

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ULTIMA VENTURES CORP.
APPLICATION FOR A SWEET
MULTIWELL OIL BATTERY
FERRYBANK FIELD**

**Decision 2002-039
Application No. 1087676**

DECISION

The Alberta Energy and Utilities Board has considered the findings and recommendation set out in the following examiner report, adopts the recommendation, and directs that Application No. 1087676 be approved.

DATED at Calgary, Alberta, on April 8, 2002.

ALBERTA ENERGY AND UTILITIES BOARD

<Original signed by>

N. McCrank, Q.C.
Board Chairman

**EXAMINER REPORT RESPECTING
ULTIMA VENTURES CORP.
APPLICATION FOR A SWEET
MULTIWELL OIL BATTERY
FERRYBANK FIELD**

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1 RECOMMENDATION

Having carefully considered all of the evidence, the examiners recommend that Application No. 1087676 be approved by the Board, as it meets all Alberta Energy and Utilities Board (EUB/Board) regulatory requirements and approval would be in the public interest.

2 APPLICATION, INTERVENTION, AND HEARING

On February 26, 2001, Ultima Ventures Corp. (Ultima), formerly Maximum Energy Corporation (Maximum), submitted an application to the EUB pursuant to Section 7.001 of the Oil and Gas Conservation Regulations. The application was to obtain a licence for a sweet multiwell oil battery at a surface location of Legal Subdivision 2 of Section 1, Township 43, Range 28, West of the 4th Meridian (LSD 2-1-43-28W4M) (2-1 location). Ultima indicated it had objections from an adjacent landowner. Notice for objection was issued from the EUB on March 1, 2001.

On April 12, 2001, the EUB received an objection responding to the notice from Mr. L. Tulloch, landowner of the southwest quarter of Section 1-43-28W4M. Mr. Tulloch raised concerns regarding traffic, noise, safety, road deterioration, and communications. The attached figure shows the location of the proposed multiwell battery, the associated wells and pipelines, and Mr. Tulloch's operations. As Mr. Tulloch was a person who may be affected by approval of the project, the Board directed a public hearing be held to consider the application and Mr. Tulloch's concerns.

A public hearing was held on February 19, 2002, in Ponoka, Alberta. The examiner panel consisted of W. Remmer, P.Eng. (Chairman), M. Vandenbeld, C.E.T., and R. Willard, P.Eng. Those who appeared at the hearing are listed in the following table.

THOSE WHO APPEARED AT THE HEARING

Principals and Representatives (Abbreviations Used in Report)

Witnesses

Ultima Ventures Corp. (Ultima)
R. Swist

K. Powell, P.Eng.
D. Kuzyk, P.Eng.
J. O'Rourke, P.Eng.

L. Tulloch

L. Tulloch

Alberta Energy and Utilities Board staff
G. Bentivegna, Board Counsel
P. Forbes, C.E.T.
E. Knox

The panel and EUB staff viewed the 2-1 location and the area of Mr. Tulloch's lands on February 19, 2002.

3 BACKGROUND

The wells in the Ferrybank field were drilled 10 to 20 years ago, and many produced for approximately 10 years before operations were suspended. Some of the wells were then either sold or abandoned. In October 2000, PanCanadian Energy Corporation (PanCanadian), through a partnership, contributed some of its Ferrybank assets, including 24 wells, a number of surface facilities, a central battery, and some pipelines, to Ultima.

Ultima's proposed sweet multiwell battery is to be located at the site of an existing sweet oil satellite, which has been suspended since October 1999. The satellite equipment located on the 2-1 location includes a flare stack and a separator building containing two separators, a header for eight wells, and production measurement meters. A sweet oil well is also located at the 2-1 location. Historically the satellite at the 2-1 location collected fluids from several wells in the area, where it was separated, measured, and then pipelined to a central facility located at LSD 1-23-43-28W4M (1-23 battery) approximately 5.4 km away.

The proposed multiwell battery is to receive production from two of the wells to be reactivated. These wells are located at 2-1-43-28W4M (2-1 well) and 8-1-43-28W4M (8-1 well). Ultima produced the 8-1 well from February 1, 2001, to May 4, 2001, and tested the pipeline from the well to the 2-1 location. Ultima was concerned about the integrity of the existing pipeline from the 2-1 location to the 1-23 battery (see attached figure); it installed a 64 cubic metre (m³) tank at the 2-1 location and trucked the fluids to the 1-23 battery.

Since Ultima was converting a sweet oil satellite to a multiwell battery, an application was required under EUB legislation. Ultima notified landowners within a 1.5 km radius of the 2-1 location, and when Mr. Tulloch objected, it voluntarily suspended production from the 8-1 well.

4 ISSUES

The examiners consider the issues respecting this application to be

- need for the battery,
- impacts, and
- communications and related matters.

5 NEED FOR THE BATTERY

5.1 Views of the Applicant

Ultima maintained that it had the right to produce these wells and that a multiwell battery was needed to fully recover reserves from two wells in the Ferrybank field. It indicated that the two wells were marginal, as they had produced for about 10 years. Ultima stated that these wells would produce for about another five years at an anticipated combined production rate of about 4 m³ of oil and 11 m³ of water per day.

Ultima said it had investigated several options to produce the 8-1 and 2-1 wells: producing the wells as single-well facilities, trucking the fluid from each to the 1-23 battery, and producing to the applied-for multiwell battery by reactivating the existing pipeline from the 2-1 location to the central 1-23 battery, or trucking the multiwell fluids to the 1-23 battery.

Regarding the option to produce the 2-1 and 8-1 wells as single batteries, Ultima indicated that the 8-1 well was located in an environmentally sensitive low, wet area adjacent to a lake and it was not appropriate to locate a tank or other facilities there due to these environmental considerations. Additionally, Ultima stated that it had tested and confirmed the integrity of the 0.57 km pipeline from the 8-1 well to the 2-1 location and, as such, determined it was safe to use. It indicated that although it had not recently tested the 2-1 well, based on its production history, it believed that the well would be a marginal producer that could be produced to a tank located on site. The fluids from the two wells would be trucked to the central 1-23 battery.

Ultima indicated it had not acquired the 5.4 km multiphase pipeline from the 2-1 location to the central 1-23 battery because it was concerned with the integrity of the pipeline. It stated that pipelines in the Ferrybank field had been subjected to severe corrosion and believed this particular pipeline was unlikely to pass pressure tests or meet EUB requirements to reactivate the pipeline. Ultima said that it might be possible to insert a liner into the pipeline but said it first must test and repair the pipeline and then install the 5.4 km liner. It stated that the cost to install the liner, along with additional operating costs, would make the production of the 8-1 and 2-1 wells uneconomic when compared to the revenues from the remaining recoverable reserves from the two wells.

Ultima stated that the proposed multiwell battery for the 8-1 and 2-1 wells was the only economically viable option. It said that the site and the pipeline already existed and the only additional equipment required was the tank, which it had already put in place when it tested the 8-1 well. Ultima stated that it had no immediate plans to remove the separator building and flare stack, while the equipment could be used at other sites and, therefore, had salvage value. It stated

that it was its policy to deal with unnecessary equipment in a timely manner and not pass on responsibilities to a subsequent operator when the 2-1 location was no longer required.

5.2 Views of the Intervener

Mr. Tulloch stated that he historically had concerns about the 2-1 location and had raised them prior to the satellite being built in 1988. He said he was unwilling to negotiate and his position had not changed over time. Mr. Tulloch stated he did not want a battery located so close to his house and calving operations, but he did not challenge Ultima's need to produce the two wells. He further stated that he had a number of wells and pipelines on his property, but it was his preference not to have any oil and gas activity in the area. Mr. Tulloch indicated he was pleased when activities at the 2-1 location were suspended in 1999 and had anticipated that the facility would be abandoned. He was now very concerned that he would again have to contend with activity at the site for another five years.

Mr. Tulloch questioned why the existing pipeline could not be used to transport production from the 2-1 location to the central battery and why the pipeline would be unusable after only eight years.

5.3 Views of the Examiners

The examiners note the 8-1 and 2-1 wells have produced for a number of years. The examiners agree that the wells are low-volume marginal producers and that a viable economic option to produce the wells must be found, or the wells will likely be abandoned and the remaining reserves will not be recovered.

Regarding the options investigated by Ultima, the examiners agree that producing the 8-1 well as a single-well facility with a tank on site is not appropriate due to the low, wet nature of the site immediately adjacent to a lake. The examiners agree that it is appropriate to use the existing pipeline to produce the 8-1 well to the 2-1 location.

The examiners agree that it is appropriate to use existing facilities where possible and that it is appropriate to process the production at the 1-23 battery. They accept that the only means to transport the production to the 1-23 battery is by trucking or using the existing pipelines and believe that it is preferable to use an existing pipeline when appropriate. However, they also note that Ultima does not own the pipeline from the 2-1 location to the 1-23 battery, and they accept that the integrity of the pipeline is in question. Therefore, the examiners believe that it is not prudent to use the pipeline unless a liner is installed. Additionally, the examiners have considered the cost estimates for a liner and the subsequent operating costs and therefore agree that it is not a viable option, given the expected production volumes and life of the wells.

The examiners therefore conclude that in order to recover the remaining reserves from the 8-1 and 2-1 wells, it is appropriate to use the existing 2-1 location. Further, they note that the only additional equipment required for the multiwell battery is one 64 m³ tank. The examiners also note that Ultima had placed a 64 m³ tank on site to test the 8-1 well and that only minor modifications, with no additional tanks, would be required to convert the operations to the proposed multiwell battery.

The examiners conclude the proposed multiwell battery is needed and is the most viable option, provided that the impacts are not significant and have been mitigated to the greatest extent possible, given the concerns raised by Mr. Tulloch.

6 IMPACTS

6.1 Views of the Applicant

Ultima maintained that there would be little incremental activity at the site compared to previous activity when the site was operated as a satellite. It said that the separator equipment, building, and flare stack were no longer required and only an additional tank was required. Ultima stated that it intended to have an operator check the 8-1 and 2-1 locations once a day and a tank truck would be required to transport the production from the tank located at the 2-1 location every second day. In addition, it indicated that a local truck driver had been hired and he would attempt to minimize noise impacts on Mr. Tulloch's operations. Ultima agreed to restrict trucking and routine operator access to daylight hours, between 8:00 a.m. and 5:00 p.m. daily.

Ultima estimated that a service rig would be required once every three years to repair a downhole pump or tubing on either of these wells. Ultima stated that limited servicing, such as maintenance on the surface pumping equipment, would only require the use of a pickup truck.

Ultima explained that its route for trucking would pass by Mr. Tulloch's lands and may affect the roads Mr. Tulloch also relied upon for his operations. It stated it would use a trucking company that would respect traffic signs and speeds. Regarding Mr. Tulloch's concerns about the deterioration of the county roads caused by oil industry traffic, Ultima added that it paid taxes to ensure that the roads were kept in satisfactory condition and that it was the county's responsibility to allocate the proper resources to maintain those roads in proper condition.

Ultima stated that it was a diligent and viable company and operated in a respectful manner. Ultima submitted that it would try to develop a working relationship with Mr. Tulloch and its operator would attempt to meet Mr. Tulloch's general requests.

6.2 Views of the Intervener

Mr. Tulloch stated that he had concerns about the location of the 2-1 well and the satellite dating back to before the satellite was built in 1988 and throughout the time the facility was active. Mr. Tulloch indicated that there were times when he could hear people talking from the 2-1 location at his house, as it was very close. Mr. Tulloch further outlined the concerns he had when his children were younger, stating they heard coarse language from the site. He indicated that the previous operator had made some significant improvements to reduce noise over time, such as the electrification of the pumpjack at the well.

Mr. Tulloch also expressed concern with the noise from the trucks loading production at the 2-1 location and travelling up and down the lease road. Mr. Tulloch submitted that he would prefer that all operations on the location be conducted during daytime hours. He was especially concerned with the noise impact on his cattle operation. He stated that he operated his calving

and holding operation directly adjacent to the lease and that from early March for two to three months of the year there was intense livestock activity and any loud activity such as servicing could be a disruption to his operation and may be harmful to his cattle. Mr. Tulloch stated that he was surprised at the limited amount of servicing Ultima believed was required on the wells. Mr. Tulloch submitted that the previous operator, PanCanadian, serviced the wells between 6 to 12 months.

Mr. Tulloch stated that he was concerned about the high volume of oilfield trucking in the area from a safety perspective, as well as because of the negative impact on road conditions. He stated that he believed the truck from the 2-1 location would travel south on the lease road to Highway 53, west past his house, and then north along the Ferrybank road to the 1-23 battery. Mr. Tulloch said that the high truck volume along the Ferrybank road created large ruts and potholes and was damaging his equipment, as he must also use the same road to transport equipment, hay, straw bales, and grain. Mr. Tulloch stated that he understood that it was the responsibility of the rural municipality to deal with road upkeep, but he said the county had a fixed road budget and could not keep up with road repairs. Mr. Tulloch's safety concerns also related to the potential danger of an accident on the Ferrybank road because of the size of his equipment and passing oilfield trucks. Mr. Tulloch stated that although the incremental traffic due to the proposed facility would be minimal, as the roads were already heavily travelled, any increase in traffic should be avoided.

Mr. Tulloch raised concerns about staff operating wells in the area and on his lands. He questioned their diligence in meeting landowner needs, such as the closing of gates. Mr. Tulloch submitted that it was not easy to educate operators to complete tasks on a regular basis and that with the amount of turnover in the industry between companies, it was difficult to keep up with new staff.

6.3 Views of the Examiners

The examiners note that the additional equipment needed to convert the existing satellite to either a single-well or multiwell satellite is a tank. In addition, the examiners note that Mr. Tulloch did not raise concerns regarding the tank; rather, he expressed concerns about the impact from trucking and the potential for well servicing noise. The examiners understand that Mr. Tulloch is concerned with the impact of noise on his calving operations, but the examiners believe that a tank truck loading and transporting fluid during daylight hours once every two days would have little impact on his operations. As noted in Section 5.3, the examiners believe that the most viable option is the trucking of fluids from the 2-1 location. The examiners expect Ultima to follow through with its plans to use a tank truck operator who is familiar with local concerns.

The examiners believe that the more significant noise would arise from the servicing of the 2-1 and 8-1 wells tied into the proposed battery. Noting the range of servicing intervals estimated by Mr. Tulloch and Ultima of between six months and three years and recognizing Ultima's intention to minimize noise impacts on Mr. Tulloch's calving operations, the examiners suggest that Ultima make all reasonable attempts to avoid routine well servicing during the March-to-May timeframe. In addition, Ultima should notify Mr. Tulloch of any unusual loud noises expected from the site due to servicing or other operations from the 2-1 location. The examiners

note Mr. Tulloch's concerns about high volumes of oilfield traffic on the Ferrybank road and the effect it may have on the road conditions. However, the examiners note that road conditions and maintenance is a county responsibility. Also, the examiners believe that impacts on road conditions from one additional truck travelling to and from the 1-23 battery to the 2-1 location on the Ferrybank road every two days would be minimal.

The examiners note Mr. Tulloch's concerns about oilfield operations but that at the same time he indicated that he was generally pleased with the approach and response by the previous operator to his concerns. The examiners see no reasons why Ultima cannot take a similar approach. The examiners believe that the statements made by Ultima at the hearing reflect its intention to work with landowners, including Mr. Tulloch, to establish relationships and rectify concerns.

7 COMMUNICATIONS AND RELATED MATTERS

7.1 Views of the Applicant

Ultima submitted that it made all reasonable efforts to contact Mr. Tulloch about the proposed facility. It stated that its consultation with Mr. Tulloch was open and honest allowing for dialogue. Ultima explained that it did the initial consultation as required by the EUB; it had one meeting with Mr. Tulloch and subsequent numerous phone and voice mail exchanges.

Ultima stated that discussions were cordial but it was not able to fully engage Mr. Tulloch in any meaningful dialogue. When the discussions failed to resolve Mr. Tulloch's concerns, Ultima said it attempted to use the EUB's Appropriate Dispute Resolution (ADR) process by first requesting EUB field personnel from the Red Deer office to facilitate dialogue between it and Mr. Tulloch. When Mr. Tulloch was not able to attend the scheduled facilitation meeting at the 2-1 location, Ultima stated it then attempted to have a third party mediate. However, Mr. Tulloch was not able to agree on a time to meet with Ultima, EUB staff, and a mediator. In addition, Ultima said that it hired an independent landman to consult with Mr. Tulloch. Ultima concluded that it would have preferred to negotiate a solution directly with Mr. Tulloch, rather than have an EUB hearing.

7.2 Views of the Intervener

Mr. Tulloch stated that his mistrust of the oil industry started with the original discussion about the 2-1 location back in 1988 and resulted from poor negotiations at the time. He indicated that after significant negotiations, he was led to believe that access to the 2-1 location would be from the north rather than directly from Highway 53 and adjacent to his calving operations. He stated that he had attended a hearing with Alberta Transportation regarding the access to this site and said that he would never forget how the industry misrepresented what he wanted or had agreed to.

Mr. Tulloch indicated that over time he had built a relationship with PanCanadian and that, although he did not want it on or near his cattle operations, he did believe it was a good operator. He stated that he did not know Ultima and was concerned about its approach regarding the renewed operations, and he emphasized that it took a long time to trust an operator. To emphasize this, Mr. Tulloch submitted that he was of the understanding that the facilities and

wells were to be abandoned. However, after several years of no activity, a new tank was moved onto the 2-1 location with no contact with him or his family. He indicated that the first he knew of Ultima's operations was when he received a letter stating that a company called Maximum (subsequently Ultima) was going to continue operations at the site.

Mr. Tulloch explained that he had made his position that he was not willing to negotiate very clear to Ultima after the first contact. He did not want any activity at the 2-1 location. Mr. Tulloch said that he had not rejected the concept of meeting with the EUB or the mediator but that the dates were selected without consultation with him and family circumstances and other factors prevented his attendance. Further, he maintained that there was no conversation with him to find alternative dates to meet, but he acknowledged that he also had not initiated any conversations in this regard. Mr. Tulloch stated that he had met with Ultima's land agent and spent considerable time with him explaining his points. He added that subsequent to this meeting the mediator from Calgary called. Mr. Tulloch concluded that he was not interested in negotiations and felt that a EUB decision was needed to resolve the issues.

7.3 Views of the Examiners

The examiners recognize and appreciate Ultima's efforts to engage Mr. Tulloch in dialogue. It appears to the examiners that a number of factors led to the communication difficulties, and the following comments are provided not as a criticism, but as suggestions that Ultima should consider in the future to assist in dialogue with Mr. Tulloch.

The examiners believe that when an operator is new in an area, it should consider introducing itself to landowners who may be affected by its facilities. A visitation program in conjunction with written material on its area projects might initiate two-way dialogue and set a positive tone for future dealings. For example, it is understandable that Mr. Tulloch was concerned when, after there had been no activity at the nearby facility, suddenly a new tank appeared and he was not aware of why or who was conducting the work.

The examiners recognize the many attempts that Ultima made to meet with Mr. Tulloch. Both the examiners and Ultima only learned at the hearing of the problems he had with the suggested meeting dates. It is unfortunate that Mr. Tulloch was reluctant to participate in further negotiations or ADR and did not suggest any alternative meeting dates. The examiners agree that an operator can only make so many attempts, and it seems Mr. Tulloch was not receptive and was unwilling to engage in negotiations or appropriate dispute resolution.

It appears to the examiners that because Mr. Tulloch was not willing to negotiate, the only viable option was an EUB hearing. Recognizing this, the examiners believe that field facilitation or a preliminary ADR meeting held earlier in the process would have assisted the parties to clarify expectations, time lines, and the need for deadlines, and may have led to an earlier hearing.

8 CONCLUSION

Based on the foregoing, the examiners are satisfied that Ultima has demonstrated a need for the applied-for battery and that the facility is the most viable option. The examiners believe the impacts will be minimal and will lead to additional recovery of reserves that otherwise may be abandoned.

DATED at Calgary, Alberta, on April 2, 2002.

ALBERTA ENERGY AND UTILITIES BOARD

<Original signed by>

W. Remmer, P.Eng.

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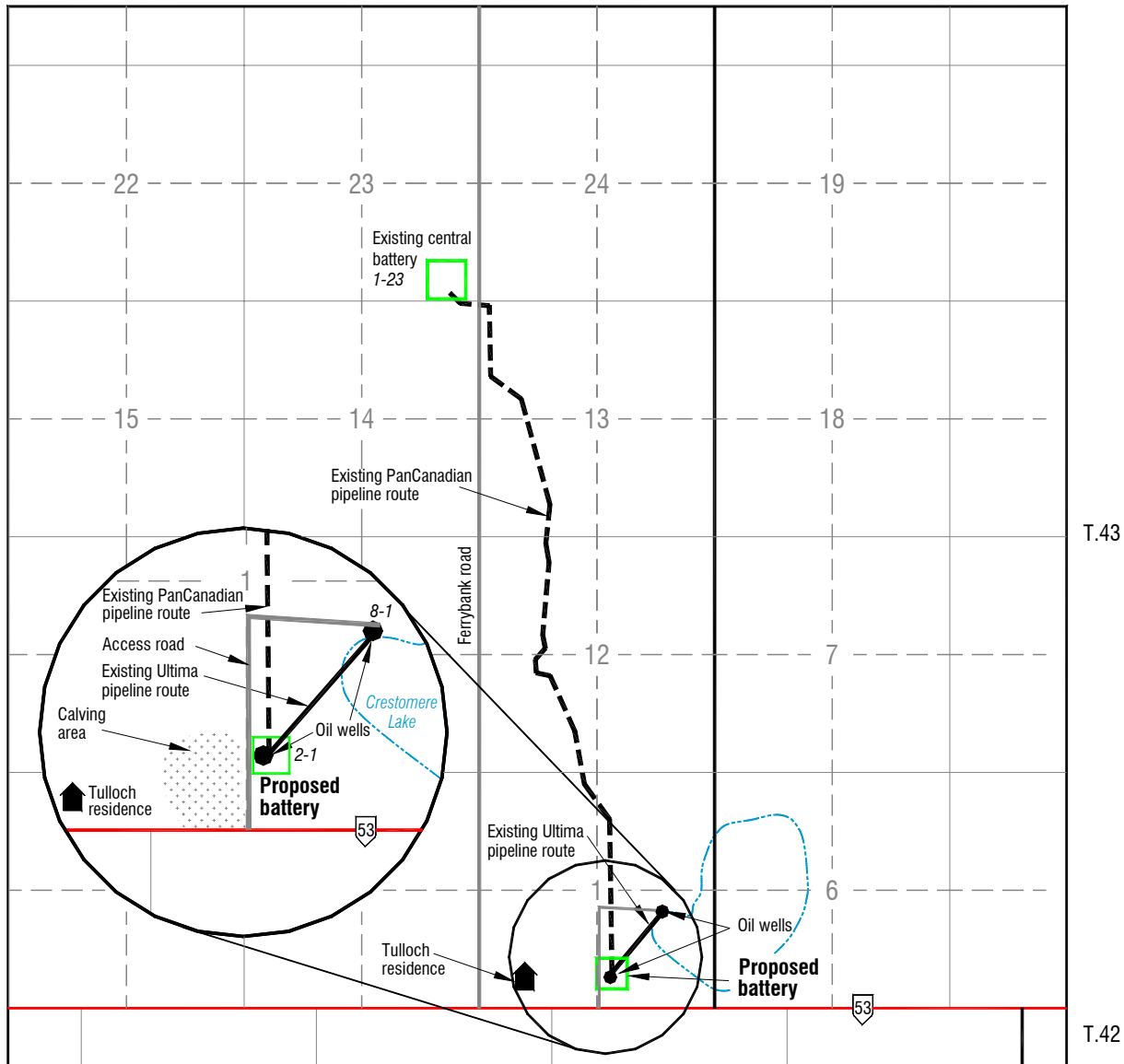
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R. Willard, P.Eng.

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