

PART III

UNREVISED REGULATIONS OF SASKATCHEWAN

SASKATCHEWAN REGULATIONS 80/94

The Crown Minerals Act

Section 22

Order in Council 780/94, dated November 23, 1994

(Filed November 24, 1994)

Title

1 These regulations may be cited as *The Petroleum and Natural Gas Amendment Regulations, 1994*.

Sask. Reg. 8/69 amended

2 "The Petroleum and Natural Gas Regulations, 1969", being Saskatchewan Regulations 8/69, are amended in the manner set forth in these regulations.

Section 2 repealed

3 Section 2 is repealed.

Section 3 amended

4 Section 3 is amended:

(a) by adding the following clauses after clause (i):

"(i.1) '**horizontal section**' means the portion of a wellbore:

(i) with an angle of at least 80°, measured between the line connecting the initial point of penetration into the productive zone and the end point of the wellbore in the productive zone and the line extending vertically downward from the initial point of penetration into the productive zone; and

(ii) with a minimum length of 100 metres, measured from the initial point of penetration into the productive zone to the end point of the wellbore in the productive zone;

"(i.2) '**horizontal well**' means:

(i) a well with a horizontal section, including any subsequent horizontal sections drilled in the same zone, that is approved as a horizontal well by an order of the minister pursuant to section 17.1 of *The Oil and Gas Conservation Act*; or

(ii) any other well approved by the minister as a horizontal well";

(b) by adding the following clause after clause (m):

"(m.1) '**vertical well**' means a well that is not a horizontal well"; **and**

(c) by adding the following clause after clause (n):

"(o) '**wellbore**' means an artificial opening in the ground other than a seismic shot hole or structure test hole".

Section 3.1 repealed

5 Section 3.1 is repealed.

Section 13 amended

6 Subsection 13(6) is amended by striking out “a eight kilometres by eight kilometres” and substituting “an eight kilometre by eight kilometre”.

Section 39.02 amended

7 Paragraph 39.02(a)(ii)(B) is amended by striking out “section 63A” and substituting “*The Crown Oil and Gas Royalty Regulations*”.

Section 39.1 repealed

8 Section 39.1 is repealed.

Section 43 amended

9 Subsection 43(2) is amended:

- (a) by striking out “or” after clause (c);
- (b) by striking out “or” after clause (d); and
- (c) by adding the following after clause (e):

“(f) if the compensatory royalty payments are being made pursuant to subsection 52.1(1) respecting a location designated by the minister pursuant to subsection 52(2) on the leased lands, for that portion of the leased lands in the surveyed section containing the location; or

“(g) if access to the lease lands has been denied by:

- (i) an action of a government agency or a member of the Executive Council for environmental, regulatory or jurisdictional reasons; or
- (ii) an action of the beneficial owner of the surface rights of the area overlying the lease lands where those surface rights are not subject to *The Surface Rights Acquisition and Compensation Act*”.

New section 50

10 Section 50 is repealed and the following substituted:

What lease conveys

“**50** Subject to these regulations, each lease, unless otherwise specifically provided for in the lease, grants to the lessee the exclusive right, licence, privilege and authority to search, dig, bore and drill for oil and gas within the lands described in the lease and to win, get, recover, procure, carry away, dispose of and sell the oil and gas found within those lands”.

New sections 52 and 52.1

11 Section 52 is repealed and the following substituted:

Offset obligation

“**52(1)** If the lands covered by a lease adjoin lands that are not Crown mineral lands and the adjoining lands contain a vertical well or any portion of the horizontal section of a horizontal well producing oil or gas from a zone or formation to which the lease applies, the lessee, within one year after receiving a written notification from the minister or any other person authorized by the minister, shall be required to comply with an offset obligation to:

- (a) commence drilling a well on the location designated by the minister to a depth sufficient to test that producing zone or formation;

- (b) pay to the Crown a compensatory royalty in accordance with section 52.1; or
 - (c) surrender to the Crown the drainage unit on which the well is required pursuant to clause (a), including all the zones or formations covered by the lease except any zone or formation with respect to which oil or gas is being produced by the lessee to the satisfaction of the minister.
- (2) For the purposes of subsection (1), a location designated by the minister must be:
- (a) a lateral location on the lands covered by the lease in the case of spacing areas of one-quarter, one, four or 16 legal subdivisions;
 - (b) a diagonal location on the lands covered by the lease in the case of spacing areas of one-half, two or eight legal subdivisions; or
 - (c) a lateral location or a diagonal location on the lands covered by the lease in special circumstances.
- (3) For the purposes of subsection (1), a written notification addressed to the lessee at the last known address on record in the department is deemed to have been received by the lessee within three days after the notification is mailed.
- (4) Notwithstanding subsection (1), where an application for relief from an offset obligation is submitted in writing and supported by necessary maps, reports and other pertinent information, the minister, under special circumstances, may cancel that obligation.

Calculation of compensatory royalty

“52.1(1) For the purposes of clause 52(1)(b), the compensatory royalty is equal to the amount of the royalty that would be payable pursuant to *The Crown Oil and Gas Royalty Regulations* as if:

- (a) in the case of a vertical well creating the offset obligation, the oil and gas produced from the vertical well were actually produced from a vertical well on the location designated by the minister;
- (b) in the case of a horizontal well creating the offset obligation, the percentage A, calculated in accordance with the following formula, of oil and gas produced from the horizontal well were actually produced from a vertical well on the location designated by the minister:

where: $A = \frac{L}{T} \times 100$

L is the length of the portion of the horizontal well:

- (i) that is located within the drainage unit creating the offset obligation; and
- (ii) that is, in the opinion of the minister, capable of producing oil or gas; and

T is the portion of the total length of the horizontal well that is, in the opinion of the minister, capable of producing oil or gas;

- (c) Parts III and VI of *The Crown Oil and Gas Royalty Regulations* did not exist; and
 - (d) the well-head value of the oil or gas is the fair value determined by the minister.
- (2) The royalty payable to the Crown is to be based on the production from the well creating the offset obligation with respect to which a written notification was first given pursuant to subsection 52(1).
- (3) Notwithstanding subsection (2), the minister may give written notification to a lessee that the royalty payable to the Crown is to be based on the production from a well other than the well for which notification was first given.
- (4) The minister may exempt any lessee from the payment of compensatory royalty for a specified period”.

Section 56.1 amended

12(1) Subsection 56.1(1) is amended:

- (a) in clause (b) by striking out “clause 57(b)” and substituting “*The Crown Oil and Gas Royalty Regulations*”;
 - (b) in clause (c) by striking out “clause 57(c)” and substituting “*The Crown Oil and Gas Royalty Regulations*”; and
 - (c) in clause (d) by striking out “clause 58B(1)(t)” and substituting “Part IV of *The Crown Oil and Gas Royalty Regulations*”.
- (2) **Subsection 56.1(2) is amended:**
- (a) by striking out “Crown acquired” and substituting “Crown-acquired”; and
 - (b) by striking out “clause 58B(1)(d)” and substituting “Part IV of *The Crown Oil and Gas Royalty Regulations*”.
- (3) **Subsection 56.1(3) is amended by striking out “sections 57 to 67” and substituting “*The Crown Oil and Gas Royalty Regulations*”.**

Sections 57 to 63D repealed

13 Sections 57 to 63D are repealed.

New heading

14 The following heading is added before section 64:

“PART VI
General”.

Section 64 amended

15 Subsection 64(3) is repealed.

Section 67 repealed

16 Section 67 is repealed.

Heading struck out

17 The heading preceding section 68 is struck out.

Schedule D amended

18 Sub-item 3(1) of Form E of Schedule D is amended by striking out “but not all of the Crown disposition named” and substituting “but not all of the Crown dispositions named”.

Schedules F to I repealed

19 Schedules F to I are repealed.

Coming into force

20(1) Subject to subsection (2), these regulations come into force on the day on which they are filed with the Registrar of Regulations, but are retroactive and are deemed to have been in force on and from January 1, 1994.

(2) Sections 3, 6, 10, 14, 17 and 18 of these regulations come into force on the day on which they are filed with the Registrar of Regulations.

SASKATCHEWAN REGULATIONS 81/94

The Crown Minerals Act

Section 22

Order in Council 781/94, dated November 23, 1994

(Filed November 24, 1994)

Title

1 These regulations may be cited as *The Helium and Associated Gases Amendment Regulations, 1994*.

Sask. Reg. 559/64 amended

2 The Helium and Associated Gases Regulations, 1964, being Saskatchewan Regulations 559/64, are amended in the manner set forth in these regulations.

Section 2 repealed

3 Section 2 is repealed.

Section 3 amended

4 Subsection 3(1) is amended:

(a) by adding the following clause after clause (c):

“(c.1) ‘**Crown lands**’ means Crown minerals and Crown mineral lands that consist of helium or associated gases”;

(b) by adding the following clause after clause (g):

“(g.1) ‘**royalty payer**’ means a person who owns a working interest”; **and**

(c) by adding the following clause after clause (h):

“(i) ‘**working interest**’ means an interest acquired pursuant to a Crown lease, including an interest acquired from the person who is the holder of the Crown lease, where the interest:

(i) entitles a person to share in the helium and associated gases produced from or allocated to the Crown lands that are the subject of the lease or in the proceeds from the disposition of the helium and associated gases; and

- (ii) requires a person to bear or contribute to the costs associated with producing helium and associated gases from or allocated to the Crown lands that are the subject of the lease”.

New section 34

5 Section 34 is repealed and the following substituted:

Royalties

“34(1) In this section:

(a) **‘allowable transportation expenses’** means:

(i) transportation expenses actually incurred by the royalty payer in transporting helium and associated gases to the delivery point specified in an arm’s-length agreement for sale of the helium and associated gases; and

(ii) any other reasonable expenses that are approved by the minister as allowable transportation expenses;

(b) **‘SRC’** means the Saskatchewan Resource Credit, which equals one percentage point.

(2) Subject to subsection (3), the well-head value of helium and associated gases is the amount by which the price of that helium and any associated gases, expressed in dollars per thousand cubic metres, received by a royalty payer pursuant to the first arm’s-length agreement for the sale of helium and associated gases exceeds allowable transportation expenses, expressed in dollars per thousand cubic metres, respecting that helium and any associated gases.

(3) The well-head value of helium and associated gases is the fair value determined by the minister in circumstances where:

(a) the minister is satisfied that there is no agreement for the sale of the helium and associated gases or that no arm’s-length transaction has occurred;

(b) there is a consideration for the sale of helium and associated gases in addition to or instead of the price specified in an arm’s-length agreement; or

(c) the minister believes that one of the purposes of a transaction evidenced by an agreement for sale of the helium and associated gases is to reduce, unduly or artificially, the liability of a royalty payer to pay royalty on the production of helium and associated gases.

(4) For the purposes of these regulations, persons do not deal at arm’s length with each other if they would not be considered as dealing at arm’s length pursuant to the *Income Tax Act* (Canada).

(5) The royalty excepted and reserved and the payments to be made respecting helium and associated gases that are produced from or allocated to any Crown lands on or after January 1, 1994 is to be determined for each well, for each month, by:

(a) determining the Crown royalty share of helium and associated gases produced from a well for the month by applying a rate equal to the amount by which 5% exceeds the SRC to the total monthly production of helium and associated gases allocated to Crown lands and produced from the well for the month;

- (b) determining each royalty payer's share of the Crown royalty share, as determined pursuant to clause (a), of the helium and associated gases allocated to Crown lands and produced from the well for the month by applying the royalty payer's proportionate share to the Crown royalty share; and
 - (c) calculating the payment required to be made by each royalty payer for the month respecting helium and associated gases allocated to Crown lands and produced from the well for the month by applying the royalty payer's well-head value for the month, as determined pursuant to subsections (2) and (3), to the royalty payer's share of the Crown royalty share as determined pursuant to clause (b).
- (6) Royalty payments calculated pursuant to clause (5)(c) must be remitted to the minister on or before the last day of the month following the end of the month for which those royalties are calculated.
- (7) Every remittance made pursuant to subsection (6) is to be:
- (a) accompanied by a return in a form acceptable to the minister; and
 - (b) directed to the minister at the offices of the department at Regina".

Coming into force

6 These regulations come into force on the day on which they are filed with the Registrar of Regulations, but are retroactive and are deemed to have been in force on and from January 1, 1994.

