

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ARKOMA, INC.
SECTION 40 REVIEW REQUEST OF
WELL LICENCE NO. 0346274
JOFFRE FIELD**

**Decision 2006-076 Errata
Proceeding No. 1454558**

The Proceeding No. on page 1 of *Decision 2006-076* issued by the Alberta Energy and Utilities Board on July 18, 2006 is incorrect. The Proceeding No. should read 1454558.

Dated in Calgary, Alberta, on July 20, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

[original signed by]

G. J. Miller
Presiding Member

[original signed by]

T. M. McGee
Board Member

[original signed by]

J. G. Gilmour, B.A., L.L.B.
Acting Board Member



Arkoma, Inc.

Section 40 Review Request of Well Licence No. 0346274
Joffre Field

July 18, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-076: Arkoma, Inc., Section 40 Review Request of Well Licence No. 0346274,
Joffre Field

July 18, 2006

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ARKOMA, INC.
SECTION 40 REVIEW REQUEST OF
WELL LICENCE NO. 0346274
JOFFRE FIELD**

**Decision 2006-076
Proceeding No. 1454563**

1 DECISION

Having considered the withdrawal of the request for review, the Alberta Energy and Utilities Board (EUB/Board) hereby directs that Well Licence No. 0346274 be confirmed as being in good standing.

2 INTRODUCTION

2.1 Background

On December 20, 2005, the Board approved Application No. 1416002 and issued Well Licence No. 0346274 to Arkoma, Inc. (Arkoma). Licence No. 0346274 would permit Arkoma to drill a vertical well with 0.00 moles per kilomole of hydrogen sulphide from a surface location in Legal Subdivision 4 of Section 35, Township 38, Range 27, West of the 4th Meridian. The purpose of the well is to obtain gas production from the Mannville Group. The well would be located approximately 0.8 kilometres east of Red Deer.

2.2 Application No. 1441279

On January 16, 2006, the City of Red Deer (the City) made a request under Section 40 of the *Energy Resources Conservation Act* for the Board to review Well Licence No. 0346274. The EUB registered the request as Application No. 1441279 and considered the application to be phase 1 of the request to review Well Licence No. 0346274.

2.3 Proceeding No. 1454563

The Board granted the City's request for review and directed that a hearing be scheduled to determine whether the Board should confirm, vary, or rescind its decision to grant Well Licence No. 0346274.

2.4 Hearing

The Board was scheduled to hold a public hearing in Red Deer, Alberta, on May 18, 2006, before Board Members G. J. Miller (Presiding Member) and T. M. McGee and External Acting Board Member J. G. Gilmour, L.L.B.

3 DISCUSSION

Negotiations between the parties continued after the EUB granted the hearing, and the discussions resulted in an agreement. On May 11, 2006, the City confirmed that it wished to withdraw its review request. The Board therefore considers May 11, 2006, the final date of close of evidence.

The agreement allows for the well to continue to operate but provides for a process of consultation between the City and Arkoma. The City stated that the agreement represents a satisfactory resolution of its concerns about the relationship between the City's future growth and existing oil and gas facilities.

The Board notes that while the parties have created a contract that includes a process for consultation between the City and Arkoma, the right of either party to request a review is not affected by the contract. The Board wishes to confirm each party's right to seek a review and will consider any requests made by either party in the future.

In light of the City's withdrawal of its request for review of Well Licence No. 0346274, the Board directs that Well Licence No. 0346274 remain in good standing.

Dated in Calgary, Alberta, on July 18, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

[original signed by]

G. J. Miller
Presiding Member

[original signed by]

T. M. McGee
Board Member

[original signed by]

J. G. Gilmour, L.L.B.
Acting Board Member

APPENDIX 1 AGREEMENT BETWEEN THE PARTIES

The Board notes that the City and Arkoma have reached an agreement, certain aspects of which are not strictly required by the EUB's regulations or guidelines. The Board expects the parties will respect the agreement, which is attached, and follow through with the recommendations and commitments contained within.

CONSULTATION AND PROCESS AGREEMENT

Between:

ARKOMA INC.
("Arkoma")

-and-

CITY OF RED DEER
(the "City")

WHEREAS:

- A. Arkoma applied to the Alberta Energy and Utilities Board ("EUB" or "Board") for approval to drill a vertical natural gas well from a surface location at LSD 4-35-38-27 W4M (the "Well").
- B. The City filed an objection in respect of the Arkoma application on May 24, 2005.
- C. The EUB issued a letter dated December 19, 2005 dismissing the City's objection and thereafter issued Licence No. 0346274 for the Well ("Well Licence") on December 20, 2005.
- D. The City applied to the EUB for a review of the Well Licence on January 16, 2006 and on March 27, 2006, the EUB advised the City and Arkoma that it had decided to allow the request for a review, and directed that the Well Licence be the subject of a public hearing and that the Licence be suspended pending the outcome of such hearing.
- E. The Board scheduled the review hearing for May 18, 2006 in Red Deer, Alberta.
- F. Arkoma and the City met on April 20, 2006 to discuss whether a mutually acceptable resolution could be achieved that would enable the City to withdraw its request for a review of the Well Licence while preserving its opportunity to have the EUB address its concerns regarding the potential conflict between future urban development and the continued operation of the Well and its intended Pipeline.
- G. Arkoma intends to apply for license to construct and operate a pipeline for the purpose of transporting natural gas from the Well Site to adjacent pipelines, and the Well and the intended pipeline are herein referred to as the "Facilities".

THE PARTIES AGREE AS FOLLOWS:

- 1. Upon execution of this Agreement:
 - (a) Arkoma and the City will advise the EUB in writing that this Agreement has been reached between the parties and that they requests that EUB add a condition to the

Well License that the Well License shall be limited in time to a period of 13 years;

- (b) the City will advise the EUB in writing that:
 - (i) it withdraws its request for a review of the Well Licence and consents to the EUB immediately rescinding the suspension of the Well Licence upon the addition of the aforesaid conditions;
 - (ii) it requests that the EUB cancel the public hearing scheduled for May 18, 2006, as it pertains to Arkoma's Facilities.

2. Arkoma acknowledges that the City intends to construct a major roadway in the vicinity of Arkoma's intended Well Site and that the City is concerned that the Well Site may interfere with the City's ability to design, place and construct the roadway in the optimum location. In order to minimize the potential for conflict between the Well Site and the future roadway, Arkoma agrees as follows:
 - (a) to move its Well Head as far north on the Well Site as possible, 30m if it can, and in any event not less than 25m north, as shown in the sketch attached as Schedule "A".
 - (b) to minimize the size of the finished Well Site to approximately 60m x 80m.
 - (c) to allow the City to encroach on its Well Site, without cost, if necessary to accommodate future City roadway, to within 40m of the Well Head (subject to EUB approval if required).
3. Arkoma acknowledges that it will be obliged to apply to the Board for permission to construct a pipeline to connect the Well Site to adjacent pipeline facilities. Arkoma undertakes to plan the construction of such connecting pipeline in consultation with the City so as to minimize the potential for conflict between such pipeline and the City's future roadway. Following construction of the pipeline, should it then be necessary to do so in order to accommodate the future roadway, Arkoma agrees to relocate the connecting pipeline at its sole expense, so as to avoid interference with the City roadway.
4. The City agrees that Arkoma may use the City's road right of way for the relocated pipeline without charge.
5. The parties acknowledge that the location of gas wells, pipelines and related facilities is subject to the jurisdiction and approval of the Board and they agree to apply to the Board for and to support any such application to the Board for any approvals that may be necessary to accommodate the agreements set forth herein.
6. The City undertakes to keep Arkoma advised of the City's plans for development of the lands in the general vicinity of the Facilities, including plans for construction of roads, utilities and other infrastructure that will make the lands available for development for residential and other purposes. The City will also advise Arkoma of any intended

annexation which includes SW 35-38-27 W4M. The City will provide Arkoma with copies of relevant planning documents as they become available for public release.

7. Arkoma will advise the City of any operational changes to the Well or its future Pipeline that may either shorten or extend the operating life of the Facilities.
8. Following a determination by the City that the lands located within 200m of the lands on which the Well and/or Pipeline are located will be required for or affected by the construction of the City's future roadway or other urban development within a 2 year period (the "Determination"), the City shall give Arkoma written notice of the Determination. Following the receipt of such notice by Arkoma, the parties will meet within a reasonable time in order to initiate the process hereinafter set forth.
9. The parties will meet and discuss matters relevant to any potential conflict between the expected development and the continued operation of the Facilities, including:
 - (a) the expected development plans for the lands on which the Facilities are located or in the vicinity of the Facilities (the "Lands"), including the intended development of roads, infrastructure, public facilities;
 - (b) the likely effect of the intended development upon the Facilities and whether the development plans could accommodate the continued operation of the Well and Pipeline.
 - (c) Arkoma's estimate of the remaining operating life of the Well and Pipeline including the forecast flow of remaining product from the Well and its estimated value; and
 - (d) if the City is of the opinion that the development plans could not accommodate the Well and/or the Pipeline, whether Arkoma would be willing to abandon the Well and Pipeline prior to reaching the end of the operating life of the Facilities.
10. The parties agree that interested stakeholders should be included in the discussions described in paragraph 9. It is anticipated that such stakeholders would include the mineral owner for SW 35-38-27 W4M, and the potential developer of the lands.
11. The parties agree to conduct their discussions in good faith with a view to making every reasonable effort to harmonize the orderly development of lands in the area of the Facilities with the optimum exploitation of the resources from the Well, including consideration of such measures as the relocation of the Pipeline to accommodate roads and utilities, the design of neighbourhoods so as to locate public lands around the Well Site and the possible early abandonment of the Well.

Encroachment on Surface Lease

12. Arkoma confirms that it has entered into a surface lease with the owner of the lands legally described as SW 35-38-27 W4M, which lease allows Arkoma to enter upon the lands to construct and maintain the Well Site. Arkoma hereby grants to the City the right

to encroach upon the area covered by the Surface Lease as follows (which areas are hereinafter referred to as the "Encroachment Area":

- (a) on the Well Site area, to within 40m of the Well Head or such other setback distance as the Board may approve; and
 - (b) all of that portion of the Well Site area intended for an access road to the Well Site or occupied by a pipeline.
13. The City's right of encroachment may be for the purpose of developing roads, utilities, public park or municipal reserve lands, including the right to cross the Pipeline with a road. Prior to exercising the right of access to the Encroachment Area, the City shall give not less than 90 days prior notice to Arkoma of its intention to enter upon and develop the Encroachment Area or any portion thereof. The parties shall discuss the City's intended development plans and make reasonable provisions to allow the City's intended development, provided however that such development may not adversely affect or interfere with the operation or maintenance of the Facilities.

Encumbrance Against Mines and Minerals

14. Arkoma further confirms that it has rights under a petroleum and natural gas lease with the owner of the Mines and Minerals underlying the SW35-38-27-W4M (the "Petroleum and Natural Gas Lease") and agrees that its rights under the terms of such lease shall be subject to the rights granted to the City hereunder in respect of the surface of the lands. Arkoma hereby grants to the City as security for such rights, a charge on its Petroleum and Natural Gas Lease in the amount of \$500.00.

Covenant Running With Lands

15. The provisions of this agreement relating to the Surface Lease and relating to the Petroleum and Natural Gas Lease shall be covenants running with the land and with the Mines and Minerals interests respectively, and the City shall be entitled to file and maintain Caveats against the title to the lands and against the title to the Mines and Minerals to protect its rights hereunder.

General

16. Any alteration or amendment of this Agreement must be in writing and signed by the parties.
17. The terms and conditions of this Agreement will be interpreted pursuant to the laws of the Province of Alberta.
18. If any provision of this Agreement is found to be invalid by a Court of law, the Agreement will be read and interpreted as if the provision were omitted.
19. The failure of any party to exercise any right given to it under this Agreement or to insist upon the strict compliance with any of the terms or conditions in this Agreement will not constitute a waiver of any provisions with respect to any other or subsequent breach.

20. This Agreement is for the benefit of and will be binding upon the parties hereto and, not only their respective heirs, executors, administrators, successors and assigns, but also their respective successors and assigns of the applicable mines and minerals and surface interests.
21. Arkoma agrees that it shall not transfer or assign its rights under the Surface Lease or the Petroleum and Natural Gas Lease except upon the condition that the transferee or assignee shall have executed an acknowledgement of the existence of this agreement together with an undertaking to be bound thereby. Arkoma further agrees that it shall give notice to the City of any such transfer or assignment.
22. This Agreement may be executed in separate counterparts and all executed counterparts together shall constitute one agreement. A facsimile copy of an executed counterpart signature page will be as valid as an originally executed counterpart for purposes of signing this Agreement.

AGREED TO AS OF THE 10 DAY OF MAY 2006.

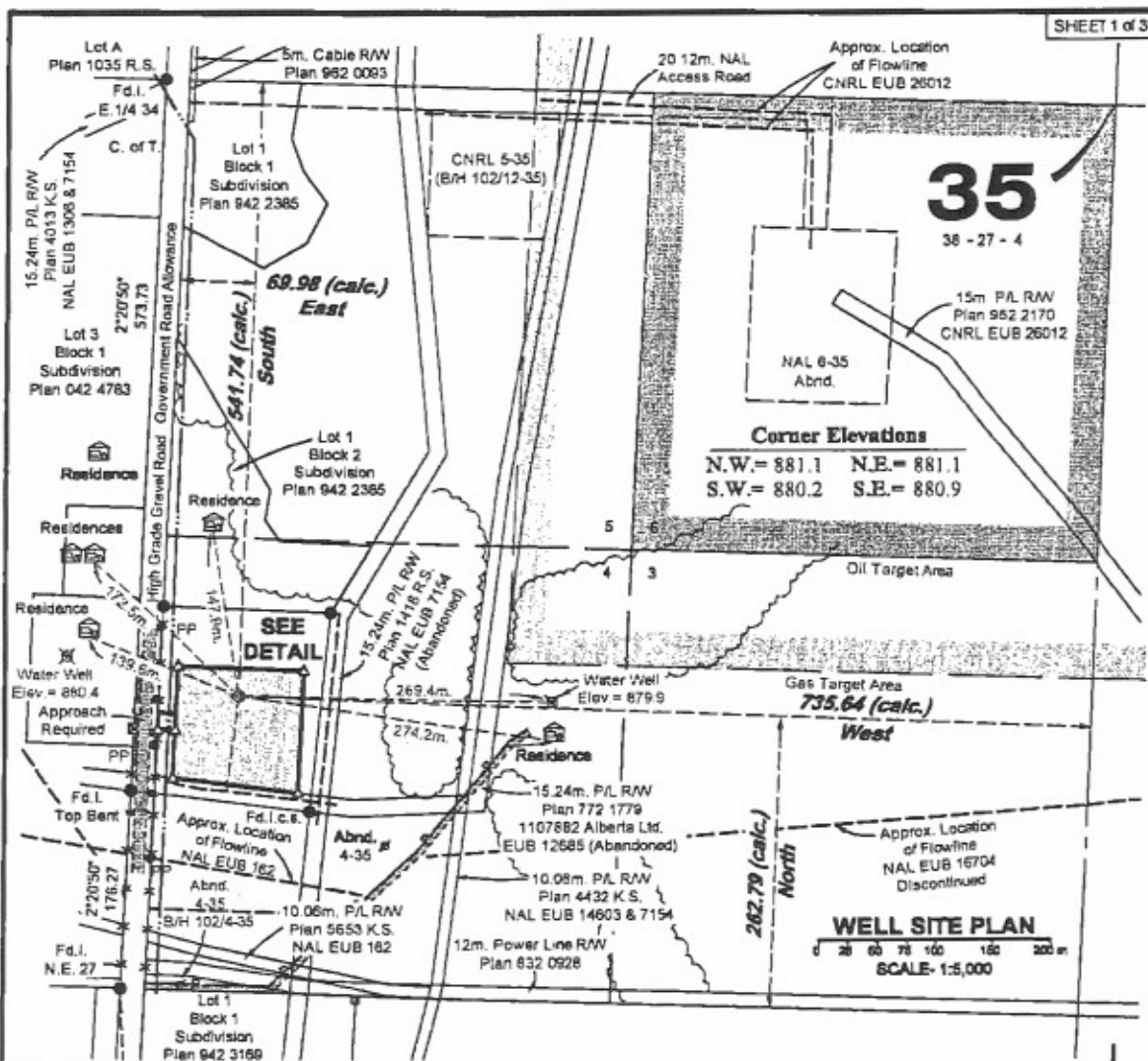
ARKOMA INC.

Per: [Signature]

CITY OF RED DEER

Per: [Signature]





Plan Showing Survey of

ARKOMA ET AL 103 JOFFRE 4-35-38-27**Well Site and Access Road**

in

L.S.4 Sec.35 Twp.38 Rge.27 W.4 M.

I, Ed Oh, Alberta Land Surveyor, of Edmonton, Alberta, certify that the survey represented by this plan is true and correct to the best of my knowledge, has been carried out in accordance with the Alberta Land Surveyors' Association Manual of Standard Practice, and was completed on the 9th day of February, 2005.

Alberta Land Surveyor

Witness (Wilson Lam)



ELEVATION ON GROUND
 AT WELL LOCATION = N/A

CO-ORDINATES:

262.76 m. N. of S. Bdy. } Sec. 35
 69.98 m. E. of W. Bdy. }

GEO Co-ordinates	UTM Co-ordinates
52.305408 Latitude	5798607.86 N
113.785058 Longitude	311490.12 E
52.305348 Latitude	5798381.05 N
113.784061 Longitude	311551.45 E

The Proposed Well:

- | | YES | NO |
|--|-------------------------------------|-------------------------------------|
| - Is at least 1.5 km. from the Corporate Limits of a City, Town or Village | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| - Is outside any Potential Coal Development Area | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| - Is at least 100 m. from any Surface Improvements (Buried Pipes, Gas Co-op) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| - Is at least 40 m. from any Surveyed Road | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| - Is at least 5.0 km. from a Lighted Aerodrome | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| - Is at least 1.6 km. from an Unlighted Aerodrome | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| - Is exempt from the Alberta Community Development Approval | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| - Meets the Land Reclamation Guidelines for drainage & elevation | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

OPERATOR:
ARKOMA, INC.

AREAS:

	HECTARES	ACRES
Well Site	1.148	2.84
Access Road	0.022	0.05
Total	1.171	2.89

Bearings are NAD 83 UTM Grid Bearings referred to the Central Meridian 111° W. and were derived by G.P.S. Combined Scale factor used = 0.999901
 Datum: ASCM 52241 Elev = 881.238

Alberta Survey Control Markers shown thus:
 Survey Monuments found shown thus:
 Iron Spikes placed shown thus:
 Wooden Stakes placed shown thus:
 Temporary Point shown thus:
 Portions referred to outlined thus:
 Distances are in metres.

**ALL WEST SURVEYS LTD.**

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Client File No.	AFE No.
REV. Revision: Moved W/C 25m. North	
Date: May 3, 2006	Job No.: 621348-E
File: 021340VW2.dwg	Initials: S Q W L E Q