

August 25, 1999

Mineral Rights Information Bulletin 99-5

Subject: Petroleum and Natural Gas Tenure Review

On January 14, 1999, the then-Minerals Tenure Branch (now Minerals Tenure & Freehold Tax Branch) of the Department of Energy (now Department of Resource Development) (DRD) requested feedback on proposed changes to regulations and business rules in Mineral Rights Information Bulletin 99-2.

Your input was valuable, but consensus was not reached within industry on all issues. Additional input was sought in the form of a Round Table Discussion held June 14, 1999, specifically centered on Petroleum and Natural Gas Licence Administration. A total of 98 industry personnel attended, representing 71 companies.

The Petroleum and Natural Gas Tenure Review Advisory Committee, representing DRD and five industry associations, have collated your feedback and presented recommendations.

The P&NG Tenure Regulation is anticipated to be enacted in the fall of 1999, to include the decisions set out in this bulletin. The change to the trespass legislation will, however, require an amendment to the Mines and Minerals Act.

Any reference to sections in the headings which follow is a cross-reference to the
Note: *sections identified in Mineral Rights Information Bulletin 99-2 issued on January 14, 1999.*

Petroleum and Natural Gas (P&NG) Licence Groupings (IB 99-2 Section 5.1)

Allow unlimited number of licences to be grouped vertically or horizontally provided the following conditions apply:

- The application is made while all licences are still in their initial term.
- The grouping well must evaluate P&NG rights in the locations of all licences.
- All licences in the group were issued prior to the commencement of the grouping well.
- The distance from the boundaries of the licence on which the grouping well is located must be no more than one intervening section, including the corners.
- Grouping application must be submitted within one month of the rig release date of the grouping well and before earliest expiry of the grouped licences.

Table Within Schedule 2 of the P&NG Tenure Regulation (IB 99-2 - Section 5.2)

Change Table within Schedule 2 of the P&NG Tenure Regulation:

- for the Plains and Northern Regions, permit any well which is not drilled to the current
- 1) threshold for entitlement (150 meters) to earn three sections and five sections of entitlement respectively, if the well is considered productive by the Minister.
 - 2) for the Foothills Region only, increase the threshold for entitlement to 300 meters from the current 150 meters.
for the Foothills Region only, permit any well which is not drilled to the new threshold
 - 3) for entitlement (300 meters) to earn eight sections of entitlement if the well is considered productive by the Minister.

Deeper Rights Severance of P&NG Licences (New)

Licences that are issued after January 1, 2002 will be severed at the end of their initial term to the base of the deepest zone that has been drilled more than 15 metres whether or not the well is productive. Licences issued prior to January 1, 2002 will be eligible for all rights when they reach the end of their initial term. That is, this intended change will not affect licences acquired prior to the change, such that those licencees will be able to maintain "the rights they bought" on the same basis as they were acquired.

The decision has been made to accomplish the following:

- The department considers the severance of deeper rights at the end of the initial term as a natural evolution for licence tenure.
- The 2-year delay in implementation will provide an opportunity for explorers to complete their current programs subject to current rules.
- Reduce impact of drilling shallow wells that tie up rights undrilled and undeveloped for a further 5-year period.

Licences in the Plains Region (New)

P&NG Licences will continue to be issued in the Plains Region, however, department policy will be changed to coincide with the proclamation of the new P&NG Tenure Regulation so that licences must be a minimum size of six full sections.

The decision was made to accomplish the following:

- Minimize the administrative burden for both industry and government.
- Encourage deeper drilling with one well during the initial term to validate entire licence into intermediate term.

Continuations

Section 16

(IB99-2 - Section 6.1)

Allow continuation pursuant to section 16 of the Petroleum and Natural Gas Tenure Regulation for up to five sections, for any number of leases, without the submission or assessment of technical data provided that the leases containing the five sections to be continued touch or corner the section containing the Section 16 qualifying well. All leases must be held by the same lessee who is applying for the Section 16 continuation or the applicant requires authorization from the respective designated representatives.

Section 16 Off-Location Wells

(IB99-2 - Section 6.2)

If the applicant is not the well licensee for the off-location well, the department will require a letter of authorization from the well licensee of the off-location well.

Offsets

Serving Notices on Diagonally Cornering Spacing Units

(IB99-2 - Section 7.2)

Amend the Petroleum and Natural Gas Tenure Regulation to include Crown spacing units that diagonally corner the spacing units for a producing freehold well.

Offset Compensation

(IB99-2 - Section 8)

The liability of a lessee to pay offset compensation shall end as of the first day of the month in which an application is received in the department that meets the criteria of Section 22(5). The onus will rest with the Crown lessee to apply in a timely manner to end the payment of offset compensation.

Applications Where Minister Disagrees

(IB99-2 - Section 9)

The department has decided not to implement the proposal to incorporate in legislation a notice of disagreement relative to P&NG licence administration or offsets similar to section 14 of the P&NG Tenure Regulation.

The decision was made because of the following:

- The feedback received indicated that this was not perceived to be a problem with industry and happens rarely.
- Current department policy is to advise industry when the Minister disagrees with an application.

Trespass
(IB99-2 - Section 10)

Establish a trespass penalty of \$20,000.00 for the first instance of trespass with an escalating fee of an additional \$20,000.00 for subsequent instances, i.e. \$20,000.00, \$40,000.00, \$60,000.00, etc.

The Department is contemplating a maximum penalty of \$100,000 as is currently provided for in existing legislation (refer to Section 59 of the Mines and Minerals Act). No consideration is being given to having a maximum time limitation imposed.

Eliminate the deduction for any costs incurred by the trespasser other than royalty that has already been paid.

All well information obtained through the trespass of Crown rights must be made available immediately to the Alberta Energy and Utilities Board (EUB) for public notification.

Water Injection, Water Disposal, Water Source and Observation Wells
(IB99-2 - Section 11)

The department is not proceeding with Option A. Option B continues to be the department's policy, however, an administrative fee will not be charged.

Designated Representative
(IB99-2 - Section 12)

Based on feedback received, the department will not be amending legislation to require designated representatives to be registered under the same legislation as lessees.

Official Service Address
(IB99-2 - Section 13)

As time permits, the department will contact clients with multiple addresses and ask that this client confirm his official service address in writing. Clients with only one address will also be required to confirm their address in writing if written confirmation is not on file.

Forms and Guides
(IB99-2 - Section 14)

Forms that have been revised will be released by Information Letter at the same time the new legislation is proclaimed.

Current forms have been changed to reflect the department's change of name and address and are available for downloading from our web site at Tenure Forms.

If you require further explanation or information, please call [Paul Batke](#) at 780/422-9389 or me at 780/422-9430.

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