

April 2, 1997

Subject: Petroleum and Natural Gas Tenure Review

For the last few months, members of the Petroleum and Natural Gas Tenure Review team have been drafting a new regulation, and designing policies and business rules. During this process, we identified a problem with the current method of posting parcels for Public Offerings (Sales).

As a result of automation, we no longer have to limit the number of parcels that can be included in one Sale. When we receive two or more requests covering some or all of the same lands, we must allocate priorities to determine the configuration of the lands and the type of agreement (lease or licence) to be issued.

The present system of allocating priorities is relatively simple to operate for any given Sale. However, it is complicated by the fact that each posting window is four weeks long, while the space between Sales is only two weeks. As a result, each Sale overlaps the one before it and the one after it by two weeks. Two posting windows are always open on any given date, and conflicts can arise when one request is superseded by another that specifies an earlier Sale date. This bulletin outlines a proposal to simplify the system and eliminate the problem.

We currently allocate priorities using the following guidelines:

1. a request received within a four-week posting window that specifies the relevant Sale date and is associated with a well drilling to evaluate the rights to be posted, is given first priority;
2. all other requests received within the same posting window and for the same Sale date are allocated a lower priority based on the date and time they are received;
3. requests for the "first available" Sale are given a priority lower than those that specify the Sale date;
4. requests received during the five days before a posting window opens and after it closes are allocated the lowest level of priority;
5. requests received more than five days outside a posting window are rejected.

We propose to make the following changes to the processing of requests for petroleum and natural gas rights:

1. eliminate overlaps by shortening the posting window for each Sale to two weeks;
2. retain the first two priority classifications described above;
3. eliminate requests for the "first available" Sale;

(This category was valid when there was a limit to the number of parcels that could be included in a Sale, and provided some flexibility in adjusting the volume of parcels in each Sale. This flexibility is no longer needed.)

4. eliminate the fourth category relating to requests received up to five days before or after a posting window.

(This category provided some flexibility when most posting requests were submitted by mail, but most are now submitted by fax.)

If we implement these proposals, we can treat each Sale as a discrete entity and process requests according to only two priority classifications. For instance, if two requests for the same lands are received for

the same Sale, the request having the higher priority will be used to determine the configuration and type of parcel. The earlier request will be allocated the higher priority unless the later request is associated with the drilling of a well. Conflicting requests for different Sales would no longer be an issue, since each Sale would be closed before any requests were processed for the following Sale.

We invite you to submit your comments and suggestions on this proposal to:

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All comments must reach us by April 18, 1997. The names of the contributors will be kept confidential, but all comments will be shared with the industry associations (Canadian Association of Petroleum Producers, Small Explorers and Producers Association of Canada, Canadian Association of Petroleum Landmen, and Canadian Association of Petroleum Land Administration).

If you require further explanation or information, please call Eugene Saldanha at 422-9426, Julie Miles at 422-9374, Paul Batke at 422-9389 or me at 422-9430.

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