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PSAC Lowers 2012 Drilling Forecast

By Richard Macedo

The **Petroleum Services Association of Canada** has lowered its 2012 drilling forecast due to several factors, including weak natural gas prices and labour shortages.

Natural gas prices have been driven into the ground, mainly as a result of very warm temperatures in North America, particularly in major demand centres in the United States. AECO spot prices hover around C\$2.40 per mcf and Henry Hub isn't much better. The situation, some analysts say, could get worse given the high gas storage situation when injection season begins.

In its first update to the 2012 drilling forecast, PSAC this morning reduced its forecasted number of wells drilled (rig released) across Canada to 13,350 wells. This is a drop of 1,700 (11 per cent) from the industry association's original 2012 forecast released in early November 2011.

However, this still represents an increase of four per cent over final 2011 drilling levels of a total of 12,917 wells drilled across Canada. PSAC is basing its updated 2012 forecast on average natural gas prices of \$3.25 per mcf at AECO and crude oil prices of US\$90 per bbl West Texas Intermediate and the Canadian dollar averaging 97 cents.

On a provincial basis for 2012, PSAC now estimates 8,267 wells will be drilled in Alberta, a rise of two per cent over final 2011 drilling numbers. British Columbia is forecast to have 640 wells drilled in 2012, a three per cent rise from last year. Saskatchewan's drilling rate this year will climb by six per cent over last year to 3,739 wells and drilling in Manitoba will climb 14 per cent to 665.

"Due to skilled labour shortages, warm weather hampering the use of heavy equipment, weak gas prices related to oversupply and the ongoing uncertainty created by the European economic debt crisis, we are seeing restricted capacity across the board," **Mark Salkeld**, president and chief executive officer of PSAC, said in a prepared statement. "While PSAC's current forecast may be well short of the 20,000 plus well counts we were forecasting only a few years ago, the complexity and depth of current wells will keep our industry well ahead of meeting the increasing demand for oil."

PSAC expects to release its mid-year update on April 25.

"We are optimistic that our forecast update at the mid-year point will show relative stability from our now updated forecast of 13,350 wells, though we [will] still be feeling the effects of balmy weather and a labour shortage that is not going away," Salkeld added. "We are looking at new ways of presenting the forecast numbers to tie them more directly to the costs of drilling in various formations across the Western Canadian Sedimentary Basin (WCSB), and we are sure the information will be insightful for people working through future financial and operational business plans."

In an interview this morning, Salkeld said factors like weather, lower gas prices, labour and equipment loomed large in the reduced drilling outlook.

"We aren't drilling as many wells but the wells themselves, when we start getting into the overall metreage and days on wells, we're going to see an interesting change there," he said. "The overall wells are taking longer, they're becoming far more complex to complete."

"In the old days with vertical wells, you'd get maybe 500 metres of exposure to a formation. Now [with] these new wells, we're going 2,000, 3,000 or 4,000 metres directionally in optimal positions within the formations."

The service sector will continue to grapple with labour issues, he noted.

"It's always front of mind for PSAC member companies and their HR departments," Salkeld said. "We're working with the provincial government, working with the federal government."

PSAC has written a labour paper with several suggestions, "on trying to help our area with respect to temporary foreign workers and immigration policies," he said. "[Our efforts also involve] talking to the U.S. government consulate here about some potential pilot projects between Canada and the U.S. that would allow easier movement for workers across borders.

"[It's] an ongoing effort."

Gary Leach, executive director of the **Small Explorers and Producers Association of Canada**, noted that PSAC's drilling forecast update reflects an assessment of the impact of several influential factors on drilling activity.

"Leading commodity price forecasts have recently dropped their predictions for natural gas prices significantly and the winter has proven thus far to be fairly mild with the associated limitations on accessing certain locations and moving equipment," he said. "As the industry shifts more towards horizontal drilling, associated with more sophisticated and expensive completion methods, the sheer number of wells drilled is becoming a less central indicator, although still important, barometer of overall industry activity and financial strength."

The latest forecasts for natural gas prices make it clear that no relief can be expected over the next year, Leach added.

"The junior and mid-cap sector has seen progress on reducing the weighting of natural gas in the sector's overall production but this masks the fact that some have been more successful than others in making the shift to liquids and crude oil," he said. "We are going through a difficult period of transition but the junior and mid-cap sector remains home to a lot of talented people. New leaders are emerging all the time and capital is still available for the right story."

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