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A DOUBLE STANDARD FOR OIL

It certainly looks like Prime Minister Stephen Harper has pulled out a plum with the announced $36-billion investment by Petronas, the Malaysian state-owned energy company that bought Alberta-based Progress Energy Inc. last year.

We really won't know the full outcome for 30 years, the time frame of the deal Harper sealed with a public handshake on Sunday with his counterpart, Prime Minister Mohd Najib.

But we do know a liquefied natural gas pipeline to the B.C. coast is high on their list. The price tag on that? A reported $19 billion.

By now, foreign government ownership stakes in Canada's energy industry match, outstrip (or are part of) all but the largest of the international conglomerates that mine, refine and ship our energy resources.

But we generally don't approve of government-run energy firms. At least, when it's our government investing.

Alberta's oilsands, conventional crude, natural gas and coal make up the largest non-government-controlled energy reserves in the world. No other country on Earth has resources even remotely close to ours (without the states where these resources are found nationalizing their development).

A quick top-of-memory list of foreign state-owned companies in our oilpatch includes Norway, France, Great Britain, The Netherlands and China. That's just the short list.

Why are foreign state-owned energy firms invited — courted, even — to buy in to our provincial resources with promises of long-term profits for their citizens, when our own citizens apparently do not get such access?

It was not always thus. I was in university during the Arab oil embargo crisis of 1973. The sudden spike in oil prices and the prospect of supply shortages had governments around the world worried.

Canada recognized we had a lot of reserves, but it was thought the easiest pools of oil and gas had already been discovered and claimed. The next generation of development would not be done solely by Calgary mavericks setting up exploration companies on a shoestring and then selling out to the big guys as soon as they hit a gusher.

Deep, tight reserves and oil chemically tied up to clay and sand needed the kinds of capital that only governments can rally.

Pierre Trudeau had a minority federal Liberal government then, with the NDP holding the balance of power, and Canadian people were genuinely worried over the cost of filling up their mighty V-8 cars with leaded gas every couple hundred kilometres.

So, with $1.5-billion startup, Petro-Canada was begun, and it quickly swallowed the stakes the feds held in Panarctic Oil, Syncrude, Atlantic Richfield, Pacific Petroleums, Petrofina and all the service stations owned by BP Canada.

Out West, Petro-Canada was widely hated, although company ran until 2009, when it was all sold to Suncor. And now we like them.

Alberta had its own energy company once, too. In 1973, 60,000 applications were selected to buy shares in the province's newly-formed Alberta Energy Corp.

I was a student member of the legislative press gallery back then, and the talk among the reporters upstairs during question period was whether it was ethical for an ink-stained wretch to get in on the action.

I remember just wishing I had $100 that wasn't already allocated to rent or food, never mind buying shares at $10 a pop.

Only seven years' worth of dividends and growth later, when Alberta Energy got its three-for-one stock split, I remember regretting my need for food.

In 1993, Ralph Klein divested the province from Alberta Energy, and in 2002 a new company called Encana took the whole thing over in a merger.

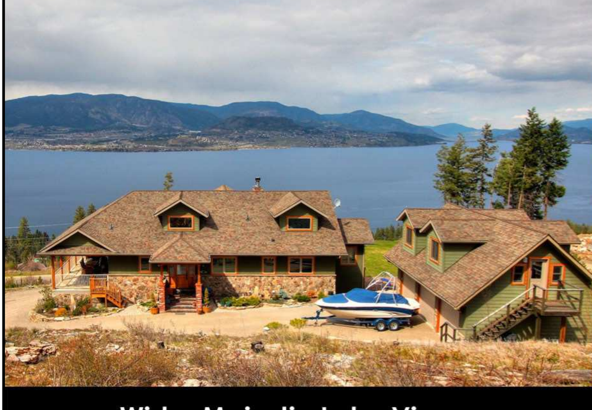
Strange, eh? A state energy company started by Peter Lougheed goes public as soon as it gets really successful. And ultimately it will could be taken over by a communist Chinese state-owned Petro China.

Harper says (some of the time) that he's against the state-owned companies of foreign governments holding too significant a share in our strategic resources. Except when he's not.

But it sort of looks like that horse left the barn a long time ago. And then we sold the barn.

For governments and their people, the upside in direct ownership of energy resource development is huge. Energy supply stability, and the profits to be made supplying it, are vital to a nation's security, and to world peace.

But for reasons Canadians probably can't even explain to themselves rationally, we don't believe in it for ourselves.



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AS ALBERTA STRUGGLES TO GET OIL TO NEW MARKETS, B.C. BUILDS LNG MOMENTUM QUICKLY

While historic energy powerhouse Alberta is struggling to get its resources to new markets, British Columbia is wasting no time getting its liquefied natural gas (LNG) industry off the ground.

Rich Coleman, head of a new super ministry to promote natural gas development in the province, said Monday the government of Liberal Christy Clark is on the verge of finalizing fiscal terms for LNG operators, will follow up with legislation early in the New Year to ensure long-term fiscal stability and anticipates the first major investment decisions to build LNG projects on the northern Coast in the third to fourth quarter of 2014.

"We are competing with other jurisdictions for customers and investment," the minister said in explaining to reporters the urgency to launch the sector.

He was on his way to South Korea, China and Malaysia to promote the new industry, having just arrived back from meetings in Washington, D.C., with Exxon Mobil Corp. and Chevron Corp., which are “very interested” in LNG in B.C.

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Postmedia News/Adrian Lam

“We are going to be competitive,” he pledged. “We are open for business. We are getting our foundation in place with negotiations … with companies that we know are building a competitive stable fiscal regime. We are going to have efficient regulations. We will be strong in our environmental standards. And we will pursue the final investment decisions that will put us in a position to have long-term financial stability for B.C.”

Also on Monday, in a reminder about the competitiveness of the global LNG game, Exxon Mobil, BP PLC, ConocoPhillips and TransCanada Corp. announced they picked the Kenai Peninsula as the lead site for their Alaska LNG project, which would be underpinned by Alaska’s North Slope reserves.

Still, there is a lot of LNG momentum in the Western province, whose future as an energy producer and exporter seemed in doubt a few months ago, when the opposition NDP was expected to form the government. Clark defied opinion polls and was re-elected in May with a pro-development mandate.

It contrasts to Alberta’s slow and controversial grind to secure new markets for its oil, a lot of it due to opposition to oil pipelines in B.C. and in the U.S. Alberta is also looking at what to do with its massive natural gas deposits, which are being pushed out of markets by shale gas discoveries in B.C. and in the U.S. B.C.’s LNG plants are not expected at this point to use Alberta gas.

Related

B.C.’s LNG opportunity is supported by co-operative First Nations, large resources in shale fields, proximity to Asia, and the province’s cool climate, which means it’s cheaper to supercool the gas into liquid form than in other jurisdictions, Coleman said.

After proposing an export tax in February that got poor industry reviews, the province and producers are close to determining a “sweet spot” for fiscal terms, he said. No changes are planned for royalties on natural gas production.

Coleman said he expects fiscal terms to be secondary in determining whether investment decisions move forward.

Supporters cast shadows on the provincial flag as NDP Leader Adrian Dix speaks during a rally in Sidney, B.C.last April.

He said the main consideration will be whether there is agreement on the price of natural gas — it has to be high enough that LNG developers get a return and low enough that Asian consumers can afford to buy it.

Asian buyers have made it known they want a new deal from Canada so prices are closer to Canadian levels, rather than the higher, oil-linked prices they are paying in Asia.

With 10 large players spending billions in the province to study the feasibility of LNG exports, Coleman said there is momentum behind the sector and anticipates many will go forward.

I think we actually have the major players in liquefied natural gas here

Malaysia’s announcement on the weekend during Prime Minister Stephen Harper’s visit that state-owned oil company Petronas plans to spend $36-billion on LNG in British Columbia “may put to bed some of the comments that … we are chasing a pipe dream,” he said.

“I don’t think we are. I think we actually have the major players in liquefied natural gas here.”

The $36-billion figure, which is higher than previous estimates, includes Petronas’s cost of acquiring Progress Energy Resource Corp., building the terminal and the pipeline, and drilling wells, said Greg Kist, president of Pacific NorthWest LNG, the company that will operate the LNG terminal.

Coleman said CNOOC Ltd., the state-owned Chinese oil company that purchased Nexen Inc. last year, is also looking at building its own terminal at Grassy Point to ship supplies to China.

If all works as planned, he said the first LNG tankers could be sailing to Asia in 2017 to 2018. That could be ahead of Albert’s major planned oil sands pipelines.

CANADA’S FIRST OIL-SANDS UNIT TRAIN TO RUN IN NOVEMBER

Western Canada’s first crude-by-rail unit train terminal is set to start transporting 50,000 barrels per day of oil sands crude to the U.S. market next month, the CEO of operating company Canexus said.

The terminal in Bruderheim, Alberta, which will be expanded to 100,000 bpd by the second half of next year as a second supply pipeline is connected, initially will load only “dilbit” oil, or heavy bitumen crude from Canada’s oil sands region mixed with 30 percent light condensate, Gary Kubera, chief executive of privately owned Canexus, said in an interview.

The facility is the first of a half dozen or so Canadian projects that have emerged over the past year to help carry more of the booming production from the Alberta oil

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sands by rail as producers seek alternatives to congested export pipelines. Shipping by rail is more costly, but also more flexible.

At present, the oil sands are only served by manifest trains hauling smaller loads, a less cost-effective mode of transport, but around 550,000 bpd of unit-train crude-by-rail projects - terminals that can load up to 120 rail cars a day - are due to start up in Western Canada by the end of 2014.

The Canexus terminal, which has been shipping 25,000 to 30,000 bpd of crude from Bruderheim on manifest trains since 2012, has already secured customer commitments for about 35 percent of its capacity. The company expects 70 to 80 percent of capacity to be under contract by the end of the year.

“The first unit train is set to run by the end of November,” Kubera said.

“We expect unit trains will be going to the East, West, Gulf coasts. There is a lot of investment going into refineries to allow them to move crude by rail.”

He declined to give exact details of where Bruderheim shipments will go in the United States, saying it would be the decision of the shippers and their customers.

Extra rail capacity could help limit discounts on bottle-necked oil sands crude, which widened to as much as $40 per barrel below the West Texas Intermediate benchmark earlier this year, cleaving a hefty chunk out of producers' profits.

Canadian producer MEG Energy says the terminal allows MEG to ship all of its 30,000 to 35,000 bpd of production by rail to its main market in the U.S. Midwest, as well as the Gulf Coast and Eastern Canada.

“With the massive rail network on the continent it could be to any potential refinery that has interest in that feedstock and has offloading facilities,” spokesman Brad Bellows said. “We have seen a lot of interest, particularly from the Gulf Coast.”

NEW LINES

The initial supply pipeline into Bruderheim will run from MEG's newly operational, 900,000-barrel Stonefell storage terminal, with other producers also able to move crude through that facility.

Cenovus Energy Inc is also signed up as a shipper from Bruderheim, which is served by Canadian Pacific and Canadian National railways.

Cenovus will start moving its Cold Lake crude blend from the terminal once the second supply pipeline is connected to its projects in northern Alberta next year, and once its own heated and coiled rail cars are delivered in the latter part of 2014.

“We are targeting moving about 30,000 bpd of our oil production by rail by the end of 2014,” a Cenovus spokeswoman said. “That will be through the Bruderheim terminal, with some also coming from Saskatchewan and southern Alberta.”

RAW FUTURE

The unit trains at Bruderheim will use heated and coiled rail cars even for dilbit to prevent it becoming more viscous in bitterly cold Canadian winter temperatures.

Heated and coiled cars are essential for transporting raw bitumen, which Kubera said the terminal could eventually start shipping depending on demand, in a move that should boost profits for producers.

“We think in the long term that is the one model that will allow crude by rail to compete with pipelines. Raw bitumen or near-raw bitumen is the better option for crude by rail,” he said.

Pipelines are currently seen as the cheapest method of transporting crude oil but Canadian producers have to dilute their tar-like bitumen with around 30 percent condensate in each barrel - which is more expensive than crude - to allow it to flow through pipes.

Recent research by Sandy Fielden, analyst at consultants RBN Energy, suggested moving raw bitumen on unit trains from Alberta to the Gulf Coast offers a greater netback, $65 per barrel, compared with $51.27 per barrel for shipping dilbit via pipeline.

At the moment, however, the heating equipment needed to load and unload raw bitumen from unit trains is absent from terminals and refineries across North America.

“Our analysis indicates that rail can beat the pipelines but that the infrastructure to achieve the necessary economies of scale are not yet in place,” Fielden wrote in a note.

NATIONAL ENERGY BOARD HEARINGS - REVERSAL OF PIPELINE 9B: AN OPPORTUNITY FOR QUEBEC, AN URGENT NEED FOR VALERO ENERGY INC.

It is vital that the Quebec refining industry has access to new sources of raw material at competitive costs. The reversal of pipeline 9B, allowing the shipment to Quebec of oil from Western Canada and elsewhere on the continent, offers the most reliable and quickest means of making this possible, emphasized Valero Energy Inc. (“Valero”) today in Montreal at the National Energy Board hearings on the Enbridge project.

“The Quebec refining industry is experiencing increasingly fierce competition and there is an urgent need to vary its supply sources so that it remains competitive and viable in the long-term. For Valero, such access to competitive sources of light crude oils remains the fundamental condition for the inflow of future major investments in our facilities,” said Ross R. Bayus, President of Valero's Canadian Operations.

Investments of $200 million

In addition to bolstering the security of the Province's energy production, the pipeline 9B reversal offers significant opportunities for Quebec. For Valero alone, the Enbridge pipeline 9B reversal represents investments of over $200 million at its Montreal East facilities and its Lévis Jean Gaulin refinery, as well as

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the acquisition of two new ships, via a partnership, for the transportation of oil on the St. Lawrence River between these two destinations. These investments would create 200 jobs during the construction phase and 100 permanent jobs, once the two ships are in service.

This project offers a real opportunity for Quebec and its refining and petrochemical industry to benefit from the pipeline 9B's existing infrastructure. This pipeline has proved its reliability and its flow can be reversed in less than one year in order to meet current demand. It also makes perfect sense, both economically and socially, that we should capitalize on this country's raw materials, while also ensuring their reliable and safe transportation," added Mr. Bayus.

CENOVUS ENERGY LOOKING AT MOVING BITUMEN IN SPECIALIZED RAIL CARS

Lack of pipeline capacity has oil companies seeking new ways to move product to market

Cenovus Energy Inc. says some of its oilsands bitumen may soon be able to move to market by rail, adding to the roughly 6,000 barrels per day of conventional crude it is currently shipping by train.

Moving the heavy, tar-like bitumen by rail requires specialized cars that are heated and insulated, and CEO Brian Ferguson says the company has some of those on order.

"We haven't actually yet moved bitumen, but we are absolutely looking at that and doing some tests on moving that," he said in an interview.

"I do think that it's going to prove to be very viable to do, so I think we'll likely be in a position to start that in 2014."

Cenovus is currently moving about 6,000 barrels of oil per day by rail, but those are light and medium crudes from areas such as the Bakken formation in Saskatchewan. That number is expected to increase to 10,000 barrels per day by year-end.

With existing pipelines full and the fate of pipeline expansion projects anything but certain, Cenovus and many other Canadian oil companies are looking at a variety of ways to get their products to the best-paying markets.

Rail is a costlier option than pipelines, but it's seen as a good way to tide producers over until a more permanent infrastructure is built.

"Rail provides a nice supplement to moving volumes," said Don Swystun, executive vice-president of refining, marketing, transportation and development.

"If we can move it on the pipeline, we do, because it's lower cost and more value to us."

In the first three months of the year, the price gap between Canadian heavy oil and U.S. light oil was at US$31.96 a barrel—49 per cent wider than at the beginning of 2012.

A price difference between light and heavy oil is not unusual, given that the latter is more difficult to process. But a dearth of pipeline infrastructure to get that crude to the most lucrative markets worsened the differential late last year and in early 2013.

More recently, the differential has narrowed to a more normal level at around $14, but Ferguson said he does not see that lasting long.

CATHEDRAL ENERGY SERVICES ANNOUNCES ORGANIZATION CHANGES

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces that Mark Bentsen, President and Chief Executive Officer has left the Company to pursue other interests. Mr. Bentsen will also be leaving Cathedral's Board of Directors. Until a replacement is secured, the following interim appointments have been made - P. Scott MacFarlane, Chief Financial Officer, will assume the responsibilities of Chief Executive Officer and Randy Pustanyk, Vice President of Operations, will assume the responsibilities of President and Chief Operating Officer. Mr. Pustanyk was a co-founder of Cathedral and has served as Vice President of Operations since Cathedral's inception. Mr. MacFarlane has held the position of Chief Financial Officer since April 2001. The Board of Directors has formed a special committee to guide the selection process for the best candidate to lead the Company on a permanent basis.

Commenting today, Rod Maxwell, Chairman of Cathedral, said: "Mark has made a significant contribution in the evolution of the Company from its initial stage as a startup directional drilling enterprise through to its current form as a North American based Energy Services Company with a customer focused strategy designed to reduce our customers finding and development costs through research, development and commercialization of industry leading proprietary directional drilling tools, mud motors, and production testing equipment. We wish Mark all the best in the pursuit of his future endeavors". "Cathedral has an excellent team of executives in place on a companywide basis, and the Board is confident that we have the key people necessary to advance our strategy and guide our directional drilling and production testing businesses successfully forward".

Cathedral Energy Services Ltd. (the "Company"/"Cathedral") and its wholly owned subsidiary, Cathedral Energy Services Inc., are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. The Company's operating activities are divided into directional drilling and production testing business units. The Company's shares trade on the TSX under the symbol: CET. For more information, visit www.cathedralenergyservices.com.

KEYERA CLOSES CDN$200 MILLION NOTE ISSUE

Keyera Corp. (TSX:KEY) (TSX:KEY.DB.A) ("Keyera") announced today that it has concluded its previously announced CDN$200 million issuance of long-term notes pursuant to an uncommitted private shelf agreement (the "Agreement") with the Prudential Capital Group ("Prudential"). Proceeds of the notes are being used to pay down existing credit facilities and other general corporate purposes, including Keyera's ongoing capital expenditure program.

In connection with this debt placement, Keyera and Prudential amended the Agreement to, among other things, allow for the issuance of up to US$350 million of notes (subject to certain conditions), up from the previous limit of US$200 million.

WOOD GROUP SEES CANADIAN OIL UNCERTAINTY CONTINUING

British energy services firm Wood Group said on Friday a slowdown in Canada would weigh on results into next year, but confirmed it expects core profit at its engineering division to grow 10 to 15 percent in 2013, in line with a revised target.

Wood Group brought down its 2013 core profit, or earnings before interest, tax and amortisation (EBITA), guidance for engineering in August, to 10-15 percent from 15 percent, on the back of weakness in Canada's tar sands market, which the company also said would make 2014 a challenging year.

"Our business in western Canada has remained subdued," the company said in a statement on Friday.

Canada's land-locked western province of Alberta is home to the tar sands, one of the world's largest crude oil deposits. Plans to carry the oil west to the coast for export to Asia and south to U.S. markets have become mired in political and environmental controversy.

The company is a leading service provider to the tar sands sector.

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