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## INFORMATIONAL NOTICE 13-07 – December 20, 2013

### Manitoba Drilling Incentive Program Revisions

The Manitoba Drilling Incentive Program (MDIP) has been revised and extended for the period January 1, 2014 to December 31, 2018. The Department would like to thank the Canadian Association of Petroleum Producers and the Explorers and Producers Association of Canada for their participation in the working group which reviewed this program. The revised program has recognized key investment strategies proposed by the group and has kept Manitoba competitive for new oil and gas investment.

Individual components of MDIP have been changed as follows:

Previous MDIP Components	New MDIP Components
New Well Incentive	Vertical Well Incentive
Deep Drilling Incentive	Exploration and Deep Well Incentive
Horizontal Well Incentive	Horizontal Well Incentive with changes
Horizontal Well Drainage Units	Horizontal Well Drainage Units (unchanged)
Marginal Well Major Workover Incentive	Marginal Well Major Workover Incentive with changes
Injection Well Incentive	Pressure Maintenance Project Incentive
Holiday Oil Volume Account	Eliminated
	Solution Gas Conservation Incentive (new)
	Minimum Crown Royalty and Production Tax (new)

### **1. Vertical Well Incentive**

The Vertical Well Incentive replaces the previous New Well Incentive. Under the Vertical Well Incentive a newly drilled, vertical development or exploratory well drilled less than 1.6 kilometres from the nearest well cased for production from the same or a deeper zone, earns a holiday oil volume (HOV) of 500 m<sup>3</sup>.

### **2. Exploration and Deep Well Incentive**

The Exploration and Deep Well Incentive replaces the existing Deep Drilling Incentive. Under the Exploration and Deep Well Incentive a newly drilled exploratory well or deep development well earns a HOV as follows:

- (a) Non-deep exploratory well drilled more than 1.6 kilometres from a well cased for production from the same or a deeper zone earns a HOV of 4,000 m<sup>3</sup>;
- (b) Deep exploratory well drilled below the Birdbear Formation earns a HOV of 8,000 m<sup>3</sup>; and
- (c) Deep development well completed for production in the Birdbear or deeper formation earns a HOV of 8,000 m<sup>3</sup>.

The Exploration and Deep Well Incentive is designed to encourage exploration for and development of new oil pools in Manitoba and to encourage drilling below the Three Forks Group (Bakken-Torquay Formation), to evaluate the potential of Manitoba's deeper formations productive in other parts of the Williston Basin. The offset distanced to qualify as an exploratory well is 1.6 km. Horizontal exploratory wells qualify for the Horizontal Well Incentive.

### **3. Horizontal Well Incentive**

The Horizontal Well Incentive is continued but the HOV earned by a newly drilled horizontal well is now 8,000 m<sup>3</sup>.

The Horizontal Well Incentive recognizes the higher costs and risks associated with horizontal well drilling and completion, and provides companies with upfront Crown royalty and production tax relief to help facilitate the recovery of investment costs.

### **4. Horizontal Well Drainage Units**

MDIP continues the use of horizontal well drainage units to allocate production from a horizontal well for the purpose of calculating Crown royalty and production tax. A horizontal well drainage unit includes all spacing units located within 100 m of the completed interval of the horizontal well.

### **5. Marginal Well Major Workover Incentive**

The Marginal Well Major Workover Incentive now applies to wells making less than 3 m<sup>3</sup> and has been expanded to include horizontal legs. The qualifying minimum investment level for workovers has been raised to \$75,000. The incentive provides 500 m<sup>3</sup> of holiday oil.

The HOV earned under the Marginal Well Major Workover Incentive will be added to a well's remaining HOV. This is a new feature of the incentive that recognizes that companies may wish to workover a horizontal well before it has produced the HOV earned under the Horizontal Well Incentive.

#### **6. Pressure Maintenance Project Incentive**

The Pressure Maintenance Project Incentive (PMPI) replaces the existing Injection Well Incentive. The PMPI will provide a 12 month exemption from the payment of Crown royalty or production tax on production allocated to a unit tract in which a well is drilled or converted to injection of water or another substance in an approved new or modified pressure maintenance project. If a well is placed on injection before it has produced its HOV and within 5 years of the finished drilling date of the well, the exemption period will be extended to 18 months.

The PMPI exemption applies, for a vertical injection well, to the unit tract in which the well is located; and for a horizontal injection well to a maximum of four unit tracts within the drainage unit of the well. The PMPI exemption will be applied to all eligible unit tracts within the approved pressure maintenance project or unit area.

In order to further encourage companies to implement pressure maintenance projects, no Crown royalty and production tax is payable during the 12 -18 month exemption period and incremental recoverable reserves attributed to the project will continue to be classified as third tier oil for the calculation of Crown royalty and production tax. These additional features of the incentive are designed to ensure that implementation of pressure maintenance projects are not deferred until wells have produced their HOV.

In order to recognize the higher investment, operating costs and risks associated with a project of enhanced oil recovery (EOR) other than waterflood projects, companies may apply under subsection 189(2) of *The Oil and Gas Act* and subsection 2(2) of *The Oil and Gas Production Tax Act* for a variation or waiver of Crown royalty and/or production tax for EOR projects.

#### **7. HOV Production Period**

HOV earned under the new MDIP must be produced within 10 years of the finished drilling date of a newly drilled well, or the completion date of a major workover.

#### **8. Holiday Oil Volume Account**

Holiday Oil Volume Accounts (HOV Account) will be phased out by January 1, 2015. Until then companies will be able to assign a one-time maximum of 2,000 m<sup>3</sup> of HOV from their HOV Account to vertical or horizontal wells drilled between January 1, 2014 and December 31, 2014. Effective January 1, 2014, companies will no longer be able to assign HOV from a well to their HOV Account or transfer holiday oil to another company.

#### **9. Solution Gas Conservation Incentive**

The Department has introduced a new Solution Gas Conservation Incentive under which no

Crown royalty or production tax is payable on gas captured from new solution gas conservation projects initiated and approved by the Director after December 31, 2013. The exemption from the payment of Crown royalty or production taxes will apply from the project implementation date to December 31, 2018.

The new Solution Gas Conservation Incentive is designed to improve the economics of solution gas conservation projects and reduce the amount of gas flared and vented in Manitoba. In conjunction with the introduction of this incentive, the Department will be requesting companies review the feasibility of implementing solution gas conservation at their batteries.

#### **10. Minimum Crown Royalty and Production Tax**

MDIP implements a new minimum crown royalty rate of 3.0% and a minimum production tax rate of 1.0% payable during producing of HOV for wells drilled after December 31, 2013 and prior to January 1, 2019. The minimum Crown royalty and production tax rates apply during the production of HOV earned from the drilling of new wells and well which have earned a marginal well major workover incentive during the period January 1, 2014 to December 31, 2018.

The royalty payable is the lesser of the amount the well would have paid if a well was not producing holiday volume compared to the corresponding rates of 3% for a royalty or 1% for a freehold production tax.

As previously noted no crown royalty or production tax is payable for new wells drilled after December 31, 2013 and prior to January 1, 2019 that are receiving a Pressure Maintenance Project Incentive. However all wells receiving this incentive do count down holiday oil volumes during the incentive period.

For additional information on how the components of MDIP are applied please refer to the document *MANITOBA FISCAL REGIME* located at <http://www.manitoba.ca/iem/petroleum/regime/index.html>

Questions regarding the new MDIP may be directed to Keith Lowdon, Director, Petroleum Branch at [keith.lowdon@gov.mb.ca](mailto:keith.lowdon@gov.mb.ca).

Sincerely,



Keith Lowdon  
Director