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Published By: NEWS COMMUNICATIONS since 1977

Wednesday August 6th, 2014

PAINTED PONY SEEN LURING SUITORS IN LNG RACE: CORPORATE CANADA

The race to build natural gas export terminals on Canada's Pacific Coast is inspiring another competition as producers including Painted Pony Petroleum Ltd. position themselves as potential takeover targets.

Developers of the gas-rich Montney shale that straddles Alberta and British Columbia are among the best-performing Canadian energy stocks this year, including Painted Pony, Crew Energy Inc. and Birchcliff Energy Ltd. Regulators estimate the Montney, the supply source closest to the sites of proposed LNG terminals, contains 145 years worth of Canadian gas consumption.

As oil majors from BG Group Plc to Royal Dutch Shell Plc prepare to decide on multibillion-dollar LNG facilities in Canada, the Calgary-based producers are standing out as prospective suppliers. Petroliam Nasional Bhd. plans to decide this year whether to build its terminal, one of more than a dozen being considered to ship Canadian gas to Asian markets.

"These companies are trying to clean themselves up to be the most attractive to these potential LNG players," Jeremy McCrea, an analyst at AltaCorp Capital Inc. in Calgary, said in a July 25 phone interview.

Painted Pony last month said its selling Saskatchewan oil properties to become a "pure-play" Montney producer. Cequence Energy Ltd. created a "Montney focused company," by agreeing to sell gas properties in the Ansell area of Alberta, the company said in June. Crew is trying to sell its Princess oil property in Alberta and is budgeting most of its capital spending this year on the Montney.

Top Performers

Montney-focused producers comprise three of the top five Canadian energy stocks of 2014, even as North American gas prices have fallen in recent weeks on a

cooler-than-expected summer, paring some of the gains. Painted Pony is second on the Standard & Poor's/TSX Energy Index, with a 64 percent rise this year, data compiled by Bloomberg show. Crew is third, with a 54 percent gain, and Birchcliff is fourth after surging 51 percent.

The Montney producers have been aided by advances in drilling that are making wells profitable sooner, as well as North American gas prices that have increased about 15 percent from a year ago. Companies are now recouping costs on Montney wells in less than a year in some cases, compared with 24 months previously, McCrea said.

The Montney-focused companies' best poised to be considered for a takeover, based on proximity to potential LNG plants and quality of the gas resource, are Painted Pony and Crew, McCrea said. While farther from the Pacific Coast, NuVista Energy Ltd., Advantage Oil & Gas Ltd., Birchcliff and Kelt Exploration Ltd. are also prospects, he said.

Petronas Bid

Purchases from LNG proponents in the Montney have already occurred. Petroliam Nasional, known as Petronas, acquired Progress Energy Resources Corp. in 2012 to secure a vast shale position and last year bought additional land from Talisman Energy Inc. Exxon Mobil Corp., which also is proposing an LNG terminal, acquired Celtic Exploration Ltd. last year in part for its Montney holdings.

Some of the LNG terminal proponents don't have Canadian gas assets, including BG and Woodside Petroleum Ltd.

LNG development is far from certain, with no decisions to date on whether any proposed terminals will be built.

Apache Corp. on July 31 said it would exit the Chevron Corp.-led Kitimat LNG project, the first to have received a permit to export the fuel from Canadian regulators in 2011. Apache's departure adds challenges to a project that has faced prior delays with ownership changes. Chevron said Aug. 1 that it will seek a new partner.

Three Projects

Only two or three LNG export terminals will probably be built in Canada, said John Stephenson, portfolio manager and chief executive officer of Stephenson & Co. in Toronto.

"There's no question they need more gas," Stephenson said, referring to the terminal proponents. He called it a "poorly kept secret" that some Montney producers are setting themselves up to be taken out. "Others just see it as possible upside."

There are no takeover premiums built into Montney stocks, partly because no LNG proponent has made a final decision to proceed, Birchcliff CEO

Jeffery Tonken said in an interview. Birchcliff's pitch to investors currently is that it's a low- cost producer with big production growth from consistent drilling, he said.

"We believe that down the road someone's going to try to buy the resource, no doubt," Tonken said. "But a person who invests in our company should make money just because the business is good."

The sale of Painted Pony is a probable outcome and not part of the company's business plan, CEO Patrick Ward said in an interview.

"We've met with, over the last four years, a number of LNG players," Ward said. "A lot of these projects are still a little ways off."

IMF CALLS ON CANADA, OTHERS TO RAISE CARBON TAXES

The International Monetary Fund says Canada and other countries can improve their economies and environment by hiking energy taxes – while cutting them on people and capital.

In a new book, Getting Energy Prices Right: From Principle to Practice, the IMF essentially endorses policies at times advocated by the federal Liberals and NDP calling for what some have termed a "green shift" in the taxation system. The Conservative government, however, has rejected carbon taxes.

The premise of the book is that while carbon-based energy was indispensable to economic growth over the past century, it has come with considerable costs.

The solution, the IMF says, is to tax energy to such a level that the revenue pays for energy's environment and health costs.

In a novel and rather ambitious approach, the Washington-based financial institution attempts to calculate the cost of carbon energy – coal, gas, motor diesel and natural gas – for 156 countries and proposes precise taxation levels for each country to implement.

"The results confirm that many countries – advanced, emerging, and developing – are only at base camp with regard to getting energy prices right," IMF managing director Christine Lagarde says in a foreword to the 199-page book.

For Canada, getting the price right could be a shock to the system of consumers and industry.

For instance, the IMF says gasoline should be taxed at about $US0.55 a litre instead of the current 36 cents, and road diesel at about US$0.64 per litre, instead of the current 42 cents.

The book uses U.S. currency calculations so exact numbers in Canadian dollars are not precise, but they roughly translate to a 52 per cent increase in the taxes applied to both gasoline and diesel.

Meanwhile, the IMF says there should be a US$4.90 (about C$5.34) per gigajoule tax on coal, where there is none now, and natural gas should be taxed at $2.20 (C$2.39) per gigajoule, in place of the small subsidy that currently exists. A gigajoule is a unit of energy.

In an interview, co-author Ian Parry agreed such proposals have caused a voter backlash whenever suggested, but adds that the trick is to make clear to voters that other taxes, particularly those on income, will be cut by identical amounts.

"We are not talking about increasing the overall tax burden; we are talking about a smarter more efficient way to use taxation to meet a country's fiscal objectives," he said.

Parry admitted, however, that governments haven't been very successful at communicating the "revenue neutral" message and that voters have been skeptical. One way of trying to convince people they are not being gouged is for governments to cut income taxes before introducing the added carbon charges.

As well, he said, carbon taxes should be phased in slowly to lessen shocks to the economy.

The IMF calculates phasing in the carbon taxes to the levels it suggests would increase Canada's gross domestic product by 1.4 per cent, reduce carbon emissions by 15 per cent and diminish deaths from air pollution by 25 per cent, the latter mostly from reducing coal use.

It cautions that the numbers are estimates only, based on assumptions that can be debated, but that the overall message is valid.

“Underpinning the policy recommendations is the notion that taxation can influence behaviour. In much the same way that taxes on cigarettes discourage their overuse, appropriate taxes can discourage overuse of environmentally harmful energy products,” the authors write.

On costs, the authors attempt to tally up the impacts of carbon not only on climate change, but also for more common air pollution that affects health, as well as traffic congestion and accidents.

Globally, Canada is near the bottom on the scale of taxation levels for gasoline among industrialized nations. It taxes gas higher than the U.S., but generally well below taxation levels applied in Europe and Japan.

ALBERTA SILENT ON DECISIONS ABOUT WHO SPEAKS AT ENERGY HEARINGS

Freedom-of-information request seeking paperwork on Alberta Energy Regulator hearings yielded blank pages

The Alberta government has refused to release documents on its decisions about who gets to speak at public hearings on energy development.

The issue of public input has generated increasing concern and at least one court case.

The Canadian Press filed a freedom-of-information request nine months ago seeking paperwork on the eligibility of groups or individuals to address Alberta Energy Regulator hearings. The request yielded 260 pages of correspondence, reports and briefing notes. Every page was blank.

“A package consisting of 260 pages with no disclosure” is how Alberta Environment’s freedom-of-information office described the release in a letter received by the news agency last week.

Rachel Notley, environment critic for the New Democrats, said the difficulty in getting information on how important decisions are made is typical.

The request was made after a Queen’s Bench judge ruled in late 2013 that the department wrongly refused to grant an environmental coalition the right to appear at a hearing into a proposed oil sands development. The judge concluded that documents from a disclosure hearing suggested the group was shut out because of its critical stance on the oil sands.

Denied voice at public hearings

Since that ruling, environmental groups and First Nations have been denied standing to speak at public hearings at least nine times. In one case, hearings on a proposed oil sands expansion were cancelled after six groups that had asked to speak were turned down.

The issue has spread beyond energy regulation. On June 25, the office of the province’s consumer advocate was turned down after it asked to address an Alberta Utilities Commission hearing into alleged electricity price manipulation.

That same month, two aboriginal bands took the government to court after they were refused standing at Alberta Energy Regulator hearings.

Legal experts have voiced public concerns about what they call a restriction on public input. The judge in the case that brought the issue to light urged the government to draw its circle of consultation as wide as possible.

No change in rules, say officials

Alberta Environment says the rules haven’t changed, even though many of those shut out had previously been routinely granted the right to address hearing panels.

Wade Clark, director of policy and regulatory alignment for both Alberta Environment and Alberta Energy, said all documents were kept secret because they could reveal how legislation creating the new energy regulator was developed.

"What I'm referring to there are the various drafts of the legislation," he said. "That's the type of thing that's routinely not disclosed.

"As I interpreted the request, it related more to the deliberations during that time frame, which related to the (new) regulations and rules."

No officials during the time the request was under consideration suggested that interpretation to The Canadian Press.

No attempt was made to clarify the request, although the news agency contacted the government numerous times to check its progress.

Clark suggested the ruling could be reconsidered. "I think we could sit down and work out the wording (of the question)."

Rachel Notley, environment critic for the New Democrats, said the difficulty in getting information on how important decisions are made is typical of the governing Tories.

"Only in Conservative Alberta would a public body, tasked with consulting the public, in public, keep its rules around how to do that secret," she said.

CENOVUS' PROFIT TRIPLES AS OIL SANDS PRODUCTION JUMPS

Cenovus Energy Inc, Canada's No.2 independent oil producer, said its second-quarter profit more than tripled, helped by increased production at its Christina Lake oil sands project in northern Alberta.

The company's net income rose to C$615 million ($566 million), or 81 Canadian cents per share, in the quarter ended June 30, from C$179 million, or 24 Canadian cents, a year earlier.

Oil sands production at the Christina Lake project jumped 77 percent to average nearly 68,000 barrels per day (bpd). Total production rose by a third to average almost 125,000 bpd.

Operating profit, which excludes most one-time items, rose 85 percent to C$473 million, or 62 Canadian cents. ($1 = 1.0867 Canadian Dollars)

HIGHER SHIPMENT VOLUMES DRIVE ENBRIDGE'S PROFIT BEAT

(Reuters) - Enbridge Inc (ENB.TO: Quote), Canada's largest pipeline company, reported a better-than-expected profit in the second quarter, driven mainly by higher shipment volumes on the Canadian Mainline and regional oil sands systems.

Enbridge benefited from a 23 percent rise in average deliveries on the Canadian Mainline to 1.96 million barrels per day (bpd).

Deliveries on the regional oil sands system, comprising the Athabasca mainline and Waupisoo pipeline, soared nearly 72 percent to 690,000 bpd.

Higher throughput on the Athabasca mainline and contributions from new projects coming into service, in particular the Norealis pipeline, pushed up volumes on the regional oil sands system, Enbridge said on Friday.

Construction of the Seaway Twin expansion is now mechanically complete and the company expects to complete the Flanagan South project this fall, Enbridge said.

Enbridge also re-affirmed its full-year adjusted earnings forecast of C$1.84-C$2.04 per share.

The company's adjusted earnings rose to C$328 million ($299.95 million), or 40 Canadian cents per share, in the quarter ended June 30, from C$306 million, or 38 Canadian cents per share, a year earlier. (bit.ly/1kaMBlL)

Analysts on average were expecting a profit of 39 Canadian cents per share, according to Thomson Reuters I/B/E/S.

Earnings attributable to shareholders rose to C$756 million, or 91 Canadian cents per share in the quarter, from C$42 million, or 5 Canadian cents per share, a year earlier, as the company benefited from non-recurring changes in derivative fair value.

Calgary, Alberta-based Enbridge's

stock had risen about 15 percent this year to Thursday's close of C$53.45 on the Toronto Stock Exchange.

($1 = 1.0935 Canadian Dollars)

ENBRIDGE SEES NEW PIPELINE TO US GULF OPERATING IN OCTOBER

Enbridge Inc's new 450,000 barrel-per-day Seaway Twin pipeline, to carry Canadian oil sands crude to North America's largest refining complex on the U.S. Gulf Coast, will likely start operating in October, the company said on Friday.

Enbridge, Canada's biggest pipeline company, said mid October is most likely when the Seaway Twin will be filled with crude from the company's new 600,000 bpd Flanagan South pipeline.

Seaway Twin will carry crude from Cushing, Oklahoma, to oil tanks near Houston, and although the pipeline was mechanically completed in early July, it will not start operating before Flanagan South, which will run from Illinois to Cushing, is finished in early October.

Traders have been closely monitoring the progress of the two pipelines, which will give Canadian oil sands producers another direct link to the Gulf Coast.

"The plan had been, and still is, to do line fill for Seaway Twin from Flanagan South," Guy Jarvis, Enbridge president of liquids pipelines, said on a second-quarter earnings conference call. "So we do not expect to see too much off Seaway Twin before Flanagan South goes into service."

Enbridge exports the bulk of Canadian crude to the United States on its Mainline system, which in June moved a record 2.1 million bpd.

Surging Canadian production and congested pipelines that left crude bottlenecked in Alberta prompted the company to undertake a series of expansion projects and consider building a 140,000 crude-by-rail terminal in Illinois.

Morningstar analyst David McColl said it had been a steady quarter for Enbridge and that its massive Mainline expansion program seemed to be progressing well.

"Enbridge has layered on C$42 billion ($38 billion) of growth projects and is undertaking the largest extension of its liquids pipeline system in decades," McColl said.

"They are expanding from Fort McMurray (in Alberta) to the Gulf Coast (and) to Montreal, and so far they are doing it successfully."

Enbridge reported a stronger-than-expected profit in the second quarter, driven mainly by higher shipment volumes on the Mainline and on its regional oil sands systems.

The company reaffirmed its full-year adjusted earnings forecast of C$1.84-C$2.04 a share.

Adjusted earnings rose to C$328 million, or 40 Canadian cents a share, in the quarter ended June 30, from C$306 million, or 38 Canadian cents a share, a year earlier.

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Enbridge shares were last down 0.2 percent on the Toronto Stock Exchange at C$53.32.

($1=$1.09 Canadian)

PETROCHINA TO SEAL TAKEOVER OF ATHABASCA OIL SANDS PROJECT BY END-SEPT

State oil giant PetroChina plans to pay the more than $1 billion it needs to complete a takeover of the Dover oil sands project from Canadian firm Athabasca Oil Corp by the end of September, a person with knowledge of the deal told Reuters.

PetroChina was supposed to complete the acquisition of Athabasca Oil's 40 percent stake in the project in June, but delayed the payment while it reassessed the deal amid a government-led corruption probe into the Chinese national oil company, the person said.

The internal review showed the geological structure of the project is more complicated than previous estimates, which would increase development costs, but the acquisition will go ahead, the person added.

"The next step is to complete the transaction," said the source, who declined to be named as he was not authorized to speak to the media. "PetroChina will pay in August or September."

Asked about the deal, PetroChina spokesman Mao Zefeng said: "At the moment, there is not any sign that PetroChina will not proceed with the project." He declined to comment further.

Officials at Calgary-based Athabasca Oil declined to comment on the payment.

Shares in Athabasca Oil tumbled last week after it said it was still trying to collect the C$1.23 billion payment owed to it by a unit of PetroChina, Phoenix Energy Holdings Ltd, for the stake in the Dover project.