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SPANISH ENERGY COMPANY REPSOL TO BUY CANADA'S TALISMAN ENERGY

The CEO of long-struggling Talisman Energy Inc. (TSX:TLM) says a multibillion-dollar takeover by Spanish energy giant Repsol is the best possible outcome for shareholders and he expects the deal will receive federal approval.

The total purchase price is US$13 billion-- US$8.3 billion for Talisman stock plus the assumption of its debt.

Talisman's Hal Kvisle said the Repsol deal is a "compelling opportunity" for a company that has faced a litany of challenges, from free-falling crude prices to its substantial debt load.

The takeover has the unanimous support of both companies' boards of directors, said Kvisle, the oilpatch veteran who came out of retirement more than two years ago to help turn the Calgary-based company around.

"Talisman's board firmly believes the transaction with Repsol maximizes value for Talisman shareholders relative to any alternative available to the company," he said.

"The board considered in detail other alternative options and this transaction was viewed as superior to all other options available to the company."

The Canada Pension Plan Investment Board was said to be looking at a deal with Talisman, according to a Bloomberg report.

The US$8-per-share deal marks a 75 per cent premium to Talisman's seven-day volume-weighted average share price.

Also under the deal, Talisman will pay cash dividends of 18 cents per common share prior to closing. The Talisman board is recommending shareholders accept the deal at a special meeting to be held in mid-February 2015.

Completion of the transaction, which is targeted to close in the second quarter of 2015, is subject to customary closing conditions, including court approval.

Kvisle said Repsol will also apply for approval under the Investment Canada Act -- the same legislation under which oilpatch takeovers by Malaysian and Chinese state interests were reviewed in 2012.

Unlike the deals involving Malaysia's

Petronas and China's CNOOC Ltd., Repsol is a private company that is not owned by the Spanish state.

In 2012, Ottawa approved the foreign takeovers of Nexen (TSX:NXY) by CNOOC, and Progress Energy Resources Corp. (TSX:PRQ) by Malaysia's Petronas but tightened rules around deals involving the purchase of large Canadian companies.

"We are confident that this transaction will be universally approved and that it will provide meaningful and exciting opportunities for Talisman's global employee base," said Kvisle, noting that Repsol aims to establish a corporate presence in Calgary.

In a research note, CIBC World Markets analyst Arthur Grayfer said he doesn't see why Ottawa would block the deal, noting Talisman has no presence in the oilsands -- one of the concerns raised with CNOOC's takeover of Nexen.

Plus, Grayfer notes, Talisman's Canadian production is only 15 per cent of its total corporate output, with the rest mainly coming from the United States, Southeast Asia, Colombia and the North Sea.

He said the premium paid is higher than expected and called Repsol's offer a "knockout bid."

"We do not expect another party to come in and top the offer, given the premium paid, and that the company will have challenges in the current macro environment."

Repsol has been on the hunt for investment opportunities since its expropriation from Argentina in 2012. The Talisman acquisition will roughly double Repsol's upstream presence, said Kvisle.

"The combined company will be bigger, stronger and have a greater capacity to compete."

Kvisle said he expects the integration to be "quick and seamless" as the two firms have complementary cultures and values.

While he made no specific mention of potential workforce cuts -- often an outcome of such deals, as roles overlap -- Kvisle did say Talisman's experienced employees were a draw to the Spanish firm.

"In short, they like our assets and they like our people," he said.

Repsol chairman Antonio Brufau confirmed that sentiment in a release.

"Talisman has strong operational capability, a highly skilled workforce and we look forward to leveraging their expertise as we partner to create a stronger, more profitable and competitive organization," he said.

The combined company will be among the 15 largest privately-owned oil and gas companies with activity in more than 50 countries and more than 27,000 employees.

Analysts have predicted the pace of mergers and acquisition in the oil patch will pick up as low oil prices put pressure on some names, especially those with weak balance sheets.

Crude prices are down by about half over the past six months, with U.S. benchmark crude for January delivery trading at around $55 on Tuesday.

Talisman, which during the past few years has been striving to better focus its global portfolio, has long been the subject of takeover speculation. While its offshore assets in Southeast Asia and its position in several North American shale regions were seen to be attractive to potential bidders, its holdings in the U.K. North Sea had been cited as a hindrance to any potential deals as they've been prone to unplanned outages and have struggled to meet targets.

Talisman shares rose nearly 47 per cent to C$8.77 in late-morning trading on the Toronto Stock Exchange.

FRACKING RIVALS BRACE FOR STUDY'S RELEASE

For more than two years, state officials have kept New Yorkers in suspense as to whether their review of scientific studies has led them to be believe the health risks from shale gas drilling are acceptable or unacceptable.

If they were looking to announce a determination on such a controversial issue at a time when people are distracted by holiday season events and hard-pressed to react, the next two weeks — spanning celebrations for Chanukah, Christmas, Kwanzaa and New Year's Eve — would seem to present such an opportune occasion.

And it will be one of the calendar dates over these next 14 days that the verdict will be issued, according to Gov. Andrew Cuomo, who had vowed during a political debate last fall that the state's study of fracking's health impacts would be wrapped up before the end of this year. He repeated that timetable this week in an interview with a Syracuse radio station.

In the more than six years that New York has stood firm on a statewide moratorium on authorizing permits for horizontal shale gas drilling, the landscape for the industry has changed — without a single drill pad having been erected.

Earlier this year, the state's highest court, the Court of Appeals, dealt the gas industry a major setback when it ruled that towns do have the right to adopt local bans on drilling.

As a result, even if Cuomo does give the green light to gas drillers, as Richard Downey of the Unatego Area Landowners Association sees it, companies may still be reluctant to set up pads in New York.

"Why would a company want to come up here and go through all the aggravation?" asked Downey, a retired junior high math teacher from the Bronx and current resident of Otego. "God knows that now just one vote on a town board could negate billions of dollars in investment."

While the health study and a decision on whether drilling permits will be issued are intertwined, it remains unclear if the Cuomo administration will address both matters by Jan. 1.

A similar government drama over shale gas has been playing out in the Canadian province of Quebec. In Montreal, Quebec Premier Philippe Couillard declared this week there will be no gas drilling in the province, contending there wasn't enough support from the populace to allow it.

Couillard's announcement came within a day of the release of a report from Quebec's environmental agency that indicated drilling carried with it significant environmental and safety concerns.

With time running out on 2014, how the 57-year-old Cuomo will address the same issue is a guessing game.

Lou Allstadt, who had served as a high-ranking executive for Mobil Corp. before retiring and moving to Cooperstown, said it is unlikely that natural gas companies would want to set up shop in New York, simply because there isn't much gas to be had north of the Pennsylvania border.

"Even if the energy prices hadn't fallen the way they have, New York is not a good place for drilling," said Allstadt, a trustee for the village of Cooperstown and a sought-after speaker by the anti-fracking movement. "The gas just tails off as you move north."

For companies that have both interests in oil and gas production, today's low prices for the commodities are posing a problem, one that is even thornier, he said, for firms that are highly leveraged, relying on financing from high interest junk bonds.

While the short-term direction of production costs may fluctuate, Allstadt said, the long-term costs are bound to rise.

"It's an extractive industry, and the easy places have already been drilled," he said, "and every place they go is going to be more expensive."

On the other hand, he said, the production cost for generating solar heat and other renewable forms of generation are expected to head downward over the long term. Meanwhile, there is greater awareness among policymakers about the damage methane is causing to the Earth's atmosphere.

"Many of us, myself included, were surprised at how much methane is leaking into the atmosphere, and how bad it is," Allstadt said. "I think the industry was surprised. I think the regulators were surprised. I think government was surprised. Methane leaks from natural gas production are just horrendous for the atmosphere. That is relatively new information and people are absorbing it. I think the science is going to be telling them all that gas is nowhere near as good as they thought it was."

Cuomo said in the radio interview this week that he was "not directly involved" in the state's analysis of possible health impacts from fracking.

During the debate over whether towns should be able to zone out fracking, Cuomo and the state agencies he controls remained silent on the controversy. His decision to stay on the sidelines, said Downey, was "regrettable."

But with a a decision on the health impacts looming, Downey otherwise declined to discuss Cuomo's leadership during the state's moratorium on fracking.

If drilling does get approval from the state, Downey said, it is bound to get started in the Southern Tier region of the state, where some communities have signaled they would welcome drillers.

Downey also said he believes there are sufficient supplies of shale gas in Otsego and surrounding counties to attract the interest of drillers. But there have been no recent negotiations for leases, he noted.

"Why would they make an offer at this moment?" he asked. "All they would get is agita."

With Cuomo's hint that an announcement on the conclusion of health study will be released shortly, a squadron of anti-fracking elected officials released a letter Tuesday calling on the governor to keep the drilling moratorium in effect for three to five years.

"With hundreds of studies finding water contamination, dangerous air pollution, earthquakes, health impacts, and more, a long-term moratorium is imperative, " said Julie Huntsman, coordinator of Elected Officials to Protect New York and a town of Otego councilmember.

WILL CRASHING OIL PRICES PUT OTTAWA'S TAX CUTS AT RISK?

Oil prices continue to slide Tuesday morning, now below $55 for the first time since May 2009 – representing a decline of nearly 50 per cent since the summer.

Though Finance Minister Joe Oliver says Ottawa has built plenty of runway in oil's slide into its forecasts for next year, when government coffers are expected to return to a surplus position, with no bottom to oil's slide in sight, is it time to ask whether those projections are out the window?

Moreover, those financial assumptions are what underpin a multibillion-dollar plan to cut taxes and increase monthly child benefits for millions of Canadians. Are those tax cuts in jeopardy as oil slumps to new lows?

"It doesn't look like that, as of right now," Nick Exarhos, an economist at CIBC said.

"The tax cuts are going to go ahead. The only question is, Ottawa had a $1.9 billion surplus penciled in for 2015, and whether they'll still be able to hit that target," Robert Kavcic, a senior economist at Bank of Montreal said.

Minister Oliver announced on Nov. 12 Ottawa expects a surplus of $1.9 billion next year. That's a conservative estimate that takes into account a possibly severe slump in oil prices, which would affect how much revenue the federal government collects on everything from business to gas taxes.

Ottawa has given itself an ample $3-billion "contingency" cushion in its revenue estimates, though. That means if everything went splendidly with oil (and other commodities) and oil continued on at the higher prices found in the early fall, the surplus would be far bigger than $1.9 billion.

Oil's plunge is now wiping out the cushion, BMO's Kavcic said. "That $3-billion cushion is probably going to get eaten up, probably in its entirety."

Will plunging oil prices threaten to eat into the actual surplus target – something that could potentially pressure Ottawa to rethink its tax cuts?

Oil prices have now tumbled nearly 50 per cent since June, falling to just a penny above $54 in New York on Tuesday morning. The fall has accelerated in recent weeks as a global supply glut has grown.

"It hasn't been able to stabilize for a day, or an hour even. It's in freefall," CIBC's Exarhos said.

Still, both CIBC and BMO see a bottoming out ahead, with oil prices recovering.

CIBC said oil should average around $73/barrel (U.S.) next year. BMO sees it above $60 in the first half of the year. "In that light," Kavcic said, "the surplus should still be safe."

Oliver announced in late October a "family tax cut" plan that includes measures to reduce taxes on married couples with children. The plan will allow for income splitting among other measures, while boosting the Universal Child Care benefit $100 a month, to $160.

The plan has been criticized for neglecting single parents and lower-income groups.

HAVE CANADIAN OIL PRODUCERS FINALLY BOTTOMED?

A sudden change in sentiment has sent the battered and bruised Canadian energy sector surging higher, and investors are wondering if this is the start of a new rally or simply a head fake before another move to lower lows.

Brent crude dropped below $60 in early trading on December 16, to the lowest price since May 2009. West Texas Intermediate (WTI) briefly hit the $54 mark. Then, something happened.

WTI quickly rebounded back above $56 and investors suddenly piled into the energy sector. Short sellers scrambled to cover positions and investors who had been sitting on the sidelines decided to pull the trigger and pick up some bargains, or so they thought.

As an example, Crescent Point Energy Corp. (TSX: CPG)(NYSE: CPG), Baytex Energy Corp. (TSX: BTE)(NYSE: BTE) and Encana Corporation (TSX: ECA)(NYSE: ECA) all initially surged more than 10% and many companies in the sector enjoyed gains of 5% or better.

The sudden optimism comes as a surprise considering global economic news is anything but encouraging. A Chinese economic gauge, the Purchasing Managers' Index (PMI), recently dropped below 50 to its lowest point in more than six months and is signaling a contraction in the economy.

Slowing economic growth in China doesn't bode well for the demand side of the oil price equation, given the fact that Chinese demand represents more than 10% of expected 2015 global oil consumption.

At the same time, global oil producers continue to say they will not back down in a standoff that has OPEC members playing a game of chicken with Russia and the North American producers. The United Arab Emirates' energy minister recently said OPEC plans to maintain current production levels, even if oil drops as low as $40 per barrel.

The consortium does not even plan to meet again until June 2015.

Currency devaluations in Russia, Brazil, Mexico, Turkey, and Indonesia now have some pundits talking about a possible financial meltdown similar to that experienced in 1998. Bond defaults by Venezuela and Russia are looking more likely every day, and the strong U.S. economy could actually be the spark that sets it all off.

U.S. employment numbers are improving to the point where many economists now believe a rate increase is in the cards for 2015. A hike in U.S. interest rates could trigger more volatility in emerging market currencies and impact international bond prices even further.

Again, none of this is positive for oil prices.

Volatility is likely to continue in the oil market, and investors in Canadian energy stocks might want to wait until the dust settles on the current rout before committing new money to the space.

SKILLED OIL, GAS WORKERS NEEDED BY PETRONAS IF BC LNG TERMINAL APPROVED

Skilled oil and gas workers are likely to find a wealth of employment opportunities north of the U.S. border in British Columbia (B.C.) in the coming months as Malaysia's Petronas prepares to hire hundreds of workers for a liquefied natural gas venture, according to The Globe and Mail, a Toronto-based newspaper.

A possible dearth of skilled Canadian workers is expected to open up opportunities for skilled foreign workers, who could represent nearly 40 percent of the expected total workforce of 4,000 workers at the Lelu Island terminal site during the peak of construction, The Globe and Mail said.

The initial state of construction, lasting about three years, will see Canadian workers making up about 70 percent of the workforce, according to Pacific Northwest LNG statistics, as reported by the B.C. Environmental Assessment Office. However, during the later stages of construction, opportunities for foreign workers will increase due to the specialized skills involved, and as much as 70 percent of the onsite workforce is expected to be foreign during this phase of construction.

The use of foreign labor is a sensitive subject in Canada, and rules for the temporary foreign worker program have been tightened to lessen the likelihood of abuses.

The total cost of the project is expected to be as much as $36 billion or more, and Pacific Northwest LNG recently announced that it was delaying its final investment decision as it seeks to reduce costs for the construction of the terminal, The Globe and Mail said.

About $8 billion of the $11.4 billion in construction costs for the British Columbia export plant are expected to be spent on foreign goods and services.

If the project is approved by Pacific Northwest LNG, approximately 500 workers will be needed in 2H 2015, and 2,500 workers will be needed the following year as construction gets underway. Because of the timing of the project, there will be competition for workers in Alberta's oil sands, The Globe and Mail said.

Other projects – including two planned for Kitimat in northwest B.C. – are expected to compete for labor, thus further tightening the labor pool.