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ALBERTA CRUDE STRUGGLES TO REACH REFINERIES SWAMPED WITH FOREIGN OIL

Canadian imports of foreign crude are soaring, swamping refineries in Quebec and New Brunswick, while efforts to connect the plants with Alberta supplies encounter fresh roadblocks.

The National Energy Board said Canadian crude oil imports leaped by 16 per cent last year to 736,000 barrels a day, including growing supplies from U.S. shale producers and OPEC kingpin Saudi Arabia.

From less than 100,000 barrels a day as recently as five years ago, imports of U.S. crude surged to more than 400,000 barrels a day in 2015. They now account for 62.4 per cent of total Canadian imports, the energy watchdog said.

Led by Saudi Arabia, members of the Organization of Petroleum Exporting Countries have also increased their share of the Canadian market.

Saudi imports are up sharply and now comprise 11.4 per cent of the total, while Nigeria's market share nearly tripled last year to 5.2 per cent, according to the federal agency.

The upsurge underscores the dramatic upheaval that has rocked global oil markets since mid-2014, cutting U.S. and international prices by roughly 70 per cent and throwing growth prospects of major energy producers into neutral.

It comes as debate rages over TransCanada Corp.'s proposed $15.7-billion Energy East pipeline, billed by supporters as a way to increase consumption of Canadian oil by refineries in the east.

For now, however, the plants run by Suncor Energy Inc., Valero Energy Corp. and Irving Oil Ltd. are benefiting from a broader range of supply options that includes a steady diet of cheap U.S. crude – a trend analysts say will persist even if the pipeline is built.

"They would still take the cheapest barrel. If it was Canadian-based or U.S.-based, or North Sea, they're going to take that," FirstEnergy Capital Corp. analyst Martin King said.

It's a sharp reversal. For years, eastern refineries sought to increase their diet of North American crude by investing heavily in rail offloading terminals.

A boom in crude-by-rail shipments was underpinned by a wide price gap between benchmark North American West Texas intermediate oil and international Brent crude.

Today, that gap has largely evaporated. It shrunk from an average of $6.52 (U.S.) in 2014 to as little as 45 cents earlier this month, according to FirstEnergy, making deliveries by tanker more attractive relative to inland crude streams.

Meanwhile, pipeline giant Enbridge Inc. in December started up its Line 9 route to Montreal, further undermining demand for rail shipments.

"The refineries tend to run lighter crude oils in Eastern Canada, and there's an abundance of light crude oil in the U.S.," said Jason Parent, vice-president of consulting at London, Ont.-based Kent Group Ltd.

"They're going to take what makes sense to them and what their facilities can run. If that's available to them on Energy East, then they will take advantage of that. If not, it's an avenue for Canadian producers to get their product to export markets."

Irving Oil's 300,000-barrel-a-day plant in Saint John is sourcing primarily global crude types, taking only "occasional" batches of synthetic crude oil from Alberta "when price justifies," a refining industry source with knowledge of the facility said.

A spokeswoman for Valero said the company retains flexibility to obtain supply "from where it's most economical to do so," although it can now supply its refinery in Levis, Que., entirely from North American crude following the startup of Enbridge's Line 9.

TransCanada has said Energy East could start up by the fourth quarter of 2020. The project would send up to 1.1 million barrels a day of crude to refineries and export terminals in the east.

This week, Quebec sought an injunction to force Calgary-based TransCanada to submit the project for a provincial environmental review, ratcheting up inter-provincial tensions.

Mr. King of FirstEnergy Capital said U.S. producers have probably saturated the East Coast and that the surge in foreign supplies does not undermine the case for sending more Canadian crude east. "It would still end up being competitive at the end of the day and the market would price it as such," he said.

BANK WATCH LISTS EARLY WARNING SIGN OF TROUBLE FOR OIL AND GAS INDUSTRY

Royal Bank, CIBC and Scotiabank each added 9 oil and gas firms to watch lists in recent quarterly earnings

They are the early warning signs that a company may struggle to repay its debts: watch lists.

In releasing their latest quarterly earnings, Royal Bank, CIBC and Scotiabank each added nine oil and gas firms to their loan watch lists, the latest sign of trouble in the oilpatch. The names of those companies are kept confidential.

Gordon Sick, a finance professor at the Haskayne School of Business at the University of Calgary, said many energy companies are struggling and likely behind in their loans.

"There's a lot of them who are potentially in default," said Sick. "The banks in Canada are potentially looking at some hits."

Royal Bank's watch list grew after it did a name-by-name stress test on its oil and gas portfolio, said chief risk officer Mark Hughes.

"Following this stress test, we've seen a small increase to our oil & gas watch list for closer monitoring," Hughes said in an email.

The watch list has the banks keeping a close eye on the companies, and is one step before impaired status when a bank considers the loan at risk of default.

Scotiabank said five per cent of its energy portfolio was on the watch list and it moved four loans to impaired status in the first quarter. CIBC said it impaired one loan.

Like the other big banks, oil and gas loans only make up a small portion of Royal Bank's total holdings, Royal Bank CEO David McKay emphasized in a conference call with investors last month.

The Bank of Montreal saw a $200 million increase in gross impaired loans in the last quarter. Close to half of that represented loans to the oil and gas sector, said Surjit Rajpal, the bank's chief risk officer.

"Impaired status is based on where we feel that the loan that we have is now in danger of not getting repaid," Rajpal told investors last month.

"If low oil prices persist this year, we expect our current loan loss rate to increase."

Sick said the banks are doing what they can to accommodate companies and keep loans alive. They would also likely push for a merger or sale before resorting to calling in loans and triggering a full bankruptcy, said Sick.

But the financial picture isn't improving for Canada's oil and gas companies, with the credit ratings agencies also making waves of downgrades.

Moody's recently downgraded Canadian Oil Sands, Cenovus Energy and Encana Corp. to speculative grade, and further downgraded Baytex Energy Corp., Paramount Resources Ltd., MEG Energy Corp. and Bellatrix Exploration Ltd. into the 'C' level credit ratings.

Sick said the agencies look especially at two key metrics when assessing companies: how much higher cash flow is than interest payments, and how the overall value of the company compares with its debts. When either of those ratios are off, it could lead to a lower rating.

"You're getting into situations where the cash flow is the same as the interest owed or even less, and that's where you're definitely going to be in the junk bond," said Sick.

ENERGY EAST PIPELINE HAS 64% SUPPORT AMONG CANADIANS, POLL SUGGESTS

TransCanada proposal for shipping Alberta crude much less popular in Quebec, Angus Reid

A new online poll by the Angus Reid Institute suggests 64 per cent of Canadians support the Energy East pipeline, but there are stark differences when the numbers are broken out by region.

The proposal to ship Alberta crude to Atlantic Canada had the strongest backing in Alberta and Saskatchewan — 87 per cent and 78 per cent, respectively.

Both are oil-producing provinces keen to get their crude to international markets — something Energy East would enable with a proposed export terminal in Saint John, N.B.

In Quebec, however, the poll suggests support for Energy East is only at 48 per cent.

Angus Reid also asked respondents whether they support the Montreal-area mayors who raised environmental concerns about Energy East in January.

On that question, too, there were stark regional divides, with 11 per cent of Albertans and 58 per cent of Quebecers surveyed showing support.

CANADIAN NATURAL RESOURCES BARRELS AHEAD WITH HORIZON OILSANDS EXPANSION

Company views Horizon oilsands operation as key part of future business plan

Canadian Natural Resources Ltd. says it's committing $2 billion of this year's capital budget to advancing its Horizon project and then expects the oilsands operation's funding requirements to drop in 2017 and thereafter.

The Calgary-based company views Horizon as a key part of its future business plan, as it depends less on conventional sources of oil and gas.

The full 2016 capital budget, including spending on Horizon Phases 2B and 3, has been set at between $3.5 billion and $3.9 billion.

CNRL says the Horizon expansion

budget will drop to $1 billion in 2017 and to zero in 2018, after Phase 3 starts production in next year's fourth quarter.

The budget projection was contained in CNRL's latest financial report, which showed it eked out a small profit in the fourth quarter but ended 2015 with a full-year net loss of $637 million or 58 cents per share.

The three months ended Dec. 31 showed $131 million of net income or 12 cents per share, which was an improvement over the third quarter but down from nearly $1.2 billion or $1.09 per share in the fourth quarter of 2014.

RECESSION TO PERSIST IN CALGARY, EDMONTON AS OIL WOES CONTINUE: CONFERENCE BOARD OF CANADA

Low oil prices will shrink economies and drive up unemployment in both cities in 2016

Both Calgary and Edmonton can expect the recession to continue in 2016, the Conference Board of Canada predicts.

Calgary's economy will contract another 1.2 per cent and Edmonton's will shrink a further 1.3 per cent, according to the non-profit economic forecasting group's winter 2016 report.

"The dramatic decline in oil prices continues to weigh on both cities' economies, and weak activity in the energy industry is spreading to other sectors," Alan Arcand, associate director of the board's Centre for Municipal Studies, said in a release.

Calgary's real GDP contracted 2.4 per cent in 2015 while Edmonton's contracted by 1.8 per cent.

In Calgary, employment will decline 2.1 per cent this year, pushing the unemployment rate to 7.5 per cent — topping the national average for the first time since 1987, the board predicts.

"The belt-tightening around the oilpatch, it has big multiplier effects on the economy ... it's the construction economy, it's the trade workers, and those folks are getting hit," said Pedro Antunes, the board's deputy chief economist.

Edmonton's unemployment rate is also expected to keep going up, hitting an almost 20-year high of seven per cent.

After a year of double digit output declines in Calgary's manufacturing and construction sectors, the board predicts more of the same for 2016.

Manufacturing output will decline another 7.9 per cent in 2016, and construction output is forecast to fall by a further 6.7 per cent, the board predicts.

And because layoffs in the oil industry have created a glut of office space, new investment in office buildings and non-residential construction will be discouraged, the board says.

Housing starts in Calgary are forecast to fall by 18 per cent in 2016. In Edmonton, the board predicts an a one-third decline in housing starts.

SLOWDOWN IN OIL PATCH ACTIVITY HURTING WORK CAMP OPERATORS

A slowdown in oil patch activity means fewer trades people on site, putting a squeeze on businesses that house and feed workers in remote locations.

Before the downturn, when the oil and gas sector was chugging along, it was a challenge to entice enough skilled labourers to work for weeks on end far from home. Fat paycheques were one draw, but quality lodging was also key.

Many camps more closely resemble hotels or resorts, complete with Wi-Fi, fitness centres, ice rinks and meals prepared by Red Seal chefs.

• Oil price plunge causes mixed results for East Coast workers, industries

• Laid off oil and gas workers look for work beyond the oilpatch

They're quieter places nowadays, with oil and natural gas prices too weak to justify most new projects.

Black Diamond Group CEO Trevor Haynes figures the company's lodges are at about half occupancy these days. A few years ago, when times were better, it was more like 80 per cent.

The workers who remain are settling in for longer stays, as frequent shift turnovers eat into productivity at the mine or drill site, Haynes said.

Black Diamond is responding by tackling costs. Administrative expenses were down by 23 per cent during the last three months of 2015 compared to the fourth quarter of 2014, while capital expenditures were 97 per cent lower.

One of the more "painful" measures has been to reduce the workforce last year by around 130 to 140.

"It's really hard to turn an organization around from being fast-growth to being very cost-conscious," he said. "It was a very difficult year in that respect."

It's a similar story for another big camp operator, Horizon North Logistics.

CEO Rod Graham told a recent

conference call that he'd like to say the pain is over, "but I know that would be a falsehood."

"Horizon North's traditional energy markets in Western Canada are under extreme duress."

As of mid-February, Horizon North had a workforce of just under 1,200 - down 700 from the same time a year earlier, said Graham.

Jim Seethram, chief operating officer at Orissa Software, said the earliest signs of distress in the resource sector can be witnessed at work camps.

Orissa's system helps companies manage the comings and goings of their workers, processing more guest stays than some of the world's biggest hotel chains.

The decline has been most dramatic in open camps - ones that house workers for quick drilling jobs, as opposed to ones owned by oilsands operators, for instance.

Some regions have felt more pain than others. Shale oil rigs in North Dakota, for instance, "dried up in an instant" as it only takes a few days to wind down one of those operations, said Seethram.

But in the oilsands, the sunk costs are considerable and it takes years to build a project that will operate for decades. Operators are loath to stop construction partway through.

When activity does eventually pick up again, Seethram said he's not expecting to see camp operators pull back much on the bells and whistles for new projects.

"I don't think we can go backward from that," he said. "I think the camp operators have recognized that's what their guests are demanding and that's what draws them to the work site and that's just a necessary cost of business."