

EB-2009-0060

IN THE MATTER OF the Ontario Energy
Board Act, 1998, Schedule B;

AND IN THE MATTER OF an application by Union
Gas Limited to the Ministry of Natural Resources for a
license to drill a total of 5 wells in the existing
Tipperary Designated Storage Areas in the
Municipality of Central Huron, in the County of Huron.

BEFORE: Paul Sommerville
Presiding Member

DECISION WITH REASONS

June 5, 2009

Application

By letter dated March 6, 2009, the Ministry of Natural Resources, Petroleum Resources Centre ("MNR") referred five well drilling applications by Union Gas Limited (the "Applicant" or "Union") to the Ontario Energy Board (the "Board") pursuant to section 40 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B), (the "Act"). The Board has assigned File No. EB-2009-0060 to this application.

The proposed wells; Huron Tipperary North 7, Huron Tipperary North 8, Huron Tipperary South 9, Huron Tipperary South 10 and Tribute et al #23 (Horiz. #1 – Lat #3) are within an existing Tipperary Designated Storage Area ("DSA") in the Township of Goderich, County of Huron. Union has proposed to commence the drilling of the proposed wells in June, 2009 and to have the wells operational by September, 2009.

Proceeding

The Board issued a Notice of Application (the "Notice") on April 3, 2009. The applicant served the Notice on all the landowners within the DSA, as directed by the Board.

By letter dated May 7, 2009, the Tipperary Storage Landowners Association ("TSLA") filed comments in relation to the application for new wells by Union and requested that additional conditions of approval be included. The TSLA's first request was for the addition of the original water well testing program as outlined in Conditions of Approval 1.6 & 1.6.1 in the Board's Decision and Order issued on June 17, 2005 (RP-2003-0253/EB-2003-0315) approving the operation of the Tipperary DSA consisting of a North and South Pool (the "Tipperary Pools" or the "Pools"). The TSLA also requested that the Board add Condition of Approval 1.8 from the same Board Decision and Order (RP-2003-0253/EB-2003-0315) to the Condition of Approval list for this well drilling application and that Marsh Canada review the insurance requirements for this project as it is now proposed.

On May 8, 2009, Board Staff filed its submission which stated, in its view, that Union has established the need for the proposed project. Board Staff requested that the applicant comment on the proposed draft Conditions of Approval which had been developed.

On May 12, 2009, Union replied by way of a letter to the Board Staff Submission as well as the TSLA letter of comment, stating it has no objections to Board Staff's proposed draft Conditions of Approval. Union did however object to the suggestion by the TSLA for the inclusion of the above mentioned additional Conditions of Approval. Union stated that it commits to monitor water wells based on the Tipperary Pool Decision with Reasons dated February 6, 2007 (EB-2006-0159) and that Board Staff's proposed condition 1 requires Union to comply with the evidence it has submitted in its application. Union also argued that the addition of another condition regarding the completion of a second insurance study was unnecessary and noted that the recommendations in the original Marsh insurance study have been implemented and that no additional value would arise from a second study.

This concluded the discovery phase of the proceeding.

Evidence

The Tipperary Well Drilling Project was initiated in order to increase the deliverability of the Tipperary Pools and improve the ability to cycle the full working capacity of the Pools. As noted above on June 17, 2005 the Board issued an order granting authority to inject, store, and withdraw gas from the Tipperary Storage Area (RP-2003-0253/EB-2003-0315). In accordance with Board Order EB-2007-0837, Union purchased 75% of the voting securities of Tipperary Gas Corp. ("Tipperary GP"). First injections into the North Pool and South Pool began in April, 2008. The performance of the wells was significantly less than expected, which resulted in Union coming forward with this application for additional injection/withdrawal ("I/W") wells.

The Tipperary Pools were converted to storage operations in 2008. The DSA comprises approximately 1050 acres. Currently, the Tipperary Pools contain two I/W wells and two Observation wells. It has a total capacity of 113,700 10^3m^3 and a working capacity of 85,100 10^3m^3 . The pools operate between a cushion pressure of 2,040 kPaa and a maximum pressure of 7,260 kPaa. The pools will continue to operate at the current working capacity and operating pressures.

The drilling activity will utilize a combination of rotary and cable tool drilling methods.

Union proposes to construct the facilities in accordance with its standard construction procedures and the environmental mitigation measures outlined in the Environmental Protection Plan Report ("ER"). Union also states that all aspects of the well drilling and design will be completed in accordance with CAN/CSA-Z341-06 and the *Oil, Gas and Salt Resources of Ontario, Provincial Operating Standards (Version 2.0)*.

Union states that the development of the Tipperary Pools will require approximately 700 metres of 6 inch diameter gathering lines. The proposed lines are designed to transport the expected flows to and from the new wells. All the design specifications are in accordance with Ontario *Regulation 210/01 for Oil and Gas Pipeline Systems*. The Maximum Operating Pressure for the proposed gathering pipelines is 9928 kPa (1440 psi) and Union proposes to construct the pipeline to meet or exceed the Canadian Standards Association's Class 2 location requirements.

Union produced an Environmental Report ("ER") which evaluated the proposed activities with respect to potential impacts on both environmental and socio-economic features. No significant environmental or socio-economic features were identified and no adverse effects to either environmental or socio-economic features are expected from the project, provided the recommended mitigation and protective measures are implemented. Union stated that it will follow the mitigation measures proposed in the ER during well drilling operations. A copy of the ER and its recommendations were included as Section 5-Schedule 1 of the pre-filed evidence.

In the pre-filed evidence Union stated that it has met, and will continue to meet, with the landowners and tenants who are directly affected by the project and other landowners who are adjacent to the work area to inform them of the project. Union also stated that it will implement a Landowner Relations Program in order to provide the directly affected landowners as well as the adjacent landowners with quick access to Union personnel in the event there are concerns or complaints. Union has indicated that landowners will be compensated for any damages as a result of the planned activities.

Findings

The Notice of Application indicated that the Board would consider the Application in a written hearing unless a party was able to provide reasons supporting an oral proceeding. No such submissions were made, and accordingly, the Board proceeded by way of a written hearing.

In the Board's Decision and Order concerning Union's interest in Tipperary GP, dated December 24, 2007 (EB-2007-0837) the Board states the following in its findings:

“The Board confirms that all the earlier commitments and conditions remain the responsibility of Tipperary Gas Corp., as the holder of the relevant licenses and Board Orders, and that all the conditions attached to the Board's Decision with Reasons EB-2006-0018/EB-2006-0159/EB-2006-0279 are to be implemented by Tipperary Gas Corp.”

After the Board's review of the submissions made by all parties, the Board finds that the pre-filed evidence in support of Union's application addresses the concerns of the TSLA. The Board notes that an insurance study for the proposed project has been undertaken, as originally outlined as condition 1.8 in the Board's Decision with Reasons dated February 6, 2007 (EB-2006-0018/EB-2006-0159/EB-2006-0279), and that an additional insurance study would not be of value. The Board also finds that Union has established a proper well monitoring program as described in its Environmental Report and notes that the attached Condition of Approval 1 requires Union to adhere to evidence it has submitted in relation to its application. Accordingly, Union is obliged to continue the previously ordered well monitoring program.

The Board's review was focused primarily on the technical expertise and capability of the Applicant to safely drill the wells, to maintain geological integrity of the designated storage pool, to ensure environmental protection of affected lands, and minimize adverse impacts on affected landowners.

Having reviewed the evidence filed the Board has prepared a favourable report to the Minister of Natural Resources. The Board's Report, attached as Appendix “A” to this

Decision, recommends the approval of the application to drill the proposed wells; Huron Tipperary North 7, Goderich 2-38-IX, Huron Tipperary North 8, Goderich 1-38-IX, Huron Tipperary South 9, Goderich 1-38-IX, Huron Tipperary South 10, Goderich 1-38-IX and Tribute et al #23 (Horiz. #1- Lat #3), Goderich 2-39-IX in the Tipperary Pools subject to the conditions of approval set out in the Report. The Board finds that the Applicant is technically competent to undertake the planned drilling program and the proposed well completion activities. The Board's conditions of approval address potential adverse impacts of the subject drilling project.

DATED at Toronto, June 5, 2009

ONTARIO ENERGY BOARD

Original Signed By

Paul Sommerville,
Presiding Member

APPENDIX “A”

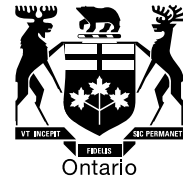
TO

DECISION WITH REASONS

**Union Gas Limited
EB-2009-0060**

**Report of the Board
With Conditions
Well Drilling Licence Application**

Dated June 5, 2009



EB-2009-0060

IN THE MATTER OF the Ontario Energy Board
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Gas Limited to the Ministry of Natural Resources for a
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REPORT OF THE BOARD

June 5, 2009

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Union is seeking a licence to drill the following gas storage wells:

- Huron Tipperary North 7, Goderich Township, Tract 2, Lot 38, Concession IX.
- Huron Tipperary North 8, Goderich Township, Tract 1, Lot 38, Concession IX.
- Huron Tipperary South 9 (Horiz#1), Goderich Township, Tract 2, Lot 39, Concession IX.
- Huron Tipperary South 10, Goderich Township, Tract 3, Lot 40, Concession IX.
- Tribute et al #23 (Horiz#1 – Lat #3), Goderich Township, Tract 2, Lot 39, Concession IX.

The Board has assigned this application Board File No. EB-2009-0060.

The Tipperary Pools, consisting of a North and a South Pool, (the "Pools") were converted to storage operations in 2008. The Designated Storage Area ("DSA") comprises approximately 1050 acres. Currently, the Pools contain two Injection/Withdrawal wells and two Observation wells. There is a total capacity of 113,700 10^3m^3 and a working capacity of 85,100 10^3m^3 . The Pools operate between a cushion pressure of 2,040 kPaa and a maximum pressure of 7,260 kPaa. The Pools will continue to operate at the current working capacity and operating pressures.

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addition of the original water well testing program as outlined in Conditions of Approval 1.6 & 1.6.1 in the Board's Decision and Order issued on June 17, 2005 (RP-2003-0253/EB-2003-0315) approving the operation of the Tipperary DSA consisting of a North and South Pool (the "Tipperary Pools" or the "Pools"). The TSLA also requested that the Board add Condition of Approval 1.8 from the same Board Decision and Order (RP-2003-0253/EB-2003-0315) to the Condition of Approval list for this well drilling application and that Marsh Canada review the insurance requirements for this project as it is now proposed.

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This concluded the discovery phase of the proceeding.

Board's Review

The approval of an application for a licence to drill a gas well in a designated storage area in Ontario is considered pursuant to section 40 of the Act. The administration is such that an applicant files the drilling licence application with the MNR and the MNR refers the application to the Board for a review. Upon review of the referred application and related evidence, the Board prepares a report to the Minister of Natural Resources (the "Report"). The Report is binding on the Minister.

The Board's review is focused on the technical expertise and capability of the Applicant to safely drill the well, to maintain geological integrity of the designated storage pool, to ensure environmental protection of affected lands, and minimize adverse impacts on affected landowners.

The Need

The Tipperary Well Drilling Project was initiated in order to increase the deliverability of the Tipperary Pools and improve the ability to cycle the full working capacity of the Pools. On June 17, 2005, the Board issued an order granting authority to inject, store, and withdraw gas from the Tipperary Storage Area (RP-2003-0253/EB-2003-0315). In accordance with Board Order EB-2007-0837, Union purchased 75% of the voting securities of Tipperary Gas Corp. ("Tipperary GP"). First injections into the North Pool and South Pool began in April, 2008. The performance of the wells was significantly less than expected which resulted in Union coming forward with this application for additional injection/withdrawal ("I/W") wells.

Drilling Procedure

Union plans to drill the wells by a combination of rotary and cable tool methods. Union stated that it had planned to commence drilling in June, 2009 and to complete it in September, 2009.

The Drilling Procedure, a Casing Program and well head design specifications are submitted in support of the drilling licence Application. Union also states that all aspects of the well drilling and design will be completed in accordance with CSA-Z341-06 and the *Oil, Gas and Salt Resources of Ontario, Provincial Operating Standards (Version 2.0)*.

Environmental Impacts of Drilling and Construction

Union produced an Environmental Report ("ER") to evaluate the proposed activities to determine the potential impacts on both environmental and socio-economic features. No significant environmental or socio-economic features were identified and no adverse effects to either environmental or socio-economic features are expected from the project provided the recommended mitigation and protective measures are implemented.

Union states that it will follow the mitigation measures proposed in the ER during well drilling operations. A copy of the ER and its recommendations were included as Section 5-Schedule 1 of the pre-filed evidence.

Landowner Matters

In the pre-filed evidence Union stated that it has met, and will continue to meet, with the landowners and tenants who are directly affected by the project and other landowners who are adjacent to the work area to inform them of the project. Union also states that it will implement a Landowner Relations Program in order to provide the directly affected landowners as well as the adjacent landowners with quick access to Union personnel in the event there are concerns or complaints. Union has indicated that landowners will be compensated for any damages as a result of the planned activities.

The Conditions of Approval

The Board has attached a standard set of conditions of approval to this Report. The conditions, which may be found in Schedule 1 of the Report, address general requirements such as term and transferability, compensation to landowners for damages, as well as construction, monitoring, reporting and communication requirements.

In Ontario the MNR is the agency overseeing the technical and safety aspects of gas storage pool development and operation including drilling and operation of wells in designated storage areas. CSA Z341 "Storage of Hydrocarbons in Underground Formations" ("CSA Z341") and Gas and Salt Resources of Ontario, Provincial Operating Standards, Version 2.0 provide a comprehensive framework for the MNR to undertake this role. Accordingly, the conditions specifically state that the applicant is expected to follow the requirements of the CSA Z341 to the satisfaction of the MNR.

Recommendation

The Applicant is considered technically competent to undertake the planned drilling programs and the proposed well completion activities. It is expected that the Applicant is able to conduct these activities responsibly and safely at the level required by the relevant codes and standards. The Board recommends approval of the Application for

the drilling licence, subject to the conditions of approval attached in Schedule “1” to this Report.

DATED at Toronto, June 5, 2009

ONTARIO ENERGY BOARD

Original Signed By

Paul Sommerville
Presiding Member

Schedule 1
to
Report of the Board
EB-2009-0060
Well Drilling Licence Application
Conditions of Approval

EB-2009-0060

Union Gas Limited

Tipperary Well Drilling Project

**Draft Conditions of Approval
Well Drilling Licence**

1 General Requirements

- 1.1 Union Gas Limited ("Union") shall adhere to the evidence and the undertakings provided in this proceeding and comply with applicable laws, regulations and codes pertaining to the construction of the proposed wells.
- 1.2 Authorization for the issuance of the drilling licence is limited to twelve months from the date of the Board's report to the Ministry of Natural Resources.
- 1.3 The authority granted under this order to Union is not transferable to another party without leave of the Board.

2 Just and Equitable Compensation

- 2.1 Union shall offer to pay landowners and/or tenants just and equitable compensation for any damages, including present and future crop damage arising from: drilling of injection/withdrawal wells; installation of gathering pipelines; and access road construction.

3 Construction Requirements

- 3.1 Union shall construct the facilities and restore the land in accordance with its Application and evidence filed in this proceeding and the undertakings given to the Board, except as modified by this Order and these Conditions of Approval.
- 3.2 Union shall ensure that the movement of equipment is carried out in compliance with all procedures and plans filed with the Board, and as follows:

- i) Union shall make reasonable efforts to keep any affected landowner, as well as adjacent landowners and their respective tenant farmers, or their designated representatives, informed of its plans and construction activities; and
 - ii) the installation of facilities and construction shall be coordinated so as to minimize disruption of agricultural land and agricultural activities.
- 3.3 Union shall, subject to the recommendation of an independent tile contractor and subject to the landowners' approval, construct upstream and downstream drainage headers adjacent to the drilling area and access roads that cross existing systematic drainage tiles, prior to the delivery of heavy equipment, so that continual drainage will be maintained.
- 3.4 Union shall implement all the recommendations identified in the "*2009 Tipperary Well Drilling Project Environmental Protection Plan, February 2009*" found in the pre-filed evidence.

4 Monitoring and Reporting Requirements

- 4.1 Both during and after construction, Union shall monitor the impacts of construction, and shall file four copies of both an interim and a final monitoring report with the Board and the Ministry of Natural Resources. The interim monitoring report shall be filed within six months of the in-service date, and the final monitoring report shall be filed within fifteen months of the in-service date. Union shall attach a log of all comments and complaints to the interim and final monitoring reports. The log shall record the times of all comments and complaints received, the substance of each comment and complaint, the actions taken in response, and the reasons underlying such actions.
- 4.2 The interim monitoring report shall confirm Union's adherence to Condition 1.1 and shall include a description of the impacts noted during construction and the actions taken or to be taken to prevent or mitigate the long-term effects of the impacts of construction. This report shall describe any outstanding concerns identified during construction.
- 4.3 The final monitoring report shall describe the condition of the rehabilitated land and the effectiveness of the mitigation measures undertaken. The results of the

monitoring programs and analysis shall be included and recommendations made as appropriate. Any deficiency in compliance with any of the Conditions of Approval shall be explained.

5 Other Requirements

- 5.1 For the purposes of these conditions conformity of the Applicant with CSA 341.1-02 shall be to the satisfaction of the Ministry of Natural Resources.
- 5.2 Union shall designate one of its employees as project manager who will be responsible for the fulfilment of these conditions, and shall provide the employee's name to the Ministry of Natural Resources, the Board and to all appropriate landowners.
- 5.3 The Board's designated representative for the purpose of these Conditions of Approval shall be the Manager, Natural Gas Applications.