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Published By: NEWS COMMUNICATIONS since 1977 **Saturday October 8th, 2016**

OIL PRICES COULD REBOUND TO $67 BY 2020, BUT RECORD $10B LOSSES EXPECTED THIS YEAR

Deloitte forecasts average price of $47 US a barrel for remainder of 2016

The price of oil isn't going to rebound as quickly as had been predicted — thanks to ramped-up worldwide production, lower demand and stockpiled supplies — but the market is expected to regain its balance in 2017, according to two industry forecasts.

The global financial services firm Deloitte predicts in its September forecast that the average price per barrel will be $47 US for the remainder of 2016.In July, Deloitte said prices would hover around $50 for the rest of this year, possibly touching $60 at some point in 2017. The firm now projects oil prices to average $51 per barrel in 2017.

In its latest outlook, the Conference Board of Canada also takes the view that oil markets will balance out next year, setting the stage for a gradual price climb to $67 US for West Texas Intermediate by 2020. But this year, the oil extraction industry is on track to post $10 billion in pre-tax losses, after losing $11 billion in 2015, the board says.

"Canadian oil producers continue to be challenged by the extended battle for market-share that has kept global crude prices stubbornly low. For the first time in recorded history, the oil industry is expected to post not only the largest level of losses but also back-to-back consecutive losses," said board economist Carlos A. Murillo. Andrew Botterill, a partner in Deloitte's resource evaluation and advisory group, says increased production and high stockpiles are keeping prices restrained in the short term."It may not be the quick build that we might hope for. So, that's why people are expecting it to be … low a little bit longer — but maybe with a little bit more stability than we've seen in the last 18 months," he said. Even when the market balances out — as is expected in the third quarter of 2017 — Botterill says U.S. stockpiles could still keep prices from rising significantly."The optimism we saw earlier this year that the market would achieve a supply-and-demand balance has weakened over the past three months," said Botterill.

The industry's profit-margin issues are forcing major pullbacks in investment, the Conference Board of Canada says."Investment by Canada's oil producers was estimated to have been slashed by close to $25 billion in 2015, with cutbacks expected to continue this year and next," the board said.Oil prices surged by as much as six per cent late last week on news that OPEC members, who were meeting in Algeria, had reached a tentative deal to limit production.But many analysts were skeptical that the cartel would actually firm up the agreement at its next formal meeting in November. The Conference Board of Canada says if the OPEC agreement comes to fruition, prices could recover even faster than its current predictions.

BAT HOUSES AND BUBBLE CURTAINS: A CLOSER LOOK AT THE CONDITIONS FOR PACIFIC NORTHWEST LNG

Dolphins, bats and migratory birds will all be affected by liquefied natural gas project

When federal Environment Minister Catherine McKenna approved the Pacific NorthWest Liquefied Natural Gas project, she attached 190 conditions to it, covering everything from wetlands to underwater noise to brown bats.Just how much of a barrier these conditions are is a matter of debate."There's nothing in that list of conditions that I think are eyebrow-raising," Kevin Hanna, director for the Centre for Environmental Assessment Research at the University of British Columbia's Okanagan campus said."They are intended to ensure that ... we do as much as we possibly can to improve the quality of the project and the way that it operates."Bob Zimmer, Conservative MP for Prince George-Peace River-Northern Rockies is glad the Liberals approved the project but is concerned about conditions limiting the amount of carbon dioxide emissions that it can emit. A 900-kilometre pipeline from Hudson's Hope would carry natural gas from northeastern B.C. wells to the proposed Pacific NorthWest LNG facility on Lelu Island, near Prince Rupert, for liquification and transport on tankers to Asia. (Prince Rupert Gas Transmission Project)"We can actually contribute to the reduction globally of GHG (greenhouse gas) emissions with B.C. LNG," he said. "If we actually limit the capacity of LNG exports, then we're limiting the benefit of it overseas, too."Meanwhile, an organization called the Skeena Corridor First Nations issued a release saying the conditions do not go far enough in protecting the environment and Indigenous rights."Providing a green light for this project at this time will only lead to protracted litigation, which benefits no one," the group said in a written statement.While the effects of the conditions will continue to be debated, CBC contacted the Canadian Environmental Assessment Agency to get a better idea of what some of these conditions entail. Here are some highlights:According to the response from the CEAA, approximately 120 hectares of wetland will have to be removed in order for the Pacific NorthWest LNG project to go ahead.Wetlands such as bogs and swamps play an important role in local ecosystems. According to the conditions, whoever builds the project would have to replace wetlands at a rate of 2:1 — so if 120 hectares are removed, 240 hectares will have to be restored or created elsewhere in the Prince Rupert area.A major concern with the project is its effect on marine life. There are conditions for monitoring effects on fish, crabs and marine mammals.Some of these conditions include the issue of noise control. Just as humans can sustain hearing loss when exposed to loud noises, so can marine mammals such as whales, dolphins and porpoises. In order to avoid harm due to loud sounds, the company building the project will have to conduct tests to determine all areas where noise levels exceed 160 decibels. Whenever a marine mammal swims into that area, work will have to stop until it leaves again.The company will also be required to build bubble curtains — sound barriers made up of tiny air bubbles — in order to reduce the harmful effects of loud noises. It's not just water animals that will be affected by the project. Little brown myotis, better known as brown bats, use Lelu Island as a roosting and mating ground.Since the bats are listed as endangered by the federal government, the company that builds the Pacific NorthWest LNG project will have to take steps to help protect them.Among the conditions related to the bats, the company will have to install and maintain bat roosts to offset any loss of habitat.According to the CEAA, the job of making sure the conditions are being met will fall to its enforcement officers.Additionally, the conditions require an independent environmental monitor appointed after "all reasonable efforts" are made to receive the approval of the Lax Kw'alaams Band and the Metlakatla First Nation.When asked for clarification on the definition of "all reasonable efforts," the CEAA said it meant "earnest discussions."Should those discussions fail, the CEAA will be able to appoint the independent monitor, who in turn will have the ability to stop any activity that does not meet the project conditions.

SHELL INCIDENT PUTS NOVA SCOTIA'S OFFSHORE REGULATOR IN THE SPOTLIGHT

International regulators seeking insights and information from Nova Scotia about Shell's dropped riser. Offshore petroleum regulators from around the world have contacted Nova Scotia's regulatory board, seeking its input and insights following a rare incident earlier this year.On March 5, a two-kilometre pipe broke loose from a Shell Canada-contracted surface ship drilling approximately 225 kilometres from Halifax and fell to the ocean floor. The incident was so unprecedented that offshore regulators from other countries have requested meetings with representatives from the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB)."To sit down and explain to them what happened," said Stuart Pinks, CEO of the offshore board, "so they too can learn." Regulators from 10 different countries will meet this month at the annual International Regulators' Forum conference. The Nova Scotia regulator had planned to deliver a fairly standard update, but after the March incident, it has much more to talk about.It was initially assumed the two-kilometre pipe (called a "riser" by industry officials) quickly landed on the ocean floor.However, the specialized equipment weighing hundreds of tonnes — and costing millions of dollars — slowly sank to the bottom, according to information shared by Nova Scotia's offshore regulator. In fact, the riser took "a number of days" to settle on the sea floor, said Kathleen Funke, a spokesperson with the CNSOPB.Each section of riser is at least 13 metres long and weighs at least 26,000 kilograms. That's approximately the length of an average school bus and twice its weight.More than 100 of these sections were bolted together to stretch from the surface down to a wellhead on the sea floor.

Two days after the riser released, officials witnessed sections still settling at the bottom.

"Was there a significant risk of a spill?" said Pinks, head of the regulatory board. "The answer is an emphatic 'no.'"The riser sections had no oil inside when they disconnected from the surface ship.According to a new Shell report, they fell within 12 metres of the blowout preventer (BOP), which sits atop the wellhead. The blowout preventer is a heavily fortified piece of equipment weighing 235 tonnes and rising three-storeys above the sea floor. "It is an extremely robust piece of equipment that sits on the sea floor," Pinks said.Even if a riser section had slowly dropped on the blowout preventer, and even if it had been damaged somehow, there is a plug installed inside the section of pipe buried beneath the sea floor.That plug "is the primary seal for the well and would prevent any flow of hydrocarbons to the surface," Funke said. "The BOP is there as a secondary seal only."Most importantly, there may not have been oil in the well at all. Shell Canada has now abandoned the exploratory site, saying there were not "commercial quantities of hydrocarbon" discovered.What happened to Shell Canada rarely happens to any offshore petroleum company."This incident is something that other industry players and other regulators can learn from," Funke said.Shell Canada is still studying its options for dealing with the riser. A recent environmental report suggested that leaving the pipe at the bottom could create a form of artificial reef. The other alternative is to remove the riser, piece by piece. That process could take more than six months.Once a plan it formulated, it will be presented to the regulatory board, which has final say over how the company can proceed.

CANADA TO CREATE ONE AGENCY TO OVERSEE OFFSHORE RENEWABLE ENERGY PROJECTS

New plan will introduce regulatory framework to manage future offshore wind and tidal projects.Canada is working on new rules for regulating offshore renewable energy projects, currently a patchwork of laws and procedures that can cause friction between producers and local communities.The federal government is working on a set of comprehensive rules for approving and monitoring offshore energy projects and a single regulatory board to oversee them.It's reviewing similar legislation in United Kingdom, Denmark, Germany, Netherlands and the United States.The new rules would cover "offshore wind, wave and tidal current technologies," according to documents released by the Department of Natural Resources.Right now, "several federal departments have regulatory authority over matters related to offshore renewable energy activities," says the department. So if a renewable energy company wants to launch a tidal turbine or build an offshore wind farm, it needs approval from Transport Canada, Fisheries and Oceans Canada, and Environment and Climate Change Canada. There are a number of upcoming projects that will likely benefit from a more consistent approach.Later this year, Cape Sharp Tidal is expected to lower one of its tidal turbines to the floor of the Bay of Fundy.

The project has run into opposition from local fishing and First Nations groups, who argue more research on its environmental impact is required.There is also a plan to build Canada's first offshore wind farm on the east coast. Beothuk Energy intends to build enough offshore wind turbines to generate 1,000 megawatts of clean electricity. That project still has significant regulatory hurdles to overcome.

OPEC CRIES UNCLE, WHILE GLOBAL OIL DEMAND REMAINS STRONG

Last week I was in beautiful Toronto, where I presented the keynote address and participated in a panel discussion at the annual Mines and Money conference. It was the first time the highly respected gathering of precious metals analysts and investors came to the Americas, and they couldn't have chosen a better city than my hometown. Toronto has long served as a major hub for mining finance, and is home to some of the world's largest gold producers.Toronto is also one of the most multicultural municipalities on earth. According to its website, over 140 languages and dialects can be heard in the city, with a third of its population speaking a language other than English or French at home. This makes it an extremely attractive destination for professional millennials from all over the globe.I had the pleasure of attending a Young Presidents' Organization (YPO) event in Toronto as well. The YPO is the world's preeminent group for global business leaders and executives, providing peer-to-peer learning and networking opportunities among its 24,000 members. The companies they lead generate an impressive $6 trillion in global annual revenue. The daylong event, titled "Culture Shock," focused on the societal effects of disruptive technology, including advanced robotics, 3D printing, the internet of things and more.While at the Mines and Money conference, the Mining Journal presented its Outstanding Achievement Awards. I'm humbled to share with you that Ralph Aldis and I were co-recipients of the Best Americas Based Fund Manager award. It's a great honor to have been selected from among such an esteemed group of portfolio managers.The award symbolizes US Global Investors' strong commitment to its investors and shareholders. It's my firm belief that we've consistently been a leader in the metals and mining space. I'm deeply proud of what we've managed to accomplish over the years, starting almost 30 years ago when I bought a controlling interest in the company. Since then, our funds have been recognized numerous times by Lipper and Morningstar, two trusted independent financial authorities. You've probably heard by now that, in an effort to lift oil prices, the Organization of Petroleum Exporting Countries (OPEC) tentatively agreed to a production cut at its meeting in Algiers last week. The cartel, which controls more than a third of world output, plans to limit daily production to between 32.5 million barrels and 33 million barrels, down from 33.2 million barrels.

This comes more than two years after oil prices were kneecapped, wreaking havoc on several OPEC member nations' economies. Saudi Arabia currently faces a steep budget deficit, as oil revenues make up close to 90% of the country's budget. Meanwhile, Venezuela's currency, the bolivar, has become so worthless that it's now cheaper to use it as a napkin than to buy actual napkins. Airlines flying to the US won't even accept bolivars. (Of course, this has more to do with the government's woeful mismanagement of the country than oil prices.)It's important for investors not to get too excited over OPEC's decision. At the moment, none of this is set in stone. Some OPEC members are already wavering, with Iraq questioning output numbers and Nigeria moving to boost production. Plus, American producers are likely to step into the void OPEC would create. Compared to last year, production is down only 535,000 barrels a day—and that's with far fewer operating rigs. But it appears companies are eager to get back to work. In 12 of the last 13 weeks, North American drillers reactivated mothballed rigs. I expect to see the pace rise as it becomes clearer OPEC will make good on its resolution.

For the past two years, OPEC's pump-at-will policies have flooded the market with cheap supply, causing economic pain for producers with higher cash costs, including those involved in fracking, the Canadian oil sands and deepwater drilling.Since January 2015, more than 100 US and Canadian producers have declared bankruptcy, representing a combined $67 billion in debt, according to Dallas law firm Haynes and Boone.

To weather the low-price environment, global exploration spending has been slashed for two consecutive years. As Bloomberg reports, total investment in world oilfields stands at $450 billion, a significant 24% decline from last year. The International Energy Agency (IEA) expects the cost-cutting to extend into next year.This has driven new oil discoveries to their lowest point since 1947.It also underscores the need for industry consolidation. With exploration budgets down, major oil companies will rely on acquisitions to replace up to half of their reserves, according to energy consultancy firm Wood Mackenzie. When the airline industry was mired in bankruptcies a decade ago, we saw a huge wave of mergers and acquisitions, and we should expect to see the same in the oil patch.A few big oil and gas deals have come out of the price rout—Royal Dutch Shell's (RDS.A) acquisition of BG, worth $70 billion, is the largest by far—but more will likely take place in the near term. Antitrust officials prevented energy giants Halliburton and Baker Hughes from realizing their $35 billion deal, announced back in November 2014. Oil inventories might be brimming all over the globe, but demand remains strong and is expected to swell alongside the global middle class. As I told you in June, India is expected to have the fastest growing demand for crude between now and 2040, replacing China.But don't count the US out. Even with fuel efficiency improving in automobiles, Americans burned through a massive 406 million gallons a day in June, the most recent month of data from the US Energy Information Administration. This sets a new record, beating the previous one set in July 2007, soon before the recession. The record might be short-lived, however, once the July and August data are released.Low prices have emboldened many Americans to purchase vehicles with lower fuel efficiency such as trucks, vans and SUVs, which has been great for auto companies and lenders.