

February 18, 2004

Alberta Energy and Utilities Board  
640 – 5<sup>th</sup> Avenue S.W.  
Calgary, AB  
T2P 3G4

Attention: Gary Perkins, Board Counsel

Dear Sir,

**Re: Paramount Energy Trust  
Correspondence dated February 12, 2004**

The Staff Submission Group (SSG) received correspondence, by way of copy, from Paramount Energy Trust (PET) to you dated February 12, 2004. In that correspondence PET proposed that additional pressure analysis was necessary for an accurate determination of which gas production is in association with potentially recoverable bitumen. PET also commented upon the issues of urgency and risk and requested that the EUB remove gas pools with an average pressure exceeding 600 kPaa from the interim hearing process. Finally, PET requested the SSG, as an interested party, to advise as to their willingness and availability to attend a preliminary ADR meeting (PADR) with PET pursuant to EUB Information Letter (IL) 2001-01.

The following is the SSG's response to the issues raised in PET's letter.

While it is the SSG's view that the issues raised by PET are more properly the subject of the interim proceeding scheduled for March 8, 2004, it feels obliged to briefly comment upon PET's proposal with respect to removing gas pools with an average pressure exceeding 600 kPaa from the interim hearing process. In short, it is the SSG's view that any Wabiskaw-McMurray gas production associated with potentially recoverable bitumen presents an unacceptable risk to SAGD bitumen recovery. The SSG considers it urgent for the Board to consider all gas production that is associated with potentially recoverable bitumen at the upcoming interim proceeding.

In its recommendations of January 26, 2004, the SSG included a summary of important and relevant determinations that the Board has made with respect to the bitumen conservation issue. The following passages from the Surmount and Chard-Leismer decisions, respectively, are illustrative of the Board's historical position in that regard.

*The Board accepts that as the steam chamber pressure is decreased below about 800 kilopascals absolute, artificial lift becomes increasingly more difficult, until at pressure below 400 to 600 kilopascals absolute it is not technically feasible. The Board concludes that minimizing the depressuring of overlying gas zones will better ensure successful SAGD operations, both in terms of maximizing bitumen recovery and minimizing the costs and technical difficulties of artificial lift.*

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*The Board concludes that risks to SAGD bitumen production increase at lower operating pressures. As a result, the Board continues to believe that where gas is associated with bitumen, gas zone depressuring should be minimized to better ensure successful SAGD operations in terms of resources recovery and minimizing the technical difficulty of lifting SAGD fluids. Furthermore, in the absence of field data, the Board continues to believe that the minimum steam chamber pressure required for artificial lift to be technically feasible would be in the range of 400-600 kPaas previously stated in Decision 2000-22.*

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With regard to PET's proposal for PADR, the SSG is not opposed to participation in this process however, its participation in a PADR meeting would be conditional upon the shut-in of all wells/intervals recommended for shut-in in the SSG's January 26, 2004 submission prior to the PADR meeting and that these wells remain shut-in until a final determination is made by the Board respecting their production status.

Further, the SSG is of the view that any such meeting must include all parties with an interest in the upcoming interim proceeding. As such, the SSG is, by copy of this letter, advising interested parties of PET's proposal for a PADR meeting. The SSG notes, in that regard, that some interested parties are proposing the shut-in of wells/intervals in addition to those listed in the SSG's January 26 submission. As such, the SSG believes that it is imperative that those concerns must also be addressed prior to a PADR meeting.

Yours truly,



Douglas A. Larder  
Staff Submission Group Counsel

Copy: Paramount Energy Trust  
Attention: Susan L. Riddell Rose (Via E-Mail)

Interested Parties (Via E-Mail)