

June 17, 2003

INFORMATION LETTER 2003-16

SUBJECT: ENHANCED OIL RECOVERY ROYALTY RELIEF PROGRAM

The Alberta Department of Energy is making changes to its Enhanced Oil Recovery (EOR) Royalty Relief program to encourage the development of commercial carbon dioxide (CO₂) EOR projects. The development of a CO₂ EOR industry has the potential to provide significant long-term benefits to Alberta in the form of increased oil production and economic activity, and an increased ability to manage the province's greenhouse gas emissions via geological storage of CO₂.

The Alberta Department of Energy will provide greater royalty relief in recognition of the additional costs associated with this production method. The department will also provide some temporary features to encourage industry to undertake CO₂ EOR projects. The following changes will be implemented to the EOR Royalty Relief program effective May, 2003:

- A temporary t-factor will be provided for new and expanded CO₂ EOR projects.
 - As royalty relief is applied only to that portion of the oil production that would not have been realized from base recovery operations, a tertiary (t) factor is used to specify the incremental production from approved EOR projects. The current practice is to establish a t-factor only after the Energy and Utilities Board recognizes reserves for EOR projects. This process may take up to three years and royalty relief cannot be provided during the interim period.
- Increased allowance for recognition of the value of net CO₂ injection for EOR projects.
- Recognition of capital costs for replacement of oil field facilities associated with CO₂ injection operations.
- Increased overhead allowance to provide recognition of incremental operating costs resulting from CO₂ injection operations.

In addition to the above changes, Information Letter 2000-22 is rescinded and:

- The Enhanced Oil Recovery Royalty Relief program is open to applications for new EOR projects and expansion of existing EOR projects. This includes other types of enhanced oil recovery projects such as hydrocarbon, nitrogen, chemical or other approved materials.

- The Minister may in reviewing any schemes for approval, take into consideration whether the royalty reduction is in the public interest. The Minister's considerations may include the extent of the impact of the royalty reduction on the royalty ultimately payable on crude oil obtained from the scheme.

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