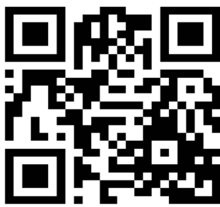
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Published By: NEWS COMMUNICATIONS since 1977 **Wednesday May 20th, 2015**

CANADIAN CRUDE CLOSES THE GAP

There have been plenty of headlines written about oil's rise back to around $60 a barrel lately, but there's another story unfolding north of the border that's been largely ignored. That's the startling jump in the price of Alberta crude, as measured by the Western Canada Select (WCS) price. Back on March 17, WCS was trading at US$29.71, according to oilprice.com.

But fast-forward to last Friday's close, and WCS was perched at around US$51.09, a 72% surge in just under two months, according to data from the Petroleum Services Association of Canada. That's nearly double the 37% gain notched by the US benchmark West Texas Intermediate (WTI) price in the same time span.

The net result is a narrowing of the gap between the two blends to around US$9. That's a stunning reversal from last year, when it averaged US$19.40, and late 2012, when it ballooned out beyond US$40.

Though it's widely underreported, WCS is important because it accounts for most of Canada's oil. It's a blend of conventional heavy crude oil and bitumen–the thick, tar-like crude from the Alberta oil sands.

"If you are looking at the performance of a Canadian Natural Resources Ltd., or Cenovus Energy Inc., or Northern Blizzard Resources Inc., or Pengrowth Energy Corp., or Twin Butte Energy Ltd. or a host of others, a big part of their exposure will be to heavy crude," National Bank of Canada head of commodities Tim Simard said in a May 4 Financial Post article.

WCS historically trades below WTI for two main reasons: It needs more refining and involves higher shipping costs. Those extra expenses eat into refiners' margins, so they pay Canadian producers less per barrel.

That's one piece of the puzzle. The other is the wild swings we've seen in the gap between WCS and WTI in recent years, and that's been closely tied to market access—or lack thereof—for Canada's crude.

Back in 2012, when producers up north were feeling the pinch of a $40 differential, their crude was being squeezed out of pipelines to key U.S. refineries by competition

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June 2, 3 & 4, 2015

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Schedule of Events

TUESDAY JUNE 2ND, 2015
* Exhibitor Setup - All Day
Golf Tournament - Exhibitors & Platinum Sponsors
6:30 AM Morning Golf Registration & Breakfast
7:30 AM Morning Flight Shot Gun Start
12:00 PM Afternoon Golf Registration & Luncheon
1:00 PM Afternoon Flight Shot Gun Start
** Courtesy Rides for Golfers - Sponsored by Baker Hughes**
7:00 PM Steak or Lobster Dinner - Sponsored by Gillis Casing Services
11:00 Grounds Closed - Security Sponsored by ARC Resources Ltd.

WEDNESDAY JUNE 3RD, 2015
10:00 AM - 7:00 PM SHOW HOURS
* 12:00 PM Luncheon Sponsored by Grimes Sales & Service - A Schlumberger Company
* 12:30 PM Guest Speaker - Hon. Bill Boyd - Minister of the Economy
* 1:00 PM 2015 Saskatchewan Oil & Gas Recognition Awards Oilman of the Year & Hall of Fame Inductees - Presented by the Board of Governors
* 7:00 PM Prime Rib Dinner - Sponsored by the City of Weyburn
* 8:00 PM Opening Ceremonies - Guest Speakers Hon. Ken Krawetz and Mayor Debra Button
* 8:30 PM SE Sask. Oilman of the Year Awards - Presented by Weyburn Oilshow Board
* 11:00 PM Grounds Closed Sponsored by ARC Resources Ltd.

THURSDAY JUNE 4TH, 2015
8:00 AM - 3:30 PM SHOW HOURS
* 7:30 AM - 9:30 AM Barnstorming Breakfast Sponsored by PSAC
* 10:30 - 11:00 AM - PSAC Information Session by Invitation Only
* 12:00 PM Industry Luncheon Sponsored by Crescent Point Energy
* 12:30 PM Industry Guest Speaker - John Gormley - Sponsored by ALCHEM Drilling Fluid Services

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from booming U.S. shale regions.

At the same time, some of the refineries capable of handling Canada's heavy crude were down for maintenance, including BP's Whiting facility in Indiana, which was undergoing a US$4-billion refit to boost its oil sands intake. Whiting reopened in late 2013.

Add in the ongoing political fracas over TransCanada Corp.'s (TSX: TRP, NYSE: TRP) Keystone XL pipeline and other controversial conduits, such as Enbridge Inc.'s (TSX: ENB, NYSE: ENB) proposed Northern Gateway pipeline from Alberta to the British Columbia coast, and the result was a bitumen glut that handcuffed Canadian prices.

But nature abhors a vacuum, as the old saying goes, and railways and pipeline operators have leaped into the breach.

As someone who lives a stone's throw from a CN Rail line linking Central Canada to the West, I can attest to the sharp jump in the number of tanker cars riding the country's rails in the last few years.

The latest figures from the National Energy Board back that up: They show that Canada's crude exports by rail averaged 171,000 barrels a day in 2014, compared to just 46,000 back in 2012.

But the oil trains aren't the only tool producers are using to get their product to market. New and expanded pipelines are playing a big role, too. Enbridge, for example, started up its 600,000-barrel-a-day Flanagan South pipeline last December, giving Canadian crude greater access to refineries on the U.S. Gulf Coast.

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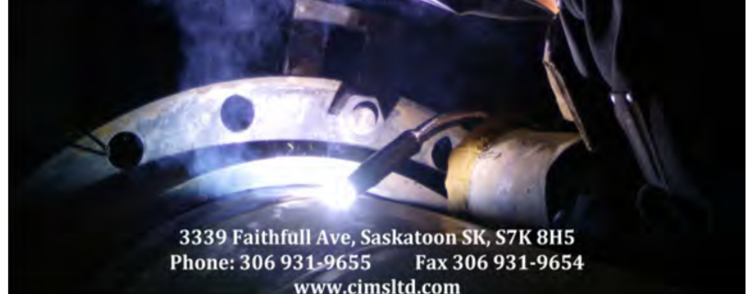


To get it there, the company first ships the oil to terminals in Illinois on its existing system–thereby circumventing the need for a presidential permit–where Flanagan South picks it up and takes it to the Cushing, Oklahoma, storage hub. From there, the diluted bitumen catches a ride on the recently beefed up 850,000-barrel-a-day Seaway system to the Gulf Coast.

In all, about 377,000 barrels of Canadian crude a day made its way to Gulf Coast refineries in January 2015, according to the U.S. Energy Information Administration, compared to just 100,000 barrels a couple of years ago.

At the same time, a general slowdown in oil drilling should clear some room for oil sands crude on existing lines.

"With production expected to be coming off through the spring due to oil prices, I expect that this will free up some of the space on the major trunk lines, which should be positive for differentials through the summer," said Genscape analyst Carl Evans says,

To be sure, some of the rise in WCS prices is tied to seasonal factors, like the start of the summer driving season (forecast by AAA to see the

highest fuel consumption since 2007) and increased demand for asphalt, a key use for oil sands crude, as road construction season kicks in.

And of course, we remain in a weak oil-price environment, with WTI down about 40% from year-ago levels. Nonetheless, Canadian producers can likely count on a price that tracks more closely to WTI in the near term, thanks to the new shipping options and refinery upgrades.

Producers, for their part, seem optimistic: They recently shelled out an average of US$978 an acre in offerings of oil sands rights through the end of April. That's the most since 2007, according to a May 15Financial Post article.

"Right now it makes a great deal of sense to go in and acquire rights in the oil sands," said Trevor Newton, chairman of Strata Oil & Gas (OTC: SOIGF). "Let's get this now while we can. We are going to get them cheaper."

RISING CARBON EMISSIONS FROM OILSANDS A 'UNIQUE' CHALLENGE, FEDERAL CABINET TOLD

Canada may need international emissions credits to offset increasing emissions from oilsands

Greenhouse gas emissions from increasing oilsands production will rise faster than Canada's ability to curb them, the federal government was warned before new emissions reduction targets were announced last week.

Cabinet documents obtained by CBC News reveal the thinking behind the scenes as the cabinet members mulled over various proposals for Canada's target to cut its greenhouse emissions by 2030.

The documents marked "secret" also suggest Canada should try to negotiate new North American-wide rules to reduce oil and gas emissions in lockstep with the U.S. and Mexico.

And they advise cabinet to follow Alberta's lead when it comes to adopting a national plan to cut emissions — though that advice came a week before the provincial NDP's surprise victory in Alberta's May 5 election.

Last Friday, federal Environment Minister Leona Aglukkaq announced Canada would cut its emissions by 30 per cent below 2005 levels by 2030.

The target is Canada's required contribution to a new global climate change agreement and has to be submitted to the G7 meeting in early June and filed with the United Nations Framework Convention on Climate Change.

Aglukkaq said Canada will meet its target by bringing in regulations to reduce methane that leaks from industrial processes and pipelines and by cutting emissions from the chemical and fertilizer industry and natural-gas fired electricity. All these align Canada with U.S. plans for the same sectors.

These new measures are in addition to phasing out traditional coal-fired power plants and stricter controls on cars and light trucks.

But the new targets don't specifically outline cuts to carbon dioxide emissions produced by the oilsands industry — the largest and fastest growing source of Canada's greenhouse gas pollution.

The cabinet memorandum outlines the difficulty in tackling the oilsands emissions, providing an insight into why that sector was largely absent from Aglukkaq's announcement.

"The oilsands represent a unique emissions challenge," said the memorandum.

"Increasing production is expected to outpace improvements in emissions intensity and most technologies with the potential to reduce emissions have not been commercialized or technically proven."

"Emissions from oilsands are projected to increase by 102 MT [million tonnes] from 2005 to 2030."

The documents say that Canada should buy international emissions credits specifically to "counterbalance increasing emissions from the oilsands."

"Credits would be scalable and could be considered to offset the expected growth in oilsands emissions from 2020 to 2030."

Emissions credits could include investments in green projects in developing countries.

In its formal submission filed to the UN, Canada says it may have to buy international credits. But when asked about it during her announcement on Friday, Aglukkaq refused to address those questions from reporters.

A spokesman for Aglukkaq said Tuesday Canada would only consider international mechanisms that produce "real and verifiable emissions reductions."

"One approach that Canada could consider is that used by Japan that supports investment in clean technologies in exchange for a portion of the resulting emission reductions," Ted Laking said in an email to CBC News.

Another suggestion in the cabinet is to look to Alberta's practice of setting lower energy intensity targets and penalizing companies that fail to meet them.

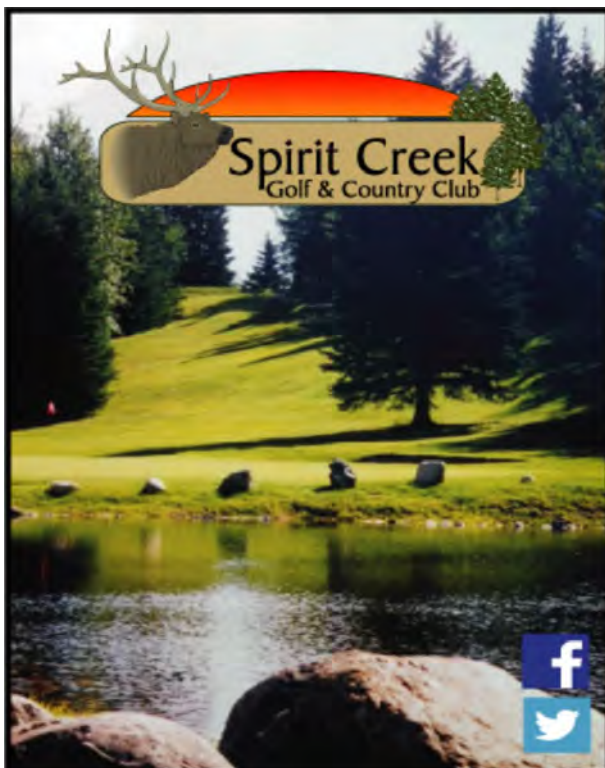
At present, Alberta requires large industrial companies to reduce their energy intensity — the energy used to produce a barrel of oil, for example — by 12 per cent a year. Companies that don't meet the target have to pay $15 a tonne into a technology fund.

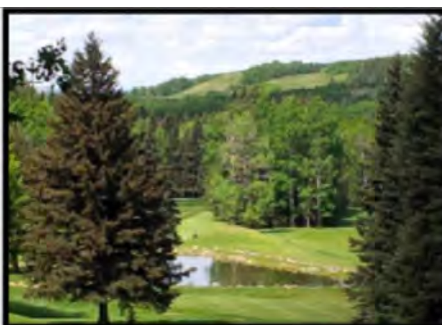
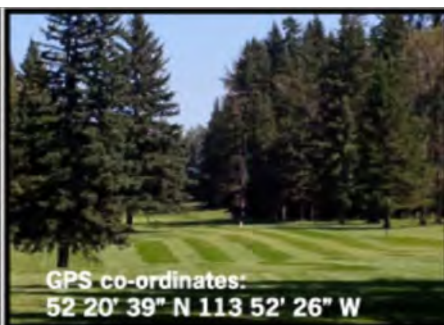
Alberta's rules have been criticized as being too weak to make companies do much to cut their emissions.

Former Alberta premier Jim Prentice had pledged to bring new rules by June of this year. The newly elected NDP government has not yet revealed the oil and gas regulations it's considering.

"Once Alberta's revised regulatory approach is confirmed, it may be possible in the context of its potential application on a continental basis with the U.S. and Mexico, to apply it nationally in Canada," advised the memorandum to cabinet.

The document proposes that "the minister of the environment



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would return to cabinet to seek policy approval to move forward with these regulations."

Aglukkaq's spokesman said a North American approach is what the government wants.

"We have been very clear that in order to protect the Canadian economy, we want to take cooperative action with our continental trading partners, particularly the United States, in integrated sectors of the economy, such as the oil and gas sector," Laking said.

But it is still a touchy file for the Conservative government. A warning in the memorandum points out Canada's newly announced target "will be subject to scrutiny of stakeholders, the media and other countries, focusing on the target's level of ambition and on its credibility."

It goes on to note the consequences of a country missing its 2030 target are "not expected to be punitive," but warns Canada's international image and its trade could suffer.

"Reputational damage is more likely and it is also possible that future emissions performance will be considered in bilateral and multilateral discussions outside of UN-sanctioned bodies. The EU's fuel quality directive and the difficulties it has presented for Canadian oil exports is a possible example."

OIL SANDS STAKEHOLDER GIVES IMPERIAL METALS A $25 MILLION HELPING HAND

Oil sands tycoon N. Murray Edwards, one of Canada's most prominent billionaires, has agreed to lend Imperial Metals (TSE:III) $25 million (Cdn$30m) as the company had to delay the start of its Red Chris gold and copper project in British Columbia.

The Canadian miner, whose Mount Polley mine tailings pond failed catastrophically last summer, said in a statement that it also plans an Cdn$80 million rights offering to repay the loan and fund the development of Red Chris and the restart of Mount Polley.

This is not the first time that Edwards, Imperial's largest shareholder, gives the Vancouver-based firm a much-needed helping hand. After the major spill at the company's Mount Polley mine last summer, he backed a Cdn$100 million bond sale to help fund the clean-up.

Edwards, chairman of Canadian Natural Resources (TSX:CNQ) — Canada's largest heavy oil producer— and co-owner of the hockey team Calgary Flames, is also Edco Capital Corp., which is acting as the official lender.

Shares in Imperial Metals were down almost 4% this morning to $12.30 at 10:00 am ET.

JORDAN APPROVES DEAL WITH CANADIAN FIRM TO DEVELOP OIL SHALE

Jordan's cabinet approved the signing of an agreement with a Canadian energy company to develop oil shale, the state-run Petra news agency reported.

The council of ministers said the Canadian company Questerre Energy Corporation expressed willingness to invest around 1.4 billion U.S. dollars in the project, the report said.

The approval is part of the government's efforts to rely on local resources and utilize oil shale reserves.

As part of the deal, the company will conduct studies in two areas in the south of Jordan to develop oil from oil shale.

The firm will start conducting initial technical and geological studies to come up with a feasibility study.

Jordan, which has over 40 billion tons of oil shale in reserves, imports currently about 96 percent of its energy at a cost of 2.8 billion dollars annually, or 21 percent of its gross domestic product.

The country is implementing a strategy to increase self-produced energy to meet 60 percent of its consumption by 2020.

19-May-15				
	Active	Down	Total	% Active
Western Canada				
AB	48	478	526	9%
SK	8	123	131	6%
BC	18	64	82	22%
MB	-	15	15	0%
WC Total	74	680	754	10%
Eastern Canada				
QC	-	1	1	0%
Canada	74	681	755	10%

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