

May 13, 2003

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

Attention: Mr. Terry Abel, P.Eng., Applications Branch

Dear Sir:

Re: General Bulletin GB 2003-12

Please accept the following as JACOS' submission in response to the request to industry outlined in GB 2003-12.

Summary

Japan Canada Oil Sands Limited (JACOS) is actively involved in oil sands development and has been monitoring the gas bitumen issue from the initial complaint by Gulf in 1996. Since that time, many experts have addressed the issue of conflict between the production of associated gas and bitumen development. JACOS believes that this is a true conservation issue and supports actions that the Board will take to protect Alberta's bitumen resources by the shut in of associated gas production where bitumen production will be adversely impacted.

The Board has done an exceptional job in analyzing the complex geology and identifying potential high-risk zones as described in Appendix 13 to Decision 2003-023. Attachments 4 and 5 of ID 99-1 contain maps of the Wabiskaw & McMurray formations, indicating areas where an application is required in order to produce gas. JACOS is aware of a number of conflicts between gas production and bitumen recovery within this area which have not yet been addressed.

Industry has spent an enormous amount of time and energy debating this issue before the Board. The Board has also dedicated considerable time and resources to this issue. The Board should now take the initiative on this clear conservation issue with a minimum of additional industry input.

Introduction

In 1978 JACOS farmed in to 34 oil sands leases held by Petro-Canada, Esso Resources (now Imperial Oil) and Canadian Occidental Petroleum (now Nexen) and currently holds

interests varying from 12% to 100% in 26 leases (142,000 gross and 62,000 net hectares.) JACOS produces approximately 5,000 barrels of bitumen per day from its Hangingstone SAGD Pilot project. Interests are held in the Chard, Liege, Corner, Thornbury and West Hangingstone areas. JACOS has developed a significant level of expertise through years of development and production of bitumen by in situ methods. As a developer of oil sand leases within the main fairway channel trend, JACOS is most interested in the resolution of this conservation issue.

The Conservation Issue

In Decision 2003-023, the Board has summarized the complex geology of the Wabiskaw/McMurray focussing on the Chard-Leismer area.

JACOS believes there are numerous other areas within the broad outlines of ID 99-1 where the conflict exists. We agree with the definitions of high risk zones outlined in Appendix 13 of Decision 2003-23. Where there are significant accumulations of bitumen in a low stand channel reservoir facies environment, continued production of gas in associated high risk zones will be detrimental to bitumen development.

The conflict between associated gas and bitumen production is real. JACOS agrees with the Board conclusion in Decision 2003-023 that “producing gas that is associated with bitumen, such as at high-risk wells identified in section 11, presents an unacceptable risk to SAGD bitumen recovery”. This will be as true for areas outside of Chard/Leismer or Surmont as it is to these specific areas.

There should be no differentiation between wells on the basis of production start date. Wells predating ID 99-1 should be treated identically to new wells.

The conflict has gone on for too long. The issue was first identified in November of 1996. Much evidence and debate has occurred since that time, but gas production has continued. Now is the time to move quickly to preserve as much of the remaining pressure as possible.

JACOS is also concerned that, in addition to the conservation issues identified, the evidence to date would indicate that solution gas from within the bitumen deposits is also being produced by the gas producers as pressures decline. Aside from impacting bitumen recovery, in the late stages of depletion there may also be issues associated with the ownership of the gas.

Practical Approach

New hearings are not required, as no new evidence will be available. Producers can not continue to dedicate the resources or the money that these hearings have taken. Nor is it an efficient use of Board time and resources. A simple, practical method for shutting in

associated gas based on the Boards findings to date needs to be implemented and implemented quickly.

The Board should allocate resources to review the geology of the bitumen deposits and gas producing areas within the areas identified in Attachment 5 to ID 99-1. Gas zones associated with low stand channel bitumen deposits that can be identified as high-risk using the Board's definition from Decision 2003-023 should be shut in. Realizing that there are a large number of wells to be reviewed, the Board should prioritize the wells, analyzing the largest producers first. As wells are identified for shut in, these should be proceeded with immediately, rather than waiting until the last well is reviewed.

Gas producers could appeal individual gas zones that are shut in on the basis of geology, but this should consist of a written submission (copied to the relevant bitumen owners) with possibly a verbal presentation, rather than a formal hearing.

Conclusions

The Board has received thousands of pages of evidence and testimony from the best experts available. All arguments and alternatives have been examined. The Board has reached a measured conclusion. As a practical matter, parties on both sides of the issue have had more than ample opportunity to argue their case and they have debated the issue using the best technical evidence available. After seven years of debate, the conclusion remains the same; production of associated gas is detrimental to the recovery of bitumen using SAGD. A major hearing should not be required for each associated gas zone still on production when the evidence is already so clear. A simple, practical method for shutting in associated gas based on the Boards findings to date needs to be implemented.

Respectfully submitted May 12th, 2003

Japan Canada Oil Sands Limited

Toshi Hirata
Vice President, Operations