November 17, 2010

Government of Alberta, Department of Energy
Office of the Minister
323 Legislature Building, 10800 – 97 Avenue
Edmonton, Alberta T5K 2B6

Attention: The Honorable Ron Liepert, Minister of Energy

Dear Sir;

RE: Clarification of Oilsands Tenure Regulations Regarding Coring Requirements to Meet Minimum Level of Evaluation

It has been Industry's understanding and practice that coring to meet Minimum Level of Evaluation (MLE) under the existing Oil Sands Tenure Regulations has been generally done to evaluate those zones that would be, or could be developed based on the technology and economics known at the time the well was drilled and cored and not all oil sands zones in their entirety – i.e. the entire geologic column. The Alberta Oil Sands Tenure Guidelines (June 6, 2003, June 15, 2006 and August 14, 2009 versions) describe the requirements of core data of evaluation wells in these terms:

> "This data must be obtained by coring through the hydrocarbon-bearing portions of the relevant oil sands zones"

This requirement speaks of "portions" and "relevant" in relation to oil sands zones, which is a focused sub-set of the entire geologic column being the :"hydrocarbon-bearing portions" of the "relevant oil sands zones". In this context, "relevant" would refer to the oil sands zone or zones that would be developed.

This Guideline definition differs from the Regulation definition of 3(2)(c) (i) and (ii) where coring is required through the oil sands zone or zones within the locations of those wells. Herein lies the variance in interpretation. If in fact the Guidelines document was produced to provide a general understanding of the principles and processes used to establish oil sands tenure and to interpret relevant energy legislation, then the two documents should be consistent. They are not. Neither document states clearly and

concisely the expectation of the Department of Energy with respect to coring requirements and it is for this reason the Regulations are being amended.

But the Department of Energy's proposed new definition and clarification around the term "oil sands zone" in the Oil Sands Tenure Regulation Amendments has significant implications to meeting the requirements of Minimum Level of Evaluation (MLE). In the Draft Regulations as amended, the proposed language for "oil sands zone" from Section 1 read:

> (w) "oil sands zone" means a zone or formation that, in the opinion of the Minister, contains a potentially commercial oil sands deposit.

The effect of this definition is to establish that in order for a lease agreement to be continued past the end of its term, a minimum level of evaluation will have to be conducted by the lessee on each "oil sands zone" in its entirety, including coring. The footnotes provided by the Department of Energy for this definition explained that:

> The term "oil sands zone" is important for the purposes of establishing the criteria for minimum level of evaluation in section 3 of the regulation. The term should be defined to reflect that it applies to all geologic zones or formations that, in the opinion of the Minister, contain a potentially commercial hydrocarbon (e.g. crude bitumen) within the location of the oil sands agreement. This has been the policy of the department since the regulation was introduced. Wells are expected to evaluate all oil sands zones, and seismic and electro-magnetic data are expected to gather data from the deepest oil sands zone in the agreement.

This modification effectively mandates that every zone or formation that contains crude bitumen would need to be cored, and by extension to meet MLE with absolute certainty in all possible future technological scenarios core the entire oil sands geologic column. The utility of this yeoman and costly effort is questionable. Industry's interpretation does not align with the contention of the Department of Energy that coring the entire oil sands column for MLE purposes has all along been the stated practice of the Department of Energy and this disconnection can be evidenced by the small percentage of wells in which cores from more that one hydrocarbon bearing zone have been obtained within the last 10 years.

This new language and/or interpretation or application regarding coring, as applied to wells that have already been drilled and cored would result in a large number of permits or leases across all oil sands areas not meeting MLE, resulting in the surrender of significant portions of those permits or leases and creating significant resource fragmentation and checkerboarding, and ultimately the delay or curtailment of the development of the oil sands resources.

The very fact that the Regulations and Guidelines require clarification indicates that interpretation of the existing regulations has not been clear and consistent. To require the re-drilling and coring of hundreds, if not thousands, of evaluation wells late in the primary term of the leases or permits that were issued under the existing regulations in order to meet new requirements for MLE is impractical, economically punishing to Industry, and of little value in advancing the development of the oil sands.

Industry believes that the apparent misalignment between the Department of Energy and Industry can be resolved to meet our mutual objectives to sustainably develop the oil sands. If the Department of Energy intends to adopt this new language, then it should apply these rules only to leases issued after the date the new tenure regulations are adopted and the Guidelines have been amended to clarify this very important point.

Yours very truly,

CANADIAN ASSOCIATION OF PETROLEUM LANDMEN

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