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LNG FUELS NEWBUILDS

The notion of cruise ships powered by liquefied natural gas (LNG), once the stuff of science fiction, is rapidly becoming a reality. The first contract for such a ship was signed by Germany's Aida Cruises just a year ago, but there are now 11 orders for LNG-powered vessels, and one study predicted there could be as many as 25 by 2025.

The boom includes two ships ordered last week by Carnival Corp. for its Carnival Cruise Line brand. Starting in 2020, Carnival will use the super-cold fuel to power a 5,200-passenger ship, making it the first cruise vessel in North America to use LNG and the largest Carnival ship built to date. The trend is being driven by environmental rules designed to reduce sulfur emission from ships' exhausts. Natural gas produces almost no sulfur when burned. At current prices, natural gas is also cheaper than some types of diesel fuel, especially in North America. The biggest challenge for the growth of LNG-powered cruising is the rudimentary infrastructure for distributing it at ports. "We have to

build it," Tom Strang, senior vice president for maritime affairs at Carnival said of an LNG delivery infrastructure. "We're obviously working with various partners to make sure we have a supply chain in place. It's not something you can just turn up and buy in the way you can with marine-gas oil or heavy fuel oil." Infrastructure is further along in northern Europe, where most of the 50 or so ships that currently run on LNG are found. Several forecasts see more LNG ships coming soon. Lloyd's Register, the U.K.-based classification society, predicted there will be 653 LNG-powered ships of all types built between 2012 and 2025, including 25 cruise ships. Reporting the result of a study, it predicted that LNG will account for 11% of cruise ships built during the period, the highest adoption rate of any type of vessel. At this year's Seatrade Global convention in Fort Lauderdale in March, an executive from Wartsila, a big maker of cruise ship engines, said it was likely that 80% of cruise ships ordered by 2025 will be LNG powered. Such predictions of rapid adoption are being driven by tight limits on the emission of sulfur from ships' exhaust. Several areas,

including North America, have the limits already, and they are scheduled to go global in 2020, after which sulfur can constitute just 0.5% of exhaust volume. Traditionally ships, including cruise ships, have used heavy fuel oil, a sludgy substance left after petroleum has been distilled for more refined products such as gasoline and jet fuel. The heavy fuel is cheap but high in impurities, such as compounds that when burned produce nitrous and sulfur oxides, harmful to health. To meet the tougher air standards, cruise lines have either switched to expensive low-sulfur fuel or installed chemical scrubbers that absorb the sulfur in the exhaust plume, which then must be disposed at extra cost. Natural gas is a longer-term solution, many experts believe. Mostly methane, it produces no sulfur and lower nitrous oxide emissions and less soot, which is visible pollution and also a health risk. "We see LNG as the cleanest fuel available, at least in the near term," Strang said. "That's the main reason for our choice." Carnival first began experimenting with LNG on a ship delivered last year, the AidaPrima, which was designed to burn natural gas while in port though

not for propulsion at sea. Carnival ordered a pair of LNG-powered ships each last year for the Aida and Costa brands, which operate extensively in Europe. Another prominent brand in Europe, MSC Cruises, has ordered two, with an option for two more.

The dual-fuel engines on the AidaPrima can burn either natural gas or low-sulfur fuel oil. So far, other big cruise companies, such as Royal Caribbean Cruises Ltd. and Norwegian Cruise Line Holdings, have not joined in purchasing the cutting-edge technology. One obstacle is that the insides of a cruise ship have to be rearranged to take LNG fuel. Natural gas used by ships has to be liquefied to reduce its volume, then kept at a temperature of 260 degrees below zero. The tanks have to be vacuum insulated and double hulled for safety. As a result, Strang said they take up about 1.8 times the space of standard diesel tanks. Carnival's LNG engines will be dual-fuel, so they can also burn marine gas oil. But they won't need chemical scrubbers, saving the expense of their installation and upkeep. Using natural gas as a fuel also helps fight global warming. LNG produces 10%

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to 20% fewer greenhouse emissions than burning oil. But partly offsetting that is the incomplete combustion of some of the methane in LNG, resulting in so-called methane slip. Engineers are working to minimize the slip in new designs. Using LNG as fuel also comes with some safety requirements. While it doesn't explode unless confined, natural gas burns, so extra seals and sensing equipment are part of the system design. The super-cold liquid fuel can also crack steel if it escapes. "It is a relatively new industry, and the LNG carrier model is very safe but comes at a cost," U.S. Coast Guard commander Jason Smith said at a Seatrade workshop in March. "These are among the best maintained vessels out there," said Smith, who is chief of the Coast Guard's Liquefied Gas Carrier National Center of Expertise, in Port Arthur, Texas. At the moment, natural gas for use in cruise ships is cheaper than low-sulfur fuel but not cheaper than heavy fuel oil, Strang said. Prices in North America in particular are at 20-year lows because extraction from shale using hydraulic fracturing, or fracking, has increased supply. But oil prices are also low, for other reasons, Strang said. "Right now, what we're seeing is the current pricing is slowing investment in [LNG] infrastructure, and infrastructure is still key," he said.

Although Carnival Corp. so far has used LNG only for its very largest ships of 5,000 passengers or more, Strang said there's no inherent reason it couldn't be used on smaller vessels, just as some cruise ferries now use it in Europe.

He said it should be possible to use them, for example, in Alaska where an environmental investigation is ongoing into excessive visible exhaust from cruise ships. "You'd have to build a supply infrastructure," Strang said. "But I think, in fact, British Columbian ferries and a number of other Canadian entities have ferries that are operating on LNG now."

LAYOFFS AT CALGARY-BASED CONOCOPHILLIPS CANADA START THIS WEEK

Layoffs at ConocoPhillips Canada that were announced in July are taking effect this week, with the most impact in Calgary, a spokesperson confirmed Sunday. Employees learned of the dates last week, Rob Evans said in an email to Global News. He said it was part of the company's global plan to "align our organizational capacity with our planned activity over the next few years." "Approximately 1,000 employees will be impacted worldwide with about 300 in Canada (mainly at our Calgary head office)," he wrote.

In a July statement, Evans had said low commodity prices along with the company's inability to get product to new markets resulted in lower prices in Canada relative to other countries. "Coupled with increased local cost pressures such as corporate taxes, regulatory compliance costs and property taxes, staying competitive in a global portfolio is a challenge for some parts of our Canadian business," he said at the time.

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WILDFIRES RESULT IN \$1 BILLION CAPITAL SPENDING LOSS

Matt Foss said recently that he believes those plans are deferred, not cancelled. But he doesn't know when or if companies will resume their spending, given benchmark oil prices that remain below break-even levels. Foss said the interruptions have dropped expected oilsands spending in the current year to \$18.5 billion from \$19.5 billion estimated in the province's spring budget. "The majority of them were expansions to existing projects," he told reporters on the sidelines of a heavy oil conference in Calgary. "It interrupted the logistics chain for them such that their ability to deploy workforce...over those months was no longer available and then the rebuild effort around Fort McMurray has them

just hitting pause for the moment. Hopefully, they will resume here later this year or early next year." Foss said lower costs have reduced the West Texas Intermediate price at which oilsands expansion projects make money by about \$10 per barrel to US\$50 from \$60 per barrel — but that's still higher than current prices in the mid \$40s. Figures provided by the oilsands companies to the province show that about \$800 million scheduled to be spent in May and June did not take place due to the upheaval in workforce availability and construction logistics caused by the fire, said Foss. Although little damage was done to the projects themselves, rebuilding in the city has continued to cause disruptions, he added. Oilsands analyst Michael Dunn of FirstEnergy Capital said the wildfires affected progress on major oilsands projects under construction

such as Suncor Energy's Fort Hills oilsands mine, but he expects any capital spending decline to be a deferral, not a cancellation, in those cases. Alberta oilsands production dropped by about one million bpd in May, Foss estimated, and by about 700,000 bpd in June. At full capacity, Canada's oilsands industry produces about 2.5 million bpd. One of Alberta's oldest thermal oilsands projects had to shut down during the wildfires and has not reopened. Officials with Japan Canada Oil Sands say their Hangingstone project will stay closed until benchmark oil prices rise above US\$50 per barrel.

CANADA'S OIL FUTURE HAS BEEN HIJACKED

How did the value of your house and your future employment opportunities end up in the hands of owners/operators of buried steel tubes and a single federal regulator? Why does the fate of Canada's largest and most valuable resource industry – and the millions of Canadians who depend upon it – rest with commercial pipeline companies and the National Energy Board (NEB)? What about all the other stakeholders? Why are the governments which own these resources on behalf of the people and all the elected politicians not more actively involved? What about the voters? Who's representing the consumers who need the product to survive in this large cold country and the Canadians whose jobs depend on oil and gas development? When will we hear from the companies that actually find and produce oil? Welcome to Canadian pipeline paralysis 2016. Incredibly, three private pipeline companies –

TransCanada Corporation, Enbridge Inc. and Kinder Morgan Canada, guided by and the vacillating and increasingly impossible mandate of the NEB – are now in charge of Canadian oil policy. Kinder Morgan isn't even Canadian. Give your head a shake. These companies clearly drew the short straw when, in the pursuit of commercial self-interest, they ended up in expensive, high profile and inconclusive public hearings debating aboriginal land claims and the future of planet Earth. Pipeliners are just plumbing companies which connect buyers and sellers for money. Who put them in charge? The logical people to weigh in on such matters of domestic and global importance – our elected politicians – are nowhere to be found. Unless of course they object at which point you can't keep them quiet. The NEB's Energy East hearing in Montreal was shut down on August 29 for reasons of decorum and safety thanks to three highly-motivated professional disrupters. Finally, more people are asking the question nobody wants to answer; how did the future of Canada's oil industry end up being decided at pipeline hearings? Because politicians love regulators. They hide behind them. Regulators are government institutions which study, analyse and adjudicate on major projects somebody believes are in the public interest. They need regulatory approval because they impact people, often called voters. Highways. Power lines. Pipelines. Railroads. Mass transit. All shared public works and utility infrastructure that modern society cannot live without. And people love pipelines. They just don't know it.

Every residential and commercial building is supported by multiple pipelines carrying fresh water and natural gas in and sewage out. Pipeline conduits protect electricity, telephone and cable TV lines. Every community in the country is riddled with pipelines. "Look before you dig". The 2016 oil pipeline stalemate is about the contents not the tube.

A great example of why politicians love regulators is sour gas or hydrogen sulphide development in Alberta. The WCSB is cursed with some of the highest concentrations of poisonous H₂S in the world. Following the tragic 1982 Lodgepole blowout the province's energy regulator concluded future exploitation of reservoirs with a certain combination of H₂S and potential flow rate should be subjected to what became the Critical Well public consultation process. The regulator was the Energy Resources Conservation Board (ERCB), a name which has changed a couple of times. It took some getting used to. A resource developer would have to post a public notice and within a certain distance go door-to-door saying, "We'd like to drill a poison gas well upwind of the school your kids attend. What do you think of that?" The reaction was universally negative. However, through long and expensive public hearings the ERCB would listen to and review everything – including the drilling plan and accidental release mitigation measures – and decide if it could be done safely and in the public interest. Most wells were eventually approved but a few were denied. An entire industry of emergency response planning, community

consultation, security and downwind air quality monitoring emerged. There seemed to be enough money around to keep this increasingly expensive business going.



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