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VIA EMAIL terry.able@gov.ab.ca
& COURIER

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

ATTENTION: Mr. Terry Abel, P.Eng.
Applications Branch

Dear Sir:

**RE: Submission of Paramount Resources Limited ("PRL") regarding
General Bulletin GB 2003-16**

We act for Paramount Resources Limited which, as indicated to you by telephone, wishes to participate in the process by filing a submission and participating on July 3 and 4, 2003.

Enclosed please find two paper copies of the PRL's submission. An electronic version is being sent to you simultaneously.

Yours truly,

GOWLING LAFLEUR HENDERSON LLP

Alan S. Hollingworth

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ALBERTA ENERGY AND UTILITIES BOARD
SUBMISSION OF PARAMOUNT RESOURCES LIMITED REGARDING
GENERAL BULLETIN GB 2003-16
GAS PRODUCTION IN ATHABASCA OIL SANDS AREA

INTRODUCTION

1. Paramount Resources Limited ("PRL") is a long time industry participant in the Athabasca Oil sands Area ("AOSA"). It holds potentially commercial bitumen leases and P&NG leases in the area. Furthermore, it appeared at the Chard/Leismer hearing which resulted in decision 2003-023. While certain of PRL's assets have been acquired by Paramount Energy Trust (represented in these proceedings by Paramount Energy Operating Corporation) PRL still has gas wells and bitumen leases in the AOSA. PRL was also part of the producer's group which appeared in the Surmont proceeding.

2. PRL shares the concerns voiced by many producers appearing in this proceeding for a number of reasons as follows:

- (a) The Board's proposed process for addressing this matter lacks fairness and natural justice. This is discussed further in the section which follows;
- (b) The AEUB is proposing to order the shut-in of a significant gas reserve without adequate technical evidence to support its action;
- (c) A large part of the bitumen resource that the AEUB is seeking to conserve is not recoverable with reasonably foreseeable technology. This appears to contradict the thinking set out in the Board's Interim Directive ID 99-1;
- (d) Although the AEUB has encouraged practical technical solutions to the gas over bitumen issue, the lack of importance it has apparently assigned to factual information creates an environment that is not supportive of Crown and industry initiatives for finding such practical technical solutions;
- (e) Shutting in such a significant volume of gas in the AOSA will have a negative effect on price for a resource which is already in tight supply. Shortages of gas in the AOSA will affect gas prices not only in that area but throughout North America which has a continent-wide gas market. This in turn will negatively affect the already questionable economics of SAGD bitumen recovery;

- (f) The shut-in order contemplated in the Board's proposed policy should only proceed in conjunction with a compensation package to the affected petroleum and natural gas lease holders;

Lack of Fairness in Procedure

3. The Board in calling for drastic action under a procedure which, by any standard, lacks fairness and does not adhere to the principles of natural justice.
4. The decision on the Chard/Leismer area (2003-023) was issued on March 18, 2003. At that time, a procedure with respect to 139 grandfathered wells causing concern was set out. No sense of urgency was attached to these remarks.
5. A few weeks later, the Board followed up with GB 2003-12 seeking the views of interested parties. These were duly supplied by 16 entities in time for the May 12, 2003 deadline. None of these entities suggested anything like the drastic measures now being proposed by the Board in GB 2003-16.
6. GB 2003-16 was issued on June 3rd and provided slightly over three weeks to put together the submission with another week to prepare for time-restricted oral representations.
7. Lastly, the Board proposed an August 1, 2003 shut-in period.
8. Since March 18, 2003, there appears to have been a major change in attitude which has occurred at the Board. Unfortunately, affected parties have no means of knowing what the cause for this change is. What they do know is that the Board has proposed a hurry-up procedure which is at odds with the procedures adopted in the past and for which no explanation has been forthcoming.

Lack of Justification for Shut-in

9. To compound the unfair procedure, the Board appears to favour shutting gas in solely on the basis of its interpretation of the geological environment. This ignores a number of critical issues:
 - (a) The Board appears to have delineated the affected area on the basis of potentially recoverable bitumen in the region. It continues to adhere to the criteria contained in ID 99-1 (10 metres or more of sand with bitumen saturation of 50% or more). This is not realistic. The preponderance of evidence adduced at detailed hearings held by the Board suggests that greater thicknesses with greater bitumen saturation are needed to make the projects economic either now or with reasonably foreseeable technology. The Board appears to be moving away from the criterion of "reasonably foreseeable technology" which is an integral part of ID 99-1;
 - (b) As an example, PRL, based on the advice of experts in the field, has adopted screening criteria for identifying prospective bitumen projects.

U8. These criteria require a minimum of 20 metres of continuous bitumen column with 75% bitumen saturation, less than 68 API units gamma ray reading and a porosity greater than 32%;

- (c) The Board's proposed geological work appears to ignore the distribution of non-reservoir materials within the McMurray water and bitumen strata, which will influence vertical communication with overlying strata and impede the rate of SAGD steam chamber vertical growth. This has been the topic of significant and lengthy discussion at the previous hearings held by the Board, and should be part of the Board's geological review process. In the Chard/Leismer decision, the Board recognized that Chard was generally muddier than Surmont;
- (d) Evidence at the Chard/Leismer hearing showed that the models relied upon by the Board to rationalize shut-in overlying gas are not consistent with available field observations. Further, these models tend to overstate the potential effect to bitumen recovery. The Board does not appear to have considered the value of updating these models to reflect the empirical data which is available. Most disturbing, the Board is proposing a shut-in date which falls precisely one day after the end of the confidentiality period for the Surmont pilot data;
- (e) Placing little or no value on actual field SAGD performance data will undermine industry and Alberta Energy efforts to work toward a technical solution. The Board has set a very low bar for proponents of shut-in and an impossibly high one for petroleum and natural gas lease holders;
- (f) The Board's policy should promote the development of SAGD performance models which tie the Board's proposed geological work to history matched predictive models;
- (g) The Board's policy should encourage understanding of all components of the potential interaction between Wabiskaw-McMurray gas and underlying bitumen. Further, the policy should stress the importance of incorporating field evidence wherever possible to assess the following:
 - (i) quality of the bitumen resource;
 - (ii) potential for vertical communication;
 - (iii) potential for lateral communication; and,
 - (iv) potential for mitigative solution.

Effect of Gas Shut-ins versus Effects of Gas Production on Bitumen

10. PRL questions whether the Board has fairly weighed the costs to Albertans when it recommended a blanket shut-in of Athabasca gas wells for the following reasons:

- (a) An assessment of the current value of each resource is an important reality check that the Board has not addressed. In addition to the huge direct loss that will be borne by gas producers, local Athabasca area business will be devastated, provincial royalty revenue will drop substantially, and gas prices may be forced further upward with this proposed shut-in policy. Does the revenue that SAGD-generated royalties currently contributes to the province compare with the above?
- (b) The Board must consider whether revenue that SAGD-generated royalties, which are minimal until project payout, outweighs the issues set out above. Further, it should only consider the revenue from bitumen projects that are truly viable and truly "at risk". The Board has not put enough significance on the fact that benefits of gas production are real costs in today's dollars, and the perceived benefit of SAGD in the area is based on unproven theories and assumptions.
- (c) A large portion of the potentially recoverable bitumen is not in direct contact with overlying gas. Comparisons utilizing the potential value of the entire bitumen resource are irrelevant, as the entire resource is not at risk.
- (d) In the relatively uncommon case where commercial bitumen may directly underlie depleted gas, observations from SAGD projects indicate that the end effect is likely a manageable increase in operating costs later in the project life. It certainly does not equate to destruction of the local bitumen resource.
- (e) If one looks at current activities in the AOSA, there is no evidence that production of gas has reduced SAGD development activities. Prospective bitumen producers have continued purchasing and evaluating leases without regard for overlying gas pressure. If industry truly believed the sterilization fears that the Board seems to embrace, bitumen development activity would not be as active as it is. The "sterilization" position taken by a few bitumen leaseholders is extreme and seems to be taken for regulatory and strategic considerations in order to succeed in their shut-in requests.

Risk of Contaminated Gas

11. As a bitumen leaseholder, PRL supports having the valuable natural gas reserves depleted prior to undertaking a SAGD project. PRL will not assume the liability related to subsequent damages by reduced, to as much as zero, recovery of gas were steam ever to be injected or migrate into the gas zone. PRL believes there will be a detrimental effect to the point where gas production would not be able to

ever resume if it becomes saturated with steam. Shut-in of gas production simply is not acceptable to PRL.

Compensation

12. If the Board sees fit to follow through with its proposed draconian shut-in order, it must address the issue of compensation.

13. The wells in question will become expropriated reserves. They were, after all, developed following all appropriate laws and regulations. If the Board feels that bitumen resources require the degree of protection proposed in GB 2003-16, it should also make a recommendation for adequate and timely compensation.

14. Compensation must be addressed at the time of the shut-in orders at prevailing market prices. It only adds to the inequity if compensation is allowed to lag for years as has happened in the past.

Conclusion

- General Bulletin GB 2003-16 is a proposal for drastic action of questionable necessity employing procedures which lack fairness.
- The Board is acting without technical evidence, at least none which has been disclosed, to support its proposed action.
- The Board's proposal undermines the Crown and industry initiative for finding practical technical solutions to the gas over bitumen issues.
- Bitumen recovery economics, already questionable, will be further worsened by the tightening of gas supply not only in the region but across the continent.
- The Board should, to the extent it is able, address the compensation issue as part of its decision in these proceedings.

All of which is respectfully submitted this 26th day of June, 2003.

GOWLING LAFLEUR HENDERSON LLP

By Alan S. Hollingworth, Q.C.
on behalf Paramount Resources Limited