Frequently Asked Questions:
Changes to the New Royalty Framework
Crude Oil

Q. How is the new Deep Exploratory Oil Well Program different from the previous program?

A. The key differences between this program and the former Third Tier Exploratory Well Royalty Exemption Program are:

1. The Deep Exploratory Oil Well Program applies to exploration wells deeper than 2,000 metres true vertical depth.
2. The program applies only to wells spud after January 1, 2009.

The new Deep Exploratory Oil Well Program fits our New Royalty Framework as it establishes an effective balance between ensuring a fair rate of return for producers and better royalties for Albertans.

Q. When does the program commence?

A. The program applies to wells spud after January 1, 2009.

For wells spud between October 25, 2007 and December 31, 2008 – the well must be approved under the Third Tier Exploratory Well Royalty Exemption Program, and also meet the criteria under the new deep oil program.

For wells spud on or after January 1, 2009 – the well must meet the criteria under the new deep oil program.

Q. When does the program end?

A. The program will end on December 31, 2013, and wells spud after that date will not qualify under the program.

Q. Are there any time limits to claim benefits?

A. All royalty adjustments will terminate within 5 years of the well's finished drill date whether the full benefit has been realized or not.

There will be no royalty relief granted under this program after December 31, 2018

Q. How does a well qualify under the new program?

A. To be eligible under this program, all of the conditions must exist:

1. The well must be an exploratory well. This is based on the Energy Resources Conservation Board's (ERCB) Lahee classification of New Pool Wildcat; New Field Wildcat; or Deeper Pool Test.
2. The well must be classified as an oil / oil sands well.
3. The well must have a Crown interest.
4. The true Vertical Depth of the well must be greater than 2,000 metres and the top of the producing interval must be below 2,000 metres.

Q. Are there any limitations under this program?

A. The following limitations apply under this program:

1. Only one exploratory well per pool will be approved under the program. This will be based on the first well to reach total depth and that has the technical evidence to support that a discovery has been made.
2. A well under this program cannot receive benefits under any existing programs for either oil or gas. The only exception to this rule is the Innovative Energy Technologies Program.
3. The well event cannot be commingled with a zone that is ineligible under the program.
4. The well event cannot be within an EOR scheme, or within 0.8 km of an EOR scheme boundary.

Q. What are the transitional arrangements for wells that are currently in the Third Tier Exploratory Well Royalty Exemption Program?

A. Wells currently approved under the Third Tier Exploratory Well Royalty Exemption Program, and meeting all of the qualifying rules for the Deep Exploratory Oil Well Program will be transitioned into the new program on January 1, 2009.

Any unused relief under the Third Tier Exploratory program at December 31, 2008 will be transferred to the Deep Exploratory Oil Well Program for the remainder of the relief, or 5 years from the wells finished drill date, whichever occurs first.

Q. Are re-entries eligible under this program?

A. Re-entry wells do qualify under this program, if the new exploratory producing zone is below 2,000 metres. However, the deepening occurring during re-entry must enter a deeper formation, and the production must be coming from that deeper formation.

Q. What changes have you made in determining par prices for crude oil?

A. The calculation method for the Par Price will not be changed, just expanded to include more delineation. Instead of two par prices, there will be four.

Q. What is Par Price?

A. The par price calculations are a weighted average market price of a wide range of crude types.
In previous years we used two par prices heavy (greater than 25.7° API) and non-heavy (lesser than 25.7° API).

Q. What is API?

A. The American Petroleum Institute gravity, or API gravity, is a measure of how heavy or light a petroleum liquid is compared to water. The greater the API rating, the lighter the oil.

Q. What are the advantages of additional par prices?

A. Using a Par Price that better matches the production quality and price, yields a royalty rate that better represents the economics of the oil play set out in the New Royalty Framework. Beginning January 2009, the following four par prices will be considered:

- Light Par (less than 850 kg/m^3 or greater than 35°API)
- Medium Par (between 850 kg/m^3 – 900 kg/m^3 or between 35°API - 25.8°API)
- Heavy Par (between 900 kg/m^3 – 925 kg/m^3 or between 25.7°API – 21.6°API)
- Ultra Heavy Par (greater than or equal to 925 kg/m^3 or less than or equal to 21.5°API)

If you have questions or need further information please contact:
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