

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**OLYMPIA ENERGY INC.
APPLICATION FOR A WELL LICENCE
OLYMPIA ET AL JUMP 13-23-26-5
JUMPING POUND AREA**

**Decision 99-17
Application No. 1038128**

1 DECISION

The Alberta Energy and Utilities Board (the Board) has carefully considered the evidence and approves Application No. 1038128 subject to all regulatory requirements and the condition listed at the end of this report.

2 INTRODUCTION

Olympia Energy Inc. (Olympia) applied pursuant to Section 2.020 of the Oil and Gas Conservation Regulations and Guide 56, Energy Development Application Guide and Schedules, for a licence to drill a sweet Viking gas well. Olympia proposed to drill a deviated well from a surface location in Legal Subdivision (Lsd) 1, Section 27, Township 26, Range 5, West of the 5th Meridian (the 1-27 location) to a bottom-hole location in Lsd 13, Section 23, Township 26, Range 5, West of the 5th Meridian (the 13-23 well).

Adjacent landowners, David and Carol Dutchik, filed an objection to the Application with the Board indicating they had unresolved issues around Olympia's selected well site, access alongside their property, safety on the roads and the use and maintenance of developed and undeveloped road allowances in the area. The Dutchiks proposed that Olympia reconsider a surface location at 12-23-26-5 W5M which could be accessed by opening the undeveloped road allowance currently under agricultural lease to their neighbours, Grant and Ann McNabb. The McNabbs were opposed to the opening of the road allowance and the alternative site proposed by the Dutchiks and filed a letter in support of the Olympia Application.

3 HEARING

The Application and interventions were considered at a public hearing in Cochrane, Alberta on the 2nd and 4th of June, 1999 before Board member G. Miller (chair) and acting Board members E.A. Shirley, P.Geol. and D. D. Waisman. The panel viewed the proposed sites and access road on 1 June 1999 and an area map showing the location of the well sites discussed and other relevant details is provided in Figure 1. Those who appeared at the hearing and abbreviations used in this report are listed as follows:

THOSE WHO APPEARED ARE THE HEARING

Principals and Representatives
(Abbreviations used in Report)

Witnesses

Olympia Energy Inc. (Olympia)
H. Williamson, Q.C.

P. Salamon
A. Kirby

David, Carol and George Dutchik (the Dutchiks)
B. O'Ferrall

D. Dutchik
C. Dutchik
G. Dutchik
R.A. Berrien, P.Ag.
of Berrien Associates Ltd.

Grant and Ann McNabb
G. McNabb

A. McNabb

Municipal District of Rockyview #44 (MD)
D. Pick

S. Jewison

Alberta Energy and Utilities Board staff
D. F. Brezina, Board Counsel
L. D. Wilson-Temple
K. Wherry

4 PRELIMINARY MATTER

At the commencement of the hearing, the Dutchiks argued for an adjournment of the proceeding based on a number of issues. The Dutchiks detailed their concerns around Olympia's overall compliance history, an environmental report on a nearby Olympia well site to which they had had limited access, the lack of participation of Alberta Transportation and Utilities and their view that Olympia's application and submission contained deficiencies. After careful deliberation, and in consideration of the submissions and the fairness to all parties, the Board decided to continue with the hearing.

5 APPLICATION AND INTERVENTIONS

5.1 Application No. 1038128

Olympia submitted Freehold mineral agreements for Section 23-26-5 W5M to support its right to drill for and exploit minerals as applied-for. Olympia stated that the bottom-hole location of the 13-23 well was strongly influenced by seismic information and was expected to extend Olympia's exploratory play and recent gas discoveries to the north-west. While the applicant was applying for only one well at this time, it suggested that it was also influenced by the potential to drill other directional wells from the selected surface location should the 13-23 well prove successful. Olympia submitted that future wells were contemplated in Section 22 and 27, as well as the applied-for 13-23 well, and all could be reached by directional drilling from this central

location. It maintained that while it had considered a number of other alternative surface locations, it preferred the 1-27 surface location and had obtained a surface lease with the landowners. Olympia explained that two pipeline tie-in points existed at a riser located directly west in

Lsd 13-21-26-5 W5M which gave the company desired flexibility in possible production scenarios should the well be productive.

Olympia proposed to access the 1-27 well site travelling north from the 1A highway on the developed road allowance past the Dutchiks=homes at Lsd 5 and 12-22-26-5 W5M. The access also involved using a series of level trails and low grade gravel roads in the undeveloped road allowance between Section 21 and 22 and between Section 22 and 27. Olympia stated that access to the 1-27 site through other road allowances to the east, north and south-east was restricted due to the steep ridge offsetting the lease. It said that access from the west on the road allowance was opposed by the grazing leaseholder, Mr. Norman Edge. Olympia maintained that it had the right to use public roads, and where necessary, had obtained approvals from the MD and/or the road allowance lessees to permit its use of portions of the roads in question. Olympia stated that it would use the road allowances essentially as is=but was prepared to upgrade the undeveloped road allowance to a standard to be determined by application to the MD council if the well was successful.

Olympia submitted that its 1-27 surface location was superior from an environmental perspective over an alternative preferred by the Dutchiks on their land at 12-23-26-5 (the 12-23 site) as the 1-27 location was level except for the north-east corner which would only be used for topsoil storage. It maintained that the 12-23 site had a significant slope across the entire lease which would present additional construction and erosion issues not faced with the 1-27 location. Olympia stated that it was also opposed to the access road proposed by the Dutchiks to the 12-23 site which would involve new construction in an undeveloped road allowance between Section 22 and 23 and require the severance of the grazing lease currently held by the McNabbs, adjacent landowners in the east half of Section 22. Olympia believed that the access road posed significant construction challenges with the terrain, slope and water courses present. Olympia acknowledged that a site on the Dutchik lands was considered in its early planning stages for the 13-23 well, however, it was persuaded by the topography, access issues, adjacent landowner concerns and the emerging opportunities for additional wells to seek other possible surface locations. Olympia also maintained that the Dutchiks had proposed numerous conditions to a surface lease which it found unacceptable and inconsistent with good oilfield practices.

Olympia committed to minimize impact on the residents and to address safety concerns raised by the Dutchiks by: coordinating its activities around the local school bus schedule and the needs of the local residents; posting and enforcing a 50 kilometre per hour speed limit for all Olympia personnel or contractors on the road alongside the Dutchik property; water the roads to control dust and grade the roads as required during its use. Olympia believed it has mitigated the concerns raised by the Dutchiks and should be granted a well licence by the Board.

5.2 Interventions

The Dutchiks stated that their family had lived and farmed in the Cochrane area for four generations and they currently run a diverse ranching operation which includes agriculture, a feedlot, deer and buffalo ranch and a guiding and outfitting business. The Dutchiks confirmed they entered into discussions in early 1999 with Olympia regarding a surface lease on their

property at the 12-23 site. They stated that it is their continued view that the 12-23 site is preferable to the

1-27 site. Robert Berrien, an expert retained by the Dutchiks, introduced a report which suggested that the 12-23 site was highly favoured over the 1-27 when considering such factors as: road length; number of residences along the access road; wind direction and dust control costs; number of water crossings on access road; and risk of vehicle rollover. In response to questioning, Mr. Berrien stated that he had visited the 1-27 site and that he viewed the 12-23 site from vantage points one-quarter to one-half mile away. The Dutchiks believed that if Olympia had plans for additional wells in Section 22 and 27 that suitable down-hole locations in those sections could be reached with equal ease from their preferred location. In response to the issue of pipeline tie-in, the Dutchiks suggested that a pipeline could be constructed south through Section 23 and boring under the 1A highway to access a pipeline in Section 14.

In support of their position that the 12-23 site should be considered over Olympia's applied-for 1-27 site, the Dutchiks discussed a proposal to construct a new road up the road allowance between Section 22 and 23. The Dutchiks believed that there was little difference in the overall terrain on the proposed road as compared to their road between Section 21 and 22. Mr. Berrien characterized the proposed road as encountering only easy going terrain and maintained that there would be no steep or blind hills and only one seasonal water course to contend with. Mr. Berrien acknowledged that he had not actually walked the proposed access road or closely examined the terrain. He stated that he had relied upon his views from one-quarter to one-half mile away, a topography map and aerial photos to support his conclusions. While the Dutchiks confirmed that they had initiated preliminary discussions and an application with the MD to open this road allowance, they were not currently pursuing it. The Dutchiks acknowledged that they were aware of the McNabbs opposition to the 12-23 site but believed the McNabbs were less impacted by virtue of the distance of their home to the road and the prevailing wind directions.

The Dutchiks maintained that Olympia's use of the road alongside their home to access a location at 1-27 presented unacceptable impacts and risks on their family. They expressed concern for the safety of the school bus, their own family and employees and neighbours who use the road. The Dutchiks stated that they move wide farm equipment along the road that would prevent other vehicles from passing and would be incapable of backing up if this equipment encountered oncoming traffic. They referenced two blind hills and narrow areas of the road as presenting additional risks to traffic on the road. The Dutchiks were concerned about their homes being on the downwind side of the road and experiencing dust from the increased traffic. The Dutchiks presented a letter from a veterinarian which suggested problems which could occur as a result of animals being exposed to large or continuous amounts of dust from a dusty road. They also maintained that other oil companies incorporated certain conditions important to the Dutchiks into agreements, but that Olympia had rejected those conditions.

The Dutchiks asked the Board to deny Olympia's application for a well licence at the 1-27 location.

The McNabbs submitted that they own the east-half of Section 22-26-5 W5M and graze both cattle and horses on their lands. The McNabbs discussed their long term relationships and experiences with the oil industry and emphasized their desire to retain their grazing lease on the road allowance between Section 22 and 23. They were concerned that development of the road allowance and the pipeline routing suggested by the Dutchiks would negatively impact their operations if the well were to be drilled in 12-23. The McNabbs provided photographic evidence

and discussed particulars about the terrain on the road allowance including blind hills, side slopes and three streams or intermittent water courses they believed would be encountered. The McNabbs also believed that some areas of the road were so severely side sloped that construction may also involve private lands outside of the right-of-way to overcome the grade encountered. They believed that the 1-27 site was preferable to the 12-23 location when considering such factors as environmental disturbance, slope of the well site and the potential to drill more than one well.

The McNabbs submitted that they supported the Olympia application as applied-for and opposed any site either on their lands or at 12-23.

6 VIEWS OF THE BOARD

6.1 Need for a well

The Board accepts that Olympia holds valid Freehold leases for minerals underlying Section 23-26-5 W5M. The interveners did not dispute the need for the well and stated they recognized the rights of the applicant to exploit its minerals. Given this, the Board is satisfied that a well with a bottom-hole location in Section 23 is required to access those minerals.

6.2 Surface Locations Proposed in 1-27-26-5 and 12-23-26-5

The Board observed and heard that Olympia's proposed 1-27 site is located on level ground with limited vegetation or ground cover and poses few construction or environmental concerns other than the north-east side where a steep hill exists. The Board notes the restriction imposed by Alberta Environmental Protection that the north-east portion of the lease not be utilized other than for topsoil storage and Olympia's commitment to adhere to that requirement.

The Board also notes the significant elevation change of over 16 metres across the 12-23 site and the topographic mapping which confirms that a substantial slope exists over the entire lease area. While the Dutchiks were able to provide anecdotal information to the Board on the vegetative community present, and their land management practices in the area of the 12-23 site, their expert did not actually visit the site and viewed it only from a considerable distance. Therefore, there is little reliable and quantifiable evidence to suggest that the 12-23 site is superior to the 1-27. The Board has also considered and relied on its visitation to both sites and weighed the observable and relevant features present.

In an effort to minimize surface impact on landowners, the Board generally encourages industry to consolidate its operations whenever possible. While Application No. 1038128, for consideration here, is for one well only, the Board notes Olympia's desire to drill additional directional wells into Sections 22 and 27. The Board believes that the surface location in 1-27 is more amenable to future drilling plans. In addition, the Board notes Olympia's plans for a possible pipeline routing to the west which provides operating flexibility with two pipeline tie-in points. While the Board agrees that a pipeline routing directly south from the 12-23 site and under the

1A highway is possible, pipeline crossings involving major highways are substantial undertakings which should be avoided, if possible.

While weighing the merits of the two well sites, the Board considered the assertion by Olympia

that the Dutchiks had asked for several conditions which were not commensurate with good oilfield practices. The Board found that some of those conditions were reasonable and has incorporated them into this decision where appropriate.

Given the above, the Board finds that the 1-27 site as applied-for by Olympia to be acceptable subject to the condition set out at the end of this report.

6.3 Access to Proposed Surface Locations

The Board believes that the new construction required to build an access road to the 12-23 site would be a significant undertaking given the terrain observed and discussed in evidence at the hearing. The Board was influenced by its observation that there is no existing disturbance on the road allowance between Section 22 and 23 and that a suitable alternative exists.

The Board notes that access into the 1-27 well site is initially on roads open to the public and then along road allowances set aside for the purpose of access. The Board recognizes the role of the local MD Council who have a responsibility to pass or rescind by-laws on road status and vote on revisions to the construction standards on roads in its jurisdiction. The Board may, pursuant to Section 14.1(1) of the Oil and Gas Conservation Act, prescribe the location of the road and conditions related to its construction. While the Board is prepared to prescribe the access road as applied-for by Olympia, it intends to rely on the MD Council to decide the appropriate construction standard for the road and road allowances affected. The Board accepts Olympia's evidence, and the testimony of the MD staff, that it has obtained the necessary approvals to use the existing road allowances to drill the well. If the well is successful and continued access is required, the Board understands that Olympia will pursue road upgrading requirements as necessary and in consultation with the local residents and the MD Council.

The Board acknowledges the Dutchiks's concerns about the road constructed between Section 21 and 22 and the safety of users on the road. The Board heard evidence that during the drilling and completion phase of the well, increased traffic is expected. The Board noted Olympia's commitments to coordinate its activities around the local residents and bus schedule and enforce a reduced speed limit on its employees and contractors. The Board expects Olympia to honour those commitments. In addition, the Board suggests that Olympia consider having an escort or pilot vehicle proceed up the road in advance of large truck loads so as to reduce the risk of encountering oncoming traffic at a point where passing may not be possible.

Subject to the additional condition set out below, the Board prescribes the access road to the 1-27 well site as set out on the survey plan attached to the Application.

7 OTHER MATTERS

During closing arguments, the Dutchiks quoted from the Board's Guide 56 a reference on how error corrections are dealt with by requiring a new application when responses are changed, the implication being that the Board was not in a position to dispose of the current Application if errors were detected. While the Board relies on the information filed on the Schedules, it also considers the supplementary supporting information and draws certain conclusions from that data, and the testimony, when a matter is being considered at a public hearing. The Board will use all of these resources to ensure an Application is complete and compliant with the Regulations.

The Board was concerned about Olympia's lack of awareness, as demonstrated in its testimony, of protocol in establishing protection for the ground water resources in the area. While the issue was resolved to the satisfaction of the Board through an undertaking, it remains a concern that the applicant appears to be out-of-date with the Board's regulatory requirements. The Board wishes to emphasize that it is important for companies to ensure that they maintain current and accurate reference material and incorporate changes in their internal processes, when required, so that regulatory compliance can be demonstrated at all times.

The Dutchiks posed a number of questions to the Board concerning: circumstances where a road allowance lease was cancelled; the delegated level of authority of the MD staff; business practices involving competing land companies; who was paid for equipment storage and the current ownership of adjacent lands; who is liable when unsafe road conditions contribute to a person's death or livestock fatalities; the responsibility for garbage collection or spillage on private lands. The Board believes these questions cannot be answered within the Board's jurisdiction and suggests that the Dutchiks pursue them through appropriate legal counsel.

8 DECISION

Refer to Section 1 of this report.

DATED at Calgary, Alberta, on 5 July 1999.

[Original signed by]

G. Miller
Board Member

[Original signed by]

E. A. Shirley, P.Geol.
Acting Board Member

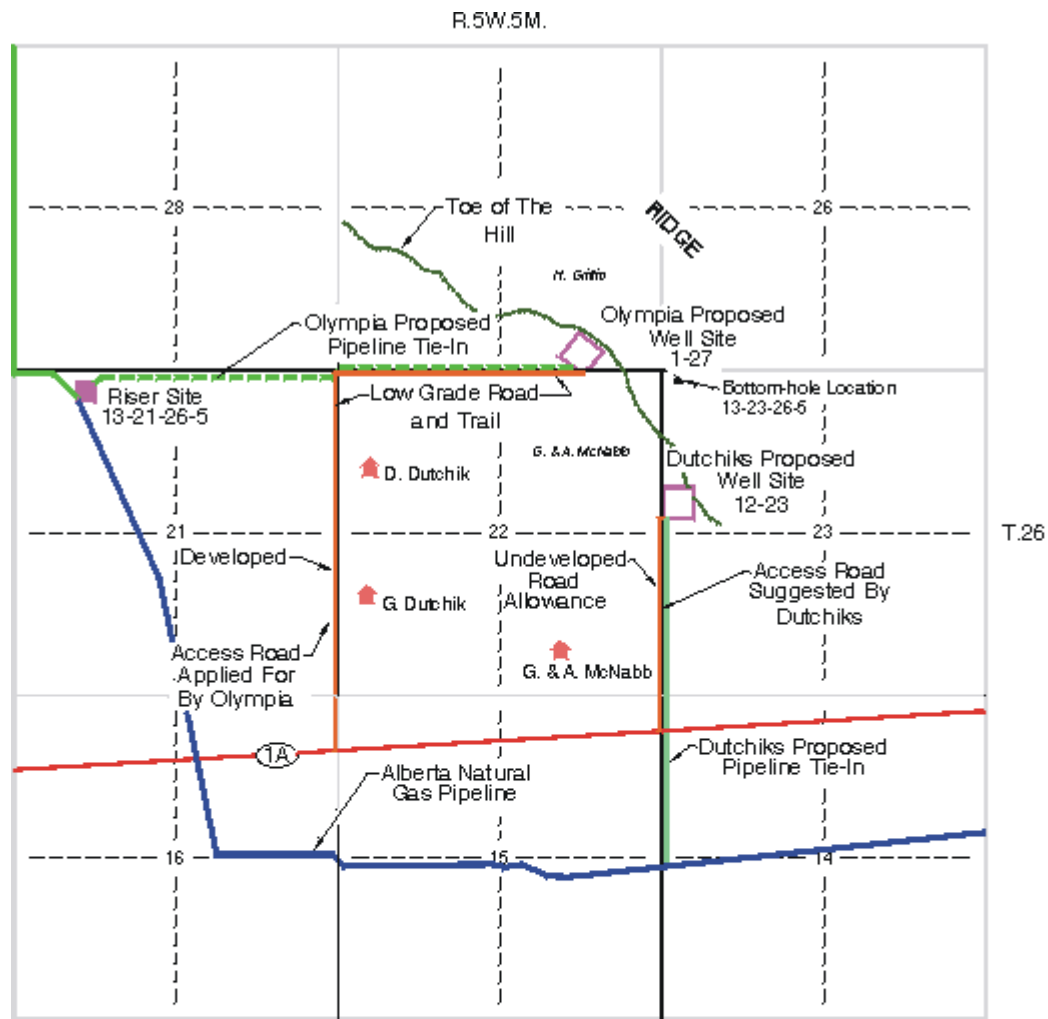
[Original signed by]

D. D. Waisman
Acting Board Member

CONDITION TO DECISION 99-17

Condition 1

Unless an emergency situation exists, Olympia is required to limit its access to the 1-27 well site to mid-day hours during hunting season from approximately mid-October until the end of November.



Legend

- Well Sites
- Residences
- Highway
- Existing Pipeline
- Olympia Pipeline
- Olympia Proposed Pipeline
- Dutchiks Proposed Pipeline
- Access Road/Road Allowance

Figure 1 Jumping Pound Area
 Proposed Access Roads and Wellsites
 Application No. 1038128
 Olympia Energy Inc.

Decision 99-17