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January 30, 2004

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

Attention: Mr. Gary Perkins

**RE: General Bulletin 2003-28
Bitumen Conservation Requirements
Athabasca Wabiskaw – McMurray
Phase 3 Proceedings**

The EUB has requested comment on issues raised regarding the Phase 3 Proceedings. Giant Grosmont is pleased to offer its measured response to the issues.

Giant Grosmont Petroleum (GGP) is qualified to speak to the process the EUB has put in place.

- GGP is an owner of interests in scores of gas wells facing a shut-in order;
- GGP has been an active technical participant in the gas over bitumen issues since November 1996, and;
- GGP is a good corporate citizen of Alberta

Past decisions indicate the EUB has an aversion to risk, even the most remote risk. The well being of Albertans both present and future does not seem to be of concern to the EUB. There appears to be a complete disregard for established procedures that were put into place to give stakeholders due process and natural justice. There is a perception in the industry that, with regards to the gas over bitumen issue, all has been predetermined.

In keeping with the EUB press release policy of appending a chronological history, Giant Grosmont provides the following summary of events to date and offers a glimpse into the future. References and additional comments are appended at the end of this letter.



Pre June 3, 2003

The Government of Alberta sold gas rights to GGP and GGP followed all laws and regulations as any good corporate citizen would do in developing those assets. The province has prospered and so has GGP.

Pre June 3, 2003

A group was formed within the EUB staff structure. The group was called the Staff Support Group (SSG) and its main purpose apparently was to work as an intervenor in gas over bitumen issues.

June 3, 2003

The EUB announced its Bitumen Conservation Policy which advocated the immediate shut-in of McMurray gas production in an area covering thousands of square miles. It would appear that the policy was formulated by the SSG¹. Some 930 gas wells were perceived by the SSG to impact on future bitumen recovery. The SSG solution was immediate shut-in. It is noteworthy that no bitumen company had filed a request at that time for the shut-in of a single well.

Early July, 2003

A quickie hearing was set up to deal with the Proposed Bitumen Conservation Policy. Individual gas producers who were facing the confiscation of hundreds of millions of dollars worth of legal assets were given 45 minutes to speak (all presentations were carefully timed by the EUB with a stop watch)².

Late July, 2003

Apparently, in response to an uproar over the legality of its arbitrary policy denying due process and natural justice to the gas pool owners, the EUB announced its phased policy. The EUB was to conduct a Regional Geological Study and the SSG was to play the key role in that study³.

August 1 to December 31, 2003

The SSG went about creating the Regional Geological Study. It was widely anticipated that the SSG generated Regional Geological Study would support the previously announced SSG policy of shut-in.



January 1, 2004

The EUB staff changed the Gas Pool Orders, apparently to conform to the SSG generated Regional Geological Study⁴.

January 2, 2004

The SSG released its own study, the Regional Geological Study which, not surprisingly, supported the SSG policy which had been advocated by the SSG before the study was even started. Some might say that was foresight by the SSG, however many perceive the SSG Regional Geological Study to be self-serving and contrived⁵.

January 2 – January 26, 2004

The SSG reviewed its own Regional Geological Study⁶, now deemed the evidence⁷. Not surprisingly, the SSG recommended on January 26, 2004 to shut-in most of the gas wells as per the original SSG policy⁸.

Present – January 30, 2004

A fair hearing process could go a long way to prove or dispel the perceptions that the whole shut-in was predetermined by the SSG years ago and that the Regional Geological Study is a sham and that the EUB is not interested in anything other than a massive face saving shut-in.

The EUB has requested comments be made on the whole hearing process.

Future – February 23, March 8, 2004 Interim Hearings

On a go forward basis, the EUB has scheduled Phase 3 Hearings. The Phase 3 hearings are perceived by many to be only a façade of due process. Giant Grosmont Petroleums (GGP), as a legal owner of gas pools has the following conditions placed on its defence of its gas assets:

1. GGP is restricted by the SSG as to what evidence can be presented⁹.
2. GGP cannot speak to its restricted evidence at the hearing, only written evidence will be accepted by the SSG¹⁰.
3. The amount of time for each legal presentation will be curtailed by an unspecified time limit. The time limit for each pool owner is anticipated to be of a short duration before the SSG marches in the next pool owner¹¹.
4. The SSG (the Plaintiff) will be submitting the SSG Regional Study (the evidence) to the SSG (the Jury)¹².



The SSG is scheduled to rule quickly before the end of March on the merits of its own evidence versus that of the gas pool owners¹³. It is widely perceived that the SSG will be inclined to accept its own evidence and rule accordingly.

Future – Post March 31, 2004 Decision

Once the “expedited” hearings are over, the EUB, in applying its own concept of due process, does provide for a follow up hearing if, per chance, a gas pool owner elects to challenge the outcome of the Interim Hearing. The gas pools would be shut-in but the gas pool owner does have the right to appeal. The appeal will be heard by, you guessed it, the SSG¹⁵. Somehow, Grosmont Petroleums does not think that our great leaders in Edmonton had this process in mind – that the SSG was to be plaintiff, prosecutor, judge, jury and appeal court for an issue that has a billion dollars at stake.

Future – Alternative Post January 30, 2004 Scenario

The EUB needs an honest working document to take the gas bitumen issue to resolution. The following comments are the beginning steps that must be taken to bring the Regional Geological Study up to a minimum pre-hearing level.

Firstly, pressures are paramount. The SSG must undertake a proper detailed assessment of all pressures in all pools. The current SSG Regional Geological Study runs away from looking at pressures. It is simply unacceptable for the SSG to dismiss the most critical data base that industry routinely uses to define gas pools simply because the SSG does not have the time, inclination or expertise to do it. The EUB has been adamant in GB 2003-28 that gas producers undertake an extensive pressure survey in the entire shut-in area and yet the SSG has not used, nor plans to use any of the data. The new pressure survey data collection was 50% completed by December 31 with the remainder ordered by the EUB to be completed by winter’s end. The SSG study must include this data that industry was instructed to collect.

Curiously, the SSG Regional Geological Study has omitted all wells in the Surmont Area. The SSG Regional Geological Study appears to have been designed to expand the problem rather than to look for answers. In the Surmont Area, since the Surmont Hearing ended in 1999, there has been a wealth of new data made available. This data consists of geological well logs, cores, and extensive pressure data that has very significant bearing on the gas bitumen issue. But the SSG chooses not to look at any of this information. This is totally unacceptable – how can informed decisions be made by the EUB if its SSG preferentially omits critical data and buries its head with respect to possible alternative interpretations. The Surmont data must be fully integrated into the SSG Regional Geological Study in an honest open manner.

The SSG must open the door to debate on its geological model. A subjective geological model with all of its attending undercurrents needs to be thoroughly and independently scrutinized.



The current approach by the SSG of taking the subjective model as the only answer and then forcing companies to provide only evidence that conforms to the SSG version is absurd. The SSG Regional Geological Study must be open to meaningful debate and detailed critical examination BEFORE any hearing is undertaken. The current version of the SSG Regional Geological Study is an inadequately prepared, limited in scope, contrived, glossy document that fails miserably in addressing the largest issue ever to face this province's energy sector. The industry deserves something better than this. Alberta deserves better.

Present Future

Transparency, fairness and integrity must return to the process immediately.

The gas bitumen issue must be dealt with in a manner consistent with the magnitude of the issue. The assessment of the issue must be beyond reproach.

Giant Grosmont does not have a problem with the EUB exercising its mandate. What Giant Grosmont expects, indeed demands, is that the process be up to the standards that all Albertans expect – fair, honest and transparent.

The Board's reputation as an impartial adjudicator has been destroyed. Some EUB staff members are now cast in an adversarial role while others continue as impartial managers of Alberta's resources. The problem is that industry can no longer tell who is who at the Board. In the past, industry felt comfortable going to the Board with an expectation of getting an impartial resolution to industry problems. Companies felt comfortable talking openly with the Board staff members. No longer is that the case. Industry must now be wary of compromising its legal position once it begins talking with the Board staff. Industry now needs to ask, "Are you the SSG?", "Have you ever been in the SSG?", "Do you expect to become the SSG?", "Do you communicate with the SSG?"

This Board has lost the confidence of a large sector of the energy industry. The blatant unfairness and illegality of the Phase 3 Proceedings has destroyed this Board's reputation of impartiality.

Reference has been made to the financial cost of the EUB's arbitrary shut-in policy on the economy and people of Alberta (Encana et al January 19, 2004, letter). If the EUB Phase 3 policy is permitted to proceed in its present form, the greatest loss will in fact be to Alberta's reputation as a safe place to invest. This province, its people and its present government have worked hard to establish Alberta as the envy of the world.

Phase 3 procedure is the antithesis of what Alberta stands for.



Yours truly,

Robert I. Watson
Giant Grosmont Petroleum Ltd.

Joyce E. Watson
Giant Grosmont Petroleum Ltd.

cc: The Honorable Ralph Klein - Premier
The Honorable Murray Smith – Minister of Energy



NOTES

1. **GB 2003-16**. The decision to shut-in arose from the Chard-Leismer Proceedings. It was at this hearing that the SSG first appeared as an intervenor. The concept of the Board staff being independent of the SSG in the Chard-Leismer Hearing is the subject of a legal challenge by certain Chard-Leismer gas producers.
2. **June 27, 2003 Public Consultation Meeting Letter**, and the Hearing Transcripts.
3. **GB 2003-28**. The EUB "staff" would conduct the study. The Regional Geological Study when it came out on January 2, 2004, had listed the EUB staff who worked on the study. On January 26, 2004, the "Staff Submission Group Recommendation for Production Status of Gas Wells" came out. The credits listed the SSG names, which not surprisingly, can be found also in the Regional Geological Study credits.
4. Pool orders define gas pools. The New Year's Day Revisions changed the existing pool configurations into new pool areas that had an uncanny ability to overlap and increase pool areas. The imprint of the SSG is obvious. Furthermore, it did appear to many that the EUB staff who were in charge of pool orders had already accepted the new SSG interpretation. Needless to say, many in industry were snookered by this New Year's Day Revision.
5. Perhaps a word or two should be said about the Regional Geological Study from a technical viewpoint. The SSG Regional Geological Study relies almost exclusively on a geological model. Geological models are very subjective and open to much debate. Ask an engineer how many times he or she has found two geologists that agree. Geological models need to be debated – debate which apparently will not be tolerated by the SSG. The SSG Regional Geological Study did not integrate detailed engineering work with its geology. The SSG admits to omitting the overwhelming majority of the available pressure data (i.e. data that exists in the public domain of the EUB). No engineering firm in the real world would be allowed to omit this basic approach in mapping gas pools. The SSG also omits entirely from its study any analyses from Surmont where pressure data from 143 previously shut-in wells and geological and pressure data from recent high density drilling by the bitumen owner have resulted in a wealth of data indicating the problem of gas pool pressure depletion does not affect anywhere near the size of area that the SSG previously feared it would. Surmont appears as the big blank area on the SSG Regional Geologic Study. The SSG also omitted to include in its study well data that would cast doubt on its geological model. The criticisms of the SSG Regional Geological Study are only beginning. The assessment of these criticisms unfortunately resides only with the SSG.



6. **"Staff Submission Group Recommendation for Production Status of Gas Wells, January 26, 2004"**. The same SSG individuals who authored the recommendation created the evidence, the SSG Regional Geological Model.
7. **GB 2003-28 2. Overview paragraph 10**. The Board stated that the bitumen conservation risk would not be fully addressed until the completion of the RGS (Regional Geological Study).
8. **Staff Submission Group Recommendation**. Many "pools" appear on the SSG Appendix 2 "Wells Recommended for Production". Some are bona fide gas pools; however, the list is padded with pools that a) have never produced, b) have stopped producing, c) are minor gas zones not capable of economic production, or d) are sandwiched between zones that are shut-in. It is also interesting that the SSG can comment on total gas reserves it has calculated in the shut-in region (i.e. trivialize the amount of gas to be shut-in) but cannot deal with basic interpretation of pool pressure on an individual pool basis.
9. ibid Page 2, Scope of Hearing.
10. **December 17, 2003 Letter** Phase 3: Description of Phase 3 Interim Hearing.
11. ibid. Description of Phase 3 Interim Hearing, 2nd and 3rd paragraphs. All gas pool owners apparently will have the opportunity to make oral and legal arguments on a pool by pool basis. Unfortunately the number of pools recommended for shut-in is 447 pools and time will be allotted amongst all the participants. The gavel will be coming down quickly.
12. ibid. Introduction, last line of last paragraph.
13. From GGP's observations it would appear that the EUB Board members do the ultimate ruling; however, staff members (a.k.a. SSG, sometimes) sit and listen to the evidence of the SSG (a.k.a. staff members, sometimes) and then one of those staff entities recommends to the Board. Fortunately, no one has to walk very far.
14. Some people have even been known to refer to the whole process as a "Kangaroo Hearing."
15. **December 17, 2003 Letter, Bitumen Conservation Requirements**, Introduction, 3rd paragraph, last sentence.