

Titles and Offshore Division

Information Letter Oil and Gas Titles Branch

TITLES AND OFFSHORE DIVISION

TITLES-07-09

**SUBJECT: ZONE SPECIFIC RETENTION – MISCELLANEOUS STATUES
AMENDMENT ACT, 2007 – BILL 12**

The Ministry of Energy, Mines and Petroleum Resources (Ministry) works to encourage long-term investment in energy development for the benefit of all British Columbians. To support continued growth in the oil and gas industry, the Province has amended section 59 of the *Petroleum and Natural Gas Act* (Act) following several years of discussion with industry. All title existing before March 29, 2007 is exempt from Zone Specific Retention.

What does Zone Specific Retention mean?

The effect of the Act amendment implementing Zone Specific Retention is to return to the Province, at the end of the primary five-year or ten-year term of a new lease, all the zones of a lease that do not contain identified oil or natural gas deposits. New petroleum and natural gas leases will retain those zones found to contain oil or gas. All other zones will revert to the Crown unless they can be continued under other applicable sections of the Act, including sections 58(3)(c) and (d) and sections 61 and 62. These sections allow continuation based on drilling, work programs and the simple payment of penalty for ten-year leases.

What are the implications of Zone Specific Retention?

Applying Zone Specific Retention to all new leases, with all pre-existing title exempt, will create greater development opportunities while protecting holders of existing titles. This change allows the Province to re-post these rights, giving the industry additional opportunities to explore for oil and gas in a more timely fashion. This amendment will result in:

- Earlier discoveries of new pools.
- Increased private and public revenue.
- The Crown's recognizing on title the rights to behind-pipe hydrocarbon zones encountered by a well.
- Eased administrative impact through transition measures exempting pre-existing title.

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Please note that accepted methods of continuing title to leases will continue to include Programs of Work, drilling commitments and the submission of geological, geophysical and engineering information on the existence of a pool of oil or gas.

How will Zone Specific Retention be implemented?

The zone description framework has been developed and is in place in the standard Zone Designation System.

As is current practice, industry can receive lease continuation by submitting written applications that assert the presence of hydrocarbon in zones in expiring title, in order to ensure those zones are reviewed for continuation of tenure.

Amendments to the Act are listed under BILL 12 *-Miscellaneous Statutes Amendment Act, 2007*, under Sections 59 and 67. The provisions of the legislation that exempt all pre-existing title from these changes are found in Section 67 of this Bill. A copy can be found at:
http://www.leg.bc.ca/38th3rd/3rd_read/gov12-3.htm

The Oil and Gas Titles Branch will continue to engage industry on the implementation of Zone Specific Retention, especially through working level contacts at the Canadian Association of Petroleum Landmen.



Patrick O'Rourke
Assistant Deputy Minister
Titles and Offshore Division
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For further information contact:

Laurel Nash, Director
Titles & Offshore Division
6th floor, 1810 Blanshard Street
Victoria, BC V8W 9N3
Telephone: 250-952-0335
Facsimile: 250-952-0331
Email: Laurel.Nash@gov.bc.ca

Attachment

FREQUENTLY ASKED QUESTIONS

Does Zone Specific Retention affect all my title?

This change does not affect any title that existed before March 29, 2007, nor any title issued from Permits or Drilling Licences that themselves existed before that date. It affects only new title granted after that date.

What is the earliest date that my leases may be affected?

The earliest date new five-year leases will be affected is in 2012. For ten-year leases granted in 2007, the earliest date they will be affected is 2017. Leases issued from Permits or Drilling Licences that existed before March 29, 2007 will not be affected.

Do I have to complete and flow each zone in order to continue it?

No. If well, geophysical, geological or engineering data shows that a pool of oil or gas exists in a zone in any spacing area, then it qualifies for continuation. This consideration is independent of the status of a well. The zone may be behind pipe, and in some cases the well may be abandoned, but well information proves a pool exists. Section 58 of the Act states common eligibility requirements.

How do I apply for continuation, when the time comes?

The current lease continuation process will continue: you should provide a written submission under section 58 of the Act containing information that shows the existence of a pool of oil or gas.

Do I have other options?

You may be eligible for continuation under other parts of section 58. You may commit to a Program of Work that uses geophysics or a well completion to show a pool exists if the known well information does not indicate this. If work on the completion or establishment of evidence showing a pool exists is ongoing, or if a well is committed to, then continuation under section 58 or 61 applies.

How stringent are the requirements of proof?

Existing well information is normally sufficient to determine whether a zone does or does not contain hydrocarbons, whether behind pipe, completed or overlooked and abandoned. If geological, well analysis or geophysical information shows that the zone contains hydrocarbons, completion of a zone will not be required.

If the information does not satisfy the Ministry's requirements, what are my alternatives?

A Program of Work, such as a simple completion, or the acquisition of geophysical data that shows the extension of a known pool onto the lands is acceptable under section 58(3)(c) of the Act, where existing information has not shown a pool exists.

Will Zone Specific Retention support commingling?

Yes. Under Zone Specific Retention, if probability of hydrocarbons is indicated by well, geological and engineering data, the Ministry will recognize title to uncompleted hydrocarbon zones behind pipe. In this way, Zone Specific Retention will support and encourage the Oil and Gas Commission's (OGC) incorporation of multiple zones into commingling approvals, independent of OGC data requirements.

Does the tenure system behind Zone Specific Retention facilitate commingling?

Yes. The standard Zone Designation System in place since 1988 uses major geological intervals to administer title. The system recognizes tenure to title over thick geological intervals, where any gas or oil pool within the thick slab of rock will continue the entire layer. Familiar examples of this include the Artex-Halfway-Doig zone and the Bluesky-Gething-Dunlevy zone. New zone definitions are created when required, such as the Ishbel-Stoddart, Nordegg-Baldonnel and the Baldonnel-Upper Charlie Lake.

Lease continuation criteria in British Columbia have historically been much more generous to title-holders than those seen in other jurisdictions. It is important to note that British Columbia's statutes do not contain the same requirements for completion or commercial production that exist in other provinces. This fundamental difference recognizes the remoteness of the areas in which oil and gas are found. No completion is necessary. Wells in remote areas can be abandoned and a pool still recognized, with the understanding that infrastructure may arrive in the far future.

In summary, when information indicates a pool exists, that geological zone is recognized without having to be completed, and title to it is confirmed, which facilitates commingling.