

Overview of Changes to the Petroleum and Natural Gas Regulations

Licence Validation

- Calculate sections earned by using either:
 - a) one leg at the kick off point and the vertical portion of the well bore, to the kick off point; or,
 - b) the vertical well bore, from surface to the same vertical bottom hole.If the shallowest leg is chosen, the licence can still be severed to the base of the deepest zone evaluated if applied for.
- Implement a standard, cross-province, minimum meterage of 75 metres drilled for a vertical well or a horizontal well.
- Allow proven productivity with either production or good oil or gas tests for:
 - new wells drilled less than minimum meterage
 - re-entered wells with additional drilling less than minimum meterage
- If a well bore is drilled from a lease, through a licence and terminates in a lease, the meterage of the well bore from the surface of the lease and all within the licence is used to calculate sections earned at validation. No part of the well bore in the second lease is used. There must be a minimum horizontal meterage of 75 metres within the licence.
- When a horizontal well is drilled through multiple initial term licences, the well must drill minimum meterage in each licence to be a validating well for each licence. This is to prevent “tagging” of a licence.
- If the well does not meet minimum meterage on any initial term licence then a company must provide proof of productivity in the form of production or oil or gas tests. If approved by Alberta Energy, that portion of the well bore will then be considered as having validated that licence and can be used to calculate the sections earned. In addition that licence boundary could be used to determine the licences that can use the earned sections based on the distance criteria.

- Groupings are no longer required and therefore, grouping applications are eliminated. A company will continue to earn sections depending on the meterage of their well, as outlined in Schedule 2 of the PNG Tenure Regulation. At licence expiry, a company may submit an application indicating their selection from the sections earned based on an “earning” well. A company will “bank” any remaining sections earned from the earning well for use on other qualifying licences, not necessarily expiring right away.
- Currently, when a well is drilling over licence expiry, the term of the licence is extended to one month from rig release. In these instances, the application for validation must be received by Alberta Energy prior to the original licence expiry date.

NOTE:

The following proposed change, originally presented at the 2013 Tenure Information Exchange, was re-evaluated and subsequently amended as follows:

Original Proposal: When selecting sections from an undrilled PNG Licence, the selected sections cannot be more than one intervening section from the boundary of the section where the **well** was drilled.

AMENDED TO

Current Rule: When selecting sections to be validated from an undrilled PNG Licence, using earned sections, the sections must be contained in another initial term licence whose boundary is not more than one intervening section from the **licence boundary** of where the well was drilled. **There is no change from the old process.**

Primary Lease and Intermediate Term Licence Continuation

Section 14

- If Industry responds to an offer prior to the one month offer period expiring, Alberta Energy can now finalize the continuation if requested by the company to do so and if the agreement has expired. The request by industry is not revocable once finalized.
- Late applications are only allowed for producing wells.

Section 16

- Each rolling (ongoing) section 16 continuation is for a period of six months.

- A company can select up to nine sections per qualifying well. The configuration of the nine sections selected is dependent upon where the well is drilled in relation to the agreement, as is the current practice.
- Horizontal wells increase the qualifying area in which to choose nine sections per qualifying well.
- Mapping is not accepted.
- Shallow rights reversion does not apply to section 16 continuations.

Section 17

- Up to nine sections can be selected to continue for one year based on an adjacent producing, productive or potentially productive well.
- Mapping is not accepted.
- To obtain a section 17 continuation, production or oil and gas tests must be acquired during the term of all agreements selected to continue.
- Shallow rights reversion does not apply until expiry of the section 17 term.
- Horizontal wells increase the eligible area in which to choose nine sections.

Transitioning when Regulation Amendments Take Effect

Section 16 Continuations

- Land in all existing section 16 continuations remains as is and if these lands are eligible for a further section 16 continuation, they will continue for an additional six months (new rules) instead of three months (current rules). These lands continue with six-month intervals under the same land configuration, until they are either continued under section 15 or they expire.
- To be consistent with the current rules, additional qualifying wells drilled must be drilled within the previously continued lands and the lands cannot be reconfigured.

Licence Validation Groupings/Earnings

- There is no impact to current Groupings other than affecting the timing of when to apply for Earnings. The current Grouping will be dissolved and when the agreements from this Grouping expire, they can be validated, with the validation application, using the sections earned by the grouping well.
- The Alberta Mineral Information system will attach the earned sections from the old Grouping or Earning well to the well information. Industry will have access to that information and it is industry's responsibility to use the earned sections.