
Waterflood Development Program

Information Circular PR-IC14

November 26, 2019

Version 1.0

Governing Legislation:

Acts: *The Crown Minerals Act*

Regulations: *The Waterflood Development Program Regulations*

Record of Change

Revision	Date	Description
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1. Introduction

This Information Circular has been prepared by the Ministry of Energy and Resources (ER) to explain the policies and procedures which are used to administer the Waterflood Development Program (WDP). Reference should be made to the Acts and Regulations for an exact statement of the law. In case of a conflict between this Information Circular and the provisions of the Acts and Regulations, the Acts and Regulations will govern. This Information Circular has no legal force or effect.

2. Definition of terms in this Circular

Accrued Interest means the interest on a repayable royalty credit that has accumulated since the repayable royalty credit has been applied against a royalty/tax invoice.

Applicant means a licensee of a qualifying waterflood injection well that has submitted a WDP application.

Holder of Credits means a qualifying applicant or an elected repayable royalty credit assignee whose application for a repayable royalty credit has been approved.

Repayable Royalty Credit means a credit amount that is issued under the WDP and must be repaid pursuant to *The Waterflood Development Program Regulations*.

Repayable Royalty Credit Assignee means the licensee or royalty payer who has been assigned repayable royalty credits by a WDP applicant.

Royalty/tax invoice means the invoice of crown royalties, freehold production tax, and recovered crude oil.

Royalty Credit Project means a generic royalty credit project created in the Integrated Resource Information System (IRIS) for the purpose of administering and applying the assigned repayable royalty credits.

Unadjusted Licensee Liability Rating (LLR) means the LLR before a security deposit has been submitted.

Unpaid Royalty Credits means the amount of repayable royalty credits that have been applied against an invoice and have not been repaid.

Waterflood project means a waterflood project approved by the Resource Management Branch of the Energy Regulation Division pursuant to section 17 of *The Oil and Gas Conservation Act*.

3. Approval Process for WDP Applications

3.1 Eligible Wells under the WDP

In order for an injection well to qualify for the WDP, the well must be approved to be part of a [waterflood project](#) and have first injected water on or after January 1, 2019, and before April 1, 2024, and has never been an injection well prior to the well commencing injection of water for the purpose of waterflooding.

3.2 Application Process

An application for approval under the WDP can be submitted to PetroleumRoyalties@gov.sk.ca. The WDP application form can be found on the [Crown Royalty and Freehold Production Tax Programs and Payments](#) webpage.

Once approved, a WDP royalty credit project will be created in IRIS to facilitate and track the credits being claimed.

3.3 Maximum Repayable Credits

The maximum repayable royalty credit amount for eligible wells are as follows:

- Drilling a new dedicated horizontal injection well - \$1,000,000.
- Drilling a new dedicated vertical injection well - \$500,000.
- Converting a vertical or horizontal production well to an injection well - \$500,000.

An applicant can request a repayable royalty credit of lesser value during the WDP application submission. Once approved, the repayable royalty credit amount for that approved injection well is final and that well cannot be used again in future WDP applications.

3.4 Assignment of Repayable Credits

At the time of application, the applicant can elect to assign all of the repayable royalty credits to a repayable royalty credit assignee. This allows a licensee, who may not have a monthly royalty/tax invoice, to assign the credits to an affiliated royalty payer.

Once approved, the repayable royalty credit cannot then be transferred or claimed by an alternate licensee or royalty payer.

4. Financial Stress Test

As part of every WDP application review process, ER will conduct a financial stress test assessment. The WDP financial stress test includes four principal measures that must be met for the applicant to be eligible under the program.

To qualify for the WDP, an applicant must pass the following set of criteria at the time of application:

1. The applicant does not have outstanding debts that are past due to ER;
2. The applicant has a License Liability Rating (LLR) of 2.0 or greater as established by ER;
3. The applicant's cumulative value of outstanding royalty deferrals does not exceed 30% of the applicant's average monthly value of oil production; and,
4. The Minister may request any additional information to further assess the applicant's financial position.

Additional information may be attached to the WDP application to justify or request an exception to the qualifying criteria.

4.1 Outstanding Debts

To be eligible for the program, the licensee and/or the repayable royalty credit assignee must not have any outstanding debts that are past due to ER. These debts include any unpaid invoices related to all ER Acts and Regulations.

4.2 Licensee Liability Ratio (LLR)

To be eligible for the program, the licensee and/or the repayable royalty credit assignee must have an unadjusted LLR of 2.0 or higher. Licensees with affiliated Business Associate (BA) codes must use an aggregated LLR value to determine their eligibility. The calculation and justification of the aggregated LLR value should be provided as an additional attachment when the application is submitted.

4.3 Value of Production

This portion of the WDP financial stress test limits the cumulative value of WDP outstanding royalty deferrals to 30% of a company's average monthly value of oil production using their most recent six-month rolling average. An applicant's average monthly value of production must be greater than the sum of the requested repayable royalty credit amount and any other unpaid royalty credits.

Licensees with affiliated BA codes should use an aggregated value of production. The calculation and justification of the aggregated value of production should be provided as an additional attachment when the application is submitted.

Company Name	Monthly Value of Production	30% of Value of Production	Total Eligible Wells (@ \$500,000)
Company A	\$10,500,000	\$3,150,000	6
Company B	\$4,900,000	\$1,470,000	2
Company C	\$1,200,000	\$360,000	0

4.4 Request for Additional Information

This portion of the WDP financial stress test allows the Minister to require any company applying to the program to provide any additional information to help ensure the applicant is suitable for participation in the WDP.

5. Interest Rate

The annual interest rate applied to all unpaid repayable royalty credits will be the prime lending rate of the bank holding the Government of Saskatchewan’s general revenue fund. The interest rate will be determined on June 15th and December 15th of each year with the rate applying to all unpaid royalty credits after July 1st and January 1st, respectively.

The calculation of interest on unpaid royalty credits will be based on simple interest. Simple interest is calculated only on the principal amount of the royalty credit and not on the interest that is accumulated or compounded.

The interest rate schedule will be posted on the [Waterflood Development Program](#) webpage.

6. Claiming Repayable Credits

Upon approval, a Royalty Credit project will be created in IRIS which will allow repayable royalty credits to be automatically applied against the total amount owing by the holder of credits on the next royalty/tax invoice provided.

If the amount of credits exceeds the amount owing in the royalty/tax invoice, the credits that have not been applied will be applied against each subsequent royalty/tax invoice until all credits have been applied.

If a holder of credits holds royalty credits from other ER programs such as the *Saskatchewan Petroleum Innovation Incentive (SPII)* or the *Oil and Gas Processing Investment Incentive (OGPII)*, the credits with the earliest expiry date will be the first to be applied against the royalty/tax invoices. Royalty credits under the WDP, SPII, and OGPII, expire on March 31 2030, March 31 2035, and March 31 2035, respectively. ER will allow the holder of credits to submit a request for the WDP credits to be placed on hold to allow SPII and OGPII credits to be claimed first.

7. Repayment of Credits

The unpaid royalty credits that remain in the 36th month after being applied must be repaid in a maximum of 10 consecutive equal monthly payments plus accrued interest with the first payment due in the 37th month after the repayable credit is applied. If repayable credits are applied over multiple royalty/tax invoices, each royalty/tax invoice creates its own repayment schedule with the 10 monthly payments starting 37 months after being applied.

Repayable royalty credits and accrued interest may also be repaid at any time after the repayable credit has been applied and before the end of the scheduled 10 monthly payments.

All outstanding unpaid repayable royalty credits and accrued interest are due on the program end date of March 31, 2030.

8. Additional Information

8.1 Important Dates

The repayable royalty credit will be applied to the first available royalty/tax invoice following the approval of the repayable royalty credit. The amount of royalty credit claimed each month will depend on the amount due in the royalty/tax invoice and if there are any outstanding royalty credits from other approvals that have yet to be claimed.

The royalty/tax invoice schedule can be found on the [Petrinex website](#).

Appendix A: Waterflood Development Program Application Form

Petroleum Royalties Group
11th Floor, 1945 Hamilton Street
Regina, SK S4P 2C8
Phone: (306) 787-2517 | Fax: (306) 787-2198

Waterflood Development Program Application Form

Part I - Injection Well - General Information

Licensee Name _____ Licence Number _____

Licensee IRIS BA Code _____

UWI

LX	LSD	SEC	TWP	RGE	M
			D		W

Part II - Repayable Royalty Credit Information

Requested Repayable Royalty Credit Amount \$.00
(Maximum \$1,000,000 for dedicated horizontal injection wells or \$500,000 for all other injection wells)

Repayable Royalty Credit Assignee Name (Optional) _____

Repayable Royalty Credit Assignee IRIS BA Code (Optional) _____

Part III - Disclosure Questions

- 1) Has the subject injection well received approval under an existing Waterflood Project?
Waterflood Authorization # _____ Yes No
- 2) Did the subject injection well commence injection on or after January 1, 2019? Yes No
- 3) Does the Licensee have an Licensee Liability Rating (LLR) of at least 2.0? Yes No
- 4) Does the Licensee or Assignee have outstanding debts to the Ministry of Energy and Resources? Yes No
- 5) Is 30% of the Licensee's average monthly value of production in Saskatchewan greater than the sum of the requested repayable royalty credit amount and any other outstanding repayable royalty credits? Ex: Production Value * 0.30 > Repayable Royalty Credit Amount Yes No

Part IV - Optional Attachments

1) Additional Supporting Information (Optional)

Part V - Contact Information

By signing below, I hereby certify that the application form and the attached supporting documentation is complete and accurate. If the application is found to be incomplete or inaccurate, I acknowledge that the Ministry of the Energy and Resources will discard the application after notifying me of the deficiencies and that I will be required to submit a new application.

Contact Name

Email Address

Phone Number

Signature of applicant

Waterflood Development Application Form (November 2019)

saskatchewan.ca



Waterflood Development Program Application Form Instructions

The following instructions are provided as an aid to those intending to apply for the Waterflood Development Program. Please be advised that these are solely intended as a general reference guide to complete the application form and are to be used in conjunction with the existing legislation.

Part I - Injection Well - General Information	
License Number	The License number of the injection well being applied for under the WDP.
Licensee Name	The name of the Licensee of the injection well.
Licensee IRIS BA Code	The 5-digit IRIS BA Code of the Licensee.
UWI	The UWI location of the well (example 191/01-01-001-01 W2M)
Part II - Repayable Royalty Credit Information	
Requested Repayable Royalty Credit Amount	The repayable royalty credit amount being requested. An applicant is eligible for a maximum of \$500,000 for a vertical injection well, \$500,000 for a horizontal well converted to an injection well, and \$1,000,000 for a horizontal well drilled for the purpose of injecting water as part of a waterflood project.
Repayable Royalty Credit Assignee Name (Optional)	At the time of application, the licensee (applicant) can elect to assign all of the repayable royalty credits to another licensee or royalty payer. This allows a licensee, who may not have a monthly royalty/tax invoice, to assign the credits to an affiliated royalty payer.
Repayable Royalty Credit Assignee IRIS BA Code (Optional)	The 5-digit IRIS BA Code of the Assignee.
Part III - Disclosure Questions	
1) Has the subject injection well received approval under an existing Waterflood Project?	Waterflood approval under the Oil and Gas Conservation Act is required for the well to be eligible under the WDP. The authorization number associated with the waterflood approval is required as confirmation of Waterflood approval.
2) Did the subject injection well commence injection after January 1, 2019?	Eligible wells must have first injected water on or after January 1, 2019, and before April 1, 2024, and have never been an injection well before the well commences injection of water for the purpose of waterflooding.
3) Does the Licensee have an Licensee Liability Rating (LLR) of at least 2.0?	To be eligible for the program, the licensee and/or the repayable royalty credit assignee must have an LLR of 2.0 or higher.
4) Does the Licensee or Assignee have outstanding debts to the Ministry of Energy and Resources (MER)?	To be eligible for the program, the licensee and/or the repayable royalty credit assignee must not have any outstanding royalties and taxes, oil and gas well levy, orphan fund, crown land sales, or IRIS non-compliance debts that are past due to the Ministry of Energy and Resources.
5) Is 30% of the Licensee's average monthly value of production in Saskatchewan greater than the sum of the requested repayable royalty credit amount and any other outstanding repayable royalty credits? Ex: $Production\ Value * 0.30 > Repayable$	For the most recent 6 months of reported production, the average monthly value of production must be greater than the sum of the requested repayable royalty credit amount and any other outstanding repayable royalty credits. For example, if your monthly value of production is \$700,000 you would be eligible for one well with a deferral amount of \$500,000. You would not be eligible for approval of an additional well under the WDP unless your original deferral is re-paid or your monthly value of production exceeds \$1,000,000.
Part IV - Optional Attachments	
Additional Information (Optional)	Additional information can be attached to justify or request an exception to the qualifying criteria (disclosure questions).
Part V - Contact Information	
Company Contact	The contact person must be able to answer technical questions regarding the application should the Ministry require clarification.
Telephone Number	The number the contact can be reached at should the Ministry require clarification when reviewing the application.
Email Address	The email address the contact can be reached at should the Ministry require clarification when reviewing the application.

FOR FURTHER INFORMATION, PLEASE CONTACT:

The Ministry of Energy and Resources

Energy Policy Branch - Petroleum Royalties Group

1000, 2103 11th Avenue

Regina, Saskatchewan S4P 3Z8

Email: ER.servicedesk@gov.sk.ca

Or Phone: 1 (855) 219-9373