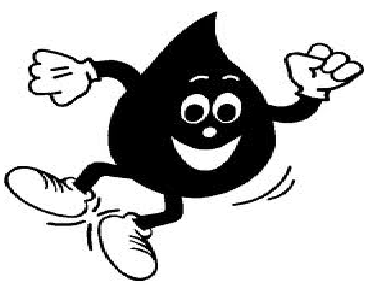
Sign Up with the Oilfield News Online

Oilfield NEWS

www.oilfieldnews.ca

Published By: NEWS COMMUNICATIONS since 1977 **Wednesday November 9th, 2016**



SASKATCHEWAN TO DRILL MOST OIL AND GAS WELLS IN 2017, SAYS PSAC

Oil and gas drilling expected to rise in 2017, but only slightly, according to PSAC

Saskatchewan is expected to lead the country in oil and gas drilling in 2017, narrowly surpassing Alberta, according to the Petroleum Services Association of Canada's latest forecast, which was released Wednesday.There are several reasons why Saskatchewan is expected to surpass Alberta in activity, such as a shallower basin, operational changes, and a more attractive environment for investors."Saskatchewan will outperform Alberta in wells drilled for the first time in the 36 years I've been in the industry and probably the first time ever," PSAC president Mark Salkeld told CBC News. "It's a drive to get the wells drilled, completed, producing and getting cash. It's a hole-making factory that they've got going on down there." Alberta will still lead the country in the amount of oil produced because of the oilsands. Following a sharp drop in drilling activity after the oil price collapse in 2014, the industry's activity will increase slightly in 2017 compared to the previous year. That's why the service industry is only moderately optimistic about the future. Margins are tight and oil and gas companies are still demanding low costs from service companies to keep expenses in check."Everybody's fighting for survival," said Salkeld. "That battle that we've seen to get the costs under control, we're still going to see that for another year." This year, 3,950 wells are expected to be drilled in Canada, and 4,175 wells in 2017. The forecasted activity for 2017 is 63 per cent lower than the number of drilled wells in 2014, before the industry's downturn.

PSAC based it's forecast on an average oil price of $52 US a barrel, which may be a conservative estimate, since some forecasters are anticipating crude prices around $56-$60 next year.

THE WORST OF THE OIL PRICE DOWNTURN IS OVER, SAYS ATB

Alberta economy will improve, but hiring will be weak, according to bank's forecast

Two years after the oil price collapse sent Alberta's economy into a tailspin, ATB Financial suggests the downturn is over and the province's fortunes will rise in 2017.

The Alberta bank says the provincial economy will turn the corner next year.

"Our research suggests that the worst of the 2015-16 oil price downturn is now behind us," said Todd Hirsch, ATB's chief economist in a statement."Oil prices should continue to grow modestly in 2017. That will bring stability to our province's petroleum sector, but not growth. Hiring and resumption of investment will be weak in 2017."Economists have expected economic growth in the province in part because of the anticipated construction boom in Fort McMurray as the city rebuilds from the devastating fire earlier this year.

ATB's declaration that the worst of the downturn is over echoes similar sentiments from commodity experts and oilpatch leaders. Alberta's economy is forecast to contract by 2.6 per cent this year with growth of 2.1 per cent returning next year, according to ATB."The projected growth in our GDP is a good sign, but 2017 will still be a tough year as many Albertans will continue to be out of work," said Hirsch. "Things are going in the right direction but employment levels will take time to catch up to the rise in GDP."

Oil prices fell from more than $100 US a barrel in 2014 to under $30 earlier this year. The steep drop forced companies to slash spending and cut more than 40,000 jobs.

The price of oil was about $45 US a barrel on Wednesday morning for West Texas Intermediate. Forecasts suggest prices will average about $56 to $60 in 2017, only a modest increase from current levels.The latest quarterly earnings showed mixed results for Canada's large oil and gas players.For instance, Suncor surprised analysts by posting a $392 million net profit in the most recent quarter, while Cenovus posted a $251 million loss and said it's looking for more areas to trim spending.

N.S. TO PAY 'NEXT TO NOTHING' FOR MUSKRAT FALLS ENERGY.

Nalcor CEO Nalcor Energy CEO says poor arrangement with Emera is a bad deal for Newfoundland and Labrador.Nova Scotia will be getting electricity for "next to nothing" when the Muskrat Falls hydroelectric project in Labrador starts producing energy, the man in charge of the megaproject says.Nalcor Energy CEO Stan Marshall said the poor arrangement with Halifax-based Emera Inc. is one of the reasons the $11.4-billion Muskrat Falls project has proven to be a bad deal for Newfoundland and Labrador.He said Nalcor is talking with Emera about changing the terms of existing contracts for the Maritime Link, the 170-kilometre subsea cable that will eventually carry electricity from Newfoundland to Cape Breton. Emera is paying for the $1.6 billion link."We only need about one third of (the electricity) on the island (Newfoundland)," Marshall said in an interview this week with The Canadian Press."So what do we do with the other two thirds? To get it to market, we gave one third to Nova Scotia for 35 years, for nothing — other than it is in return for building the (Maritime Link). The remaining one third was supposed to be sold into the market at a big profit, but energy prices have collapsed in the northeast, and it will be sold for next to nothing."As a result, Marshall said, the project will be an economic burden for Newfoundland and Labrador for at least the next four years."This is a project that should not have been done because it's too big for the needs of the province," he said. "We took a risk on what energy prices would be, and we've lost the bet."According to the Emera Newfoundland and Labrador website, the Maritime Link Project is a 35-year investment equal to 20 per cent of the total cost of the Muskrat Falls project and the Maritime Link, in exchange for 20 percent of the electricity from Muskrat Falls.The company says the link will help meet Canadian federal regulations requiring a 50 per cent reduction in coal emissions by 2030 and Nova Scotia regulations requiring 40 percent renewable energy by 2020.Emera and the Nova Scotia energy department did not respond to requests for interviews.Marshall was hired to take over the delayed and over-budget project in April after the Newfoundland and Labrador government determined Nalcor, a Crown corporation, had not provided proper oversight.In June, Marshall agreed when asked if Muskrat Falls had become a "boondoggle," saying the project was based on faulty, high-risk assumptions.Still, Marshall said he remains optimistic he can mitigate some of the economic damage over the long term.The federal government's bid to have every province take part in some form of carbon pricing could help Muskrat Falls, particularly in the context of new carbon taxes, he said."A carbon tax should make this energy much more attractive to others, and we should get a higher price," Marshall said.

"With our four- to five-year horizon, I don't think it will go from a burden to an asset ... (But) our objective is to reduce the impact."As well, he said there are plans in the works to reconfigure parts of Nalcor, and he said the corporation will focus on signing more "firm energy" contracts with customers looking for 10- and 20-year commitments.

THE LOWDOWN ON THE MONTNEY: CANADA'S NEXT BIG ENERGY BET HAS SAME HIGH STAKES AS OILSANDS

Industry spending billions to get natural gas out of the ground, but getting it to market is bigger challenge not many folks outside of Alberta pay much attention to Grande Prairie, a northern outpost tucked away in the bush about 450 kilometres northwest of Edmonton. Even within the province, the growing city of more than 60,000 keeps a low profile — but that's about to change. Across the province, another frontier town, Fort McMurray, knows what's coming. When 170 billion barrels of oilsands bitumen were reclassified as official oil reserves in 2003, the recognition put northern Alberta on the map as a serious global petroleum player.Canadians have since been inundated with talk of the oilsands, whether it's the economic benefits, the "dirty oil" label or the inescapable pipeline politics. Early last decade, though, it was the sheer size of the reserves that had an oil-hungry world just whispering the number, 170 billion barrels, for fear anything louder might spook away the oil in the ground.Instead of fretting over dwindling supplies of fossil fuels, the discussion is now about peak demand, meaning big reserve numbers no longer capture the mainstream imagination. It's in this new world order that the next big thing for Canada's energy industry has quietly arrived.Like the oilsands, the industry has long known about the Montney formation, which stretches 130,000 square kilometres in a football-shaped diagonal from northeast British Columbia into northwest Alberta.Underneath this huge tract of land, the National Energy Board (NEB) estimates there's 90 billion barrels of oil equivalent (boe), most of it natural gas. That's more than half the size of the oilsands, yet the Montney has received only a fraction of the attention, at least from the public at large. For oil and gas types, the gold rush is already on.Output from the Montney has doubled since 2012 and now comprises a third of Western Canada's natural gas production. By 2040, the NEB projects it will make up more than half of the country's production, a future that would make the energy industry positively giddy, if only it were guaranteed.Every issue that threatens to derail the ambitions of Canada's oil and gas industry — access to market, First Nations land rights, public acceptance of infrastructure projects and, especially, the climate consequences of burning fossil fuels — is writ large in the Montney.Even so, it's the one bet a financially strapped industry remains willing to place. In the next four years, natural gas producers are expected to spend more than $34 billion on drilling and completing wells there, according to an estimate from FirstEnergy Capital.Throwing a staggering pile of cash at one place to drill thousands of new wells may go smoothly. More likely, though, the conflicts currently playing out in the oilsands, NEB hearing rooms and along proposed pipeline routes are about to get a new front line.Arguably no one knows the pending opportunity or opposition in store for the Montney better than Pat Carlson, the chief executive of Seven Generations Energy.His company, which only four years ago produced 4,000 boe per day, is now the de facto face of the Montney after its production climbed to more than 100,000 boe per day. The trajectory of this still relatively unknown company, which itself spent $1.1 billion around Grande Prairie last year, underscores the Montney's economic potential, as well as how it could hijack Canada's climate change agenda. Among the world's largest gas plays, the Montney is comparable to the Marcellus, the Utica, the Eagle Ford and the rest of the flagship names that make up America's natural gas revolution. Beyond size, its geology is also changing the economics of Canadian gas production. Whereas 10 years ago, finding gas in an underground zone that spanned five metres was considered a tidy score, the evolution of fracking means Montney drillers are tapping zones with a thickness of 100 to 300 metres. It's a bona fide jackpot, but it still doesn't mean the industry can rest easy. U.S. natural gas output is up so much that the Canadian industry is now fighting to defend its traditional markets in Central Canada from interloping cross-border competitors. Even if Canada wins this fight, which isn't a lock, the next hurdle is finding more customers for Montney gas.At a time when protesters are stopping NEB hearings and activists are blocking a pipeline project in North Dakota, Carlson says the oilpatch needs to forget about the old ways of doing business. Those who insist on putting the words social licence into air quotes, he believes, are part of the problem.Hearing him talk is like listening to a revival tent preacher, only instead of faith he's proselytizing for belief in the natural gas industry. "You just can't say, 'I'm good at making buggy whips and I've always made buggy whips,' when buggy whips are no longer required," Carlson said. "We're looking at our stakeholders and we're saying, 'What can we do to serve them better so they have more confidence in us' so that's reflected in a licence to do things … because I believe what we're trying to do is in the best interests of all Canadians."In the past three years, his company has brought around 75 groups — made up of politicians, government officials, regulators, investors, First Nations members, media and whoever else will listen — to the forest around Grande Prairie to show them exactly what fracking and drilling look like on the ground.It's a rare effort, especially for such a young company, but Carlson knows public perception of the oil and gas industry must change for the Montney to reach its potential.For industry, a best-case scenario would see liquefied natural gas (LNG) terminals go ahead on the West Coast, while a new generation of natural gas-fired power plants comes into service across the country.The broadest trend in the energy world right now, electrification, suggests these pieces could be falling into place. An expanding global population and electric cars on the horizon, explains Peter Tertzakian, chief energy economist at ARC Financial, will only send the world's power needs higher. As yet to be determined is the role of natural gas, which is more climate-friendly than coal, but less so than nuclear and renewables."Years ago, I was giving speeches to oil executives, asking them the question rhetorically, 'What business are you in?'" Tertzakian said. "Inevitably, someone would put up their hand and say, 'I'm in the oil business', and I'd say, 'No you're not, you're in the business of turning wheels, that's your business. You should be concerned about what's happening to the transportation market.'"With two-thirds of every barrel of oil used to move cars, trucks, planes and boats, a shift towards electric vehicles could cause global gas demand to surge. That scenario could see the usual boomtown pressures — the social ills, housing shortages and disregard for environmental and safety standards — descend on Grande Prairie, the regional hub for the Montney.It's a fate the city's mayor, Bill Given, doesn't see as a foregone conclusion."The Alberta mythos is that it's the Wild West and you go out and do your thing," he said. "More and more companies are attempting to take a balanced approach and I don't think that's something we would have seen five or 10 years ago."If a more enlightened approach is, indeed, the new normal, the test will come when gas prices move higher, LNG projects go ahead, and a boom starts in earnest.Before any of that happens, Canada will need to define natural gas's role in the transition to renewables. While the energy sector is quick to position gas, which has half the carbon emissions of coal, as a bridge fuel to a cleaner future, environmentalists are less enamoured.If Canada is to meet its climate change goals, the green lobby doesn't see a big role for gas past 2030. Given how long a power generator would need to run a gas-fired plant to make it profitable, this timeframe leaves gas in an environmental no-man's land."This idea of developing and marketing gas as a solution to climate change, I would disagree with," said Matt Horne, a climate change expert with the Pembina Institute, an energy think-tank. "If we have the right policies in place there will be a role for gas. I don't think we create that role by making more and more gas available, that role is created by having strong climate change policy."Developing the Montney on a grand scale would take a national climate change strategy — as opposed to the current patchwork of provincial regulations — that makes room for natural gas by prioritizing energy efficiency and cutting greenhouse gas emissions elsewhere, like the oilsands.It's a formidable pan-Canadian goal, but without it, the opposition to pipelines such as Energy East shows what to expect for proposed infrastructure that would carry gas from northeast B.C. to projects like the Pacific NorthWest LNG facility.The rapid growth of a company like Seven Generations shows how quickly Montney gas can fill up an LNG terminal. Still, building the infrastructure to bring that gas to market can't happen without government policy support and broad social licence from the public. This, in a nutshell, is the great frustration of the energy industry. The environmental movement, meanwhile, is equally worried about what development without the right climate policies in place will mean for the planet.This stalemate is, by now, a well-worn part of the national conversation. Given what's coming, the Montney may turn into the defining referendum that determines whether Canada can find any middle ground.

To be removed off the fax list, please fax back with your number in the space provided to 1(800) 309-1170: ______________________________