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DOMESTICS LEAD CANADA OIL-PATCH DEALS AS STATE CASH FADES

Domestic oil and natural gas producers are behind the best annual start in at least a decade for Canadian energy deals as companies such as Canadian Natural Resources Ltd. fill a void left by state-owned firms.

Announced oil and gas deals involving Canadian companies amount to $6.4 billion this year, according to data compiled by Bloomberg. Deals slumped to just $634.3 million over the first two months of last year after rising in 2012 when China's Cnooc Ltd. (883) announced its $15.1 billion purchase of Nexen Inc.

Mergers are rebounding because the pull-back by Asian state-owned firms has made assets more affordable, while gains in Canadian energy stocks have given domestic buyers more confidence to make deals.

"The difference today is we are seeing the ability of the Canadian producers to compete, which wasn't the case a year ago," said Nicholas Johnson, managing director of corporate finance at FirstEnergy Capital Corp., a Calgary-based investment bank. He called deal sentiment "optimistic" in Canada. "We're also continuing to see private equity active," he said.

National oil companies began focusing on lifting profits over making more acquisitions just as Canadian Prime Minister Stephen Harper vowed in 2012 to block further sales of oil-sands assets to state-owned firms after approving the Nexen deal. The reduction of investment by state-owned companies helped push deal activity to the lowest in a decade in 2013, Bloomberg data show.

Cheaper Deals

Meanwhile, acquisitions are becoming cheaper for the largest Canadian energy companies as optimism returns to the industry, buoying stocks. Canada's S&P/TSX Energy Index, made up of the nation's largest energy companies, has gained

3.5 percent this year, compared with a decline of 2.5 percent on the S&P 500 Energy Index in the U.S.

As trains carry more crude, pipeline bottlenecks are easing, boosting spot prices for Canada's heavy oil 52 percent from a November low. Calgary-based gas producers are also gaining on a price surge for the heating fuel, which hit a five-year high in New York last week as winter storms swept the continent.

"It seems as if there's movement on the infrastructure story and the commodity price is hanging on, giving people optimism," said John Stephenson, a portfolio manager at First Asset Investment Management Inc. in Toronto. "You've had this go-nowhere deal flow and now that logjam is being broken."

February Deals

Two deals this month are sparking optimism among bankers and analysts for additional takeovers in Canada's energy industry this year. Canadian Natural agreed to pay C$3.13 billion ($2.8 billion)for Devon Energy Corp's mostly gas-producing conventional assets in Canada, and Baytex Energy Corp agreed to buy Australian producer Aurora Oil & Gas Ltd. for C$1.8 billion to gain light oil output in the Eagle Ford shale formation of Texas.

Canadian Natural and Baytex would have previously been outbid by national oil companies, or NOCs, said Chris Cox, an analyst at Raymond James Ltd. in Calgary. Devon's assets fit better with China Petrochemical Corp.'s Canadian unit and the Eagle Ford has been the playground of national oil companies, he said.

"The fact that they weren't able to come in suggests that NOC buyers are really sitting on the sidelines in standstill at the moment," Cox said.

'Very Savvy'

The Canadian Natural acquisition shows there are "very savvy" buyers in Canada "even of a scale that we have not seen for a number of years," Robert Pare, an analyst at Clarus Securities Inc. in Calgary, said in an e-mail.

Tourmaline Oil Corp Kelt Exploration Ltd., Crescent Point Energy Corp. and Whitecap Resources Inc. are some of the "names that have the ability to create significant Shareholder value from acquisitions," Pare said. Suncor Energy Inc. may be a buyer in the oil sands, he said.

"We are definitely looking at assets," Kelt Exploration CEO David Wilson said by phone yesterday. "We have made acquisitions and will make some more."

Whitecap CEO Grant Fagerheim didn't respond to requests for comment, nor did Crescent Point spokesman Trent Stangl or Scott Kirker, general counsel at Tourmaline.

Private-equity buyers may also look to step into the void left by national oil companies. New York-based KKR & Co. is opening a Calgary office, following its C$250 million investment in Calgary-based Torq Energy Logistics Ltd. in December.

"Yes, we are looking at opportunities," Kristi Huller, a KKR spokeswoman, said via e-mail yesterday.

Private Equity

Encana Corp, the largest Canadian gas producer, is betting on interest from private-equity firms as it tests the market for asset sales, according to CEO Doug Suttles. Encana hired Royal Bank of Canada to sell its Bighorn properties in Alberta, people familiar with the process said. The assets may attract bids of C$2 billion to C$4 billion, according to Cormark Securities Inc.

"Probably the biggest shift is that there is a lot of private equity focus in the industry right now," Suttles said in a Feb. 13 interview. "I'm sure they would be interested in some of the assets we have."

The Encana properties are among a glut of energy assets producing the equivalent of about 300,000 barrels of oil a day that are publicly or privately for sale, said Sandy Edmonstone, executive director of oil and gas at Macquarie Group Ltd.'s investment-banking division in Calgary.

While "cautiously optimistic" for a better year for deals than 2013, higher oil and gas prices may cause sellers to hold out for bigger offers, Edmonstone said. "As commodity prices go up, expectations go up and there's always this gap," he said.

The purchases by Canadian Natural and Baytex show "transactions are getting done and valuations are reasonable," said Stephenson at First Asset. "It may be too early to ring the bell and say the salad days are back but it's definitely encouraging."

CANADIAN NATIONAL RAISES RATES FOR USING OLDER OIL TANK CARS

Canadian National Railway is charging shippers more to transport crude oil in older tank cars, one of the first signs that rail operators are actively discouraging use of the type of cars involved in several dramatic explosions.

Confirmation of a tiered fee structure for different models of tank cars comes amid intensified scrutiny on the safety of shipping volatile light crudes by rail, spurred by a series of explosions including the Lac-Megantic disaster last summer, in which a runaway crude train exploded in the center of a Quebec town, killing 47 people.

Railroads, shippers and regulators across North America have acknowledged that older DOT-111s tank cars, manufactured before higher standards were adopted in 2011, often fail during accidents, making them more likely to spill their cargo and catch fire.

While new rules to upgrade or phase out cars are under consideration, it may be months if not years before they come fully into effect, frustrating many rail companies that often deal with the public fallout and potentially repair costs.

"CN has structured its rates to create an economic incentive for customers to acquire, over time, more robust tank cars that meet the higher safety standard of the more recent CPC 1232 design," said Mark Hallman, spokesman for CN, Canada's biggest railway and a major player in the oil-rail trend.

On Monday, CN chief marketing officer J.J. Ruest said in a presentation: "What we do to help ourself is we price crude differently for different car types. ... The CPC-1232 is our favorite car when it comes to pricing or attracting business."

The CPC 1232 design refers to a circular issued by the American Association of Railroads requiring all crude- and ethanol-carrying cars ordered after October 2011 to have enhanced safety features, including reinforced outer shells and protective shields.

Hallman declined to comment on the specifics of the rates. A source at a Canadian midstream company said CN was charging up to 5 percent additional freight costs on some DOT-111 cars.

A second source said they were aware that CN had added a charge in January, shortly after a December 30 derailment in which a 106-car BNSF Railway Co train carrying Bakken oil crashed into a derailed grain train and burst into flames.

The shipper said the additional charge could affect the economics of the booming oil-by-rail trade, which has shifted from a tiny niche four years ago to a mainstream method of moving crude from areas ill-served by pipelines, such as the remote Bakken fields and, increasingly, Canada's oil sands.

He added that there was some dissatisfaction among shippers who felt the extra fee, which will have a material impact on the crude-by-rail cost structure, had not been properly explained and suspected it could simply be a cash grab.

Hallman said the economic incentive for customers to use safer cars applied to all CN routes but declined to say what the rates now were for DOT-111 cars or when the changes were introduced.

NEW RULES, BUT WHEN

CN has supported an American Association of Railroads recommendation calling for the retrofitting or phase-out of the old DOT-111 cars and reinforced standards for new tank cars built in the future.

Crude-by-rail loadings have ramped up rapidly in Canada over the last 12 months as producers desperately seek alternatives to congested pipelines in order to avoid deep discounts of their crude.

But traders in Canada's oil capital Calgary frequently grumble about the rates charged by the railroads, arguing unreasonably high costs will prevent crude-by-rail from becoming a viable long-term alternative to pipelines.

Thus far, there is no evidence that other shippers are following suit, although traders are concerned CN may set a precedent that is quickly followed.

Canadian Pacific Railway spokesman Ed Greenberg declined to comment on whether CP was charging different rates for older railcars.

"We are discussing rate structures with our customers as we work directly with them," he said.

Among U.S. railroads, Kansas City Southern said it does not currently charge shippers more to use pre-2011 DOT-111 tank cars, according to a company spokesperson.

CSX Corp said it had no comment on another company's pricing decisions and declined to say whether they would charge more for older tank cars.

RIG RELEASES AND METRES DRILLED RISE IN 2013

Operators across Canada rig released 11,102 wells in 2013, up one per cent from 10,984 wells drilled the prior year.

Overall metres drilled increased by 3.64 per cent to 22.9 million metres from 22.1 million metres in 2012, as producers continued to shift to the use of longer horizontal wells to drain pools.

In western and northern Canada, the average depth/length per well was a record 2,144 metres last year, up 4.08 per cent from 2,060 metres in 2012.

During 2013, operators continued to emphasize development drilling, with 20.13 million metres drilled across the country, up from 19.14 million metres the prior year.

The biggest growth areas for Petroleum Services Association of Canada zones in the West—ranked by increased metres drilled, excluding test wells—were in Southwestern Saskatchewan (up 583,857 metres year over year), the Foothills Front (up 499,045 metres) and Northern British Columbia (up 381,327 metres).

On a percentage increase basis, Southwestern Saskatchewan led the way with a 36.56 per cent increase to 2.18 million metres in 2013, followed by Northern British Columbia (up 21.12 per cent to 2.19 million metres) and Northeastern Alberta (up 18.11 per cent to 2.22 million metres).

Overall, the industry drilled 1,068 exploratory wells in Canada last year, down about 14 per cent from the 1,247 wells drilled the prior year. On a year-over-year basis, exploratory drilling declined in all four western provinces, although

Saskatchewan's count of 463 exploratory wells in 2013 was close to the prior year's count of 467.

Many of the wells drilled last year are still under confidential status, but of those reporting status, about 77.39 per cent were listed as oil or bitumen wells. That compared to 77.19 per cent listed as oil or bitumen wells in 2012.

Meanwhile, 13.58 per cent of the wells with a reporting status were listed as gas wells, up slightly from 13.49 per cent in 2012.

By province, Alberta rig released 6,598 wells in 2013, a decrease of 1.54 per cent from 6,701 wells drilled in 2012. By metres drilled, the province rig released 13.99 million metres compared to 13.92 million metres the previous year (an increase of about 0.5 per cent). There were 4,649 wells drilled with a target of oil or bitumen (off from 4,974 the prior year), while 1,224 wells had gas or coalbed methane as an objective (compared to 1,101 the previous year).

Operators in Saskatchewan drilled 3,375 wells during 2013, up 6.77 per cent from 3,161 wells the prior year. Metres drilled increased by 8.9 per cent to 5.63 million metres from 5.17 million metres in 2012. There were 3,248 wells drilled with oil as an objective compared to 3,013 in 2012.

British Columbia recorded the largest year-over-year percentage increase in wells drilled. Operators drilled 563 wells over the course of 2013, up 18.03 per cent from 477 rig releases the previous year. Metres drilled increased to 2.19 million metres from 1.81 million metres (up 21.12 per cent).

Manitoba operators drilled 535 wells last year, down from a record 615 in 2012. Metres drilled slumped to 1.01 million metres in 2013 from 1.15 million metres the previous year.

WINTER WEIGHTS START TO END MARCH 1ST

Winter weight season ends on some Saskatchewan highways as of March 1.

"Roads are less prone to damage from heavier loads when they are frozen in the winter, so we allow truckers and shippers to realize the cost savings that come with heavier legal weights," Highways and Infrastructure Minister Don McMorris said. "As roads begin to thaw and are most prone to damage, however, our focus turns to protecting our investment in highways."

Winter weights have been in effect since December. These will start being removed at 12:01 a.m. March 1. Weight restriction orders around winter weights are published online at www.saskatchewan.ca under the "New Winter Order" link. Regularly scheduled updates of the winter restriction orders will be provided every Tuesday and Friday by 12:30 p.m. until March 15 when winter weights are no longer in effect.

The freeze period during winter strengthens the road and supports heavier truck loads, providing shippers an opportunity to transport heavier loads during the colder winter months. Typically, these winter weights run from mid-November through mid-March.

Shippers should also be aware of upcoming spring road bans and follow weight limits on secondary roads during this most fragile six-week thaw period.

Truckers can see the latest road restriction orders and related information online at www.saskatchewan.ca or by calling the Highway Hotline across Canada at 1-888-335-7623. Technical and regulatory information is also available from Commercial Vehicle Enforcement at 1-866-933-5290, weekdays from 8:30 a.m. to 4:30 p.m., except stat holidays.

DELIVERIES BEGIN ON TRANSCANADA GULF COAST PIPELINE

TransCanada Corporation's US$2.3-billion Gulf Coast project began deliveries on January 23 to Texas refineries, providing the first direct link for Canadian producers to the U.S. Gulf Coast.

"This announcement is a very important milestone for TransCanada, our customers, the workers and the companies that helped build the pipeline and for energy security in the United States," says Russ Girling, TransCanada president and chief executive officer. "This is a huge step forward."

The 36-inch pipeline from Cushing, Okla., to Nederland, Texas, in the Port Arthur area, will initially transport about 300,000 barrels per day and then ramp up during the year, transporting a forecast 520,000 barrels per day in 2014, according to Alex Pourbaix, president of energy and oil pipelines. For linefill, TransCanada injected 3.1 million barrels of domestic crude obtained in the Cushing area.

The Gulf Coast pipeline is expected to ship a mix of Canadian and U.S. light and heavy oils. However, once Keystone XL is in operation, the majority of the volume will likely be Canadian, along with 100,000 barrels per day from the Bakken and 250,000 barrels per day from Cushing to the Gulf.

Initial pipeline capacity is 700,000 barrels per day, but that can be increased to 830,000 barrels per day relatively inexpensively with the addition of pumping stations. As markets sort themselves out, Girling expects more heavy crude will move on the pipeline as light crudes move to the Eastern Seaboard.

It's difficult to estimate how many Canadian barrels will get to the Gulf with only the Gulf Coast project in operation. At present, about 50,000 barrels per day from Canada gets to the Gulf, but it's impossible to say how they are getting there, Girling explains. About 530,000 barrels per day of crude is moved on the base Keystone project from Canada.

The 77-kilometre Houston Lateral Project is also under development to transport crude oil to refineries in the Houston area. All permissions necessary to the project are in place and construction is underway.

With the Gulf Coast line in place, TransCanada will continue to focus on obtaining U.S. presidential approval for the U.S. segment of Keystone XL from the American border to Steele City, Neb., the last remaining quarter of the Keystone system.

The system's initial segment has already delivered more than 500 million barrels of crude safely to Cushing, according to the company. However, the Gulf Coast line "should provide the base underpinning and evidence that the Keystone XL at the end of the day is just another piece of energy infrastructure, is just a pipeline, and that it can be built and operated safely," Girling says.

However, Girling also warns the five-year delay in Keystone XL approval will result in a material increase in the initial $4-billion cost, although it is not yet ready to release that figure. The company, which has a cost-sharing agreement with its shippers, is currently in discussions with them about how the additional costs will be allocated.

Girling also rejects suggestions by some Keystone XL opponents that Canadian crude shipped to the Gulf will then be exported. The idea makes absolutely no economic sense at a time when U.S. refiners will still need to import about four million barrels per day, he says.

ENBRIDGE PIPELINE JOINS KEYSTONE XL IN WAIT FOR US PERMIT

A second Canadian pipeline project to the United States is now facing delays as operator Enbridge Inc. awaits a U.S. presidential permit, a development that may strain prices for Alberta oil sands crude and relations between the two countries.

Enbridge, Canada's largest pipeline company, said it no longer expects to get the permit amendment it needs to expand its Alberta Clipper line in time to start pumping extra oil on it at midyear as it had planned. It applied for the permit in November 2012.

"Based on where we see things at the moment and over the last few weeks, we feel the permit amendment will take longer than midyear issuance that we had expected," Enbridge Chief Executive

Al Monaco said on a conference call. "That being said, we are undertaking some temporary system optimization efforts that pretty much mitigate any impact on throughput."

Enbridge's plan to increase capacity on its existing Clipper line by 120,000 barrels per day in the initial stage is a far smaller project than rival TransCanada Corp.'s controversial Keystone XL oil pipeline from the oil sands to the U.S. Gulf Coast.

But it has recently started to face opposition from environmental groups that hope that blocking exports will slow expansion of the oil sands, where they say production is carbon-intensive.

In Washington, an official at the State Department said the delay is procedural, not political. The original contractor who was to conduct the necessary environmental impact study withdrew, and a search for another contractor is underway, the official said.

Enbridge said it can tweak its massive mainline system, which delivers the bulk of Canada's oil exports to the United States, to handle additional shipments until it has the permit in hand.

But a lengthy delay could further pressure Canadian crude prices, which trade at a discount to U.S. grades, as rising production of crude from the oil sands is running up against limited pipeline capacity. That discount stood at $25.25 below the U.S. West Texas Intermediate benchmark price on Friday.

It could also further strain relations between the two nations, with Canada already lobbying Washington heavily to reject the appeals of environmental groups and approve Keystone XL, a move that Canadian Prime Minister Stephen Harper said is "a no-brainer".

However, opponents of the two projects again called for the U.S. administration to refuse approvals.

"Secretary of State (John) Kerry and President (Barack) Obama can determine the fate of future tar sands expansion and of our climate by holding true to President Obama's own climate protection test and denying the Keystone XL and Alberta Clipper pipelines," Jim Murphy, senior counsel at the National Wildlife Federation, said in a statement.

Enbridge is no longer saying when it expects to get the go-ahead for the project, which involves adding pumping capacity to the existing Alberta Clipper line, which now carries 450,000 barrels per day (bpd) from Hardisty, Alberta, to Superior, Wis.

TransCanada has waited more than five years for the Obama administration to decide if it will approve the Keystone XL project. Analysts, however, don't expect Enbridge's expansion to attract the same level of attention from opponents that Keystone XL has received.

"There's nothing that's getting us as concerned as we are with other projects such as Keystone," said David McColl, an analyst at Morningstar. "Enbridge's projects have managed to avoid the same level of activist scrutiny."

Enbridge wants to expand the Alberta Clipper line to be able to handle 800,000 barrels per day so that it can move rising volumes of crude from the Alberta oil sands. It had expected the first phase of the expansion to be complete at midyear, while a second, 230,000 bpd, phase had been scheduled to be wrapped up next year.

The company said it can handle the additional crude expected for the initial phase by adding chemicals that reduce drag, allowing more oil to be shipped on existing lines, and through other measures until it has the permit in hand.

OPEC SEES STRONGER 2014 OIL DEMAND GROWTH

World oil demand will rise slightly more than expected in 2014, OPEC said on Wednesday, becoming the second major forecaster this week to predict higher fuel use as economic growth picks up in Europe and the United States.

The Organization of the Petroleum Exporting Countries, in a monthly report, said global demand will rise by 1.09 million barrels per day (bpd) this year, up about 40,000 bpd from its previous forecast. It also saw potential for further rises due to a stronger outlook for developed OECD economies.

OPEC left the forecast for average demand for its crude in 2014 virtually unchanged at 29.60 million bpd, as the higher demand would be offset by an increased supply forecast from countries outside the group.

On Tuesday, the U.S. government's Energy Information Administration raised its 2014 world oil demand growth forecast by a similar increment to OPEC.