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2010 will be rebound year for energy: SEPAC

Posted 3 hours ago

CAROL CHRISTIAN

Today staff

This coming year should be one of recovery for junior and mid-sized oil and natural gas explorers as they close the door on a year described as one of the worst for the industry.

"2009 was probably the worst for the oil and gas industry in Alberta in 20 years, for a number of reasons," said Gary Leach, executive director of the Small Explorers and Producers Association of Canada.

The effects of the financial market collapse that began in the fall of 2008 worsened at the end of the first quarter of 2009, when Leach said the all-important equity and stock markets hit their lows in March.

"When you've got that kind of very, very frightened capital markets, particularly the oil and gas industry and particularly the junior and mid-cap size companies find it very, very difficult to find financial backing or investors," he said. "Our members are typically going to the equity markets on a regular parade to raise money for the upcoming drilling program."

And if the money dries up there's no drilling.

"Compounding that ... commodity prices really nose-dived as well."

Oil prices, for example, hit an unprecedented \$147 a barrel in July, then crashed to the mid- \$30 barrel mark by last February.

While oil prices have recovered "very, very nicely," now sitting around the US\$81 a barrel mark, Leach said natural gas has not recovered nearly as much, and not nearly enough to really rejuvenate the industry.

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"So 2009 was, for a lot of reasons, a very, very difficult year for the oil and gas sector," he said. "We all know that thousands of jobs were lost in the upstream sector, and there are a number of sizeable companies in Calgary that were affected as well, and so even in some of the offices, a lot of jobs disappeared ...

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"We're starting in 2010 hopefully on the cusp of recovery. We've got some nice recovery in oil prices and for the first time in probably 20 years, targeted oil well drilling in Alberta will equal or exceed natural gas drilling so it's a big shift in investment targets and it's driven in large respect by the different valuation that you're getting for crude oil versus natural gas."

If companies have a portfolio of oil and gas drilling prospects, they will typically focus on the oil right now, Leach said.

With this year looking pretty good on the oil side, Leach added on the natural gas side it's still not very attractive by historic comparisons but it's better than it was.

"There's still a very low level of investment iterations for gas," he said. "Particularly here in Alberta, we're suffering from the kind of legacy we have of big conventional oil and gas resources which right now, on the gas side, aren't very competitive with some of these large shale gas projects that the United States has been particularly successful in, and we're also having to face competition from British Columbia on the shale gas side."

Over the past decade, this natural gas produced from shale, a fine-grained, clastic sedimentary rock, has gained importance as a natural gas source in the U.S. Interest has spread globally including in Canada.

A Fraser Institute report in early December noted that B.C. and Saskatchewan were gaining on Alberta in terms of attractiveness when it comes to investment.

Leach noted that it's not Alberta making things worse but other provinces are catching up to it, continuing to make progress, reducing their overall corporate income tax rates.

"Everybody has realized — all these different North American jurisdictions — that it's a competitive world out there for investment and investment means jobs, so other provinces, I think, are catching up to where Alberta arrived at a few years ago."

Alberta is part way through a study analysing a lot of data around the competitiveness of this province as a destination for oil and gas investment and Leach hopes this year, that will produce some positive results and improve the investment climate here in Alberta.

He describes this year as a "turning the corner year," hoping there's nowhere to go but up.

"I try to avoid being too bold in my predictions," he added, referring to an old joke that "he who forecasts should forecast often."

Give the volatility of the industry including commodity prices, Leach, recalled nobody foresaw that big financial collapse 18 months ago, and "it just reminds everybody who prognosticates about how frail that really is."

"I think all we can say right now is if the United States economy continues to improve and the Canadian economy improves, and China and India continue to be robust sources of oil demand then Alberta's economy should be improving through 2010 and hopefully it'll continue that way in 2011."

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