

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**APPLICATION FOR TWO WELL LICENCES
CANNAT RESOURCES INC.
JOARCAM AREA**

**Examiner Report 97-3
Application No. 970189**

1 INTRODUCTION

1.1 Application and Intervention

CanNat Resources Inc. (CanNat) applied to the Alberta Energy and Utilities Board (Board) pursuant to Section 2.020 of the Oil and Gas Conservation Regulations for licences to drill two wells from a single surface location at Legal Subdivision 2 of Section 26, Township 50, Range 22, West of the 4th Meridian. The wells have projected bottom-hole locations in Legal Subdivision 2 and 3 of Section 26, Township 50, Range 22, West of the 4th Meridian. The purpose of the proposed wells, CNRES 102 JOARCAM 2-26-50-22 and CNRES JOARCAM 3-26-50-22, is to obtain production from the Viking Formation.

Adjacent landowners, Barry and Carol Olsen, opposed the drilling of the wells citing concerns relating to noise, odours, proximity of the drilling site to a dugout, and surface and underground drainage which they believed to be impacted by the proposed site.

1.2 Hearing

A public hearing to consider the application was convened on 2 April 1997 in Leduc, Alberta before examiners appointed by the Board. The examiner panel consisted of M. J. Bruni, D. L. Skappak, and C. D. Hill. Those who appeared at the hearing and abbreviations used in the report are listed in the following table.

THOSE WHO APPEARED AT THE HEARING

Principals and Representatives
(Abbreviations Used in Report)

Witnesses

CanNat Resources Inc. (CanNat)
L. A. Cusano

W. Clapperton

Barry and Carol Olsen
D. L. Read

Alberta Energy and Utilities Board staff
L. D. Wilson-Temple
G. L. Salisbury

1.3 Preliminary Matters

At the opening of the hearing, CanNat and the Olsen's stated that they had reached an agreement on issues dealing with both surface and underground water and discussed mitigative measures to deal with noise concerns and visual impact of the well site. While the examiners acknowledged the efforts of the parties in negotiating these items, they requested the applicant provide details about the agreement and on other matters pertaining to the application. In addition, all principals and the examiners participated in a site visit to the surface location in Lsd 2-26-50-22 W4M.

2 ISSUES

The examiners consider the issues respecting the application to be

- need for the wells
- impact of the well site

3 DISCUSSION

CanNat proposed to drill two wells from a single surface location in Lsd 2-26 to bottom-hole locations in Lsd 2-26 and Lsd 3-26. Both wells are to be drilled directionally to produce oil from the Viking Formation. CanNat revealed that it had selected the surface location in order to access both bottom-hole targets and to minimize the impacts on the landowner who they believed had future subdivision plans for the property.

The Olsen's property is located immediately east of the proposed well site and had been designed to support two separate operations. A wild boar breeding operation is already in residence and recreational fishing is planned, commencing in the spring of 1997, for the dugout which offsets the drill site. While the Olsen's acknowledged that ideally, they would have preferred that CanNat move the well site back from the boundary of their property, they were prepared to accept appropriate mitigative measures that address impacts they believed the nearby well site would have.

In an agreement reached with the Olsen's, CanNat committed to construct a containment berm around the well site to maintain all surface water on the site and prevent drainage off-lease. CanNat agreed to test the Olsen's dugout and all water wells within 800 metres of the well site prior to the drilling operations; to retest the Olsen's water well and dugout within two weeks after drilling is complete; to extend and fully cement the surface casing to a depth of 185 metres and to install up to 12 metres of conductor pipe. These measures were offered to determine the water quality and quantity and to protect the underground water supply which the Olsen's believe drains towards their property. However, in the event there is any degradation or pollution of the Olsen's water well or dugout which was caused, or likely caused, by CanNat's operations, CanNat has agreed to rectify the contamination and to take additional measures as set out in its agreement with the Olsen's. CanNat proposed to use electric motors on the pump jacks to deal with the issue of noise and it also agreed to erect a berm around the well site with trees spaced such that the site would be visually screened from the Olsen's property.

During the course of the hearing, CanNat also agreed to ensure that any natural drainage in and around the well site that may have been disrupted during the site preparation is reestablished and maintained. CanNat also committed to fencing the site, drilling without a sump on location, and having its survey plan revised to include the Olsen's dugout. In the future, CanNat pledged to contact adjacent landowners when proposing a well site near a property line as an enhancement to its standard policy to notify residents within 400 metres of a well site.

In response to questioning, CanNat was unable to provide information as to whether or not it had considered the re-entry of the existing wells in Lsd 2-26 and 3-26 as an alternative to the drilling of new wells. In addition, CanNat disclosed that it had filed an application for reduced spacing in Section 26, along with other lands in the area, and was optimistic that approval from the Board on its spacing application was imminent. It confirmed that the new spacing proposed would permit an additional well to be drilled in each legal subdivision. CanNat maintained it had no immediate plans for more wells in Section 26, but committed to involving the Olsen's in early discussions should additional drilling be contemplated.

3.1 Views of the Examiners

With regard to the issue of the need for the wells, the examiners believe there was no evidence presented that directly disputed the need for the wells, as presented by CanNat, or its right to exploit the minerals it holds. The examiners therefore conclude that a need for the wells exist.

The examiners recognize the efforts of both CanNat and the Olsen's to negotiate and to reflect their agreement to the panel, and believe that the mitigating measures put forward appear to be appropriate and adequate to deal with the issues presented.

The examiners wish to emphasize that early and effective communication and consultation with affected parties, including adjacent landowners, is a critical expectation the Board has of industry. The examiners believe that the proponent of a development is in the best position to judge the impact of its operation on others and to seek to address those issues appropriately. The examiners believe that CanNat could have made a more substantive effort, prior to the hearing, to identify, understand, and deal with the Olsen's concerns.

4

4 RECOMMENDATION

The examiners have carefully considered the evidence and recommend Application No. 970189 be approved and well licences for CNRES 102 JOARCAM 2-26-50-22 and CNRES JOARCAM 3-26-50-22 be issued in due course.

5 OTHER MATTERS

The examiners became aware through the evidence and site visit, that CanNat had pre-built the surface location on the applied-for well sites before the issuance of well licences. Section 11 of the Oil and Gas Conservation Act prohibits any activity, other than surveying, unless a licence has been issued and is in full force and effect. Further, the evidence seemed to indicate that CanNats' company practices, as described at the hearing, are in conflict with the Act. The examiners view that such practices should not continue and that there be compliance with the legislation at all times.

DATED at Calgary, Alberta, on 3 June 1997.

M. J. Bruni, B.Sc., LL.B.
General Counsel

D. L. Skappak

C. D. Hill