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CHEAP OIL AND CLIMATE CHANGE SPELL OPPORTUNITY FOR ENERGY GIANTS

Canadian energy companies perfectly placed to make silk purse from sow's ear

"They can make a silk purse out of a sow's ear" sounds like an admiring remark from your grandma. But when it comes to facing up to something ostensibly bad and turning it into something precious, there is no one better equipped than the complex of Canadian companies and researchers currently suffering from plunging oil prices.

After another brief revival, there are new signs that oil will not bounce back any time soon. There also are signs that the world may be on the verge of actually taking climate change warnings seriously.

But if it plays its cards right, the Canadian energy complex is ideally placed to profit from the move from carbon fuels to high-tech, low-carbon energy. It should publicly celebrate the fact.

Until now, a large contingent within the North American oil industry has been playing a defensive game, dismissing the science of climate change and pressing for lax carbon laws. For a decade, they pressed for more and more oil development.

As a long term business strategy, that has turned out to be a dud.

The oil glut persists. Profits are falling. The International Energy Association says oil prices may not start to rise till after 2020. New York investors are betting that oil will remain below $49 US until November next year. Others are betting oil will go much lower yet.

It may be that our perception in Canada has been distorted by the recent change of government, but there is a feeling that the global mood on climate change is shifting. If industrialized countries really face up to the reality that places such as the naval base at Norfolk, Virginiaand large parts of the Netherlands are in danger of flooding, they may take action.

A significant tax on carbon will not only continue to hold down the price of carbon-based fuels, but it will boost the value of investments in non-carbon alternatives.

Unless some radical new science suddenly disproves the majority view on human-caused climate change, non-carbon energy is the future. And there is no one in the world with more of the skills and the smarts to profit from a low-carbon future than the Canadian oil and gas industry, largely centred in Alberta.

To many of its critics, oilpatch investment in wind and solar has seemed like greenwashing. That's when a known polluter uses advertising and public relations to make itself look clean and green.

But there is no question the oil industry has been investing in green energy. Iogen, an Ottawa-based leader in using enzymes to turn wood scraps and straw into alcohol fuel, was supported for years by Canadian taxpayers. It was bought by Shell and its operations moved to Brazil.

Edmonton's Capital Power has operations producing energy from solar, wind and coal. Suncor has a stake in green power. In fact, according to a CBC investigation, it is hard to invest in Canadian green technology without investing in the industries that extract or burn carbon fuel.

That makes it hard for Canadian investors wanting to divest from coal, oil and gas to put their money into a pure non-carbon play.

Whether that fossil fuel industry investment was originally part of some sort of nefarious strategy or based on altruism, the move has given Canada's oil and gas sector an inside track on a new growth industry.

Different energy technologies have many points of crossover. Managing electricity from coal plants is like managing energy from solar. After it is produced, electricity is all made of the same stuff.

A Calgary company that built its expertise in natural gas tanks transferred those skills to hydrogen fuel. There is no reason other Canadian companies, expert at producing and transporting gas cannot do similar things.

The current main source of hydrogen is natural gas. Who better to invent more efficient ways of making the conversion than oil and gas engineers and chemists?

Government and industry could offer a series of more focused prizes, similar to the Carbon Xprize, to stimulate and reward breakthroughs. The Alberta University and research sector are already dense with energy expertise.

Despite all the current gloom over the fossil fuel business, there's a lot of steam left in oil and gas. Even once Canada develops an effective

way of pricing carbon, fossil fuels will remain crucial to the economy for decades. As in any business, the most cost-efficient producers will continue to be profitable. That depends on technology, too.

But if the Canadian energy industry wants to get a piece of the future, they must gently push the pro-carbon dinosaurs to the sidelines and celebrate their technological advantage.

In fact, Canadian oil and gas companies could turn an instant profit by spinning off green energy divisions into separate stock listings while retaining a major stake. In the age of carbon divestment, stocks in well-run, low-carbon businesses will sell at a premium.

On the world's stock markets, the value of a company is not based on the boring past but the prospects of a brilliant future. If it can do the job right, Canada's energy industry future sparks with potential.

ONTARIO PENSION FUNDS LOST $2.4B FROM OIL, COAL INVESTMENTS

Canadian Centre for Policy Alternatives says Ontario Teachers' Pension Plan took biggest financial hit, losing $1.77B in last half of 2014.

Ontario's five largest pension funds lost an estimated $2.4 billion during the last half of 2014 because of investments in fossil-fuel assets, according to a study released Tuesday by the Canadian Centre for Policy Alternatives.

It calculated that the Ontario Teachers' Pension Plan took by far the biggest financial hit, losing $1.77 billion from fossil-fuel bets during a time that saw the price of oil cut nearly in half.

"If they're putting money into fossil-fuel stocks, it should be incumbent on managers and trustees to justify why they're doing that," said Marc Lee, a senior economist with Policy Alternatives.

The study analyzed 20 Canadian pension funds with $587 billion in assets under management, including the Ontario Municipal Employees Retirement System (OMERS), Healthcare of Ontario Pension Plan (HOOPP), Ontario Pension Board, and Ontario Public Service Employees Union (OPSEU) Pension Trust.

On average, about 5 per cent of assets under management were in the form of fossil-fuel company stocks, which had a total value estimated at $27 billion prior to the oil-price crash. Six months later, the value of those equities had fallen by $5.8 billion, which the study called a conservative estimate.

Lee said losses can largely be blamed on declining oil and gas prices. He conceded that the analysis was limited by the lack of detailed disclosure from the funds' managers.

"It's why there needs to be more transparency," he said. "That's the conversation we hope to trigger with this report."

Canadian pension funds have been largely silent on the issue of climate risks, while funds in Europe and parts of the United States have been much more engaged in the discussion, and are taking action.

In France, for example, amended legislation now requires institutional investors to report their carbon footprints and efforts to reduce them. Lawmakers in California have gone so far as to pass a bill forbidding its big pension funds from investing in coal stocks.

Last week, in advance of the G20 summit in Turkey, Bank of England governor Mark Carney proposed the creation of an industry-led disclosure task force on climate-related risks.

Carney, who is also chair of the Financial Stability Board, has previously warned that the "vast majority" of fossil fuel reserves may have to be left in the ground if the world is to keep global temperatures from rising to dangerous levels.

Disclosure of climate risks, Carney told a Lloyd's of London event in September, "will expose the likely future cost of doing business, paying for emissions, changing process to avoid those charges, and tighter regulation."

More big investors are choosing to reduce their exposure to climate risks. A recent report from consultancy Arabella Advisors found that 430 institutions, including the Canadian Medical Association, have committed to phasing out their fossil-fuel investments to some degree.

Meanwhile, more than 100 institutional investors representing $8 trillion in assets have signed the one-year-old Montreal Carbon Pledge. Those that took the pledge have committed to "measure, disclose and reduce portfolio carbon footprints."

Addenda Capital, The Co-operators and the United Church are among the Canadian signatories, but so far there is no commitment from Canada's largest pension funds.

That includes the Canada Pension Plan Investment Board (CPPIB), which manages $273 billion of Canadians' retirement savings.

A separate report released Monday by Corporate Knights Capital estimated that the CPPIB has sacrificed $7 billion (U.S.) in value since 2012 by not shifting investment from carbon heavy energy companies and utilities to companies that get at least 20 per cent of revenues from clean technologies or new energy.

Dan Madge, a spokesperson for the CPPIB, said the fund's investment in Canadian equities closely resembles the broader TSX Composite, which is heavily weighted towards energy. Dropping a major sector from the portfolio "would not be prudent," he said, adding that it would reduce diversification and prevent the CPPIB from engaging directly with energy companies on the need for better disclosure on climate risks.

"Engaging with companies on this topic and pressing for improvement are necessary to protect long-term value," Madge said. "Selling our fossil-fuel holdings to investors who might not be as engaged as we are is not the most responsible course of action."

Besides, he added, total long-term performance of the fund is what matters. On that front, the CPPIB fund has a 10-year nominal rate of return of 8 per cent.

Corporate Knights also analyzed 13 other prominent global funds, including the $40.5 billion (U.S.) Bill & Melinda Gates Foundation Trust Endowment, which gave up $1.9 billion, and the $5.6 billion University of Toronto pension and endowment fund, which sacrificed $419 million.

Had the U of T divested from fossil fuels three years ago, it could have generated a large enough return to pay tuition for its entire student body for four years, said Brett Fleishman, a senior analyst at 350.org.

The University of Toronto Asset Management Corporation declined comment for this story.

Demand for insight on how carbon risks can affect stock holdings led the Toronto Stock Exchange to launched three new indices last month that track a "fossil-free" and two carbon-reduced versions of the S&P/TSX 60.

TRUDEAU SAYS CANADA'S RECORD TO BLAME FOR OBAMA DIRTY-OIL REMARK

U.S. President Barack Obama's characterization of Canadian oil as dirty is "rhetoric" prompted by Canada's inaction on environmental issues, Prime Minister Justin Trudeau says.

Before a one-on-one meeting set with Obama at the Asia-Pacific Economic Cooperation summit in Manila, the country's new prime minister responded to Obama's comments by, in effect, placing the blame on Canada's past environmental policy.

"A less aggressive approach on environmental responsibility in the past led to a ramping up of rhetoric against Canadian oil and against Canadian energy," Trudeau said Tuesday, when asked about Obama's comments. He was speaking to reporters on board his plane traveling to the Philippines for APEC, where he is scheduled to meet Obama Thursday.

"I know Canada has to start demonstrating real action and not just words in order for the world to understand we are serious and committed to developing our resources in a responsible and sustainable way," he said.

Obama rejected TransCanada Corp.'s Keystone XL pipeline on Nov. 6, referring to Canadian oil as "dirty" and prompting Alberta premier Rachel Notley -- who opposed Keystone-- to label the comments as unhelpful. Trudeau, who took power federally two days before the rejection, favors the pipeline and was criticized by political rivals for not adequately responding to Obama's comments.

Trudeau and Obama are heading to APEC after the Group of 20 summit held Sunday and Monday in Turkey. The two meetings mark Trudeau's first appearance on the world stage as Canada's prime minister. He took power on Nov. 4, following in the footsteps of his father, Pierre Trudeau, who served 15 years as prime minister.

Trudeau has put an emphasis on expanding trade ties with China and India, and on rebuilding relations with the U.S. that have frayed in recent years amid clashes over Keystone, country-of-origin labeling rules and softwood lumber, among other issues.

Trudeau's platform risked further alienating Obama by pledging to Canada's withdrawal from bombing campaigns against Islamic State and calling for the restart of bidding on a new fighter jet to exclude the U.S.-made F-35, which the government had previously favored.

Trudeau said he and Obama will discuss energy, Syria, security, refugees and the military efforts against the Islamic State.

"I'll be pushing the idea of a proper continental approach" to energy, Trudeau said. "The challenge we have is ensuring that the three North American countries are properly coordinated in our energy plans, our environmental plans, and the desire we share to remain competitive in the world economy but also ensure we're moving toward greater responsibility."

Obama and Trudeau also will discuss emissions pledges ahead of another summit, the United Nations climate conference beginning in Paris later this month.

"It's important to push strongly on some of the more recalcitrant countries who don't seem to be as ambitious in their approach to climate change," Trudeau said. "We have an awful lot to discuss and I look forward to engaging with President Obama on a range of topics."

TSAWWASSEN FIRST NATION LAUNCHES PLANS FOR LNG EXPORT PLANT IN DELTA, B.C.

A tiny First Nation in British Columbia could play a huge role in Premier Christy Clark's billion-dollar plans to grow the province's liquefied natural gas industry.

The leadership of the Tsawwassen First Nation, in suburban Vancouver, is encouraging its 290 eligible members to vote on a proposal to build a LNG export facility on the reserve, saying the potential benefits outweigh the limited drawbacks.

The First Nation, located in Delta, B.C. and close to the Canada-U.S. border, was to hold the first of several consultation meetings with its eligible voting members on Monday night, before the Dec. 16 vote.

Chief Bryce Williams said the proposed export facility was expected to only require a short stretch of additional pipeline between it and the nearby Tilbury LNG plant, which FortisBC (TSX:FTS) broke ground on one year ago.

"We think this project has potential to be relatively low-impact," said Williams.

The First Nation would seek to make use of an existing deep-water port nearby for shipment of the LNG overseas, he said.

But Williams acknowledged there are some "negative impacts" to think about, namely how the LNG is extracted. That's an issue he anticipates members to raise, he said.

"I appreciate this topic is likely to generate a lot of discussion in our Lower Mainland area," Williams said. "Our council would not be putting it forward if we did not think it important and had a lot of good potential benefits for our members and for our future."

B.C.'s Oil and Gas Commissioner confirmed earlier this year that fracking — or the process of injecting fluid into the ground to extract natural gas — set off a 4.4 magnitude earthquake in northeastern B.C.

The proposed export facility would process three- to five-million tonnes of LNG annually, with natural gas coming through an extension of an existing pipeline located 10 kilometres away.

The First Nation has pledged to uphold the strictest environmental practices, from extraction of the LNG to the loading of the liquefied gas onto tankers moored at nearby Roberts Bank, just north of the Tsawwassen ferry terminal.

Five to six tankers per month would be expected at the export facility, which is predicted to be in operation as early as 2022.

The Tsawwassen First Nation, with a population of 480, is one of a handful of B.C. aboriginal bands to sign a treaty with the federal and provincial governments. Since 2009, the band has signed multimillion-dollar agreements with the neighbouring Vancouver port and for a giant shopping mall to be built on its land

Chris Hartman, CEO of the TFN Economic Development Corp., said the facility would be located on 32 hectares of industrial lands in the community's north end. The lands were designated for industrial purposes in the original 2008 land-use plan, which was a condition of their treaty, he said.

The project would still need full environmental approval from federal and provincial bodies, he added.

It is too early to quantify the potential financial benefits for members, he said.

"We always try and describe what some of the potential benefits are to members, those include long-term employment, additional revenues and other opportunities."

The announcement of the proposed LNG export facility came as the premier promoted an expansion of FortisBC's $400-million Tilbury LNG project.

Clark said the "dramatic" expansion will help meet the rising demand for clean energy in B.C., including powering up B.C. Ferries on liquefied gas instead of "filthy" diesel fuels.

She said she hopes the First Nation's membership will approve the new proposal, adding there continues to be demand for LNG around the world, especially in Asia.

"And I know that global prices are now low, but we have an incredible opportunity in front of us," she said.

ALBERTA'S 'ACCELERATED' PHASING OUT OF COAL WORRIES INDUSTRY

Coal Association of Canada worried about possibility of massive job cuts

The chairman of the Coal Association of Canada is worried about Premier Rachel Notley's plan for an accelerated phasing out of coal-fired plants in Alberta.

"We certainly are not aware of what accelerated means," said John Schadan, responding to Notley's speech Thursday in Toronto where she said her government is moving ahead on its progressive strategy to battle climate change.

"There currently exists a process to phase out coal within Canadian federal regulations to date.

"Any plans that the current Alberta government has, have not been made public, so I'm really anxious to hear what the plans are."

Decreasing coal dependency is at the top of Notley's agenda.

"Coal is a high-carbon fuel that we currently depend on for more than half of our electricity in Alberta," Notley said before an audience at the Broadbent Institute Progress gala.

"In its place, we must encourage lower-carbon natural gas and zero-carbon renewables."

She added the energy sector won't be able to support well-paying direct and indirect jobs in Canada, if governments continue with outdated policies.

Here in Alberta, Schadan sees the situation much differently.

"What's more concerning to me is the thousands of people and families that work in this business," he said. "There are tens of thousands of jobs directly and indirectly related to this industry.

"Multi-generational families have long worked in this industry and done a great job in producing electricity for the province in a competitive way.

"So this is a huge concern for those people if accelerated plans come out."

The coal association has worked with the province by meeting with Energy Minister Margaret McCuaig-Boyd and making a presentation to the climate-change panel.

Notley said the energy efficiency program will be unveiled shortly, and that a few details will be announced before she attends the UN climate change conference in Paris later this month.

CREDITORS SQUEEZE OIL, GAS COMPANIES

Creditors are tightening the screws on a number of their oil and gas clients as oil prices drift lower, new data shows.

As many as 23 of the 73 Canadian oil and gas companies surveyed by Calgary-based data company CanOils saw their credit facilities reduced in the third quarter of the year, compared with the end of 2014.

Canadian companies had collectively soaked up 45 per cent of their credit lines available by the third quarter of the year, compared with 39 per cent at the end of last year, according to CanOils. Lenders extended $66.5 billion of credit to companies, third-quarter data shows, compared with just under $60-billion at the end of last year - not a huge life line given that oil prices have halved during the period.

Aniki Saha-Yannopoulos, director of corporate and government ratings at Standard Poor's Toronto office, says banks will continue to work with companies. "But we also believe that they are starting to look at reserve lending and we should see some reduction or contraction on the borrowing base going forward."

"That would create much difficulty for some of the companies that are in the deep-speculative space or have tight liquidity."

While creditors have been lenient to-date and have extended debt relief and credit facilities to companies in one of the worst crises facing the oil and gas industry in decades, some now face greater scrutiny in the periodic fall review as lenders assess their own portfolio risk and the health of their client's balance sheets a year into the depressed oil price environment.

AltaCorp Capital Inc. says while borrowing capacity reductions have been modest, lenders will keep eye on companies' spending behaviour.

"We will be looking for amended terms of arrangement whereby clauses will be added which will require companies to receive lenders' approval for certain spending decisions," AltaCorp said in a report, noting that lenders may be "less punishing than current expectations."

The alternative for lenders is to cut off the credit lines and end up with struggling assets on their hands.

A reprieve may be the likely outcome for Ioana Energy Inc., the TSX-listed company, which will ask bondholders on Monday to grant it a two-month extension to restructure its business.

KEYSTONE PIPELINE'S REJECTION COULD MEAN MORE NW OIL TRAINS

The disputed stretch of the Keystone XL pipeline, by comparison, was slated to run for all of 875 miles through Montana, South Dakota and Nebraska. The environmental arguments against it have always been impeccable. That's also a way to harm America's energy security. The energy statistics agency's data shows how booming US and Canadian oil production have increased trade between the energy giants and allowed Americans to use more North American fuel. And now, in the immediate wake of Keystone's failure, the results are in: they would incentivize large-scale oil extraction in both the Canadian oil sands region and the Bakken shale oil formation, perhaps upping our carbon pollution by the equivalent of over 28 million cars on the road. But since 2008 the United States has experienced a domestic drilling boom which has boosted oil production 80 percent and contributed to a slump in USA oil prices from above $100 a barrel to about $44. But boy, have things changed. The problem is that we haven't replaced the oil with anything. If we can slow the process, we can better deal with it. If not, most of us, but especially the poor, are going to suffer. Last month, Shell abandoned an oil sands project in Alberta, and its CEO pointed to concerns about high costs and insufficient pipeline capacity for the decision. With any luck, a few more substantial environmental victories will come out of that conference. However, the prime benefit from stopping the Keystone Project is its potential as a psychological turning point in the world's commitment to making the sacrifices required. Given the growing role energy policies play as the world seeks to curb global warming, UConn Today asked Mark Boyer, a Board of Trustees Distinguished Professor of political science in UConn's Department of Geography, to share his insights on the Keystone pipeline's demise. We are speaking of Nebraskans. The aquifer is what makes this region agriculturally rich, as opposed to the Great American Desert early travelers once thought it was. And the 2010 Deepwater Horizon disaster in the Gulf of Mexico did not inspire confidence in the promoters' safety claims. In this sense, this makes the east-west pipeline perhaps even more important than a north-south one. He knew it would have created jobs for Saskatchewan people during the construction phase. Pipelines have proven to be the safest means to transport oil, and while they don't have a ideal record (there isn't a flawless system out there), the odds of a pipeline leak are miniscule. Low oil prices for consumers exist because of the ingenuity, the innovation, and the investment of the oil and gas industry. "The President may be celebrated by environmental extremists, but with this act, President Obama has also solidified a legacy as a pompous, pandering job killer", said O'Sullivan. The pipeline has taken on enormous political significance for organized interests in the United States, a key front in the ongoing fight between the fossil fuel industry and environmentalists about the economy, energy, and climate change. America has, as Obama said, established itself as the global leader in cutting carbon dioxide emissions. He made his choice sound like a bigger deal than it was anyway. That's a wonderful position to be in.

ENBRIDGE CUTS 5% OF WORKFORCE

Calgary-based Pipeline Company says reductions are in Canada, U.S.

Enbridge says it's cutting five per cent of its workforce — about 500 people and 100 unfilled positions — in Canada and the United States.

The reductions are being made across the company, said a statement issued by Graham White, Enbridge's manager of business communications.

"While Enbridge is more resilient to commodity price downturns than others, we're not immune," White said in the statement.

"We're taking these actions to remain competitive, ensure we can continue to serve our stakeholders well and to further strengthen our foundation for the future."

The Calgary-based pipeline giant said the cuts are not connected to Prime Minister Justin Trudeau's call on Friday for a moratorium on crude oil tanker traffic for B.C.'s North Coast.

Trudeau outlined the directive in a mandate letter to Transport Minister Marc Garneau. The prime minister asked Garneau to formalize the agreement with three other ministries: Fisheries; Natural Resources; and Environment.

The move sparked questions about what effect a moratorium would have on Enbridge's Northern Gateway pipeline, which would carry bitumen from Alberta to Kitimat, B.C. The project was approved in June 2014 with 209 conditions.

"Reductions are from all across the enterprise both in Canada and the U.S., and have nothing whatsoever to do with the government announcement on Friday regarding tanker bans," Enbridge said in Monday's statement.

"All decisions were made prior to that announcement and Northern Gateway was not impacted by the reductions."

Enbridge said "disciplined cost management" is central to its business model, adding that although the cuts are necessary, the "company is on very strong financial and strategic footing" and "will continue to grow."