoice issued following the prescribed deadline for the report, and
- (c) the person furnishes the report by the 15th day of the month following the month in which the invoice was issued,

the person is not liable for the penalty.

(7) A person who is required to furnish a report to the Minister under section 27(2) or under section 10(4) of Schedule 1 and fails to do so by the prescribed deadline applicable to the report is liable to pay a penalty of \$1000 for each month or part of a month during which the failure continues.

(8) A person who is required to furnish a report to the Minister under section 9(7) of Schedule 1 or under section 4(4) of Schedule 6 and fails to do so by the prescribed deadline applicable to the report is liable to pay a penalty of \$1000.

(9) The Minister may waive, in whole or part, a penalty imposed under this section on being satisfied that it is appropriate to do so in the circumstances.

AR 220/2002 s29;153/2004

Penalty following audit

30(1) Where, as a result of an audit or examination conducted by or on behalf of the Minister under the Act, the Minister determines that the royalty compensation actually payable by a royalty client in respect of all production months in 2002 or any subsequent year up to and including 2008 is greater than the aggregate royalty compensation paid in respect of that year, the Minister

- (a) subject to subsection (2), may impose on the royalty client a penalty in an amount equal to 10% of the deficiency, and
- (b) shall, whether a penalty is imposed under clause (a) or not, give a notice to the royalty client describing what in the Minister's opinion was the cause giving rise to the deficiency.

(2) Where the Minister has given a notice to a royalty client under subsection (1)(b) relating to an audit or examination in respect of a year and, as a result of an audit or examination conducted by or on behalf of the Minister under the Act in respect of a subsequent year, the Minister determines that

- (a) the royalty compensation actually payable by the royalty client in respect of all production months in that subsequent year is greater than the aggregate royalty compensation paid in respect of that subsequent year, and
- (b) the cause giving rise to the deficiency was the same as or similar to the cause described in the notice,

the Minister may, subject to subsection (3), impose on the royalty client a penalty in an amount not exceeding 50% of that part of the deficiency in respect of that subsequent year that the Minister considers to be attributable to that cause.

(3) No penalty may be imposed under this section if the amount of the penalty otherwise payable in the absence of this subsection would be less than \$1000.

AR 220/2002 s30;221/2008

Interest

31(1) In this section, "overpayment of royalty compensation" and "underpayment of royalty compensation" means an overpayment or

underpayment, respectively, of royalty compensation payable by a royalty client, as determined by the Minister in a recalculation of the amount of royalty compensation.

(2) Interest is payable by a royalty client to the Crown in accordance with this section

- (a) on an underpayment of royalty compensation, computed
 - (i) from the first day of the 3rd month following the production month in respect of which the royalty compensation is payable, and
 - (ii) to the last day of the month in which the first royalty invoice is issued under this Regulation or under section 16(1) of the *Natural Gas Royalty Regulation, 2009* in which the underpayment of royalty compensation initially appears,

and

- (b) on any amount that appears as payable to the Crown in a royalty invoice issued to the royalty client in respect of a production month, including an underpayment of royalty compensation, computed
 - (i) from the first day of the 4th month following the production month, and
 - (ii) to the date on which the entire unpaid balance, together with accrued interest, is received by the Minister.

(3) Interest is payable by the Crown to a royalty client in accordance with this section on an overpayment of royalty compensation payable by the royalty client in respect of a production month, computed

- (a) from the first day of the 3rd month following the end of the production month, and
- (b) to the last day of the month in which the first royalty invoice is issued under this Regulation or under section 16(1) of the *Natural Gas Royalty Regulation, 2009* in which the overpayment and interest are credited.

(4) For the purposes of this section,

- (a) interest payable by or to the Crown on any amount referred to in subsection (2) or (3) is payable on the balance of that amount remaining unpaid from time to time,

- (a.1) interest shall not be computed and payable under subsection (2)(a) or (3) on the portion of an underpayment or overpayment of royalty compensation, as the case may be, resulting from the initial recalculation made under section 20(4)(b), but shall be computed and payable on any subsequent recalculation made under that section from the date of the initial recalculation,
- (b) if interest is payable under this section by or to the Crown in respect of any day, the rate of interest in respect of that day is the yearly rate that is 1% greater than the rate of interest established by Alberta Treasury Branches as its prime lending rate on loans payable in Canadian dollars and in effect on the first day of the month in which that day occurs, and
- (c) interest computed under subsection (2) or (3) shall, unless the Minister directs otherwise, be compounded monthly in respect of the period for which it is computed.

AR 220/2002 s31;153/2004;221/2008

Application of payments

32 Unless the Minister directs otherwise, if money is paid to the credit of a royalty client's royalty client account, the money shall be applied in the following order:

- (a) first, on arrears of fees owing by the royalty client under this Regulation;
- (b) 2nd, on penalties owing by the royalty client under this Regulation;
- (c) 3rd, on interest owing by the royalty client under this Regulation;
- (d) 4th, on an amount owing by the royalty client under section 21(6)(b) to increase a deposit maintained by the royalty client;
- (e) 5th, on royalty compensation owing by the royalty client.

Audit of Department records

33(1) The Minister may enter into a contract or arrangement with one or more organizations representative of the oil and gas industry in Alberta providing for the following:

- (a) the appointment by those organizations of an independent auditor to conduct an audit or examination under this section;

- (b) the conducting by the independent auditor from time to time of audits or examinations of records of the Department and the Alberta Petroleum Marketing Commission to the extent that they relate to the method and calculations by which the Minister determines any amount prescribed under section 6(1) to (6), (9) or (11), the method and calculations by which allowable costs are determined by the Minister or the method and calculations by which any other amounts are determined by the Minister under this Regulation;
 - (c) the matters arising out of an audit or examination on which the auditor may report to the organization or organizations and the Minister;
 - (d) the disclosure by the Minister of matters reported to the Minister under clause (c) to any other organization that
 - (i) is determined by the Minister to have a legitimate interest in those matters, and
 - (ii) has paid or agrees to pay to the organization or organizations appointing the auditor, the amount specified by the Minister.
- (2)** The costs of an audit or examination referred to in subsection (1) shall be paid by the organization or organizations that appointed the auditor.
- (3)** Information obtained by the Minister under this Regulation may be communicated, disclosed or otherwise made available to the auditor if the information
- (a) relates to the manner in which amounts referred to in subsection (1)(b) were determined before being prescribed, and
 - (b) is communicated, disclosed or made available in accordance with the contract or arrangement.
- (4)** Information obtained from the Minister by an auditor pursuant to subsection (3)
- (a) is to be held by the auditor in confidence and is not to be further communicated, disclosed or made available by the auditor in any circumstances where it is possible to relate that information to any particular identifiable person, gas contract, well, pipeline or facility at which natural gas or gas products are used or stored inside or outside Alberta, and

- (b) subject to clause (a), may be used by the auditor for the purpose of preparing a report to the organization or organizations that appointed the auditor if the information is used in accordance with that contract or arrangement.

Part 4 Consequential Amendments and Repeal

Amends AR 351/93

34(1) The *Natural Gas Royalty Regulation, 1994 (AR 351/93)* is amended by this section.

(2) Section 1 is amended

- (a) **by repealing clauses (a.1), (e.1), (e.2), (r.01), (x.1), (x.2), (y.1) and (gg.1);**
- (b) **in clause (ii) by adding “or” at the end of subclause (i), by striking out “or” at the end of subclause (ii) and by repealing subclause (iii);**
- (c) **by repealing clauses (ll.2) and (ll.3).**

(3) Section 1.1 is repealed.

(4) Section 2.1 is repealed.

(5) Section 4(2) is amended by repealing clauses (d.1) and (d.2).

(6) Section 7 is amended by renumbering the section as subsection (1) and by adding the following after renumbered subsection (1):

(2) Except as otherwise provided, this Regulation does not apply to royalty payable to the Crown in respect of natural gas recovered, or gas products or field condensate obtained, in October, 2002 or any subsequent production month.

(7) Section 12.1(6)(a) is amended by striking out “after December 31, 1998 and before January 1, 2009” and substituting “in production months commencing with January, 1999 and ending with September, 2002”.

(8) Section 17 is amended

- (a) **by adding the following after subsection (3):**

(3.1) Subsections (4) to (11) do not apply to 2003 or any subsequent year.

(b) in subsection (8)(a) by striking out “April 15” and substituting “April 30”.

(9) Section 19 is amended by repealing subsections (1.1) and (1.2).

(10) Section 20 is amended

(a) in subsection (1)(a) by striking out “or 21.1”;

(b) in subsection (2) by striking out “or 21.1”;

(c) in subsection (3) by striking out “or 21.1”.

(11) Section 21 is amended by repealing subsection (0.1).

(12) Section 21.1 is repealed.

(13) Section 22 is amended by repealing subsection(0.1).

(14) Section 22.1 is repealed.

(15) Section 23 is amended

(a) in subsection (1)(a) by adding “and before October 1, 2002” after “January 1, 1994”;

(b) in subsection (2) by adding “ending with September, 2002” after “following each production month”;

(c) in subsection (6)(b) by adding “and before October 1, 2002” after “September 1, 2001”;

(d) by repealing subsections (8), (9) and (10).

(16) Section 24 is amended by adding the following after subsection (4):

(4.1) No penalty is payable under subsection (2), (3) or (3.1) by reason of the failure to furnish a report for 2002 under section 17(8) or (10), section 6(7) or 7(5) of Schedule 1 or section 4(4) of Schedule 3 by the respective deadlines prescribed by this Regulation.

(17) Section 28 is amended

(a) in subsection (3) by striking out “over a 72-month period commencing with January, 1994 or over such longer period” and substituting “over a period”;

(b) in subsection (4) by repealing clause (a) and substituting the following:

- (a) shall determine for each royalty client for each production month an amount as the royalty bank credit for that month by calculating the royalty compensation that would be payable under
- (i) this Regulation, in the case of production months prior to October, 2002, or
 - (ii) the *Natural Gas Royalty Regulation, 2002* in the case of October, 2002 and subsequent production months,

if natural gas or a gas product, as the case may be, was recovered or obtained in that production month from the underground formation or subsurface cavern in quantities equal to the royalty client's respective monthly amortized quantities for the month, and

(c) by adding the following after subsection (4):

(4.1) Despite subsection (4), the Minister may direct that the calculation of royalty bank credits for all or any of the production months commencing with October, 2002 shall be determined on a basis different from the method of calculation provided for in subsection (4)(a)(ii).

(d) in subsection (6)(b) by adding "of this Regulation or section 7(2) of Schedule 1 of the *Natural Gas Royalty Regulation, 2002*, as the case may be," **after** "Schedule 1";

(e) in subsection (8) by adding "or the *Natural Gas Royalty Regulation, 2002*" **after** "this Regulation".

(18) Section 29 is repealed.

(19) Schedule 1 is amended

(a) in section 6(7) by adding "ending with 2002" **after** "part of a year";

(b) in section 7(5) by adding "ending with 2002" **after** "each year".

(20) Schedule 3 is amended in section 4(4)(b) by striking out "after December 31, 1996" **and substituting** "beginning with 1997 and ending with 2002".

Amends AR 263/97

35 The *Petroleum and Natural Gas Tenure Regulation (AR 263/97)* is amended in section 23(2)(b) by striking out “pursuant to the *Natural Gas Royalty Regulation, 1994* (AR 351/93) for that month” and substituting “for that month pursuant to the *Natural Gas Royalty Regulation, 1994* (AR 351/93) or the *Natural Gas Royalty Regulation, 2002*”.

Repeal

36 The *Natural Gas Royalty (Pre-1994) Regulation* (AR 246/90) is repealed.

Expiry

37 This Regulation expires on June 30, 2014.

AR 221/2008 s32

Schedule 1**Natural Gas and Residue Gas****Definitions**

1 In this Schedule,

- (a) “corporate average price” or “CAP”, in relation to a royalty client and a year, means the corporate average price for gas and ethane established for that royalty client for that year pursuant to section 9 of this Schedule;
- (b) “gas” means natural gas or residue gas;
- (c) “receipt meter station factor” means, in respect of a receipt meter station for a production month, the meter station factor prescribed for the receipt meter station under section 6(11) of this Regulation for the month or, if no meter station factor has been so prescribed for the receipt meter station for the month, 1.0;
- (d) references to methane ISC, ethane ISC, propane ISC, butanes ISC and pentanes plus ISC in relation to any gas shall be read as the methane, ethane, propane, butanes and pentanes plus components respectively of that gas.

Royalty Share of Gas**Calculation of royalty quantity for gas**

2(1) Subject to section 3 of this Schedule, the royalty reserved to the Crown on gas in respect of a production month is the

percentage of the gas recovered or obtained in that production month calculated in accordance with the following formula:

$$GR\% = \frac{[MiR\%(MiQ)+ER\%(EiQ)+PR\%(PiQ)+BR\%(BiQ)+PPR\%(PPiQ)] + [C\% \times AF]}{MiQ + EiQ + PiQ + BiQ + PPiQ}$$

where

GR% is the Crown's royalty share of the gas expressed as a percentage of the gas on which the royalty is payable;

MiR% is the percentage calculated pursuant to subsection (2) as MiR% in relation to the gas;

ER% is the percentage calculated under section 2 of Schedule 2 as ER% for the production month for new ethane or old ethane, according to whether the gas is new gas or old gas, respectively;

PR% is the percentage calculated under section 1 of Schedule 3 as PR% for the production month;

BR% is the percentage calculated under section 1 of Schedule 4 as BR% for the production month;

PPR% is the percentage calculated under section 1 of Schedule 5 as PPR% for the production month for new pentanes plus or old pentanes plus, according to whether the gas is new gas or old gas, respectively;

C% is the percentage determined in accordance with section 3.1 of this Schedule with respect to the well event from which the gas is recovered;

AF is the adjustment factor for the well event prescribed or determined pursuant to section 6(12)(a) or (14) of this Regulation.

MiQ, EiQ, PiQ, BiQ and PPiQ are the quantities of methane ISC, ethane ISC, propane ISC, butanes ISC and pentanes plus ISC, respectively, contained in the gas.

(2) For the purposes of subsection (1), MiR% is the percentage calculated in accordance with the following formula, which shall not be less than 15%, nor more than 30% or 35%, according to whether the gas is new gas or old gas, respectively:

$$MiR\% = \frac{15 SP + 40 (PP - SP)}{PP}$$

where

- SP means the New Methane ISC Select Price or Old Methane ISC Select Price for the year containing the production month, according to whether the gas is new gas or old gas, respectively;
- PP means the Methane ISC Par Price for the production month.

Gas royalty for low productivity wells

3(1) In this section,

- (a) “average daily production” with respect to any production month means,
- (i) in respect of natural gas recovered from a well event, the volume of natural gas recovered in a month from the well event in m³, or
 - (ii) in respect of oil recovered from an oil well event, the volume of oil recovered in a month from the well event in m³,

divided by the number of hours of operation of the well event in the production month and multiplied by 24;

- (b) “oil well event” means a well event that is classified as an oil well event by the Regulator.

(2) Subject to subsection (3), where in a production month the average daily production of natural gas from a well event is less than 16 900 m³, the royalty reserved to the Crown on the natural gas recovered from that well event or on the residue gas obtained from that natural gas, as the case may be, in that production month is the percentage of the natural gas or residue gas calculated in accordance with the following formula:

$$GR\% = RC - \left[\frac{(RM - .05) \times (16.9 - ADP)^2}{16.9^2} \right] + [C\% \times AF]$$

where

GR% is the Crown’s royalty share of the natural gas and residue gas expressed as a percentage of the gas on which the royalty is payable;

RC is the royalty rate, expressed as a decimal fraction, that would apply for the production month if the royalty were calculated under section 2 of this Schedule;

- RM is the amount calculated as MiR% for the production month for the gas pursuant to section 2(2) of this Schedule, expressed as a decimal fraction;
- ADP is the average daily production of natural gas from the well event for the production month divided by 1000 m³;
- C% is the percentage determined in accordance with section 3.1 of this Schedule with respect to the well event from which the gas is recovered;
- AF is the adjustment factor for the well event prescribed or determined pursuant to section 6(12)(a) or (14) of this Regulation.

(3) Subsection (2) does not apply where the well event is an oil well event with an average daily production of oil of .15 m³ or greater in the production month.

Calculation of C%

3.1(1) Subject to subsection (2), C% for a production month for each well event completed in the same pool is the percentage specified in column 2 of the Table following this section that corresponds to the number of months set out in the Table that have expired from and after the earliest production month during which

- (a) production from any of those well events is shut in pursuant to an order or other decision of the Regulator requiring production from the well event to be shut in, or
- (b) any of those well events that never commenced production due to an order or other decision of the Regulator precluding the recovery of the production from the well event are completed in the interval referred to in section 6(12)(a) of this Regulation

to and including the month immediately preceding the first production month in a period of at least 2 consecutive production months for which the Minister does not prescribe a quantity of conservation gas pursuant to section 6(12)(b) for a well event that was completed in that pool, where the Minister has prescribed a quantity of conservation gas for such a well event for one or more production months preceding that first production month.

(2) For production months following the production month in which the total royalty compensation received for the additional royalty share payable by virtue of the [C% x AF] component of the formulas in sections 2 and 3 of this Schedule equals the total cost

of conservation gas calculated under section 7(5) of this Schedule for all royalty clients, C% shall be zero for all well events.

Table

Column 1 Months Expired	Column 2 C%
12 to 23 months	1%
24 to 35 months	2%
36 to 47 months	3%
48 to 59 months	4%
60 to 71 months	5%
72 to 83 months	6%
84 to 95 months	7%
96 to 107 months	8%
108 to 119 months	9%
120 months or more	10%

Royalty Compensation for Gas

Aggregate Gas Reference Price

4 For the purposes of this Regulation, the Aggregate Gas Reference Price for any gas for a production month is the amount determined in accordance with the following formula:

$$AGRP = \frac{MiRP(MiQ) + EiRP(EiQ) + PiRP(PiQ) + BiRP(BiQ) + PPIRP(PPiQ)}{MiQ + EiQ + PiQ + BiQ + PPIQ}$$

where

AGRP is the Aggregate Gas Reference Price for the gas for the month;

MiRP, EiRP, PiRP, BiRP and PPIRP are the respective ISC reference prices prescribed for the production month;

MiQ, EiQ, PiQ, BiQ and PPIQ are the quantities of methane ISC, ethane ISC, propane ISC, butanes ISC and pentanes plus ISC, respectively, contained in the gas.

Transportation Allowance

5(1) For the purposes of this Regulation, the Transportation Allowance for any gas for a production month is the amount determined in accordance with the following formula:

$$TA = (RTF - 1) D$$

where

- TA is the Transportation Allowance for the gas for the production month, which may be a positive or negative amount or zero;
- RTF is the royalty trigger factor determined in accordance with subsection (2) for the production month for the royalty calculation point for the gas;
- D is the adjusted intra-Alberta transportation deduction determined in accordance with subsection (3) for the production month.

(2) For the purposes of subsection (1), the royalty trigger factor for a production month for the royalty calculation point for any gas is

- (a) the receipt meter station factor for the receipt meter station for the month if the gas can only be delivered into a single pipeline through a single receipt meter station, or
- (b) if the gas can be delivered into one or more pipelines through more than one receipt meter station, the amount determined by rounding to the nearest hundredth the amount determined by
- (i) multiplying the quantity of gas delivered to each receipt meter station from that royalty calculation point during the month by its receipt meter station factor,
- (ii) determining the aggregate of the amounts calculated under subclause (i), and
- (iii) dividing the aggregate amount determined under subclause (ii) by the total quantity of gas delivered to all those receipt meter stations from that royalty calculation point in that production month.

(3) For the purposes of subsection (1), the adjusted intra-Alberta transportation deduction for a production month for the royalty calculation point for any gas is the amount determined in accordance with the following formula:

$$D = \frac{MiD(MiQ) + EiD(EiQ) + PiD(PiQ) + BiD(BiQ) + PPiD(PPiQ)}{MiQ + EiQ + PiQ + BiQ + PPiQ}$$

where

- D is the adjusted intra-Alberta transportation deduction for the production month for the royalty calculation point for that gas;

MiD, EiD, PiD, BiD and PPiD are the Methane ISC Adjusted Intra-Alberta Transportation Deduction, Ethane ISC Adjusted Intra-Alberta Transportation Deduction, Propane ISC Adjusted Intra-Alberta Transportation Deduction, Butanes ISC Adjusted Intra-Alberta Transportation Deduction and Pentanes Plus ISC Adjusted Intra-Alberta Transportation Deduction, respectively, for the production month;

MiQ, EiQ, PiQ, BiQ and PPiQ are the quantities of methane ISC, ethane ISC, propane ISC, butanes ISC and pentanes plus ISC, respectively, contained in the gas.

Net Gas Reference Price

6 For the purposes of this Regulation, the Net Gas Reference Price in respect of the Crown's royalty share of any gas for a production month is

- (a) the Aggregate Gas Reference Price for the gas for the production month

minus

- (b) the Transportation Allowance for the gas for the production month.

Calculation of royalty compensation for gas

7(1) Subject to subsections (2), (3) and (4), the royalty compensation payable to the Crown in respect of the Crown's royalty share of gas for a production month is

- (a) an amount calculated by multiplying the quantity of the royalty share by the Net Gas Reference Price for the gas for that production month, or
- (b) if the royalty client in relation to the gas is eligible under section 8 of this Schedule to calculate royalty compensation for the production month on the basis of the client's corporate average price, an amount calculated by multiplying the quantity of the royalty share by the royalty client's corporate average price for gas and ethane for the year in which the production month occurs,

and by subsequently reducing the amount so calculated to an amount not less than zero by subtracting firstly, the cost of conservation gas of the royalty client for the production month, and secondly, any allocable costs established and allocated to the royalty client in the month following the production month.

(2) If natural gas is

- (a) consumed as a fuel, or delivered from a gathering system to a mainline straddle plant, in a production month without having first been processed at a gas processing plant or reprocessing plant, or
- (b) disposed of in a production month without having first been processed at a gas processing plant or reprocessing plant and subsequently processed,

and royalty compensation in respect of the Crown's royalty share of that natural gas would in the absence of this subsection be calculated in accordance with subsection (1)(a), then, unless the Minister otherwise determines in a particular case, the royalty compensation payable to the Crown in respect of the Crown's royalty share of the natural gas is an amount calculated by multiplying the quantity of the royalty share by 80% of the Gas Reference Price for that production month.

(3) Subject to subsection (2), if natural gas

- (a) is removed from Alberta in a production month without having first been processed at a gas processing plant or reprocessing plant,
- (b) is subsequently processed, and
- (c) royalty compensation in respect of the Crown's royalty share of that natural gas would in the absence of this subsection be calculated in accordance with subsection (1)(a),

then, unless the Minister otherwise determines in a particular case, the royalty compensation payable to the Crown in respect of the Crown's royalty share of the natural gas is 80% of the amount that would, in the absence of this subsection, be calculated as the royalty compensation in respect of that royalty share under subsection (1)(a) before that amount is reduced by the cost of conservation gas or by any allocable costs.

(4) Where

- (a) gas is delivered pursuant to a contract under which the total consideration for sale of the gas is paid on or before the date of commencement of deliveries of gas under the contract, and
- (b) the Minister determines that the contract is a prepayment contract for the purposes of this section and that subsection (2) does not apply to the gas,

the royalty compensation payable in respect of the Crown's royalty share of the gas delivered under the prepayment contract shall be calculated in accordance with subsection (1)(a) without any reduction in respect of the cost of conservation gas or in respect of any allocable costs.

(5) The cost of conservation gas of a royalty client for a production month shall be determined in accordance with the following formula:

$$C = .5 [(SQ \times .8) (GRP - \$.3791 \text{ per GJ})]$$

where

C is the cost of the conservation gas of the royalty client for the production month;

SQ is the aggregate of the quantities of conservation gas prescribed pursuant to section 6(12)(b) of this Regulation for the production month for all the well events for which the royalty client is during the month, the operator according to the records of the Department;

GRP is the Gas Reference Price prescribed for the production month under section 6(1) of this Regulation.

CAP election

8(1) Royalty compensation may be calculated for a production month pursuant to section 7(1)(b) of this Schedule on the basis of the royalty client's corporate average price for gas and ethane if

- (a) the royalty client submits to the Minister in accordance with this section an election to have the calculation of the royalty compensation for which the royalty client is liable based on the royalty client's corporate average price for gas and ethane, and
- (b) the election is in effect in relation to that production month.

(2) A CAP election submitted to the Minister under the 1994 Regulation is, if otherwise valid, deemed for the purposes of this Schedule to be a CAP election submitted under subsection (3) in October, 2002.

(3) An application for a CAP election may be submitted only by

- (a) a person who becomes a royalty client after September, 2002 and who at the time of becoming a royalty client is not associated with any person who is also a royalty client having no valid CAP election in effect, or
 - (b) unless the Minister otherwise directs in a particular case, a person who becomes a royalty client after September, 2002 and who at the time of becoming a royalty client is associated with one or more other royalty clients, each of whom either
 - (i) has a valid CAP election in effect, or
 - (ii) submits a CAP election during the same month.
- (4)** A CAP election must be submitted to the Minister not later than the 15th day of the 2nd month after the production month in respect of which the person became a royalty client.
- (5)** Subject to this section, a CAP election submitted in accordance with subsections (3) and (4), if otherwise valid, is applicable to the production month in which it is submitted and succeeding months in the year in which it is submitted and to succeeding years up to and including 2008.
- (6)** Where 2 or more royalty clients are associated persons then, unless the Minister otherwise directs in a particular case, if the CAP election of any one of those royalty clients is or becomes invalid, the CAP elections of all of the other royalty clients also are invalid or become invalid, as the case may be.
- (7)** Unless the Minister otherwise directs in a particular case, a royalty client's CAP election ceases to be valid for a year if
- (a) the royalty client fails to comply with the requirements of section 9 of this Schedule for the determination of the client's corporate average price for gas and ethane for that year, or
 - (b) the royalty client or a person associated with the royalty client refuses to give consent pursuant to section 9(5)(a) of this Schedule to an audit or examination under that section relating to the determination of the royalty client's CAP for that year or fails to comply with section 9(5)(b) of this Schedule with respect to that audit or examination.
- (8)** Subject to subsection (12), if a royalty client has a CAP election in effect in a year and during that year
- (a) the royalty client becomes associated with a royalty client then having no valid CAP election in effect,

- (b) the royalty client amalgamates with a royalty client then having no valid CAP election in effect, or
- (c) the royalty client's business is in the Minister's opinion effectively merged, otherwise than by amalgamation, with that of a royalty client then having no valid CAP election in effect,

the royalty client's CAP election is not valid in respect of any subsequent year.

(9) If a CAP election ceases to be valid during a year because of the operation of subsection (7),

- (a) the CAP election does not apply to that year,
- (b) the Minister shall, with respect to the production months in that year for which the royalty compensation was calculated under section 7(1)(b) and (4) of this Schedule, instead recalculate the royalty compensation in accordance with section 7(1)(a), (2) and (4) of this Schedule, and
- (c) any difference in royalty compensation calculated under clause (b) shall be reflected as an adjustment in the royalty client account of the royalty client.

(10) A royalty client may, on or before March 1 of a year, notify the Minister in writing that the royalty client's CAP election, if any, for the preceding year will not apply to that preceding year and in that event the CAP elections of the royalty client and all other royalty clients associated with the royalty client are inapplicable to that preceding year and all subsequent years.

(11) If a royalty client does not have or ceases to have a valid CAP election in effect for a year, neither the royalty client nor any other person with which the royalty client is associated is eligible to submit a CAP election for that year or any subsequent year.

(12) If a royalty client applies to the Minister for a ruling as to whether any existing or contemplated transaction or arrangement has resulted or will result in the CAP election ceasing to be in effect by reason of the operation of subsection (8), the Minister must make the ruling and the ruling so made is binding on the Crown.

Determining a royalty client's annual CAP

9(1) The corporate average price for a year for a royalty client having a valid CAP election in effect for that year shall be determined in accordance with this section.

(2) A royalty client shall determine the client's CAP for 2002 and for each subsequent year up to and including 2008 as the weighted average unit value of the royalty client's sales of gas and ethane in that year, as determined by the Minister, adjusted, in the case of each such price that is determined at a place that is different from the place where the Crown's royalty share of the gas and ethane that is sold is transferred pursuant to section 17(1) of this Regulation, by increasing or decreasing the price to reflect the reasonable costs, as approved by the Minister, of transportation.

(3) A royalty client's CAP for a year may not be less than 90% of the quantity-weighted average of the Gas Reference Prices for the production months in the same year.

(4) A royalty client's CAP for a year may be recalculated in accordance with the Minister's directions.

(5) A royalty client having a valid CAP election in effect for a year and any person associated with that royalty client must

- (a) whenever requested to do so by the Minister, consent to an audit or examination of the records of the royalty client or associated person that are or may be relevant to the determination of the royalty client's CAP for that year, and
- (b) cooperate with and give all reasonable assistance to the person conducting the audit or examination requested under clause (a) for the purpose of enabling that person to conduct the audit or examination satisfactorily.

(6) When an audit or examination is requested by the Minister under subsection (5), the royalty client or the associated person has the choice of having the audit or examination conducted

- (a) by or on behalf of the Minister, at the Crown's expense, or
- (b) by an independent auditor approved by the Minister, at the expense of the royalty client and the persons associated with the royalty client or any one or more of them.

(7) A royalty client having a valid CAP election in effect with respect to all or part of a year shall furnish to the Minister, on or before April 15 in the next year a report respecting the quantities of natural gas and gas products disposed of by the royalty client in those production months in that year and the consideration received for those quantities.

Recalculation of royalty compensation for gas sold under long-term contracts

10(1) Notwithstanding anything in this Schedule, the Minister may, in accordance with this section, recalculate the royalty compensation payable under this Regulation in respect of the Crown's royalty share of natural gas and residue gas sold under a long-term contract during the whole of 2002 and each subsequent production year up to and including 2008 if

- (a) an application was made under section 7 of Schedule 1 of the 1994 Regulation to have that section apply to the long-term contract, and
- (b) the Minister approved the application.

(2) This section applies to a contract referred to in subsection (1) in respect of the remainder of the period of years specified by the Minister pursuant to section 7(3) of Schedule 1 of the 1994 Regulation.

(3) In respect of each year to which this section applies to a contract by reason of subsection (2), the Minister shall, after the end of the year,

- (a) recalculate the royalty compensation payable in respect of the Crown's royalty share of natural gas and residue gas sold under the contract in that year by multiplying the quantity of the gas royalty for the year by the price payable to the seller for gas sold under the contract in that year, and
- (b) compute the amount by which the royalty compensation payable under section 7(1)(a) and (2) of this Schedule exceeds or is exceeded by the royalty compensation recalculated under clause (a) and have the difference reflected in the royalty client account of the royalty client.

(4) If this section applies to a contract in respect of a year, the royalty client concerned shall furnish to the Minister a report respecting the prices of natural gas and residue gas sold under the contract in the preceding year on or before March 31 of the next year.

(5) Notwithstanding subsection (2), this section does not apply to a contract in respect of any year in which the royalty client has a CAP election in effect or in respect of any subsequent year.

AR 220/2002 Sched.1;225/2004;250/2004;139/2005;221/2008;
89/2013

Schedule 2

Ethane

Definitions

1 In this Schedule,

- (a) “corporate average price”, in relation to a royalty client and a year, has the same meaning as in Schedule 1;
- (b) “gas” means natural gas or residue gas;
- (c) “receipt meter station factor” has the same meaning as in Schedule 1.

Royalty Share of Ethane

Calculation of royalty quantity for ethane

2 Subject to section 3 of this Schedule, the royalty reserved to the Crown on ethane obtained in a production month is the percentage of the ethane calculated in accordance with the following equation:

$$ER\% = \frac{15SP + 40(PP - SP)}{PP}$$

where

ER% is the Crown’s royalty share of ethane expressed as a percentage of the ethane on which the royalty is payable, which shall not be less than 15%, nor more than 30% or 35%, according to whether the ethane is new ethane or old ethane, respectively;

SP is the New Ethane Select Price or the Old Ethane Select Price for the year containing the production month, according to whether the ethane is new ethane or old ethane, respectively;

PP is the Ethane Par Price for the production month.

Ethane royalty for low productivity wells

3(1) In this section,

- (a) “average daily production” with respect to any production month means,
 - (i) in respect of natural gas recovered from a well event, the volume of natural gas recovered in a month from the well event in m³, or

- (ii) in respect of oil recovered from an oil well event, the volume of oil recovered in a month from the well event in m³,

divided by the number of hours of operation of the well event in the production month and multiplied by 24;

- (b) “oil well event” means a well event that is classified as an oil well event by the Regulator.

(2) Subject to subsection (3), where in a production month the average daily production of natural gas from a well event is less than 16 900 m³, the royalty reserved to the Crown on the ethane obtained from natural gas recovered from that well event is the percentage of the ethane calculated in accordance with the following equation:

$$ER\% = RC - \left[\frac{(RM - .05) \times (16.9 - ADP)^2}{16.9^2} \right]$$

where

ER% is the Crown’s royalty share of the ethane expressed as a percentage of the ethane on which the royalty is payable;

RC is the royalty rate, expressed as a decimal fraction, that would apply for the production month if the royalty were calculated under section 2 of this Schedule;

RM is the amount calculated as MiR% for the production month pursuant to section 2(2) of Schedule 1 for the residue gas obtained from the natural gas, expressed as a decimal fraction;

ADP is the average daily production of natural gas from the well event for the production month divided by 1000 m³.

(3) Subsection (2) does not apply where the well event is an oil well event with an average daily production of oil of 0.15 m³ or greater in the production month.

Royalty Compensation for Ethane

Transportation Allowance

4(1) For the purposes of this Regulation, the Transportation Allowance for any ethane for a production month is the amount determined in accordance with the following formula:

$$TA = (RTF - 1) D$$

where

TA is the Transportation Allowance for the ethane for the production month, which may be a positive or negative amount or zero;

RTF is the royalty trigger factor determined in accordance with subsection (2) for the production month for the royalty calculation point for the ethane;

D is the Ethane ISC Adjusted Intra-Alberta Transportation Deduction for ethane for the production month.

(2) For the purposes of subsection (1), the royalty trigger factor for a production month for the royalty calculation point for any ethane is

- (a) if the gas obtained at the same gas processing plant or reprocessing plant as the ethane can only be delivered into a single pipeline through a single receipt meter station, the receipt meter station factor for the receipt meter station for the month, or
- (b) if the gas obtained at the same gas processing plant or reprocessing plant as the ethane can be delivered into one or more pipelines through more than one receipt meter station, the amount determined by rounding to the nearest hundredth, the amount determined by
 - (i) multiplying the quantity of gas delivered to each receipt meter station from that royalty calculation point in the production month by its receipt meter station factor,
 - (ii) determining the aggregate of the amounts calculated under subclause (i), and
 - (iii) dividing the aggregate amount determined under subclause (ii) by the total quantity of gas delivered to all those receipt meter stations from that royalty calculation point in the production month.

Net Ethane Reference Price

5 For the purpose of this Regulation, the Net Ethane Reference Price in respect of the Crown's royalty share of any ethane for a production month is

- (a) the Ethane Reference Price for the production month
- minus
- (b) the Transportation Allowance for the ethane for the production month.

Calculation of royalty compensation for ethane

6(1) Subject to subsection (2), the royalty compensation payable to the Crown in respect of the Crown's royalty share of ethane for a production month is

- (a) an amount calculated by multiplying the quantity of the royalty share by the Net Ethane Reference Price for that production month, or
- (b) if the royalty client is, in relation to gas, eligible under section 8 of Schedule 1 to calculate royalty compensation for the production month on the basis of the client's corporate average price, an amount calculated by multiplying the quantity of the royalty share of ethane by the royalty client's corporate average price for gas and ethane for the year in which the production month occurs.

(2) Where

- (a) ethane is delivered pursuant to a contract under which the total consideration for sale of the ethane is paid on or before the date of commencement of deliveries of ethane under the contract, and
- (b) the Minister determines that the contract is a prepayment contract for the purposes of this section,

the royalty compensation payable in respect of the Crown's royalty share of the ethane delivered under the prepayment contract shall be calculated in accordance with subsection (1)(a).

AR 220/2002 Sched. 2;89/2013

Schedule 3

Propane

Propane royalty quantity

1 The royalty reserved to the Crown on propane obtained in a production month is the percentage of the propane calculated in accordance with the following equation:

$$PR\% = \frac{15SP + 40(PP - SP)}{PP}$$

where

- PR% is the Crown's royalty share of propane for the production month expressed as a percentage of the propane on which the royalty is payable, which shall not be less than 15% nor more than 30%;
- SP is the Propane Select Price for propane for the year in which the production month occurs;
- PP is the Propane Par Price for the production month.

Propane royalty compensation

2(1) The amount of royalty compensation payable to the Crown in respect of the Crown's royalty share of propane for a production month is an amount calculated by multiplying the quantity of the royalty share in cubic metres by the Net Propane Reference Price applicable to the propane for the production month.

(2) For the purposes of this section, the Net Propane Reference Price applicable to propane for a production month is the Propane Reference Price for the production month minus the aggregate of the following:

- (a) the Transportation Allowance applicable to the propane, prescribed for the production month pursuant to section 6(9)(a) of this Regulation for the region in which is located the gas processing plant or reprocessing plant at which the propane is obtained;
- (b) the Fractionation Allowance for the production month, if applicable.

Schedule 4

Butanes

Butanes royalty quantity

1 The royalty reserved to the Crown on butanes obtained in a production month is the percentage of the butanes calculated in accordance with the following equation:

$$BR\% = \frac{15SP + 40(PP - SP)}{PP}$$

where

- BR% is the Crown's royalty share of butanes for the production month, expressed as a percentage of the butanes on which the royalty is payable, which shall not be less than 15% nor more than 30%;
- SP is the Butanes Select Price for butanes for the year in which the production month occurs;
- PP is the Butanes Par Price for the production month.

Butanes royalty compensation

2(1) The amount of royalty compensation payable to the Crown in respect of the Crown's royalty share of butanes for a production month is an amount calculated by multiplying the quantity of the royalty share in cubic metres by the Net Butanes Reference Price applicable to the butanes for the production month.

(2) For the purposes of this section, the Net Butanes Reference Price applicable to butanes for a production month is the Butanes Reference Price for the production month minus the aggregate of the following:

- (a) the Transportation Allowance applicable to the butanes, prescribed for the production month pursuant to section 6(9)(a) of this Regulation for the region in which is located the gas processing plant or reprocessing plant at which the butanes are obtained;
- (b) the Fractionation Allowance for the production month, if applicable.

Schedule 5

Pentanes Plus

Royalty quantity of pentanes plus

1 The royalty reserved to the Crown on pentanes plus obtained in a production month is the percentage of the pentanes plus calculated in accordance with the following equation:

$$PPR\% = \frac{22SP + RF (PP - SP)}{PP}$$

where

PPR% is the Crown's royalty share of pentanes plus for the production month, expressed as a percentage of the pentanes plus on which the royalty is

payable, which shall be not less than 22%, nor more than 35% or 50%, according to whether the pentanes plus is new pentanes plus or old pentanes plus, respectively;

- SP is the Pentanes Plus Select Price for the year in which the production month occurs;
- RF is the royalty factor for new pentanes plus for the year in which the production month occurs or the royalty factor for old pentanes plus for the year in which the production month occurs, according to whether the pentanes plus are new pentanes plus or old pentanes plus;
- PP is the Pentanes Plus Par Price for the production month.

Royalty compensation for pentanes plus

2(1) The amount of royalty compensation payable to the Crown in respect of the Crown's royalty share of pentanes plus for a production month is an amount calculated by multiplying the quantity of the royalty share by the Net Pentanes Plus Reference Price applicable to the pentanes plus for the production month.

(2) For the purposes of this section, the Net Pentanes Plus Reference Price for a production month and applicable to the pentanes plus for a production month is the Pentanes Plus Reference Price for the production month minus the aggregate of the following:

- (a) the Transportation Allowance applicable to the pentanes plus, prescribed for the production month pursuant to section 6(9)(a) of this Regulation for the region in which is located the gas processing plant or reprocessing plant at which the pentanes plus are obtained;
- (b) the Fractionation Allowance for the production month, if applicable;
- (c) the Special Pentanes Plus Processing Allowance for the month, if the pentanes plus is special pentanes plus.

Schedule 6

Sulphur

Definitions

- 1** In this Schedule,

- (a) “corporate average price for sulphur” or “S-CAP”, in relation to a royalty client and a year, is the corporate average price for sulphur established for that royalty client for that year pursuant to section 3 of this Schedule;
- (b) “Sulphur Default Price”, in relation to a year, is the price determined from time to time by the Minister for the year pursuant to section 5 of this Schedule.

Royalty quantity of sulphur

2 The royalty reserved to the Crown on sulphur obtained by processing natural gas is $16 \frac{2}{3}\%$ of the sulphur obtained.

Determination of royalty client’s annual S-CAP

3(1) Subject to this section, a royalty client shall determine the client’s corporate average price for sulphur for 2002 and each subsequent year up to and including 2008 if

- (a) the royalty client is required to furnish a report under section 4(4) of this Schedule, or elects to furnish a report under section 4(5) of this Schedule, in respect of the year, and
- (b) the quantity of sulphur disposed of by the client in the year to persons at arm’s length from the client is not less than 10% of the total quantity of sulphur allocated to the client in that year.

(2) The corporate average price determined by a royalty client for a year is the amount calculated by dividing

- (a) the royalty client’s total net revenue for sales of sulphur for the year calculated in accordance with the Minister’s directions

by

- (b) the total number of tonnes of sulphur sold in the same year under sales referred to in clause (a).

(3) A royalty client’s S-CAP for a year cannot be an amount per tonne less than zero.

(4) A royalty client’s S-CAP for a year may be recalculated in accordance with the Minister’s directions.

(5) A royalty client required under subsection (1) to determine the client’s S-CAP for a year, and any person associated with that royalty client, must

- (a) whenever requested to do so by the Minister, consent to an audit or examination of the records of the royalty client or associated person that are or may be relevant to the determination of the royalty client's S-CAP for that year, and
 - (b) cooperate with and give all reasonable assistance to the person conducting the audit or examination requested under clause (a) for the purpose of enabling that person to conduct the audit or examination satisfactorily.
- (6) When an audit or examination is requested by the Minister under subsection (5), the royalty client or associated person has the choice of having the audit or examination conducted
- (a) by or on behalf of the Minister, at the Crown's expense, or
 - (b) by an independent auditor approved by the Minister, at the expense of the royalty client and the persons associated with the royalty client or any one or more of them.

Report of sulphur disposition

- 4(1)** A royalty client shall furnish to the Minister for each production month of 2002 and of each subsequent year up to and including 2008 a report respecting the quantities of sulphur disposed of by the client in each month if the Minister determines that the quantity of sulphur allocated to the client in the preceding year was 30 000 tonnes or more.
- (2)** A royalty client who is not required to furnish reports to the Minister under subsection (1) in respect of the production months of 2002 or a subsequent year up to and including 2008, shall nonetheless furnish those reports for the 2nd and each subsequent production month of the year if the client elects to do so by furnishing the report in respect of the first production month of the year by the 15th day of the 2nd month following that first production month.
- (3)** A report furnished by a royalty client pursuant to subsection (1) or (2) in respect of a production month may, to the extent consented to by the Minister, include information regarding the quantities of sulphur disposed of by the client in any preceding production month.
- (4)** A royalty client shall furnish a report to the Minister for 2002 and each subsequent year up to and including 2008 in respect of which the client is required to furnish reports to the Minister under subsection (1) or (2) in relation to production months of the year, respecting the total quantity of sulphur disposed of by the royalty client in the year.

(5) A royalty client who is not required to furnish a report under subsection (4) in respect of a year may nonetheless elect to furnish a report under subsection (4) by furnishing the report to the Minister by the 15th day of April of the following year.

(6) A report required to be furnished

- (a) under subsection (1) or (2) in respect of a production month shall be furnished to the Minister by the 15th day of the 2nd month following the production month, and
- (b) under subsection (4) in respect of a year, shall be furnished to the Minister by the 15th day of April of the following year.

Sulphur royalty compensation

5(1) The amount of royalty compensation payable to the Crown by a royalty client in respect of the Crown's royalty share of sulphur allocated to the client in a production month is an amount calculated by multiplying the quantity of the royalty share

- (a) by the royalty client's S-CAP for the year containing the month, in any case where clause (b) does not apply, or
- (b) by the Sulphur Default Price for the year containing the month if
 - (i) the quantity of sulphur disposed of by the royalty client in the year containing the month to persons at arm's length from the client is less than 10% of the total quantity of sulphur allocated to the client in that year,
 - (ii) the Minister determines that less than 30 000 tonnes of sulphur were allocated to the royalty client in the year preceding the year containing the month, and the client is not required to furnish a report under section 4(4) of this Schedule, and does not elect to furnish a report under section 4(5) of this Schedule, in respect of the year containing the month, or
 - (iii) the royalty client was given a direction under subsection (5) and the direction applies to the month.

(2) Subject to subsections (3) and (4), the Sulphur Default Price for a year is the price determined by dividing

- (a) the total net revenue for sales of sulphur by all royalty clients in the year to persons at arm's length with the

clients, calculated in accordance with the Minister's directions,

by

- (b) the total number of tonnes of sulphur sold in the same year under sales referred to in clause (a).

(3) In determining the total net revenue referred to in subsection (2)(a), the net revenue from any sale included in the determination shall not be less than zero.

(4) Subject to section 38 of the Act, the Minister may from time to time recalculate the Sulphur Default Price for a year.

(5) If a royalty client or a person associated with the royalty client refuses to give consent to an audit or examination pursuant to section 3(5)(a) of this Schedule or fails to comply with section 3(5)(b) of this Schedule with respect to an audit or examination conducted under that section, the Minister may direct that the royalty compensation payable in respect of the Crown's royalty share of sulphur allocated to the royalty client in that year be calculated in accordance with subsection (1)(b).

(6) Subject to subsection (7), if a royalty client who is required to furnish a report under section 4(4) of this Schedule in respect of a year fails to furnish the report by the 15th day of April of the following year, the Minister may direct that the royalty compensation payable in respect of the Crown's royalty share of sulphur allocated to the royalty client in that year be calculated in accordance with subsection (1)(b).

(7) Subject to section 38 of the Act, if a royalty client for whom the calculation of royalty compensation is subject to a direction by the Minister under subsection (6) subsequently furnishes the report required to be filed by it under section 4(4) of this Schedule in respect of a year, the Minister may recalculate in accordance with subsection (1)(a), the royalty compensation payable in respect of the Crown's royalty share of sulphur allocated to the royalty client in that year.

AR 220/2002 Sched.6;221/2008

Schedule 7

New Gas, New Ethane and New Pentanes Plus

New gas categories

1(1) For the purposes of this Regulation, natural gas qualifies as new gas where the Minister determines that the natural gas falls within any of the descriptions in the following clauses:

- (a) natural gas recovered from a pool that was initially discovered on or after January 1, 1974;
 - (b) natural gas that is recovered from a pool initially discovered before January 1, 1974 but only if none of the natural gas recovered from that pool before January 1, 1974 and none of the residue gas or other gas products obtained therefrom were sold or consumed for some useful purpose before that date;
 - (c) natural gas that is recovered from the gas cap of a pool initially discovered before January 1, 1974 (excluding natural gas produced unavoidably with crude oil), but only if none of the natural gas so recovered and none of the residue gas or other gas products obtained therefrom were sold or consumed for some useful purpose before January 1, 1974;
 - (d) natural gas recovered from a pool initially discovered before January 1, 1974, but only if the natural gas is recovered from a drilling spacing unit or unit area located wholly outside the area that has been or is designated for the pool under the *Oil and Gas Conservation Act* on the basis of a well or wells drilled into the pool before January 1, 1974;
 - (e) natural gas recovered as a result of the operation of a scheme for the conservation of natural gas produced unavoidably with crude oil, but only if none of the natural gas so recovered and none of the residue gas or other gas products obtained therefrom were sold or consumed for some useful purpose before January 1, 1974.
- (2) For the purposes of subsection (1),
- (a) natural gas is sold when it is recovered from a well for the purpose of being delivered to a purchaser,
 - (b) residue gas and other gas products are sold when they are obtained from a gas processing plant for the purpose of being delivered to a purchaser, and
 - (c) references to natural gas or residue gas or other gas products obtained therefrom consumed for some useful purpose shall be construed as excluding gas products that are consumed for some useful purpose but not sold.
- (3) Notwithstanding subsection (1), the Minister may determine that natural gas recovered from one or more wells does not qualify or ceases to qualify as new gas for the purposes of this Regulation in the following cases:

- (a) where the Minister is satisfied that natural gas which qualifies as new gas under subsection (1)(d) is being or has been recovered at excessive rates from a well or wells located outside the designated pool area referred to in subsection (1)(d) in relation to the rate at which natural gas is being produced from a well or wells within that area and that the primary purpose of recovering the natural gas at such excessive rates is to increase the amount of natural gas that may qualify as new gas;
 - (b) where natural gas is recovered from 2 or more pools through a well without segregation in the well bore and the natural gas in at least one of the pools does not qualify in whole or in part as new gas under subsection (1).
- (4)** A determination made by the Minister under subsection (1) or (3) may be made on the Minister's initiative except that the Minister may direct that a determination under subsection (3) is to be made only on application.
- (5)** A determination by the Minister under subsection (1)
- (a) may be made effective as of
 - (i) the first day of the month in which the recovery of natural gas from the production entity commenced, where the determination is made on the Minister's initiative, or
 - (ii) where the determination is made on application, the first day of the month in which the application for the determination is actually received by the Department, unless the Minister specifies an earlier effective date,and
 - (b) shall state the date on which the determination is effective.
- (6)** A determination by the Minister under subsection (3)
- (a) may be made effective as of
 - (i) the first day of the month in which the well commenced production, where the Minister initially determines that the natural gas does not qualify as new gas,
 - (ii) the first day of the month in which the well commenced production, where the initial determination under subsection (1) was made in error

or without the Minister's knowledge of any of the circumstances described in subsection (3) which would, if known, have resulted in a determination that the natural gas did not qualify as new gas, or

- (iii) where the Minister determines that the natural gas ceases to qualify as new gas by reason of any of the circumstances described in subsection (3)(a) or (b), the first day of the month in which that circumstance initially occurred,

and

- (b) shall state the date on which the determination is effective.

(7) The Minister, on application or the Minister's initiative, may review a determination made under subsection (1) or (3), or a refusal to make a determination under subsection (1), and may, after concluding the review, revoke or replace the determination or make the determination, as the case may be.

(8) Notwithstanding anything in this section,

- (a) the Minister may determine that natural gas recovered from a production entity is only partly new gas and in that event shall also determine the proportion in which new gas recovered from the production entity bears to the whole of the natural gas recovered from well production entity;
- (b) the portion of the natural gas recovered from the production entity that is new gas by reason of a determination under clause (a) is new gas for the purposes of this Regulation and the remainder is old gas.

Residue gas and ethane

2 For the purposes of this Regulation, residue gas and ethane qualify as new gas and new ethane, respectively, only if the natural gas from which they are obtained qualifies as new gas.

New pentanes plus

3 For the purposes of this Regulation, pentanes plus is new pentanes plus if

- (a) it is obtained from new gas, or
- (b) it is determined by the Minister in a particular case to be new pentanes plus.

Schedule 8

Royalty Exemptions and Adjustments

Exemption for Otherwise Flared Solution Gas

Interpretation

1(1) In this section and section 2 of this Schedule,

- (a) “approved well event” means a well event approved by the Minister under section 2(1) of this Schedule, but does not include a qualifying well event;
- (b) “average daily production”, in relation to solution gas recovered from a well event in a production month, means the volumes of solution gas recovered from the well event in that production month in m³, divided by the number of hours of operation of the well event in the production month and multiplied by 24;
- (c) “crude oil battery” means a battery that is, according to the records of the Regulator, a crude oil battery;
- (d) “qualifying battery” means a crude oil battery
 - (i) from which crude oil was first delivered before March, 1998,
 - (ii) to which solution gas was delivered during November, 1998, all of which was subsequently flared or vented to the atmosphere, and
 - (iii) from which no solution gas has been delivered after April, 1989,according to the records of the Regulator, but does not include a battery listed in subsection (2);
- (e) “qualifying well event” means a well event for which,
 - (i) the mode status at any time during November, 1998 was flowing, pumping, gas lift or testing, and
 - (ii) the fluid status at any time during November, 1998 was crude oil or oil.

(2) The crude oil batteries assigned the following battery numbers by the Regulator are not qualifying batteries for the purposes of section 2 of this Schedule:

42292	57809
44804	370006
46486	1570064
49988	3220023
51889	4050104
53394	5950034
53444	6670009
54091	7500528
55748	7530010
55934	8870112
57765	9230005

Exemption for solution gas

2(1) The Minister may, on application from the operator of a crude oil battery that is not a qualifying battery and on the recommendation of the Regulator,

- (a) approve, for the purposes of the exemption from royalty under subsection (3), a well event from which solution gas is recovered and delivered to the battery, and
- (b) specify an apportionment factor for the approved well event that is not more than 1.0, expressed as a decimal fraction.

(2) Subject to subsections (5) to (9), solution gas that is

- (a) recovered in a production month after 1998 from a qualifying well event, and
- (b) delivered to a qualifying battery

is exempt from the payment of royalty otherwise payable to the Crown under this Regulation.

(3) Subject to subsections (4) to (9), solution gas that is

- (a) recovered in a production month after September, 2002 from an approved well event,
- (b) delivered to a crude oil battery, and
- (c) used or consumed for some useful purpose and not injected

is exempt from the payment of royalty otherwise payable to the Crown under this Regulation.

(4) Where an apportionment factor is specified for an approved well event, the royalty exemption under subsection (3) applies only

to the portion of the solution gas referred to in that subsection that is equal to the product of the quantity of the solution gas and the apportionment factor.

- (5)** Subject to subsections (7) to (9),
- (a) a royalty exemption under subsection (2) applies in respect of solution gas recovered from a qualifying well event in production months commencing with September, 2002 and ending with December, 2008, and
 - (b) a royalty exemption under subsection (3) applies in respect of solution gas recovered from an approved well event during the period of 120 consecutive months commencing with the month in which the application under subsection (1) in respect of the well event is received by the Minister.
- (6)** Where a well event was approved under section 12.1(2) of the 1994 Regulation,
- (a) the well event is deemed to be an approved well event for the purposes of this section, and
 - (b) subject to subsections (7) to (9), the royalty exemption provided for under section 12.1(4) of the 1994 Regulation in respect of solution gas recovered from that approved well event continues for the remainder of the period of 120 consecutive months referred to in section 12.1(6)(b) of the 1994 Regulation.
- (7)** The Minister may terminate a royalty exemption under subsection (2), (3) or (6) in respect of solution gas recovered from a qualifying well event or approved well event if
- (a) according to the records of the Regulator, the average daily production of solution gas recovered from the well event has exceeded 15 000 m³ in each of 3 consecutive production months commencing with any month after July, 2002,
 - (b) the Minister receives a recommendation from the Regulator to terminate the exemption, and
 - (c) the Minister is of the opinion that solution gas recovered from the well event should not be exempt from the payment of royalty under this section.
- (8)** The Minister may make the termination of a royalty exemption pursuant to subsection (7) effective commencing with the

production month following the 3-month period referred to in that subsection or commencing with any subsequent production month.

(9) If the Minister terminates a royalty exemption pursuant to subsection (7), the Minister shall

- (a) give written notice of the termination to the operator of the crude oil battery to which solution gas recovered from the well event is delivered, and
- (b) specify in the notice the production month specified by the Minister under subsection (8) as the initial production month in which the termination is effective.

Qualifying Intervals in Deep Gas Wells and Deep Tight Gas Wells

Definitions

3(1) In this section and sections 4 to 14 and Table 1 of this Schedule,

- (a) “Crown interest in production” means, in relation to natural gas production from a qualifying interval, an interest in the production equal to the proportion that Crown production from the qualifying interval bears to the total production of natural gas from the qualifying interval;
- (b) “deepening” means, in relation to a well, the drilling of the well beyond the depth referred to in the licence for the well, pursuant to an amendment to the licence;
- (c) “designated pool” means a pool that, as of June 1, 1985, has been designated as a pool by the Regulator pursuant to the *Oil and Gas Conservation Act*;
- (d) “eligible well” means a well
 - (i) the spudding in or commencement of deepening of which occurs after May 31, 1985 and before January 1, 2009,
 - (i.1) that is drilled or deepened in the location of an agreement granting natural gas rights or petroleum and natural gas rights and having a term commencement date earlier than September 1, 2006,
 - (ii) that is drilled or deepened in a drilling spacing unit that is not wholly or partly within the boundaries of a designated pool,

- (iii) that is drilled to a depth of more than 2500 metres,
and
 - (iv) that produces natural gas from a qualifying pool,
but does not include
 - (v) a well that is the subject of a subsisting certificate for an incentive exploratory well, in respect of its drilling or deepening, under a former incentive regulation,
 - (vi) a well in respect of which the Minister approved an application for a royalty exemption under section 7 of the pre-1994 Regulation or section 7 of Schedule 6 of the 1994 Regulation,
 - (vii) a well completed in a drilling spacing unit containing a well that at any time has been the subject of a royalty exemption under a former incentive regulation or under section 8, 12 or 13 of Schedule 6 of the 1994 Regulation or section 5 or 6 of this Schedule,
 - (viii) unless otherwise approved by the Regulator, a well that is off-target within the meaning of the *Oil and Gas Conservation Rules* (AR 151/71),
 - (viii.1) a well that initially produces oil either alone or with gas at a gas-oil ratio of less than 1800:1, and in respect of which the spudding in or commencement of deepening occurs on or after September 1, 2006,
 - (viii.2) a well that produces oil sands, other than a gas well as defined in the *Oil and Gas Conservation Rules* (AR 151/71), in respect of which the spudding in or commencement of deepening occurs on or after September 1, 2006, or
 - (ix) a well whose production of crude oil or oil sands is exempt from royalty under the *Third Tier Exploratory Well Royalty Exemption Regulation* (AR 16/93) and that exemption has not been wholly revoked;
- (e) “former incentive regulation” means
- (i) the *Exploratory Drilling Incentive Regulations* (AR 378/72),

- (ii) the *Exploratory Drilling Incentive Regulations, 1974* (AR 18/74),
 - (iii) the *Exploratory Drilling Incentive Regulation, 1978* (AR 27/78),
 - (iv) the *Exploratory Drilling Incentive Regulation, 1981* (AR 212/81),
 - (v) the *Exploratory Drilling Incentive Regulation, 1983* (AR 210/83), or
 - (vi) the *Exploratory Drilling Incentive Regulation, 1984* (AR 137/84);
- (f) “licensee”, in relation to a well, means the holder of the licence in respect of that well under the *Oil and Gas Conservation Act*;
- (f.1) “measured depth” means, in relation to a well, the longest distance in metres according to the records of the Regulator, measured along the bore of the well from the kelley bushing of the well to the base of a natural gas producing interval in the well that is producing in paying quantities;
- (f.2) “non-vertical depth” means, in relation to a well, the difference in metres between the measured depth of the well and the vertical depth of the well from the kelley bushing of the well to the base of the natural gas producing interval in the deepest producing zone in the well that is producing in paying quantities;
- (g) “pre-1994 Regulation” means the *Natural Gas Royalty (Pre-1994) Regulation* (AR 246/90);
- (g.1) “qualified well” means a well
- (i) the spudding in or commencement of deepening of which occurs on or after September 1, 2006 and before January 1, 2009,
 - (ii) that is drilled or deepened in a drilling spacing unit that is not wholly or partly within the boundaries of a designated pool,
 - (iii) that is drilled to a depth of more than 2500 metres, and
 - (iv) that produces natural gas from a qualifying pool,
- but does not include

- (v) a well that is the subject of a subsisting certificate for an incentive exploratory well, in respect of its drilling or deepening, under a former incentive regulation,
 - (vi) a well in respect of which the Minister approved an application for a royalty exemption under section 7 of the pre-1994 Regulation or section 7 of Schedule 6 of the 1994 Regulation,
 - (vii) a well completed in a drilling spacing unit containing a well that at any time has been the subject of a royalty exemption under a former incentive regulation or under section 8, 12 or 13 of Schedule 6 of the 1994 Regulation or section 5 or 6 of this Schedule, or of a royalty adjustment under section 10 or 11 of this Schedule,
 - (viii) unless otherwise approved by the Regulator, a well that is off-target within the meaning of the *Oil and Gas Conservation Rules* (AR 151/71),
 - (ix) a well that, in the opinion of the Minister, initially produces oil either alone or with gas at a gas-oil ratio of less than 1800:1,
 - (x) a well that produces oil sands, other than a gas well as defined in the *Oil and Gas Conservation Rules* (AR 151/71), or
 - (xi) a well whose production of crude oil or oil sands is exempt from royalty under the *Third Tier Exploratory Well Royalty Exemption Regulation* (AR 16/93) and that exemption has not been wholly revoked;
- (h) “qualifying interval” means,
- (i) in relation to the spudding of an eligible well or qualified well, the portion of the drilled depth of the well that is below a depth of 2500 metres and that extends to the base of the natural gas bearing interval of the deepest zone from which the well is, in the opinion of the Minister, producing natural gas in paying quantities, and
 - (ii) in relation to the deepening of an eligible well or qualified well, the portion of the deepened depth of the well that is at least 2500 metres below the surface and that extends to the base of the natural gas bearing interval of the deepest zone from which the well is,

in the opinion of the Minister, producing natural gas in paying quantities;

- (i) “qualifying pool” means a pool, other than a designated pool, that, in the opinion of the Minister, is in a zone the top of which is at a depth of more than
 - (i) 2500 metres, or
 - (ii) a number of metres less than 2500 metres specified by the Minister for that zone, if the zone is partly below and partly at or above a depth of 2500 metres and the Minister considers it appropriate to so specify either generally or for the purpose of a specific case;
- (j) “twin well”, in relation to an eligible well or qualified well, means a well that is
 - (i) spudded after May 31, 1985, in the case of an eligible well, or after August 31, 2006, in the case of a qualified well and both the eligible well and the qualified well must be spudded before January 1, 2009,
 - (ii) located in the same legal subdivision or drilling spacing unit, whichever is of lesser area, as that in which the eligible well or qualified well, as the case may be, is located, and
 - (iii) drilled to produce natural gas that, in the opinion of the Minister, is not initially recoverable from the eligible well or qualified well, as the case may be, due to inadvertent damage to the well;
- (k) “volumes sold” means volumes sold as defined in the pre-1994 Regulation.
- (l) repealed AR 208/2006 s6.

(1.1) A reference to the depth of a well or a part of a well in this section and sections 4 to 14 and Table 1 of this Schedule is

- (a) a reference to the depth of the well or part of the well in metres according to the records of the Regulator, and
- (b) except where the reference is used in relation to the measured depth of the well or part of the well, a reference to the vertical depth of the well or part of the well.

(2) For the purposes of sections 5, 6, 10 and 11 of this Schedule, the “value of the exempted royalty quantity” with respect to a

qualifying interval is the aggregate of the amounts of royalty compensation that would have been payable under the 1994 Regulation and this Regulation after January 1, 1994 in respect of the Crown's royalty share of natural gas, gas products and field condensate produced from the qualifying interval in the absence of

- (a) any royalty exemption provided under sections 11 to 15 of Schedule 6 of the 1994 Regulation, and
- (b) any royalty exemption or adjustment under sections 3 to 14 of this Schedule,

and without any deductions for allowable costs.

Exemptions for Qualifying Intervals in Deep Gas Wells

Application for exemption

4(1) A licensee of an eligible well may apply to the Minister for an exemption under section 5 of this Schedule from the royalty otherwise payable to the Crown on the natural gas which is produced from a qualifying interval of the well.

(2) The Minister may approve an exemption applied for under subsection (1) if

- (a) the application is in the form prescribed by the Minister and is received by the Minister no later than 6 months after the finished drilling date applicable to the drilling or deepening,
- (b) the application contains the data and information required by the Minister,
- (c) the Minister determines that the applicant is eligible to apply under subsection (1),
- (c.1) the licensee has not, before the date of spudding or commencement of deepening of the well, furnished the Minister with written notice electing an adjustment for the well under section 10 of this Schedule rather than an exemption under section 5 of this Schedule, and
- (d) the drilling or deepening of the well was conducted diligently and continuously to the satisfaction of the Minister.

(3) The Minister may extend the time by which an application must be received under subsection (2) if the Minister considers an extension warranted in the circumstances.

(4) Despite anything in this section, the Minister may approve an exemption under section 5 of this Schedule without an application if the licensee has not, before the date of spudding or commencement of deepening of the well, furnished the Minister with written notice electing an adjustment for the well under section 10 of this Schedule rather than an exemption under section 5 of this Schedule.

Nature of exemption

5(1) Subject to subsection (2), if the Minister approves an application under section 11 of the pre-1994 Regulation or section 11 of Schedule 6 of the 1994 Regulation, or an exemption under section 4 of this Schedule in respect of the drilling or deepening of an eligible well, natural gas production from the qualifying interval of the well is exempt from royalty otherwise payable to the Crown in accordance with this section.

(1.1) A royalty exemption under subsection (1)

- (a) reduces to 0% the rate of royalty on natural gas, or on the field condensate and gas products obtained from natural gas, recovered from the qualifying interval of an eligible well before January 1, 2009.
- (b) repealed AR 221/2008 s32.

(2) Natural gas production from a qualifying interval is not exempt, in the case of a qualifying interval determined for the deepening of an eligible well, to the extent that the production occurs from a zone that is not below the deepest zone to which the well was previously drilled.

(3) A royalty exemption under subsection (1)

- (a) commences with
 - (i) the later of the month in which production of natural gas from the qualifying interval is first obtained and the month in which the application was received by the Minister pursuant to section 11 of the pre-1994 Regulation, section 11 of Schedule 6 of the 1994 Regulation or section 4 of this Schedule, or
 - (ii) the month in which production of natural gas from the qualifying interval is first obtained, where a royalty exemption has been approved under section 4 of this Schedule without an application,

and

- (b) continues until the value of the exempted royalty quantity with respect to the qualifying interval equals
 - (i) the remaining value of the exemption determined for the qualifying interval in accordance with subsection (4) of this section and section 7 of this Schedule, if production of natural gas from the qualifying interval commenced before January, 1994, or
 - (ii) the value of the exemption determined for the qualifying interval in accordance with subsection (5) of this section and section 7 of this Schedule, if production of natural gas from the qualifying interval commenced during or after January, 1994.
- (4)** If the production of natural gas from a qualifying interval commenced before January, 1994, the remaining value of the exemption for the qualifying interval shall, subject to section 7 of this Schedule and unless otherwise determined by the Minister in a particular case, be determined in accordance with the following:
- (a) the Minister shall determine for the qualifying interval as of the end of December, 1993 the maximum amount of the exemption for the qualifying interval under the pre-1994 Regulation and the remaining balance of that amount after deducting the aggregate of the amounts that would have been payable to the Crown in the absence of the exemption in respect of the disposal of the Crown's royalty share of volumes sold attributable to the qualifying interval for production months ending with December, 1993;
 - (b) the Minister shall increase the remaining balance for the qualifying interval determined under clause (a) by multiplying that amount by a conversion factor prescribed by the Minister;
 - (c) the remaining value of the exemption for the qualifying interval for the purposes of subsection (3)(b)(i) is the increased amount calculated for the qualifying interval under clause (b).
- (5)** If the production of natural gas from a well commenced during or after January, 1994, the value of the exemption for the qualifying interval shall, subject to section 7 of this Schedule and unless otherwise determined by the Minister in a particular case, be determined in accordance with the following:
- (a) the Minister shall increase the respective Cumulative Values and Incremental Values in Table 1 of this

Schedule by multiplying them by a conversion factor prescribed by the Minister for the qualifying interval;

- (b) the value of the exemption for the qualifying interval for the purposes of subsection (3)(b)(ii) is an amount determined in accordance with Table 1 of this Schedule as modified pursuant to clause (a).

(6) A royalty exemption under this section does not apply in respect of any month that occurs after the 10-year period following the finished drilling date applicable to the drilling or deepening or beginning January 1, 2009, and terminates if the well is abandoned.

Determinations by Minister

6(1) If

- (a) a well in respect of which an application for a royalty exemption has been approved under section 7 or 11 of the pre-1994 Regulation, section 7 or 11 of Schedule 6 of the 1994 Regulation, section 4 of this Schedule or section 12 of the *Petroleum Royalty Regulation* (AR 248/90) was drilled or deepened below a depth of 2500 metres to an interval of depth that was below the base of the crude oil or natural gas bearing interval of the deepest zone from which the well was, in the opinion of the Minister, producing crude oil or natural gas in paying quantities, and
- (b) the Minister is satisfied that production of natural gas from a qualifying pool in the deeper interval was subsequently obtained in paying quantities from a drilling spacing unit that, on the date the spudding in or commencement of deepening of the well occurred, was not wholly or partly within the boundaries of a designated pool,

the Minister may determine a qualifying interval for the deeper interval as if the well has been deepened.

(2) If the Minister determines a qualifying interval pursuant to subsection (1), natural gas production from the qualifying interval determined by the Minister is exempt from royalty otherwise payable to the Crown in accordance with the following:

- (a) the royalty exemption commences with the month in which production of natural gas from the qualifying interval is first obtained;
- (b) the royalty exemption continues until the value of the exempted royalty quantity with respect to the qualifying

interval equals the value of the exemption determined by the Minister for the qualifying interval in accordance with Table 1 of this Schedule, as modified pursuant to section 5(5)(a) of this Schedule.

(2.1) A royalty exemption under subsection (2)

- (a) reduces to 0% the rate of royalty on natural gas, or on the field condensate and gas products obtained from natural gas, recovered from the qualifying interval of an eligible well before January 1, 2009.
- (b) repealed AR 221/2008 s32.

(3) A royalty exemption under this section does not apply in respect of any month that occurs after the 10-year period following the finished drilling date applicable to the drilling or deepening or after December 31, 2008, whichever occurs first, and terminates if the well is abandoned.

Value of Crown's royalty share

7 If the eligible well produces from a production entity in which the title to the natural gas is not owned solely by the Crown, the remaining value or the value of the exemption, as the case may be, with respect to a qualifying interval within that production entity shall for the purposes of section 5 or 6 of this Schedule be equal to an amount calculated by multiplying

- (a) the remaining value of the exemption determined for the qualifying interval in accordance with section 5(4) or the value of the exemption determined for the qualifying interval in accordance with section 5(5), as the case may be,

by

- (b) the Crown interest in production in relation to natural gas production from the qualifying interval
 - (i) for the month immediately preceding the month in which the royalty exemption commenced, in the case of a well other than a well described in subclause (ii), or
 - (ii) for the month immediately preceding the month in which the natural gas became subject to a unit agreement, in the case of a well that produces natural gas that became subject to a unit agreement before the royalty exemption commenced.

Transfer of exemption

8(1) The Minister may approve the transfer of a royalty exemption under section 12 or 13 of the pre-1994 Regulation, section 12 or 13 of Schedule 6 of the 1994 Regulation or section 5 or 6 of this Schedule from an eligible well to its twin well.

(2) If the Minister approves the transfer of a royalty exemption pursuant to subsection (1),

- (a) the royalty exemption on production from the eligible well from which the exemption was transferred terminates on the effective date of the transfer of the exemption to the twin well, and
- (b) the royalty exemption period applicable to the twin well is the balance of the royalty exemption period that would have been applicable to the eligible well from which the exemption was transferred.

Adjustments for Qualifying Intervals in Deep Tight Gas Wells**Application for adjustment**

9(1) A licensee of a qualified well may apply to the Minister for an adjustment under section 10 of this Schedule from the royalty otherwise payable to the Crown on the natural gas which is produced from a qualifying interval of the well.

(2) The Minister may approve an adjustment applied for under subsection (1) if

- (a) the application is in the form prescribed by the Minister and is received by the Minister no later than 6 months after the finished drilling date applicable to the drilling or deepening,
- (b) the application contains the data and information required by the Minister,
- (c) the Minister determines that the applicant is eligible to apply under subsection (1),
- (d) the well is drilled or deepened
 - (i) in the location of an agreement granting natural gas rights, petroleum rights, or both, and having a term commencement date of September 1, 2006 or later, or

- (ii) in the location of an agreement granting natural gas rights, petroleum rights, or both, and having a term commencement date earlier than September 1, 2006 and the licensee has, before the date of spudding or commencement of deepening of the well, furnished the Minister with written notice electing an adjustment for the well under section 10 of this Schedule rather than an exemption under section 5 of this Schedule,

and

- (e) the drilling or deepening of the well was conducted diligently and continuously to the satisfaction of the Minister.

(3) The Minister may extend the time by which an application must be received under subsection (2) if the Minister considers an extension warranted in the circumstances.

(4) Despite anything in this section, the Minister may approve an adjustment under section 10 of this Schedule without an application if the qualified well is drilled or deepened

- (a) in the location of an agreement granting natural gas rights, petroleum rights, or both, and having a term commencement date of September 1, 2006 or later, or
- (b) in the location of an agreement granting natural gas rights, petroleum rights, or both, and having a term commencement date earlier than September 1, 2006 and the licensee has, before the date of spudding or commencement of deepening of the well, furnished the Minister with written notice electing an adjustment for the well under section 10 of this Schedule rather than an exemption under section 5 of this Schedule.

(5) The Minister shall withhold approval of an adjustment in respect of a qualified well until the Minister is of the opinion that production from the qualified well is unlikely to exceed the qualifying production rates for the well under section 14 of this Schedule.

Nature of adjustment

10(1) Subject to subsection (2), if the Minister approves an adjustment under section 9 of this Schedule in respect of the drilling or deepening of a qualified well, the royalty otherwise payable to the Crown on natural gas production from the qualifying interval of the well is adjusted in accordance with this section.

- (2) A royalty adjustment under subsection (1) reduces to 5% the rate of royalty on natural gas, or on the field condensate and gas products obtained from natural gas, recovered from the qualifying interval of the qualified well before January 1, 2009.
- (3) The rate of royalty on natural gas production from a qualifying interval is not so reduced, in the case of a qualifying interval determined for the deepening of a qualified well, to the extent that the production occurs from a zone that is not below the deepest zone to which the well was previously drilled.
- (4) A royalty adjustment under subsection (1)
- (a) commences with
 - (i) the later of the month in which production of natural gas from the qualifying interval is first obtained and the month in which the application was received by the Minister pursuant to section 9 of this Schedule, and
 - (ii) the month in which production of natural gas from the qualifying interval is first obtained, where a royalty adjustment has been approved under section 9 of this Schedule without an application,
 - and
 - (b) continues until the value of the exempted royalty quantity with respect to the qualifying interval equals the value of the adjustment determined for the interval in accordance with subsection (5).
- (5) The value of the adjustment for the qualifying interval in a qualified well shall, subject to section 12 of this Schedule and unless otherwise determined by the Minister in a particular case, be the lesser of the product of \$3 600 000 and the conversion factor prescribed by the Minister for the qualifying interval, or the amount determined in accordance with the following:
- (a) the Minister shall increase the respective Cumulative Values and Incremental Values in Table 1 of this Schedule by multiplying them by a conversion factor prescribed by the Minister for the qualifying interval;
 - (b) the value of the adjustment for the qualifying interval for the purposes of subsection (4)(b) is
 - (i) an amount determined in accordance with Table 1 of this Schedule as modified pursuant to clause (a),

plus

- (ii) an amount equal to the product of \$1000 per metre, the conversion factor prescribed by the Minister for the qualifying interval and the non-vertical depth of the well,

minus

- (iii) the value of the exempted royalty quantity for the well under the 1994 Regulation and sections 5 and 6 of this Schedule.

(6) A royalty adjustment under this section does not apply in respect of any month that occurs after the 10-year period following the finished drilling date applicable to the drilling or deepening or after December 31, 2008, whichever occurs first, and terminates if the well is abandoned.

Determinations by Minister

11(1) If

- (a) a well in respect of which a royalty adjustment has been approved under section 9 of this Schedule was drilled or deepened below a depth of 2500 metres to an interval of depth that was below the base of the natural gas bearing interval of the deepest zone from which the well was, in the opinion of the Minister, producing natural gas in paying quantities, and
- (b) the Minister is satisfied that production of natural gas from a qualifying pool in the deeper interval was subsequently obtained in paying quantities from a drilling spacing unit that, on the date the spudding in or commencement of deepening of the well occurred, was not wholly or partly within the boundaries of a designated pool,

the Minister may determine a qualifying interval for the deeper interval as if the well has been deepened.

(2) If the Minister determines a qualifying interval pursuant to subsection (1), the royalty otherwise payable to the Crown on natural gas production from the qualifying interval determined by the Minister is adjusted in accordance with the following:

- (a) the royalty adjustment commences with the month in which production of natural gas from the qualifying interval is first obtained;

- (b) the royalty adjustment continues until the value of the exempted royalty quantity with respect to the qualifying interval equals the value of the adjustment determined by the Minister for the qualifying interval in accordance with sections 10 and 12 of this Schedule.

(3) A royalty adjustment under subsection (2) reduces to 5% the rate of royalty on natural gas, or on the field condensate and gas products obtained from natural gas, recovered from the qualifying interval of the qualified well before January 1, 2009.

(4) A royalty adjustment under this section does not apply in respect of any month that occurs after the 10-year period following the finished drilling date applicable to the drilling or deepening or after December 31, 2008, whichever occurs first, and terminates if the well is abandoned.

Value of Crown's royalty share

12 If the qualified well produces from a production entity in which the title to the natural gas is not owned solely by the Crown, the value of the adjustment with respect to a qualifying interval within that production entity shall for the purposes of sections 10 and 11 of this Schedule be equal to an amount calculated by multiplying

- (a) the value of the adjustment determined for the qualifying interval in accordance with section 10(5) of this Schedule,

by

- (b) the Crown interest in production in relation to natural gas production from the qualifying interval
 - (i) for the month immediately preceding the month in which the royalty adjustment commenced, in the case of a well other than a well described in subclause (ii), or
 - (ii) for the month immediately preceding the month in which the natural gas became subject to a unit agreement, in the case of a well that produces natural gas that became subject to a unit agreement before the royalty adjustment commenced.

Transfer of adjustment

13(1) The Minister may approve the transfer of a royalty adjustment under section 10 or 11 of this Schedule from a qualified well to its twin well.

- (2) If the Minister approves the transfer of a royalty adjustment pursuant to subsection (1),
- (a) the royalty adjustment on production from the qualified well from which the adjustment was transferred terminates on the effective date of the transfer of the adjustment to the twin well, and
 - (b) the royalty adjustment period applicable to the twin well is the balance of the royalty adjustment period that would have been applicable to the qualified well from which the adjustment was transferred.

Revocation of adjustment

- 14(1)** If the average daily production of natural gas, field condensate or both from a qualified well for
- (a) the first period of 12 consecutive months commencing with the first month in which such production is recovered for which royalty is reduced pursuant to a royalty adjustment, or
 - (b) each subsequent period of 12 consecutive months following the period referred to in clause (a),
- exceeds the qualifying production rate applicable to the qualified well on the last day of the period, the royalty adjustment is revoked.
- (2) For the purposes of this section, volumes of field condensate shall be expressed as the corresponding volumes of natural gas, determined using a conversion rate of 1000 cubic metres of natural gas per cubic metre of condensate.
- (3) Revocation of a royalty adjustment under this section is effective
- (a) on the first day of the month in which production of natural gas, field condensate or both from the qualified well increased, where the Minister is satisfied that the average daily production exceeded the qualifying production rate by reason of such increase and that the increase was the result of deepening of the well after the commencement of the royalty adjustment, or
 - (b) on the date of commencement of the royalty adjustment, in any other case.
- (4) If a royalty adjustment is revoked under subsection (1), royalty shall be calculated on natural gas, field condensate or both

recovered from the well from and after the effective date of revocation as if entitlement to the royalty adjustment from and after that date never arose.

(5) For the purposes of subsection (1), the average daily production from a qualified well is determined by dividing the total quantity of natural gas, field condensate or both produced from the qualifying well during the 12-month period by the number of days in that 12-month period.

(6) Subject to subsection (9), the qualifying production rate applicable to a qualified well on the last day of the period of 12 consecutive months referred to in subsection (1)(a) is,

- (a) if on that day the base of the natural gas producing interval in the deepest producing zone in the well that is producing in paying quantities is deeper than 2500 metres but not deeper than 3500 metres, the amount per cubic metre determined in accordance with the following formula:

$$QPR = \left[1.1327e^3 m^3 + \left\{ .0850e^3 m^3 \times \frac{(MD - 2500m)}{100m} \right\} \right] \times \left[\frac{MD}{100m} \right]$$

where

QPR is the qualifying production rate for the well, and

MD is the measured depth of the well,

or

- (b) if on that day the base of the natural gas producing interval in the deepest producing zone in the well that is producing in paying quantities is deeper than 3500 metres, the amount per cubic metre determined in accordance with the following formula:

$$QPR = \left[1.9822e^3 m^3 + \left\{ 0.1133e^3 m^3 \times \frac{(MD - 3500m)}{100m} \right\} \right] \times \left[\frac{MD}{100m} \right]$$

where

QPR and MD have the same meaning as in clause (a).

(7) Subject to subsection (9), the qualifying production rate for a qualified well on the last day of the next period of 12 consecutive months following the period of 12 consecutive months referred to in subsection (1)(a) is 80% of QPR determined for the well under whichever of clauses (a) or (b) of subsection (6) applies in relation to the well by virtue of the depth of the well on that day.

(8) Subject to subsection (9), the qualifying production rate for a qualified well on the last day of each subsequent period of 12 consecutive months following the 2 periods of 12 consecutive months referred to in subsections (1)(a) and (7) is 68% of QPR determined for the well under whichever of clauses (a) or (b) of subsection (6) applies in relation to the well by virtue of the depth of the well on that day.

(9) If, according to the records of the Department, the percentage of the natural gas recovered from a qualified well during the last month of a period of 12 consecutive months referred to in subsection (6), (7) or (8) that is comprised of hydrogen sulphide and carbon dioxide exceeds 15% of the natural gas by volume, the qualifying production rate determined under those subsections shall be adjusted to an amount determined under the following formula:

$$AQPR = \frac{QPR}{100\% - (H_2S\% + CO_2\% - 15\%)}$$

where

AQPR is the adjusted qualifying production rate;

QPR is the qualifying production rate determined under subsection (6), (7) or (8), as the case may be;

H₂S% is the percentage of the natural gas that is, according to the records of the Department, composed of hydrogen sulphide;

CO₂% is the percentage of the natural gas that is, according to the records of the Department, composed of carbon dioxide.

Table 1

Value of Exemption or Adjustment per Eligible Well or Qualified Well

Depth of Eligible Well or Qualified Well to Base of Natural Gas Producing Interval in Deepest Zone Producing in Paying Quantities	Cumulative Value	Incremental Value
(metres)	(\$000)	(\$/metre)
2500	0	1000
3000	500	1000
3500	1000	1000

Schedule 8	NATURAL GAS ROYALTY REGULATION, 2002	AR 220/2002
	4000	1500
	4500	2150
	5000	2800
	5500 or deeper	3600

Table 2 Repealed AR 208/2006 s13.
 AR 220/2002 Sched.8;108/2004;208/2006;221/2008;89/2013



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