

JAN 8 2004

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Our File No.: 48992-13

January 7, 2004

VIA COURIER

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

Attention: **Mr. Neil McCrank**
Chairman

Re: General Bulletin 2003 - 28 ("GB 2003-28"), Regional Geological Study

We are legal counsel to Paramount Energy Trust ("PET"). I am in receipt of your letter of January 2nd past, announcing the release of the Regional Geological Study ("RGS"), and advising of the process over the next two to three months.

It is the considered opinion of Paramount Energy Trust ("PET") that the process outlined in your letter appears to be flawed, such that, quite apart from the legality of GB 2003 - 23, even if GB 2003-23 is not set aside, the proposed process will seriously prejudice the interests of gas producers, including PET. The reasons include the following.

The preparation of the RGS was a substantial undertaking, extending over a number of months and covering many thousands of hectares of land. The EUB contends that the study is but a first step in the process of determining which gas may adversely impact the potential production of bitumen. The next step is apparently to be a review by EUB staff, which is to study the RGS and "make specific recommendations to vary or continue the production status of gas wells on January 26, 2004". If we are to make the assumption that the staff who are assigned this task played no role in the development of the geological study, it is virtually inconceivable to believe that they will be in a position to make informed and sound recommendations within three weeks of receipt of the study. We have no information as to who specifically will be undertaking this assignment, their qualifications, or work experience. To illustrate the point, the study relies heavily upon geological correlation techniques to infer pool connectivity. Noticeably absent from the RGS is the integration of engineering data, which we understand is critical to determining pool connectivity.

As you can appreciate, for a public entity such as PET it is important that unitholders be apprized of events or facts which may materially affect their interests. It is equally important that the recommendations of Board staff, whatever they may be, are well researched and considered so that

unitholders receive the benefit of well considered recommendations. Anything less could lead to yet further losses.

Of even greater concern is what is to follow next. Within two weeks of receipt of the staff recommendations, gas producers wishing to challenge some or all of those recommendations must file their written evidence in support of the challenge. Based upon an initial review of the RGS, PET presently calculates that as many as 225 of its wells may be affected. Many other gas producers may be similarly affected. Due to the enormity of the geological study, without even addressing any staff recommendations, it will be virtually impossible to develop any meaningful evidence or even appreciate how to fully digest all of the relevant issues, within two weeks. To impose such a timeline is simply unworkable. I would like to remind you that historically the Board has taken months, sometimes years, to deal with a single application under ID 99-1. To expect a gas producer (and presumably interested parties such as bitumen owners) to develop evidence on what may amount to hundreds of wells, within two weeks, is to deny the parties a fair hearing and due process. The fact that the general gas/bitumen issue has been before the Board for a number of years is not the issue. It is the application of the regulations, including ID 99-1 and the apparent change in the EUB's direction to specific lands, which is the issue. That is a complex process, particularly when hundreds of wells, valued at many millions of dollars, may be involved.

You have also directed that the hearing will be held on March 8, 2004. It is unclear from that direction whether the intention is that the hearing be concluded in one day or whether the hearing will be continued until completed. In either event, to suggest that the hearing must commence on March 8, 2004 is unfair and unreasonable, and will not afford parties an adequate opportunity to deal with the issues. While the issues which may come before the Board in March should be narrower than in Chard/Leismer, I remind you that the hearing in the Chard/Leismer matter, which involved far fewer wells and considerable less acreage, took place over a period of some nine months. In that matter the parties, including the EUB's own participation through the SSG, were given months to prepare for the hearing. In no instance did any of the parties to that hearing have to address as many wells as are potentially at risk insofar as PET is concerned.

It is also of considerable concern to us to see the arguments being advanced by the EUB to a Justice of the Court of Appeal respecting the Leave to Appeal application, to be heard later this week. The Board has put forward arguments to the effect that there ought not to be any concern inasmuch as the parties which might be affected by GB 2003-28 will be afforded a full and fair hearing. For the reasons set out above, in our view, that is simply not the case. That being so, in our submission, it is inappropriate to give the Court an impression that appears not to be well founded. For the reasons outlined above, it is impossible to provide a fair hearing to interested parties within the timeframes set out in the EUB news release and your letter of January 2nd, 2004. This leads to discussion of what should happen, and how gas producers will be impacted.

To delay the commencement of the hearing is of no comfort to gas producers, if in the meantime their production is to be shut-in, or if shut-in, there is no compensation. At a minimum, the temporary exemptions should be continued, until the hearing, if any, is concluded.

