

July 22, 1998

Subject: Gas in Association with Bitumen; Tenure Implications

In late 1996 both the Department of Energy and the Alberta Energy and Utilities Board (EUB) received representations from industry suggesting that the production of gas from a reservoir that is in direct communication with an oil sands deposit might have a detrimental effect on bitumen recovery. The EUB responded to this by convening a general meeting on the matter, while the Department began placing an addendum in public offerings of petroleum and natural gas warning of possible drilling restrictions in the three oil sands areas, as designated by the EUB.

In early 1997 the EUB decided to hold a general inquiry into the issue. The Department responded by convening an industry advisory committee to consider the tenure policies that related to gas/bitumen production. This advisory committee met 3 times in early 1997, but then adjourned to await the EUB report and decision. In March 1998 the EUB issued its report, *EUB Inquiry Gas/Bitumen Production in Oil Sands Areas*. One of the conclusions of that report was to "support modifications to the existing tenure system in the oil sands areas to reduce resource development conflicts".

In April 1998 the Department convened a joint meeting with its two advisory committees, the Gas/Bitumen Advisory Committee and the Oil Sands Tenure Advisory Committee. At the meeting some different tenure options were identified and discussed, but no consensus was reached on what tenure action, if any, should be taken. As a result, the Department is seeking advice from all of industry on how provincial mineral tenure policy should handle gas associated with bitumen.

Four different options are presented for consideration:

1. Maintain the present system of separate agreements for oil sands and petroleum and natural gas (P&NG) in the three oil sands areas as designated by the EUB.
 - This excludes natural gas from the definition of oil sands.
2. Leave agreements separate, maintaining the definition of oil sands as is; but allow private sales of the undisposed substance to the holder of the leased substance.
 - Rights to match area and zones of substance already leased. Price would be negotiated based on current prices in the region.
 - Extend the term of the overlapping natural gas rights in the P&NG lease to match that of the oil sands lease, using section 8(1) (h) of the Mines & Minerals Act (Act), at least until the regulations can be amended.
 - Once the oil sands lease expires, is cancelled or surrendered, the lessee will have one year in which to prove the overlapping natural gas rights in the P&NG lease is capable of production, ie. serve a non-productivity notice under section 18 of the P&NG Tenure Regulation.
 - Rent on the P&NG lease may be waived if a "concurrent production approval" is applied for but is not granted by the EUB and then until either the section 18 notice is served or gas production commences, whichever comes first. The waiver would only apply if the overlapping

zone is all that is remaining on the P&NG lease.

3. Add natural gas to the definition of oil sands, on a go-forward basis (this would require an amendment to the Act).
 - All future sales of oil sands rights after the amendment would include the natural gas as part of the oil sands by definition.
 - Both a minimum and a maximum size of agreement may need to be set to avoid too small an area for oil sands and too large an area for gas.

4. Add only associated gas to the definition of oil sands, on a go-forward basis (this would require an amendment to the Act).
 - Associated gas is capped gas in communication with the bitumen.
 - All future sales of oil sands rights after the amendment would include the associated natural gas as part of the oil sands by definition.
 - One would not know what was associated gas until after drilling and EUB had granted a "concurrent production approval"; ie. if granted a "concurrent production approval", then the gas would be owned by the P&NG lessee; otherwise it would be owned by the oil sands lessee by definition.

Please provide your comments and rank the options according to your preference, using the attached form. If you wish to put forward an alternative option not listed, please do so. Comments should be submitted by August 18, 1998.

The names of the contributors will be kept confidential, but all comments will be shared with the industry associations. A summary of the comments received, along with a recommended plan of action will be presented to the Minister.

For further information contact David Coombs at (403) 422-9430 or fax (403) 422-1123.

Note: The wording in the addendum to parcels in P&NG sales has been changed to refer to the EUB report.

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Attachment

Survey on

Gas in Association with Bitumen

Tenure Options

Please take the time to fill out this questionnaire and fax it to David Coombs at **(403) 422-1123**. If you have additional comments, please attach a separate sheet

Options:

Ranking

Please circle preference of choice, 1 being your first choice, and 2 being your second choice and so on.

- | | | | | | |
|---|---|---|---|---|---|
| 1. Maintain the present system, of separate agreements for oil sands and P&NG in the three oil sands areas as designed by the EUB. | 1 | 2 | 3 | 4 | 5 |
| 2. Leave agreements separate, maintaining the definition of oil sands as is; but allow private sales of the undisposed substance to the holder of the leased substance. | 1 | 2 | 3 | 4 | 5 |
| 3. Add natural gas to the definition of oil sands, on a go-forward basis. | 1 | 2 | 3 | 4 | 5 |
| 4. Add only associated gas to the definition of oil sands, on a go-forward basis. | 1 | 2 | 3 | 4 | 5 |
| 5. Alternative Option _____ | 1 | 2 | 3 | 4 | 5 |
| _____ | | | | | |
| _____ | | | | | |

Other comments (eg. *If you feel one of the options is a non-starter, please state so and give the reason why.*):

Use additional sheet(s) if necessary.