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FORT MCMURRAY BRACES FOR IMPACT OF OIL PRICE DROP

Spectre of coming cutbacks sends a chill over city sometimes called Fort McMoney

Fort McMurray, Alta., the city at the heart of the oilsands, is already seeing signs of a slowdown as the price of oil sinks.

The boom town has weathered many a bust, only to recover and continue its frenzied growth. But this time there are projections that the price drop could be deep and sustained. That's bad news for the oilsands, where the cost of production is higher than for conventional oil.

The vast majority of Fort McMurray's approximately 75,000 residents make their living from the energy industry, as do a so-called shadow population of about 40,000 who who live and work in nearby camps.

While big industry players like Shell, Suncor and Canadian Natural Resources have announced billions of dollars in cuts and hundreds of layoffs, the specific impact has not been felt - yet. In the oilsands economy thousands of contract workers move from project to project, being laid off when a job is complete and moving onto the next one.

Steven Sachese, co-owner of Wood Buffalo Brewing Company, saw business drop in December, but he expects to ride out the downturn by "going back to business basics." (Terry Reith/CBC)

It's expected to be several months before the full extent of the cuts becomes clear. In the meantime it is the spectre of what's to come that is sending a chill over this northern Alberta city. The early signs of a slowdown can be subtle, but they are rippling through the city.

At The Driving Force, a company that supplies trucks to the energy industry, fewer independent contractors are taking out leases.

"I can't say business as usual," explains manager Shane Boersma. "We haven't had so much a lot of returns of vehicles from our current customers but we're seeing that there aren't as many orders put in as you would normally see."

Things started slowing down just before Christmas, as oil approached $50 a barrel, says Steven Sachse, co-owner of the Wood Buffalo Brewing Company, a restaurant and bar popular with energy entrepreneurs and oil executives.

"We notice it in terms of our sales right now," he says. "There are not as many business meetings happening."

There are other small indicators. Instead of ordering the premium vodka, high flyers are settling for cheaper brands. There are fewer extras with meals. Still, like most of the city's businesses, Sachse expects to pull through.

"The biggest fear right now is how long it's going to last. We can definitely weather the storm. We go down to business basics and ensure our costs don't exceed our revenues."

Some people call Fort McMurray Fort McMoney, for very good reason. The oilsands bring billions of dollars and thousands of workers to the region. Streets and parking lots are filled with shiny new Ford F150, Dodge Ram and Toyota Tundra pickup trucks. More than a quarter of households report incomes exceeding $250,000.

The cost of housing is high, with the average single detached home selling for $750,000. Construction costs are also sky-high, as contractors have to compete with the big wages paid by energy companies. That's why a slowdown in energy means a catch-up in municipal infrastructure.

The average price of a single detached home in Fort McMurray is $750,000, making it one of the most expensive places in Canada to live. (Terry Reith/CBC)

"When you go through a slowdown as a municipality, we're grateful for them," says Fort McMurray Mayor Melissa Blake. "We actually get to catch up on these things that we fell behind on."

The last oil-price slump was in 2008, when it bottomed out at $32 a barrel. That caused the cancellation of many energy projects, several of which have never resumed. But it also afforded some breathing room in an overheated economy.

Charles Iggulden, president of the Fort McMurray Construction Association, expects much the same will happen this time.

"A lot of municipal projects will take off like they did in 2008 where they started the overpasses, twinning some of the highways, and then some of the oil companies spent money on infrastructure to support their projects, future projects," he says.

As for doom-and-gloom scenarios, no one with connections to Fort McMurray believes the boom town will become a ghost town.

"We made it through the '30s, we made it through the '80s, we made it through the '90s, right, I think we're going to survive it again," says oilfield worker Kevin Sembaliuk.

The mayor believes the people who live and work in camps are most vulnerable as energy giants shelve projects.

"For the most part these impacts tend to affect those we would call our guest workers or temporary workers who fly in fly out from different parts of our country."

She says for those who make Fort McMurray their home the latest bust cycle will help rein in the high cost of housing and allow small businesses more opportunity to build, grow and find much needed staff.

MORE RESEARCH UNDERWAY TO DETERMINE THE IMPACT OF FRACKING

The fracking industry says the public has no reason to be alarmed- as more research is underway to determine the impact of hydraulic fracturing on seismic activity in the remote northeastern corner of the province.

Markus Ermisch with the Canadian Association of Petroleum Producers says the risk is low.

“The seismicity that’s related to hydraulic fracturing, it’s very low seismicity, and it has not resulted in any property damage, no injuries, and as far as I know, no environmental impacts.”

The BC Government, the Oil and Gas Commission and Geoscience BC have hired a seismologist to study the controversial technique used to extract natural gas from shale rock and its connection to earthquakes.

“We are aware that this may cause some concern for people, but it’s also important to point out that both studies that the OGC has released over the last two years were minor seismic events that resulted in no environmental damage, no injury and no property damage.”

Ermisch says in the wake of two recent reports– monitoring for seismic events has increased. The industry has added more seismic monitoring stations.

A consortium that includes provincial government has hired a seismologist to further study the issue.

OIL FIRMS TO SLASH $23-BILLION FROM SPENDING IN WESTERN CANADA

Oil companies will slash $23-billion from their capital spending in Western Canada this year as a result of lower oil prices, a move that will shave 120,000 barrels a day from expected production in 2016, the Canadian Association of Petroleum Producers said Wednesday.

In an update to its short-term forecast, CAPP estimates the industry’s capital investment in Western Canada in 2015 will total $46-billion this year, down from $69-billion in 2014. But it expects the oil sands investment to hold up somewhat better – falling by about a quarter to $25-billion from $33-billion last year.

CAPP president Tim McMillan said the lower prices and slower production growth do not change the need for the industry to build pipelines across North America to expand and diversify their export options.

“No question, the effects on the industry are sharp but we continue to need all forms of transportation in all directions – pipelines in particular – as our industry continues to grow in the years ahead,” Mr. McMillan said.

Crude prices rebounded Wednesday from steep losses earlier in the week, with West Texas Intermediate climbing back above $48 (U.S.) a barrel in late morning trading. But analysts warn prices could fall lower, as the world continues to produce more oil than is being consumed. Many economists are forecasting prices won’t begin to recover consistently until the second half of the year.

In the meantime, oil companies are cutting spending Western Canada, North America and indeed the world.

France Total SA said Tuesday it would cut as much as $3-billion from its 2015 budget compared to a year ago, with spending reductions in Canada’s oil sands and the U.K.’s North Sea. Oil sands giants like Suncor Energy Inc. and Canadian Natural Resources Ltd. have announced spending cuts and layoffs.

CAPP expects the total number of wells to be drilled in Western Canada this year is forecast to decline by 30 per cent to 7,350 wells.

Mr. McMillan said the pain will be felt across the country.

“Purchases will be down, including purchases from the more than 2,300 businesses from coast to coast, excluding Alberta, that sell goods and services directly to the oil sands,” he said in a release. “Investors have seen their portfolios shrink. And governments will see reduced revenues from the industry’s royalty and tax payments.”

The new 2015 forecast for total Western Canadian oil production is 3.6-million barrels a day, about 150,000 barrels a day higher than total 2014 production of 3.5-million barrels per day, with a similar rate of growth expected in 2016.

Conventional oil production will be flat at 1.3-million barrels a day in 2015 and oil sands production increases to 2.3 million barrels a day due to projects coming on stream from prior-year investments.

22-Jan-15				
	Active	Down	Total	% Active
Western Canada				
AB	282	282	564	50%
SK	62	78	140	44%
BC	62	13	75	83%
MB	10	10	20	50%
WC Total	416	383	799	52%
Eastern Canada				
QC	-	1	1	0%
Canada	416	384	800	52%