



Standard Energy Inc.

Application for Two Well Licences
Grande Prairie Field

October 6, 2009

ENERGY RESOURCES CONSERVATION BOARD

Decision 2009-059: Standard Energy Inc., Application for Two Well Licences, Grande Prairie Field

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CONTENTS

1	Decision	1
2	Introduction.....	1
2.1	Application	1
2.2	Interventions	1
2.3	Hearing	2
3	Issues.....	2
4	Consideration of the Application	2
4.1	Views of the Applicant.....	2
4.2	Views of the Interveners.....	5
4.3	Findings of the Board	6
5	Other Matters	8
	Figure 1 Map of Standard's Proposed Wells.....	11

ENERGY RESOURCES CONSERVATION BOARD

Calgary Alberta

**STANDARD ENERGY INC.
APPLICATION FOR TWO WELL LICENCES
GRANDE PRAIRIE FIELD**

**Decision 2009-059
Application No. 1580026**

1 DECISION

Having carefully considered all of the evidence, the Energy Resources Conservation Board (ERCB/Board) hereby approves Application No. 1580026.

2 INTRODUCTION

2.1 Application

Standard Energy Inc. (Standard) applied to the ERCB, under Section 2.020 of the *Oil and Gas Conservation Regulations*, for licences to drill two wells on an existing lease site at Legal Subdivision (LSD) 13, Section 20, Township 71, Range 4, West of the 6th Meridian (13-20), to projected bottomhole locations in LSD 12-20-71-4W6M and LSD 14-20-71-4W6M. The purpose of the proposed wells would be to obtain sweet crude oil from the Dunvegan Formation. The proposed wells would be located about 11 kilometres east of Grande Prairie.

2.2 Interventions

Wilfred Rigler and Linda Rigler (the Rigers) filed an objection to the proposed project. The Rigers own 1099342 Alberta Ltd., the registered owner of the northwest quarter of Section 20-71-4W6M, and they also reside on the quarter section. Their concerns included operation practices, consultation, well site expansion, noise, odour, dust, lease maintenance, reduced well spacing, transfer of ownership, and future development. The Rigers stated that the land was currently leased to Gerald McDonald.

Gerald McDonald and Denise McDonald (the McDonalds) filed an objection to the proposed project. The McDonalds own the southeast quarter of Section 29-71-4W6M. Mr. McDonald is the occupant of the northwest quarter of Section 20-71-4W6M, where the proposed wells would be located; he uses it as pasture. Mr. McDonald participated in the hearing in support of the Rigers. His concerns included operation practices and quality of life.

Ray Marcy and Phil Marcy (the Marcys) also participated in the hearing in support of the Rigers. The Marcys are neighbouring landowners and use their land for farming operations. Their concerns included interference with farming operations, groundwater, soil integrity, and noise.

Glen Boyd and Arlene Boyd (the Boyds) filed an objection to the proposed project but did not participate in the hearing. The Boyds own the northwest quarter of Section 19-71-4W6M.

The County of Grande Prairie filed an objection to the proposed project. Standard engaged the County of Grande Prairie in negotiations, resulting in an agreement between the two parties. The ERCB received a withdrawal of objection from the County of Grande Prairie on September 25, 2008.

2.3 Hearing

The Board held a public hearing in Grande Prairie, Alberta, on July 9, 2009, before Board Members M. J. Bruni, Q.C. (Presiding Member), J. D. Dilay, P.Eng., and J. D. Ebbels. Those who appeared at the hearing are listed in [Appendix 1](#).

On July 8, 2009, the panel, ERCB staff and counsel, representatives of Standard, and Mr. Rigler and his representative conducted a site visit to view the area of the proposed wells and the Righlers' residence.

3 ISSUES

The Board considers the issues that were raised at the hearing respecting the application to be

- expansion of the 13-20 lease site,
- reduced well spacing,
- future development,
- transfer of ownership,
- operating practices, and
- consultation.

In reaching the determinations contained in this decision, the Board has considered all relevant materials constituting the record of this proceeding, including the evidence and argument provided by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Board's reasoning relating to a particular matter and should not be taken as an indication that the Board did not consider all relevant portions of the record with respect to that matter.

4 CONSIDERATION OF THE APPLICATION

4.1 Views of the Applicant

Standard stated that its core operations were in and around the Grande Prairie area and that the two applied-for wells would be an integral part of its operations. Standard submitted that it had acquired the mineral rights for Section 20-71-4W6M and that the proposed wells were needed to access the minerals in the Dunvegan Formation. The production from the proposed wells would result in royalties payable to the province, employment for local workers and contractors, and taxes paid to the County of Grande Prairie. Standard predicted that the original oil in place could be 800 000 to 1 000 000 barrels per 80 acres and that reduced well spacing and enhanced recovery would increase the ultimate recovery of the reserves.

Standard submitted that it made the decision to drill the proposed wells directionally from an existing lease site in order to minimize surface impact and to achieve efficient development of the pool. Standard advised that the proposed wells could be drilled vertically, but would require additional well sites, increasing surface impacts. Standard stated that it did not consider alternative locations, as it believed that the proposed location would be optimal and that the flat cultivated land would present minimal environmental constraints.

Standard submitted that the proposed wells would be drilled from an existing lease site, which would require expansion to accommodate the additional wells. Standard stated that it planned to expand the existing lease site 30 metres (m) west and 15 m north, away from the Righlers' farmstead. Standard said that prior to the May 20, 2009, letter from the Righlers, it was not aware of their preference for the lease site to be expanded only toward the north.

Standard advised that it had applied to the ERCB for a reduced well spacing approval for Section 20-71-4W6M. The reduced spacing approval would allow Standard to produce two wells per quarter section. Standard stated that it was aware of and accepted the risk of drilling the proposed wells and not being able to produce them simultaneously unless the reduced well spacing were approved. Standard submitted that it would alternate production from the proposed wells if the reduced well spacing were not approved.

Standard stated that if the proposed wells were successful, they would be equipped with artificial lift and the lease would be converted into a multiwell facility. Standard submitted that it had considered possible pipeline routes to take the produced oil off site. Standard stated that final pipeline routing would be made in consultation with the affected landowners.

Standard submitted that it planned to use the 13-20 lease site or another well site location at LSD 7-20-71-4W6M (7-20) as a central battery site. Standard stated that its preference was to use the 13-20 lease site, as it was directly off a county road and would have minimal impact on local residents. Standard further stated that once the central battery became operational, existing facilities could be removed from individual lease sites.

Standard acknowledged that it would require a water injection facility for enhanced recovery. The water injection facility would be installed at the same location as the central battery, and the water source would be an existing well that was currently producing high volumes of water.

Standard submitted that it had been operating since January 2004 and had nine full-time employees plus consultants. Standard stated that it had drilled and produced 15 successful wells and planned to drill up to 16 additional wells in the area that would target the Dunvegan Formation. Standard advised that if the current project for the Dunvegan Formation were successful, it intended to sell the company.

Standard disagreed with the Righlers' allegations that it had inadequate operation practices. The Righlers' submission contained information on and photos of the 13-20 lease site, the 7-20 lease site, and a well site at LSD 14-30-71-4W6M (14-30 lease site). Standard stated that the lease sites at 7-20 and 14-30 had no relevance to the hearing on the proposed wells at the 13-20 lease site. Standard submitted that although the ERCB issued one low-risk enforcement action on the 13-20 well, it was of the opinion that the lease site was properly maintained.

Standard further submitted that the 13-20 well was originally owned by EnCana Corporation (EnCana) and that the issues brought forward in the hearing were related to EnCana's operation of the site. Standard stated that when it acquired the 13-20 lease site, it also assumed responsibility for the lease maintenance and had since addressed the operational issues. Standard was of the view that the photos submitted by the Righlers did not show that there had been garbage buried on the site.

Standard commented that the 7-20 lease site was originally owned by Defiant Resources Corporation and that the flaring events that Mr. Rigler witnessed took place when that corporation was the operator. Standard further submitted that since it took ownership of the lease site on December 1, 2008, there had been no flaring issues.

Standard submitted a report about the Righlers' allegations of contamination at the 14-30 lease site. This off-site release sampling report concluded that there was no odour or staining noted in the plume area. Furthermore, Standard stated that the report indicated that all parameters were within applicable criteria.

Standard stated that a flare stack would be associated with the central battery. Some produced gas from the proposed and existing wells would be conserved and used to operate the central battery. Standard added that any produced gas that was not conserved would be flared, although it would consider other viable options for this gas depending on the amount produced.

Standard submitted that the 13-20 well was currently operating within the permissible sound level set out in ERCB *Directive 038: Noise Control*, which was confirmed by the ERCB during an investigation in response to a noise complaint made by Mr. Rigler. However, Standard stated that it would consider other options to reduce the noise at the lease site, such as installing an electric motor, an insulation package, and/or a hospital-grade muffler.

Standard submitted that the noise and odours associated with the expansion of the 13-20 lease site to include two additional wells, a central battery, and an injection facility would be minimal and would be comparable to any other oil and gas facility in Alberta. Standard maintained that the Righlers did not provide adequate evidence to support their claims relating to noise and odours.

Standard stated that it had initiated consultation with the Righlers' legal representative, Darryl Carter, on April 17, 2008, when it delivered a landowners' package to Mr. Carter. Standard stated that it was directed by the Righlers to communicate with them through Mr. Carter. Standard conducted further meetings and discussion with Mr. Carter or Mr. Carter's representative, Brian Fast, on April 17, April 25, May 8, and May 14, 2008. Standard stated that during the meetings, the focus of the discussion was on compensation for the expansion of the lease.

Standard indicated that it had received a letter from the Righlers dated May 15, 2008, stating that they objected to the proposed wells. Standard stated that it was not aware of the details of the Righlers' concerns and requests until it received their May 20, 2009, hearing submission. Standard maintained that it was directed to communicate through the Righlers' counsel and if it had had the opportunity, it would have met with the Righlers personally to discuss the issues.

Standard stated that it was prepared to communicate directly with the Riglens and that if it had been able to speak with the Riglens directly, it would have been able to fully understand their concerns.

4.2 Views of the Interveners

The Riglens stated that the proposed wells would be directly west of their residence and located on their home quarter. The Riglens further submitted that they had owned the northwest quarter of Section 20 since about 1965 and had plans to retire on this land. On the basis of past experiences with Standard, the Riglens stated that they did not want more oil and gas development on their land.

The Riglens submitted that if the proposed wells were approved and the lease site expanded, they would prefer the expansion to take place to the north of the existing lease site, as stated in their May 20, 2009, letter to Standard. The Riglens stated that the land between the existing lease site and the county road would be best used for the expansion of the lease site, as it was sterilized to a certain degree by the existing well.

The Riglens requested that the Board defer its decision on the well application until the ERCB made a decision on Standard's reduced spacing application, because both of the proposed wells could not produce at the same time without the reduced spacing approval.

The Riglens believed that Standard was planning to develop its holdings in the Grande Prairie area quickly and cheaply so as to make it an entity attractive to potential buyers. The Riglens maintained that based on past experience with Standard's operations in the area, Standard was not willing to spend money on the maintenance of its lease sites.

The Riglens submitted that Standard's operation practices were inadequate and that its lease sites were poorly maintained. To support these allegations, the Riglens provided photos of the lease sites at the 13-20, 7-20, and 14-30 sites in their May 20, 2009, submission. The Riglens were of the view that if the proposed wells were approved, the 13-20 lease site would be inadequately maintained.

The Riglens submitted that the 13-20 lease site had a large amount of garbage buried on site and a noisy engine and that it lacked proper elevation to allow proper drainage. They stated that the current elevation of the 13-20 lease site allowed water from the county ditch to flow onto the lease site and then drain on to the Riglens' land. According to the Riglens, the lease sites at 7-20 and 14-30 had sustained oil leaks and were characterized by on-site garbage, contaminated water, and off-site contamination.

The Riglens stated that they had witnessed flaring events at the 7-20 lease site that resulted in 30-foot flames coming off the flare stack on a regular basis. The Riglens also said that they observed large fire balls falling from this flare stack onto the ground in the winter of 2007/2008. In the Riglens' view, the flare stack at the 7-20 lease site had been operated in an unacceptable manner. The Riglens opposed the installation of a flare stack at the 13-20 lease site because of the problems with the flare stack at the 7-20 lease site.

The Rigers recognized that Standard planned to expand the 13-20 lease site to include additional wells and a central battery and injection facility. The Rigers said that the additional equipment and activity would increase the amount of noise and odour that currently existed.

Mr. Rigler challenged Standard's statement that there had been no discussions between him and Standard with respect to the problems on his land. Mr. Rigler submitted that he had several discussions with Standard prior to 2008.

Mr. Rigler acknowledged that he did not contact Standard directly to discuss his concerns about the proposed wells, but had communicated his concerns through Mr. Carter and had directed Standard to communicate with Mr. Carter with respect to the proposed wells. Mr. Carter submitted that although Mr. Rigler directed Standard to communicate through Mr. Carter, Standard was not prevented from asking for a meeting with the Rigers.

Mr. Fast testified that he had been in contact with the Rigers with respect to rental review, at which time Mr. Rigler described to him his concerns relating to the condition of the existing site and the proposed wells. Mr. Fast stated that during his discussions with Mr. Rigler, Mr. Rigler made it clear that he did not want further oil and gas development on his land. Mr. Fast confirmed that the focus of his discussions with Standard was compensation.

4.3 Findings of the Board

The Board notes that the Rigers currently reside on the quarter section where the wells are proposed to be located and that they intend to retire there. The Board understands that the Rigers do not want any further oil and gas activity near their home.

The Board finds that the proposed wells are needed to permit Standard to access minerals from the Dunvegan Formation, for which Standard has the mineral rights. Further, the Board agrees with Standard's submission that the proposed location and directional drilling would minimize surface impact, as it would use an existing lease site.

The Board accepts that the expansion of the existing lease site is necessary to accommodate the additional wells and facility equipment and for Standard to adhere to ERCB spacing requirements for that equipment.

The Board notes that Standard's reduced well spacing application was approved on September 11, 2009, and the related objections were dismissed. Approval of the reduced well spacing does not authorize the drilling of any wells or the construction of any related facilities. The objections to the reduced well spacing approval was dismissed on the basis that the objectors did not demonstrate that they may be directly and adversely affected by the reduced well spacing. Specifically, the objectors did not establish that they have rights to the subsurface minerals; their concerns were related to potential surface impacts by wells and related facilities on their land.

It is not uncommon for a company to submit its reduced well spacing application and well application at the same time, as in this case. There is nothing improper in doing this. By doing so, an applicant does not in any way affect the outcome of either application, as each application is determined independently on its own merits. The applicant assumes the associated risks should it be unable to obtain its reduced spacing approval or well licences.

The focus of this decision is the proposed wells. The Board is aware that Standard has not made applications for any associated pipelines or facilities at this time, and as such the Board will not be making a determination on matters other than the well licence application at this time.

With respect to the issue of transferring ownership, the Board has strict regulations to ensure that operations and abandonment procedures are met even when a licence is transferred from one company to another. Parties wishing to transfer licences must submit a licence transfer application to the ERCB, in accordance with *Directive 006: Licence Liability Rating (LLR) Program and Licence Transfer Process*. The ERCB reviews the compliance records of both the transferor and transferee as part of its licence transfer application process and has the authority to approve or deny licence transfer applications as it deems appropriate.

The Board recognizes the concerns that the Righlers raised regarding Standard's existing and future operations in the area. The Board also notes that Standard provided some explanation regarding problems at these locations.

With respect to the Righlers' concern about the impact of the 13-20 lease site on water drainage, the Board notes that this matter is not under the Board's jurisdiction, but rather that of Alberta Environment. The Board further notes that the Righlers have been in contact with Alberta Environment about their concerns.

The Board notes that the interveners raised additional concerns about such matters as groundwater but presented no expert evidence on the issue and asked no questions of the applicant. The Board believes that its requirements for groundwater protection, that is, casing and cementing to below the base of groundwater protection, are adequate and has no evidence to the contrary.

The Righlers submitted photos and comments on situations at lease sites that were troubling to them. With respect to the site maintenance issues regarding oil stains and oil leaking from stored pipes and oil filters, the Board believes that although such problems are relatively minor, there is no reason for such incidents to occur, and if they do occur, they should be rectified promptly. The Board takes the view that whether the problems originated with the previous or current owner is of no consequence.

The Board notes the evidence relating to Standard's history regarding existing lease sites and will ensure that ERCB field inspectors continue to monitor and inspect Standard's facilities and insist on compliance by Standard, with particular attention to the 13-20 lease site, where the proposed wells would be located.

ERCB field inspectors will be conducting an inspection of the 13-20 lease site, 7-20 lease site, and 14-30 lease site after the issuance of the licences to ensure that the issues with respect to oil staining and oil leaking from stored pipes and oil filters have been rectified. Furthermore, ERCB field inspectors will be conducting a follow-up inspection of the lease sites in six months to ensure that the issues do not recur and have not been neglected. The ERCB field inspectors will be reporting back to the Board after the completion of each inspection.

The Board expects Standard, like all operators, to comply with ERCB rules and regulations and to respond promptly to any enforcement issues. The Board further expects Standard to attend to and take steps to prevent recurrence of any such issues.

The Board understands that the Rigers oppose the installation of a flare stack at the lease site of the 13-20 well and that the basis of their concern is what they have witnessed at the 7-20 lease site. The ERCB has strict regulations for flaring operations in ERCB *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*. At this time the Board is unable to make a determination on the installation of the flare stack, as the ERCB has not received an application for a flare stack or an application for a flare permit.

The Board acknowledges that noise and odour are concerns of the Rigers, particularly in light of the potential impact from the proposed wells, as well as from future oil and gas development on their land. The Board understands that some noise and odour are associated with oil and gas activities. There are requirements in place that limit the amount of noise allowed at a facility, which are in *Directive 038*. However, the Rigers have failed to place before the Board any substantive evidence relating to noise or odour, and therefore the Board has no basis for finding that these matters should affect its decision on the present application.

The Board finds that the consultation between Standard and the Rigers did not occur as it should have in this matter. The evidence as to why this was the case is conflicting. The Board considers that both Standard and the Rigers bear some responsibility for this failure.

The Board accepts the Rigers' claim that they had discussions prior to Standard submitting an application for the proposed wells, but finds that the discussions during the application process have been minimal. Details of the Rigers' concerns about the proposed wells should have been brought forward to Standard during the early stages of the application process to allow Standard an opportunity to address them. The Board believes that the lack of direct discussions between Standard and the Rigers was a significant factor in the breakdown of communication.

The Board recognizes that the Rigers do not want the proposed wells located on their land, but the parties must establish a common ground on which they may coexist. As a mineral rights holder, Standard has the right to access the minerals, and as a surface rights holder, the Rigers have the right to use and develop their land. These competing interests must be balanced.

It is clear to the Board that the relationship between Standard and the Rigers has deteriorated to one of acrimony and is not conducive to problem solving. The Board considers it unfortunate that the parties were unable or unwilling to communicate in an effective manner.

5 OTHER MATTERS

In final argument, Mr. Carter stated that he would advise his clients against participating in appropriate dispute resolution (ADR) processes because ADR is an ERCB process that, in his view, presumes approval of the applications as its outcome. Mr. Carter further stated that he would advise his clients against participating in a synergy group process. The Board believes that it is important that there be direct and open discussions between parties in order that the applicant may understand the concerns of the landowner and, if possible, react to them in the design of the its proposed project. Indeed, the Board requires that applicants attempt to provide adequate public consultation and involvement processes. The Board recognizes, however, that although the applicant must offer ADR to the landowner, the landowner must be willing to enter into the process for it to be effective, but there is no obligation to do so. It further recognizes that in some cases, the parties may conclude that ADR will not be successful in resolving the issues

and should not be attempted. Even if ADR is unsuccessful, there are benefits in participating: it improves landowner/industry relations, allows face-to-face discussions, allows parties to obtain a better understanding of the issues, and may possibly reduce the number of outstanding issues. The goal of ADR is to help people explore and understand each other's interests and develop acceptable solutions together.

Dated in Calgary, Alberta, on October 6, 2009.

ENERGY RESOURCES CONSERVATION BOARD

<original signed by>

M. J. Bruni, Q.C.
Presiding Member

<original signed by>

J. D. Dilay, P.Eng.
Board Member

<original signed by>

J. D. Ebbels
Board Member

APPENDIX 1 HEARING PARTICIPANTS

Principals and Representatives

Standard Energy Inc. (Standard)
G. S. Fitch, Counsel
D. B. Both

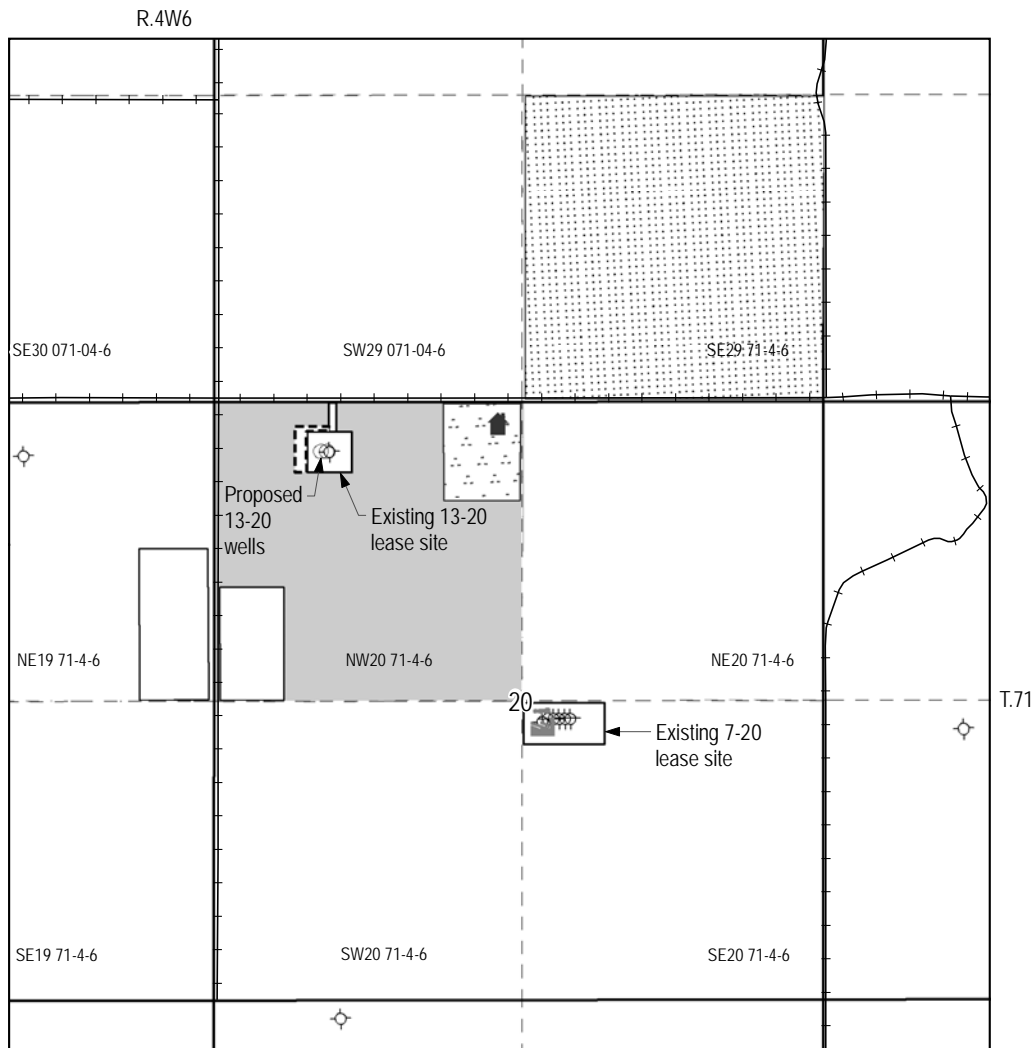
W. A. Rigler and L. S. Rigler
D. Carter, Q.C.

Energy Resources Conservation Board staff
M. G. LaCasse, Board Counsel
E. Tom
J. FitzGerald

Witnesses

R. P. Weibe
G. J. Hart,
of Atlas Land
K. J. Stecyk, P.Eng.,
of Crest Consultants Ltd.

B. P. Fast
G. E. McDonald
R. T. Marcy
P. M. Marcy



Legend








- | | | | |
|---|-------------------|---|-------------------------------|
| ○ | Proposed well |  | Owned by the Rigers |
| ⊕ | Well licence |  | Owned by 1099342 Alberta Ltd. |
|  | Facility licence |  | Owned by the McDonalds |
| —+— | Road |  | Owned by other landowners |
|  | Rigers' residence |  | Proposed lease site |

Figure 1. Map of Standard's proposed wells