



## **INFORMATIONAL LETTER IL 82-13**

7 April 1982

To: All Oil, Gas, and Oil Sands Operators

### **OFF-TARGET PENALTY FACTORS FOR EXPLORATION WELLS**

In August 1981 the Energy Resources Conservation Board issued Decision 81-20, which brought about a shift of the standard target area for oil wells to the northeast corner of the quarter section. The objective was to reduce the impact of drilling operations on agricultural lands. The possibility of shifting standard gas well targets to the extreme northeast part of the section was also considered but rejected. Among other things, Decision 81-20 resulted in a reduced common target area for one-section gas wells in relation to quarter-section oil wells. The Board, however, undertook to re-examine alternative means of alleviating the special problem for exploration wells caused by the reduced common target area.

The Board has reviewed this matter in some detail and concludes that any policy allowing automatic waiver of off-target penalty factors for exploration wells would be administratively complex considering the increasing numbers of small pools being discovered. Such a policy would also potentially cause serious and frequent disputes between operators as to what properly constitutes a discovery well for a particular zone. The Board therefore considers the proposal quite impractical and discards it.

The Board points out, however, that there are other means by which the desire for common oil and gas target areas for exploratory wells can be accommodated. For instance, an operator planning an exploratory well may apply, under the Oil and Gas Conservation Regulations, for the establishment of a special drilling spacing unit with a target area of his own specification. Moreover, the Board's routine administrative procedures provide for automatic suspension of off-target penalty factors for all single-well pools. They also provide for removal of off-target penalty factors upon written request for multi-well pools that have common ownership. The Board believes that the combination of these options considerably mitigates the problem of reduced common target areas for oil and gas wells referred to above.

Sometimes, operators are faced with the prospect of locating an exploration well outside the normal target area, in order to satisfy a landowner. In such cases, the Board urges the operator to discuss the problem with offset mineral owners with a view to reaching an agreement on the location of the well before starting to drill. In this respect, the Board would expect that valid reasons could be put forward for removing an off-target penalty factor where a reasonable balance has been drawn between concerns of the landowner, off-set mineral owner, and hydrocarbon recovery objectives.

This completes the undertaking by the Board set out in Section 4.4.4, "Impact on Flexibility in

Exploration", of Decision 81-20.

Further inquiries concerning this subject may be directed to Mr. John Nichol, Development Department, telephone 261-8283, telex 03-821717.

*signed by*

N. A. Strom  
Board Member