



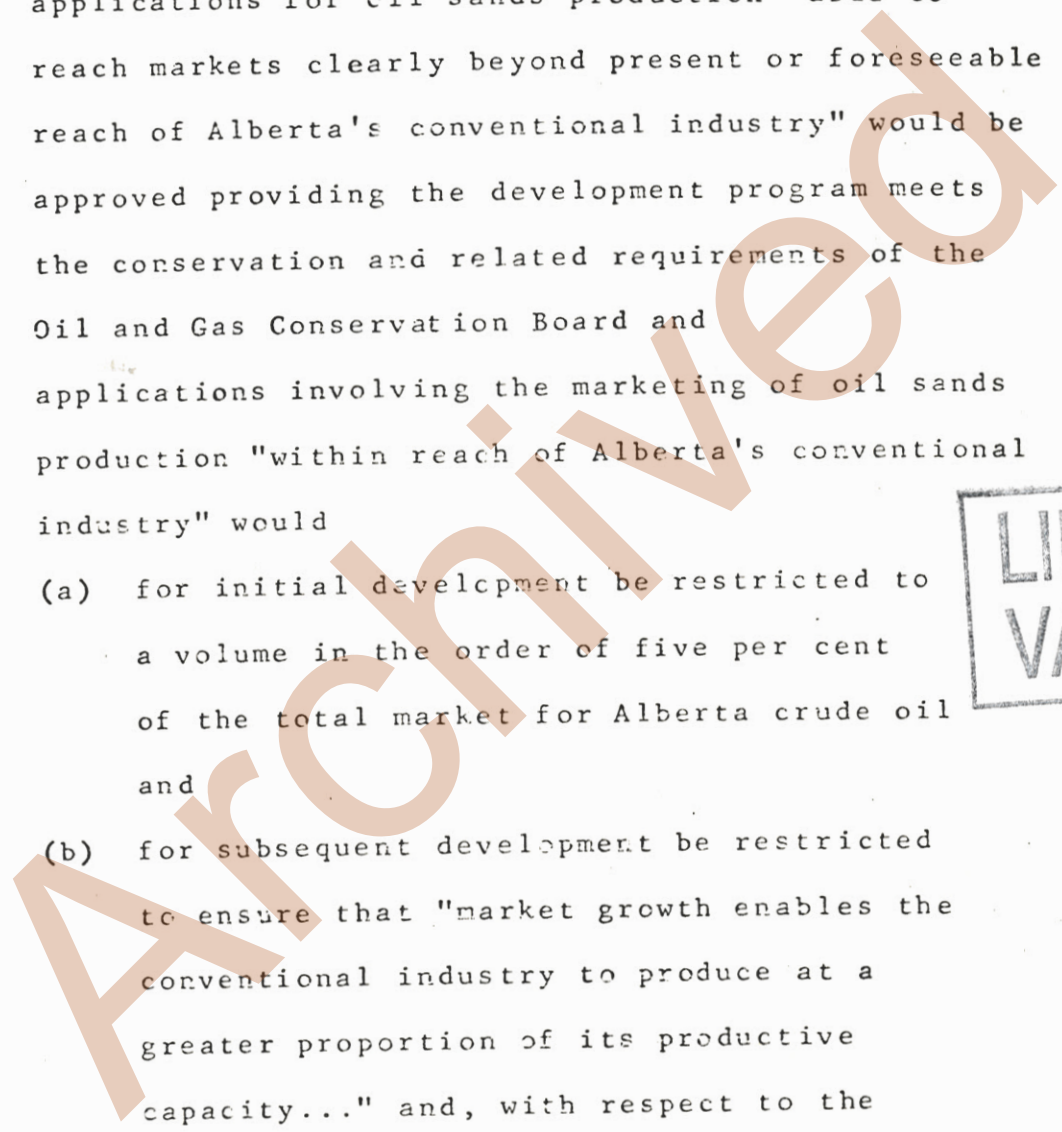
OIL SANDS DEVELOPMENT POLICY

S.P 1968/64 *



In October, 1962, the Government announced its policy for the development of the Athabasca and related oil sands. The essential features of this policy are as follows:

- (1) applications for oil sands production "able to reach markets clearly beyond present or foreseeable reach of Alberta's conventional industry" would be approved providing the development program meets the conservation and related requirements of the Oil and Gas Conservation Board and
- (2) applications involving the marketing of oil sands production "within reach of Alberta's conventional industry" would
 - (a) for initial development be restricted to a volume in the order of five per cent of the total market for Alberta crude oil and
 - (b) for subsequent development be restricted to ensure that "market growth enables the conventional industry to produce at a greater proportion of its productive capacity..." and, with respect to the scale and timing of incremental oil sands production, by relating such production to "the life index of proven reserves of conventional oil ...".



The Government's intent in the policy was to provide for the orderly development of the oil sands in such a manner as to supplement but not displace production from the conventional industry.

There have been several developments since 1962 which have had an impact on the effectiveness and the interpretation of this policy.

In 1964 the Oil and Gas Conservation Board announced the adoption of a new proration plan which has had a significant effect on the development of reserves in the conventional industry. As a result of the new plan a detailed re-appraisal of the crude oil reserves of the Province was carried out. This resulted in increases in the reserves of a number of fields, especially Pembina. The plan also has resulted in an increase in the incentive for the institution of enhanced recovery operations leading to higher crude oil recoveries.

Relatively few crude oil discoveries were made during the period immediately preceding the formulation of the Government's policy in 1962. In the subsequent years industry's exploratory efforts were more successful. In 1964 and 1965 discoveries were made in the Mitsue and Nipisi Gilwood Sand. In 1965 also the discovery in Rainbow brought about the Keg River oil play in Northwest Alberta. These latter discoveries added materially to the Province's crude oil reserves and it is expected that the Rainbow play will continue for several years.



The growth of the market for Alberta crude oil has been substantial but somewhat less than had been anticipated at the time of its appraisal in 1962. This has been due primarily to a higher than expected level of production in Saskatchewan. During the last year increased exports to the United States have brought the total market for Alberta crude oil very close to the level forecasted by the Board in 1962.

The impact of the re-assessment of older reserves, the institution of numerous enhanced recovery schemes, the new discoveries and the market circumstances have increased the life-index for conventional crude oil from the 22 years of 1962 to a current level of some 31 years, rather than to the 21 years previously expected.

In addition to the above developments substantial reserves of heavy hydrocarbons that have many similarities with the Athabasca type oil sands have been discovered in the general Cold Lake area. While the Oil and Gas Conservation Board recently has found these reserves to fall within the definition of "oil sands" in The Oil and Gas Conservation Act, the definition appears to require clarification. Moreover, the different definitions in various Provincial statutes require standardization.

During the last year the Government has received representations from some companies requesting both a clarification and modification of the existing policy. The Government asked the Oil and Gas Conservation Board to consider these matters. The



Board did so and advised the Government that it believed certain aspects of the present policy should be clarified and that the policy should be amended in a manner which would encourage greater market growth than would otherwise occur and by this means enable further oil sands development without prejudice to the conventional industry. It considered these important in the long term interest of the Province in the development of its natural resources and to enhance its position as a major and growing source of petroleum supply on the North American continent. Further development would ensure that the Province would be able to take full advantage of market opportunities expected with the growing supply deficiencies in the United States, and enable it to maintain its technological position as a source of synthetic crude oil having regard to potential developments elsewhere - especially in the oil-from-coal and the oil-from-shale programs in the United States. The Board suggested that certain clarifications and one amendment could be made in the policy without change in its broad intent and presented some preliminary proposals to achieve the objective.

The Government then asked the Board to discuss its preliminary proposals with representatives from the Alberta Division of the Canadian Petroleum Association and the Independent Petroleum Association of Canada. Following this discussion the Board advised the Government of the views of the various parties and in the light of them suggested certain amendments to its original proposals. The Government reviewed the amended Board proposals



and on June 16, 1967, the Honourable Mr. Patrick and I discussed them in detail with an industry group representing the Alberta Division of the Canadian Petroleum Association, the Independent Petroleum Association of Canada and a number of individual companies interested in oil sands development. The Government has considered the views expressed at this meeting and the submissions which it received following the meeting and has now come to its decision.

The Government agrees with most of the industry and the Board that there are certain features of the present oil sands development policy that require clarification. Additionally, the Government believes that the policy should be amended to encourage further growth in the total crude oil market and thereby permit further oil sands development.

The clarifications are as follows:

- (1) The Government believes that the heavy oils of the Cold Lake type must be subject to the same policy as the Athabasca type oil sands. It takes this position because of the magnitude of the Cold Lake reserves in relation to conventional reserves, the similarity of the crude hydrocarbons themselves, and the probable similarity of in situ recovery methods for Cold Lake type heavy oils and Athabasca type oil sands. Moreover, the Government believes that regulation of the rate of production of the



Cold Lake type heavy oils by the "approval" system used with oil sands is more practical than by prorating as is done with the light and medium crude oils. The lack of ready interchangeability among the heavy oils and the fact that by upgrading processes they, like the oil sands oil, could compete in the market for light and medium crude oil suggests serious problems if the regulation of production were based on proration to market demand.

Consistent with this the Government has decided that the definition of oil sands should be amended in order to remove ambiguities. Furthermore, it believes that common definitions need to be adopted in all Provincial statutes and regulations, thus ensuring a consistent mineral acquisition and development policy. The Government recognizes that because of the gradation in characteristics of the heavy oils it will be difficult to arrive at satisfactory definitions and that some arbitrariness will probably be necessary.

The Government believes that the best way of developing satisfactory definitions would be through the advice of a special committee composed of representatives from the Alberta Division of the Canadian Petroleum Association, the Independent



Petroleum Association of Canada, the Department of Mines and Minerals and the Oil and Gas Conservation Board. The Board will be asked to convene such a committee.

- (2) There needs to be clarification of what markets would be considered "beyond present and foreseeable reach of Alberta's conventional industry." The Government believes that the distinction between "within reach" and "beyond reach" markets should not be confined to a geographical one but that "beyond reach markets" should include any markets, including specialty markets, which Alberta's conventional industry is not now serving nor can reasonably be expected to serve in the foreseeable future because of price, quality specification or other reasons. Decision in an actual case might be based on the recommendation of the Board following the public hearing of an application.
- (3) With respect to an application proposing the marketing of oil sands production within reach of the conventional industry, but not in "new" markets as defined later, the Government believes that, as at present, the application should be approved only when indicated to be desirable on the basis of the trend in the life-index of the conventional industry. However, the criterion of per cent utilization of productive capacity referred to in the



present policy is no longer useful and will be discarded.

- (4) With respect to an application proposing the marketing of oil sands production in markets that are beyond reach of the conventional industry, the present policy is satisfactory and will be continued with such production being unrestricted so long as the development program meets the conservation and related requirements of the Oil and Gas Conservation Board.
- (5) Under the present policy experimental operations in the oil sands, not involving commercial production, are encouraged and authorized by the Board and the Government without public hearing. The Government believes it desirable that this be continued and, for clarification, points out that such operations may involve temporary production and marketing of oil sands products at levels considered subcommercial by the Board.

One amendment is made in the present policy. This is discussed in the following:

- (1) The Government believes that in order to encourage greater growth in the total crude oil market than would otherwise occur and thereby permit further oil sands development, the present policy requires



amendment with respect to the treatment of applications that provide for marketing a product from oil sands "within reach" of the conventional industry. Where it can be demonstrated that the applicant's marketing proposal would provide such additional growth by the development of a "new" market the Government is prepared to authorize further production of oil sands product at volumes equal to 50 per cent of the new market. A "new" market would be one not being served today; one over and above the normal growth in existing markets; and one representing a net increase in total market.

The Government believes that applications approved under this modification of the policy would provide the conventional industry with an immediate share of markets which if otherwise obtained at all would have been obtained several years later. The modification, therefore, is unlikely to have any significant adverse effect upon the conventional industry.

It is recognized that during the next few years it is particularly difficult to estimate market growth. In view of this the Government believes it desirable to establish specific limitations on the additional volume of oil sands production that would be approved under this amendment of the 1962 policy.



Accordingly, the total volume of commercial oil sands production, including the presently authorized production, that will be permitted to enter new markets within reach of the conventional industry will be restricted to 150,000 barrels per day.

Unless some wholly unforeseen set of circumstances should develop, this limit will remain in effect for five years. During this period the limit will be reviewed and, if conditions warrant, it may be increased for a succeeding period.

In addition to these matters relating to the circumstances under which additional oil sands production would be authorized, the Government also has given serious consideration to the question of the royalty payable to the Crown on products derived from bituminous sands or oil sands owned by the Province. Such royalties are prescribed by regulation made under The Mines and Minerals Act, 1962. The Act authorizes the establishment of rates of royalty either of general application or with respect to any specified operation.

In January of 1963 Bituminous Sands Royalty Regulation No. 1 was established fixing the royalty payable until March 31, 1972, on the products recovered in the operation of Great Canadian Oil Sands Limited (45,000 barrels of synthetic crude oil and some 300 long tons of sulphur per day). The present royalty is based upon the value at the plant site of these products and the rate averages out at about 12 per cent on the



synthetic crude oil and is $16 \frac{2}{3}$ per cent on the sulphur. (The total royalty is equivalent to some 20 per cent of the value of the raw bitumen from which the synthetic crude oil and sulphur are derived.)

The Government has decided that when the present royalty arrangement with Great Canadian is reviewed, and in the case of any other commercial development of oil sands, it will express the royalty as one applicable to the raw bitumen recovered, at its value at the recovery site. This change in basis will result in comparable royalty treatment regardless of the extent of upgrading and will ensure that there will be no royalty incentive against extensive upgrading of the bitumen in Alberta.

Whether the future royalty rate on the raw bitumen will be altered from one which would yield the same return as under the present arrangements with Great Canadian will depend on future circumstances and whether any changes are found necessary in royalty rates as they apply to the production of Provincially-owned oil and gas generally.

In considering the royalty rate expressed on the raw bitumen basis during the first term of a Crown lease, the Government would bear in mind the provision of the lease and The Mines and Minerals Act, 1962 relating to the maximum royalty rates applicable, during the first term of the lease, to the products derived from bituminous sands or oil sands. The total royalty would not exceed that which could be fixed under these limits.



Crown royalties applicable to crude oil produced from wells have in the past been set for periods of 10 years, the last regulation coming into effect on April 1, 1962. Accordingly, the next general review of royalty rates will be in 1972.

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