

Alberta Energy (AE) proposes to introduce Shallow Rights Reversion (SRR) to Alberta P&NG tenure reversion effective January 1, 2009.

- SRR is defined as - reversion to the Crown of all rights above the shallowest Proven Productive zone.
- "Proven Productive" - includes a good gas test

Shallow Rights Reversion

Alberta's New Royalty Framework announced on October 25, 2007 included the following: *"The government will implement shallow rights reversion to maximize extraction of the resource. Under this policy, mineral rights to shallow gas geological formations that are not being developed would revert back to the government and be made available for resale."*

Shallow rights reversion means that the rights above the top of the shallowest productive zone in an agreement will be severed from the agreement at continuation. This will be in addition to the existing deeper rights reversion. Rights between the top of the shallowest productive zone and the base of the deepest productive zone will remain in the agreement.

The Department of Energy is holding a series of consultation meetings with a Working Group made up of members of the Government of Alberta, the Canadian Association of Petroleum Producers, the Small Explorers and Producers Association of Canada, the Canadian Association of Petroleum Land Administration and the Canadian Association of Petroleum Landmen.

The Department intends to announce the final shallow rights reversion implementation plan by the fall of 2008. The plan will include details on timelines and how shallow rights reversion will apply to new agreements as well as existing agreements.

If you have any questions or comments please forward them to:

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Current status:

- Charter signed off by senior AE officials and Minister by the end of June 2008.
- June 2008 - detailed analysis and stakeholder consultation begins on implementation of SRR.
- Legal Opinion - expropriation of rights has been prepared but will not be shared with industry.
- Legislation is proposed to take effect January 1, 2009 in conjunction with the balance of the New Royalty Framework initiatives.
- SRR is coming – it's only a matter of process, timing and phasing as follows.

As currently formulated, Alberta Energy's DRAFT Proposal suggests that:

- Lessees will retain all formations from the top of the shallowest Proven Productive zone to the base of the deepest productive formation (i.e. - no "layer-cake").

Era 1 agreements:

- leases issued after January 1, 2009 will be affected by SRR in 2014;
- licenses (2, 4 and 5 year initial period terms + 5 year intermediate period term) will be affected only after end of intermediate term (2016 and later).

Era 2 agreements:

- primary term leases/licensees issued prior to January 1, 2009 and currently in their initial term (~30000 leases/licensees) will be affected in 2015 or later.

Era 3 agreements:

- all other continued leases/licensees issued prior to January 1, 2009 (~45000 documents) will be affected in 2014 or later.

Industry must begin to immediately to consider future SRR in the design of well drilling and evaluation programs since up hole testing after deeper zones are on production is often not feasible or desirable.

AE continues to consult with representatives from CAPL, CAPP, CAPLA and SEPAC on the implementation of SRR; however, AE also reiterated they are NOT contemplating any changes to the continuation rules, such as relaxing the use of logs and petrophysical data, mapping and geophysical data. Those representatives from CAPL, CAPP and SEPAC have all expressed their concern regarding AE's proposed continuation policy regarding ERA 2 and 3 Leases.

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