

October 26, 2001

MINERAL RIGHTS INFORMATION BULLETIN 2001-02

SUBJECT: PETROLEUM AND NATURAL GAS TENURE REVIEW

On March 28, 2001, the Department of Energy released Mineral Rights Information Bulletin 2001-1 for industry review and comment. With a view to obtaining additional feedback on the proposed tenure changes, it was decided to provide industry with another forum to provide comments. The May 24, 2001 Alberta Petroleum and Natural Gas Tenure Information Exchange was organized for this purpose with the assistance of CAPL and CAPLA.

A total of 126 industry personnel attended the Information Exchange and provided valuable additional comments.

The Petroleum and Natural Gas Tenure Review Advisory Committee, representing the ministry and four industry associations, has been provided a copy of the feedback received and has been made aware of the department's position on each of the tenure issues.

The result is the following contemplated changes to the petroleum and natural gas tenure rules. The changes are listed according to when the changes may be implemented, starting from immediate policy changes to long term (that will require changes to the *Mines and Minerals Act* and associated regulations).

Note: *Any reference to sections in the headings that follow is a cross-reference to the sections identified in Mineral Rights Information Bulletin 2001-1 issued on March 28, 2001.*

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1.0 Policy Changes

1.1 Use of Re-entry Wells as Grouping Wells (*Section 3.1*)

The department noted the strong support for this policy change and has implemented the change.

The drilling of the well must also comply with the provisions of Section 9(1)(b) of the *Petroleum and Natural Gas Tenure Regulation*.

1.2 Other Validating Wells as Grouping Wells (*Section 3.2*)

To be consistent with the policy of permitting the use of re-entry wells for grouping purposes (refer to Section 1.1 of this Information Bulletin), the department now accepts grouping applications where the well is drilled outside the location of a petroleum and natural gas licence in a spacing unit only part of which is in the location of the licence (refer to Attachment 1). The well must also comply with the remaining provisions of Section 9(1)(c) of the *Petroleum and Natural Gas Tenure Regulation*.

1.3 Off-Location Wells (*Section 3.3*)

The type of off-location well contemplated here is one that is entirely outside any spacing unit that contains any portion of a petroleum and natural gas licence (refer to Attachment 2).

Following the receipt of the feedback from the March 28th proposal, there was considerable internal departmental discussion. The result was that the department decided to drop the change originally outlined in the proposal and to present the following change at the May 24th Information Exchange:

Permit off-location wells as validating a petroleum and natural gas licence only in those situations where the following applies:

- There is no suitable surface location on the licence, or
- The drilling of the on-location well would cause irreparable environmental damage.
- Drilling of the well must meet the provisions of Section 9(2) of the *Petroleum and Natural Gas Tenure Regulation*.

The department feels that the use of newer drilling technologies such as directional and horizontal drilling minimizes the need to permit off-location wells. Most licences should be accessible using current technology.

Because of the nature of the petroleum and natural gas rights acquisition process, there is a need to have the drilling commitment fulfilled.

There was strong industry support for this new change from attendees at the May 24th Information Exchange.

2.0 Regulation Changes

2.1 Offset Notice Period (*Section 2.1*)

The department felt that the proposed increase of the notice period from 3 months to 6 months was sufficient due to the following:

- Most of the freehold rights are found in the Plains Region, which is generally accessible year-round.
- For those companies that have actively pursued the drilling of a Crown well to satisfy the offset obligation and have run out of time due to unforeseen circumstances, there may be an opportunity for relief through application for an extension to the original notice period.
- The 6-month notice period occurs after the initial period of well confidentiality under the Alberta Energy and Utilities Board (EUB) regulations pertaining to the freehold well has expired. The department does not serve offset notices until the freehold well is no longer held confidential.

2.2 Offset Compensation in Year One (*Section 2.2*)

The purpose of serving offset notices is to prevent the drainage of Crown rights through offsetting freehold production. Since the payment of offset compensation serves to defer the obligation to drill and produce from the same zone as the producing freehold well, the department feels that changing to the 100% offset compensation rate is appropriate. It is also in keeping with how industry fee simple owners administer their non-Crown petroleum and natural gas rights.

2.3 Simplification of Table in Schedule 2 (*Section 3.4*)

The department will proceed with this change and amend the *Petroleum and Natural Gas Tenure Regulation*.

3.0 Changes to the Act and Regulations

3.1 Trespass (*Section 4*)

The department prefers Option 2 as outlined in the original proposal for the following reasons:

- Option 2 may be more effective in acting as a deterrent to the potential instances of trespass.
- Option 2 is administratively simpler than Option 1. With the continuing high level of industry mergers and acquisitions activity, Option 1 would be more difficult to implement and maintain, both for industry and the department.

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For those instances of trespass against the Crown where production has been obtained, the department proposes to retain all the production proceeds as a

result of the trespass with no allowances for any costs incurred. The department will also continue to have the option of withdrawing or deferring sales parcels whenever strategic information appears to have been obtained as result of potential trespass.

It should be noted that the department does not intend to charge companies with trespass where mis-descriptions affect rights.

Although many Information Exchange attendees suggested that the proposed penalty of \$ 50,000 was not high enough, the department is proposing to begin with this amount and monitor the incidence rate of trespass. Should this penalty not be sufficient, the department will consider raising it to a more significant amount.

NOTE: Unlike other changes outlined in this bulletin, the implementation of this change will also require an amendment to the *Mines and Minerals Act*, which will take considerably longer than those changes that merely require an amendment to a regulation.

Should you have any questions concerning these anticipated changes, please contact:

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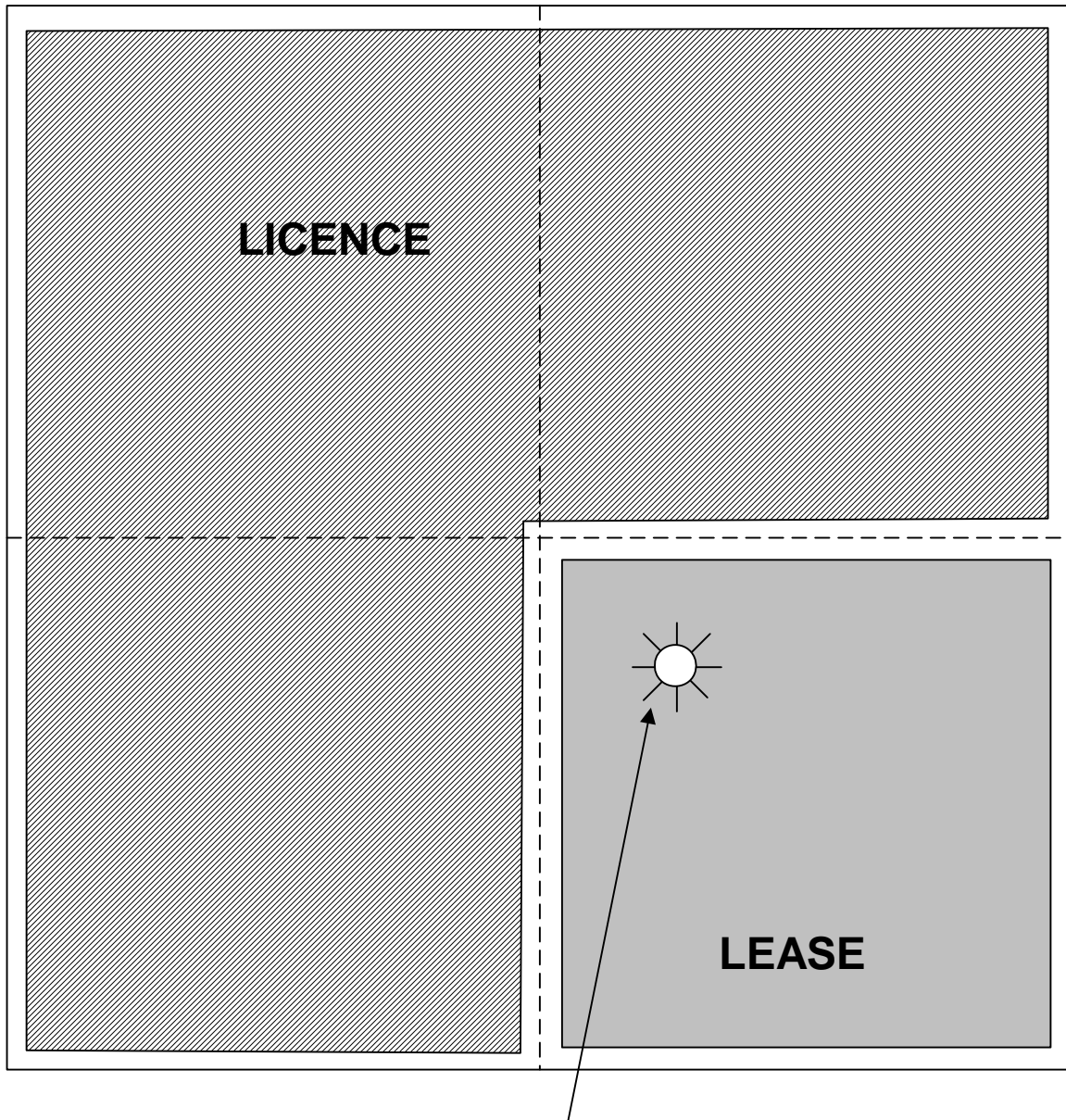
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Attachments

OFF LOCATION WELL LOCATED WITHIN SECTION

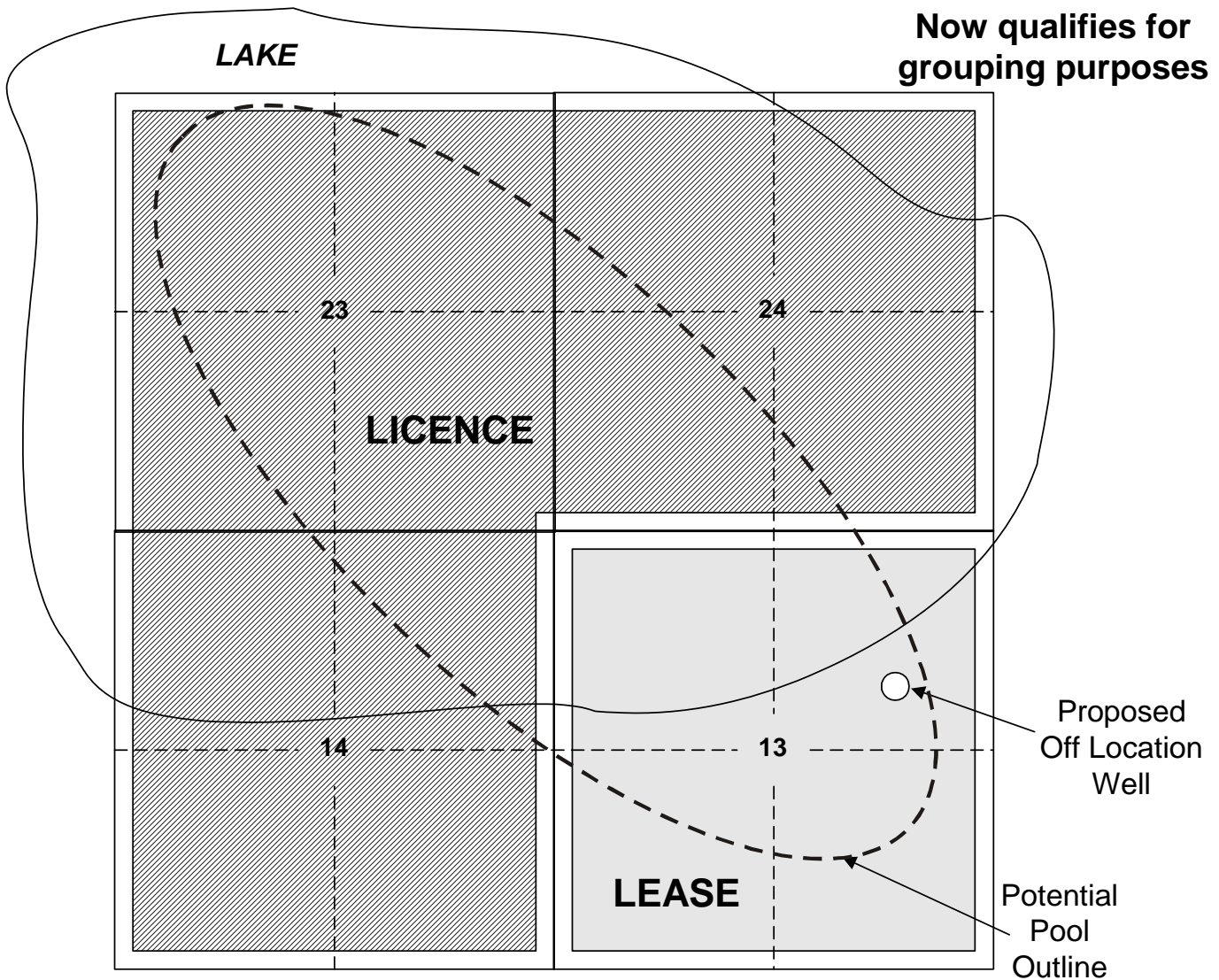
**Now qualifies for
grouping purposes**

ONE SECTION



Well in Spacing Unit of
which Licence forms part

OFF LOCATION WELL



Well qualifies for grouping if:

- Application for approval is received prior to commencement of drilling of well.
- Well evaluates rights in the licence in the opinion of the Minister, and
- Well cannot be drilled on licence due to surface conditions or environmental concerns.