

12 May 2003

Applications Branch
Alberta Energy and Utilities Board
640 – 5 Avenue S.W.
Calgary, Alberta
T2P 3G4

Attention: Terry Abel

Re: Response to General Bulletin GB 2003-12

Husky Oil Operations Limited has considered the captioned bulletin and its request for submissions on:

- (a) whether existing gas formation from the Wabiskaw-McMurray Formation in the Athabasca Oil Sands Area should be shut in; and/or
- (b) any alternative measures that might be taken to ensure the conservation of bitumen in the Wabiskaw-McMurray Formation in the Athabasca Oil Sands Area..

Our submissions are as follows. Husky is one of the largest corporate landowners and producers of petroleum, natural gas and bitumen in the Province of Alberta, holding approximately 1.77 million net acres of PNG rights in the Athabasca Oil Sands Area (the "AOSA"). These lands contain 195 wells that are producing from the Wabiskaw-McMurray Formation. Over the last 12 months, the production from these wells generated \$26.1 million in Crown royalties. A shut-in of gas production from the Wabiskaw-McMurray Formation in the AOSA would have a significant impact on Husky, and its ability to conduct business. In Husky's view:

1. Regional curtailment of natural gas production from the AOSA would be a very severe and, we respectfully submit, inappropriate response to the gas/bitumen issue. It would fail to take into account advances in technology and in industry knowledge with respect to gas/bitumen production issues that have taken place in the past six years (and which continue to evolve at a rapid pace), and the ability of industry players to reach reasonable and effective commercial solutions in accordance with ID 99-1. We have had meetings with a number of the major natural gas and bitumen rights holders in the AOSA and are in agreement with them that implementation of GB 2003-12 would have serious negative implications. The parties we have met with feel that the process established by ID 99-1 is working, although streamlining and further discussions on and clarification of this critical issue are clearly warranted. Husky supports the creation of a government/industry task force to determine how the competing goals of resource development and conservation in the AOSA can best be managed.

2. GB 2003-12 infers a greater economic value to bitumen conservation than natural gas production, even though in many cases the bitumen may not be commercially exploitable until some point in the distant future, if ever. The implementation of the Bulletin would, we submit, result in the sterilization of the natural gas resource without, in many cases, any offsetting increase in bitumen production.
3. If Alberta's resources are going to continue to be developed in an effective and efficient manner, we respectfully submit that the Province must ensure that clear, fair and consistent policies and guidelines are maintained for the industry to encourage continued investment at land sales and in drilling and production operations. We further submit that if subsequent to its having established a policy regime under which industry has been encouraged to make substantial investments in acquiring and developing resource rights, the Province feels that a major alteration to that policy may be required, such change should only occur after full and frank discussions with affected parties. These discussions would necessarily include the levels of compensation payable for the loss or diminution in value of the affected resource rights and of investments made in respect of them in good faith under the original policy regime. Husky acquired a significant number of PNG Leases and Licences in the AOSA prior to the change in the gas/bitumen regulatory regime, and, as indicated above, has invested significant sums of money in developing these rights. If the EUB were to issue a blanket shut in order, Husky's ability to recover these investments would be denied. This would be of serious concern to Husky.

As stated above, Husky has met with other natural gas and bitumen producers and we believe that a general consensus exists that GB 2003-12 should not be enacted. The parties support a streamlined ID 99-1 process and negotiated settlements among industry players with EUB and Department of Energy involvement only where required. We encourage the EUB to consult with the industry and the Department of Energy to develop further rules and guidelines to permit the fair and equitable recovery of both the natural gas and bitumen resource in the AOSA. We also believe that there are technical solutions that are emerging that will permit the recovery of both resources based upon industry driven economic parameters and we encourage the EUB to hold consultative workshops to explore this possibility. As a major landholder in the AOSA, we request that any leases and licences held within the AOSA be continued until these consultations are completed. Until a workable solution is found, we encourage the continued reliance on ID 99-1.

Representatives of Husky are available to meet with the EUB and the Department of Energy at any time to discuss our concerns on this critical issue.

Sincerely,

HUSKY OIL OPERATIONS LIMITED

Original signed by:

R. S. Coward, P. Eng.
Vice President
Western Canada Production

cc: The Honourable Murray Smith, Minister of Energy