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**EMD99-11****Subject: Proposed Changes to Petroleum and Natural Gas Leases**

The Ministry of Energy and Mines intends to make changes to petroleum and natural gas leases. The planned changes:

- provide flexibility for extending leases where lessees have been prevented from doing work by circumstances beyond their control;
- allow re-instatement of leases that have expired through inadvertent failure to pay rentals;
- clarify the requirements for continuing leases, based on commitments to do work;
- eliminate the continuation of leases through payment of penalties;
- introduce incentives to either develop or surrender leases that are beyond their fifth year.

The Ministry intends to recommend to government, for consideration in the Spring 2000 session, legislation that will support these changes. Details of the proposal are attached.

We are now seeking comment on the proposed recommendations and will be meeting with a Canadian Association of Petroleum Producers / Canadian Association of Petroleum Landmen / Canadian Association of Petroleum Land Administration / Small Explorers and Producers Association of Canada committee to discuss the proposals.

We invite you to provide input to the industry committee, by January 17, 2000, by addressing your comments to Geoff Morrison, Manager of Environment and Lands, Canadian Association of Petroleum Producers, 2100, 350 - 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3N9, facsimile (403) 266-3261, e-mail: [morrison@capp.ca](mailto:morrison@capp.ca).

In the coming months we will also be working with the CAPP/CAPL/CAPLA/SEPAC committee to consider additional changes to petroleum and natural gas tenure legislation and policy to streamline administration, simplify and clarify business rules and enhance the investment climate. We will be providing further information on this initiative in the near future and will be asking for your suggestions at that time.



Joan Hesketh  
Assistant Deputy Minister

Attachment

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## **PROPOSED CHANGES TO PETROLEUM AND NATURAL GAS TENURES**

### **1. Flexibility for extending lease terms**

Government approval to carry out on-the-ground exploration and development on leases can, in some extraordinary situations, be delayed by circumstances beyond the lease holders' control. For example, approval to carry out work may be delayed by a third party legal challenge of the government's decision, by the need for government to resolve outstanding First Nations issues or for government to address a significant socio-economic or environmental issue. There is no provision in the current legislation to address such delays. The Ministry intends to recommend to government, changes to the *Petroleum and Natural Gas Act* that would provide flexibility to account for these extraordinary delays.

### **2. Lease re-instatement**

A petroleum and natural gas lease expires 60 days after its anniversary date, if the annual rental has not been paid by the lessee, whether or not the Ministry has advised the lessee of the impending expiry. There is currently no mechanism for the Ministry to re-instate the lease, even if it can be demonstrated that failure to pay the rental in a timely manner was purely the result of administrative error. The Ministry intends to seek amendment of the *Petroleum and Natural Gas Act* to allow re-instatement, within a defined time period, of leases that were inadvertently allowed to expire. Re-instatement would be subject to payment of a fee and a penalty and would not be considered if the area has been included in a subsequent disposition.

### **3. Clarification of lease continuation work programs**

Petroleum and natural gas leases may be continued annually beyond their primary term, based on a commitment to perform work on the leases. There are no set parameters governing the amount of work required to be done or the number of continuations that may be provided. Each individual continuation is subject to negotiation between the Ministry and the lease holder. The Ministry intends to ask for a change to the *Petroleum and Natural Gas Act* to provide the Lieutenant Governor-in-Council with regulation-making power to define lease continuation work programs and to limit their terms. The specifics of the regulations will be developed through discussion with the oil and gas industry.



4. **Eliminate Lease Continuations Based on Penalty Payments**

Petroleum and natural gas leases have a five or ten year primary term, depending on the geographic location of the lease. Leases with a ten year primary term may be continued at the end of their primary term for three additional periods, of one year each, on payment of penalty of \$15, \$25 and \$25 per hectare, respectively. To encourage earlier development of leases, the Ministry intends to eliminate this continuation provision **for new leases issued after the changes come into effect. Existing leases would not be affected by this proposal.**

5. **Incentives to develop or surrender leases**

The Ministry intends to continue issuing leases for a five or ten year primary term, depending on the geographic location of the lease. However, to encourage development within the first five years of a lease, the Ministry plans to introduce an escalating scale of lease rental rates for periods beyond five years on undeveloped leases. The lease rentals would increase to \$15/hectare for the sixth lease year and increase by \$5/hectare/year for each subsequent year, to a maximum of \$35/hectare. **These changes would only apply to leases issued after the changes come into effect. Existing leases, and leases that have been developed, would not be affected by this proposal.**

