



GIANT GROS MONT
PETROLEUMS LTD.

June 25, 2003

VIA EMAIL and HAND DELIVERY

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Dear Sir:

**RE: General Bulletin GB 2003-12
General Bulletin GB 2003-16**

Giant Grosmont Petroleum Ltd. wishes to provide a submission in response to the GB 2003-16.

Please find enclosed two copies of this submission.

Please direct further correspondence and communication to the following:

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Yours truly,

Robert I. Watson
President
Giant Grosmont Petroleum Ltd.

RIW/cha
Enclosure (2 copies)



June 25, 2003

SUBMISSION OF
GIANT GROS MONT PETROLEUMS LTD.
TO
ALBERTA ENERGY AND UTILITIES BOARD
REGARDING
GENERAL BULLETIN GB 2003-16
PROPOSED CONSERVATION POLICY AFFECTING
GAS PRODUCTION IN ATHABASCA
WABISKAW-MCMURRAY OIL SANDS AREA



INTEREST OF GIANT GROS MONT PETROLEUMS

Giant Grosmont Petroleum is a private Alberta company.

Giant Grosmont has been actively involved in the Athabasca Oil Sands Area (AOSA) since 1977. The area has been the focus of the company's gas activities for over 25 years. Robert Watson, P. Geol., President of Giant Grosmont, has successfully exploited the stratigraphy and hydrocarbons of the McMurray-Wabiskaw for over 30 years. Giant Grosmont has initiated the drilling of over 500 wells in the AOSA resulting in a significant contribution to the economy of Alberta.

Giant Grosmont has been involved with the gas bitumen issue from its beginning in November, 1996. Giant Grosmont filed a technical submission in December 1996 opposing Gulf's initial application to have the Surmont gas wells shut-in (Proceedings No. 960952).

Giant Grosmont was a major technical contributor and a significant participant in the 1997 *"Inquiry into Gas/Bitumen in the Oil Sands Area"* and in the 1999 *Surmont Hearing*. The Surmont Decision resulted in the shut-in of Giant Grosmont's interests in 55 wells.

Giant Grosmont participated in the Surmont compensation negotiations with the Alberta Government, Conoco and the other Surmont gas producers.

Giant Grosmont is an active contributor in the *"Lateral and Vertical Communication Subcommittee"* of the *"Gas over Bitumen Technical Solution Industry and Government Collaboration"*.

Giant Grosmont is a member of the Northeast Alberta Gas and Bitumen Producers Consortium.

Giant Grosmont is an interested party in the "consultive" process of GB 2003-16. Giant Grosmont will be impacted drastically by the arbitrary, indiscriminate and abrupt policy proposed in GB 2003-16. If the provisions proposed in GB 2003-16 are enacted without due process Giant Grosmont will lose its production in 142 producing gas wells in 5 fields. This production represents over 50% of Giant Grosmont's interests and its loss will have a significant material effect on Giant Grosmont.



INTRODUCTION

It is Giant Grosmont's opinion that GB 2003-16 is a "consultive" initiative by the Board with a predetermined outcome.

Giant Grosmont believes it is entirely inappropriate for the Board in the context of "The Alberta Advantage" to enact the proposed policy of a regional indiscriminate shut-in without fair and reasonable due process.

DUE PROCESS

The proposed policy calls for the suspension of due process. The blanket shut-in, immediate and without any recourse, is neither acceptable nor appropriate.

The Board is proposing a massive regional immediate curtailment of gas production while it undertakes to develop, unilaterally, a regional geologic model over an unspecified length of time. The affected gas producers are expected to cope with an abrupt and indefinite cessation of their cash flow. Gas assets have been rendered effectively worthless in a matter of weeks. The direction the EUB is taking with respect to the gas bitumen problem seems to rest primarily on a geologic model. Input should not be solely from the Board for an issue as complex and contentious as a regional geologic model. Regional geologic models are not static. Geologic models evolve as more data is made available and scrutinized, and as more diverse interpretations are presented. Models that evolve in isolation tend to be self-serving.

Hearings are a component of due process. The Board's opportunity to understand all aspects of the gas bitumen issue – geology, economics, technology, impact, etc. – are enhanced through the hearing process. Hearings allow the Board to build on the collective diverse experience, insight and foresight of industry. Balanced decisions are not possible without hearing all sides.

The Board's proposed policy denies the gas producers the right to due process.

The owners of the 900 gas wells must have the opportunity to respond to whatever the specific concerns of the Board are and must have an opportunity to present specific evidence addressing any concerns, all within a reasonable framework of time.

In the past, decisions and the policies by the EUB strove to achieve a balance between fairness and conservation. The present policy with respect to gas bitumen appears to have dropped the fairness component.



LACK OF FAITH IN TECHNOLOGICAL INNOVATION

The gas bitumen conflict has focused on localized areas of low pressure caused by gas production. The concern is that no new technology will be developed; the fear is that all bitumen will be sterilized. The Board is apparently unwilling to offset the uncertainties of today's mitigative technologies with reasonable expectation of future technological advances.

Bitumen resources of Alberta will take hundreds of years to produce. In the few short years that gas bitumen problems have been before the Board, industry has already made progress dealing with low pressure gas over bitumen. The gas bitumen issue has focused and stimulated industry into seeking low pressure compatible technology. Encana has been at the forefront of low pressure technology. Gas and bitumen companies have been working collaboratively in searching for technological solutions.

The Board has a reluctance to consider the reasonable prospect of technological innovation as providing future solutions to the gas bitumen problem. When the Board has no confidence in technological innovation, it corrupts its own mandate.

THE RESOURCE AT RISK

The blanket shut-in is not a measured response.

The Board is making the assumption that it is now acting to conserve a significant resource (100 billion barrels) by shutting in 900 gas wells representing one trillion cubic feet of producing gas. Interestingly, there are no current or outstanding bitumen applications requesting shut-in within the proposed shut-in area.

The best bitumen areas have been leased and the major conflict areas have already been dealt with at Surmont, Chard and Leismer. Total bitumen protected at Surmont, Chard and Leismer is significant. Other leased areas where good commercial bitumen exists have no conflicts – Meadow Creek, Dover, Firebag, Deer Creek, MaKay, etc. It is reasonable to expect that some additional localized conflict areas within AOSA will be identified by bitumen owners, but bitumen owners will react if and when they perceive their resource is threatened by gas production. No such applications are before the Board. No bitumen company apparently sees enough of a threat to take the issue before an overly sympathetic Board. The majority of the Board's 100 billion barrels is either protected by current decisions or is not in conflict at all.

The current proposed policy of a massive indiscriminate Board driven shut-in is inflicting a financial consequence of monumental proportions on gas producers and the people of Alberta. The Board's proposed policy in GB 2003-16 is to protect largely lower tier bitumen resources at any cost.



Many of the gas pools that will be shut-in with this policy overlay undisposed bitumen rights. Undisposed bitumen rights reflect a lack of interest by bitumen companies. Lack of interest usually equates to lack of potential. The Board is proposing to protect bitumen that appears on no one else's radarscope.

Some of the major gas pools to be shut-in with this proposal had virgin pressures below the optimum pressures required for high-pressured SAGD. Nature put those bitumen reserves at risk. Some of the bitumen resource included in the Board's estimates are adjacent to the mining area – will mines be stopped before they get too close?

Many of the pools to be shut-in have had Interim Directive 99-1 approvals to produce from new wells. The Board routinely stated in the approvals that the bitumen "*is not exploitable with reasonably foreseeable technology and economic conditions*". It is incomprehensible how this bitumen, worthless in the Board's eyes last year, is now worth saving.

With the current Board proposal, the gas producers are being compelled to shut-in 900 producing wells to protect what largely amounts to a questionable bitumen resource. The blanket approach is simply not appropriate – too much harm for such questionable gain.

THE LOGIC GAP

The Board is apparently making the assumption that high-pressure SAGD is to be the only applicable technology over an immense area for the next 100 years or so. The Board states that 100 billion barrels of bitumen are at risk. There is a logic break here.

If SAGD were to ramp up production to 3,500,000 barrels of bitumen per day, it would take 80 years to produce 100 billion barrels. SAGD requires a huge amount of natural gas and the economics of SAGD are predicated on low gas prices. The 3,500,000 barrels per day production would consume 7 billion cubic feet of gas per day. For comparison, Alberta's total current gas production is 13 billion cubic feet per day and declining. If all the current recoverable remaining established gas reserves in all of Alberta were dedicated to SAGD, there would be enough gas for only 17 years of SAGD production at the rate of 3,500,000 barrels per day.

The Board has concluded that SAGD requires pressure, but SAGD also requires massive amounts of energy based on today's SAGD technology. Certainly, there is a real risk, almost a certainty that there are inadequate supplies of natural gas to fuel SAGD on the scale envisaged by the Board. Perhaps once the Board has taken steps to preserve pressure for SAGD, the next logical step in bitumen risk management would be to shut-in all gas in Alberta and dedicate all of the gas to SAGD, to be used if and when needed. All that gas will have to be burned to produce all that oil to be burned. David Suzuki is going



to have problems with SAGD. Alberta natural gas consumers are going to have problems with SAGD. Kyoto is going...

SAGD production is not sustainable, certainly not on the regional scale envisaged by the EUB. SAGD cannot logically be applied to all of the AOSA, yet the whole area is being shut-in to protect SAGD bitumen. Logically other technologies must and will be developed to recover the bitumen.

The gas bitumen issues in the best areas where SAGD technology is applicable have been dealt with in past hearings. Additional local areas where gas bitumen SAGD issues might arise can be handled under existing regulatory procedures. Much of the good bitumen has no conflict at all.

The Board's massive regional curtailment of gas production for what amounts to a localized problem is simply not logical.

LACK OF REASONABLE REGULATORY CERTAINTY

The Board states in GB 2003-16 that its policy of exempting the need for Board approval outside of the application area is "*providing more certainty for producers developing gas reserves in this area*". Giant Grosmont, as a long time investor in the AOSA, finds little comfort in the Board's policy. In three places in GB 2003-16 and its attachment, the Board goes out of its way to state that outside of the new application area:

"oil sands leaseholders that have a local concern may request a gas shut-in review or the Board may conduct such a review on its own initiative" and,

notwithstanding, oil sands leaseholders that have a local concern may request a gas shut-in review or the Board may conduct such a review on its own initiative" [quote appears near both the beginning and the end of the attachment, underlines added].

The only certainty in the exempt area is that future investors will not be misled by an ID-99-1 approval. The Board's repeated warning of acting "*on its own initiative*" means any future gas development in the greater AOSA, or for that matter in Peace River and Cold Lake Deposits will be susceptible to confiscation as determined by the Board's criteria and decisions of the day.

Industry, in good faith, invested billions of dollars in the AOSA before the gas bitumen problem and under what was perceived to be a fair and stable regulatory regime. That investment is now being confiscated with 8 weeks notice and without any due process.



Industry invested, albeit at a very reduced level, in the AOSA under Board sanctioned ID 99-1 approvals. The investment is now being confiscated without due process.

Future gas investments in AOSA, made in bitumen prone areas outside of the proposed shut-in area, face the same prospect of unpredictable, abrupt and arbitrary confiscation.

GB 2003-16 has in fact created uncertainty of an insidious nature.

Wells are to be shut-in while the Board, during an unspecified length of time, conducts its own regional geologic studies for the purpose of generating its own geologic model. The primary criteria being used by the Board appears to be the contentious issue of geology and the only model to be eventually used by the Board to evaluate the Board's action is the Board's own model.

A total of 900 wells are to be shut-in in the absence of fact, for undisclosed reasons, and without affording the owners any recourse for the foreseeable future.

The new policy proposal will supercede all previous approvals. No reason is given why the wells approved under ID 99-1 are to be shut-in nor the wells which were allowed to continue producing under the Surmont Decision are to be shut-in, but the wells approved under the Chard Leismer decision are to continue to produce (at least for now). No reason is given why ID 99-1 application process was "*appropriate*" as late as the March 2003 Chard Leismer Decision, but under the June 2003 proposal the application process is now not appropriate. Where will the decisions of today be tomorrow?

The Board indicates at some time in the future it will allow a review of some of the shut-in wells. Little comfort is gained by the prospect of an onslaught of submissions covering 900 shut-in wells appearing at the Board's doorstep all at once, with each applicant demanding to be first. The Board will presumably allow some wells back on. Investors, however, will be wary of incurring too much investment in facilities – will the Board pull another ID 99-1-like reversal and rescind the new approvals? The proposed policy in GB 2003-16 establishes a Board *modus operandi* of an unpredictable, abrupt, and arbitrary nature.

The Board appears to be continually lowering the bar as to what bitumen should be saved. The rescinding of ID 99-1 approvals with this proposed policy demonstrates that what the Board sees as non-commercial bitumen one month becomes worth saving the next.

The industry deserves a more stable regulatory environment than what the Board is proposing. Industry deserves a balanced approach by the EUB. Future investors will demand both.



ISSUE OF IMMEDIACY

The Board is justifying the suspension of due process by invoking the fear of immediate sterilization of the bitumen resource.

The proposed policy targets 900 grandfathered wells. These wells by definition have been producing for some time. The grandfathered wells for the most part are in mature gas fields. The rates of pressure depletion in mature fields are low. Pressure depletion rates in fields that Giant Grosmont has interests in are in the order of 3 kPa per month or less. The pressure decline for a year would be 36 kPa (5 psi per year), a very small insignificant number in the context of SAGD operating pressures. The denying of due process cannot be justified on the basis of immediacy.

The imposition of an August 1, 2003 shut-in date based on the concern of immediacy is an abuse of the EUB's mandate. Proper prioritized hearings could be completed within a year and a half. The consequences of the ensuing 36 to 50 kPa pressure decline on lower tier bitumen resources can in no way justify the financial hardships and consequences that will befall gas producers and Albertans alike if a regional gas curtailment goes ahead in August, 2003.

COMPENSATION

The proposed conservation policy to shut-in 900 wells is tantamount to expropriation.

A significant immediate loss to gas producers will occur if the regional shut-in is enacted. Compensation will be demanded. The precedent for compensation has been established by the Alberta government at Surmont.

The Board's policy proposal of abrupt expropriation has significant consequences for all Albertans. The Board is silent as to the cost of its policy. Compensation is an issue it does not have to deal with if it so chooses. The Board does, however, have a fiduciary responsibility to Albertans to disclose the cost of shut-in.

What price does the Board put on Alberta's reputation as a safe venue for investors? Is Alberta a banana republic or is it a place where investors can have faith in the sanctity of due process and fairness? What price does the Board put on trashing "The Alberta Advantage"?

What is the cost to Albertans today for the Board's policy of preserving vast quantities of lower tier bitumen to be produced in the 22nd century with 20th century technology?



The costs are immeasurable.

The “*fair and equitable*” compensation for 1 trillion cubic feet of producing gas is going to be 1 ½ to 2 billion dollars, a cost to be borne by Albertans.

The effect of denying Albertans of today their resource royalties totalling 150 to 200 million dollars per year must be considered.

The destruction of a viable gas industry in Northeast Alberta has immediate widespread economic and social repercussions.

The effect of the message to the rest of the energy sector has to be considered. The Board, acting without accountability, is effectively devastating a part of the energy sector with 8 weeks notice.

The proposed policy of the Board has such severe immediate consequences to Albertans of today, the questions must be asked by all of us:

“Where are the elected officials?”

“Why is the government so silent?”

Dated this 25th day of June, 2003.

GIANT GROSMONT PETROLEUMS LTD.

Robert I. Watson
President

cc: The Honourable Ralph Klein, Premier
The Honourable Murray Smith, Minister of Energy