



INFORMATIONAL LETTER IL 90-3

5 April 1990

TO: All Oil and Gas Operators

APPLICATIONS FOR SPECIAL MRLS, GPP, AND GOR PENALTY RELIEF

This informational letter is intended to clarify and update industry on the Board's policy with regard to the responsibility of the applicant and other operators in a pool when dealing with applications for special Maximum Rate Limitations (MRLs), Good Production Practice (GPP), and gas-oil ratio (GOR) penalty relief. The attached appendix provides a brief overview of procedures and administrative practices related to MRLs and the GOR penalty base. The Board expects that the measures outlined herein will assist in more timely and orderly disposition of these types of applications.

When an operator files a technically supported application and successfully demonstrates to the Board's satisfaction that rate controls for the pool can be relaxed without adversely affecting conservation, the Board would be prepared to approve the application in the absence of an acceptable intervention. The Board currently requests that the applicant seek the concurrence of other operators in the pool with regard to the proposed depletion plan. The primary purpose of this contact is to provide other parties in the pool with an opportunity to identify any serious conservation or equity issues. Where a competitive operator has nothing to gain or less to gain than the applicant, experience has shown that concurrence is often difficult to obtain and that serious delays can result. A common example of this nature would be where the applicant has better wellbore deliverability and/or wells that are in a favourable structural position relative to other wells in the pool.

It is normally required that applications of this nature be submitted on a pool basis. Therefore, it is important that operators within a pool continue to discuss pool performance and seek general consensus as to the optimum depletion strategy for the pool. To provide potentially affected parties with the opportunity to address any serious conservation or equity concerns, it is requested that the applicant provide all operators in the pool with a copy of such applications and that the applicant attempt to initiate meaningful discussions with these operators.

The Board in turn expects that any concerned operator will file a thoroughly documented intervention in a timely fashion, generally within 30 days of receiving a copy of the application. In disposing of the application the Board will either approve the application based on the information presented or send formal notice or a letter with a response deadline to the other operator(s) in the pool. In determining the need for such notice, the Board would exercise considerable discretion having regard for the documented efforts taken by the applicant to establish the position of other operators in the pool and the Board's own knowledge of the pool. The Board emphasizes that an intervention based

solely on the type of arguments noted in the second paragraph above would not be considered an acceptable equity objection and in such cases, the Board would likely rule on the application without further consultation. A successful intervention would require strong technical and/or equity reasons why the proposal should not be approved. Fully substantiated arguments are required to assist the Board in making the appropriate ruling.

Any questions with regard to this matter can be directed to the Oil Department at 297-8570.

<signed by>

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Manager, Oil Department

APPENDIX TO IL 90-03

Procedures and Administrative Practices for MRLs and GOR Penalty Base

As a result of revisions to the Modified Proration Plan outlined in Informational Letters IL 89-8 and IL 89-9, effective 1 October 1989 the Board replaced the IP Order with an MRL Order. Details of the MRL Order are discussed in Informational Letter IL 89-11. Under the current market regime where demand exceeds available supply and adequate pipeline capacity exists to access markets, MRLs assigned for conservation purposes are the major factor in controlling pool/well withdrawal rates.

The broad objectives of conservation controls, such as MRL and GOR penalty provisions, are to prevent waste and achieve the best technical economic recovery, along with an orderly development, of hydrocarbon resources.

As an initial administrative step the Board assigns an MRL to new pools using the greater of the reserve-based Preliminary Rate Limitation (PRL) formula or the summation of the Basic Well Rates (BWRs). In some cases the Board may use regional knowledge rather than the reserve-base approach where it is quite clear that, directly or by analogy, such knowledge can and should be applied. With the proviso that all wells are entitled to a minimum base MRL equal to the BWR, the pool rate so determined is distributed to wells based on productive area*, with GOR and off-target penalty factors applied thereafter. There is no redistribution of the MRL for well incapability. Although the MRL primarily serves as a conservation control, it may also provide a measure of equity protection, particularly early in the life of a pool.

** In pools with mixed spacing (DSU sizes) or other unique situations, this practice may require modification.*

The preliminary MRL is intended to be an interim conservation control until more detailed studies can be conducted. As performance information becomes available the Board encourages operators to submit technically supported applications for more appropriate MRLs, including GPP. In keeping with the above-stated broad conservation objectives, the technical considerations should go beyond reserves assessments by addressing factors that demonstrate how the proposed production rates or depletion plans will contribute to achieving those objectives. Within a competitively operated pool the Board would strive to ensure that all wells have equal opportunity. Accordingly, a special MRL or

GPP would normally be approved on a pool basis and applied consistently to all wells.

In order to make efficient use of reservoir energy and prevent the waste of solution gas through flaring, a GOR penalty base is placed on each new pool. The Board in Informational Letter IL 89-14 provided an overview of the criteria that should be considered when submitting an application for GOR penalty relief or changes to the GOR penalty base. When adequate information is available such that facility requirements and other conservation issues can be addressed, the Board encourages submission of applications for GOR penalty relief.