



Advantage Oil & Gas Ltd.

Section 40 Review Request of Well Licence No. 0346273 and
Pipeline Licence No. 46813
Joffre Field

July 18, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-077: Advantage Oil & Gas Ltd., Section 40 Review Request of Well Licence No. 0346273 and Pipeline Licence No. 46813, Joffre Field

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ADVANTAGE OIL & GAS LTD.
SECTION 40 REVIEW REQUEST OF
WELL LICENCE NO. 0346273 AND
PIPELINE LICENCE NO. 46813
JOFFRE FIELD**

**Decision 2006-077
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. 0346273 and Pipeline Licence No. 46813 be confirmed as being in good standing.

2 INTRODUCTION

2.1 Background

On December 20, 2005, the Board approved Applications No. 1412475 and 1422327 and issued Well Licence No. 0346273 and Pipeline Licence No. 46813 to Advantage Oil & Gas Ltd. (Advantage). Licence No. 0346273 would permit Advantage to drill a vertical well with 0.00 moles per kilomole of hydrogen sulphide from a surface location in Legal Subdivision 2 of Section 13, Township 38, Range 27, West of the 4th Meridian. The purpose of the well was to obtain gas production from the Edmonton Group. The proposed well would be located approximately 0.8 kilometres east of Red Deer.

2.2 Application No. 1441288

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. 0346273 and Pipeline Licence No. 46813. The EUB registered the request as Application No. 1441288 and considered the application to be phase 1 of the request to review Well Licence No. 0346273 and Pipeline Licence No. 46813.

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. 0346273 and Pipeline Licence No. 46813.

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 and pipeline to continue to operate but provides for a process of consultation between the City and Advantage. The City stated that the agreement represents a satisfactory resolution of its concerns over 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 Advantage, 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. 0346273 and Pipeline Licence No. 46813, the Board directs that Well Licence No. 0346273 and Pipeline Licence No. 46813 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 Advantage 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:

ADVANTAGE OIL & GAS LTD.
(“Advantage”)

-and-

CITY OF RED DEER
(the “City”)

WHEREAS:

- A. Advantage is the
- (i) lessee under a Petroleum and Natural Gas Lease with the owner of the mines and minerals underlying section 13-38-27 W4M (the “P&NG Lease”);
 - (ii) lessee under a Surface Lease with the owner of LSD 2-13-38-27 W4M (the “Surface Lease”); and
 - (iii) holder of surface access rights under Right of Way Agreement(s) from LSD 2-13-38-27 W4M to LSD 11-13-38-27 W4M (the “Rights of Way”).
- B. Advantage 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 2-13-38-27 W4M (the “Well”) and to construct and operate a pipeline for the purpose of transporting natural gas from LSD 2-13-38-27 W4M to a compressor station located at LSD 11-13-38-27 W4M (the “Pipeline”) (collectively the “Facilities”).
- C. The City filed an objection in respect of the Advantage application on August 4, 2005.
- D. The EUB issued a letter dated December 19, 2005 dismissing the City’s objection and thereafter issued Licence No. 0346273 for the Well (“Well Licence”) and Licence No. 46813 for the Pipeline (“Pipeline Licence”) on December 20, 2005 (collectively the “Licences”).
- E. In accordance with the Licences, the Well was drilled and the Pipeline constructed, and Advantage commenced producing and transporting natural gas.
- F. The City applied to the EUB for a review of the Well Licence and the Pipeline Licence on January 16, 2006.

- G. Advantage filed a submission with the EUB on January 23, 2006 opposing the City's request for review.
- H. On March 27, 2006, the EUB advised the City and Advantage that it had decided to allow the request for a review, and directed that the Well Licence and Pipeline Licence be the subject of a public hearing and that the Licences be suspended pending the outcome of such hearing.
- I. The Board scheduled the review hearing for May 18, 2006 in Red Deer, Alberta.
- J. Advantage 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 Licences 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/or Pipeline.

THE PARTIES AGREE AS FOLLOWS:

1. Upon execution of this Agreement:
- (a) Advantage and the City will advise the EUB in writing that this Agreement has been reached between the parties; and
 - (b) The City will advise the EUB in writing that it:
 - (i) requests that the EUB amend both the Well Licence and the Pipeline Licence to include a condition that each shall be subject to the right of the City to apply to the EUB for a review of the Licences in accordance with the terms of this Agreement;
 - (ii) consents to the EUB immediately rescinding the suspension of the Licences;
 - (iii) withdraws its request for a review of the Well Licence and the Pipeline Licence; and
 - (iv) requests that the EUB cancel the public hearing scheduled for May 18, 2006, as it pertains to Advantage's Facilities.
 - (c) Advantage will advise the EUB in writing that it consents to the addition to both Licences of the condition described in paragraph 1 (b)(i).
2. The City undertakes to keep Advantage 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 to be developed for residential and other purposes. The City will also advise Advantage of any intended annexation that includes the NE or SE 13-38-27 W4. The City will provide Advantage with copies of relevant planning documents as they become available for public release.

3. Advantage undertakes to keep the City advised of any operational changes to the Well or the Pipeline that may either shorten or extend the operating life of the Facilities.
4. Following a determination by the City that any of the lands located within 500m of the lands on which the Well and/or Pipeline are located will be required for or affected by urban development within a 2 year period (the "Determination"), the City shall give Advantage written notice of the Determination. Following the receipt of such notice by Advantage, the parties will meet within a reasonable time in order to 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, including the intended development of roads, infrastructure or public facilities;
 - (b) whether the presence of the Facilities could adversely affect the development or whether the development plans could accommodate the continued operation of the Well and Pipeline;
 - (c) Advantage's estimate of the remaining operating life of the Well and Pipeline including the forecast remaining producible natural gas reserves from the Well and the estimated net present value of such reserves at that time; and
 - (d) if the City is of the opinion that the development plans could not accommodate the Well and/or the Pipeline, whether Advantage would be willing to abandon the Well and Pipeline prior to reaching the end of the operating life of the Facilities.
5. The parties agree that interested stakeholders should be included in the discussions described in paragraph 4. It is anticipated that such stakeholders would include the lessor under the P&NG Lease for section 13-38-27 W4M, and the potential developer of the lands.
6. The parties agree to conduct their discussions in good faith with the objective of making reasonable efforts to seek a means of harmonizing the orderly development of the lands within the area of the Facilities with the optimal recovery of natural gas from the Well.
7. The parties agree that, if Advantage, the City and potentially affected stakeholders are unable to reach agreement regarding development that would accommodate the Facilities or the abandonment of such Facilities, then, no earlier than 10 years from the date of this Agreement, the City and/or the potential developer shall be entitled to request the EUB to conduct a review of the Well Licence and/or Pipeline Licence to determine whether it would be in the public interest to permit the continued operation of such Facilities from the time that development would encroach upon the lands located within the applicable development setback distance from the Well and the Pipeline. Advantage further agrees that it shall consent to the City's request for such a review, while preserving its rights under paragraph 9.

8. The parties agree that the review process contemplated in paragraph 7 can include a determination by the EUB whether the Pipeline should be relocated (if the Well is to continue producing) and who should be responsible for the cost of such relocation if so ordered by the Board.
9. In any review proceeding established by the EUB at the request of the City and/or developer, Advantage will be permitted to advance any position it considers appropriate to seek the approval of the EUB to continue the operation of the Facilities.

Consent to Filing Caveat

10. The provisions of this Agreement relating to the P&NG Lease, the Surface Lease and the Rights of Way shall be covenants running with the mines and minerals and the land interests, respectively, and Advantage consents and agrees to the City filing and maintaining Caveats against the title to mines and minerals and the lands to protect its rights hereunder. Advantage covenants that it will not challenge the Caveats filed at the Land Titles Office by the City pursuant to this paragraph.

General

11. Any alteration or amendment of this Agreement must be in writing and signed by the parties.
12. The terms and conditions of this Agreement will be interpreted pursuant to the laws of the Province of Alberta.
13. 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.
14. 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.
15. 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.
16. Advantage agrees that it shall not transfer or assign its rights under the P&NG Lease, the Surface Lease, or the Rights of Way 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. Advantage further agrees that it shall give notice to the City of any such transfer or assignment.

17. 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 11th DAY OF MAY 2006.

ADVANTAGE OIL & GAS LTD.

Per: *Richard P. Mazurkewich*

RICHARD P. MAZURKEWICH
Vice President
Operations

CITY OF RED DEER

Per: *[Signature]* 