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March 1, 1993

INFORMATION LETTER 93-8

SUBJECT: **THIRD TIER EXPLORATORY EXEMPTION
REGULATION, A.R. 16/93**

Introduction

The third tier exploratory royalty holiday is a permanent policy to encourage the discovery of new oil reservoirs. It is available to exploratory oil wells spudded on or after October 1, 1992.

To simplify administration, no application is required. Eligibility is based on the Lahee classification assigned by the ERCB. Wells that commence production on or after October 1, 1992, will be reviewed by the Department to assess eligibility. The royalty holiday will be established for qualifying wells when the Department calculates royalty for the month that initial oil production is reported. Royalty holidays will be retroactive, to the month when production commenced.

Benefits

The royalty holiday is effective from the first production month until the accumulated royalty holiday reaches \$1,000,000 or 12 production months, whichever occurs first.

Production of crude oil or oil sands from all events, within the exploratory interval of a well is exempt from the royalty that would otherwise be payable under the Petroleum Royalty Regulation or the oil Sands Royalty Regulation, 1984.

Eligibility

A third tier exploratory well is an oil well or an oil sands well that was spudded after September 30, 1992. It is classified by the ERCB as a new field wildcat (NFW), new pool wildcat (NPW) or deeper pool test (DPT). The exploratory interval in a NFW and NPW well is the interval that extends from the surface to total depth. In a DPT well, the interval identified by the ERCB as exploratory extends from the base of the deepest established pool to total depth. The third tier exploratory oil produced from the exploratory interval in a well qualifies for the holiday.

The \$1,000,000 or 12 production month limit applies to the combined production from the entire exploratory interval of the well, regardless of the number of drilling, deepening or completion events.

The \$1,000,000 royalty exemption limit for an exploratory well is reduced in proportion to the Crown interest in production where the interest is less than 100 percent. It is based on the Crown interest during the initial production month.

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

- wells in whole or in part within an enhanced oil recovery scheme boundary or less than 0.8 km from such a boundary, and for which relief has been allowed under section 11 of the Petroleum Royalty Regulation;
- wells subject to section 10 of the Petroleum Royalty Regulation;
- wells approved for the deep gas royalty exemption under section 11 of the Natural Gas Royalty Regulation; or
- wells with a horizontal extension approved under the Horizontal Well Petroleum Royalty Regulation, and for which the approval has not been revoked.

Coincident Royalty Holiday Eligibility

The Oil Royalty Incentive Regulation (ORIR) provides for an exploratory holiday for wells spudded before April 1, 1993, in the Northern and Foothills areas. This is different from the third tier exploratory holiday. The exemption limit is \$1,000,000 or 24 production months. Some wells drilled during the period October 1, 1992 to March 31, 1993 may be eligible for both programs. When this occurs, the exemptions will coincide and be administered commencing with the month of first production. The third tier exploratory holiday will be established for the well and royalty will be exempted to the extent of the \$1,000,000 or 12 production month limit. If the well meets the requirements for the ORIR exploratory holiday, any remaining benefit under that program will continue to the extent of the \$1,000,000 or 24 month limit. Please see Information Letter 91-26 for ORIR eligibility requirements.

The exploratory royalty holiday terminates at the beginning of the month when a well becomes a reactivated well under the Reactivated Well Royalty Exemption Regulation.

Factors Affecting Entitlement

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

- production exceeded the allowable volume authorized by the ERCB; or
- facts affecting holiday qualification were not disclosed.

Confirmation

After a third tier exploratory royalty holiday is established, the Department will confirm the effective month of the exemption by reporting a royalty holiday transaction on the crude oil operator statement.

Contacts

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