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## Northeast Alberta Gas / Bitumen Update

### 1. EUB Issues GB 2003-28 – July 22, 2003

#### Phase 1

Shut-in order by EUB of 938 producing gas wells in the Wabiskaw – McMurray zone representing over 250 MMcf/d of gas production, effective September 1, 2003. Gas producers may claim exemption from shut-in for wells if there is evidence the gas is not associated with potentially recoverable bitumen. Gas producers filed temporary exemptions for 600 wells prior to September 1<sup>st</sup>, resulting in 338 wells shut-in, representing approximately 95 MMcf/d, or 40 percent, of the area's total daily production. Paramount Energy Trust ("PET") has over 245 wells identified by the shut-in order, representing 44 MMcf/d (50% of PET's production). The Trust shut-in 8 to 9 MMcf/d net to PET on September 1, 2003. An additional 1 to 2 MMcf/d net to the Trust was also shut-in on September 1<sup>st</sup> at Winifred South, as the Altagas-operated facility could not support continued production at the reduced throughput.

#### Phase 2

Bitumen leaseholders or the EUB may challenge exemptions submitted by gas producers. Gas will remain on production through an expedited mini hearing or review, which will determine if gas production should remain exempt from the shut-in order.

#### Phase 3

Gas and bitumen producers and the EUB will participate in an accelerated regional geological study of the Wabiskaw – McMurray formation to identify areas of conflict between associated gas and commercially recoverable bitumen. The study is to be completed by December 31, 2003. Based on the regional geological study, the EUB will decide on the status of all associated gas production by April 1, 2004. Disputes will then be resolved through a formal hearing process.

### 2. Technical Solutions

The EUB, the Government of Alberta and Industry will strive towards technological solutions to allow for the production of associated gas. Details of the process to advance technological solutions are currently under review, and will occur in parallel with the regional geological study. An executive level steering committee has been created to promote the facilitation of the development, testing, demonstration and definition of parameters for commercial technical solutions to the Gas - Bitumen Conservation issue.

### 3. Parallel Government of Alberta Initiative

The Government of Alberta, through a parallel process, is committed to working with all parties to arrive at a fair and equitable solution. The Department of Energy stated the key principles to be incorporated in any solution should:

- Ensure conservation
- Maintain investor confidence in resource development in Alberta
- Maintain the integrity of the current mineral rights business

- Strive to provide fair and reasonable outcomes for all stakeholders
- Provide for fair and reasonable sharing of regulatory risks

The Department of Energy shares our objective to provide natural gas producers with relatively immediate relief from losses suffered, while the Government of Alberta and Industry develop a longer-term solution. The goal is to present the longer-term solution to caucus by early December.

#### **4. Should the Government of Alberta or the EUB ultimately set policy?**

The amount of gas production that was shut-in on September 1<sup>st</sup> after the exemption process was approximately 95 MMcf/d but the ultimate gas shut-in after the well status re-determination by the EUB prior to April 1, 2004 is still unknown. This is still a very large problem.

We recognize the EUB's mandate is conservation. However, we also believe it is outside the scope of the EUB to determine the degree of conservation without complete knowledge of the range of cost/benefits to the people of Alberta. Rather, it is the role of the government to assess if Albertans should be willing to take more risk relating to long-term conservation in exchange for what will be saved or gained in short term revenue, jobs, investment etc. The cost versus potential benefit to Albertans of removing the risk varies from the high-grade bitumen to the low grade bitumen. The immediate cost of removing the risk to the lowest grade bitumen, which is not currently leased by industry and most likely won't be pursued for decades, may significantly exceed the potential benefit. The total gas production directly overlying leased bitumen and from gas pools overlapping the leased bitumen is approximately 125 MMcf/d. The impacted production would be further reduced, perhaps by two thirds if proportionate to the shut-in numbers for September 1<sup>st</sup>, to exclude gas production in the proximity of leased bitumen that is not directly associated with potentially recoverable bitumen.

#### **5. Definition of Commercial Bitumen**

The EUB defined potentially recoverable bitumen after the gas/bitumen inquiry in 1997 despite having minimal actual SAGD field operation information. Five years of data from pilot and commercial projects can provide valuable insight as to the ultimate potential of bitumen. Further, Industry does not agree with the Board's definition of commercial bitumen. It should be noted only 44% of the bitumen in the shut-in area is leased by industry, and only 0.5% of the region (35 square miles) has SAGD projects proposed to pursue development of the bitumen.

A process for the ongoing review of the definition of commercially recoverable bitumen using reasonably foreseeable technology should be initiated. This requires the commitment of the Department of Energy, the EUB and Industry – to date this commitment has not been made. The EUB has agreed to collect bitumen-mapping information as part of the regional geological modeling project, however the process to review the parameters which define commercial bitumen has not been confirmed.

#### **6. Critical Next Steps**

Paramount, in conjunction with all parties, will strive to mitigate the impact of the proposed shut in through:

- Participating fully in the GB 2003-28 process by identifying, preparing technical evidence for, and defending all wells eligible for exemption from shut-in
- Advancement of Alberta Department of Energy discussions regarding short and long term solutions and royalty flexibility
- Assisting in the EUB's regional geological modeling project
- Defining a process for the technical solutions initiative
- Developing a collaborative definition for commercially recoverable bitumen
- Ensure that all parties remain fully engaged to meet timelines