

ERCB Questions and Answers

1. What is the current turnaround time for approval of holdings?

Applications that meet all Directive 065 requirements, have no outstanding industry objections and contain information that clearly supports the proposed spacing for all of the applied-for lands do tend to have lesser turnaround times than those applications that are deficient, not well supported, and/or premature in nature. As new systems are put in place as the result of the on-going work on the Well Spacing Initiative, turnaround times are gradually improving. Work is continuing on the Well Spacing Initiative to deliver more consistent and predictable turnaround times.

2. How up-to-date is the information presented on the well spacing map on the ERCB's website?

Spacing information displayed on the well spacing map is in real time. When the ERCB approves a spacing application, the approved spacing is immediately displayed on the well spacing map.

3. On the ERCB's website for the well spacing map, what does navigate by ATS stand for?

This is an abbreviation for Alberta Township System.

4. Can you explain what a fractional section is? Is this a way around a compulsory pooling?

Within the province of Alberta, fractional tracts of land are found along the Meridian lines, specifically along the 5th and 6th meridians. Where a tract of land varies in size from a normal drilling spacing unit (DSU) by more than five percent, an application must be filed to declare the fractional tract of land as a DSU. Mineral interests within a DSU, or a fractional tract of land that is established as a DSU, must be common in order to drill and produce a well. If ownership is not common, and a voluntary agreement is not in place, a compulsory pooling application may be filed to force pool the mineral interests within a DSU.

5. If a fractional tract of land is less than half the size of a standard DSU and the DSUs on the east and west sides of the fractional land are drilled and producing: a) will you allow it to be drilled as a stand alone DSU?

For equity reasons, a stand-alone DSU cannot be established if it is significantly less than half the size of a standard/normal DSU.

b) will you allow it to be added to the DSUs on the north or south sides of the fractional land if the DSUs and the fractional lands have common ownership or have a pooling agreement in place?

Often the lands that are north or south of the fractional tract of land are also not large enough to establish as a stand alone DSU. Again, for equity reasons, adding tracts of lands to a DSU on the North or South boundaries is not usually entertained.

6. Are you reviewing other areas north and west of the regional area of spacing to increase the baseline well densities?

As we move forward within the Well Spacing Initiative potential areas for increased well densities may be reviewed. However, appropriate systems must be in place and resources available in order for the ERCB to undertake such a review.

7. For publicly traded companies, there are guidelines around what acreage is considered developed based on spacing units of wells. You have stated that within the regional area well densities have been increased but the size of the DSU did not change. But, essentially these situations created reduced spacing where each well is draining a smaller area and therefore less land is developed. Can you explain why spacing isn't reduced?

The size of the DSU within the regional area was not reduced to allow for flexibility in drilling wells within a larger target area versus the smaller target area that would result under a reduced DSU. Further, reducing the DSU size over this large area would have had implications on offset well commitments and mineral lease tenure.

8. If spacing for a gas well in the Milk River has been reduced to one quarter section, do you need common ownership in the full section or just in the quarter section?

Within a DSU, regardless of its size, mineral interests must either be common or have an agreement in place that pools interests in order for a well to be drilled and produced. In this question, ownership must be common within the quarter section DSU to produce a Milk River well.

9. In a section of land that has a reduced DSU and at the same time has a holding, does the holding override the reduced DSU or does the reduced DSU override the holding?

A holding suspends the underlying DSU and target area and therefore overrides the DSU. If a holding has been established, then the spacing provisions are those specified in the holding. For Tenure purposes, the spacing used is what was in place prior to the holding.

10. *Is there a difference between a reduced DSU and a Holding?*

A DSU is a predefined area having a prescribed target area and allows for one well per pool to be produced from within each DSU. A holding allows for an increase in well density which can also be achieved by reducing the size of the DSU, but a holding can offer much more flexibility when drilling horizontal wells, avoiding surface obstructions or accessing geological features that are located outside of a prescribed target area. A holding can also consist of contiguous, whole DSUs of common ownership, expanding the flexibility in surface and subsurface placement of wells.

11. *Can you drill two gas wells (Mannville) in the same half section within the regional area of spacing?*

You can if common mineral ownership exists within the entire DSU of one section.

12. *Do you need to pool over the entire section (in order to have common ownership over the entire section) to drill/produce two gas wells per pool per section for the Mannville within the regional area in SE Alberta, or just the half section?*

If mineral interests within a one-section DSU are not common, then interests would need to be pooled in order to drill and produce a well.

13. *Does the first well in a pool still apply; i.e. locate gas well in Lsd 5 (as opposed to Lsd 6) in the south half of a section for a gas target within the Mannville Group in the regional area?*

First, it is important to note that the DSU within the regional area is still one section as the size of the DSU was not reduced within the regional area. Further, the target area for a Mannville gas well within the regional area is not Lsd 6; it is 300 meters from the south and west boundaries of the one section DSU. There are no changes to the first well in the pool policy within the regional area.

14. *What is the difference between ‘baseline well density’ and DSU?*

A DSU is a predefined area having a prescribed target area. The Baseline well density is the number of wells that can be produced within a DSU as specified in the *Oil and Gas Conservation Regulations*.

15. What is the spacing for a Coalbed Methane well?

All CBM wells are subject to the same spacing regulations specified for a gas well.

16. Do oil sand leases have the same normal DSUs as conventional oil or gas?

The normal drilling spacing units for a bitumen (oil) well or gas well in an oil sands area are the same as those specified in section 4.020(1) of the *Oil and Gas Conservation Regulations* being one quarter section for an bitumen (oil) well and one section for a gas well. Beyond the standard spacing, bitumen development within the oil sands area is governed by the *Oil Sands Conservation Act*, but gas development in the oil sands areas is still governed by the *Oil and Gas Conservation Regulations*.

17. What is the ERCB's website address?

www.ercb.ca

18. How does the ERCB keep track of common ownership within holdings? What happens if common ownership is not maintained within a holding?

The ERCB does not have the resources to keep track of mineral ownership. When holdings are approved they are established based on the mineral ownership information provided within the spacing application. If common ownership is not maintained within a holding, companies who continue to drill under the provisions of a holding that is no longer valid run the risk of drilling wells that may be off-target.

19. Are Holdings ever dissolved or over turned because of a change in common ownership?

As per section 5.220 of the *Oil and Gas Conservation Regulations*, the ERCB does have the authority to rescind a holding or to vary an area or provisions of a holding if ownership is not common.

20. If common ownership changes as a result of a transaction, and the parties agree that this is OK and nobody will contest this, what is the ERCB's position regarding

the Holding; can it continue? Does this put the “Operator” on the enforcement ladder? Will the ERCB go looking for these or is it only on an inquiry/dispute basis?

Typically, the ERCB does not go looking for holdings that may no longer have common ownership, but we will respond and may enforce if a complaint is filed. If all parties have entered into an agreement on how to operate and allocate production within the holding then such an agreement deems common ownership to exist within the holding.

21. What does the ERCB require a company to do if holding ownership changes as a result of earning an interest within the holding through a farm-in agreement?

The legislation requires that in order for a holding to be valid it must have common ownership and contain whole drilling spacing units that are contiguous. If the farm-in agreement results in mineral interests that are not equally common within the entire holding area, then the holding is no longer valid. To avoid the risk of an off-target situation and potential penalty, an application should be filed to re-align the boundaries of the holding to reflect the new ownership picture. Schedule 1 is required with the application and a lessor and lessee map showing the revised ownership picture within the holding and surrounding DSUs should also be included. Prior to filing, consideration should be given to notification of mineral owners as changes to the location of buffer zones may result when holding boundaries are re-aligned.

22. Does a holding where there is not common lessor ownership allow for production allocation agreements?

If lessor interests are not common within a holding, a production allocation agreement must be in place in order to meet the criteria of common ownership in order to establish a holding.

23. If you wish to drill more gas wells in a section in W5 which does not have common mineral right ownership, can you apply for a holding or downspacing of a section?

All well spacing applications, whether to reduce the size of the DSU or to establish a holding, must meet the criteria set out in section 4.040(3) of the *Oil and Gas Conservation Regulations*. Diverse mineral ownership within a DSU is not a criterion to file a spacing application. An application for a holding could only be filed if a pooling agreement is in place for the section, and if the criterion to file a spacing application is met.

24. Which offsetting lease holders may comment on or object to a holding application, just directly offsetting or are diagonal offset lessees included?

Any party who may be directly and adversely affected if the ERCB approves an application may file their concerns. All mineral owners, (including those who are diagonally offset) within one drilling spacing unit surrounding the area of application are required to receive notification of a spacing application as per Directive 065.

25. Do approvals for drilling within the road allowance show on the well spacing map? If not, are they shown somewhere else?

Drilling spacing units do not include the road allowance. Approvals to drill within a road allowance are not handled by the ERCB and therefore are not displayed on the well spacing map. Such approvals are issued and administered by the Department of Energy. You can request an LSAS Search for road allowance approvals by Land Description or Well Identifier. If an approval has been granted, a WRD (well-road allowance) approval number will be displayed.

26. How do you decide what part of a horizontal well is used in relation to interwell distances and buffer zones?

The productive portion of a wellbore is used in determining whether a horizontal well is adhering to buffer zone and interwell distances. If any productive portion of the wellbore is less than the interwell distance or falls within a buffer zone, the entire horizontal wellbore is considered off target and a penalty may be applied to the well's total production.

27. When doing a search, on the spacing map, what is the significance of the 'Production Source' field? If it is coal, does it mean the gas is coalbed methane?

The 'production source' field indicates the source of the production, being either from sands, coals or shales. If a production source of coal is specified, it means the spacing applies to the production of gas (also known as coalbed methane gas) from the coals.

28. Will there be a standardized way of releasing disposition documents?

As part of the Well Spacing Initiative, work is being done to allow for system auto-generation of all Spacing Disposition documents, which will standardize format and related details. This phase of the initiative is expected to be in place in the spring of 2009.

29. *Why is the ERCB SU Order number not on the well spacing map?*

As referenced in ERCB Bulletin 2007-36, effective October 29, 2007, SU Orders are no longer issued to display approved spacing. The Well Spacing Map displays real time spacing information and a Spacing Disposition document is issued when approving a spacing application.

30. *Can you tell us where to find the effective date of the spacing units?*

The effective date of approved special well spacing is the date specified on the Spacing Disposition document. If no Spacing Disposition document exists, then the effective date of the spacing is the date of the SU Order that shows the spacing.

31. *Where can you find the SU Order number?*

SU Order numbers continue to be listed in the Index of Board Orders (IBO) which is available on the ERCB's website under Quick Links/Board Order System. A copy of a SU Order can be obtained from the ERCB's Information Services Group by
phone: (403) 297-8311 [press 2];
fax: (403) 297-7040 or
e-mail: ercb.infoservices@ercb.ca.