

Options Available for Lease Continuation

The applicable sections of the *Petroleum and Natural Gas Act* are noted

Section 62 Continuation by Penalty Payment

- Annual cash penalty payments
- Maximum of three continuations under this section; not necessarily consecutive
 - First use: \$15/ha.
 - Second and third uses: \$25/ha
- All rights continued for one year; stratigraphic reversion does not apply
- Applicable to 10-year leases only

Section 61 Continuation by prior written commitment to drill a well

- **Before the lease expiry date**, the lessee must undertake in writing to drill a well on the lease
- May be used to continue one Lease only
- All rights in the lease are continued for one year; stratigraphic reversion does not apply
- May be repeated in succeeding years; no limit on frequency of use
- If the commitment well is not drilled, the Director (the “Director”) of the Oil and Gas Titles Branch (“the “Branch”) may cancel the lease, and will do so except in extraordinary circumstances
- **Note:** This method of continuation is different from the well commitment that is part of a program of work under section 58(3)(c), for which application can be made *after* expiry, and which is explained in a following section

Section 58 Continuation by application

- **Not later than 60 days after the expiry of the lease** the lessee must submit a written application, including any applicable supporting materials
- Types of continuation by application:
 - Demonstration of “eligible spacing areas” [sec. 58(3)(a)];
 - Unitization or royalty agreements with the Crown [sec. 58(3)(b)];
 - Programs of work designed to delimit pools or fields of oil or gas [sec. 58(3)(c)]; and,
 - Completing work on the establishment of a well [section 58(3)(d)]
- Leases continued under any part of section 58 are subject to stratigraphic reversion under section 59 of the *Act*
- Leases continued under section 58 are reviewed annually to determine their eligibility to be continued further
- Continuations involving “eligible spacing areas” and programs of work are obtained by technical applications to the Branch. The application may range from a simple letter noting a successful well to a complex package of interpreted geophysical, geological, production, completion, and well evaluation information

Section 58(3)(a) Continuation of “eligible spacing areas”

- Normal spacing areas for gas comprise 1 section or 4 NTS units; for oil $\frac{1}{4}$ section or 1 NTS unit
- Eligible spacing areas are spacing areas:
 - That contain a cased well capable of producing oil or gas
 - That are part of an approved sec. 100 scheme for pressure maintenance, water or gas injection, water disposal, gas cycling, gas storage, other enhanced recovery, or an experimental scheme
 - Where an established pool of oil or gas is known by the Director to extend over at least half of the spacing area
 - Where an established pool of oil or gas is known by the Director to extend onto a significant portion of the spacing area, **and** a well that is capable of adequately draining and producing the oil or gas from that pool exists on a contiguous spacing area

Section 58(3)(a)

Delimiting of pools in determining “eligible spacing areas” under section 58(3)(a)

- The geological and reservoir engineering principles applied to determining the limits of pools are similar to those used in the development department of an oil company or by a reserves evaluation team; more information accrues with time, changing pool limits
- A record of the limits of non-confidential pools recognized by the Director is maintained and revised quarterly by the Branch.
- These Branch pool plats are available by subscription from Crown Publications Inc. and are listed in their online catalog as “oil and gas pool descriptions”. The URL is “<http://www.crownpub.bc.ca>”

Section 58(3)(b) Continuation by unitization or royalty agreement with the Crown

- Sections 114 and 78 of the *Act* enable the Crown to enter into unit and royalty agreements
- Those portions of leases that are subject to such agreements are continued upon application to the Branch
- A record of unit outlines is maintained and revised annually by the Branch

Section 58(3)(c) Continuation through an approved program of work

- A work program must be designed to delimit pools of oil or gas on the lease or leases involved
- Normally requires well drilling that results in pools being delimited by the end of the continuation year
- A pool is delimited by well drilling, evaluation, completion and production information, and geophysical information in a manner similar to that used by a reserves evaluation team to quantify areas of established reserves (proven and a reasonable part of probable)

Section 58(3)(d) Continuation by completing work to establish a well

- Drilling or work on the establishment of a well is incomplete at expiry date
- May be used to continue one Lease only
- Except under extraordinary circumstances, “work on the establishment of a well” means completion and evaluation work carried out after the drilling of a well
- Director must be convinced that the drilling or work on the well will continue if the lease is continued, and that it will not be completed within the 60 day period following lease expiry
- Continuation is for one year