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BIGGEST OILPATCH COMPANIES HAVE BEST CHANCE TO SURVIVE

To survive a long downturn in the oil sector, it pays to be big

With no recovery in oil prices in sight, Alberta's oilpatch is trying to figure out how it will survive 2016, yet another year of struggle for an industry that lost a collective $1.5 billion in the first half of 2015.

With so much financial pain, it's likely the large players that have the best odds of enduring the oil price collapse.

That's the belief of Drew Ross, managing director of Scotia Waterous, the arm of Scotiabank that focuses on oil and gas deals. He's crunched the numbers during this downturn and found it's the big-name companies, such as Suncor and Cenovus, that are faring the best.

"There is a huge correlation between performance and size of companies," said Ross. "What you need to be in this environment? You need to be big and diversified, that's what the market is telling you and its across the globe."

That's why he suggests the downturn could lead to the creation of fewer, but larger companies. "Those are the ones that are going to survive," said Ross.

Already in Alberta, the industry is highly concentrated among giant firms. Approximately half of all conventional oil and natural gas production comes from about a dozen operators.

The big firms generally have economies of scale. They are able to raise more capital, they have large projects with lower costs, and tend to be more diversified. Often, they operate in different basins around the world and not only produce oil and gas, but likely also refine products such as gasoline.

The oil downturn is putting pressure on all companies, big and small. Firms are laying off workers, slashing spending, pulling back salaries and focusing operations where margins are best. Now is not the time to venture into unexplored areas.

"They don't have the budgets to take on new areas," said Ross. "They're just focusing on the core of the core and trying to be profitable in this low oil price environment."

Hundreds of financial executives from the sector gathered at a conference last week in Calgary to hear about all the challenges, pressures and strategies during this prolonged downturn.

"There's an increased focus for the industry to work together to get over the cycle," said Alex Fisher, of Chartered Professional Accountants of Canada.

The decisions made in downtown Calgary boardrooms all come with consequences, but executives can't sit still and watch the erosion of cash flow.

"There's very difficult discussions because the visibility of the layoffs in town has been paramount," said Bruce Edgelow, a vice-president with ATB Financial. "We may see as much as 50,000 layoffs in this town for the calendar year, 2015."

It's part of Edgelow's job to meet face to face with executives to figure out how to keep them operating, even in the worst of times.

"Welcome to the hospital, I'm the chief surgeon," Edgelow said about his first words to executives of companies in duress. "I've got lots of grey hair. Our hope is to move you out of the recovery ward and back to full health. We're not here to move you to the morgue, which is our asset realization team."

Executives can't bank on price recovery as part of their financial plans because that's hoping for something that may not happen anytime soon. Companies with the most uncertainty are likely those in the oilfield service sector. They're calling the oil and gas producers to see what kind of work they can expect to see next year.

"Can I give you a call back? I'm just not quite sure what my program is for 2016," said Edgelow, describing how producers are responding. "The oilfield services companies are absolutely reeling with this uncertainty."

That's why just about weekly some of the large service companies are asking to renegotiate loan agreements.

Selling assets isn't necessarily the answer, since what's the value of oilfield equipment when there is little demand for the machinery?

A saving grace for much of the sector has been the loonie. Companies operating north of the border pay Canadian dollars for most of their expenses, but sell their oil in U.S. dollars. With the loonie around 75 cents compared to the American greenback, it's working in favour of Canadian companies.

ATB Financial is also feeling the effects of the oil price collapse and Alberta's recession. The bank's profits are down largely because of provisions for credit losses. In the latest quarter,

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that amounted to $48.1 million, up from just $10.3 million a year ago.

“The 2015 period, we have moved from an absolute price collapse to a point in time where we are really trying hard to find where 2016 fit does?” said Edgelow.

“Unfortunately, sitting here today, there are still more questions around this than there are answers, which continues to speak to the gut-wrenching decisions that are made in the boardrooms.”

NEB POSTS ALL SAFETY INSPECTIONS, FINES ONLINE

‘We are now the most transparent energy regulator in North America,’ say officials

Canada’s energy regulator says it is the first in North America to go public with pipeline safety reports.

All safety inspections, fines and punishments will be posted dating from September 2015 onwards in a clear, accessible way, after years of public demand for more transparency says the National Energy Board.

“Canadians really deserve to have this information. I think what you are looking at is a new NEB,” said Darin Barter, a National Energy Board, spokesperson in Calgary.

He said the change is based on a premise that Canadians’ right to know about the inner-workings of pipeline safety is more important than shielding companies.

Barter said if disclosing pipeline issues prompt Canadians to lose confidence, “I would say the companies need to step it up then.”

This shift towards transparency comes after years of criticism of the energy regulator, especially from U.S. pipeline watchdogs who said Canada lagged far behind America when it came to providing maps and safety information.

Carl Weimer, executive director of Pipeline Safety Trust in Bellingham, Wash., a non-profit group focused on improving pipeline safety told CBC in 2013 that he was “shocked” by the amount of information available in Canada.

The NEB’s new move toward transparency is earning praise from the oil and gas industry.

“Our industry is under quite a spotlight. I think anything that will help build public confidence ... will help,” said Mark Cooper, spokesperson for TransCanada Corporation, a leading infrastructure company in Canada.

“I think the public overwhelmingly understands the need for oil and gas in their everyday lives,” he added. “They just want it transported safely.”

BC FERRIES CHRISTENS FIRST NEW LNG PASSENGER FERRY

Canadian operator BC Ferries has christened the first Salish-class vessel as Salish Orca at Remontowa Shipbuilding in Gdansk, Poland.

The new ferry has been named in honour of the Coast Salish people and the Salish Sea, where the ship will operate.

The dual-fuel ship will be capable of running on liquefied natural gas (LNG) or ultra-low sulphur diesel, reducing emissions and operational costs.

According to the company, the use of LNG will result in the reduction of an estimated 9,000 metric tonnes of CO2 per year, equivalent to taking 1,900 passenger vehicles off the road annually.

Upon entering services in late 2016, Salish Orca will replace the 50-year-old Queen of Burnaby on the Comox-Powell River route.

BC Ferries president and CEO Mike Corrigan said: “This marks a major milestone in building our new ships, as we honour maritime tradition with the official naming ceremony for the Salish Orca.

“As we progress with our vessel replacement programme, we will continue to look for opportunities to build LNG-powered ferries, while maintaining our high-standard of safety and reliability, as well as reducing our environmental footprint.”

Currently, three Salish-class ships are under construction, including Salish Eagle and Salish Raven that will replace vessels that are at the end of their life cycle.

The Salish Eagle will replace the 51-year old Queen of Nanaimo on the Tsawwassen-Southern Gulf Islands route whereas the Salish Raven will service the Southern Gulf Islands.

The ships are expected to enter service in 2017.

The ships have been built as part of a contract with Province of British Columbia that requires BC Ferries to provide safe and efficient ferry service along coastal British Columbia

ALBERTA’S CARBON TAX SHOULD COMFORT OPEC AMID PARIS CLIMATE TALKS

Down the road from Paris climate conference, it’s business as usual for OEPC in Vienna

If OPEC, which meets later this week in Vienna, is worried about what’s happening at the climate change conference in Paris, the group might look for comfort to, of all people, Alberta Premier Rachel Notley.

The image of an NDP leader introducing a carbon tax while flanked by a coterie of approving oil executives should be a reassuring sight for petro-nations dealing with the uncertainty of a new global climate deal.

Against the backdrop of the Paris conference, the Organization of the Petroleum Exporting Countries, with its talk of production quotas and barrels per day, may feel like an anachronism, a relic of 20th century environmental arrogance, but as events in Alberta have just shown, the sun still isn’t close to setting on the world’s oil powers.

Undoubtedly, the timing of the two gatherings, 1,200 kilometres apart, is symbolically rich. The watchwords of Paris, greenhouse gas emissions and carbon costs, must certainly represent the future if the world is to avoid the worst of what climate change has in store.

And yet, there is OPEC, still gathering as it does ever year at this

time, pumping on, like a boat against the current, standing in for the past.

The tension between the existing oil economy and a new greener planet will need to be resolved at some point, but before that happens, global oil producers can rest somewhat easier knowing the fight against climate change will pluck as much low-hanging fruit as it can before tackling oil.

"[OPEC] has gotten to the point now where they recognize that climate change is real, the negatives are moving forward, there will be increasingly stringent climate policies throughout the world, and those are going to have the effect of reducing demand for their products," said Robert Stavins, director of the environmental economics program at Harvard University.

"There will be profound changes, but the profound changes will come first for coal — everything else will come later."

Safe to say that Big Oil luminaries such as Suncor's Steve Williams, Cenovus's Brian Ferguson, and Canadian Natural Resources' Murray Edwards would have been less willing to share the stage with Notley as she unveiled a new provincial carbon tax if Alberta's climate plan were as tough on oil as it is on coal.

Oil didn't get away unscathed, but compared with coal — which Alberta is trying to phase out of the energy mix by 2030 — the economic fallout of the carbon tax is relatively minor.

For most oilsands producers, for instance, the new carbon plan will add less than a dollar per barrel to costs, according to figures from Calgary investment bank First Energy Capital.

A look at the carbon reduction plans, known as Intended Nationally Determined Contributions, that countries filed to the United Nations ahead of the Paris talks, shows that Alberta isn't the only jurisdiction that's focusing efforts to cut emissions in areas other than oil.

Canada's submission, for instance, emphasizes the electricity sector, and the work that will be done by getting off coal, as well as contributions from investing in clean technology such as carbon capture and storage (CCS) and renewable energy.

Commitments to further boost fuel efficiency standards, which will raise gasoline costs, will certainly affect the oil industry, but, much like Alberta's pending carbon tax, it's not like the added expense will be enough to spur drivers to give up the keys to the minivan anytime soon.

The U.S. plan is similarly peppered with mentions of fuel efficiency standards, especially for heavy-duty vehicles, as well as more stringent energy conservation standards for buildings and appliances.

Even more telling, perhaps, of what climate change initiatives to come out of Paris will mean for oil is the submission from Saudi Arabia, which plans to meet its commitments through a mix of energy efficiency, renewable energy contributions, and CCS, as well as a move towards more natural gas-fired power generation. Key to achieving these ambitions, the Kingdom says, is a "robust contribution from oil export revenues to the national economy."

"Yes, you've got the climate talks, and something is going to change, but I don't think oil is suddenly going to bend down in the next couple of years and you'll see demand decrease," said Jamie Webster, senior director of global oil markets at consultancy IHS Inc. "That's a couple of decades away."

Even with the new policies expected to come out of Paris, the International Energy Agency still sees global oil demand, which saw a healthy increase this year to around 95 million barrels a day, climbing to more than 103 million barrels a day by 2040.

Against that backdrop, it's understandable why OPEC would take a business-as-usual approach to its semi-annual gathering — regardless of what's being discussed in Paris.

Given the Saudis' pursuit of market share at the expense of price, this week's meeting is expected to be even more fractious than usual, as OPEC members like Venezuela urge the Kingdom to relent on its strategy.

The prospect of more Iranian barrels coming to market next year will also be top of mind for the group. When the smoke clears, though, the gathering isn't expected to produce any substantive changes for oil markets. For OPEC, that's the short term.

Climate considerations will eventually force global oil producers — from OPEC to Canada — to confront the long term. Just not yet.

B.C. EXETENDS HEAVY HAUL NETWORK

"When we put these transportation improvements into effect, we're enabling our LNG, mining, energy, forestry, tourism and other industries to thrive," said British Columbia transportation and infrastructure minister Todd Stone.

"Expanding the pre-approved heavy haul routes in British Columbia will be a benefit to businesses and the shipping industry, for LNG development in the north and ultimately, for our provincial economy."

As part of B.C. on the Move - the province's new ten-year transportation plan - the government committed to deliver an explicit trucking strategy, which included the creation of more pre-approved routes around the province for delivering heavy project cargo from its origin to a work site.

Two new pre-approved routes for shipments with gross vehicle weights (GVW) of 85 tonnes, include: Highway 17 from the Tsawwassen Ferry Terminal to the Junction of Highway 1 and Highway 15; and an extension of the Highway 16 route from Terrace to Kitwanga.

Creating a pre-approved heavy haul route on Highway 17 connects Fraser Surrey Docks, which is part of Port Metro Vancouver, to the 85-tonne network, said the Ministry of Transportation and Infrastructure; while the pre-approved route on Highway 16 from Terrace to Kitwanga closes a gap in the 85-tonne route, and means that trucks hauling oversize loads have a continuous route from Alberta through to Kitimat.

These pre-approved routes will give shippers the flexibility to plan their routes and know what permit conditions they would need to address, said the ministry, adding that shippers will also have the certainty to know they will be able to receive a permit quickly when within the policy guidelines.

Both of these newly upgraded routes are also being considered for further upgrades to allow for the hauling of 125-tonne loads.