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TRANSCANADA LOOKS TO SHIP OIL TO U.S. BY RAIL AMID KEYSTONE XL DELAYS

Calgary-based company has waited more than 5 years for the Obama administration to make a decision

TransCanada is in talks with customers about shipping Canadian crude to the United States by rail as an alternative to its Keystone XL pipeline project that has been mired in political delays, according to company president and CEO Russ Girling.

“We are absolutely considering a rail option,” Girling told Reuters on the sidelines of a conference in New York Wednesday. “Our customers have needed to wait for several years, so we’re in discussions now with them over the rail option.”

The comments are the first to confirm growing speculation that TransCanada might use more costly and controversial railway shipments as a stopgap alternative to the Keystone XL pipeline, whose approval has been delayed by the U.S. government.

Girling said the firm was exploring shipping crude by rail from Hardisty in Canada, the main storage and pipeline hub, to Steele City, Neb., where it would flow into an existing pipeline to the Gulf refining hub.

5-year wait

TransCanada has waited more than five years for the Obama administration to make a decision on the $5.4-billion project, which would carry up to 830,000 barrels per day of crude from the oilsands of northern Alberta to the U.S. Gulf Coast.

While the project has received a mostly favourable environmental report, the State Department last month delayed a decision beyond the mid-term elections in November while a legal dispute over the line’s route in Nebraska is settled.

The pipeline has drawn sharp criticism from environmental groups who say it will fuel more production of Canada’s energy-intensive oilsands.

But the oil-by-rail movement has also come under scrutiny after a series of explosive derailments, including the one in Lac-Megantic, Que., last summer that killed 47.

Opposition fuelling opportunity

“It’s an irony that the adamant

opposition of environmental organizations and others against oilsands-derived crude have actually created a phenomenal opportunity for rail to pick up the slack," said David McColl, an analyst at Morningstar, Inc.

The line has the backing of the Canadian government and conservative Prime Minister Stephen Harper called the project "a no-brainer." Canada is counting on new export lines to boost discounted oil prices in the country and accommodate rising production from the oilsands.

Demand to ship crude by rail has gathered pace in Canada as producers scramble for alternatives to congested export pipelines.

Canadian crude-by-rail exports jumped to 146,047 bpd in the last quarter of 2013, an 83-per cent year-on-year surge, according to the National Energy Board.

'Pipelines are more energy efficient'

Canada's ambassador to the United States is urging people who care about the environment to support the proposed Keystone XL pipeline.

Gary Doer spoke last night in Calgary at an awards banquet for the Canadian Association of Petroleum Producers (CAPP).

Doer argues without the pipeline, more oil will be shipped by rail — which he says produces more greenhouse gases (GHGs).

"Pipelines are more energy efficient. Energy efficiency is the No. 1 priority for environmental policy on climate change. I wouldn't want higher GHGs, higher risk and higher costs if I was an American. This is not good for the United States," he said.

Crude-by-rail boom

With Keystone XL and a number of other new pipelines projects mired in regulatory delay and environmental opposition, the crude-by-rail boom shows little sign of slowing.

Jarrett Zielinski, chief executive officer of TORQ Transloading — which is building Canada's largest unit train terminal in Kerrobert, Sask., said TransCanada would need to load at least roughly nine unit trains per day to rival the takeaway capacity of Keystone XL, if they were to load raw bitumen.

Zielinski said that much extra crude travelling on Canada's rails, in addition to the new rail loading projects already underway, could strain the system.

"The rail network would need more infrastructure and people," he said. "It's my fear that the current rail infrastructure would be insufficient, although it could be scaled up quickly."

CAPP reaction

The president of the Canadian Association of Petroleum Producers (CAPP) says using rail is a good stopgap measure until the Keystone XL pipeline is approved.

"We expect to see pipeline growth, but rail is important in the near term," said Dave Collyer.

He says CAPP will release its production and transportation outlook for the year next month.

"What it will show is rail is an important interim transportation solution to accommodate the growth and production we foresee," Collyer said.

He says pipelines are still the best in the long term, but until that happens he says rail is a choice that must be considered.

U.S. IMPOSES NEW CONDITIONS ON KEYSTONE PIPELINE CONSTRUCTION

Safety regulators have quietly placed two extra conditions on construction of TransCanada Corp.'s (TSX:TRP) Keystone XL oil pipeline after learning of potentially dangerous defects involving the southern leg of the Canada-to-Texas project.

The defects – high rates of bad welds, dented pipe and damaged pipeline coating – have been fixed. But the federal Pipeline and Hazardous Materials Safety Administration wants to make sure similar problems don't occur during construction of the pipeline's controversial northern segment, which is on hold pending a decision by the Obama administration.

One condition requires TransCanada to hire a third-party contractor chosen by the pipeline safety agency to monitor the construction and make reports to the safety administration on whether the work is sound.

The second requires TransCanada to adopt a quality management program to ensure "this pipeline is – from the beginning – built to the highest standards by both Keystone personnel and its many contractors."

The conditions are buried near the end of the 26 appendices in a voluminous environmental impact statement on Keystone XL released by the State Department on Jan. 31.

Most of Appendix Z is devoted to 57 well-known "special conditions" that TransCanada agreed to three years ago. But conditions 58 and 59 are listed on an additional page.

"Everybody looked at that appendix and said, 'Oh, 57 conditions. Move on.' Well, there are a couple more there," energy analyst Kevin Book said. "They just added them without saying anything."

The new conditions were added four months after the pipeline safety agency sent TransCanada two warning letters last year about defects and other construction problems on the Keystone Gulf Coast Pipeline, which extends from Oklahoma to the Texas Gulf Coast.

"From the start of welding, TransCanada experienced a high weld rejection rate," said one letter dated Sept. 26. Over 72 per cent of welds required repairs during one week. In another week, TransCanada stopped welding work after 205 of 425 welds required repair.

Inspections by the safety agency found TransCanada wasn't using approved welding procedures to connect pipes, the letter said. The company had hired welders who weren't qualified to work on the project because TransCanada used improper procedures to test them, the letter said. In order to qualify to work on a pipeline, welders must have recent experience using approved welding procedures and pass a test of their work.

The weld failure rates are "horrible," said Robert Bea, professor emeritus of civil and environmental engineering at the University of California, Berkeley. "The level of defects is indeed cause for alarm and indicative of something that is going on in the Keystone organization that isn't satisfactory."

In high-risk projects such as nuclear submarines or nuclear power plants, even one-tenth of a per cent rate of bad welds would be cause for deep concern, Bea said. He is a certified welder and was an expert consultant on the construction of the transalaska pipeline in the 1970s.

"In this case, you are talking about a pipeline that has requirements on its performance that rival those of a nuclear power plant," he said.

Another letter, dated Sept. 10, said a government inspector witnessed TransCanada officials investigating dents in pipeline that had been laid without first sufficiently clearing rock from trenches or from soil used as backfill. The same letter said coating that protects pipeline from corrosion was damaged by weld splatter because a contractor hadn't followed the company's welding procedures. Eventually, pipeline was excavated in 98 places to make coating repairs.

Dents and damaged coatings are serious defects because they can weaken pipes and lead to failures, Bea said.

Davis Sheremata, a spokesman for TransCanada, cautioned against drawing a connection between construction problems found on the southern leg between Cushing, Oklahoma, and Nederland, Texas, and conditions placed on the northern leg, which will extend from Alberta to Nebraska's southeast corner. The southern leg's problems are "a separate matter," he said in an email.

"TransCanada had identified and addressed these issues prior to any product being introduced into the pipeline and reported them voluntarily" to the government, Sheremata said. "The fact that the anomalies on the exterior of the pipe were discovered in the first place is a direct result of the 57 special safety conditions we agreed to implement on this project and Keystone XL, many of which are not required by regulation but are standard practice on all TransCanada pipeline construction projects."

But Book said the timing "would seem to suggest (the pipeline safety agency) was uncomfortable with the construction of Keystone south and that was part of their reasoning" for imposing additional conditions on the northern leg.

Damon Hill, a spokesman for the pipeline safety agency, said the additional conditions were the result of "observations in the field during construction projects from several pipeline operators over the past few years," as well as the agency's general knowledge and experience.

Keystone is intended to transport oil from Canadian tar sands to oil refineries on the Gulf Coast. Supporters say the pipeline will create thousands of jobs and aid energy independence. Environmentalists warn of possible spills and say tar sands oil is especially "dirty" and will contribute to global warming.

The project has become a major flashpoint alongside the larger debate over carbon emissions, drilling policies and tax breaks for energy companies.

The administration said in April it was putting off its decision on whether to approve the pipeline indefinitely. A decision now isn't expected until after the November elections.

GAS PRICES EXPECT TO PUSH INFLATION TO 2%

While Canadians may beg to differ, the Bank of Canada should be pleased with Friday's new inflation report that will almost certainly show consumer prices were sharply higher in April.

The consensus among economists is for the annualized consumer price index to rise half a point to two per cent, which will put it exactly at the central bank's desired target for the first time in two years – and the main reason is gasoline prices.

Analysts note the recent rise in the cost of filling up the family car has been playing an increasingly larger role in the finances of Canadians.

National Bank senior economist Krishen Rangasamy points out that Thursday's report on consumer spending for March, which showed a surprising 0.1 per cent dip from February, could in part be laid at the doorstep of the recent run-up in gas prices.

"Note that the gasoline share in total retail spending was close to record highs in the first quarter (above 13 per cent), in sharp contrast to the declining share seen south of the border," he wrote in the bank's "hot charts" section.

"The above-seasonal gasoline price increase … acted as a tax hike in Q1," he added.

According to Bank of Montreal economist Sal Guatieri's calculation, Canadians are now paying about 30 per cent more than Americans at the pump.

One reason is the weaker loonie, given that oil prices are set in U.S. dollars. Another is that eastern Canadian refineries mostly import Brent oil, which is generally more expensive than U.S. blends like West Texas Intermediate crude.

"So the approval last March by the National Energy Board of the reversal of Line 9, which would provide refineries in the East with Western Canada Select oil should be positive … for consumers, who should eventually benefit from cheaper gasoline."

But regardless of the causes, gas prices have been a major factor in the steady climb in Canada's annual inflation rate of late. As recently as October, the CPI sat at 0.7 per cent, which may have been fine for Canadians but not for the Bank of Canada, which views too-low inflation as damaging to the economy as too-high inflation.

Attaining the two per cent target won't totally satisfy the central bank, however, even if as expected it will remain there for some time.

Bank of Canada governor Stephen Poloz has already signalled that he believes inflationary pressures remain soft, and the proof is the core inflation reading, which is expected to inch north only slightly in Friday's report to 1.4 per cent.

Poloz says underlying inflation, which the core represents because it excludes volatile items such as energy and fresh fruits and vegetables, won't likely reach the sweet spot of two per cent until 2016, about the time most expect he will start hiking interest rates.

'MISCHIEF' CAUSE OF NATURAL GAS LEAK IN MOOSE JAW

Moose Jaw police are on the lookout for the culprit behind a natural gas leak that occurred early Sunday morning.

The leak was discovered at approximately 2 a.m., resulting from 'mischief' to a gas meter on Manitoba Street West.

Police and fire departments responded to the leak, along with officials from Sask Energy.

The perimeter around the leak was secured until it could be closed, without any need for evacuation.

RUMOUR OF NEW LNG TERMINAL CREATES BUZZ IN SAINT JOHN

There was a lot of buzz along the Bay of Fundy this week after foreign news reported another big project is being considered for the Saint John area.

There is speculation another LNG terminal could be constructed. The project would cost between $2 billion and $4 billion.

The current facility is an important terminal, but is not being used nearly as much as planned because North America no longer needs to import vast quantities of natural gas.

"About ten years ago, there was zero production of natural gas in the United States. A decade later, ten years later, they are the largest producer of natural gas in the world," says Colleen Mitchell of the Atlantic Centre for Energy.

"Now, North America is looking at exporting, rather than importing."

According to foreign news report, the majority owner of Canaport is considering constructing another $2-billion LNG terminal in Saint John to export natural gas.

A company statement from Canaport says it is exploring options to maximize use of the facility, but no final decisions have been made.

Officials in the construction industry are enthusiastic about the potential for jobs, but are awaiting the final decision before getting their hopes up.

"There's no doubt about it, this decision may be local as to the benefits to this geographical area, but they're based on corporate decisions that will be made a world away," says Stephen Beatteay of the Saint John Construction Association.

The company already has environmental approval to export gas from the site if the export terminal gets the green light.

NOVA SCOTIA POWER WARNS WINTER NATURAL GAS PRICE SPIKES WILL CONTINUE

Relief years away

Nova Scotia Power says the region's natural gas shortage that led to record prices this winter is likely to continue for another three or four years.

This past winter natural gas consumers were hit with record high prices in the midst of record cold temperatures.

"There appears to be both public policy and commercial interest in solving the region's supply issues, but creating long-term solutions will take time. Potential solutions appear to be three to four years away," the utility wrote in report filed this month with regulators.

The problem is a lack of pipeline capacity into New England where prices are set. The report to the Nova Scotia Utility and Review Board says Spectra Energy and Tennessee Gas Pipeline both came out with open seasons for new capacity into the region. Companies issue an "open season" to evaluate market interest in a project.

"Unfortunately, both pipeline additions and production increases tend to have very long lead times, so the volatility experienced this winter could continue for several years to come," Nova Scotia Power concluded.

Spot natural gas prices set in Boston were averaging $22 British thermal units (mmBtu) in January and February according to the U.S. Energy Information Administration.

The soaring price in New England was largely responsible for a $45-million profit made by Nova Scotia Power's sister company Emera Energy Services in the first quarter.

The New England bottleneck negated the fact that this winter had the highest flow of natural gas from offshore Nova Scotia in many years. Nova Scotia Power reduced its consumption of natural gas by 30% by switching to heavy fuel oil.

PROGRESS ENERGY CANADA AND PACIFIC NORTHWEST LNG WELCOME SECOND LNG INVESTMENT

Progress Energy Canada Ltd., Pacific NorthWest LNG Ltd. and Petroliam Nasional Berhad (PETRONAS) have signed transaction agreements whereby PetroleumBRUNEI, through its affiliates, will acquire a 3 percent interest in Progress Energy Canada's natural gas assets in northeast British Columbia and in the proposed Pacific NorthWest LNG export facility on Canada's West Coast, in the District of Port Edward. As part of the transaction, PetroleumBRUNEI has agreed to buy a 3 percent share of the liquefied natural gas (LNG) facility's production for a minimum period of 20 years.

The agreement builds upon the previously announced 10 percent partnership with JAPEX Montney

Ltd announced in April, 2013.

"This brings another strong partner and investor to our Canadian LNG business and is further evidence of Asia's burgeoning interest in securing British Columbia natural gas. We are continuing to develop our world-class Montney reserves to supply Pacific Rim consumers and expand Canadian energy trade. We look forward to adding additional partners in 2014 - a vital year for confirming the economics of our energy export initiative and helping lead Canada into the global LNG market," said Michael Culbert, President & CEO of Progress Energy Canada.

"We are pleased to welcome PetroleumBRUNEI as another important partner in our proposed LNG facility," said Greg Kist, President of Pacific NorthWest LNG. "British Columbia's abundance of natural gas, strategic location and proximity to Asian markets makes our LNG project attractive for international investment."

About Progress Energy Canada

Progress Energy Canada, a leader in Canadian natural gas development, is building upon its history of performance excellence in North America to pioneer new infrastructure for delivering LNG to Pacific Rim markets. Producing more than 350 million cubic feet equivalent of natural gas per day in northeast British Columbia and northwest Alberta, Progress is serving Canadian markets and ambitiously expanding productive capacity on its large Montney land holdings in preparation for the opening of new LNG markets in Asia. Progress is wholly owned by PETRONAS of Malaysia, a global leader in LNG and the principal owner of Vancouver-based Pacific NorthWest LNG Ltd. Progress and Pacific NorthWest LNG are helping craft a bright new future for Canada's energy exports.

CANACOL ENERGY LTD. CLOSES $125 MILLION BOUGHT DEAL EQUITY FINANCING

Canacol Energy Ltd. ("Canacol" or the "Corporation" - TSX:CNE; OTCQX:CNNEF; BVC:CNEC) is pleased to announce that it has closed a bought deal equity financing announced on May 6, 2014. The Corporation issued 15,823,000 common shares of Canacol (the "Common Shares") at a price of $7.90 per Common Share for gross proceeds of $125,001,700 (the "Offering"). The Offering was underwritten by a syndicate of underwriters led by Canaccord Genuity Corp. and including TD Securities Inc., CIBC, Cormark Securities Inc., Desjardins Securities Inc., GMP Securities L.P. and Mackie Research Capital Corporation (collectively, the Underwriters").

The Corporation granted the Underwriters an option to purchase up to 15% additional Common Shares (the "Over-Allotment Option"), exercisable for a period of 30 days following the date of closing to cover over-allotments, if any.

Canacol plans to use approximately $62.9 million of the net proceeds from the Offering to expand its calendar 2014 capital program, including two additional exploration wells and seven additional development wells on the Corporation's LLA-23 and Santa Isabel E&P contracts, while the remainder is expected to be used for future capital expenditure activities, working capital and general corporate expenses.

The securities offered have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an available exemption from the registration requirements thereof. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.