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## U.S., CANADIAN ENERGY RESOURCES COULD PROVIDE 100% DOMESTIC LIQUID FUEL NEEDS BY 2024

A new report commissioned by the American Petroleum Institute stated that the United States, in partnership with Canada, has the energy resources to make the country completely independent of outside sources for liquid fuel supplies by 2024.

Calling the state of the U.S. oil and natural gas sector a "renaissance," the report overview stated, "America also finds itself on the cusp of energy self-sufficiency and security through reliable, affordable, and abundant supplies of domestic oil and natural gas that can sustain and empower us well into the foreseeable future.

"In fact, the U.S. is already the global leader in oil and natural gas production and together with Canadian energy supplies could produce more than 100 percent of its liquid fuel needs by 2024," the report, titled "The State of American Energy: America's Energy, America's Choice," stated.

What's critical to reaching that goal is making the right energy decisions, according to Jack Gerard, president



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and CEO of API, a national trade association that represents all segments of America's technology-driven oil and natural gas industry.

"The question before us today is whether we have the vision and wisdom to take full advantage of our vast energy resources," Gerard said in his prepared remarks at the release of the report in Washington, D.C., on Tuesday. "The energy

policy choices we make today are among the most important and far reaching policy decisions we will make in the 21st century.

"We have a once in a lifetime opportunity to reshape, realign and reorder the world's energy market and improve domestic prosperity to an unprecedented degree," Gerard said. "But only if we get our nation's energy policy right today."

Here are some highlights of the report, which was compiled for API by IHS.

- Lower natural gas prices are predicted to increase industrial output by 2.8 percent by 2015 and by 3.9 percent by 2025, according to IHS.
- The oil and natural gas sector supports approximately 529,000 U.S. jobs, according to the report.
- The oil and natural gas industry pays

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approximately \$85 million a day to the U.S. Treasury in taxes, royalties and other fees, according to the report.

- Economies in numerous states are benefiting from oil and natural gas operations, including Pennsylvania, Texas, Louisiana and North Dakota. In 2012 alone, more than 38,000 Ohio jobs were supported by unconventional oil and natural gas activity.

- IHS estimates that capital spending in oil and gas midstream and downstream infrastructure has increased by 60 percent between 2010 and 2013, from \$56.3 billion to \$89.6 billion. This increase in capital spending has provided both an economic stimulus and shows how shale driven oil and gas production is reshaping the U.S. oil and gas infrastructure landscape.

- The IHS forecast of oil and gas infrastructure investment over the next 12 years (2014 – 2025) estimates a cumulative spending of \$890 billion (in 2012 dollars) in the base case, and \$1.15 trillion in the high production case.

- Lower natural gas prices are predicted to increase industrial output by 2.8% by 2015 and by 3.9 percent by 2025, according to IHS.

- The oil and natural gas sector supports approximately 529,000 U.S. jobs, according to the report.

- The oil and natural gas industry pays approximately \$85 million a day to the U.S. Treasury in taxes, royalties and other fees, according to the report.

The report also highlighted the Keystone XL pipeline project, which

has not been approved by the Obama State Department. The completed pipeline would be able to transport up to 830,000 barrels of oil daily from Canada and U.S. Bakken Shale formation to U.S. refineries – more than 90 percent of what the U.S. imported from Venezuela in 2012.

The report also noted the limited access for oil and natural gas production on federal lands. Approximately 87 percent of offshore areas controlled by the government are off limits to development and production.

The number of drilling permits issued on federal lands declined by 36 percent between FY2008 and FY2012, and the number of wells drilled fell by 40 percent during that time, according to the U.S. Department of Interior.

The wait for a federal drilling permit averaged 228 days in 2012 compared to 10 days for a state permit in North Dakota or 14 days in Ohio, the report stated.

“To fully realize the opportunities of this new energy future, we must make the deliberate choice to take greater advantage of our oil and natural gas resources and ensure our ability to refine these resources,” the report’s conclusion stated. “We must build the facilities and infrastructure needed to bring fuels, natural gas, and other petroleum products to market.

“North America’s energy resources are bountiful,” the conclusion stated. “The benefits of unlocking them flow throughout all sectors of our economy and to families in every state,” the report’s conclusion stated.

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## CRUDE OIL SPILLS ARE BIGGER FROM TRAINS THAN PIPELINES

The flaming wreckage of a derailed train carrying crude in northern New Brunswick once again calls into question the safest way to transport crude oil across Canada.

A Global News analysis found that train spills in transit are larger than those from pipelines. And trucks, though they have a higher rate of accidents, tend to spill much less.

The Transport Canada database doesn't include the most recent train accidents that have gripped the country – notably Lac-Mégantic and Plaster Rock, NB. But it shows three major train accidents that spilled tens of thousands of litres of crude while in transit.

Although the train accidents tend to be large, they are less frequent than those from trucks or pipelines, according to Global News' calculations.

The two recent train explosions were also quite unique in recent Canadian history. According to the data, Lac Mégantic was the first explosion of train cars carrying crude oil since 2006.

Between January 1, 2006 and June 30, 2013, almost one third of all dangerous goods accidents on rail or road involved crude oil – much more than any other substance. But most of the 1,556 accidents in this time period happened while the vehicle was being loaded or unloaded; 645, or 41 per cent, happened in transit.

Shifting modes of transit “The preference is pipelines,” said

Graham White, spokesperson for Enbridge, the company behind the Northern Gateway project – a pipeline that would take crude from Alberta to Kitimat, BC and got a federal review panel's stamp of approval late last year.

Because pipelines are underground, White said, they're not subject to traffic and weather conditions, the volume is easily controlled and the flow is continuous.

They're also cheaper: \$5 to \$9 per barrel of oil through a pipeline, compared to \$10 to \$20 per barrel

by train, he said. Jessica Wilkinson, spokesperson for oilsands producer Cenovus, gave similar figures: \$7 to \$10 per barrel by pipeline versus \$15 to \$18 by train.

Oil companies' preference may be pipelines, but the volume of oil shipped by train has grown exponentially over the past few years, according to Transport Canada: 4.3 million metric tonnes of crude oil and bitumen were transported in 2012, up from 375,000 the year before.

In the third quarter of 2013, Cenovus produced, on average,

almost 177,000 barrels of oil a day, and transported fewer than 10,000 barrels a day by train. But the company hopes to triple that amount by the end of 2014.

CN Rail says it moved approximately 30,000 carloads of crude oil in 2012, and double that in 2013; the company aims to double the number of carloads again over the next two years.

But it may have to prove its cargo's safety first.

CN CEO Claude Mongeau told reporters Wednesday the continuing fire at the derailment site in New

Brunswick was "very controlled."

"We don't have a lot of information, we are assessing as we speak," he said, adding that the environmental impact "hopefully will be manageable." But the fire's a priority for now.

"We have the equipment, we have the people and we have all the procedures in place to deal with it in a safe manner."

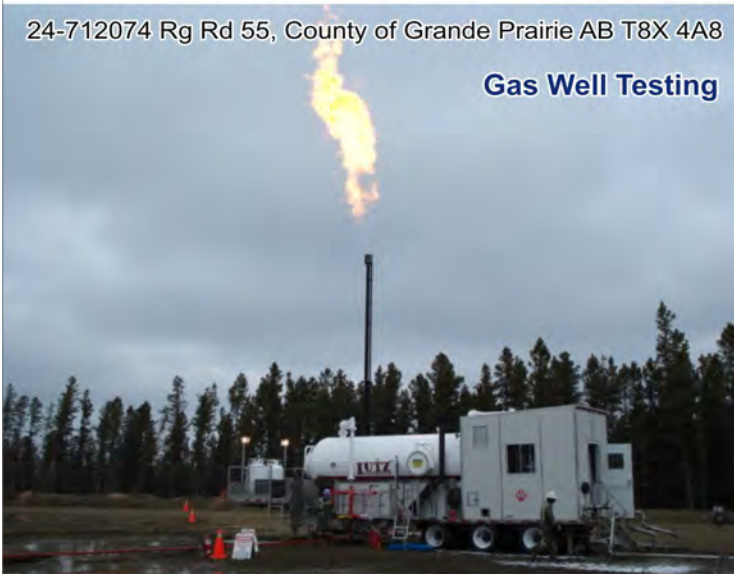
"Railways complement the existing pipeline infrastructure and they are just as safe and as environmentally sustainable as pipelines in moving energy to market," CN spokesperson



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Mark Hallman wrote in an email. "Roughly 99.998 per cent of hazardous material carloads moving by rail arrive at their destination without a release caused by an accident." The biggest pipeline accidents, including one in 1980 in Alberta where 6.5 million litres of crude were spilled, dwarf the biggest train accidents. The largest spill of crude oil from a train (between January 1, 2006 and June 30, 2013) was 90,000 litres on May 21, 2013. But the average train spill in transit is far larger than the

average in-transit pipeline spill. And pipelines spill more often. New rules, old risks? In the wake of Lac-Mégantic's fatal derailment, Transport Canada put a new rule in place requiring trains carrying dangerous goods not be left unattended. For the most part, though, new regulations seem focused on mitigating the effects of an incident after it happens. Rail companies are, as of October 17, required to tell municipalities at least once a year

of any dangerous goods passing through. And Raitt told the Globe and Mail she'd reclassify crude oil as a "highly dangerous substance," which would require rail companies to prepare emergency response plans, including specially-trained response teams along the route. "[Finding out] six months later what kind of products are transiting our city, it's good for the training, it's good for the evacuation plan," said Claude Dauphin, President of the Federation of Canadian Municipalities. "But it doesn't help too much for

the response if anything happens." Transport Canada says it inspects companies transporting dangerous goods by air, ship and train "regularly" and performed 6,130 dangerous goods inspections between January 1, 2009 and December 31, 2012, looking at goods classification, means of containment, training, safety markings, documentation and reporting. Although the Transport of Dangerous Goods Act also applies to trucks, provinces are responsible for inspecting road vehicles. So what is the safest way to move oil?



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Redefining Industry Standards

Some argue that's the wrong question. "I think the real question is, 'Should we be moving more oil, period?'" said Barry Robinson, a staff lawyer with the environmental group Ecojustice. "That's the question Canadians haven't answered yet: Given the impacts we have on water, and air and wildlife at 2 million barrels per day in the oilsands, do we really want to go from 2 million to 5 million barrels a day? And if we don't, then we don't need all this rail and pipeline infrastructure." He says asking whether oil

should be shipped by rail, pipeline or truck is a false dichotomy. "That's the discussion that the oil and gas industry wants to have. The oil and gas industry doesn't want to discuss whether or not they should be producing. They just want to have a discussion about how to move this."

**CANADIAN NATURAL RESOURCES CALLS OFF HUNT FOR MONTNEY SHALE DEAL**

Canadian Natural Resources Ltd. is calling off its hunt for a buyer

or partner in the natural gas-rich Montney region of northeastern British Columbia, opting instead to keep its vast resource base there. The oil and gas producer (TSX:CNO) said it had received "a number of expressions of interest" in the assets since putting them on the market early last year, but none were good enough to merit a deal. "As such, the company has elected to retain the acreage, maintaining one of the largest Montney land positions in Western Canada with over one million net acres," CNO

said in a statement Thursday. The company announced last March it was looking a sale or joint-venture deal for the assets, which are in a part of northeastern B.C. that contains huge reserves of natural gas within shale rock formations. It was seen as a bit of a departure for a company that has traditionally preferred to operate its assets solo rather than team up with other players. CNO said third-party evaluators estimate the company's Montney lands contain about 6.7 trillion cubic feet of gas, one of the largest

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reserve holdings in Western Canada. A number of other major energy companies have also been shopping around their land and infrastructure amid a period of low commodity prices — resulting in a crowded market.

"It's been difficult and it will continue to be difficult for the foreseeable future," said Clinton Roberts, Alberta deals leader for financial services and consulting firm PwC in Calgary.

Natural gas prices in Western Canada are expected to remain under \$5 per 1,000 cubic feet for the next three to five years, he said.

Buyers are still interested in snapping

up natural gas assets — just not at the price sellers are hoping to get.

For producers of oil looking to sell, it's a much brighter picture, said Roberts.

"There's less of a price gap between buyers and sellers. So on the oil side, we still think there's deals to be done," he said.

"It's just the gas market will continue to be challenged for the near term."

Barry Munro, who leads EY's Canadian oil and gas practice, said would-be buyers may hold off until it's clear B.C. natural gas can be shipped across the Pacific, in liquid form, to Asian markets ravenous for energy.

"Until they're confident that there's going to be a viable Canadian LNG marketplace, some guys don't want to be long on gas," he said.

Federal foreign investment rules introduced in late 2012 — following takeover bids for Nexen Inc. and Progress Energy by Chinese and Malaysian state interests, respectively — may also kept some buyers on the sidelines.

Although those rules were meant to limit foreign ownership in the oilsands, many international companies still have a "great number of questions" when it comes to whether their plays for other types of resources will be embraced.

"Most definitely the Canadian investment rules have caused foreign buyers to look at Canada cautiously as they try to understand the regulatory environment and what that means," Munro said.

Some deals may have also failed to materialize because joint venture partners don't see eye to eye on the pace of spending to develop their resources, he added.

In November, Talisman Energy Inc. (TSX:TLM) — under pressure from investors to pare its holdings — managed to sign a \$1.5-billion deal with the Canadian unit of Malaysia's Petronas for its Montney gas holdings.

Progress Energy Canada Ltd. will be buying more than 51,000 net hectares of land in the Farrell Creek and Cypress areas of the Montney that Talisman owns through a 50-50 partnership with South Africa's Sasol. The all-cash deal also includes interests in wells, pipelines and processing plants.

If the deal closes as planned and Sasol doesn't exercise its right of first refusal for the assets, the Malaysian and South African companies would be partners in the Montney.

Petronas, which acquired Calgary-based gas producer Progress in late 2012, has said it intends to invest up to \$11 billion in a liquefied natural gas export terminal near Prince Rupert, B.C., where the natural gas will be chilled into a liquid state and sent to lucrative overseas markets by tanker.

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