

# **ALBERTA ENERGY AND UTILITIES BOARD**

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Calgary Alberta

## **OCELOT ENERGY INC TO CONSTRUCT AND OPERATE A REFRIGERATION GAS PLANT ADDITION AND SWEET GAS PIPELINE IN THE STURGEON LAKE SOUTH AREA**

**Decision 99-14  
Applications No. 1036862 and 1039252**

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### **1 DECISION**

Having considered all of the evidence, the Board finds the applied-for facility to be in the public interest and reconfirms Ocelot Energy Inc's. Approval No. 1999-3549. The Board further directs that the appropriate pipeline permit/licence be issued in due course.

### **2 INTRODUCTION**

#### **2.1 Application**

##### **Application No. 1036862**

Ocelot Energy Inc. (Ocelot) applied to the Alberta Energy and Utilities Board (the Board) in accordance with section 26(1)(b) of the *Oil and Gas Conservation Act* for approval to construct and operate a proposed addition of a refrigeration unit to the existing Ocelot Sturgeon Lake oil battery and compressor station located in Legal Subdivision 13, Section 7, Township 69, Range 24, West of the 5th Meridian. The proposed facility would be designed to process a maximum of 283.3 thousand cubic metres ( $10^3\text{m}^3$ ) per day of sweet natural gas and would recover 275.9  $10^3\text{m}^3$  per day of sales gas and 30 cubic metres per day of LPG mix.

##### **Application No. 1039252**

Ocelot applied pursuant to Part 4 of the *Pipeline Act* for an approval to construct and operate approximately 30 metres of 168.3-millimetre outside diameter pipeline for the purpose of transporting natural gas from near an existing AltaGas Services Inc. (AltaGas) natural gas processing plant located in Legal Subdivision 2, Section 26, Township 68, Range 25, West of the 5th Meridian (2-26) to an existing NOVA Gas Transmission Ltd (NGTL) meter station facility in Legal Subdivision 2, Section 26, Township 68, Range 25, West of the 5th Meridian.

Since filing the applications, Ocelot has sold its interest in the Sturgeon Lake South operation to NAL Resources (NAL). Ocelot represented both NAL and Crestar Energy Inc. (Crestar), its joint venture partner in the hearing. NAL was in support of the evidence submitted by Ocelot.

The facilities applied for are shown in Figure 1.

## 2.2 Intervention

Approval No. 1999-3549 was issued on 5 February 1999 to Ocelot for the proposed refrigeration gas plant addition and subsequently suspended based on an outstanding objection received by way of letter dated 11 February 1999 from Reserve Royalty Corporation (Reserve). Reserve operated the 2-26 plant, which currently processes Ocelot's associated and non-associated natural gas volumes. The potential loss of these volumes was the foundation of its intervention. On 4 March 1999, AltaGas acquired the interests of Reserve in the 2-26 plant. In a letter dated 18 March 1999, AltaGas advised the Board that it would continue to object to the approval of Ocelot's refrigeration unit addition.

## 2.3 Hearing

A public hearing of the applications commenced on 27 April 1999 in Calgary, Alberta before Board Member T. McGee and Acting Board Members F. Rahnama, Ph.D., and R. J. Willard, P.Eng. Shortly after the commencement of the hearing, AltaGas requested that the hearing be adjourned so that it would have adequate time to review Ocelot's direct evidence which it believed to be new evidence. Ocelot provided a brief oral summary of the new evidence and argued that the material was not new. The Board determined that it was appropriate to grant the request. The hearing resumed on 10 and 11 May 1999 in Calgary, Alberta before the same division of the Board. Participants who attended the hearing are listed in the following table:

### **THOSE WHO APPEARED AT THE HEARING**

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Principals and Representatives (Abbreviations Used in Report)	Witnesses
Ocelot Energy Inc. (Ocelot) D. G. Davies	B. Mactavish, P.Eng. G. Kondro, P.Eng. L. Schott F. Kelly, P.Eng. S. Sabey R. Bonneville, P.Eng.
AltaGas Services Inc. (AltaGas) S.H.T. Denstedt R. B. Low, Q.C. E. Bourgeault	S. Slotboom, P.Eng. D. Dibendetto, P.Eng. R. Evanchuk, P.Eng. D. Andrews, P.Eng. G. Tidmarsh G. Scott, P.Eng.
Alberta Energy and Utilities Board staff D. Larder, Board Counsel P. Ferensowicz K. Eastlick, P.Eng. E. Martin, P.Eng. G. Habib	

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Canadian Natural Resources Limited filed a submission expressing concern over high processing fees at the AltaGas 2-26 gas plant, but did not participate at the hearing.

### **3 ISSUES**

The Board believes the most significant issues with respect to these applications are the need for and impacts of the applied-for facilities.

#### **3.1 Views of Ocelot**

Ocelot stated that the applied-for facility, having a capacity of  $283 \times 10^3 \text{ m}^3/\text{d}$  (10 MMscf/d), would provide Ocelot with the ability to exploit its oil and natural gas resources in a time frame and economic environment that it would control. Specifically, the proposed facility would process solution gas and potential natural gas discoveries from Ocelot's lands in the most economic fashion now and into the future. Ocelot submitted that its natural gas production in the Sturgeon Lake area is increasing and that it requires additional natural gas processing capacity for current and future volumes.

The Sturgeon Lake South area has been under development by Ocelot since its discovery of the Montney "F" Pool in 1995. Evidence presented at the hearing by Ocelot indicated that the area has an estimate of  $1.47 \times 10^9 \text{ M}^3$  (52 billion cubic feet (Bcf)) of gross proven and probable natural gas reserves and about  $2.7 \times 10^6 \text{ M}^3$  (17 MMbbls) of gross oil and NGL reserves. The ultimate reserves and recovery potential of the area is not completely known as production and reserves forecasts for the Sturgeon Lake South area continue to evolve with additional drilling activity.

Currently Ocelot's and Crestar's daily production is approximately  $169 \times 10^3 \text{ m}^3/\text{d}$  (6 MMscf/d). The processing arrangement for this production at the AltaGas plant is on a best-efforts basis. Ocelot estimated its future maximum processing capacity requirement at  $283 \times 10^3 \text{ m}^3/\text{d}$  (10 MMscf/d).

Since 1996, Ocelot has attempted to secure adequate long-term processing capacity, including an equity position in an expanded 2-26 plant. To that end, Ocelot negotiated with Summit Resources Limited, the original owner of the plant, and then with subsequent owner/operators, Jordan Petroleum Limited, and Reserve. Ocelot wished to secure firm processing capacity for its current and expected production but as a "non-owner", capacity was only available at best efforts basis at fees that Ocelot viewed as excessive.

More recent negotiating with the new owner/operator, AltaGas, led to two proposals. The first is to purchase all of Ocelot's facilities and the second is a firm processing capacity including expanding the 2-26 plant to handle Ocelot's incremental production. Ocelot submitted that it could not accept the first proposal as its facilities were either in the process of being sold or had already been sold to NAL. It further submitted that the straight processing proposal had conditions that would render it unfavourable when compared to the alternative of building its own plant. Ocelot added that owning its own plant would provide it with the advantage of being able to control its oil field development in the Sturgeon Lake area.

Ocelot stated that there are no reasons from a public interest perspective for the Board to favour an expanded 2-26 plant by the intervener over its proposed refrigeration unit addition to its existing battery and compressor station. Ocelot was of the view that neither proposal is more favourable when it comes to additional land disturbance. The proposed facility would be located on an existing Crown lease. Neither project would be advantageous over the other in terms of flaring. Ocelot explained that there is no reason to believe that flaring at an Ocelot plant would be any different than at an expanded AltaGas plant. Ocelot added that flaring at the oil battery is independent of where the solution gas is processed. Flaring at Ocelot's oil battery and compressor station is less than two per cent and reflects treater and stock tank vapours and operational upsets. Ocelot indicated that there are options that it would be willing to consider in the future to even further reduce emissions related to treater and stock tank vapours.

Ocelot concluded that from an environmental perspective both alternatives, its own plant or an expanded 2-26, are equivalent. From a business perspective, it would favour having its own facilities and control over its oil field development and solution gas conservation. Absent of any public interest consideration, failure to approve its applied for expansion would only result in AltaGas having an unfair advantage in any future negotiations. Ocelot confirmed that even if it receives Board approval, it remains open to negotiations with AltaGas for a gas processing solution that would best serve both parties' interests.

### **3.2 Views of AltaGas**

Reserve, AltaGas predecessor, initially objected to the Ocelot's gas plant approval. AltaGas, subsequent to acquiring Reserve's interests in the 2-26 plant in March 1999, has attempted to negotiate a processing arrangement with Ocelot. AltaGas advanced two alternatives. The first was an area-wide processing and development option which would result in AltaGas purchasing Ocelot's interests in the 13-7-69-24W5M oil battery and compressor, the solution gas gathering system, and solution gas sales pipeline and associated oil facilities in the Sturgeon Lake South area. AltaGas's other proposal was a fee based, firm processing arrangement. The second option would entail an expansion to the 2-26 plant to accommodate current and future Ocelot's production.

AltaGas described itself as an independent, midstream company that invests in surface facilities. It does not acquire interests in mineral rights and, therefore, is not in competition with producers as far as reserves exploitation is concerned. AltaGas would purchase facilities in an area with the purpose of providing open-access service, rationalizing facilities and resources, and prioritizing a coordinated approach to area development. In other words, while area producers pursue the development of their resources, AltaGas would focus on the surface infrastructure for the benefit of all producers. AltaGas added that this is the operating and resource development philosophy that it would promote in the Sturgeon Lake South area. This philosophy was the basis behind AltaGas's proposal to purchase Ocelot's facilities.

AltaGas submitted that such an approach to area development has an added advantage in terms of incremental recovery of the marginal resource that, on its own, could not support investment in facilities. However, being new in the area, AltaGas did not have the opportunity to pursue producers in the Sturgeon Lake South area, to properly estimate the potential of the incremental recovery of what might currently be a marginal resource. Other added benefits include avoidance of proliferation of facilities, reduction in regional flaring, increased operational efficiencies through economies of scale, and maximizing benefits to the Crown through lower Gas Cost Allowance.

AltaGas concurred that, in the case at hand, there appears to be no significant differences in terms of land disturbance, flaring, emissions, or other impacts between the applied-for facilities or the alternate, which is an expansion to the 2-26 plant. It also concurred during cross-examination that minimal economic differences exist between the two options. In fact, AltaGas agreed that given the conditions attached to its current offer, it would appear that economic considerations might favour Ocelot's proposal.

AltaGas submitted that neither at any point in time it or its predecessor, Reserve, backed out Ocelot's volumes due to capacity restraint. The 2-26 plant has sufficient capacity to process all of Ocelot's current production. AltaGas conceded that there is a need for added sweet gas processing capacity in the Sturgeon Lake South area but that an expansion of its facility can best meet Ocelot's and other natural gas producers' current and future requirements.

AltaGas believed that it might have been difficult for Ocelot and previous plant operator(s) to reach an agreement due to the acrimonious relationship between the parties. It expressed the view that as a new player in the region, it might succeed in providing quality service at an acceptable negotiated fee. AltaGas stressed that all that it requires is the opportunity to negotiate with Ocelot on a level playing field. To that end, it put forth an amended position that the Board set aside a three-month period in which the parties would attempt to design an optimal development plan for the Sturgeon Lake South area. During the three-month interlude, AltaGas proposed that parties do not proceed with any further facility expansions. Results of the renewed assessment would be submitted to the Board for its consideration in 90 days. AltaGas indicated that, should Ocelot remain unconvinced of the attractiveness of its alternative solution, it would not continue to object to the Ocelot application.

AltaGas indicated that it remains open to negotiations with Ocelot for a processing solution, regardless of the Board's decision.

AltaGas did not specifically address the need for the proposed pipeline during the course of the hearing.

### 3.3 Views of the Board

The Board is satisfied that there is a need for additional gas plant processing capacity in the Sturgeon Lake South area. The Board believes that if Ocelot's applications are approved, in the long-term, AltaGas would likely expand its 2-26 facility in order to accommodate future production in the area.

The Board believes that the additional facilities, whether installed by the applicant at the existing 13-07-69-24W5M battery and compressor site, or by the intervener at the existing 2-26 plant, will be essentially similar. From the evidence submitted, neither project has an added advantage over the other in terms of environmental, public health, and safety considerations. Rather, the two alternatives represent two different business decisions, neither of which offers an added benefit to the broad public interest.

The Board further notes the absence of any public objections to the proposed facility. As stated in previous decisions, the Board believes that it should not intervene in areas that may impact competitive business decisions provided that there are no significant public interest issues. The Board, therefore, does not believe regulatory intervention as requested by the intervener in this specific instance is warranted.

The Board understands that the applied-for pipeline is dependent on the applied-for refrigeration facility. In conclusion, the Board sees no reason not to grant Ocelot's approval for its refrigeration facility and the applied-for natural gas pipeline.

## 4 OTHER MATTERS

The EUB expects operators in a developing field to examine optimum development to avoid duplication, which may result in significant environmental or public impact. The Board believes both Ocelot and AltaGas support these objectives. In this regard Guide 56, *Energy Development Application Guide and Schedules*, promotes examination and discussion by requiring an applicant to review alternatives, initiate contact with offset facility operators, and report the outcome in the application.

From the evidence presented, it is apparent that the matter of Ocelot's needs for added processing capacity was subject to much negotiation and discussion. It appears that Ocelot's option of building its own plant must have been considered and discussed during these meetings and Ocelot must have been aware of the intervener's concern. However, Ocelot failed to notify AltaGas' predecessor, an obviously affected party, upon filing its application for the refrigeration facility at its battery and compressor site. Ocelot explained that an error was made with application notices sent to the working interest participant but not the operator of the 2-26 plant.

The consequences of this failure to provide notice or identify an outstanding objection was the suspension of Ocelot's approval. The Board is disappointed in Ocelot's failure to properly follow the process outlined in G-56. The Board, however, believes the subsequent adjudicative regulatory process resulted in a fair and complete review.

**ALBERTA ENERGY AND UTILITIES BOARD**

DATED at Calgary, Alberta on 15 June 1999.

*[Original signed by]*

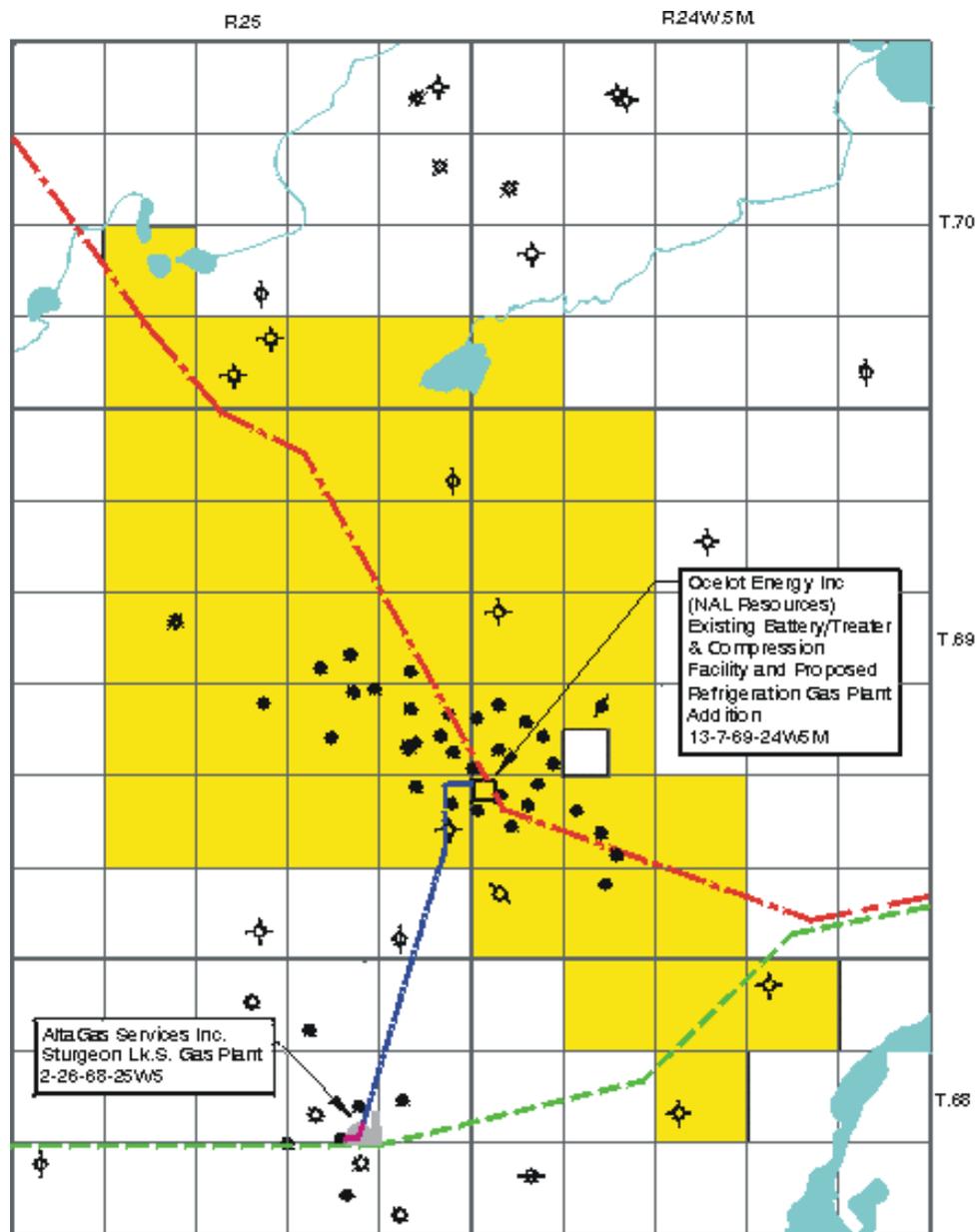
T. McGee  
Board Member

*[Original signed by]*

F. Rahnama, Ph.D.  
Acting Board Member

*[Original signed by]*

R. J. Willard  
Acting Board Member



STURGEON LAKE SOUTH AREA  
 Applications No. 1036862 & 1039252  
 Ocelot Energy Inc.

Legend

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|-------------------------------|-------------------|--|
| ☼ Gas                         | ☼ Suspended Oil   | — Proposed Ocelot Energy Inc. 30m Pipeline |
| ☼ Dry & Abandoned             | ☼ Dry & Abandoned | — Existing Ocelot Pipeline Licence # 28973 |
| ● Oil                         | ☼ Service         | — NGTL Pipeline                            |
| ☼ Oil & Gas                   | ☼ Suspended Gas   | ■ Ocelot Land                              |
| ■ NGTL Meter Station Facility |                   | — Peace Pipeline System                    |

Decision 99-14