

Coal-bed methane development tip of resource plays



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VANCOUVER SUN
COLUMNIST

MARCH 17/04

east Fernie to just north of Sparwood. According to the B.C. energy ministry, the field contains in its seams an estimated 12 trillion cubic feet of gas.

To put that in context, that's more gas than the nine B.C. currently has as proven reserves in the northeast corner of the province.

More context: The ministry estimates the province-wide coal-bed methane resource potential is 90 tcf, nearly quadruple the resource estimates for offshore natural gas. If only 10 per cent of the coal-bed methane gas is produced, that's still equal to the province's existing reserves.

While offshore oil and gas is probably 20 years down the road, coal-bed methane is already in the development stage, with commercial production likely less than five years away. Unlike offshore exploration, coal-bed methane production is possible all over the province, from Vancouver Island to Princeton to the Crowsnest Pass to the Peace River to the Bowser Basin to the Bulkley Valley.

The polarized battles that char-

acterize all resource issues in this province are just beginning.

"It's not going to be a nice evening," said energy ministry representative Derek Brown, before heading into the Fernie meeting. Brown is director of the ministry's oil and gas and emerging opportunities and geosciences department.

Coal-bed methane is produced from comparatively shallow wells drilled into coal seams, as opposed to the more conventional gas reservoirs that are many thousands of metres under the surface and under very high pressure.

The knock on CBM is that it takes many more wells, spread over a much broader geographic footprint to produce the gas. While the gas is usually very clean, there is often a large volume of sometimes not-so-clean water produced with the gas, presenting a disposal issue.

However, the provincial government is very keen to encourage CBM development. After introducing last year a coal-bed methane royalty rate to encourage exploration and develop-

ment, the province followed just two weeks ago with a request for proposals from the private sector for "unconventional" oil-and-gas projects, covering tight gas, shale gas, enhanced recovery projects, and coal-bed methane.

The heart of this new enticement is a "net profit royalty regime." In effect, the province is telling prospective developers that if they have a project that is borderline economic, they can apply for consideration of this new regime.

The province agrees to defer its royalty collection until the project is profitable.

"If it's a very capital-intensive project, it allows for the project to pay for itself, and once it gets to the point of producing a profit, we take the royalty," said the ministry's Mark Jackson. "If we took our royalty up front, [the project] would have a zero, or negative, rate of return."

According to Jackson, the ministry will calculate the "net profit" formula on projects as they are submitted, on an ad hoc basis. The deadline for applying is July 1.

Alberta took exactly the same

approach decades ago when it was trying to encourage development of the oil sands.

Perhaps more telling, the U.S. did something similar, in the form of a tax incentive, in the mid-1980s to encourage the development of coal-bed methane plays in Colorado, Wyoming and Utah. It was wildly successful, and coal-bed methane production in the U.S. now supplies about eight per cent of U.S. demand (or, about half the volume of gas that Canada now sends south).

Will the industry bite in B.C.?

"There's no question this will attract some interest," said Greg Stringham, vice-president of the Canadian Association of Petroleum Producers. "It alleviates the up-front capital risk. Areas the market is pushing now are tight sands, and coal-bed methane. Coal-bed methane is really at the emerging stage. That's where they are looking to apply this first."

Mike Graham, senior vice president of EnCana's Foothills Region, is enthusiastic about his company's prospects, particular-

ly for coal-bed methane.

"We like it," he said. "We're looking at a bunch of unconventional plays in B.C. and we think it's a great way to unlock the potential. Our big plays are tight gas, but we are looking at CBM in B.C. We'll make a proposal or two."

Coal-bed methane has the potential to be a huge resource for the province, given the long-term supply problems for natural gas in North America. EnCana has two pilot projects started, in the Elk Valley (north of the Crowsnest Pass) and in the northeast. Other companies are also active, including Petrobank Resources which is doing exploratory work north of Princeton.

However, CBM seems to be sneaking up on people, and the environmental battle lines are not fully drawn yet.

The danger is that the debate will be badly warped, with gross exaggerations on either side of the argument capturing the headlines while rational discussion is lost in the rhetoric.

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