

**ENCANA**

December 05, 2005

VIA FACSIMILE ONLY: 403-266-6684

Centrica Canada Limited  
1000, 111 - 5<sup>th</sup> Ave. SW  
Calgary, AB T2P 3Y6

Attention: Gary Foster

**RE: Objection to APPLICATION TO ESTABLISH HOLDINGS FOR THE PRODUCTION OF GAS FROM THE EDMONTON COALS AND SANDS IN THE MANITO, BASHAW, ERSKINE, STETTLER, LEAHURST, GADSBY, HALKIRK AND LEO FIELDS.**

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EnCana Corporation ("EnCana") is the registered fee simple owner of coal underlying Section 33-036-18W4M; Section 01-037-18W4M; Section 33-037-19W4M; Section 35-037-19W4M; Section 31-038-18W4M; Section 05-038-19W4M; Section 25-038-20W4M; Section 35-039-20W4M; Section 35-042-20W4M (the "Lands").

EnCana, as the mineral lessor in the notice for Application to establish a holding for the Production of gas from the Edmonton coals and sands ("the Notice") in the Lands, objects to the Notice on the basis of the following:

Centrica Canada Limited ("Centrica") has no rights in respect of the coal underlying the Lands. In EnCana's view, sufficient legal uncertainty surrounds the ownership of coalbed gas that the Application should not proceed without judicial resolution of the entitlement issue.

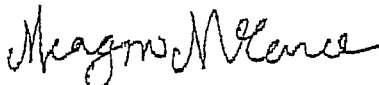
EUB *Guide 56* and subsection 16(1) of the *Oil and Gas Conservation Act* provide that no person shall apply for a well licence unless that person is entitled to the right to produce all of the substances to be produced from that well. Insofar as the Court of Appeal's decision in *Alberta Energy Co. v. Goodwell Petroleum Corp.* is good law, the current circumstances must be distinguished as follows:

- (a) A reservation of coal, to have any meaning, must be construed as a stratigraphic severance of the coal seam (we refer you to the Alberta Court of Appeal decision in *Little v. Western Transfer & Storage Co.*) with the result that Centrica has no rights within the coal strata which would provide the basis for an incidental right to produce coalbed gas concurrently with conventional natural gas.
- (b) The Alberta Court of Appeal has approved the trial decision in *Anderson v. Amoco Canada Oil & Gas* wherein the Court distinguished the science and law pertaining to multiple phase reservoirs from the science and law resulting in coalbed gas ownership disputes. Consistent with the foregoing, *Alberta Energy Co. v. Goodwell Petroleum Corp.* likely has no application to the current circumstances.

- (c) Insofar as the conventional natural gas and coalbed gas targeted by the proposed well are within different pools (as contemplated by the EUB), production that is taken without segregation in the well bore must be approved by the EUB. Section 15.220 of the *Oil and Gas Conservation Regulations* requires that an order to approve the commingling in the wellbore of fluids from 2 or more pools must be made in accordance with *Guide 65*, and must be interpreted to require common ownership among the commingled pools. In the current circumstances, commingled production has not been approved and common ownership may not exist. Insofar as the conventional natural gas and coalbed gas targeted by the proposed well are within the same pool, section 5.005 of the *Oil and Gas Conservation Regulations* provides that, unless authorized by the EUB, only one well shall be produced from each pool in a drilling spacing unit and further requires that "no well shall be produced unless there is common ownership throughout the drilling spacing unit". So long as issue of entitlement to the coalbed gas underlying the Lands remains unresolved, there is no common ownership with the drilling spacing unit of the proposed well.

EnCana has serious concerns respecting Centrica's entitlement to produce "gas from coal". Failing to object in circumstances where an applicant does not hold a valid and subsisting Lease Agreement, or where an applicant is not entitled to produce all of the substances targeted by the proposed well, may prejudice EnCana in the future as such failure may be interpreted as a form of waiver or estoppel.

Yours truly,  
ENCANA CORPORATION  
ENCANA MIDSTREAM & MARKETING  
ENCANA OIL & GAS PARTNERSHIP



Meagan McCance  
Land Administrator  
CENTRAL PARKLAND BU

Cc: Alberta Energy and Utilities Board  
Attention: Les Schmitt, Resource Applications  
VIA FAX ONLY: 403-297-2474