

February 20th, 2004

Alberta Energy and Utilities Board
640 5th Avenue SW
Calgary, Alberta T2P 3G4

VIA COURIER

Attention: Gary D. Perkins

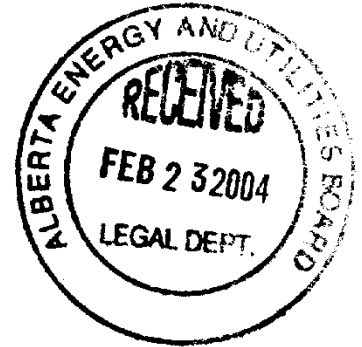
RE: General Bulletin GB 2003-28 Phase III Proceeding

Paramount Resources Ltd. ("Paramount") is writing to express our continued concerns with the GB 2003-28 Phase III Proceedings, specifically any effects the interim hearing may have on agreements entered into among the Alberta Crown, Conoco Canada Resources Limited and the Surmont Producers Group to resolve various issues arising out of EUB Decision 2000-22 (the "Surmont Decision"). These agreements include the Memorandum of Agreement entered into as of May 1st, 2000, the Gross Overriding Royalty Agreement effective January 1st, 2001, and the Technical Solutions Agreement entered into as of March 22nd, 2002, and with others are sometimes collectively referred to as the "Surmont Agreements". The Surmont Agreements dealt with pools and wells within the Gulf Surmont Boundary and the surrounding three-section Buffer Zone.

Paramount Resources understood that GB 2003-28 and the Athabasca Wabiskaw-McMurray Regional Geological Study were intended to create a process that would resolve gas over bitumen issues in areas not addressed in the previous Surmont Decision and in the Chard Leismer Decision (Decision 2003-23)¹. The first phases of the process included the initial shut-in order and appeal process that was completed in 2003. The result of those phases was the shut-in of 337 wells and continued production from 601 wells.

The EUB embarked upon the third phase of the process with the release of the Athabasca Wabiskaw-McMurray Regional Geological Study (RGS) and subsequent Staff Submission Group (SSG) Bitumen Conservation Recommendations. Although the RGS correctly purported to omit the Surmont area from review², the maps contained in the RGS include the Surmont Buffer Zone. Further, the SSG recommendations include approximately 280 "events" in 152 wells in the Surmont area. Some of these are new recommendations while some repeat the Surmont Decision. Twenty of the wells are located within the Gulf Surmont Boundary and 132 of the wells are in the Surmont Buffer Zone.

Paramount Resources Ltd. is very concerned by this apparent overlap. Notwithstanding Paramount's previous objections to the Surmont Decision, the Surmont hearing was a more rigorous and complete review of the wells and pools within the Gulf Surmont Boundary and Surmont Buffer Zone than was the RGS. In addition, as you are aware, Paramount has sponsored an even more complete review, currently under development through the Gas Over Bitumen Technical Solutions Committee. The resolution of the

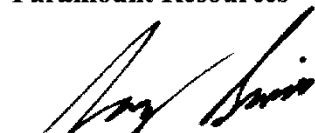


issues resulting from the Surmont Decision involved a specific definition of "Surmont Pools" as defined in the Surmont Agreements. If the Surmont Pools are now being redefined, specific evidence is required to the same engineering and geological rigour as the preceding Decision, and all of the Surmont Agreements and related issues must be readdressed.

Based upon the initial stated exclusion of the Surmont area from the RGS and GB 2003-28, Paramount submits that the Surmont area is beyond the scope of the current proceedings and requests all wells within the Gulf Surmont Boundary and Surmont Buffer Zone be removed from the interim hearing. The initial exclusion denied the affected parties the opportunity to review and question SSG recommendations in an appropriate manner. More importantly, since these wells and pools have been properly dealt with through previous hearings and agreements, no emergency situation can exist to justify an interim hearing.

Paramount submits that the Surmont Decision and Surmont Agreements cannot be unilaterally revised by the RGS and subsequent SSG recommendations and that such a process would adversely impact on any progress made to date to effect long-term solutions in the area. Paramount has informed Alberta Department of Energy of our concerns regarding the Surmont Agreements.

Paramount Resources



Gary Banio, P. Eng.

cc: C. Riddell
J. Riddell

¹ AEUB. EUB General Bulletin 2003-28. July 22nd, 2003. p. 4 & p. 8.

² AEUB. EUB Athabasca Wabiskaw-McMurray Regional Geological Study. Dec. 31st, 2003. p. 2.