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INFORMATION LETTER 93-2

SUBJECT: **LOW-PRODUCTIVITY WELL ROYALTY
REDUCTION REGULATION (A.R. 350/92)**

Introduction

This is a permanent oil royalty policy to encourage additional production from low-productivity wells. It provides that the maximum royalty is 5 per cent of production of crude oil or oil sands from wells currently producing at modest levels.

To simplify administration, no application will be required for the low-productivity oil royalty adjustment. Well production history will be reviewed by the Department. The royalty adjustment will be established for eligible wells when the Department calculates royalty after qualification criteria have been met. However, initial processing will occur during March 1993 for the production month of January 1993. Royalty adjustments will be retroactive either to October 1, 1992, or the qualification date of the well.

Low-productivity wells are administered on an individual well basis. The aggregate gross production from all events in the well is used to determine eligibility and the maximum production available for royalty adjustment.

Benefits

Royalty is capped at 5 per cent for up to 16,000 m³ in aggregate crude oil or oil sands production from each eligible well after the date of qualification. Royalty under the Petroleum Royalty Regulation or the Oil Sands Royalty Regulation is calculated on each month's production from each event within a well; royalty for each event is reduced if it exceeds 5 per cent of the Crown production.

Eligibility

Wells eligible for this royalty reduction are wells that meet the following criteria:

- A low-productivity well is an oil well or an oil sands well.
- The well did not produce more than 121 m³ of oil or oil sands in any month during the qualifying period.
- The qualifying period consists of the 12 consecutive months that end in September, October, November or December 1992, or the 24 consecutive months ending in January 1993 or later.
- Average monthly production for the well is 73 m³ or less during the most recent six months that the well produced, providing those months occurred within the qualifying period.
- Eligible oil from a low-productivity well is oil or oil sands obtained from a pool or oil sands deposit that was penetrated by the well at the end of the well's qualifying period. Production from deeper pools or deposits penetrated after the well's qualifying period is not eligible.

Wells meeting one of the following criteria are not eligible for this royalty reduction:

- occur within an enhanced oil recovery scheme boundary or within 0.8 km of a scheme boundary, and relief has been allowed under Section 11 of the Petroleum Royalty Regulation;
- are subject to Section 10 of the Petroleum Royalty Regulation;
- are subject to royalty calculated under another regulation, such as experimental wells or natural gas wells; or
- receive benefits previously established under the Horizontal Well Petroleum Royalty Regulation or the Horizontal Re-entry Well Royalty Reduction Regulation.

In the case of a well with a horizontal extension that is approved under the Horizontal Well Petroleum Royalty Regulation, the well will be removed from horizontal royalty when it is established by the Department as a low-productivity well. The operator statement will show the commencement of the low-productivity royalty. The operator has six months to file an application to revoke the low-productivity status and to reinstate horizontal royalty. However, only the months following the month when the status was revoked may be used to qualify for any future low-productivity royalty.

Factors Affecting Entitlement

In the following circumstances, the royalty reduction may be disallowed or revoked in whole or in part:

- production from a low-productivity well has materially reduced the production from another well that is not subject to this royalty reduction;
- facts affecting qualification are not disclosed;
- the production level of a low-productivity well consistently exceeds 121 m³ per month, and the level cannot be reasonably attributed to work performed on the well during and after its qualifying period; or
- the production level of a low-productivity well consistently exceeds 121 m³ per month and the well met the qualifying requirements while a restriction on production imposed by the ERCB was in effect.

Confirmation

After a well has qualified for low-productivity status, the Department will confirm the effective month of the royalty reduction by reporting a royalty adjustment on the operator statement.

Contacts

For further information, please contact:

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