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June 26, 2003

Alberta Energy and Utilities Board

Applications Branch
640- 5th Avenue S.W.
Calgary, Alberta
T2P 3G4

Attention: Terry Abel, P. Eng.

**Re: Submission regarding General Bulletin 2003-16
Gas Production in Oil Sands Areas
As it relates to TriQuest's core area within
Twp. 74, 75, 76 Rge. 12 W4M
Wappau East Area, Alberta**

We thank the Energy and Utilities Board for the opportunity for TriQuest to provide our Submission relating to the important matters addressed in General Bulletin 2003-16.

As a result of this General Bulletin, now substantially all of TriQuest's northeastern Alberta natural gas production and undeveloped lands are outside of the Wabiskaw-McMurray Gas Production Application Area (the "Application Area"). Within the Application Area and those designated Pools that cross the boundary outside the Application Area, TriQuest currently has an ownership in thirteen wells. Of the thirteen wells, we address ten wells in this Submission. Viking Energy will be addressing the remaining three wells plus others in their Submission. Regarding the ten wells in this Submission, five have been previously approved under ID 99-01 and five are subject to outstanding applications (that qualify for production under ID 99-01). TriQuest asserts that all ten wells should continue, or be approved, to produce natural gas from the Wabiskaw - McMurray Formations. Using the parameters and characteristics known to be applied by the Energy and Utilities Board, none of the said ten wells have a negative impact on potential future bitumen production.

In preparation for this Submission, TriQuest Energy Corp. has worked with Fekete Associates Inc. to provide the Energy and Utilities Board (the "Board") with a comprehensive technical report. With the assistance of Certus Strategies, we have also communicated with numerous parties to seek a collaborative, value building approach for affected parties and Alberta.

1. Scope of this TriQuest Submission

- 1.1. We choose to limit the technical component of this Submission to those wells in Twp. 74, 75 & 76 Rge. 12W4M (hereafter referred to as "Wappau East") and wish to distinguish Wappau East from those other areas in the province that may be anticipated to provide economically viable future production of bitumen.
- 1.2. TriQuest herein provides recommendations as to a collaborative process the Board may wish to consider, and
- 1.3. Matters of compensation should natural gas production be shut-in and/ or not allowed

2. Attachments and Inclusions

Attached to, and forming part of, this TriQuest Submission regarding GB 2003-16 are;

- 2.1. Fekete Report on General Bulletin 2003-16 regarding specific Wappau East wells, their reservoir characteristics and the Fekete recommendations, and
- 2.2. Recommendation for a Situation Assessment Meeting “S.A.M.” to bring together key senior industry, EUB and Dept. of Energy representatives to design a process towards a Collaborative Solution.

By reference, we also include in this Submission, the TriQuest Submission dated May 12, 2003 related to General Bulletin 2003-12 and outstanding applications (1298800 and 1299832) to produce natural gas from five wells drilled in the first three months of this year.

3. Commentary on General Bulletin 2003-16

The Energy and Utilities Board, the Province and our industry have a major challenge in developing a conservation policy affecting gas production in the Athabasca Wabiskaw- McMurray Oil Sands Areas. No one really knows with certainty as to whether there is a positive or negative affect on ultimate economic bitumen recovery from the production of natural gas. Nor does anyone know with certainty whether bitumen will ever be economically exploited within a large amount of the new reduced application area.

Certain key possible assumptions and/ or decisions that must be tested include;

- ❖ compensation should not be discussed until all other matters are dealt with
 - until compensation is brought to the fore, accountability, certainty, and technical and economic disclosure may not be expected. Positional win/lose approaches will continue.
- ❖ someone else (not the tax payer or the “bitumen only” proponents) will pay
 - we have already seen the massive impact on market capitalization of at least one potentially affected natural gas producer. We also now appreciate the potential negative impact on investor confidence in our industry in Alberta,
- ❖ this is a “gas” producer vs. a “bitumen” producer issue
 - several of the key players invest very significantly in both natural gas and bitumen projects.
 - None of the “pro bitumen” submissions received by the EUB relating to General Bulletin 2003-12 endorsed a broad shut-in within the entire area under review.
- ❖ this is a “billions vs. millions” conflict,
 - the natural gas assets and multiple potential related impacts are in the billions of dollars.
- ❖ EUB, alone, may not have the ability to complete the necessary mapping, economic and technical reviews
 - participation of the industry professionals that make natural resource exploration and development their business is imperative. More good minds and experience must be applied to collaboratively develop solutions
 - We believe the EUB is receptive to a collaborative approach.
 - That group should identify and focus on the 20% of the area that may represent up to 80% of the economically recoverable potential

- ❖ Alberta has no more than six months to protect the bitumen because continued associated natural gas production will reduce the reservoir pressure to a point that bitumen will thereafter never be producible
 - the reservoirs and pools in the Application Area are not identical (they are not at the same reservoir pressure, bitumen content, continuous net pay, access...)
 - some areas may be within 6 months of the minimum pressure required (if that is correct), other pools may be years from that threshold
 - significant areas within the application area may never be economically developed for bitumen recovery
 - pilot projects on the technologies available today should be encouraged to evaluate
 - the need for certain pressures (such as EnCana's use of ESPs for low pressure SAGD at Foster Creek), and
 - whether re-pressurization is viable.

TriQuest encourages the most technically advanced, best informed in industry, the Energy and Utilities Board and the Department of Energy to work collaboratively to test the above ideas. As an industry, regulator and government, we must identify better ways to manage, understand and resolve these billion dollar issues.

Doing with even greater passion, more entrenched positions and more adversarial approaches what has failed before cannot be the best option to resolve this very significant potential conflict.

4. TriQuest Recommendations Concerning Wappau East wells

Please refer to the very detailed technical review and recommendations contained within the attached Fekete Report. In that report, Fekete reviews the characteristics of ten TriQuest wells that are within the Application Area or are within designated pools that a portion is within the Application Area. The subject ten wells fall into the following categories;

- ❖ 5 wells within the Application Area or within designated pools that a portion is within the Application Area and have been previously approved under ID 99-01,
 - 00/12-06-75-12W4, 00/10-19-075-12W4, 00/7-25-075-13W4, 00/10-06-076-12W4 and 00/16-04-076-13W4.
- ❖ 3 wells within the Application Area, drilled in Q1 2003 and that qualify for production pursuant to ID 99-01,
 - 00/11-05-075-12W4, 00/7-08-075-12W4 and 00/06-07-076-12W4
- ❖ 2 wells, drilled in Q1 2003, that are outside the Application Area, are not currently within a designated Pool that crosses into the Application Area but are expected to be placed inside a cross boundary designated Pool as a result of TriQuest's outstanding application to produce and the attached Fekete Report.
 - 00/10-36-074-13W4 and 02/6-01-075-13W4.

TriQuest and Viking have worked with Fekete to ensure the geological and reservoir characteristics for each well have been clearly reviewed, identified and communicated. By including all the TriQuest and Viking interest wells in the Fekete Report, the Board now has a clear, composite analysis of most all wells within the relevant Wabiskaw-McMurray Pools.

TriQuest respectfully requests the Energy and Utilities Board approve/confirm the production from the said ten wells as soon as possible. While the EUB may decide to amend or delay the proposed "blanket" shut-in order, TriQuest asks that the pending active applications for the five new wells (drilled in Q1 2003) be reviewed and approved now.

For those active Alberta explorers who have worked within the documented EUB rules to be delayed or stopped in placing on production new wells that have no expected effect on any foreseeable economic bitumen potential would essentially punish the innocent where no victim or crime exists.

5. TriQuest Recommendations Concerning Compensation

While TriQuest believes that none of our wells should or will be affected, the Province must address this issue now. To fail to address compensation at this time adds considerable potential risk to natural gas producers while failing to provide accountability to the Province, the Board and some “bitumen only” proponents. By bringing compensation to the fore, the Province will effectively engage all parties. When price tags are attached to theories, parties become much more focused and apply higher technical and economic standards to projects. We recommend that directly affected parties, including the Province, the Board, and representatives from a cross section of interested companies and industry associations, be strongly encouraged to participate in the process.

When the layers of costs, losses and liabilities are attached to the potential shut-in of 250 mmcf/day are summed, the impact on the natural gas side of the balance sheet is estimated to be in the billions of dollars.

Specific to TriQuest, the compensation that we would immediately pursue would be requested from the Province, certain bitumen rights owners and others should the proposals within GB 2003-16 be taken as a blanket permanent shut-in. TriQuest has completed a third party economic evaluation of the net present value of the potentially affected natural gas reserves. By completing sensitivities at various decline rates, price forecasts, operating costs, we can clearly appreciate that impact. The range of values that we have identified does not include the negative impacts a shut-in order would have on the operating costs for area wells, for facilities and infrastructure, to load fixed costs on fewer wells, on the loss of future drilling, reserves additions, royalties, area employment, communities, investor confidence in our industry and regulatory authority, etc.

As TriQuest does not anticipate such a claim, we present this simply to make the points that

- this is not a millions (natural gas) vs. billions (bitumen) argument,
- at today’s natural gas prices, the 250 mmcf/day potentially at risk of shut-in equates to annual gross revenues (before operating costs, royalties, salaries, taxes, repayment of capital investment, etc.) of \$600,000,000,
- by addressing compensation now, all key parties may be more effectively engaged in seeking a better understanding of, and involvement in, negotiations leading to decisions on this issue,
- natural gas producers have acted in good faith in accordance with the rules and regulations in place,
- government and regulatory changes are responsible for much of the potential conflict, and
- if a natural gas producer believed that compensation would recognize the full impact, be fair, reasonable and timely then all parties would be more inclined to open disclosure of data, forecasts and interpretations.

The potential loss from the shut-in of natural gas could equate to \$500 - \$2,000 per Albertan. The Province must provide direction as to who may be expected to pay the compensation bill. Those parties (taxpayer, bitumen, natural gas and other parties) should be alerted to their potential liability and be actively involved now towards addressing compensation and, more importantly, appropriate solutions for the gas/ bitumen issue. In a collaborative process, the costs may be significantly reduced, the opportunities enhanced and a stronger business relationship affirmed.

6. TriQuest Recommendations on Process

We believe the Energy and Utilities Board is seeking a better approach to the identification of those areas within the reduced application area where bitumen may be reasonably anticipated to be economically productive in the future and that will be negatively affected by continued natural gas production.

TriQuest recommends two complimentary approaches;

- a) A collaborative approach to understanding the issues and generating an effective and timely action plan. This collaborative situation assessment meeting and process design approach (“S.A.M.”) is strongly recommended as an immediate first step to getting all the right parties (represented by people in a position of authority) around the same table to create a timely, effective and efficient action plan to seek out better solutions to the natural gas/ bitumen issue. This collaborative approach must be carefully designed and facilitated to enhance the probability of success and early resolution. Compensation must be dealt with early.

TriQuest has engaged Certus Strategies to assist in the development of the Collaborative Solutions attachment to this Submission. That attachment is meant to provide guidance to what the situation assessment/ process design may be. Management at TriQuest have been actively involved with the Board in the development of the EUB Appropriate Dispute Resolution Program and in the Company vs. Company Dispute Resolution Task Force. Certus has been a key service provider to the Board and industry on dispute resolution matters and was the facilitator in the Government Industry Advisory Group on this gas/ bitumen issue in 2001 (“G.I.A.G.”).

Key issues to be addressed early include;

- what was effective about G.I.A.G.,
- what was in-effective,
- what disclosure rules should be considered,
- did the coming Chard Leismer Hearing serve to sterilize G.I.A.G.,
- why didn't G.I.A.G. resume after the Chard Leismer decision
- what was learned, etc.?

While each company, the Board and the Province will continue to pursue all available means to protect and serve their interests, the significance of the matters of General Bulletin 2003-16 demand the parties meet and seek better solutions for all. More than six years of debate, hearings, technical reviews and other processes have failed to identify a solution that can be widely endorsed. The current deadlines and potential negative impacts to our industry, our governing authorities and the people of Alberta motivate us towards a more collaborative and timely process. To ensure the timing concerns of the EUB are met, we recommend the S.A.M. meeting be arranged within 10 days.

- b) A prioritization for the review of the existing natural gas and bitumen production and new applications, including,
 - the EUB review of all current applications to produce be completed using ID 99-01 as the guide. Those wells that pass the screen be given immediate approval to produce,
 - no wells be shut-in, August 1 or otherwise, until a specific technical review has been completed for that specific Pool and economic, significant bitumen potential is identified,
 - such technical review should be prioritized by the Board starting with those that are most likely to be at risk (now or soon to be),
 - wells, Pools or wells within Pools that have been previously approved for production pursuant to ID 99-01 should be allowed to continue to produce,

- key industry representatives, the affected natural gas and bitumen rights holders and a neutral third party evaluator work with the EUB to complete such technical reviews as soon as practically possible, and
- engage and encourage knowledgeable parties to complete the evaluation of available technology, including low-pressure pumps, re-injection of gas, etc.
- conduct a detailed review of agreements already negotiated between natural gas producers and bitumen rights holders.

7. Concluding Remarks

TriQuest recommends the Board;

- complete the review of outstanding applications to produce,
- not shut-in existing production until the Board, province and industry have developed a more focused inclusive review for the relevant Pool(s),
- engage in a Situation Assessment Meeting to design the appropriate process and action plan with the right parties at the table to collaboratively and fairly generate a true industry/ Board/ Department of Energy collaborative solution in a timely manner.

Thank you for your careful and timely consideration of the recommendations in this TriQuest Submission. TriQuest appreciates the magnitude and complexity of the task at hand. We are prepared to continue to work with the Energy and Utilities Board towards developing the most appropriate policies for conservation, the industry, investors and all Albertans.

Yours Truly,

TRIQUEST ENERGY CORP.

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Attachments: Fekete Report
Collaborative Solutions Proposal