Guideline

Petroleum Drilling Regulations
(CNR 1150/96)

| Topic: | Drilling Applications - Exploratory Wells Submission, Review and Approval Process |
| Ref:   | Sections 7 and 29 |

7. A person may apply for a drilling program approval in respect of a proposed drilling program by completing and forwarding in triplicate to the director an application in the form prescribed by the director.

29. An operator shall submit in triplicate to the director an application for an authority to drill a well not less than 21 days before the date he or she plans to spud-in.

1.0 PURPOSE

The purpose of this Guideline is to give companies holding Exploration Permits or Exploration Licences, that wish to drill wells under the Petroleum Drilling Regulations, an overview of the application submission, review and approval process currently in place by the Department of Natural Resources, Petroleum Development Section.

In addition, many of the basic regulatory requirements are outlined.

2.0 OVERVIEW

A company wishing to drill a well onshore, as defined in the Petroleum Drilling Regulations, requires the following:
.1 A Valid Exploration Permit or Exploration Licence

In accordance with the Petroleum Regulations, petroleum exploration rights issuance instruments are:

- **An Exploration Permit** which confers the "... exclusive right to drill and test for petroleum to any depth in the permit area." (section 24(1)(b))

Exploration Permits are issued for an initial 5 year period for a specific parcel of land. Issuance is usually the result of competitive bidding. The majority of petroleum exploration drilling occurs on lands for which the operator holds an Exploration Permit. Drilling can also take place on an Exploration Licence or a Lease.

- **An Exploration Licence** which confers the "... non-exclusive right ....... to conduct an exploration survey...." (section 10(1))

Exploration Licences are issued for one or a group of exploration surveys.

In addition to seismic surveys etc., an exploration survey may include test holes, stratigraphic wells and petroleum exploration wells outside existing Exploration Permit areas.

Under certain circumstances it may also include stratigraphic wells and directionally drilled petroleum exploration wells on lands for which a different operator has an Exploration Permit.

For example, Operator A may directionally drill a petroleum exploration well from outside its own permit area (from Operator B’s permit area) to a target lying within Operator A’s permit area. Approval will not be granted if, in the Minister’s opinion, the drilling of the well interferes with Operator B’s "... exclusive right to drill and test for petroleum .." or negatively impact on Operator B’s reservoir.

In addition, Operator A may drill a test hole or a stratigraphic well in Operator B’s permit area subject to the above condition.

Exploration Permits and Exploration Licences are issued by the Department of Natural Resources.

The company responsible to the Department for all aspects of the drilling program, known as the Operator, will be either the company which was awarded the Exploration Permit or Exploration Licence or has been designated by the permit holder as its representative.

.2 Registration

Companies conducting work in the province must be properly registered pursuant to The Corporations Act.

.3 Approval to Conduct the Drilling Operation

This is achieved by obtaining a Drilling Program Approval and an Authority to Drill a Well from the Department of Natural Resources.

.4 Other Licenses, Permits and Authorizations

The well drilling program will be subject to all other applicable regulations. In order to assist in identifying other approvals and to identify any fundamental land use concerns regarding the
proposed drilling project, the operator is asked to submit an information package. Turnaround for this documentation is usually two to three weeks. A guideline to this package (Guideline for Information Submission to the Petroleum Exploration Referral System) is posted on the Department’s website: [http://www.nr.gov.nl.ca/mines&en/legislation/pers_guidelines_dec04.pdf](http://www.nr.gov.nl.ca/mines&en/legislation/pers_guidelines_dec04.pdf)

.5 **Financial Responsibility**

The Operator must carry adequate insurance ($10 million Operator’s Extra Expense), provide financial securities covering the operation and have sufficient depth of financial resources to cover any liabilities that may be incurred in the drilling operations.

.6 **Miscellaneous Regulatory Approvals**

As with any activity in the province, the operator must comply with the municipal, provincial and federal regulations covering various aspects of the drilling activity.

### 3.0 PRELIMINARY WORK

.1 **Early Stage Discussions**

Prior to the preparing applications for a [Drilling Program Approval](#) and an [Authority to Drill a Well](#), the operator should contact the [Petroleum Development Section](#). Early communication will enable Section staff to assess the scale and impact of the proposed operation. Staff and the operator can also address any major technical and administrative issues and concerns. The need for an ILUC document or a [Public Briefing Session](#) can be assessed through this process.

.2 **Other Approvals**

Depending on information obtained in the early stage discussions an information package may be required for submission to other government agencies. Where time allows, the operator may elect to defer the preparation and submission of the information package until the final details of the proposed operation are known. The operator should note however that the process for obtaining some permits and approvals from other government departments and agencies can be time consuming.

Additional information on this process is included in section 5.2 of this document.

.3 **Scope of Work**

At the end of early stage discussions, the Department will inform the Operator of expectations as to the information and level of detail required for the drilling application. The level of detail required is primarily a function of the following:

- **Location of Drilling Operations**
  - Remote location?
  - Environmentally sensitive area?
  - Extreme Prevailing Environmental Conditions?
  - Residences nearby?
First drilling operation in the area?
Site access construction required?
Private land?
Is the well proposed for an existing Exploration Permit?
Will the well cross Exploration Permit boundaries?

- **Nature of Operations**
  - Deep drilling or shallow hole?
  - Rank wildcat or in an area of known pressures and geology?
  - Known or unknown sour or sweet gas?
  - Conventional rotary, new technology or experimental technology?
  - Are exemptions to the Petroleum Drilling Regulations required?
  - Stratigraphic or a petroleum exploration well?

- **Supervisor/Contractor background**
  - Experienced oil and gas contractor?
  - Full time onsite supervision by operator or consultant?

- **Operator Information**
  - Corporate Emergency Response Plan?
  - Corporate Occupational Safety and Health Policy?
  - Financial resources to cope with emergency situations?
  - Experienced oil and gas operator?
  - Sufficient depth of staff to handle emergency situations or outside consultants?

### 4.0 APPLICATION
#### .1 Application Required
An application must be submitted to the Department of Natural Resources for the drilling of any well meeting the following definition in the Petroleum Drilling Regulations:

“well” means any opening in the ground that is not a seismic shot hole and that is being made, to be made or is in the process of being made, by drilling, boring or any other method

(i) through which oil or gas could be obtained,
(ii) for the purpose of searching for or obtaining oil or gas,
(iii) for the purpose of obtaining water to inject into an underground formation,
(iv) for the purpose of injecting gas, air, water or other substance into an underground formation, or
(v) for any purpose through sedimentary rock to a depth of at least 150 meters.

Definition (v) is only strictly applied in the case of a drilling operation related to oil and gas exploration. Drilling for other purposes, in areas of known or high potential for encountering hydrocarbons may be subject to design requirements similar to those in the Petroleum Drilling Regulations.

#### .2 Application Procedure
The Operator formally initiates the application process by submitting the following at least 21 days prior to the anticipated spud date:

! An Application for Drilling Program Approval
This is a one page form covering the general aspects of the drilling program.

**An Application for an Authority to Drill a Well**
This one page form contains well specific information. A separate application is required for each well under the drilling program.

**Supporting Information**
The basic information requirements for each of the above applications are listed in the Petroleum Drilling Regulations *(sections 7 to 19 and 26 to 31 respectively)*.

Currently, there is no guideline elaborating on each item to be addressed in the applications. As exploration drilling in the province is still in the early stages, Section staff determine information and level of detail requirements on a case by case basis and reviews same with the Operator during the early stage discussions. The format of the application package is generally left to the operator’s discretion but the preferred method is in pdf format. Sections can be easily identified and if replacement pages become necessary they can be placed into the package quickly and efficiently.

Application forms are available on the Department’s website: [http://www.nr.gov.nl.ca/mines&en/permits/onshore/](http://www.nr.gov.nl.ca/mines&en/permits/onshore/).

### Information Provided by the Department

The Department provides a number of guidelines to assist the operator in designing the well program and assembling the application package and determining regulatory reporting requirements. The individual guidelines address specific sections of the drilling regulations. In addition, the Petroleum Development Section has developed an annotated guide listing the items to be addressed by the applicant.

### Application Restrictions

The Department accepts these applications **only** from operators which hold a valid Exploration Licence, Exploration Permit or Lease or are **given the right** by a holder of a valid Exploration Licence, Exploration Permit or Lease.

### REVIEW

#### Application Review

A review of the application is conducted by staff of the Petroleum Development Section. This review covers the engineering, geological, geophysical, land use, financial security and policy aspects of the application. This review, related communication with the operator and subsequent submission of revised or supplemental material may take up to one month depending on the well locations, nature of the operation and the completeness of the original submission. In many cases, the review period may be substantially shorter. The operator should be aware that the Petroleum Drilling Regulations require 21 days notice prior to spud date.
.2 Other Approvals

The previously mentioned information documents are submitted by the Department to other government agencies in order to;

- identify potential land use conflicts,
- identify approvals required from other government departments; and
- assist in determining whether registration is required under the *Environmental Assessment Act*.

The review of the information document serves to identify any concerns which may impact on the nature and timing of the proposed operations. This review is a preliminary step in obtaining permission to conduct operations at the site. Other permits and approvals are still required from various Federal and Provincial government departments and agencies and will vary depending on the nature of the operation and the well location.

Historically, the operator submits the information package well in advance of the ADW and DPA applications to enable it to obtain an initial response from other agencies indicating whether there are any fundamental objections to the proposal. The operator is then in a position to modify its plans prior to the submission of the detailed drilling application package to the Department.

The lead time required is a function of the complexity and sensitivity of the proposed project.

.3 Public Issues

During, or sometimes prior to, the DPA and ADW application review, the Department will inform the operator if a Public Briefing Session will be required. This session is held jointly by the Operator and the Department.

It is within the Minister’s discretion to initiate public briefing sessions or hearings concerning proposed exploration or development activities. Such public consultation may be necessary when the proposed activity has the potential to have a significant effect on the environment or local population, or when the Minister deems it desirable to inform the public of proposed activities in this manner to help facilitate a mutual understanding and cooperation between the operator and local residents. The operator should be prepared for the possibility of participating in public briefing sessions or hearings.

6.0 FINANCIAL RESPONSIBILITY

.1 Regulations

Section 14 of the *Drilling Regulations* addresses the requirements for financial securities covering the drilling operations. The applicant shall, when requested by the Minister;

14(a) furnish to the minister a performance bond in a form and an amount satisfactory to the minister requiring the surety named in the bond to terminate the well and leave the drill site in a satisfactory condition in the event of the failure of the operator to comply with these regulations; and
14(b) furnish evidence to the minister, in a form satisfactory to the minister, that he or she is financially able to meet financial liability that may be incurred as a result of the drilling of a well.

.2 Bonding etc.

The acceptable forms of security required for all drilling operations as a Condition of Approval of the drilling operations which must be in place before operations commence are either a certified cheque or an irrevocable letter of credit.

* Upon receipt at the Department all certified cheques will be immediately placed into a security account.

The amount of the security is determined by the Department based on the scale and impact of the proposed operations and an estimate of the cost to complete operations at the site at any time should the operator fail to do so.

The type and expiry date of the security and the mechanism for release of same will be discussed with the operator and decided upon by the Minister prior to the approval of the Application for Authority to Drill a Well.

.3 Insurance

The Operator will be required to carry Operator's Extra Expense Insurance which normally includes:

- Control of Well
- Redrilling/Extra Expense
- Seepage and Pollution, Cleanup and Containment
- Care, Custody and Control
- Deliberate Well Firing
- Extended Redrilling and Restoration Cost
- Evacuation Expenses
- Joint Venture Contingent Liability
- Making Wells Safe
- Removal of Wreckage and/or Debris
- Turnkey Wells
- Underground Control of Well
- Unlimited Redrill

In the case of conventional rotary rig drilling, the policy has usually had a value of $10 million. The acceptability of a specific insurance level proposed by the operator will be determined by the Minister during the application review.

.4 Financial Liability

If the Operator is a publicly held company, the previous year's annual report should be submitted to confirm that there are adequate finances available to cover the potential liability incurred in the event of a major environmental incident. If the company is not publicly held, a statement attesting to its financial health from a recognized accounting firm may be required.
Satisfying the requirements of section 14 or the *Petroleum Drilling Regulations* does not in any way reduce the operator’s financial liability in the case of a blowout, environmental incident or failure to properly terminate the well.

### 7.0 APPROVALS

#### .1 Natural Resources Approval

Once the Department is satisfied that all fundamental requirements, as identified by the review process, and Departmental regulations have been met, approvals are issued by the Minister of Natural Resources with attached *Conditions of Approval*.

Approvals are issued by the Department for the following:

- **X Drilling Programs**
  Consisting of the drilling of one or more wells that utilize the same drilling rig, key personnel and techniques for a specified area. The *Drilling Program Approval* (DPA) covers a period not exceeding 3 years.

- **X Wells**
  A separate approval is required for each of the wells in the above mentioned Drilling Program. The *Authority to Drill a Well* (ADW) is conditional on drilling commencing within 120 days of its issuance.

The Operator is then authorized to commence drilling, subject to meeting all other provincial and federal regulations.

#### .2 Joint Jurisdiction

Directional wells drilled from an onshore location to an offshore target cross the onshore/offshore jurisdictional boundary. The offshore area is administered by the *Canada-Newfoundland and Labrador Offshore Petroleum Board* (C-NLOPB) while onshore drilling is solely provincial jurisdiction administered by the *Department of Natural Resources*.

In the case of a joint jurisdiction well, the operator must apply to both the Department of natural Resources and the C-NLOPB concurrently for approval to conduct petroleum drilling operations. Given that the application process and information requirements are almost identical, the operator can submit essentially duplicate documentation to both agencies. Correspondence and approvals are coordinated by the C-NLOPB and Natural Resources to minimize duplication of effort and paperwork.

Guidelines addressing reporting and information gathering requirements for these joint jurisdiction operations have been developed to assist the operator.
8.0 QUERIES

All queries should be directed to:

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