PETROLEUM HISTORY SOCIETY

ARCHIVES

Newsletter of the Petroleum History Society September, 1988; Volume II, Number 4

The Not-So-Orderly Birth of a Regulator

... the Energy Resources Conservation Board Reaches a Milestone

By Simone Marler

July 2nd 1988 marked the 50th anniversary of the Energy Resources Conservation Board (ERCB). 1938 legislation charged the fledgling Board with the first of its many mediation tasks; that is, to ensure the "orderly and efficient" development of Alberta's petroleum resources at a time when the petroleum industry was frequently not so orderly and efficient. This article tells of some of the colourful events leading up to the formation of the Board in 1938.

With a roar heard throughout the valley, the Turner Valley Royalties No. 1 well struck pay dirt. It was June 16th, 1936, and the beginning of the third oil boom in the valley. And, it also prompted the Alberta government to renewed action to gain control of the huge waste of natural gas that had been going on for years in the Turner Valley field. The problem was that the Turner Valley produced a great deal of gas along with oil. The operators wanted the oil, but had few markets for the gas, so they simply flared it.

Luncheon Presentation
John Ballem*
on
The Freehold Oil and Gas Lease: Its Development since Leduc

Time: 12:00 noon
Date: Thursday, September 29 1988
Place: The Palliser Hotel
Cost: Society members, $15; non-members, $17.
RSVP: Jennifer Thiedemann 269-6721 by September 27.

*John Ballem's biography can be found on page 3.

As early as 1931, the Calgary Herald had expressed the opinion that "Conservation of so vitally valuable a resource as natural gas is absolutely necessary. Every two weeks, a year's supply of gas for Calgary is dissipated, without any returns to the people of this province from this product. This wastage has been going on for years...With the people's interest so closely affected, it is regrettable that conservation measures were not put into effect years ago".

At that time, the notion that Government should regulate development and production was opposed by many people. A remark by then-Premier Brownlee in 1931, that the natural resources of Alberta "belonged to the people", was considered akin to "communism" by many free enterprisers. Such ideological differences were exacerbated by a widespread lack of understanding about how oil and natural gas reservoirs functioned. There was much distrust between the "theoretical", university-trained petroleum engineers and the "practical" oilmen working in the valley. Certainly, the notion that the gas in the reservoir actually was supplying the energy to drive the oil to the surface, was not then well understood, nor, indeed, was that theory widely believed.

Gradually, however, the realization came to many Albertans that the province's natural resources were not inexhaustible. It was then just a short step to the idea that their exploitation should be "orderly and efficient" and this, in turn, led to a growing acceptance of the principles of resource conservation.

In 1932, the United Farmers of Alberta - the provincial government of that day - set up the Turner Valley Gas Conservation Board (TVGCB), a forerunner of the present ERCB. Although operators in Turner Valley were ordered to cut back production in order to conserve gas pressure underground and reduce waste, this first Board soon found itself in a life and death struggle.

The problem was that only the larger oil companies could defer income in the short-tern, in return for higher long-term gains. The smaller producers depended on a regular monthly income, and the Board's actions threatened them with bankruptcy, or so it was claimed. Indeed, one of these small producers, when ordered to cut back its production from 90 barrels to 4.7 barrels per day, took the fight to the courts!

After a long and acrimonious legal battle, the Supreme Court of Canada decided in favour of the Alberta Government and the TVGCB continued to function. However, the court also decided that the Board's orders cutting production must not infringe on mineral leases that had been granted by the Federal Government prior to 1930. Since most of the Turner Valley operators had leases predating 1930, this meant that the Board's directives could, in large measure, be ignored. They were ignored and that early Board soon disappeared from the provincial scene.

Remember, too, this was the time of the Great Depression. With the collapse of wheat prices, combined with years of drought, the petroleum activity in Turner Valley was one of the few bright spots in Alberta's economy during the 1930s. Many people warned the government not to threaten the industry with conservation legislation.

By 1938, the situation had changed considerably. Alberta's economy was improving and there was a bumper wheat crop that year. Social Credit had become the government in 1935, and Premier William Aberhart and his Minister of Lands and Mines, Charlie Ross, felt the time was ripe to enact effective conservation legislation. At their insistence, the Federal Government made the necessary amendments to the 1930 Transfer Act, permitting Alberta to control all energy developments in the province.

The legislation for the new Board passed the Alberta Legislature in April 1938. Looking to expe-

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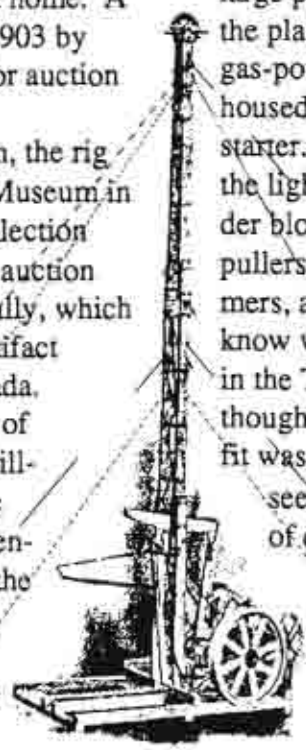
85 Year-Old Drilling Rig for Sale

By Micky Gulless

A rare and interesting piece of Alberta's petroleum history is in need of a new Alberta home. A complete drilling rig, manufactured in 1903 by National Supply Company, will be up for auction in Calgary in mid October, 1988.

Similar to the 1913 model shown, the rig is currently on display at the Altamont Museum in Coutts, Alberta. The entire museum collection goes on the auction block this fall. The auction house is promoting this sale internationally, which presents the danger that this valuable artifact could be sold to a buyer outside of Canada.



According to Mr. Mike Gorman of McLaren Auction Inc., the cable-tool drilling outfit is in good condition, complete with platform, derrick, tool shed, drive engine and tools, and bears a plaque with the manufacturers name, year of manufacture and the serial number B7-3. Belmore Schultz, the 79 year-old owner and curator of the museum, provided further details. The derrick, which is an unusual mast-like structure, is approximately 65 feet tall and is made of steel in three sections which are bolted together to facilitate transport. Three large pulleys made of wood are mounted on the platform. The drive engine is a natural gas-powered four-cylinder Buffalo engine, housed in a separate shed, with a crude electric starter. There is also a steam generator to run the lighting, a large water tank, an extra cylinder block, drilling bits, jars, cables, tongs, pullers, an escape line, wrenches, sledge hammers, and other tools. Mr. Schultz does not know who used the rig but believes it worked in the Turner Valley area until the 1920's. Although Mr. Schultz states that the drilling outfit was capable of drilling to 7000 feet, this seems improbable considering the infancy of drilling technology in 1903; 3000 feet is more likely.

This unusual drilling rig needs to be preserved, and hopefully will remain in Alberta, available to the public and to historians. Further information on the rig, and the auction, can be obtained from Mr. Mike Gorman at McLaren Auction Inc. in Calgary at 279-0415.

John Bishop Ballem

John Bishop Ballem, Q.C., M.A., LL.B., LL.M., is the senior and founding partner of the Calgary law firm Ballem, McDill, MacInnes & Eden. Mr. Ballem has specialized in oil and gas law since 1952. In the course of his career he has appeared frequently as counsel before regulatory tribunals and courts on matters pertaining to energy law. These appearances have included several landmark oil and gas legal cases, and energy matters of national importance, including applications to construct the Mackenzie Valley Pipeline, the Berger Commission, the Norman Wells Pipeline, and matters related to the regulation of oil and gas pipelines.

He has been specifically recognized as an authority on oil and gas law by Canadian courts and his legal writings have been cited as authorities by the courts in oil and gas decisions.

He has appeared as an expert witness before various international tribunals such as the International Chamber of Commerce Court of Arbitration.

Mr. Ballem is the author of the widely-accepted textbook, The Oil and Gas Lease in Canada (Second Edition, 1985 published by The University of Toronto Press), as well as numerous legal articles on the subjects of oil and gas law and constitutional law.

In addition to his legal writings, Mr. Ballem is the author of seven best-selling novels.

Editorial

President's Report

As I mentioned in our May newsletter, the past year was an extremely successful one for the Petroleum History Society. The Board of Directors is now engaged in building upon these successes. The guest speakers for the 1988-1989 series of luncheon meetings are being lined up, a special meeting of the Board is planned for mid-September to establish attainable, short-term goals for the Society, and we await a response from Revenue Canada to our request for registration of our Oral History Project as a Canadian Charitable Organization.

The Petroleum History Society has proposed the re-establishment of the project to record the oral history of the petroleum industry. About eight years ago, a group of people under the leadership of Aubrey Kerr began informally recording the personal recollections of oilpatch pioneers. As funds became available, three interviewers' efforts resulted in some 180 interviews, 30% of which were transcribed. These tapes are available to the public at the Glenbow Archives and have proven to be a valuable historical resource. This initial project ended in early 1985.

But there are many more experiences that need to be recorded. The Society has compiled a list of three hundred individuals, many of whom are along in years, and access to their experiences needs attention now. As well as new interviews and their verbatim transcription, the Oral History Project will include transcription of all earlier sessions. Subsequently, all the recorded material will be indexed and cross-referenced, to afford easy access for research.

In addition to the obvious biographical applications, oral histories give a "you are there" glimpse of momentous events: whether a discovery well's birth, a tragic blow-out or fire, or the hands-on test of some "new-fangled" technology. Expanded indexing, will permit tracing the evolution of companies and careers, and the development of specific locations or areas. The possibilities are limitless.

The Oral History Project will be managed by a Steering Committee comprising a representative of the Society, a representative of the individuals and institutions contributing financially to the project, and a representative of the Glenbow Archives which will be the repository for the tapes and transcripts.

An Advisory Committee, consisting of experienced, knowledgeable and enthusiastic personnel (both actively employed and retired), will provide historical background and act as a resource base.

The Oral History Project will employ four people - a Project Coordinator, two interviewers, and a transcriber.

The budget for the Project for the initial two-year period is $200,000. However, the Petroleum History Society and other project organizers will endeavour to raise sufficient funds to keep the Oral History Project going beyond the initial two-year period. This fund raising will commence as soon as a favourable response to our application is received from Revenue Canada.

W.R.S. McLellan

Oil Sands

The First Commercial Oil Sands Plant

By Bob Leonhardt

Many people working in the oil industry today will recall the start-up of Great Canadian Oil Sand's plant near Ft. McMurray in 1967. In many ways GCOS may be considered an oil sands pioneer, but the first commercial separation and refining operation actually started thirty seven years earlier.

In 1925, Robert C. Fitzsimmons, a Prince Edward Island-born promoter, moved to Edmonton to take over the Alcan Oil Company, which he re-constituted as the International Bitumen Company. Initially he continued drilling for "pools of bitumen" in the vicinity of Bitumount (T97, R10, W4) on leases acquired by Alcan in the early twenties. This misguided approach was based upon Dr. Robert Bell's 1882 speculation that "vast quantities of somewhat altered petroleum" had arisen from the underlying Devonian limestones. Undoubtedly, Bell believed, drilling would encounter large petroleum reservoirs.

By 1930, Fitzsimmons had turned to running a small, primitive hot water extraction plant. Although he claimed to have devised the process himself, it had a remarkable resemblance to Karl Clark's process being demonstrated at the Research Council of Alberta's Clearwater River site. Between June 12 and August 25, 1930 the tiny operation produced three hundred barrels of crude bitumen. The original plant was continually improved, but no market could be secured for the product. By the end of 1931, Fitzsimmons ran out of capital, resulting in the plant's failure to operate between 1932 and 1937.

Not one to give up, the tenacious promoter Fitzsimmons secured enough capital to plan for expansion and operation in 1937. He hired Harry Everard, a Richfield Oils' engineer, to reconstruct his old extraction plant and build an oil refinery at Bitumount. After some initial, disastrous results in late 1936, it was reported on June 25, 1937 that the plant could produce good quality bitumen at the rate of 15 to 34 barrels per hour. This crude contained 1.2 percent sand and 15 to 20 percent water. From this point on, conditions deteriorated with numerous breakdowns and labour problems.

In October of 1937, Elmer Adkins, a young University of Alberta engineer from Medicine Hat, took over as plant superintendent. The following year International Bitumen was able to report income from sales of $20,294.90. However, since expenses exceeded income the company became insolvent. Fitzsimmons left for Chicago, mainly to escape creditors, although he may have hoped to secure new financial support.

Montreal financier Lloyd Champion purchased the company in 1942 and renamed it Oil Sands Ltd. This ended Fitzsimmons' dream of turning the International Bitumen Company into a successful enterprise. In the late forties, Bitumount became the site of the Provincial Government's demonstration plant which helped lead to the establishment of the large scale operations of GCOS (Suncor) and later Syncrude. The Bitumount site has been designated a Provincial Historical Resource.

Talent and Labour, Ambition and Dreams

*Tom Kennedy; **Quest: Canada's Search for Arctic Oil**; Reidmore Books, Edmonton; 1988.*

Like all corporate histories, Panarctic's is a rich tapestry of talent and labour, raw ambition and big dreams threaded together with successes and failures.

In one sense, Panarctic's story goes back to 1955, when the Geological Survey of Canada's "Operation Franklin" studied and reported on the enormous layers of sediment and the huge geological structures in evidence in the Arctic Islands. In 1960, federal regulations were promulgated allowing the industry to apply for permits on these lands, and numerous companies quickly snapped up 16 million hectares of land. Three pioneering wells were drilled in the Islands between 1961 and 1964.

Although these wells were milestones in frontier exploration, between 1964 and 1967 exploration in the far north was largely suspended. There were two reasons for this: For one, arctic exploration was proving to be expensive and extremely risky, and well beyond the means of many of the smaller landholders; for another, exploration prospects in less remote areas of the world were proving far more attractive than in the Canadian north. The Mitsue, Nipisi and Rainbow plays were attracting investors to Alberta and, outside the country, offshore California and the North Sea were strong magnets for international exploration capital.

The federal government's eagerness to encourage Arctic Islands exploration (partly motivated by the need to assert Canadian sovereignty over that part of the world) led to the formation of Panarctic Oils Ltd. in 1968 -- a company which included 75 companies and individuals with Arctic Islands land holdings plus the federal government as the major shareholder. Panarctic marked the Government of Canada's first direct and permanent entry into the oil and gas business. Since 1968 the company has been the principle oil and gas operator in the Arctic Islands.

In that role it has spent some $900 million and has been the operator for perhaps three fourths of the 176 wells drilled to date in the high arctic. The company has established hundreds of billions of cubic metres of natural gas, and has also made a number of significant oil discoveries. And in 1986, the company actually became a commercial oil producer: Beginning with a single 15 000 cubic metre tanker load of oil from its Bent Horn oil discovery, the company more than doubled production last year and expects to deliver 65 000 cubic metres of oil to southern markets in 1988. The fact that the company now relies entirely on arctic oil production for income is a notable landmark in frontier development.

This overview of the Panarctic story actually comes from other sources than Kennedy's book, and is an indication of **Quest's** key weakness: In often compelling but occasionally lurid prose, Kennedy summons up striking images and vignettes of Panarctic's years in the far north, but he does not present his tale in a clear and cohesive way.

Beginning with overdramatized accounts of Panarctic's first two wells -- both of which were spectacular natural gas blowouts -- the narrative seems to lurch almost (but not quite) aimlessly through most of Panarctic's years of activity. Besides its lack of discipline, the book's writing style is also a source of frustration to the serious reader. Kennedy seems unduly concerned about making his work entertaining, and often does so at the expense of literal accuracy.

Nonetheless, **Quest** is a major repository of facts and anecdotes about the company, much of it appearing in print for the first time. It is therefore a valuable source book on the challenges of being an oil and gas operator on top of the world, and it describes in detail the drama (for example, the blowouts), the tragedies (industrial accidents, for example, which included an airplane crash which killed 32 men) and the victories of those who have moiled to explore the Arctic Islands. While his gutsy language often seems to distort the facts, Kennedy is a talented writer who has researched his subject well. The knowledgeable reader who applies frequent pinches of salt to the text will find this work useful and informative.

Peter McKenzie-Brown

Note: Tom Kennedy addressed the May luncheon of the Petroleum History Society, describing Panarctic's activities in the north as another chapter in the great history of northern exploration which includes the voyages of Henry Hudson and the ill-fated Franklin expedition.

ERCB *(cont'd from p. 2)*

rience gained in Texas, the Alberta Government created a quasi-judicial Board having several significant differences from its American counterparts. For example, Board members were appointed, rather than elected as in Texas, making them far less susceptible to short-term political factors. Also, the Board would be kept at "arms-length" from Government, an independent agency separate from any other departments, with offices in Calgary close to the hub of the petroleum industry. Another significant difference was the requirement that industry pay half the cost of regulating its own activities. To those familiar with the Board today, these basic principles have stood the tests of time.

And so, the three-man Petroleum and Natural Gas Conservation Board and its seven employees began work on 2 July 1938 in the Telephone Building on 6th Avenue in Calgary; the true beginnings of what we know today as the Energy Resources Conservation Board.

It has been said that if a company gets a union, it probably deserved one; and, it likely will get the kind of union it deserves. Perhaps the same can be said of a regulator. If an industry gets a regulator, it probably needed one, and it likely will get one cast in its own image. Alberta's energy industry has an image of being tough, moving fast, with advanced thinking and technology, and capable of sound decision-making, but with fairness to all parties. That's the kind of regulator the ERCB tries to be.

For more information, you may wish to consult two recent publications on the history of the Board. The first, Energy Alberta 1987, contains a feature article tracing the major events that have shaped the Board's development since 1938. The other, entitled ERCB People: The Golden Resource, was produced especially for ERCB employees, and examines the "people" side of the Board's first 50 years. Those seeking even greater detail will enjoy the forthcoming book on the Board's history being written by UBC historian Dr. David Breen.

The Publisher

Archives is published periodically by the Petroleum History Society, 3800, 150 6th Ave. S.W., Calgary, T2P 3Y7; (403) 269-6721. Editor: Peter McKenzie-Brown.

Submissions on historical topics related to Canada's petroleum industry are welcome. For information on membership or society activities, contact society president W.R.S. McLellan (403) 290-2840.