



April 20, 2012

Ministry of Energy and Mines
Titles and Corporate Relations Division
PO Box 9326 Stn Prov Govt
Victoria, British Columbia
V8W 9N3

via e-mail

Re: Potential Changes to the Oil and Gas Tenuring System in British Columbia

The Canadian Association of Petroleum Landmen (“CAPL”) appreciates the opportunity to comment on the Ministry of Energy and Mines’ (“Ministry”) *Potential Changes to the Oil and Gas Tenuring System in British Columbia*. CAPL has an interest in the province of British Columbia through its 1780 strong members. It’s members are represented by SEPAC, the Horn River Basin Producers Group and the Canadian Association of Petroleum Producers (“CAPP”) PNG Tenure Working Group which meets regularly with MEM.

Please find attached CAPL’s response to the specific questions outlined in the document provided March 22, 2012 which we feel will help in addressing some important points as the Ministry explores the transition from one form of tenure to another. Although CAPL would prefer the Ministry explore opportunities for change to the current tenure system, we believe that the Ministry is making positive strides for future oil and gas development by extending the validation table, providing multiple groupings and allowing production under the potential “Drilling Lease”. CAPL supports many of changes under this new form of tenure, however there are some important facets that will need to be addressed for effective implementation.

CAPL appreciates the opportunity to provide feedback on potential changes to the tenuring system in British Columbia and look forward to discussing these changes further as they develop.

Sincerely,

Canadian Association of Petroleum Landmen

A handwritten signature in black ink, appearing to read 'John Covey'. The signature is fluid and somewhat abstract, with several loops and a long horizontal stroke extending to the right.

John Covey

Director Business Development

Discussion Question 3.2.1

Do you have any concerns with the implementation of an electronic bidding system or with receiving your tenure documents electronically?

CAPL supports the use of electronic signature and the implementation of an electronic bidding system provided the system can perform efficiently to handle time sensitive material while keeping the information confidential.

Discussion Question 3.2.2

Do you have any concerns with the proposed timing for submission of lease continuation applications?

CAPL supports the concept of advanced rulings, although the time frames suggested (120 days), may not be sufficient timing for companies to pursue continuation activities, should they not be granted a favorable response, as most areas in BC have a short winter drilling season.

The CAPL supports the 30 days after expiry.

Discussion Question 3.2.3

Do you have any concerns with the proposed changes to the lease continuation rules for the OGC-designated special projects? Should any other types of oil and gas activity be eligible for this type of lease continuation?

CAPL supports changes to tenure for special projects.

Discussion Question 3.2.4

Do you have any concerns with the proposed changes to the Ministry's management of tenures subject to other than normal spacing?

CAPL supports the proposed changes as long as it supports equitable treatment.

Discussion Question 3.3.1.3

Do you have any comments on the proposed extension of the validation table for Area 2 and Area 3?

CAPL supports the extension to the validation table for Area 2 and Area 3 and believes that exploring a shift in the validation table to allow for additional earnings at all depths would reflect the principle of footprint minimization. We believe this would demonstrate to stakeholders that interests such as Species at Risk (i.e. Caribou) and First Nations rights are being managed through responsible development that minimizes footprint and environmental impacts.

CAPL's opinion is that drilling is one activity that gathers additional geological information, and drilling from a pad into a thick reservoir where we have to learn to maximize economic recoveries (optimization of inter-well distances) provide important engineering information into the resource environment as does a geological drill.

Discussion Question 3.3.1.4

Do you have any comments on the proposed changes to the definition of earning well?

The use of the word "substantial" is a very subjective term that is causing issues in other jurisdictions. Creating parameters as to what is meant by the word "substantial" and considering engineering information as part of that would help provide clarity moving forward.

Discussion Questions 3.3.2.1

Do you have any comments on the introduction of a one-year continuation with penalty payment for five year leases in Area 1?

CAPL could argue the introduction of a one-year continuation with penalty payment for five year leases in Area 1, as it may give a competitive advantage to a leaseholder over a prospective one. However we will support it.

Discussion Questions 3.3.2.2

Do you have any concerns with the introduction of a mechanism to allow for lease continuation where access to tenure is delayed by a provincially mandated process?

CAPL supports the introduction of a mechanism to allow for lease continuation where access to tenure is delayed by a provincially mandated process and recommends the mechanism be expanded to account for surface owner issues as well.

Discussion Question 3.3.3.1

Do you have any concerns with the introduction of a new type of tenure called a drilling lease or with the rights proposed to be granted by it?

Although CAPL would prefer to see changes to the existing tenure system, rather than reinvent the wheel, CAPL supports the introduction of new type of tenure called the "drilling lease" provided that issues around grouping and validation can be resolved to create a smooth transition from one form of tenure to another. The drilling lease possesses similar characteristics to that of a drilling licence but provides the ability to produce from it which we believe will benefit industry and the province of BC.

Considering the cost at those lengths of well bores, CAPL recommends that the maximum size for a drilling lease be 36 GSA's or 144 units.

Discussion Question 3.3.3.2

Do you have any comments on the proposed tenure terms for drilling leases?

The provision made for extension of the initial term where the tenure holder is delayed from accessing the tenure due to circumstances beyond their control references the following statement “Tenure holders would be required to have begun development by the end of the initial term.” is a subjective and ambiguous term that needs to be defined. This will aid in providing clarity for extensions of tenure in the initial term.

With respect to continuation into the secondary term, CAPL interprets that the bullet point under eligible spacing areas “In the opinion of the Ministry, may be adequately drained by an oil or gas well situated on a contiguous spacing area” will provide the Ministry with more flexibility in addressing unconventional development (i.e. granting 9 GSA’s centered around a well). If this is not the case, CAPL requests further clarification around the statement and what options would exist for unconventional development continuation under the proposed drilling lease.

Discussion Question 3.3.3.3

Do you have any comments on the proposed validation system for drilling leases?

CAPL supports the ability to group earnings across multiple drilling leases as that would enable companies to use all of the earned credits they are entitled to with the drilling of an earning well under the validation table which already provides a natural limit.

The main concern is the distance between drilling leases. CAPL recommends that the grouping distance be amended to allow grouping tenures at least one GSA from the drilling lease containing the earning well.

Discussion Question 3.3.3.4

Do you have any comments on the proposed management of existing tenures following the proposed introduction of a drilling lease system?

Managing existing tenures and providing a seamless transition into the proposed new form of tenure “drilling lease” is the most important aspect to address. Not allowing validation credits earned on a drilling licence to be applicable to a drilling lease, nor vice versa is a significant impact that will negatively affect operations in BC for industry and government. Many land strategies are developed with groupings/validations in mind and subsequently reflected in many landsale bids. There needs to be a transition strategy in place, either the ability to convert drilling licences into the new form of tenure drilling lease or implementing identical grouping rules for old and new tenure which will allow the two to be grouped together.

Discussion Question 3.4.1

Do you have any comments on proposed administrative penalty system for tenure caveats?

CAPL believes compliance is an issue that needs to be addressed. Caveats need to be shared between government groups so that issues are caught before they become subject to fines. It our understanding that many of these issues are dealt with at the permitting stage so if the Ministry's systems can connect with the OGC well licence systems it should help in preventing non-compliance issues. This may be one area that will need further clarification to compare how the current framework operates and how the proposed incremental mechanisms will support compliance.

Discussion Question 3.4.2

Do you have any comments on the proposed penalty levels?

CAPL would prefer increasing the penalty for late payment of rent from \$500 to \$2500.

Discussion Question 3.4.3

Do you have any comments on the proposed introduction of a mechanism to cancel non-productive tenures? What would you propose be the minimum length of time before the Ministry could issue a notice of non-productivity?

Notices of non-productivity are an effective tool for the Ministry and CAPL supports the implementation of a mechanism to address non-productive tenures. British Columbia has challenging factors compared to other jurisdictions so adequate time would be needed to remedy the notices. CAPL recommends that a timeframe somewhere between 18 months to 24 months from notice date to be more appropriate to accommodate seasonality, access and infrastructure limitations. Another aspect to consider is whether or not industry will have the ability to request a government review of tenures in certain areas and the parameters associated with that (i.e. maximum number of requests per company, timing, etc.).