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January 11, 1993

**INFORMATION LETTER 93-3**

SUBJECT: **REACTIVATED WELL ROYALTY EXEMPTION  
REGULATION (A.R. 352/92)**

**Introduction**

This is a permanent royalty policy to encourage reactivation of wells. It provides a royalty holiday for successfully reactivating crude oil or oil sands wells that are shut in.

To simplify administration, no application will be required. Non-producing wells that commence production on or after October 1, 1992, will be reviewed by the Department. The royalty holiday will be established for qualifying wells when the Department calculates royalty for the initial month of production.

Reactivated wells are administered on an individual well basis. The aggregate gross production reported for all events in the well is used to determine eligibility and the maximum production available for royalty holiday.

**Benefits**

The royalty holiday is available from the reactivation date until 8,000 m<sup>3</sup> have been produced in aggregate from the reactivated well.

Production of crude oil or oil sands from all events in the reactivated well is exempt from Crown royalty that would otherwise be payable under the Petroleum Royalty Regulation or the Oil Sands Royalty Regulation, 1984.

Production from each producing event of an eligible reactivated well that has retained Old Oil status will be certified as New Oil after the well reaches the 8,000 m<sup>3</sup> production limit.

**Eligibility**

A reactivated well is an oil well or an oil sands well that was reactivated on or after October 1, 1992, after the well did not produce any substance during its qualifying period. This period comprises the 12 consecutive months preceding the month in which reactivation took place, if that month was October, November or December 1992 or January 1993. If the well was reactivated in February 1993 or later, the period consists of the preceding 24 months.

Eligible oil from a reactivated well is oil or oil sands obtained from a pool or oil sands deposit that was penetrated by the well at the time the well commenced reactivated production. Production from deeper pools or deposits penetrated after the well commenced or resumed production is not eligible.

Where a small quantity of test production has affected a royalty holiday qualifying period, the operator may file an application to have that production excluded. The production must have been obtained in an isolated occurrence that was a test of the well, with the produced quantity consistent with a test. Upon review of the application, the Department will decide whether the production is excluded for qualification purposes.

Wells not eligible for this holiday are wells meeting one of the following criteria:

- 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 royalty calculated under another regulation, such as experimental wells and natural gas wells;
- are subject to Section 10 of the Petroleum Royalty Regulation; or
- receive benefits under other royalty exemption or reduction regulations, such as Oil Royalty Incentive, Petroleum Royalty for the Crude Oil Royalty Holiday Program, Horizontal Well Petroleum Royalty or Horizontal Re-entry Well Royalty.

Benefit entitlements for a well that remain from any previous royalty holiday or the Horizontal Well Petroleum Royalty Regulation will be replaced by this royalty holiday. Within six months, the operator may file an application to revoke the reactivated holiday and to reinstate the previous benefit. Where the Department has revoked a reactivated holiday pursuant to such an application, only the months occurring after the month in which the holiday was revoked may be used to qualify for a subsequent reactivated royalty holiday.

**Factors Affecting Entitlement**

In any of the following circumstances, a royalty exemption may be disallowed or revoked in whole or in part:

- production from a reactivated well has materially reduced the production of another well that is not entitled to a royalty exemption;
- facts affecting holiday qualification are not disclosed
- the holiday production level consistently exceeds 121 m<sup>3</sup> per month, and the level cannot be reasonably attributed to work in addition to the start-up work that is performed on the well during and after its qualifying period; or
- the holiday production level consistently exceeds 121 m<sup>3</sup> per month, and such production was not obtained from the well during the qualifying period while a restriction on production imposed by the ERCB was in effect.

**Confirmation**

After a royalty holiday is established for a reactivated well, the Department will confirm the effective month of the exemption by reporting a royalty holiday transaction on the operator statement.

**Contact**

For further information, please contact:

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