May 29, 2017

INFORMATION LETTER 2017-21

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

This letter replaces Information Letter 2006-12.

1. BIDDING AT THE PUBLIC OFFERING

Alberta Energy uses the public tender auction process to dispose of Crown owned oil sands and PNG rights.

Section 23 of the Mines and Minerals Administration Regulation applies in respect of offers to purchase oil sands and PNG agreements at the public offering of Crown mineral rights.

1.1 E-BIDDING

The only bidding method on public offering (the sale) of oil sands and PNG rights is by using Alberta Energy’s Electronic Transfer System (ETS), which is a web-based system where bids are created and submitted electronically. Refer to Section 4 for instructions on how to sign up for an ETS account.

Before submitting a bid, please read the terms, conditions and the sale procedures, which can be found on the second page of the Public Offering Notice (PON).

1.2 METHOD OF PAYMENT

The mandatory payment method for both public offerings and direct purchases is by Electronic Funds Transfer (EFT).

To register for EFT, submit an authorization letter to Alberta Energy, on company letterhead, authorizing the electronic debit of funds from your bank account for the Crown land sales. The authorization letter is available on Alberta Energy’s website by accessing: www.energy.alberta.ca>Our Business>Tenure>Forms and Reporting or Our Business>Oil Sands>Forms.
Only one debit transaction is acceptable per bid request. If multiple partners wish to bid on a parcel, one partner must place the bid on behalf of all partners.

EFT debits are made immediately upon completion of the sale. Debits typically reflect in a company’s account the following day; however, some banking institutions may take longer to report the withdrawal. In the case of a direct purchase, debits occur within two days of acceptance of the purchase price.

For any changes to banking information, immediately notify the Sales unit by email at Postings.Energy@gov.ab.ca, including a new void cheque. Alberta Energy recognizes only the creator of the bid request as the account holder and the bidder (payor). The bidder is responsible for having sufficient funds to cover all bids in the bank on sale day.

If an EFT transaction fails due to insufficient funds, the Sales unit will inform the bidder by telephone. Three business days are allowed for submission of a cheque to replace the deficient EFT. An interest penalty of three per cent is charged for all parcels affected by the insufficient funds. Alberta Energy may cancel the resulting Oil Sands or PNG Agreement(s), or award the parcel(s) to the next highest bidder. If this situation occurs more than once, Alberta Energy reserves the right to refuse future bids and/or posting requests by that company or individual.

For a complete explanation of the payment process for both the public offering and direct purchases, please refer to the information on our website by accessing: www.energy.alberta.ca>Our Business>Tenure>About Tenure>Tenure FAQs or Our Business>Oil Sands>About Oil Sands>Oil Sands FAQs.

1.3 RELEASE OF RESULTS
Sale results, including the name of the successful bidder and the bonus amount paid, are published on Alberta Energy’s website at approximately 3:30 pm on the day of the sale. A copy of the Oil Sands or PNG results can be obtained by email by subscribing to Alberta Energy’s electronic mailing list(s). For instructions, refer to Alberta Energy’s website by accessing: www.energy.alberta.ca>Our Business>Services>Subscriptions.

Occasionally, additional time is required to process a sale, delaying publication of the results. Alberta Energy posts a bulletin on ETS if there is a delay.
2. **Posting Requests**

2.1 **E-Postings**

Requests to post rights for the sale or applications for direct purchase of Oil Sands or PNG rights must be submitted electronically through ETS. Refer to Section 4 for instructions on how to sign up for an ETS account.

ETS includes two query functions to help clients determine what lands and rights are available and what restrictions apply for the sale and for direct purchase: Query-by-Map is a map-based search; Query-by-Land is a text-based search. Information produced on both queries is limited to providing only what is required for posting rights.

2.2 **Posting Acceptance Period**

On average, there are 24 public offerings of PNG and Oil Sands rights each year. The normal posting cycle is 17 weeks. The first two weeks is the acceptance period for posting requests. The next seven weeks an internal review is conducted for processing the requests and creating the PON. This includes a cross ministry review to confirm existing land use and environmental policies. At the end of this seven week period the PON is published and eight weeks later is the sale date.

2.3 **Priority Order of Posting Requests**

Oil Sands:
Requests are prioritized on the basis of the date and time of receipt of the posting request for any given acceptance period.

PNG:
First priority is given to a posting where the requestor is drilling a well on adjacent lands to evaluate the rights being posted. This is called an Advance Booking. See Section 2.4 for more details.

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

A requester must notify Alberta Energy by email at Postings.Energy@gov.ab.ca or by phone at (780) 644-2577 of any change to a request no later than one week prior to the publishing date of the 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.

Alberta Energy reserves the right to limit the number of parcels posted within a given sale.
2.4 **ADVANCE BOOKING**
Alberta Energy accepts advance bookings for posting PNG rights when the requester wishes to acquire an agreement timed to drilling a well 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 this well.

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 Alberta Energy received the request. The time period 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. Publication of the booking occurs in the PON eight weeks before the actual sale date.

2.5 **AVAILABILITY OF RIGHTS**
For Oil Sands, all available rights within the designated strata will be offered on a requested oil sands parcel.

For PNG, postings for deep rights are allowed even if the shallow rights are undisposed.

When all PNG rights are available, post as follows and post the shallow rights before the deep rights if requesting separate intervals as separate agreements:
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, post as follows and post the shallow rights before the deep rights if requesting separate intervals as separate agreements:
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 the base of a specified zone.

NOTE: If an interval or sliver of undisposed PNG rights is created as a result of the posting request, Alberta Energy may automatically include this interval or sliver in that parcel to avoid fragmenting the subsurface.
2.6 **Expired Agreements**
An expired agreement is one that is past its expiry date but has not yet been continued or cancelled. Alberta Energy does not accept postings until the decision on this expired agreement has been finalized, thereby releasing either some or all of the rights for posting.

In the case of oil sands permits, the lease selection process may not have been completed.

Posting requests for expired rights receive a status of “Expired Agreement” in ETS. Alberta Energy withdraws posting requests for the rights held by expired and not finalized agreements. A new posting request is required once a final decision is made on the agreement.

“Expired Agreement Notification” is available through ETS by entering the expired agreement number under the “Posting Request” node. Email notification will occur once a decision is made. For further information, please contact PNG Sales or Oil Sands Sales.

2.7 **Posting Petroleum and Natural Gas Portions**
The minimum size of a PNG licence posting is one section. However, Alberta Energy accepts posting requests for PNG 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. Alberta Energy reserves the right to limit a company’s posting requests to a maximum of 20 per cent of the parcels at any one Public Offering.

2. The maximum size of any PNG 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 PNG or oil sands lease or permit is the spacing unit for an oil well, unless the Crown only owns the minerals in a portion of the spacing unit. The minimum size for a licence is one full section in the Northern or Foothills region, or six full sections in the Plains region.

4. Parcels requested in any one posting request must be of the same agreement type (lease or licence for PNG; lease or permit for oil sands) and be within a 3x3 township and range grid.
5. Sections of Crown land requested 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 of their parcels. A penalty equal to the agreement issuance fee plus GST is 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**

   Alberta Energy accepts applications via ETS for the direct purchase of leases on spacing units with a mix of Freehold and Crown ownership, 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 Regulator (AER). Where Crown rights exceed this limit, follow the posting process for the Sale.

   2. The application is supported by a Statutory Declaration claiming ownership or control over the Oil Sands or PNG in the freehold portion of the spacing unit. Evidence of control may be through ownership of a percentage of undivided interest in the Oil Sands or PNG, or the holder of a percentage of undivided interest in Oil Sands or PNG under a valid and subsisting freehold agreement. The Statutory Declaration can be found on the Forms pages via the following links: [PNG Forms](#) or [Oil Sands Forms](#).

   3. The rights 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. Alberta Energy 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 required.
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 (OIL SANDS AREAS ONLY)
1. The lessee of an existing oil sands or PNG agreement may apply via ETS to purchase the corresponding natural gas or oil sands rights within the oil sands zones as long as the existing agreement is not due to expire within six months. If applying for the natural gas, either a PNG Lease or Licence may be requested following the guidelines in Section 2.8.

2. The bonus price per hectare for a PNG parcel is calculated as 125 per cent of the regional price per hectare. This is based on the average of the prices bid in the region for the last six sales, held immediately prior to the date Alberta Energy 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 Alberta Energy received the direct purchase application.

5. The first year's rental plus the agreement issuance fee is also required.

6. The oil sands areas are designated by the AER. 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 Alberta Energy is not negotiable.

3.3 DIRECT PURCHASE OF A SINGLE SUBSTANCE (PNG ONLY)
1. The lessee of an existing PNG Lease or Licence containing the rights to a single substance, e.g. natural gas, can acquire, by direct purchase via ETS, the rights to the other single undisposed substance, e.g. petroleum.

2. The newly acquired rights are consolidated with the existing rights and a new “010” Natural Gas and Petroleum agreement is created to prevent
future re-separation. The new Natural Gas and Petroleum agreement retains the same features as the original agreement (term commencement date, surface access conditions, etc.). The original PNG agreement is cancelled.

3. The bonus payable is 75 per cent of the regional price per hectare. This is based on the average of the prices in the region for the last six PNG sales held immediately prior to the date Alberta Energy receives the direct purchase application. The direct purchase price is not negotiable.

3.4 PROCESS
Alberta Energy reviews each application and adds the purchase price to the application on ETS. An email notification is then sent to the creator of the application, via ETS, advising of the update.

Acceptance or rejection of the purchase price by the creator is required before further processing.
- If the creator rejects the purchase price and posts the lands in a public sale, the parcel will be placed into the next available sale.
- If the creator accepts the purchase price, the funds will be withdrawn from the payor’s EFT account within two days of acceptance.

If there are insufficient funds to cover the transaction, three per cent interest is charged, or the application may be cancelled.

The direct purchase bonus price per hectare can be found on Alberta Energy’s website by accessing: www.energy.alberta.ca>Our Business>Tenure>PNG Sales>Direct Purchase or Our Business>Oil Sands>Oil Sands Rights>Direct Purchases. This information may be used by industry to calculate the estimated parcel cost prior to submitting an application.

The public sale remains Alberta Energy’s priority; therefore, applicants should allow sufficient time for Alberta Energy’s response to direct purchase applications.

Regular updates for a number of topics are available as subscriptions. Topics include Oil Sands and PNG Public Offering Notices. Access the following link to sign up on our website: Subscriptions.

4. ELECTRONIC TRANSFER SYSTEM (ETS)

4.1 THE ETS ACCOUNT
ETS is a secure web application providing access to e-Postings and e-Bidding. Only holders of an authorized account can access the services provided through ETS.
Each company or organization must assign an individual to perform the role of the ETS site administrator. To obtain access to ETS, a company or organization must complete the ETS Set-Up/Change form and provide a letter authorizing the site administrator for their company. For complete instructions access the ETS page on Alberta Energy’s website at www.energy.alberta.ca>Our Business>Tenure>Services>ETS.

4.2 CHANGE ETS ACCOUNT
If an ETS account already exists and the functions to participate in the sale are required, access the ETS Account Set Up/Change form and add e-Bidding and e-Postings to the account.

In Section “B” of this form, apply for “Posting Requests” for access to e-postings and request “Bidding on Public Offering of PNG and Oil Sands” for access to e-Bidding. Please also fill out and submit an Electronic Fund Transfer Authorization letter with your completed Set-Up/Change form. To act as a Designated Representative for a Crown agreement, request 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@gov.ab.ca

For further information on the Sales processes please contact:

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