

## INTRODUCTION TO 2007 CAPL OPERATING PROCEDURE

This is the fifth version of the CAPL Operating Procedure, with previous versions being issued in 1971, 1974, 1981 and 1990. The CAPL Operating Procedure has been one of the most important standard documents in our industry since the 1974 version became widely accepted. It has fundamentally changed the way in which our industry has documented the business relationship between joint owners of P&NG rights. Its success has also demonstrated the major business benefits of standardizing those aspects of our agreements for which our industry cannot afford to address basically the same business terms in a multitude of different ways.

This update reflects the need to modify the document to reflect those changes that are warranted based on industry's experiences with the 1990 document. The changes reflect three other major factors.

- The need to address issues associated with evolving business needs (e.g., horizontal wells, an increased emphasis on health, safety and the environment, use of a well to evaluate joint and 100% intervals, an increased emphasis on deeper portions of the WCSB and more technically complex operations, use of the document for "North of 60" operations, changes in the marketing environment, holdings).
- Legal influences (court cases, increased emphasis on alternative dispute resolution approaches, the Alberta Limitations Act, other changes in the legislative and regulatory environment).
- A desire to apply "plainer language" principles to simplify the document and make it more accessible to users without sacrificing required content.

There are five major objectives associated with this document.

1. Make required modifications, while maintaining the integrity and substance of the 1990 document.
  - Changes arising from industry's experiences with that document.
  - Changes required for evolving business needs.
  - Changes required because of changes in the legal and regulatory landscape.
  - Reasonable solutions to reasonably foreseeable problems.
  - Trend towards "plainer language" drafting style in industry agreements.
2. Create a document that will be used widely shortly following completion.
  - Representatives of major stakeholders (CAPL, CAPLA, Legal, Marketing, PASC, PJVA and SEPAC) involved directly on the project committee to increase alignment and to assist in the marketing effort.
    - Involvement of other functional experts in such areas as insurance, HSE and dispute resolution.
  - Extensive use of annotations to assist users of all experience levels on an ongoing basis.
  - Emphasis on encouraging cross-functional comments over the evolution of the document.
  - Shift to more of a "norm based standard", under which users are expected to modify the document to address any special circumstances associated with their transaction.
    - Overview of some special circumstances outlined in the annotations at the end of the document.
3. Ensure that the document is balanced.
  - Needs of Operators with those of Non-Operators.
  - Needs of individual parties with those of the Parties collectively.
  - Needs of small companies and those of larger companies.
4. Simplification.
  - Lever off recent "plain language" efforts in industry to simplify presentation and increase clarity for all users without sacrificing content.
    - Aggressive editing of the 1990 document.
    - Increased use of headings and white space.
    - Making cross-references more transparent.
    - Balance simplification with retention of required content and options.
      - Options where necessary, but not necessarily options.
    - Major changes to format.
5. Structure document to exploit advances in systems technology.
  - Use of a menu format to optimize data integrity and streamline the data entry process for contracts driven land information systems.
  - Alignment with PetroDocs document preparation tool.