

Directive 007-1

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Allowables Handbook – Guidelines for the Calculation of Monthly Production Allowables in Alberta

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1 Introduction

This directive explains the Alberta Energy Regulator’s (AER’s) procedures for determining monthly allowables for a production entity (well or block). Allowables or maximum rate limitations (MRLs) are rate controls applied primarily to oil entities in accordance with an AER order. MRLs are assigned to new oil pools when conservation is or could potentially be an issue. MRLs help minimize depletion impacts on oil pools and ensure enhanced oil recovery (EOR) is addressed. MRLs also serve to maintain intrapool equity.

For gas wells, allowables are applied primarily for equity reasons in the administration of off-target penalties (see section 7)

Examples are presented to illustrate overall concepts and procedures, and a glossary is included for reference. All figures cited in the directive appear at the end.

For further clarification on any topic presented in this directive, contact the AER Customer Contact Centre at 1-855-297-8311 (toll free).

1.1 What’s New in This Edition

This directive has been updated to reflect changes in the new Well Base MRL (O-38) Application form and its application process. In addition, the clarifications within the O-38 FAQs have been incorporated into the directive.

1.2 Data Precision

The number of decimal places to be used in calculations is given in table 1. When rounding, add five to the last digit and then drop the last digit.

Table 1. Number of decimal places to be used in calculations

Items	# of decimal places
Adjusted MRL	1
Base GOR	0
BWR	1
Cumulative overproduction status	1
Daily MRL	1
Gas flared/vented	1
GOR	0
GOR penalty factor	2
GRR	1
HWM	1
Monthly oil/gas production	1
Monthly overproduction penalty	1

2 Base Maximum Rate Limitation

The base MRL is the maximum rate of production for a production entity before reduction by any applicable gas-oil ratio or off-target penalties (see section 3). The standard base MRL assigned to a single-well pool is the greater of the reserve-based preliminary rate limitation (PRL) or the basic well rate (BWR; see Schedule 5 of the *Oil and Gas Conservation Rules [OGCR]*, duplicated below as table 2).

- **BWR** – Calculated using the average well depth of all the wells in the pool using the true vertical depth (TVD).
- **PRL** – A pool’s PRL is expressed in cubic metres per day (m³/d) and calculated as the product of a pool’s recoverable oil reserves (in units of thousand [10³] m³) and the constant 0.296. Continuous production at the PRL rate would deplete a pool’s oil reserves in 9.25 years.

For multiwell pools, a well’s base MRL is the greater of the BWR or the pool PRL divided by the number of nonabandoned oil wells in the pool.

Table 2. Basic well rates from Schedule 5 of the OGCR

Pool average well depth (m)	Basic well rate (m ³ /day)
0–2000	8.0
2001–2100	8.5
2101–2170	9.0
2171–2230	9.5
2231–2290	10.0
2291–2340	10.5
2341–2390	11.0
2391–2440	11.5

Pool average well depth (m)	Basic well rate (m³/day)
2441–2490	12.0
2491–2530	12.5
2531–2570	13.0
2571–2610	13.5
2611–2650	14.0
2651–2690	14.5
2691–2730	15.0
2731–2760	15.5
2761–2790	16.0
2791–2820	16.5
2821–2850	17.0
2851–2880	17.5
2881–2910	18.0
2911–2940	18.5
2941–2970	19.0
2971–3000	19.5
3001 and deeper	20.0

Base MRL Calculation

Number of nonabandoned wells in the pool = 2

BWR = 10.0 m³/d/well

Recoverable reserves (RiN) = 98.0 10³ m³

Pool MRL = 98.0 × 0.296

$$= 29.0 \text{ m}^3/\text{d}$$

Well base MRL = the greater of the BWR or $\frac{\text{pool MRL}}{\text{number of nonabandoned oil wells}}$

$$= \text{the greater of } 10.0 \text{ m}^3/\text{d} \text{ or } \frac{(29.0 \text{ m}^3/\text{d})}{2}$$

$$= 14.5 \text{ m}^3/\text{d}$$

2.1 Nonconfidential Pools – MRL Order

The AER issues a monthly MRL order that lists the MRLs for all active nonconfidential oil pools and indicates whether a pool is subject to good production practice (GPP) or under MRL administration.

MRL orders contain two appendices:

- Appendix I – lists base MRL data on all nonconfidential pools (see figure 1).
- Appendix II (Special Provisions) – provides details on any applicable special requirements prescribed in column 7 of appendix I. Operators producing from pools subject to special provisions must determine whether these provisions apply to the specific production entity they operate.

GPP pools are not restricted by a base MRL or gas-oil ratio (GOR) penalties but may be subject to special conditions prescribed in appendix II of the MRL order. Operators producing under GPP are expected to produce the wells in accordance with good engineering practices to optimize oil recovery.

MRL orders are posted on the AER website several days before the month it applies to. MRLs for confidential pools are established on a well basis, while MRLs for nonconfidential pools are established on a pool basis. A pool loses confidential status once its first well is one year from its finished drilling date or when five or more wells are included in a pool, whichever occurs first. Therefore, the MRL may change when a pool loses confidential status. It is important for operators to refer to the MRL order monthly to ensure that all relevant data for calculating a given monthly allowable are considered. For a description of what each column of the appendix contains, see table 3.



Appendix I to MRL Order No. 315

December 2015

1 Field/ Pool Name	2 Pool Type	3 Codes			4 Basic Well Rate (m ³ /day)	5 Maximum Rate Limitation (m ³ /d/well)	6 Base GOR (m ³ /m ³)	7 Special Provisions (See Appendix II)
		Field	Pool	Pool Type				
PENHOLD (continued) COMMINGLED POOL 002	Prim	0694	800260	00	8.0	GPP		
PENNY BARONS A	Prim	1203	204001	00	8.0	8.0	100	
BARONS A	WF	1203	204001	20	8.0	GPP		
LWR BANFF-EXSHAW-BV A	Prim	1203	649001	00	8.5	GPP	3	
LWR BANFF-EXSHAW-BV B	Prim	1203	649002	00	8.0	GPP	3	
LWR BANFF-EXSHAW-BV C	Prim	1203	649003	00	9.5	9.5	140 9a	
LWR BANFF-EXSHAW-BV E	Prim	1203	649005	00	9.0	17.2	130 9a	
LWR BANFF-EXSHAW BV F	Prim	1203	649006	00	8.0	GPP	3	
LWR BANFF-EXSHAW-BV G	Prim	1203	649007	00	8.5	17.5	120 9a	
LWR BANFF-EXSHAW-BV H	Prim	1203	649008	00	8.0	GPP	3	
PEORIA D-1 F	Prim	0703	658006	00	10.0	GPP		
PERRYVALE UPPER MANNVILLE F	Prim	0697	250006	00	8.0	GPP		
UPPER MANNVILLE G	Prim	0697	250007	00	8.0	GPP		
PINCHER CREEK LOWER MANNVILLE C	Prim	0702	310003	00	20.0	GPP		
PINE CREEK BELLY RIVER D	Prim	0706	126004	00	8.0	GPP		
CARDIUM T	Prim	0706	176020	00	8.0	GPP	3	
CARDIUM V	Prim	0706	176022	00	8.0	GPP		
CARDIUM Y	Prim	0706	176025	00	8.0	GPP		
CARDIUM AA	Prim	0706	176027	00	8.0	GPP		
CARDIUM FF	Prim	0706	176032	00	8.0	GPP		
CARDIUM KK	Prim	0706	176037	00	8.0	GPP		
CARDIUM MM	Prim	0706	176039	00	8.0	GPP		
CARDIUM NN	Prim	0706	176040	00	8.0	GPP		
CARDIUM QQ	Prim	0706	176043	00	11.5	GPP		
CARDIUM TT	Prim	0706	176046	00	8.0	GPP		
SECOND WHITE SPECKS A	Prim	0706	188001	00	9.5	GPP		
SECOND WHITE SPECKS D	Prim	0706	188004	00	8.5	GPP		
SECOND WHITE SPECKS E	Prim	0706	188005	00	8.5	GPP		
SECOND WHITE SPECKS K	Prim	0706	188011	00	8.0	GPP		
SECOND WHITE SPECKS L	Prim	0706	188012	00	8.0	GPP		
BLUESKY H	Prim	0706	304008	00	12.5	GPP		
BLUESKY P	Prim	0706	304016	00	11.0	GPP		
BLUESKY EE	Prim	0706	304031	00	9.5	GPP		
GETHING KKK	Prim	0706	326611	00	13.0	GPP		
GETHING W2W	Prim	0706	326649	00	11.5	GPP		
COMMINGLED POOL 002	Prim	0706	800260	00	9.0	GPP		
COMMINGLED POOL 003	Prim	0706	800360	00	8.0	GPP		
COMMINGLED POOL 005	Prim	0706	800560	00	8.5	GPP		
COMMINGLED POOL 008	Prim	0706	800860	00	14.5	GPP		
COMMINGLED POOL 009	Prim	0706	800960	00	15.5	GPP		
COMMINGLED POOL 020	Prim	0706	802060	00	11.0	GPP		
COMMINGLED POOL 021	Prim	0706	802160	00	11.5	GPP		
COMMINGLED POOL 038	Prim	0706	803860	00	11.5	GPP		

Figure 1. Example of appendix I to the MRL order

Table 3. Descriptions of each column in appendix I to the MRL order

Columns	Definitions
1	Field/pool names as defined by the AER.
2	Pool type – recovery mechanism for the pool (code): <ul style="list-style-type: none"> • Prim – Primary Depletion (00) • SF – Solvent Flood (10) • WF – Water Flood (20) • PF – Polymer Flood (21) • GF – Gas Flood (40) • ASP – Acid Surfactant Polymer Flood (70)
3	Field, pool, and pool type codes as defined by the AER.
4	Basic Well Rate (BWR) – the lowest unpenalized MRL assigned to a producing oil well in a pool or pool type; related to the average well depth of the pool, as tabulated in Schedule 5 of the <i>OGCR</i> .
5	Maximum Rate Limitation (MRL) for the wells in that pool or pool type; pools on GPP are not subject to an MRL, unless other directives are specified in appendix II of the MRL order or entities that are retiring outstanding overproduction under GRR from previous MRL administration.
6	Base GOR (as calculated in accordance with Schedule 6 of the <i>OGCR</i>).
7	Special provisions applicable to pools or to individual entities in a pool type (the specific clauses are described in appendix II of the MRL order).

Monthly Base MRL Calculation – Nonconfidential

Calculation of the monthly base MRL (i.e., unpenalized MRL, or the MRL before any reduction due to penalties [see section 3]) for a well within a defined pool is the product of the MRL in column 5 of appendix I of the MRL order and the number of days in the month.

For example, to calculate the base MRL for a well in the Penny Lwr Banff-Exshaw-BV G Pool in figure 1:

$$\text{Base MRL from column 5} = 17.5 \text{ m}^3/\text{d}$$

$$\text{Number of days in the month} = 30 \text{ d}$$

$$\text{Base MRL} = \text{Daily base MRL} \times \text{number of days in the month}$$

$$= 17.5 \text{ m}^3/\text{d} \times 30 \text{ d}$$

$$= 525.0 \text{ m}^3 \text{ for the month}$$

This monthly base MRL may be subject to reduction by any applicable penalties, as described in section 3.

2.2 Confidential Pools

Allowables for wells producing from confidential pools are not listed in the MRL order but will be indicated on the new well base MRL (O-38) application disposition letter. The new well base MRL (O-38) application disposition letter will be emailed to the applicant upon approval of the application. The disposition letter will indicate the approved rate administration (MRL or GPP), the field and pool name and code, and other applicable information such as basic well rate, base MRL, base GOR, horizontal well modifier, and oil density. The disposition letter is only for wells drilled into a new or confidential pool, as these pools will not appear on the MRL order until confidential pool status expires. Wells that are added to a nonconfidential pool will have an email disposition indicating the pool the well is defined to and the rate administration assigned to the pool (MRL or GPP). The nonconfidential pools will appear on the MRL order, along with applicable rate administration (MRL or GPP), basic well rate, and base GOR.

- 1) For wells that discover a new pool or are drilled in a confidential pool, or if any portion of a horizontal well is drilled outside existing AER pool order boundaries, operators must complete the New Well Base MRL (O-38) Application form through the AER website (www.aer.ca > Regulating Development > Rules and Directives > AER Forms > [Directive Forms](#)) and submit it to the AER once the well has at least 30 days of production reported in Petrinex. If applicable, the AER will assign a base MRL and a base GOR.

Monthly Base MRL Calculation – Confidential Well

Calculation of the base MRL for a single well producing from a confidential pool is the product of the base MRL as indicated on the new well base MRL (O-38) application disposition letter and the number of days in the month.

For example, to calculate the base MRL for a well from the new well base MRL (O-38) application disposition letter:

$$\begin{aligned}
 \text{MRL from new well base MRL (O-38) letter} &= 18.0 \text{ m}^3/\text{d} \\
 \text{Number of days in the month} &= 31 \\
 \text{Base MRL} &= \text{Daily base MRL} \times \text{number of days in the month} \\
 &= 18.0 \text{ m}^3/\text{d} \times 31 \text{ d} \\
 &= 558.0 \text{ m}^3 \text{ for the month}
 \end{aligned}$$

This monthly base MRL may be subject to reduction by any applicable penalties (see section 3).

Interim MRL

For undefined wells for which a new well base MRL (O-38) application has not been approved and an MRL has not been assigned, the AER will assume an interim MRL of 8.0 m³/d and a base GOR of 70 m³/m³ following the new oil well production period (NOWPP) (see section 6). Operators with wells that overproduce under an interim MRL and fail to respond to an overproduction notice (see section 5.3) will be subject to a regulatory response in accordance with section 10.280(3) of the *OGCR*. An interim MRL will be replaced by the official MRL once a new well base MRL (O-38) application is submitted and processed.

2.3 Horizontal Well Modifier

The horizontal well modifier (HWM) was designed to encourage, where appropriate, the drilling of horizontal wells rather than multiple vertical wells. When multiplied by the well base MRL, the HWM increases the allowable in relation to the horizontal length of the well.

Rules governing allowables for horizontal wells are as follows:

- If a horizontal well is drilled in a new or existing pool that is subject to MRL administration, an HWM will be assigned on the new well base MRL (O-38) application disposition letter.
- The base MRL is equal to the product of the HWM and the base MRL that would be assigned to a vertical well, where

$HWM = \text{square root of } (1 + L/100), \text{ truncated to one decimal}$

$L = \text{length of the well's horizontal section in metres, calculated as the difference in log depth from the pay top of the productive zone to the well's total depth (TD) or plugback depth}$

- During NOWPP, the base MRL is the greater of 20.0 m³/d or the product of the well base MRL and the HWM, subject to all other conditions of the NOWPP.
- In pools subject to a special MRL, the base MRL is equal to the product of the HWM and the special MRL.
- HWMs are specified in clause 9a of appendix II to the MRL order for nonconfidential pools, and on the new well base MRL (O-38) application disposition letter for confidential pools.

Monthly Base MRL Calculation for a Horizontal Well

For example, using the allowable record for a horizontal well in figure 2, a base MRL calculation for a well assigned an HWM, both during NOWPP and after NOWPP, is as follows:

- Base MRL of a horizontal well during NOWPP:

$$\text{NOWPP MRL} = 20.0 \text{ m}^3/\text{d}$$

$$\text{HWM} = 2.0$$

$$\text{Number of days in the month} = 31$$

$$\text{Base MRL} = \text{NOWPP MRL} \times \text{HWM} \times \text{days in the month}$$

$$= 20.0 \text{ m}^3/\text{d} \times 2.0 \times 31 \text{ d}$$

$$= 1240.0 \text{ m}^3 \text{ for the month}$$

- Base MRL of a horizontal well on MRL (after NOWPP):

$$\text{MRL} = 8.0 \text{ m}^3/\text{d}$$

$$\text{HWM} = 2.0$$

$$\text{Number of days in the month} = 30$$

$$\text{Base MRL} = \text{Daily MRL} \times \text{HWM} \times \text{days in the month}$$

$$= 8.0 \text{ m}^3/\text{d} \times 2.0 \times 30 \text{ d}$$

$$= 480.0 \text{ m}^3 \text{ for the month}$$



Allowable Record December 2015

Well Identifier 00/01-01-001-01W4/0		Field Code 0998	Pool Code 000098	Pool Type 00	Project 000	Block 000	Base GOR 300	Off-Target Penalty 0.0000	Horizontal Well Modifier 2.0	Operator 0000
Production Date 2015-07	Months Over 0	Net GOR Penalty Relief N	Confidential N		Remarks EXAMPLE - well assigned a Horizontal Well Modifier					

Month	Oil Production	Gas Production	Prod GOR	Gas Flared	Adjusted MRL	Monthly Over Production	Monthly Penalty	Cumulative OP Status	BWR	Daily MRL	Counter	GOR Penalty	Base GOR
2014-10													
2014-11													
2014-12													
2015-01													
2015-02													
2015-03													
2015-04													
2015-05													
2015-06													
2015-07	1222.0	212.2	174	3.4	1240.0	-18.0		-18.0	8.0	20.0	11	1.00	300
2015-08	944.4	162.6	172	6.7	1240.0	-295.6		-313.6	8.0	20.0	12	1.00	300
2015-09	999.5	175.6	176	2.9	1200.0	-200.5		-514.1	8.0	20.0	13	1.00	300
2015-10	1305.6	239.0	183	5.2	1240.0	65.6		-448.5	8.0	20.0	14	1.00	300
2015-11	475.7	90.2	190	0.0	480.0	-4.3			8.0	8.0	21	1.00	300
2015-12	495.8	88.8	179	2.2	496.0	-0.2			8.0	8.0	22	1.00	300

Figure 2. Allowable record for a horizontal well

2.4 Other MRL Considerations

- 2) A New Well Base MRL (O-38) Application form must be submitted with at least 30 days of production being reported in Petrinex. In the case of horizontal wells, the form must be submitted unless the entire length of the horizontal section is within the existing AER pool order, which are published, updated monthly, and found in the AER order system on AER’s website. If a new primary well is being drilled into a pool for which only an enhanced recovery mechanism is listed in the MRL order, a new well base MRL (O-38) application is required.

- 3) As of October 15, 2015, the AER will assign GPP status for new pools through the new well base MRL (O-38) approval process if gas is being conserved in accordance with *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*. Under section 10.060 of the *OGCR*, the AER is able to grant GPP on its own motion or after receiving an application filed in accordance with *Directive 065: Resources Applications for Oil and Gas Reservoirs*. However, operators must not assume GPP status except if it is specifically authorized in the MRL order. If GPP is not approved through the new well base MRL (O-38) process,

application for GPP can be made in accordance with *Directive 065: Resources Applications for Oil and Gas Reservoirs*.

- 4) For a new well to receive the MRL/GPP status prescribed for an existing EOR scheme, the well must be within the scheme's existing approval area as defined for the pool by the AER's EOR approval. To add a new well to an existing EOR approval, an application must be made to expand the scheme's approval boundaries in accordance with *Directive 065*.
- 5) If a well's fluid classification changes from gas to oil and the well is subject to an MRL, the allowable will be calculated from the effective date of the status change.
- 6) GPP will normally be granted to wells within the approval area of a new EOR scheme provided that injection is planned to begin within three months of the approval date.
- 7) The AER will evaluate and designate the well to an existing or new pool with an O-38 application disposition letter or email. If an applicant does not agree with the AER pool designation, a pool delineation application may be submitted in accordance with *Directive 065: Resources Applications for Oil and Gas Reservoirs*.

If the correct pool code is not recorded in Petrinex by the licensee when placing the well on production, it may remain undefined for an extended period in the AER system. The pool code will be amended either through a new well base MRL (O-38) application or upon review by the AER.

3 Penalties

3.1 Gas-Oil Ratio Penalty

GOR penalties are applied to production entities when the producing GOR exceeds the base GOR. They are imposed to limit production primarily to optimize oil and gas conservation. The base GOR is prescribed in column 6 of appendix I to the MRL order for nonconfidential pools and the new well base MRL (O-38) application disposition letter for confidential pools.

Base GOR Calculation

The base GOR is determined from the formula below, as set out in Schedule 6 of the *OGCR*:

$$\text{Base GOR (m}^3\text{/m}^3\text{)} = R_{si} + 1.67 \left(\frac{P_b + 101.325}{T + 273.15} \right)$$

where R_{si} = initial solution GOR

P_b = bubble point pressure

T = reservoir temperature

The reservoir parameters used in the formula are determined from pressure volume temperature (PVT) analysis, when available, or from Standing's Correlation.

GOR Penalty Factor Calculation

The GOR penalty factor is calculated as the base GOR divided by the producing GOR. The GOR penalty factor is equal to 1.0 when the produced GOR is less than or equal to the base GOR. This penalty factor is then multiplied by the base MRL to determine the adjusted MRL. (Note that the AER reports gas production in units of 10^3 m^3 and oil in units of m^3 .)

For example, using the production data below, calculate the GOR penalty factor as follows:

$$\text{Base MRL (given)} = 10 \text{ m}^3/\text{d}$$

$$\text{Monthly base MRL (given)} = 300 \text{ m}^3, \text{ based on a 30-day month}$$

$$\text{Base GOR} = 130 \text{ m}^3/\text{m}^3$$

$$\text{Monthly oil production} = 290 \text{ m}^3$$

$$\text{Monthly gas production} = 53.7 \text{ m}^3 \text{ m}^3$$

$$\text{Produced GOR} = \frac{\text{Gas production}}{\text{Oil production}} = \frac{53.7 \text{ } 10^3 \text{ m}^3}{290.0 \text{ m}^3} = 185 \text{ m}^3/\text{m}^3$$

$$\text{GOR penalty factor} = \frac{\text{Base GOR}}{\text{Produced GOR}} = \frac{130 \text{ m}^3/\text{m}^3}{185 \text{ m}^3/\text{m}^3} = 0.70$$

$$\text{Adjusted MRL} = \text{monthly base MRL} \times \text{GOR penalty factor}$$

$$= 300.0 \text{ m}^3/\text{month} \times 0.70$$

$$= 210.0 \text{ m}^3 \text{ for the month}$$

3.1.1 Applying the GOR Penalty Factor to the Base MRL

The adjusted MRL for a given month is calculated using the GOR penalty factor from the third preceding month. This enables operators to forecast future months' allowables using available production data. For example, when calculating the penalized MRL for April, use the GOR penalty factor from the January production data. If there is no production in the third preceding month (January), use the second preceding month (February). If there is no production in the second preceding month (February), use the first preceding month (March). Use the current month's GOR penalty factor against that month and the following three months if there has been no production over the previous three months or if the production entity is subject to any of the following changes:

- a change in the base GOR

- the commencement of gas conservation for pools subject to net GOR penalty relief
- the first month after NOWPP
- the first month after production test
- the formation of a new block
- a GPP or net GOR penalty relief that has been rescinded or expired

If an entity has been shut in to retire overproduction and the cumulative overproduction status has not been reduced to zero by the end of the third consecutive shut-in production month, then from the fourth consecutive shut-in month and thereafter, retirement will be calculated at the unpenalized MRL (i.e., no GOR penalty).

3.1.2 Net GOR Penalty Relief

Where gas is conserved and upon successful application, the AER may grant relief from GOR penalties based on net gas production. Application for net GOR penalty relief is made under section 10.060 of the *OGCR* in accordance with *Directive 065*.

If net GOR penalty relief is granted, the net produced GOR is calculated on the volume of gas flared and vented, not on the month's total gas production. If the net produced GOR is less than the base GOR, the net GOR penalty factor is equal to 1.0.

$$\text{Net produced GOR} = \frac{\text{Gas flared + vented}}{\text{Oil production}}$$

$$\text{Net GOR penalty factor} = \frac{\text{Base GOR}}{\text{Net produced GOR}}$$

Multiwell facilities must prorate the battery flared/vented volume to individual wells based on their prorated share of total battery production as reported through the volumetric submission to Petrinex.

$$\text{Well's gas flared/vented} = \frac{\text{Well's gas production (total battery flared + vented)}}{\text{Total battery gas production (includes other receipts)}}$$

3.2 Off-Target Penalty

When a well is completed outside its prescribed target area, an off-target penalty factor may be imposed against the base MRL. The following conditions apply to off-target penalties:

A well licensee is responsible for the surveillance of any well that may be drilled off-target towards its wells. An off-target penalty will be assessed upon successful application from another well licensee in accordance with section 4.060 of the *OGCR*.

If a well is spudded on or after April 1, 1994, and is the first well in a pool, off-target penalties are not applied. For oil wells, the “first well” is the well in a pool with the earliest spud date and which was placed on production within six months of its spud date (sections 4.060(5) and (6) of the *OGCR*).

The off-target penalty factor (as described in Schedule 14 of the *OGCR*) is always applied to the base MRL first, followed by any applicable GOR penalties.

- 8) Off-target penalties may be applied during NOWPP.
- 9) The off-target penalty factor cannot reduce the base MRL below 5.0 m³/d.
- 10) For GPP pools, the AER determines the rate against which to apply the off-target penalty based on the reported capability of the offending and other wells in the pool.

Off-target penalties in effect for pools on GPP status are listed in clause 5 and for MRL pools in clause 8 of appendix II of the MRL order or in an AER letter of disposition.

When an off-target penalty is removed from a production entity in an MRL pool, the entity must continue to produce under normal MRL administration and not GPP.

Upon successful application for removal of the off-target penalty of an entity in a GPP pool, any outstanding cumulative overproduction must be retired at the good production practice retirement rate (GRR) (see section 5.2).

MRL Calculation for an Off-Target Well

For example, using the data below, calculate the adjusted MRL for an off-target well with the applicable GOR penalty factor as follows:

$$\text{Daily based MRL} = 10.0 \text{ m}^3/\text{d}$$

$$\text{Off-target penalty factor} = 0.25$$

$$\text{GOR penalty factor} = 0.60$$

$$\text{Number of days in the month} = 31$$

$$\text{Monthly base MRL} = \text{Daily base MRL} \times \text{number of days in the month}$$

$$= 10.0 \text{ m}^3/\text{d} \times 31 \text{ d}/\text{mo}$$

$$= 310.0 \text{ m}^3/\text{mo}$$

Monthly off-target adjusted MRL = the greater of the monthly base MRL \times off-target penalty factor

or $5.0 \text{ m}^3/\text{d} \times$ number of days in the month

= the greater of $310.0 \text{ m}^3 \times 0.25 = 77.5 \text{ m}^3$

or $5.0 \text{ m}^3/\text{d} \times 31 \text{ d}/\text{mo} = 155.0 \text{ m}^3/\text{mo}$

Adjusted MRL = off-target adjusted MRL \times GOR penalty factor

= $155.0 \text{ m}^3/\text{mo} \times 0.60$

= 93.0 m^3 for the month

4 Blocks

Blocks are producing entities containing wells with contiguous drilling spacing units (DSUs) of common ownership. Blocks require demonstration of improved oil recovery under primary depletion. They are administered and produced as single production entities for the purpose of allowables. Operators must apply for block status in accordance with Part 5 of the *OGCR*.

The daily base MRL for each block is listed in clause 9 of appendix II to the MRL order each month. To obtain the monthly base MRL for a block, the daily base MRL is multiplied by the number of days in the month and then reduced by any applicable penalties, as described in section 3. The producing GOR for the block is calculated based on the total monthly gas production of all the wells divided by the total oil production. When a block is established, the cumulative overproduction of each well included in the block at the end of the month preceding the formation of the block is carried forward into the block.

For a change in owner or operator of a block, a transfer of approval form, as set out in appendix D of *Directive 065*, must be submitted. If ownership in a block is no longer common, an application must be submitted to rescind or amend the block approval.

4.1 Oil Control Wells

An oil control well is defined as a well capable of producing oil that is within a block and is completed in a DSU contiguous to a DSU containing a producing well outside the block (clause 5(i) of section 1.020(2) of the *OGCR*).

Control well status is imposed in accordance with section 10.170(1) of the *OGCR* upon written request. In the event of a control well being off target, the off-target penalty factor is applied against the block allowable and against the control well. In blocks, the control well rate is equal to that assigned to other wells outside the block as prescribed in the MRL order.

5 Overproduction

The MRL system is administered to preserve conservation and equity within a pool and to provide a level playing field for all operators. The AER considers overproduction to be any production in excess of the adjusted MRL for a production entity. The AER recognizes that minor overproduction may occur from time to time and therefore does not assess a penalty if overproduction is less than 10 per cent of the adjusted MRL. Overproduction is the sum of the previous and the current month's overproduction, including any penalty.

11) To discourage overproduction, the AER applies an overproduction penalty to any production entity if the overproduction exceeds 10 per cent of its adjusted MRL. Furthermore, to promote timely retirement of overproduction, the AER requires that all cumulative overproduction exceeding 10 per cent of a production entity's adjusted MRL must be retired (reduced to zero status) by the end of the third month following the first month of overproduction.

Overproduction is retired by producing less than the adjusted MRL or shutting in the well in the months following overproduction. Note that underproduction in any month is used to offset the previous month's cumulative overproduction status. However, underproduction may not be carried forward for use in later months, except during NOWPP.

5.1 Overproduction Penalty

A 50 per cent overproduction penalty is assessed each month that the monthly overproduction exceeds 10 per cent of the adjusted MRL. This penalty is calculated as 50 per cent of the difference between the reported monthly production and 110 per cent of the adjusted MRL. All cumulative overproduction, including penalties, must be retired within three months once overproduction exceeds 10 per cent of the adjusted MRL.

Overproduction Penalty Calculation

Using the following data from the allowable record shown in figure 3:

$$\text{Monthly oil production} = 309.3 \text{ m}^3$$

$$\text{Monthly adjusted MRL} = 240.0 \text{ m}^3$$

Calculate the monthly overproduction penalty as follows:

$$\begin{aligned} \text{Monthly overproduction} &= \text{monthly production} - \text{adjusted MRL} \\ &= 309.3 \text{ m}^3 - 240.0 \text{ m}^3 \\ &= 69.3 \text{ m}^3 \end{aligned}$$

$$110\% \text{ of adjusted MRL} = \text{adjusted MRL} \times 1.1$$

$$= 240.0 \text{ m}^3 \times 1.1$$

$$= 264.0 \text{ m}^3$$

$$\text{Overproduction penalty} = (\text{Production} - 110\% \text{ of adjusted MRL}) \times 0.5$$

$$= (309.3 \text{ m}^3 - 264.0 \text{ m}^3) \times 0.5$$

$$= 22.7 \text{ m}^3$$

Using the following data from the same figure:

$$\text{Prior cumulative status} = 15.5 \text{ m}^3 \text{ (August 2015)}$$

$$\text{Monthly overproduction} = 69.3 \text{ m}^3$$

The cumulative status for September 2015 is calculated as follows:

$$\text{Cumulative status} = \text{Prior cumulative status} + \text{monthly overproduction} + \text{overproduction penalty}$$

$$= 15.5 \text{ m}^3 + 69.3 \text{ m}^3 + 22.7 \text{ m}^3$$

$$= 107.5 \text{ m}^3$$



Allowable Record
December 2015

Well Identifier 00/01-01-001-01W5/0		Field Code 0998	Pool Code 000098	Pool Type 00	Project 000	Block 000	Base GOR 80	Off-Target Penalty 0.0000	Horizontal Well Modifier 1.0	Operator 0000
Production Date 2015-03	Months Over 4	Net GOR Penalty Relief N		Confidential N	Remarks EXAMPLE - Overproduced Well					

Month	Oil Production	Gas Production	Prod GOR	Gas Flared	Adjusted MRL	Monthly Over Production	Monthly Penalty	Cumulative OP Status	BWR	Daily MRL	Counter	GOR Penalty	Base GOR
2014-10													
2014-11													
2014-12													
2015-01													
2015-02													
2015-03	352.4	6.9	20	6.9	620.0	-267.6		-267.6	8.0	20.0	11	1.00	80
2015-04					0.0	0.0		-267.6	8.0	20.0	11	1.00	80
2015-05	323.8	6.2	19	6.2	620.0	-296.2		-563.8	8.0	20.0	12	1.00	80
2015-06	342.3	6.1	18	6.1	600.0	-257.7		-821.5	8.0	20.0	13	1.00	80
2015-07	305.0	3.3	11	3.3	620.0	-315.0		-1136.5	8.0	20.0	14	1.00	80
2015-08	263.5	3.4	13	3.4	248.0	15.5		15.5	8.0	8.0	21	1.00	80
2015-09	309.3	6.7	22	6.7	240.0	69.3	22.7	107.5	8.0	8.0	22	1.00	80
2015-10	265.8	5.8	22	5.8	248.0	17.8		125.3	8.0	8.0	23	1.00	80
2015-11	285.2	6.5	23	6.5	240.0	45.2	10.6	181.1	8.0	8.0		1.00	80
2015-12	232.3	4.9	21	4.9	248.0	-15.7		165.4	8.0	8.0		1.00	80

Figure 3. Allowable record with overproduction calculation

5.2 GPP Retirement Rate (GRR)

When a change in the pool’s MRL administration has been approved, any outstanding overproduction must be retired at the new pool allowable. If GPP status is approved, retirement of any outstanding overproduction is at the GRR of the individual overproduced production entity commencing with the month GPP is approved.

GRR Calculation

The GRR is the greater of the MRL or the average operating-day rate of the production entity during the months overproduced. GOR penalties are not assessed when retiring the overproduction under the GRR.

For example, using the following data from the allowable record in figure 3:

Base MRL = 8.0 m³/d

Months overproduced = August – November

Production (August–November) = 263.5 m³ + 309.3 m³ + 265.8 m³ + 285.2 m³
= 1123.8 m³

Producing hours (August–November) = 684 + 720 + 704 + 720 = 2828 hours
(as reported in the volumetric submission to Petrinex)

GPP Granted = January 2016

The GRR would be calculated as follows:

$$\begin{aligned} \text{GRR} &= \frac{\text{Production from months overproduced}}{\text{Producing hours from the months overproduced}} \times 24 \text{ hours/day (hr/d)} \\ &= \frac{1123.8 \text{ m}^3}{2828 \text{ hours}} \times 24 \text{ hr/d} \\ &= 9.5 \text{ m}^3/\text{d} \end{aligned}$$

If a well is overproduced during its NOWPP, the GRR is calculated based on the months the well’s cumulative production exceeds the total NOWPP allowable. For example, using the data from the allowable record in figure 4:

Total NOWPP allowable = 2400.0 m³

NOWPP months = August, September, October, November

$$\begin{aligned} \text{Cumulative production (August–November)} &= 500 \text{ m}^3 + 800 \text{ m}^3 + 800 \text{ m}^3 + 1500 \text{ m}^3 \\ &= 3600 \text{ m}^3 \end{aligned}$$

Month that cumulative production exceeds the total NOWPP allowable (2400 m³) = November

GPP granted = December

November production = 1500 m³

November hours = 720 (as reported in the volumetric submission to Petrinex)

The GRR for a well within NOWPP is calculated as follows:

$$\begin{aligned} \text{GRR} &= \frac{\text{Production from month in which cumulative production exceeds NOWPP allowable}}{\text{Producing hours from the month in which cumulative production exceeds NOWPP allowable}} \times 24 \text{ hr/d} \\ &= \frac{\text{November production}}{\text{November hours}} \\ &= \frac{1500 \text{ m}^3}{720 \text{ hours}} \times 24 \text{ hr/d} \\ &= 50.0 \text{ m}^3/\text{d} \end{aligned}$$



Allowable Record
December 2015

Well Identifier 00/01-01-001-01W6/0	Field Code 0998	Pool Code 000098	Pool Type 00	Project 000	Block 000	Base GOR 0	Off-Target Penalty 0.0000	Horizontal Well Modifier 1.0	Operator 0000
Production Date 2015-08	Months Over 0	Net GOR Penalty Relief N	Confidential N	Remarks EXAMPLE - NOWPP overproduced well subject to GRR					

Month	Oil Production	Gas Production	Prod GOR	Gas Flared	Adjusted MRL	Monthly Over Production	Monthly Penalty	Cumulative OP Status	BWR	Daily MRL	Counter	GOR Penalty	Base GOR
2014-10													
2014-11													
2014-12													
2015-01													
2015-02													
2015-03													
2015-04													
2015-05													
2015-06													
2015-07													
2015-08	500.0	50.0	100	0.0	620.0	-120.0		-120.0	8.0	20.0	11	1.00	150
2015-09	800.0	78.0	98	0.0	600.0	200.0		80.0	8.0	20.0	12	1.00	150
2015-10	800.0	81.0	101	0.0	620.0	180.0		260.0	8.0	20.0	13	1.00	150
2015-11	1500.0	150.0	100	0.0	600.0	900.0		1160.0	8.0	20.0	14	1.00	150
2015-12					1550.0	-1550.0			8.0	50.0	21	1.00	0

Figure 4. Allowable record with GRR calculation under NOWPP

5.3 Cumulative Overproduction

Using the data within figure 3, the following example illustrates how an overproduced well exceeding 10 per cent of the adjusted MRL is required to retire overproduction by the end of the third month following the first month of overproduction:

Production month	Status	Months overproduced	Cumulative overproduction status	Comments
August 2015		0	15.5 m ³	Well cumulative status (15.5 m ³) is <10% of the adjusted MRL of 248.0 m ³ , or 24.8 m ³ .
September 2015	Notification	1	107.5 m ³	Well cumulative overproduction status is >10% of the adjusted MRL of 224.0 m ³ or 22.4 m ³ . All overproduction must be retired within three months (December 31, 2015). If cumulative overproduction status is not at zero status, then well must be shut in by January 1, 2016.

Production month	Status	Months overproduced	Cumulative overproduction status	Comments
December 2015	Notice of noncompliance (shut in)	4	165.4 m ³	Well cumulative overproduction not retired by December 31, 2015.

5.4 Allowable Record

The AER maintains an allowable record for each production entity on MRL. Terms of an allowable record are described in table 4. This record should be used as a basis for comparison with the operator's own records. An operator is responsible for correctly maintaining allowable records for the wells it operates. Allowable records for all nonconfidential production entities are available to the public from AER Information Distribution Services (call 1-855-297-8311 [toll free] or email [InformationRequest@aer.ca](mailto:InformationRequest@ aer.ca)). Allowable records for all confidential production entities are available to the current operator (the company reporting the production data in Petrinex).

Table 4. Terms on an allowable record

Terms	Definitions
Horizontal well modifier (HWM)	HWM is a factor assigned to the MRL of a horizontal well. For vertical wells, the HWM is shown as 1.0.
Operator	Code of the operator of the production entity and one who is responsible for any overproduction. For allowable purposes, operator is the company reporting the production data.
Production date	The earlier of the well's on-production date as specified on the well status change in Petrinex or the date of first production.
Months over	Number of months the cumulative overproduction status exceeds 10% of its adjusted MRL or when overproduction is not retired after exceeding 10% of the adjusted MRL.
Net GOR penalty relief	GOR penalty relief, where the GOR penalty is based only on the flared/vented gas volumes.
Confidential	Confidential status of the well.
Gas flared	Volume of gas flared or vented.
Adjusted MRL	Monthly MRL for the production entity after all applicable penalties.
Monthly overproduction	Difference between the adjusted MRL and oil production.
Monthly penalty	Penalty assessed on overproduction exceeding 10% of the monthly adjusted MRL.
Cumulative overproduction status	Sum of previous and current month's overproduction, including any penalty.
Counter	Code in the Allowable Record for AER use for calculation of the adjusted MRL.
GOR penalty	Penalty factor assessed against the base MRL when an entity's producing GOR exceeds the base GOR.

5.5 Waiver of Overproduction

The AER may grant a waiver of overproduction in unique situations if an operator can demonstrate in writing that retiring the overproduction would compromise conservation. Direct requests for waivers of overproduction to the AER.

6 New Oil Well Production Period

NOWPP provides new oil wells with operational flexibility to gather production data on new wells subject to the following conditions:

- NOWPP consists of the first four producing months and commences with either the first month in which there is new oil production or the on-production month reported through the well status change in Petrinex, whichever occurs first.
- Base MRL during NOWPP is the greater of 20.0 m³/d or the reserve-based MRL.
- NOWPP is considered as a single production period for overproduction administration, meaning that underproduction may be carried forward within NOWPP.
- NOWPP expires one year from the on-production month.
- GOR and overproduction penalties are not applied during NOWPP; however, any overproduction incurred during this period must be retired.
- Off-target penalties may be applied during NOWPP.
- The GOR of the first producing month after the expiration of NOWPP is used to determine the GOR penalty factor for that month and the following three months.
- New wells completed within a block are not eligible for NOWPP.
- Upon written notification to the AER, shut-in months within NOWPP may be counted as producing months to reduce overproduction.
- For horizontal wells producing under NOWPP, the MRL is the product of the MRL and the HWM.
- Upon written request to the AER, the AER may delay the commencement of NOWPP if an oil well is flaring for the purpose of testing, cleanup, or completion to obtain data for economic evaluation and for sizing equipment at new oil batteries. Flaring must be in the first month of production and should not exceed a total of 72 hours, in accordance with *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*. The well must remain shut in after the 72-hour test until the gas is tied in and conserved. These requests will only be considered after the gas is being conserved.

7 Gas Allowables

A gas well is normally permitted to produce unrestricted and in accordance with good engineering practices. However, there are three situations when the AER may issue a gas allowable (GA) order for the purpose of setting the maximum cumulative gas production or gas production rate for a gas well or wells in a pool:

- when the ultimate recovery of gas may be adversely affected by unrestricted production rates (section 10.300(1) of the *OGCR*)
- when a gas well is completed outside of its prescribed target area and upon successful application from an offsetting operator to apply an off-target penalty to the well's base allowable (section 4.070(1) of the *OGCR*)
- when the AER has approved a fractional section as a DSU and there is a need to apply an area-ratio production penalty or off-target penalty for equity reasons (section 4.050 of the *OGCR*)

If a well is spudded on or after April 1, 1994, and is the first well in a pool, off-target penalties are not applied. For gas wells, the “first well” is the well in a pool with the earliest spud date that is completed and for which a suitable test has demonstrated that the well has the ability to produce gas at commercial rates on a sustained basis (sections 4.060(5) and (6) of the *OGCR*).

Section 10.095 of the *OGCR* designates that the base allowable for a gas well is its maximum daily allowable (Q_{\max}). The calculation of Q_{\max} is explained in section 10.300(1)(c) of the *OGCR*. Penalties are applied against the well's Q_{\max} and an annual allowable is assigned based on this Q_{\max} and the number of days in the allowable year or remaining in the allowable year.

The assigned allowable for an off-target gas well, fractional section DSU, or wells in a pool for conservation reasons is effective the date given in the disposition letter. Allowables assigned by letter are coalesced into a GA order issued each year in January and updated quarterly throughout the allowable year. The penalty factor and Q_{\max} for confidential wells will be assigned by disposition letter only.

- 12) An annual pressure survey must be submitted by November 1 for an allowable to be assigned for the following allowable period (commencing January 1). Failure to submit a pressure test by November 1 will result in the assignment of an allowable of zero for the next allowable period.

To discourage overproduction, the AER applies a penalty to any gas well if the cumulative overproduction exceeds 10 per cent of a well's allowable. If a well is overproduced, the AER will increase the overproduction status by an amount equal to 0.5 times the overproduction in excess of 10 per cent of the allowable. The overproduction status of a well is determined after the production data for the month of December have been filed with the AER. The allowable calculated for the next allowable period will then be adjusted to reflect the overproduction and any overproduction

penalty from the previous allowable period. The penalized allowable will be communicated by letter to licensees of overproduced wells after the annual GA order is issued.

If, due to changes in the *OGCR*, a gas well that was previously off target and subject to penalties is no longer off target, the licensee may apply in accordance with section 3.6 of *Directive 065* to have the off-target penalty removed, provided that all cumulative overproduction has been retired.

The gas well licensee is required to shut in wells once the annual gas allowable has been reached. Wells that overproduce their annual assigned gas allowable will be given notice by the AER requiring immediate shutting in of the well. Failure to shut in the well after receiving an AER notice will result in a regulatory response pursuant to the *OGCR*, section 10.280(3). Wells that overproduce must remain shut in until all overproduction including penalties has been retired.

Direct any questions concerning gas allowables to the AER Customer Contact Centre at 1-855-297-8311 (toll free).

Overproduction Penalty Calculation for a Gas Well

The overproduction penalty for the end of the accounting period is calculated as follows:

$$\text{Annual allowable} = 25\,000.0 \times 10^3 \text{ m}^3$$

$$\text{Annual production} = 35\,000.0 \times 10^3 \text{ m}^3$$

$$\begin{aligned} \text{Overproduction} &= \text{production} - \text{allowable} \\ &= 35\,000 \times 10^3 \text{ m}^3 - 25\,000 \times 10^3 \text{ m}^3 \\ &= 10\,000 \times 10^3 \text{ m}^3 \end{aligned}$$

$$\begin{aligned} \text{Production subject to penalty} &= \text{overproduction} - 10\% \text{ allowable } (25\,000 \times 10^3 \text{ m}^3) \\ &= 10\,000 \times 10^3 \text{ m}^3 - 2\,500 \times 10^3 \text{ m}^3 \\ &= 7\,500 \times 10^3 \text{ m}^3 \end{aligned}$$

$$\begin{aligned} \text{Penalty} &= \text{production subject to penalty} \times 0.5 \\ &= 7\,500 \times 10^3 \text{ m}^3 \times 0.5 \\ &= 3\,750 \times 10^3 \text{ m}^3 \end{aligned}$$

$$\begin{aligned} \text{Status at next accounting period} &= \text{overproduction} + \text{penalty} \\ &= 10\,000 \times 10^3 \text{ m}^3 + 3\,750 \times 10^3 \text{ m}^3 \\ &= 13\,750 \times 10^3 \text{ m}^3 \end{aligned}$$

Appendix 1 Glossary

adjusted maximum rate limitation (MRL) or allowable	The MRL of production for a production entity after penalty factors have been applied.
base maximum rate limitation (base MRL)	The amount of production that, according to an AER order, can be taken prior to any applicable penalty factors being assessed.
base gas-oil ratio (base GOR)	<p>Defined in Schedule 6 of the <i>OGCR</i> (excerpted below).</p> $\text{Base GOR} = R_{si} + 1.67 \frac{P_b \text{ (kPa)}}{T \text{ (K)}}$ <p>Rounded to nearest 10 m³/m³</p> <p>R_{si} is the initial solution GOR rounded to the nearest m³/m³</p> <p>P_b is bubble point pressure rounded to the nearest 10 kPa</p> <p>T is the reservoir temperature rounded to the nearest 0.5 Kelvin</p> <p>- the minimum base GOR shall be 70 m³/m³.</p>
block	An area or part of a pool consisting of wells grouped for the purpose of obtaining a common aggregate production allowable.
cumulative overproduction status	The sum of all previous months' overproduction plus the current month's overproduction, including any penalty.
enhanced oil recovery (EOR) approval area	The area of a pool recognized as being operated under enhanced oil recovery.
gas allowable	The maximum cumulative gas production that, according to an AER order, could be taken in the prescribed time period.
gas-oil ratio (GOR)	The monthly gas production divided by the monthly oil production.
gas-oil ratio penalty factor (GOR penalty factor)	The base GOR divided by the produced GOR.
good production practice (GPP)	When production is not governed by a base allowable but is conducted in accordance with sound engineering principles.
good production practice retirement rate (GRR)	The rate at which overproduction is retired once GPP is approved.

horizontal well modifier (HWM)	A factor greater than 1.0 that is assigned to a horizontal well and applied to the base MRL.
licensee	For gas allowable purposes, the licensee is defined as the well licensee that is responsible for the overproduction.
net gas-oil ratio (net GOR)	The ratio of monthly volume of gas flared and/or vented divided by oil production.
net gas-oil ratio penalty factor (net GOR penalty factor)	The base GOR divided by the net GOR.
off target	A well that is completed outside its target area prescribed in the <i>OGCR</i> .
off-target penalty factor	A factor less than 1.0 that is applied against the base MRL for an off-target well.
operator	For oil allowable purposes, the operator is considered the party reporting the production data to Petrinex and is responsible for the overproduction.
overproduction	Any production in excess of the adjusted MRL.
preliminary rate limitation (PRL)	The initial determination of a pool's base MRL based on pool reserves.
Q_{\max}	The maximum daily allowable of a gas well, determined in accordance with section 10.300 of the <i>OGCR</i> , that is used to calculate the maximum cumulative production for a penalized gas well.
target area	The part of a drilling spacing unit (DSU) within which a well may be completed for the purpose of producing oil or gas without reducing its allowable because of its location.