IN THE MATTER OF Sections 84, 85, 86, 87, 91, 92 and 93 of the Environmental Protection and Enhancement Act, (S.A. 1992, ch. E-13.3 as amended);

-and-

IN THE MATTER OF an appeal filed by Mr. Victor Durish, President of Gammon Resources Ltd., with respect to Environmental Protection Order No. 96-07 issued by Mr. David Lloyd, Inspector of Land Reclamation Division, Alberta Environmental Protection.
PANEL MEMBERSHIP
Dr. John P. Ogilvie
Dr. Steve E. Hrudey
Dr. M. Anne Naeth

APPEARANCES
Appellant: Mr. Victor Durish, President Gammon Resources Ltd.

Other Parties: Mr. Ray Bodnarek, Environmental Law Section, Alberta Justice

Witnesses: Mr. David Sandmeyer, President of Rife Resources Ltd.; Mr. William Black, Conservation and Reclamation Inspector, Alberta Environmental Protection; and Mr. David Lloyd, Branch Head, Field Services, Alberta Environmental Protection

BACKGROUND

On May 23, 1996, Mr. Victor Durish, President of Gammon Resources Ltd. (Gammon), filed a Notice of Appeal and a request for costs with the Environmental Appeal Board with respect to Environmental Protection Order No. 96-07. Gammon Resources Ltd. had been licensed by the Alberta Energy and Utilities Board to operate a well named Gammon Malmo 13-21-43-22 located on the legal subdivision (LSD) NW 1/4, Section 21, Township 43, Range 22, W4M within the County of Ponoka No. 3. The Order was issued on May 15, 1996, by the Inspector of Land Reclamation Division.

The Board wrote a letter to the Inspector of Land Reclamation Division, Alberta Environmental Protection, on May 24, 1996, to request copies of all related correspondence, documents and materials. On that same date the Board wrote to the Natural Resources Conservation Board (NRCB) and the Alberta Energy and Utilities Board (AEUB) asking whether this matter had been the subject of a hearing or review under their Boards’ legislation.
On May 27, 1996, William Kennedy, Solicitor for the NRCB, advised the Board that the appeal did not deal with a matter that had been the subject of a review under the provisions of the NRCB Act.

On July 22, 1996, Mike Bruni, Counsel for the AEUB, advised the Board that the well in question, and related pipelines, were the subject of a number of applications to the AEUB (formerly ERCB) in 1990, and were considered at a hearing, resulting in Decision D 90-2, and Order P97 being issued. In 1992, their Board initiated Proceeding No. 920315 to rescind the order when it learned the Crown lease in the south half of the section had expired and the well in LSD 13 abandoned. Notice of Objection was sent to the relevant parties; no objections were received. The AEUB issued Order P97A, rescinding Order P97, and no hearing was held at that time.¹

All requested correspondence was received from the Department of Environmental Protection (the Department) and a copy was sent to Mr. Victor Durish (the Appellant) on July 2, 1996. Along with the information sent, the Board requested comments to the following procedural issues from the Appellant and the Department:

1. In the event that the Board decides to proceed with this appeal, do you wish to have a pre-hearing meeting under section 11 of the Environmental Appeal Board Regulation? If so, what would you contemplate to be the agenda for that meeting?

2. In your opinion, are there any other persons who have an interest in this matter?

¹ Section 87(5)(b)(i) of the Environmental Protection and Enhancement Act states:

87(5)(b)(i) The Board shall dismiss a notice of objection if in the Board's opinion the person submitting the notice of objection received notice of or participated in or had the opportunity to participate in one or more hearings or reviews under the Natural Resources Conservation Board Act or any Act administered by the Energy Resources Conservation Board at which all of the matters included in the notice of objection were considered.

Inasmuch as the matters are now different this Board proceeded forward with the appeal.
Following receipt of written submissions by the parties, on July 10, 1996, the Board wrote to all parties advising that it would be conducting a pre-hearing meeting on July 18, 1996 in Calgary. The Board also advised that if the meeting did not result in a resolution of the issues in the appeal of Gammon, Mr. McCann (pre-hearing meeting facilitator) would determine all of those matters set out in s. 13 of the Environmental Appeal Board Regulation with respect to the (forthcoming) oral hearing.

THE PRE-HEARING MEETING

The pre-hearing meeting was held on July 18, 1996, in Calgary. According to the Board’s standard practice, the Board called the pre-hearing in an attempt to mediate or to facilitate the resolution of this appeal, or failing that, to make arrangements for the oral hearing by determining all matters set out in section 13 of the Environmental Appeal Board Regulation. The Board invited two representatives from each party to participate and the attendance at this meeting included parties identified on page 2.

In conducting the pre-hearing, Mr. McCann explained the purpose of the pre-hearing meeting. He then circulated copies of “Participants’ Agreement to Mediate”. At this meeting it was agreed that Alberta Environmental Protection would review its position in light of the representations made on behalf of Gammon Resources Ltd. by Mr. Victor Durish. It was also agreed that another pre-hearing date would be established to further discuss issues as they had developed. Correspondence was received on August 9, 1996, from Mr. Gilbert Van Nes, on behalf of the Department of Environmental Protection stating:

“We can advise you that AEP has completed its review of these representations. AEP is not prepared to vary or revoke Environmental Protection Order No. 96-07. As a

Alberta Regulation 114/93.
result, we would anticipate that at the continuation of the pre-hearing, scheduled for August 13, 1996, in Calgary, that the matters set out in s.13 of the Environmental Appeal Regulation would be determined.”

On August 13, 1996, the continuation of the pre-hearing meeting was held in Calgary. It was determined that no resolution would be reached and that parties should proceed to the next stage of the process. According to Section 11 of the Environmental Appeal Board Regulation it states:

11 Where the parties to the appeal have been determined by the Board, the Board may on its own initiative, or at the request of any of the parties to the appeal, convene a pre-hearing meeting of the parties and any time prior to the date set for the hearing of the appeal to

   (a) facilitate the resolution of the notice of objection, or
   (b) determine any of the matters listed in Section 13.

As there was no resolution to the notice of objection by Mr. Durish, Mr. McCann proceeded to Section 13 of the Regulation. Section 13 states:

13 Where the parties do not agree to a resolution of the notice of objection, the Board, in consultation with the parties may:

   (a) determine a date for a future pre-hearing meeting before the hearing;
   (b) admit any facts for the hearing consented to by the parties;
   (c) admit any evidence for the hearing consented to by the parties;
   (d) determine any matters of procedure;
   (e) determine the order of witnesses for the hearing;
   (f) determine the day-to-day conduct of the hearing;
   (g) have the parties exchange documents and written submissions;
   (h) determine any other matters for the hearing;
   (i) determine the issues for the hearing pursuant to section 87(2) and (3) of the Act.

Several determinations were made and are summarized as follows:
(a) A one or possibly two day hearing will take place on either October 7 or 21, 1996. Mr. Durish will advise by September 3, 1996, of his commitments and finalized arrangements will be made.

(b) Parties will collaborate to have an agreed statement of facts provided to the Board by September 13, 1996.

(c) Gammon wants the correspondence between the Department and Mr. Pritchard that led up to the Decision presented as evidence. Parties agreed to collaborate on an agreed statement of evidence.

(d) Parties will exchange correspondence by September 13, 1996. Written submissions will be due by September 30, 1996.

(e) Mr. Maxwell (Seascape), Mr. Pitchard, Mr. Black, Mr. Lloyd, Mr. Onciul will be witnesses that Gammon wants to have at the hearing.

(f) Parties agreed to the standard day to day conduct of hearing.

(g) Parties agreed to exchange documents as required.

(h) No other matters were determined.

(i) The issues of propriety of the Inspector for issuing an Environmental Protection Order to Gammon, and what Gammon’s legal responsibility to reclamation will be addressed at the hearing.

HEARING

On September 5, 1996, the Board wrote to all parties advising that the hearing date had been set and a Notice of Hearing was sent to the Appellant and the Department. Written submissions were requested and received. On October 21, 1996, the hearing took place at the Federal Court of Canada facilities in Calgary.
STATEMENT OF ISSUES TO BE DECIDED

Based on the documents filed with the Board, the evidence of all the parties and their arguments, the primary issues raised were:

1. Was Gammon Resources Ltd. (Gammon) an operator, for the purposes of the Act, of the well named Gammon Malmo 13-21-43-22?

2. If Gammon was an operator, is Gammon responsible for reclaiming the wellsite and obtaining a Reclamation Certificate? The primary matters to consider are:
   a) Was the Director correct in serving the Environmental Protection Order on Gammon?
   b) In addition to Gammon, should the responsibility for reclamation be apportioned to previous operators?

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3 Section 119(b)(i)(ii)(iii)(iv) states:
In this Part,
(b) “operator” means

(i) an approval or registration holder who carries on or has carried on an activity on or in respect of specified land pursuant to an approval or registration,

(ii) any person who carries on or has carried on an activity on or in respect of specified land other than pursuant to an approval or registration,

(ii.1) the holder of a licence, approval or permit issued by the Energy Resources Conservation Board for the purposes related to the carrying on of an activity on or in respect of specified land,

(ii.2) the holder of a surface lease for purposes related to the carrying on of an activity on or in respect of specified land

(iii) a successor, assignee, executor, administrator, receiver, receiver-manager or trustee of a person referred to in any of subclauses (i) to (ii.2), and

(iv) a person who acts as principal or agent of a person referred to in any of subclauses (i) to (iii).
SUMMARY OF THE EVIDENCE

Evidence of Mr. Durish

Mr. Durish outlined the history of the Malmo Gammon well. Exhibit No. 4, filed by Mr. Durish, contains 58 documents which Mr. Durish used to support his statements.

Mr. Durish personally held contractual rights to the minerals under the NW quarter of section 21, township 43, range 22, west of the fourth meridian (NW/4 21-43-22W4M) as of April 1979. The well was drilled as a sour gas well by Lobell Oil & Gas Ltd. (Lobell) in May 1979 and immediately shut in. Mr. Durish stated that he was a major shareholder in Lobell.

In 1981, the Lobell well license was transferred to WRM Resources Ltd. (WRM). WRM tied the well into the newly constructed Malmo/Basha pipeline and produced the well from December 1981 to December 1985. The gas was treated in the adjacent Malmo D3-B Gas Unit owned and operated by Gulf Canada Resources Ltd. (Gulf). In November 1985 the well was shut in by Gulf as a result of the failure of WRM to pay the transmission and processing fees charged by Gulf.

WRM was declared insolvent by its President, Ronald Maxwell, in 1987 and struck from the corporate registry in 1989.

In 1987, title to the lands on which the wellhead was located was purchased by the Pritchard family. At the time the well was drilled the land owners were the Hughes family who lost the land to the Royal Bank from whom the Pritchards purchased the land.
In 1987, through a series of transactions, Seascape Oil and Gas Ltd. (Seascape) acquired the well, pipeline and surface facilities and became the licensee and operator of the well. Seascape also obtained a new surface lease from the Pritchards. Meanwhile, the well remained shut in. Seascape was struck from the corporate registry in 1993.

In 1990, Gammon received an oil and gas lease on the lands, applied to the Energy Resources Conservation Board and was named operator of the well, granted a well license and a right of entry. During the period of October 16 to 27, 1990, Gammon successfully tested the well. Gammon abandoned the well and gathering system March 22 to 25, 1991, pursuant to the standards of the ERCB and with the approval of that body. Abandonment involved removing all contaminants, surface structures and debris found on the site, including the wellhead. The site was left clean to the existing surface but the access road was not reclaimed nor was the surface re-contoured.

In 1991, when Mr. Durish attempted to get Gammon's right of entry to the lands cancelled, he was advised by the ERCB that a reclamation certificate must be obtained from the Department of Environment (as it then was) before such cancellation could be effective. He contacted Mr. Bruce Patterson in the Calgary office of the Department of Environment with respect to the issuance of a Reclamation Certificate. He was advised that the site must be reclaimed to the satisfaction of the Department before a certificate could be issued.

In March 1995, Mr. Pritchard, the landowner, contacted Mr. William Black, Conservation and Reclamation Inspector, Alberta Environmental Protection, (the Department) requesting that the Department assist in getting the site returned to its original condition (before the well was drilled). Mr. Black arranged for a site inspection on May 12, 1995. Mr. Durish was under the impression that this would be a reclamation inquiry and asked that Mr. Ronald M. Maxwell, President of WRM, Seascape and now Megoil be asked to attend.
When Mr. Durish arrived at the site for the meeting he found that Mr. Maxwell was not present and after a brief discussion he left. Present were Mr. May, of the Alberta Energy and Utilities Board (AEUB), formerly the ERCB, Mr. R. Onciul and Mr. Black of the Department and the Pritchards. In August, and again in December 1995 officials of the Department contacted Mr. Durish to discuss the Department’s intentions to issue an Environmental Protection Order (EPO) to Mr. Durish personally and to Gammon requiring them to reclaim the site. On May 15, 1996, Mr. Lloyd issued EPO No. 96-07 to Gammon alone, thereby citing Gammon as the only party responsible for reclaiming the site.

Mr. Durish stated Gammon’s position is that, since Gammon only occupied the site for sixteen days, Gammon should not be responsible for the actions of prior occupants. Gammon left the site in better condition than they found it in 1990. He requested that Mr. Maxwell as the president of the former occupants should bear some responsibility, if not the primary responsibility, for reclamation.

Mr. Durish further pointed out that, in his opinion, Gammon did not come under the definition of operator provided in section 119(b) of the Alberta Environmental Protection and Enhancement Act (the Act). In his view, Gammon did not carry out an activity on the site as defined in section 3 of the Schedule of Activities of the Act.

Mr. Lloyd

Mr. Lloyd stated that he was an inspector under Section 23(3) of the Act. He explained that the AEUB regulated the licensing of oil and gas wells, their construction, spacing and down hole abandonment. The Department regulated surface reclamation and issued reclamation certificates when the surface reclamation had been performed to the Department’s standards. He said that the liability for surface reclamation rested with the last party who was licensed as operator.
He said that the allocation for reclamation costs and duties among previous operators would be an onerous and almost impossible task for the Department. It would entail searching old transfers, maintaining records of who did what operations with the result that there would be many additional records to be kept, greatly increased demands on personnel time and increased cost to the Government. As a result, the Department holds the last licensed operator liable for reclamation.

Mr. Lloyd said that since Gammon tested the well and abandoned it, those actions qualified as an activity with Gammon qualifying as an operator under the EPEA. As Gammon was the last operator, the EPO was issued to that company. He further said that the requirement of the Department to reclaim the land to “its equivalent capability” referred to the condition of the land before any oil well-related activity took place on it, not to the condition the land was in when the last operator came onto it.

Under cross examination by Mr. Durish, Mr. Lloyd agreed that neither the Act nor the preceding Land Surface Conservation and Reclamation Act specified that the last operator should be solely liable for reclamation, rather the Department had adopted a policy to attach that liability to the last operator. The Department consulted with industry in developing this policy and found that industry strongly supports this approach as being predictable and reasonable. The only exception Mr. Lloyd mentioned was when the license was transferred to a “shell” company with no assets. He pointed out that Gammon is not a “shell” company.

Mr. David Sandmeyer

Mr. Sandmeyer was introduced by the Department as an expert in oil and gas industry practice. He is President of Rife Resources Ltd. and Campar Holdings, which position he has held for fourteen years. Previously he was employed by Amoco Canada Petroleum Company for eighteen years,
becoming Vice President of production. He was the representative of the Canadian Association of Petroleum Producers (CAPP) on the Fund Advisory Committee of the Alberta orphan well program.

Mr. Sandmeyer stated that it had long been industry practice to recognize the last operator as being responsible for abandonment and reclamation of an oil or gas well. The operator must be licensed and since a license does not transfer if the property is transferred, the regulator can maintain a record of the licensee. Mr. Sandmeyer commented on the claim that Gammon spent only 16 days on the property. He said that Gammon was the operator and that in his opinion Gammon accomplished its aims: inclusion in the unit (Malmo D3-B with the corresponding economic benefit accruing to Gammon) and abandonment of the well, which no longer served any purpose.

Mr. Sandmeyer stated unequivocally that the access road to a well site is recognized by the industry as part of its surface reclamation obligation and there were no circumstances apparent to him in the evidence of Mr. Durish which would warrant different treatment on the obligations for reclaiming the access road.

Mr. William Black

Mr. Black stated he is a Reclamation Inspector with the Field Services Branch of the Department stationed in Camrose. He outlined his connection with Gammon, Mr. Durish and the EPO (Exhibit 11).

In February 1995, Mr. Black received a call from Mr. Pritchard the land owner, concerned that the well site had not been reclaimed and that he had received no surface rental since 1991. As a result, Mr. Black arranged for a site inspection to be scheduled in May with the land owner, representatives of the Department, AEUB and Mr. Durish, representing Gammon, to be present. Mr. Durish asked Mr. Black to have Mr. Maxwell present and gave him Mr. Maxwell’s telephone number and address.
Mr. Black reported Mr. Durish's request to his supervisor and they determined it was not necessary to have Mr. Maxwell in attendance since they had determined Gammon Resources was the last operator.

An inspection of the site was held on May 12, 1996. Mr. Durish claimed that he had applied for a reclamation certificate to Mr. Patterson in 1991. Mr. Black checked the records in Camrose and in Edmonton but found no record of an application.

Under cross examination by Mr. Durish, Mr. Black agreed that he had received Mr. Durish's request to have Mr. Maxwell attend the inspection of the site. As it was not within his authority to honour such a request, he referred the matter to his superiors who decided not to request Mr. Maxwell to attend.

SUMMARY OF THE ARGUMENTS

Mr. Durish for Gammon

Mr. Durish argued that the Inspector did not reasonably exercise his discretion under the Act when he named only Gammon in EPO 96-07. Gammon was only on the site for 16 days, and he claimed, should not be classed as an "operator" because of the short duration and the limited nature of the activity. The surface damage had been done by Lobell, WRM and Seascape prior to Gammon coming on the site. He admitted that the several transactions and actions before both the courts and the Surface Rights Board are irrelevant to this Board. However, he suggested that the facts might be considered by the Board as background material in making its decision. He stated that when Gammon carried out the abandonment of the well, the surface was left in better condition than it was when Gammon found it in 1990 and that requiring Gammon to honour all the reclamation obligations for this site is contrary to "natural justice".
Mr. Bodnarek for the Department

The Inspector argues that Gammon is an operator under section 119(b)(ii) of the Act in that it carried on an activity on specified land. The activity consisted of testing the well and abandoning it. Also, the Inspector exercised his discretion in a reasonable manner in naming only Gammon in the EPO. Before naming Gammon the Inspector discussed the matter on three occasions with Mr. Durish and was provided with a factual background of prior operators. At these meetings, Mr. Durish made Gammon's position clear to the Inspector. However, the facts provided to the Inspector were not sufficient to cause him to depart from the Department's general policy of holding the last operator responsible for reclamation. The Inspector therefore issued the EPO to Gammon.

CONSIDERATIONS OF THE BOARD

In determining if the Inspector, Mr. Lloyd, was correct in issuing the EPO to Gammon, the Board must examine a number of factors:

1. Was Gammon an operator for the purposes of the Act?
2. Should the Inspector have issued the EPO to previous operators?
3. Did the Inspector use reasonable judgement in naming Gammon as the only recipient of the EPO?

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Section 119(b)(ii) of the Act states:
any person who carries on or has carried on an activity on or in respect of specified land other than pursuant to an approval or registration.
Was Gammon an operator for the purposes of the Act?

Evidence indicated that Gammon tested the well, then shut it in and carried out the abandonment of the well as prescribed by the AEUB. The parties agreed in their Statement of Agreed Facts and Issues, items 2 and 3.

Item 2 - The Appellant

Gammon Resources Ltd. ("Gammon") was an "operator" pursuant to s.119(b)(ii) of the Act to the extent that Gammon conducted such productivity test, pursuant to a pooling order and a well licence issued to it by the Energy Resources Conservation Board ("ERCB"), and subsequently abandoned the Malmo well as directed by the ERCB.

Item 3 - The Degradation

As set out in Environmental Protection Order No. 96-07, the unsatisfactory degradation of the lands consists of the presence of a developed access road, gravel and stones at the soil surface, degradation of top soil and improper contour of the land, all as found by the Appellant upon its entry upon the lands.

As an operator under s. 119(b)(ii) Gammon was carrying out an activity as outlined in the Act, Schedule 3, namely the operation and reclamation of the well.\(^5\)

In testing the well, Gammon had to produce some product from the well to gain inclusion within the unit (Malmo D3-B). This 11 day test was essential to secure the subsequent economic benefit for Gammon by demonstrating the existence of the resource which could then be produced by the unit

\(^5\) Schedule 3 of the Act covers the drilling, construction, operation or reclamation of a well other than a water well.
operator. These facts overcome the essence of the "natural justice" argument posed by Mr. Durish, that Gammon only operated the well for the purposes of a few days of testing and that Gammon should not be held liable for the full reclamation obligations of an operator for an activity limited to such testing. In the Board's opinion, the agreed upon operator status and the facts of the activity makes Gammon an operator under the Act, and for the purpose of EPO 96-07.

After testing the well Gammon shut it in and carried out abandonment in accordance with the ERCB requirements. Gammon was certainly the last operator. The wording of section 119(b) of the Act makes it clear that the legislators intended to cast a broad net of potential liability to capture a wide class of operators, irrespective of the chronology of operation or the chain of title.

Should the Inspector have issued the EPO to previous operators?

The Inspector testified that it is standard practise to consider the last operator as the party responsible for surface reclamation of the wellsite. In the case where such reclamation has not been done, the last operator as determined from records of the AEUB is held responsible and will be the recipient of an EPO when one is issued. Expert testimony established that the oil and gas industry recognizes that the last operator of a well is responsible for its reclamation. The expert further testified that the industry would be very concerned if all operators of a well were to face some responsibility for reclamation of a well ultimately abandoned by the last operator. In addition to the effects on industry, the regulators would have an onerous, expensive and potentially impractical task of keeping track of how much work each operator had performed on the site and how the cost of reclamation should be equitably distributed.

Finally, the EPO 96-07 was justifiable in specifying the need for reclamation of the access road even though the road was clearly constructed and used by earlier operators. Reclamation of access roads
is clearly part of the obligation for site reclamation and this obligation is recognized and accepted by the industry.

The Board finds the policy of the Department of holding the last operator responsible for reclamation to be reasonable and to be generally understood and acceptable to the industry. Furthermore, the Board believes that this policy was correctly applied to Gammon in this instance.

Did the Inspector use reasonable judgement in naming Gammon as the only recipient of the EPO?

As discussed immediately above, the Board believes the policy adopted by the Department whereunder the last operator is responsible for reclaiming a well is reasonable. Initially, the Inspector considered issuing the EPO to both Gammon and Mr. Durish as Gammon’s agent. Under the Act, this would have been allowable. After discussions with Mr. Durish, the Inspector limited the EPO responsibility to Gammon. The Board believes that the Inspector acted responsibly and exercised reasonable judgement in issuing the EPO. These actions fall within the wide discretion afforded to the Inspector by the broad wording of section 119.

CONCLUSIONS

The Board concludes that Gammon was an operator of the well under section 119(b)(ii) of the Act. Gammon, therefore can be reasonably held responsible for the reclamation process and for obtaining a reclamation certificate. The facts of this case confirm that the Inspector acted correctly in issuing the EPO to Gammon and to Gammon alone as the last operator.

In light of these conclusions, there will be no order for costs.
RECOMMENDATION

The Board recommends that the appeal be dismissed.

With respect to section 92(2) and 93 of the Environmental Protection and Enhancement Act, the Board recommends that copies of this Report and Recommendations be sent to the following parties:

- Mr. Victor Durish, President of Gammon Resources Inc.;

- Mr. Ray Bodnarek, Environmental Law Section, Alberta Justice, representing the Land Reclamation Division, Alberta Environmental Protection

Dated November 20, 1996, at Edmonton, Alberta.

Dr. John P. Ogilvie

Dr. Steve E. Hrudey

Dr. M. Anne Naeth
ORDER

I, Ty Lund, Minister of Environmental Protection:

Yes

Agree with the Recommendations of the Environmental Appeal Board and order that they be implemented.

No

Do not agree with the Recommendations of the Environmental Appeal Board and make the alternative Order set out below or attached.


Dated at Edmonton this 25 day of November 1996.

Ty Lund
Honourable Ty Lund
Minister of Environmental Protection

Refer to Attachments (only if applicable)