

May 3, 2006

INFORMATION LETTER 2006-12

Subject: Electronic Bidding and Posting of Rights for the Public Offering of Oil Sands and Petroleum and Natural Gas Rights

This letter replaces Information Letter 2005-08.

1. Bidding at the Public Offering

1.1 e-Bidding

The implementation of e-Bidding, the third phase of e-Tenure, will be effective May 3, 2006 for the June 28, 2006 public offering of oil sands and petroleum and natural gas (P&NG) rights. The only way to bid on parcels in the June 28 public offering (also referred to as the “sale”) and all subsequent public offerings is by using the Department of Energy’s (department’s) Electronic Transfer System (ETS). ETS is a web-based system in which bids will be created and submitted electronically. Refer to Section 4 for instructions on how to sign up for an ETS account.

The department uses the public tender auction process to dispose of Crown owned oil sands and P&NG rights. e-Bidding allows for the electronic submission of bids for these mineral rights using the web-based system. e-Bidding is mandatory and paper copies of bid letters will not be accepted for public offerings on or after June 28, 2006.

Pursuant to Section 23.1(2) of the Mines and Minerals Administration Regulation, as of June 28, 2006, sections 23.2 to 23.5 of the said regulation apply in respect of offers to purchase oil sands and P&NG agreements at the public offering of Crown mineral rights. Paper bids are no longer eligible for receipt or acceptance by the department on or after June 28, 2006.

Bidding on parcels in the May 3, 17, 31 and June 14, 2006 public offerings will continue to be a manual process. Bids for these sales must be placed in a sealed and properly labeled envelope and dropped off at either the Energy Information Centre in Calgary or the department’s office in Edmonton before the sale closes.

The “Frequently Asked Questions” on the department’s website which explains how to submit a bid for the public offering will be amended following the June 14, 2006 public offering.

1.2 Method of Payment

The method of payment for both the public offering and direct purchases is by Electronic Funds Transfer (EFT). EFT is mandatory and only one debit transaction is acceptable per bid request. If two or more partners wish to bid on a parcel, then one partner must place the bid on behalf of all partners.

In order to register for EFT:

1. You must submit a letter to the department on company letterhead authorizing the electronic debit of funds from your bank account for the Crown land sales. A sample of the authorization letter is available on the website under Our Business, Tenure or Oil Sands, Forms and Reporting.
2. Debits are made on the sale day beginning as soon as the sale is completed and will be reflected in the company’s account the following day. Some debits may take longer depending on which bank you conduct your business with. In the case of a direct purchase, debits are made within two days of acceptance of the purchase price.
3. In the event of any change in banking information, you must immediately notify the sales office in writing by faxing a new authorization letter to (780) 422-1123. Please note that under the EFT method the department only recognizes the creator of the bid request as the account holder and the bidder (payor). The bidder is responsible for having sufficient funds in the bank on sale day to cover all bids. If an EFT transaction fails due to insufficient funds the bidder will be contacted and an interest payment of 3 percent will be charged for all parcels awarded. The parcel(s) may also be awarded to the next highest bidder or withdrawn by the department. If this situation occurs more than once, the department reserves the right to refuse future bids and/or posting requests by that company or individual.

Please refer to Frequently Asked Questions on the website under Our Business, Business Unit (Tenure or Oil Sands), About (Tenure or Oil Sands) FAQ’s for a complete explanation of the payment process for both the public offering and direct purchases.

Before submitting your bid you are encouraged to read the terms, conditions and sale procedures, which can be found on the second page of the Public Offering Notice.

1.3 Release of Results

Commencing with the June 28, 2006 sale, results will be published on the department's website at approximately 3:30 pm on the same day as the sale. The name of the successful bidder and the bonus amount paid for each parcel will be announced. You can receive a copy of the oil sands or P&NG results electronically by subscribing to the department's electronic mailing list(s). Instructions are found on the website under Our Business, Business Unit Name (Tenure or Oil Sands), On-line Services, e-Subscriptions.

Paper copies of the public offering results will be available at the Calgary Energy Information Centre and the department's Edmonton office until September 1, 2006. Following this date, results will only be available on the department's website.

On occasion the department may require additional time to process a sale and this may delay publishing the results. Should this happen, the department will inform industry via our website and electronic mailing lists.

2. Posting Requests

2.1 e-Postings

A request to post lands or an application for direct purchase of oil sands or P&NG rights must be submitted electronically through ETS. Refer to Section 4 for instructions on how to sign up for an ETS account.

e-Postings allows industry to request that lands and rights be posted in the public offering, or to apply for a direct purchase. The system includes two query functions to help clients determine what lands and rights are available and what restrictions apply. The Query-by-Map function is a map-based search and the Query-by-Land function is a text-based search. Both queries limit the information returned to what needs to be known in order to post lands.

2.2 Posting Acceptance Periods

On average there are 24 public offerings of P&NG and oil sands rights each year. The normal posting cycle is 17 weeks (a 2-week acceptance period, 7 weeks for reviewing and processing posting requests and 8 weeks from the publishing date to the sale date).

2.3 Priority Order of Posting Requests

For oil sands, requests are prioritized on the basis of the date and time of receipt of the posting request for any given acceptance period.

For P&NG, priority is given first to a posting where a well is being drilled by the requester on adjacent lands to evaluate the rights being posted and

second on the basis of the date and time of receipt of the posting request for any given acceptance period.

A requester must notify the department by phone of any change to a request no later than **one-week** prior to the publishing date of the Public Offering Notice (PON). A change will be made only if it does not adversely influence, delay, or compromise the integrity of the normal process for finalizing the PON.

While the present sale process accommodates a significantly larger number of parcels per sale than in the past, the department reserves the right to limit the number of parcels posted.

2.4 Advance Booking

The department will accept advance bookings for posting P&NG rights when the requester wishes to acquire an agreement timed to a well being drilled to evaluate deep rights i.e. greater than 3,000 metres. Data must be provided to prove that all rights requested will be evaluated by the well being drilled.

Initially, an advance booking is advertised by way of a Notice of Pending Public Offering. This notice is published on the date shown in the sale schedule for the posting acceptance period in which the request was received. The interval between publishing the notice and the sale date depends on the depth of the committed well. The advance booking time for a 3,000 metre well is 16 weeks. This may be extended by one-week periods for each additional 50 metres in depth. The booking is then published in the PON eight weeks before the sale date.

2.5 Availability of Rights

All available rights within the designated strata of the oil sands area will be offered on a requested oil sands parcel.

For P&NG, the department will accept postings for deep rights even if the shallow rights are undisposed.

When all P&NG rights are available, you may post as follows:

1. All available rights from the surface to the basement, or
2. All available rights from the surface to the base of a specified zone, or
3. All available rights from below the base of a specific zone to the basement.

Where there is an existing agreement, you may post:

1. All available rights from the surface or the base of a specified zone to the top of the existing agreement, or

2. All available rights from the base of the existing agreement to the basement or to the base of a specified zone.

2.6 Expired Agreements

The department will only accept posting requests on open Crown land. The department will not accept posting requests for rights that are subject to an expired agreement. An expired agreement is an agreement that is past its expiry date but has not been cancelled or continued. In the case of oil sands permits, the lease selection process may not have been completed. If you submit a posting request for rights that are expired, you will receive a status of "Expired Agreement" in the updated file available on ETS. The posting request for the rights still held by that agreement will be withdrawn. You will need to resubmit your request again once a decision has been made on the subject agreement and the agreement has been updated in the department's Land Status Automated System (LSAS).

To help you keep track of the agreement until a decision is made by the department, a function called "Expired Agreement Notification" is available to you through Posting Request on ETS. The expired agreement number can be entered on ETS and you will be notified by email after a decision has been made. Please contact P&NG Agreement Sales or Oil Sands Sales for more information.

2.7 Posting of Petroleum and Natural Gas Portions

The department will accept posting requests for P&NG licences that are a portion of a section (the spacing unit is part Crown and part freehold minerals) if the portion section forms part of a larger licence request. If this is not the situation, then the requester will be given the option to post the portion as a lease rather than a licence.

2.8 Additional Guidelines

1. The department reserves the right to limit a company's posting requests to a maximum of 20% of the parcels at any one Public Offering.
2. The maximum size of any P&NG posting is 15 sections in the Plains area, 32 sections in the Northern area and 36 sections in the Foothills area. The maximum size for any single oil sands parcel is 36 sections within the same oil sands area.
3. The minimum size of any posting of a P&NG or oil sands lease or permit is the spacing unit for an oil well unless the Crown owns the minerals in only a portion of the spacing unit. The minimum size for a licence is one full section in the Northern or Foothills region or 6 full sections in the Plains region.
4. Parcels requested in any one posting request must be of the same type (lease or license for P&NG; lease or permit for oil sands) and be within a 3x3 township and range grid.

5. Crown lands to be included in each parcel must be laterally or diagonally contiguous except where freehold and entirely disposed Crown rights intervene and provided the requested lands are not separated by more than one section.
6. The requester is expected to bid on all parcels requested. A penalty equal to the agreement issuance fee plus GST will be charged for each unsold parcel.
7. The Crown reserves the right to withdraw certain rights from disposition from time to time.

3. Direct Purchases

3.1 Direct Purchase of Portions

The department accepts applications for the direct purchase of leases containing a portion of Crown rights subject to the following requirements:

1. The Crown rights comprise less than 50 per cent of the smallest applicable spacing unit in the lands applied for, i.e., less than 50 per cent of an oil spacing unit or a smaller special spacing unit established by the Alberta Energy and Utilities Board (EUB). Where Crown rights exceed this limit, the normal process for Public Offerings should be used.
2. The application is supported by a statutory declaration stating that you or the company have ownership of or control over the oil sands or P&NG in the freehold portion of the spacing unit. This control may occur by virtue of being the owner of a percentage of undivided interest in the oil sands or P&NG or the holder of a percentage of undivided interest in oil sands or P&NG under a valid and subsisting freehold lease. The statutory declaration can be found on the Forms page under Our Business, Tenure or Oil Sands.
3. The rights granted in the Crown lease will correspond with those included in the freehold agreement.
4. The minimum acceptable bonus is \$500 per hectare or \$2,000, whichever is greater, and is non-negotiable. The department reserves the right to adjust the minimum bonus periodically to reflect market trends.
5. The first year's rental plus the lease issuance fee is also payable.
6. An applicant who does not wish to purchase the portion of rights on the above terms has the option of posting the parcel through the Public Offering process.

3.2 Direct Purchase of Complementing Rights

1. The lessee of an existing oil sands or P&NG agreement may apply to purchase the corresponding P&NG or oil sands rights within the oil sands zones.
2. The bonus price per hectare for a P&NG parcel will be calculated as 125 per cent of the regional price per hectare based on the average of the prices bid in the region for the last six sales held immediately prior to the date the department receives the direct purchase application.
3. The region is defined as the Plains, Northern or Foothills as currently set out in the Petroleum and Natural Gas Tenure Regulation.
4. The bonus price per hectare for an oil sands parcel will be an amount that is 125 per cent of the average price per hectare of the amounts received from oil sands rights sales (excluding sales in the surface mineable area) occurring in the six months prior to the month in which the department received the direct purchase application.
5. The first year's rental plus the agreement issuance fee is also payable.
6. The oil sands areas are designated by the EUB. Currently, there are three oil sands areas: Athabasca (includes the surface mineable area), Cold Lake and Peace River.
7. The direct purchase price calculated by the department is not negotiable.

3.3 Direct Purchase of a Single Substance (P&NG only)

1. The holder of a lease or licence that contains the rights to a single substance, e.g., natural gas, can acquire by direct purchase the rights to the other single undisposed substance, e.g., petroleum.
2. The newly acquired rights will be consolidated with the existing rights into a single agreement to prevent future re-separation. The consolidated agreement will retain the same features as the original agreement (term commencement date, surface access conditions, etc.).
3. The bonus payable is 75 per cent of the regional price per hectare based on the average of the prices in the region for the last six P&NG sales held immediately prior to the date the department receives the direct purchase application, and is not negotiable.

3.4 Process

The department will review each application received and the purchase price will be added to the requester's posting request on ETS. An email will be sent to the creator of the posting request advising them of the update. Acceptance or rejection of the purchase price is required before further processing. Once

the requester has accepted the price, the funds will be withdrawn from the payor's EFT account within 2 days of acceptance.

Should the department debit an account and find that there are insufficient funds to cover the transaction, the applicant will be contacted and interest of 3 per cent will be charged, or the application may be cancelled. Should a company choose to reject the purchase price and then post the lands in a public sale, the parcel will be placed into the next available sale.

The direct purchase bonus price per hectare can be found on the website under Our Business, Tenure, P&NG Sales or Oil Sands, Sales and Administration. A requester should use this information to calculate what the parcel will cost prior to submitting an application.

A company should allow sufficient time for the department's response and plan their work accordingly. The public sale remains the priority.

You may sign up for e-subscriptions for a number of topics including Oil Sands and P&NG public offering notices on the website under Our Business, Tenure, P&NG Sales or Oil Sands, On-Line Services.

4. Electronic Transfer System (ETS)

4.1 The ETS Account

ETS is a secure web application which provides access to e-Postings and e-Bidding. Only holders of an authorized account may access the services provided through ETS.

To obtain access to ETS you must choose an individual to perform the role of the ETS site administrator for your company or organization. Each client must complete the ETS Set-Up Form and provide a letter authorizing the site administrator for their company. Instructions are found by linking to the ETS home page on the department's website at www.energy.gov.ab.ca.

4.2 Change ETS Account

If you already have an ETS account, you must complete the ETS Account Set Up/Change form to add e-Bidding and e-Postings to your account. In Section "B" of the ETS form, apply for "Posting Requests" for access to e-postings and request "Bidding on Public Offering PNG and Oil Sands" for access to e-Bidding. If your company is to be the Designated Representative for a Crown agreement, then you must also ask for access to "Crown PNG and Oil Sands Agreement Documents retrieval for Designated Representative".

For more information about your ETS account, please contact Client Registry at (780)422-1395 or email clientregistry.energy@gov.ab.ca

For further information please contact:

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