



Province of Alberta

## MINES AND MINERALS ACT

# THIRD TIER EXPLORATORY WELL ROYALTY EXEMPTION REGULATION

### **Alberta Regulation 16/1993**

With amendments up to and including Alberta Regulation 89/2013

### Office Consolidation

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(Consolidated up to 89/2013)

**ALBERTA REGULATION 16/93**

**Mines and Minerals Act**

**THIRD TIER EXPLORATORY WELL ROYALTY  
EXEMPTION REGULATION**

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**Definitions**

**1** In this Regulation,

- (a) repealed AR 89/2013 s14;
- (b) “deepening” means the re-entry into a well and the drilling of any bore of the well away from the course of a pre-existing bore of the well or beyond the total depth of a pre-existing bore referred to in the licence for the well, or both, pursuant to an amendment of the licence or to any other approval by the Regulator relating to the well, so that crude oil or oil sands is obtained from a pool or oil sands deposit not penetrated by a pre-existing bore before the re-entry;
- (c) “licence” means a licence for a well issued under the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act*;

- (d) “oil sands well” means a well that produces oil sands, other than a gas well as defined in the *Oil and Gas Conservation Rules* (AR 151/71);
- (e) “oil well” means an oil well as defined in the *Oil and Gas Conservation Rules* (AR 151/71);
- (f) “production entity” means
  - (i) a block, drilling spacing unit, holding or project as defined in the *Oil and Gas Conservation Act*, or
  - (ii) a unit operation as defined in the *Mines and Minerals Act*;
- (f.1) “Regulator” means the Alberta Energy Regulator;
- (g) “royalty exemption” means the royalty exemption referred to in section 3 and a royalty exemption that has been transferred under section 4;
- (h) “third tier exploratory oil” means crude oil or oil sands
  - (i) obtained from a third tier exploratory well classified by the Regulator as a new field wildcat well or a new pool wildcat well,
  - (ii) obtained from a well that has been designated as a twin well in respect of a third tier exploratory well referred to in subclause (i),
  - (iii) obtained from the interval specified by the Regulator as the exploratory interval of a third tier exploratory well classified as a deeper pool test well by the Regulator, in segregation from any other crude oil or oil sands obtained from the well, and
  - (iv) obtained from a well that has been designated as a twin well in respect of a third tier exploratory well referred to in subclause (iii) from a pool specified by the Minister, in segregation from any other crude oil or oil sands obtained from the twin well;
- (i) “third tier exploratory well” means a third tier exploratory well under section 2;
- (j) “twin well” means a well designated as a twin well under section 4.

AR 16/93 s1;89/2013

**Third tier exploratory well**

**2(1)** A third tier exploratory well is an oil well or oil sands well

- (a) that is classified by the Regulator as a new field wildcat well, a new pool wildcat well or a deeper pool test well,
- (b) in which the spudding in or the commencement of deepening occurred after September 30, 1992 and on or before December 31, 2008, and
- (c) that is not an ineligible well under subsection (2).

**(2)** An oil well or oil sands well is an ineligible well if

- (a) the Minister has approved a horizontal extension under the *Horizontal Well Petroleum Royalty Regulation* (AR 96/91) in respect of the well and the approval has not been wholly revoked,
- (b) the royalty on any production from the well has been prescribed under section 10 of the *Petroleum Royalty Regulation* (AR 248/90),
- (c) the well is an eligible well as defined in section 11(1)(b) of the *Gas Royalty Regulation* (AR 246/90) and the Minister has approved an application in respect of the well under section 11 of that Regulation, or
- (d) the well is in whole or in part within the area enclosed by a scheme boundary or less than .8 kilometres from a scheme boundary.

**(3)** The “scheme boundary” referred to in subsection (2)(d) means, in respect of a scheme that has received a benefit from the Minister under section 11 of the *Petroleum Royalty Regulation* (AR 248/90) or that is an approved scheme under the Enhanced Recovery of Oil Royalty Reduction Regulation,

- (a) the boundaries of the scheme as described in an order issued by the Regulator for the scheme, or
- (b) if the boundaries of the scheme are not so described, the boundaries of the pool or pools containing the whole or any part of the scheme and designated by order of the Regulator,

including any changes to those boundaries that extend those boundaries outward.

AR 16/93 s2;348/93;222/2008;89/2013

**Royalty exemption****3(1)** In this section,

- (a) “Crown interest” means, in relation to crude oil or oil sands obtained from a well during any period, the Crown production from the well for the period divided by the total production of crude oil or oil sands from the well for the period;
- (b) “Crown production” means, in relation to crude oil or oil sands obtained from a well, the crude oil or oil sands that
  - (i) is obtained under an agreement, or
  - (ii) is deemed under the Act to be obtained under an agreement;
- (c) “heavy oil” means heavy oil as defined in the *Petroleum Royalty Regulation* (AR 248/90);
- (d) “non-heavy oil” means non-heavy oil as defined in the *Petroleum Royalty Regulation* (AR 248/90).

**(2)** Third tier exploratory oil obtained from a third tier exploratory well is exempt from the royalty payable under the *Petroleum Royalty Regulation* (AR 248/90) or the *Oil Sands Royalty Regulation, 1984* (AR 166/84)

- (a) for the first 12 months that third tier exploratory oil is obtained from the well,
- (b) until the cumulative value of the royalty on the third tier exploratory oil that would be payable in the absence of this Regulation equals \$1 000 000 multiplied by the Crown interest in the third tier exploratory oil, or
- (c) until December 31, 2008,

whichever occurs first.

**(3)** For the purposes of subsection (2)(b), the value of each cubic metre of the royalty is,

- (a) in respect of third tier exploratory oil obtained in October, November or December of 1992, the new oil par price for January 1993 prescribed under the *Petroleum Royalty Regulation* (AR 248/90), and
- (b) in respect of third tier exploratory oil obtained in any month after December of 1992,

- (i) in the case of third tier exploratory oil that is non-heavy oil, the third tier non-heavy oil par price for that month prescribed under the *Petroleum Royalty Regulation* (AR 248/90), and
- (ii) in the case of third tier exploratory oil that is heavy oil, the third tier heavy oil par price for that month prescribed under the *Petroleum Royalty Regulation* (AR 248/90).

(4) The Crown interest referred to in subsection (2)(b) is the Crown interest applicable in the month in which the royalty exemption commences.

AR 16/93 s3;222/2008

#### **Twin well**

**4(1)** The Minister may, on application, designate an oil well or oil sands well that meets the following criteria to be a twin well:

- (a) the well, in the opinion of the Regulator, is drilled to obtain third tier exploratory oil because the oil is not recoverable from a third tier exploratory well due to inadvertent damage to the third tier exploratory well;
- (b) the well is spudded in after September 30, 1992;
- (c) the well is located in the same legal subdivision or drilling spacing unit, whichever is of lesser area, of the third tier exploratory well if the third tier exploratory well is within a drilling spacing unit or legal subdivision;
- (d) the well is located not further from the third tier exploratory well than a distance approved by the Minister if the third tier exploratory well is not within a drilling spacing unit or legal subdivision.

**(2)** When the Minister designates a well to be a twin well in respect of a third tier exploratory well,

- (a) the royalty exemption ceases to apply to production from the third tier exploratory well, and
- (b) the balance of the third tier exploratory well's royalty exemption period under section 3(2)(a) and the balance of the royalty value under section 3(2)(b) in respect of the third tier exploratory well is transferred to the twin well.

**(3)** The Minister may, in the designation of a twin well,

- (a) specify that the transfer of the royalty exemption applies only to crude oil or oil sands obtained from a certain pool,

- (b) make the effective date of the transfer a date that is before the application for a designation was made, and
- (c) make the transfer of the royalty exemption subject to other terms and conditions.

AR 16/93 s4;89/2013

**Deemed production**

**5** If third tier exploratory oil is not obtained from a third tier exploratory well or twin well in a month because the Regulator suspended production from the well for a contravention of or non-compliance with the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act*, the regulations under either Act or an order of the Regulator, that month is deemed for the purposes of section 3(2)(a) to be a month in which third tier exploratory oil has been obtained from the well.

AR 16/93 s5;89/2013

**Effect of further work**

**6** No crude oil or oil sands obtained from a third tier exploratory well or a twin well after a royalty exemption terminates in respect of the well under section 3(2)(a) or (b) is entitled to a new royalty reduction even if the crude oil or oil sands is obtained as a result of further drilling or deepening.

**Termination of exemption**

**7** A royalty exemption in respect of third tier exploratory oil obtained from a third tier exploratory well or a twin well terminates

- (a) at the beginning of the month in which the exploratory well or twin well becomes a reactivated well under the *Reactivated Well Royalty Exemption Regulation* (AR 352/92), unless the exemption from royalty under that Regulation is wholly revoked under section 7 of that Regulation,
- (b) at the beginning of the month in which a royalty reduction under the *Low Productivity Well Royalty Reduction Regulation* (AR 350/92) applies to production obtained from the exploratory well or twin well, unless the royalty reduction for the well under that Regulation is wholly revoked under section 7 of that Regulation,
- (c) at the beginning of the first month after the exploratory well is abandoned or, if a twin well has been designated, at the beginning of the first month after the twin well is abandoned, or



- (d) at the beginning of the month in which the exploratory well or twin well becomes an ineligible well referred to in section 2(2).

**Factors affecting exemption**

**8** If, in respect of a third tier exploratory well or a twin well, the Minister is of the opinion that

- (a) production of third tier exploratory oil has exceeded the maximum allowable production authorized by the Regulator,
- (b) production from a well of third tier exploratory oil subject to a royalty exemption has resulted in a material reduction of the production of crude oil or oil sands from another well, production from which is not subject to a royalty exemption,
- (c) there are circumstances that, had they been known when a designation of a twin well was made, would have resulted in a refusal to make the designation,
- (d) a term or condition specified in a designation of a twin well has not been complied with or satisfied,
- (e) section 11 or 12 has not been complied with, or
- (f) one or more acts, agreements, arrangements, transactions or operations were, before or after the coming into force of this Regulation, effected for the purpose of improperly, artificially or unduly obtaining or increasing a royalty exemption,

the Minister may refuse to designate a well to be a twin well or revoke the royalty exemption in whole or in part in respect of the exploratory well or twin well.

AR 16/93 s8;89/2013

**Request to revoke exemption**

**9(1)** The Minister may wholly revoke a royalty exemption in respect of a third tier exploratory well or a twin well on receiving a request to do so from the holder of the licence issued for the well under the *Oil and Gas Conservation Act* or the *Oil Sands Conservation Act*.

**(2)** A written request under subsection (1) must be received by the Minister within 6 months after the end of the month in which the royalty exemption in respect of the well commenced.

**Effect of revocation**

**10** If the Minister revokes a royalty exemption under section 8 or 9 in respect of a third tier exploratory well or a twin well, royalty on the third tier exploratory oil obtained from the well is calculated as if entitlement to the exemption never arose or arose only in part, in accordance with the revocation.

**Reporting circumstances affecting entitlement**

**11** A person who has not paid royalty on third tier exploratory oil by reason of a royalty exemption shall forthwith notify the Minister in writing on learning of any circumstances that indicate the oil was not entitled to the exemption in whole or in part.

**Horizontal well information**

**12(1)** In this section, “horizontal well” means a third tier exploratory well that has a bore that deviates at any point more than 80° from vertical.

**(2)** The Minister may, in writing, request the operator of a horizontal well whose production has the benefit of a royalty exemption to provide specified information concerning the well.

**(3)** The operator shall provide the specified information to the Minister within the time set out in the written notice.

**Commencement of royalty exemption**

**13** Third tier exploratory oil produced from a third tier exploratory well or a twin well in October, November or December of 1992 or January of 1993 is entitled to a royalty exemption.

**Expiry**

**14** This Regulation expires on June 30, 2014.

AR 222/2008 s21





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