

AER Bulletin 2014-27

September 11, 2014

A Reminder on the Rules and Procedures for Wells in Buffer Zones of Holdings and Units with Special Spacing and Special Well Spacing Applications

The Alberta Energy Regulator (AER) has received a number of questions on wells in buffer zones of holdings and units. As a result, the AER is issuing this bulletin to clarify

- the rules and procedures that exist for off-target wells producing from drilling spacing units (DSUs) and wells producing from the buffer zones of holdings and units with special spacing and
- when a company should submit a special well spacing application to the AER.

One of the purposes of well spacing rules for DSUs and holdings and units with special spacing is to promote equity between competitive mineral rights owners and give each owner an opportunity to obtain its share of production from a resource.

Penalties on Off-Target Wells in a DSU

An off-target well producing from a DSU is subject to the off-target well rules and administration set out in sections 4.050, 4.060, 4.070, and 4.090 of the *Oil and Gas Conservation Rules (OGCR)*, *Interim Directive (ID) 94-2: Revisions to Oil and Gas Well Spacing Administration*, and *ID 94-5: Consolidation of Regulations for Off-Target Penalty Determination*. As noted in *ID 94-2*, the AER applies a penalty after it approves an off-target penalty application. In addition, the first-well-in-a-pool rule set out in the *OGCR* continues to apply to off-target wells producing from DSUs.

Applications requesting a penalty on an off-target well in a DSU must continue to be filed through the AER's electronic applications submission (EAS) system.

Shut in of a Well in a Buffer Zone

Unlike DSUs with target areas, there are no penalty rules for wells that are producing from a buffer zone set out in the terms for approval of special spacing for a holding or unit. Therefore, the AER shuts in these wells if it receives a successful complaint for breach of the terms granting the special spacing. The AER does not conduct surveillance on wells producing from buffer zones or shut in any well in the absence of a successful complaint.

Complaints requesting the shut in of a well in a buffer zone must be submitted to the AER by e-mail to resourcecompliance@aer.ca.

Submitting a Complaint or a Request for an Off-Target Penalty

An application requesting that an off-target penalty be applied to a well in a DSU or a complaint regarding a well producing from a buffer zone must be filed by the licensee of the encroached-on well. The licensee of the encroached-on well must be directly and adversely impacted by the off-target well or by the well producing in the buffer zone. In this regard, a licensee must demonstrate that

- the offending well was not drilled in accordance with the well spacing that existed at the time of drilling and remains off target under current spacing rules or is in breach of the buffer zone terms of a holding or unit with special spacing;
- the offending well in the buffer zone of a holding or unit with special spacing was spud after October 6, 2011;
- the off-target well or the well in the buffer zone is producing; and
- the encroached-on well, even though it does not need to be producing, is completed in and shown to be capable of production from the same pool as the off-target well or the well in the buffer zone at the time the complaint is filed.

To demonstrate that the wells are in the same pool, the party submitting the complaint must submit a geological interpretation, including a net pay isopach map. If the offending well is confidential, the party may say that it is unable to confirm that the well is in the same pool. However, the party must identify the pool involved in its own well and demonstrate to the AER's satisfaction that it is likely the offending well is in communication with and producing from the same pool as the encroached-on well.

A well capable of production is one that is completed in the pool involved and for which a suitable test has demonstrated to the AER's satisfaction that the well has the ability to produce at commercial rates on a sustained basis. If a test was not previously filed with the AER on the well involved, the test must be included in the complaint or application materials. If the encroached-on well is producing from the pool involved, a test is not required unless requested by the AER.

The AER may request other information in addition to the above if it considers that there is a need for the material.

The first-well-in-a-pool rule does not apply to wells producing from a buffer zone of a holding or unit with special spacing because all of the spacing rules in part 4 of the *OGCR*, including the first-well-in-pool rule, are suspended when special spacing in a holding or unit is established.

Special Well Spacing Applications

inquiries 1-855-297-8311
24-hour
emergency 1-800-222-6514

The AER notes that some special well spacing applications are being filed for the sole purpose of addressing buffer zone issues. In many cases, these applications are not necessary as there are no equity issues arising. For example, there is no need to apply to merge existing holdings when a well is being drilled from one holding into another holding if the holdings have common mineral ownership. It is also not necessary to file a spacing application to accommodate a well being drilled from a holding into an adjacent DSU (or vice versa) where the holding and DSU are of common ownership at both the lessor and lessee levels.

The AER has included some scenarios involving horizontal drilling in holdings and comments on whether it is appropriate to file an application in specific situations in its frequently asked questions (FAQs) on the *Directive 065: Resources Applications for Oil and Gas Reservoirs* page of the AER website, www.aer.ca. Applicants are reminded that an application for special well spacing is appropriate when development cannot take place under the current spacing rules and where

- recovery would be improved,
- additional wells are necessary to provide capacity to drain the pool or zone at a reasonable rate that will not adversely affect recovery from the pool, or
- the proposed spacing has already been substantially established in a pool or zone and the proposed spacing provisions are equal to or more restrictive than the established spacing.

Applicants are also reminded that applications to establish special spacing in holdings or units should reflect standard buffer zone distances as outlined in Unit 7 of *Directive 065*. For heavy oil development where oil density is 920 kilograms per cubic meter or greater at 15 degrees Celsius, a buffer zone of 50 metres from all holding or unit boundaries may be considered.

Additional Information

Questions on off-target well administration and special well spacing may be sent by e-mail to resources.applications@er.ca or directed to the helpline at 403-476-4967.

<original signed by>

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