

September 6, 2011

OIL SANDS INFORMATION BULLETIN 2011-08

Subject: *Oil Sands Tenure Regulation, 2010* - Minimum Level of Evaluation – Interim Approach

This Information Bulletin is for holders of oil sands agreements (primary leases and permits). In the interests of providing clarity and certainty, Alberta Energy is seeking to provide a clear description of the rules for the application of minimum level of evaluation. In the meantime, this Information Bulletin provides details of an interim approach to address the minimum level of evaluation requirements.

The [Oil Sands Tenure Regulation, 2010 \(AR 196/2010\)](#) (the “Regulation”) came into force on December 1, 2010. It introduced minor amendments to facilitate the administration of the *Oil Sands Tenure Regulation* (AR 50/2000). The minimum level of evaluation was not increased, in fact, it was narrowed. Rather than requiring all oil sands zones to be evaluated, only those zones the Minister considered to potentially contain crude bitumen had to be evaluated.

Coincidental with the release of the [Regulation](#), lessees raised the concern about Alberta Energy's interpretation and application of the drilling and coring provisions of the regulations. Industry believed the approach was too onerous and represented a change from Alberta Energy's past practices. On December 17, 2010, Alberta Energy issued [Information Bulletin 2010-12](#) to accommodate lessees. This Information Bulletin temporarily allowed drilling and coring during the period from December 1, 2010 through April 30, 2011 (the end of the 2010/2011 drilling season) to be done in at least one oil sands zone, pending a review of the minimum level of evaluation by a committee appointed by the Deputy Minister of Energy. The Committee's report was released in July 2011. Alberta Energy will consider that report as part of a broader, more comprehensive review of the entire oil sands tenure regime over the next two years.

The One Zone Standard

This Information Bulletin rescinds and replaces [Information Bulletin 2010-12](#) as of December 17, 2010. Notwithstanding the rescinding of [Information Bulletin 2010-12](#), any oil sands well drilled to, or cored in, a minimum of one oil sands zone within an agreement (the “One Zone

Standard”) during the period from December 1, 2010 through April 30, 2011 will be considered as eligible for the purposes of minimum level of evaluation for that agreement.¹

Agreement holders are required to identify the wells drilled and cored under the One Zone Standard between December 1, 2010 and April 30, 2011 when submitting an application for lease continuation or lease issuance from a permit.

The One Zone Standard for work done from December 1, 2010 through April 30, 2011 will continue to apply regardless of the date of application for continuation or lease issuance from a permit.

The Interim Approach

Until a review of the tenure regime is completed and changes implemented, over the next two to three years, Alberta Energy intends to pursue the following interim approach:

1. Alberta Energy will provide holders of certain agreements with an original expiry date between December 1, 2010 and December 1, 2013, the option to extend for two years the term of these agreements. Each of the following conditions apply:
 - a. The extension will apply in respect of agreements that were not fully continued, or will not be fully continued, because the work done was considered insufficient to meet the minimum level of evaluation.²
 - b. The types of agreements to which this extension will apply includes primary leases and permits but does not include deemed primary leases.
 - c. Holders of certain agreements expiring between December 1, 2010 and April 30, 2011 will receive an offer letter from Alberta Energy; holders of agreements expiring between May 1, 2011 and December 1, 2013 must apply to Alberta Energy for an extension.
2. In line with the Committee’s recommendations, as of May 1, 2011 and until further notice pending the outcome of the tenure review, Alberta Energy will temporarily relax the drilling requirements in section 3(2)(a) of the [Regulation](#) as follows:
 - a. The drilling requirement will be 1 well per 3 sections for all Cretaceous oil sands zones and 1 well per 9 sections for all oil sands zones of pre-Cretaceous³ age.

¹ Although [Information Bulletin 2010-12](#) was dated December 17, 2010, Alberta Energy will apply the One Zone Standard from December 1, 2010 to be consistent with the introduction of the Regulation and in order to avoid any time gaps.

² I.e., those agreements that have been partially continued, or where an offer of partial continuance has been given. Agreements that have been fully continued, cancelled or surrendered will not be extended. Agreements that have expired and for which no continuation application has been received will not be extended.

³ The "pre-Cretaceous" refers to those zones of pre-Cretaceous age as described in the zone designation or deeper rights reversion zone designation in the agreement.

- i. The number of wells required to be drilled per section for a particular agreement will be rounded up to the nearest whole integer.⁴
 - ii. The wells must be fully drilled through each of the oil sands zones in their entirety.
 - b. Agreements holding rights that include oil sands zones of pre-Cretaceous age (e.g., agreements from the top of the Viking to the base of the Woodbend) must meet the drilling requirements for both the Cretaceous and the pre-Cretaceous.
 - i. Failure to evaluate both the Cretaceous oil sands zones and the pre-Cretaceous oil sands zones in such agreements will result in the loss of the entire agreement.
 - ii. An eligible well drilled through the pre-Cretaceous will count as a well drilled through the Cretaceous.⁵
 - c. Drilled wells must be located within a section of the continued agreement, with those drilled sections laterally adjoining the sections they are qualifying under the minimum level of evaluation.
 - d. The wells must be located in a pattern that, in the opinion of the Minister, is sufficiently even and uniform.
- 3. In line with the Committee's recommendations, as of May 1, 2011 and until further notice pending the outcome of the tenure review, Alberta Energy will temporarily relax the coring requirement in section 3(2)(c) of the [Regulation](#) as follows:
 - a. The coring requirements will be 1 cored well per 12 sections for all Cretaceous oil sands zones and 1 cored well per 36 sections for all oil sands zones of pre-Cretaceous age.
 - i. The number of wells required to be cored per section for a particular agreement will be rounded up to the nearest whole integer.⁶
 - ii. The wells must be fully cored through each of the oil sands zones in their entirety.

⁴ For example, all Cretaceous leases less than 3 sections in size will still require at least 1 well to be drilled to evaluate all their Cretaceous zones.

⁵ For example, a 9-section lease from the top of the Viking to the base of the Woodbend would require 2 wells drilled at entirely through the Cretaceous and 1 well drilled entirely through the Woodbend.

⁶ For example, all leases less than 12 sections in size will still require at least 1 well to be cored to evaluate all their Cretaceous zones.

- b. Agreements holding rights that include oil sands zones of pre-Cretaceous age (e.g., agreements from the top of the Viking to the base of the Woodbend) must meet the coring requirements for both the Cretaceous and the pre-Cretaceous.
 - i. Failure to evaluate both the Cretaceous oil sands zones and the pre-Cretaceous oil sands zones in such agreements will result in the loss of the entire agreement.
 - c. Cored wells must be located within a section of the continued agreement, with those drilled sections laterally adjoining the sections they are qualifying for the minimum level of evaluation.
4. In accordance with section 3(3)(d) of the [Regulation](#), agreement holders will continue to have the ability to use seismic or electromagnetic data to evaluate undrilled sections. The [Regulation's](#) drilling requirement in section 3(3)(a) and coring requirement in section 3(3)(c) will not change. They cannot be further reduced by the relaxed drilling and coring requirements in sections 2 and 3 of this Information Bulletin.
5. Except for the proposed changes to the drilling and coring requirements noted in sections 2 and 3 of this Information Bulletin, and except where the One Zone Standard applies (i.e., for work done from December 1, 2010 through April 30, 2011), all other governing rules related to minimum level of evaluation will be those found in the [Regulation](#), as amended or replaced. In particular:
- a. Continuation applications will be required for all expiring leases and permits. Applicants are responsible for indicating when and how all minimum level of evaluation work was done.
 - b. Expiring agreements, including agreements that have been extended for two years, will be evaluated under the [Regulation](#), as amended or replaced.
 - c. Historical wells, e.g., wells not drilled during the term of the agreement, may be considered for all leases (but not permits). All data from historical wells will be evaluated under the [Regulation](#), as amended or replaced.
 - d. "Oil sands zone" will have the same meaning as the [Regulation](#): a zone or formation that, in the opinion of the Minister, potentially contains crude bitumen.

Alberta Energy intends to complete its review of the oil sands tenure system by 2012. The relaxed drilling and coring requirements in sections 2 and 3 of this Information Bulletin will remain in place until further notice. Depending on the outcome of the tenure review **the minimum level of evaluation requirements contained in the regulations, information bulletins and guidelines might be amended or replaced in future.** Alberta Energy will make efforts to provide notice to agreement holders of these changes. Once in place, the amended or

replacement regulations will be the basis for determining the continuation of oil sands agreements for continuation or lease issuance from a permit, as well as all other purposes.

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