

June 26, 2003

Terry Abel, P. ENG.
Applications Branch
Alberta Energy and Utilities Board
640 – 5th Avenue SW
Calgary, AB T2P 3G4

Dear Sir:

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

Purcell Energy 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:

Bruce Murray
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Yours truly,

PURCELL ENERGY LTD.

Bruce J. Murray
Chief Operating Officer

BJM/pw
Enclosure (2 copies)

June 26, 2003

**SUBMISSION OF
PURCELL ENERGY 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**

BACKGROUND

Purcell Energy Ltd. (Purcell) is a publicly traded TSX company with production in Alberta, British Columbia, Saskatchewan and the NWT. Purcell and its predecessors have been actively involved in the Athabasca Oil Sands Area since 1987. The area has been a core area for our company for over 15 years. Our affected area is the Ells and Birch Tar fields that Encana operates. Purcell estimates that the Board's proposed policy will have the effect of shutting in 38-e3m3 day of Purcell gas production, which currently represents approximately 5% of our total production. The majority of this gas has been on production since 1989. Purcell's preliminary estimate is that the net present value of this shut in production is \$8 million. This value represents the shut-in production only and does not include tangible losses such as the land and G&G related expenses that would be sterilized.

PURCELL'S CONCERN

The proposed policy calls for the suspension of due process. The blanket shut-in, immediate and without any recourse, is neither acceptable nor appropriate. Purcell does not support shutting in grandfathered gas production in Purcell's areas of operations.

The Board is proposing a regional curtailment of gas production while it undertakes to develop a policy, unilaterally, based on 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 without consideration of economic interests or rights. Gas assets, which Purcell has grown over 15 years, have been rendered effectively worthless in a matter of weeks. Purcell's shareholders, the Department of Energy and the surrounding communities are all deeply affected.

Hearings are a component of due process. The Board's opportunity to understand all technical and business aspects of the gas bitumen issue is enhanced through the hearing process. Hearings allow the Board to build on the collective diverse experience, insight and foresight of industry. This practice is fair, reasonable and balanced and is one of the reasons Alberta has been a good province for Purcell to do its business. Balanced decisions are not possible without hearing all sides of issues.

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 appears to be unwilling to offset the uncertainties of

today's mitigative technologies with reasonable expectations 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. Gas and bitumen producers have been working collaboratively in searching for technological solutions.

The Board has a reluctance to consider the reasonable prospect of technological innovation 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 bitumen resource by shutting in 900 gas wells representing one trillion cubic feet of producing gas. There are no current or outstanding bitumen applications requesting shut-in within the proposed shut-in area. Furthermore most of the bitumen rights in our operating area are not disposed indicating the lack of interest in the bitumen in these areas.

The best bitumen areas in our opinion have been leased and the major conflict areas have already been dealt with at Surmont, Chard and Leismer. The Board's proposed policy in GB 2003-16 appears to protect largely lower tier bitumen resources at the expense of natural gas rights holders who have invested considerable funds in good faith over a long time frame. These gas resources are providing wealth to the people of Alberta today, as opposed to the speculative possibility of bitumen production sometime unknown in the future.

Our areas of operation have virgin pressures (let alone even lower current pressures) below the optimum pressures required for high-pressured SAGD.

Many of the gas 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.*" Purcell has lost confidence in the Board and we are no longer comfortable with Board guidance on issues as a result of this revised stance from Interim Directive 99-1.

FLAWED LOGIC

The Board is 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 million barrels of bitumen are at risk. There is flawed logic being applied 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 million barrels. SAGD requires a huge amount of natural gas and the economics of SAGD are predicated on gas prices. The 3,500,000 barrels per day production using today's technology would consume 7 billion cubic feet of gas per day.

SAGD production is not sustainable, certainly not on the regional scale currently envisaged by the EUB. SAGD cannot logically be applied to all of the area, 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 arising 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.

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"*. 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].

Purcell feels these statements create less certainty. 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 is potentially at risk.

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. Investors in the Canadian oil and gas industry are not prepared for this type of regulatory risk in Canada.

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 Purcell 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.

Proper hearings could be completed in a timely and reasonable fashion. The consequences of the ensuing 36 to 50 kPa pressure decline on lower tier bitumen resources should not justify the financial hardships and consequences that will befall gas producers and Albertans alike if a regional gas curtailment goes forward in August, 2003.

In summary, Purcell does not support the shutting in of grandfathered wells. We further advise that we do not agree that a massive regional shut-in of all affected gas production in the Athabasca Oil Sands Area is fair, reasonable or balanced. Such a decision runs contrary to the way business is conducted in Alberta. The bitumen resources in Purcell's area of operations are not leased, indicating a lack of interest in the bitumen by industry.

We seriously question the validity of the inflammatory statement that the affected gas owners will have a material affect on the recovery of 100 million barrels of bitumen resources. We are further dismayed at the lack of discussion with respect to compensation.

A decision of this magnitude cannot be done in isolation on the "technical" issues alone, but must be accompanied by government or regulatory proposals for the resolution of compensation issues. The Board decision effectively extinguishes grandfathered natural gas rights issued by the Alberta Crown. The Crown must accept responsibility for Board actions affecting such rights.

Purcell shall attend the two-day consultation meeting starting July 3rd 2003.

Dated this 26th of June 2003.

Yours truly,

PURCELL ENERGY LTD.

Bruce J. Murray
Chief Operating Officer

cc: J. Alston
L. Backmeyer
J. Kuhn
Working Interest Partners

BJM/pw