

January 8, 1999

## **Mineral Rights Information Bulletin 99-1**

### **Subject: PROPOSED OIL SANDS TENURE CHANGES**

The purpose of this Information Bulletin is to solicit feedback from Industry on the proposed changes (Attachment 1) to the Oil Sands Tenure Regulation (Attachment 2).

In the fall of 1997 the Department of Energy established the Industry Oil Sands Tenure Advisory Committee (IOSTAC) to review oil sands tenure policies and regulations. The committee is composed of department representatives and members of four industry associations: the Canadian Association of Petroleum Producers, the Canadian Heavy Oil Association, the Alberta Chamber of Resources, and the Canadian Association of Petroleum Landmen.

In May 1998 Mineral Rights Information Bulletin 98-2 was sent to industry outlining the IOSTAC proposals for redesigning the oil sands tenure rules. We thank those who took the time to send us their comments on the proposal. We have tried to incorporate your suggestions and to reflect our discussions with IOSTAC in the drafting of the new Oil Sands Tenure Regulation.

Two options for redesign were presented in the proposal. The first offered some improvements to the existing system, but retained the philosophy that leases should be brought into production or they would revert to the Crown. The second option developed a new tenure system driven by markets and technology. The second option was clearly preferred by industry and consequently it was carefully considered and developed with the help of IOSTAC into this regulatory proposal.

The proposed tenure system has been designed to achieve two goals: to have oil sands development driven by market forces, and to simplify oil sands tenure and administration. Market forces have been incorporated by allowing leases to continue beyond their primary terms at the discretion of the lessee, but imposing an escalating holding charge (non-deductible for royalty payments) on those leases that are not in production. The intention is to encourage lessees to either begin oil sands production or to conduct the research necessary to overcome development limitations. The simplification of tenure has been addressed in the proposal by reducing the types of oil sands agreements, making the term length of the agreements consistent, and making lease renewals simpler (see Attachment 3).

For lessees with no immediate plans to develop, the holding charges will encourage them to let leases revert to the Crown (see Attachment 4). Those former lease lands may then be made available to interested parties through public offerings. The amount and rate of the holding charge has been set by the Department at levels that we believe are sufficient to achieve the market force goal stated above.

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Different holding charges have been proposed for different oil sands areas and specific comments on the rate, period of increase and holding charge areas are welcomed. Holding charges are based on bonus bid data for the 1994-98 period. They reflect, in present dollars, the potential bonus bid that the Crown forfeits by continuing the lease.

Research and development work that is conducted on a lease may be used to offset the holding charge on non-producing continued leases. The regulation proposal would allow a reduction in the holding charge, on a dollar for dollar basis, for any research or development on the lease. In addition, leases with similar development hurdles may be pooled so the costs may be allocated among a number of leases. Research costs may be carried forward for up to two years beyond the end of the research project. The types of research that may be conducted are fairly flexible, and can range from overcoming production problems to environmental studies.

Permits will remain an agreement type under the proposed tenure, but greater flexibility will be offered in the ways that an evaluation may be done. The proposal would continue the requirement that a certain amount of drilling be done to evaluate the permit lands, as well, certain other techniques such as seismic and electromagnetics may now be used to replace up to 40% of the drilling required under the current regulation (see Attachment 5).

The proposals set out in Information Bulletin 98-2 allowed grouping, and that position was endorsed by industry in their responses to the Bulletin and at the IOSTAC meetings. After numerous discussions at IOSTAC, the department and industry representatives disagreed on the requirement for grouping. As seen by industry, grouping would combine non-productive leases with producing leases so all the grouped leases would be deemed producing, and therefore not subject to the escalating penalties. After looking at some real lease examples, however, the Department continues to question whether grouping is required. Grouping is therefore not included in the draft regulation, pending further input from industry.

Your comments and suggestions on any aspect of the attached tenure proposal are welcomed. Responses should be received prior to February 5, 1999 and should be sent to the attention of:

Brian Hudson  
Manager, Mineral Agreements  
Mineral Operations Division  
Alberta Department of Energy  
9th Floor, North Petroleum Plaza  
9945 – 108 St NW  
Edmonton AB T5K 2G6

Fax: (403) 422-0382

E-mail: [Brian.Hudson@gov.ab.ca](mailto:Brian.Hudson@gov.ab.ca)

F. David Coombs  
Executive Director  
Minerals Tenure Branch

Attachments (5)

*(Please note that the attachments mentioned in this Information Bulletin are not available online. Please contact the Department if you wish to receive these attachments in hard copy format.)*