

Methane firm begs to differ with premier

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Priority Ventures says it has waited nearly two months for permission to pump gas

Ian Mulgrew



Premier Gordon Campbell's open-for-business slogan and promise to cut red tape were being dismissed this week by an oil-and-gas firm as so much hot air.

Priority Ventures Ltd., which is leading attempts to harvest methane gas from central Vancouver Island's extensive coal deposits, complained it has waited nearly two months for a permit to allow it to start pumping gas.

But within hours of hearing the criticism, Energy Minister Richard Neufeld was vowing to deliver a new regulatory regime within a month for coal-bed methane projects.

"They had a right to whine until we get these new regulations in place so it more reflects what their costs are, what their infrastructure costs are," Neufeld acknowledged in an interview Wednesday.

"Coal-bed methane is totally different so you can't use the same kind of regulations in coal-bed methane that you use in conventional gas. In conventional gas we licence every well -- if you did that in coal-bed methane, you'd be awash in paperwork for sure."

Priority president Neil Swift

said current regulations mean the company will spend more than \$100,000 and visit four different B.C. government agencies to get the necessary permit, even though it drilled three exploratory wells this summer in the Comox Valley.

"On Saturday there was a big headline about Campbell inviting all the oil and gas industry to boost their expenditures in B.C. to \$24 billion annually," Swift fumed in an interview.

"Campbell says he's going to streamline the process and do this and do that. Well, jeez, I'll tell you, this whole lip service about 'open for business' is just such a crock. It's pitiful.

"You can tell my frustration is boiling over. What's really irritating is the oil and gas commission and the B.C. government claim they have a one-window process — that process has now turned into four windows."

Neufeld, the Liberal MLA for Peace River North, was empathetic when he heard the complaints but urged Swift to give the government a little more time.

The minister, who was reared in B.C.'s oil-and-gas country, said Victoria is identifying regulations that must be changed, fine-tuning the Petroleum and Natural Gas Act to support coal-bed methane exploration and developing a new royalty structure to recognize the economics of coal-bed methane production.

"My guys tell me we will have [the changes ready] by the New Year," Neufeld added.

Right now, there is virtually no coal-bed methane produced in

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Canada.

However, coal-bed methane forms 8-10 per cent of the natural gas produced in the U.S. and Alberta, and B.C. wants to begin exploiting its identified reserves.

Victoria estimates the total resource as between 90 and 250 trillion cubic feet — the largest of its kind in Canada — and acknowledges it can be extracted using less-intrusive technology than is used to tap conventional natural-gas

reserves.

There are about 20 coal-bed test wells in B.C. aside from Priorities' rigs, a dozen in the Elk Valley in south-eastern B.C. and a half-dozen in the Tumbler Ridge area in the northeast of the province.

Priority, however, has run into regulatory roadblocks as it attempts to transform its experimental drilling program into a producing well.

Since it applied for a production permit Oct. 17, the company has been told that

besides approval from the oil and gas commission, it also needs approvals from the Workers Compensation Board, the agriculture land reserve commission and the regional district.

"We've had five or six different town hall meetings, we've made a presentation to the regional district board," Swift said.

"The fact it has to go through this formal process again is a bit mind-boggling."

Although the company promised an expedited

process by Victoria earlier this year, he said Priority remains in a bureaucratic tangle.

Colleen Sweet, manager of stakeholder relations for the oil and gas commission, said the regulatory agency is doing its best.

She said the commission is geared primarily to dealing with issues in the north-eastern corner of the province, where current gas fields exist.

"We reviewed that [application] and followed with [Priority] Nov. 2," she said.

"It's complex because it's a new operator and a new proponent proposing to operate in a new area."

Not only is Priority's the first coal-bed-methane production application in the province, but its location represents the discovery of a new B.C. oil and gas basin, and Sweet said there are several issues needing clarification.

Bill Bayrak, a senior technical adviser with the commission's legislation, policy and special projects branch, said one problem on Vancouver Island is that petroleum and natural gas rights are not necessarily held by the Crown.

"Individual land-owners may hold the petroleum and natural gas rights," he said.

"In the rest of the province, except for a few areas north of Fort St. John, a couple of areas, most are on Crown land.

"Those petroleum and natural gas rights are sold by the ministry of energy and mines during a Crown lands sale and the ownership of the rights is quite easy to determine.

"However, on Vancouver Island, we must ensure the ownership of the gas rights is correct."

The \$4.6-billion oil-and-gas sector generates 32,000 direct jobs in B.C. and accounts for eight per cent of provincial revenues.

However, on Friday the premier admitted explorers and developers of energy sources find themselves mired in unnecessary red tape. Campbell said he wanted to change that.

Swift responded by saying he'd prefer less talk and more action.

Priority drilled three test wells this summer and now the company wants to establish one production well, to

Courtenay.

The company forecast production within six months, initially enough gas would be produced daily to heat 2½ B.C. homes for a year.

"We've drilled three test holes this year; they were drilled under the mining regulations," Swift said.

"Under the mining regulations, we didn't need to go to the regional district or the land-reserve commission.

"In theory, we could open a mine without talking to the local government bodies."

The B.C. oil and gas commission process has directly cost Priority \$8,800 so far Swift said, "and that's not including surveys and things you'd need to do anyway."

Swift said the same permit application would be processed in the prairie provinces within a few weeks, if not days, and cost at most a few hundred dollars.

"They're going to literally cost us at least \$100,000 in direct costs," Swift said "Because of the delay and our frustrated shareholders I'm sure the market capital will drop dramatically."

Neufeld, however, said he believed Swift was comparing apples and oranges and that Priority would have faced similar delays in other provinces because coal-bed methane is new to Canada.

"I don't say we don't have some impediments — we definitely do — but when I go to Alberta, I find the same thing. You find everything is not perfect in Alberta, in Ontario and Quebec and the Maritimes and Saskatchewan."

Swift said he was cheered by Neufeld's optimism but added he would be happier to finally start pumping gas.

Priority says it has an arrangement with Vancouver Island pipeline owner Centra Gas, to transport its product to market.

"We think that in about 2½ years, we'll be generating \$40 million a year in revenue, about \$20 million in net cash flow," Swift said.

"Royalties, about 15 per cent of the \$40 million, will be paid to the local land-owners.

"It will open a project possibly on all of Vancouver Island that will be potentially 10 times that size."

At least seven other firms