



# Great Expectations

Can Deep Panuke fuel future development offshore Nova Scotia?

By Martin Connelly

**Things** didn't so look good for the Nova Scotia offshore sector five years ago. Reserves at the Sable Offshore natural gas project were decreasing, exploratory wells had turned up dry, and the Deep Panuke natural gas field was on hold indefinitely. But things are different today, and it seems like the Nova Scotian offshore might be coming into its second wind.

In March 2010, ExxonMobil filed an application to conduct an offshore seismic survey close to its Sable Island natural gas project to consider "the feasibility of bringing in additional gas supplies to the (Sable project) from some (35) undeveloped fields."

Deep Panuke, meanwhile, is about a year from first gas, and its owner, Encana is poised to become the single largest producer of natural gas in North America. (Note: Encana rebranded itself this spring as a dedicated pure play natural gas company, after spinning off its oil holdings as Cenovus in the fall of

2009. Part of that rebranding was changing the name from EnCana to Encana.)

Deep Panuke was discovered in 1998 by PanCanadian Petroleum Ltd., two years after the Alberta company purchased the Cohasset and Panuke oil fields on the Scotian shelf. Progress continued, but in 2003 the company (named EnCana after a merger with AEC) put the project on hold. The original plan called for three separate platforms, owned and operated by EnCana, and this was deemed prohibitively expensive.

Encana filed new plans in 2006, and they were approved in 2007. Almost immediately the Dutch company, Single Buoy Moorings Offshore, was selected for the provision and operation of the Deep Panuke production field centre. SBM will own and operate the single production platform (as opposed to the originally proposed three) which Encana will lease for the duration (an estimated 13 years) of the project. When the well is

dry, SBM will disassemble the platform for use elsewhere.

The design capacity of the current project is 300 MMscfd (million standard cubic feet) of gas, totaling an estimated 632-billion cubic feet, all of which will be sold to the Spanish oil and gas company Repsol YPF SA. Made in 2009, the deal is "a chance to get access to more gas, and it allows us to gain market share and grow faster than we'd originally thought we'd be able to," said Repsol spokesman Kristian Rix.

Gas will be processed on the offshore production facility and transported via new subsea pipeline to Goldboro, N.S., where it will connect to the Maritimes & Northeast Pipeline, with average annual production phase expenditures of approximately \$150-million. Encana could have used existing subsea infrastructure owned by ExxonMobil to pipe its gas to land, but building the new pipe was cheaper than paying the tolls for use of the old one.



From new ideas, to new structures, to new energy... **Pennecon Energy** has changed to better meet your needs. Now restructured into 5 sub companies, we're your integrated service offering. Your comprehensive suite of services. Your ultimate energy solution. So, meet the new Pennecon Energy:

- **Pennecon Energy Technical Services** (formerly Ozark Services Ltd)
- **Pennecon Energy Hydraulic Systems** (formerly Hydraulic Systems Ltd)
- **Pennecon Energy Marine Base** (formerly Bay Bulls Marine Terminal)
- **Pennecon Energy Industrial Services** (formerly Penney Industrial Ltd)
- **Pennecon Energy Projects Group** (NEW)

Leading this change is our expert team, featuring four new appointments:

- **Paul Stanley**, General Manager of Pennecon Energy's Technical and Strategic Planning
- **Rhonda Devine**, General Manager of Pennecon Energy Technical Services
- **Laudric Jenkins**, General Manager of Pennecon Energy's Finance and Administration
- **Eddy Knox**, General Manager of Pennecon Energy Hydraulic Systems



Contact us to learn how we can work together. 709.726.5888



Two and a half years in, the project is a year behind schedule and \$100-million over the original \$700-million budget. Drilling was delayed by weather last fall, and the production facility being fabricated in Abu Dhabi is late as well. “Cost control is always important, but sometimes increases happen,” said Lori MacLean, an Encana spokeswoman, noting that everything is still on track despite the delays. “Things are progressing. There are a number of activities happening in parallel this summer,” she said.

Offshore, those activities include the completion of drilling on production wells and the commencement of a subsea program to install flowlines. Onshore, the subsea pipeline that made landfall in Goldboro last year will be connected to the Maritimes & Northeast pipeline.

Economically, the Deep Panuke development has been a boon for Nova Scotia. Encana’s plan promised 1.35 million person hours of work in Nova Scotia during development, no less than 850,000 of which will be for Nova Scotians. Encana will pay royalties between \$50-million and \$300-million to the Nova Scotian government over the life of the project, but Paul McEachern, managing director

continued page NR30



## CORE TAKES A NEW DIRECTION

NEW VENUE | NEW NETWORKING EVENTS | ENHANCED PROGRAMME

### With Keynote Speakers

Honourable Darrell Dexter | Premier of Nova Scotia

Sheila Leggett | National Energy Board

Greg Parfy | Global Energy Research, RBC Capital Markets

### Session Topics Include

Sustainable Energy | New Frontiers | Finding the Prize

## October 5-7 Cunard Centre, Halifax

Visit us at [www.coreconference.com](http://www.coreconference.com) for more information!

CORE 2010 is a project of Offshore/Onshore Technologies Association of Nova Scotia



## Pushing Production Onshore

When EnCana shed its oil sands holding last year, it created an estimated \$4.2-billion (CDN) in value for shareholders, but it also put all of the company's eggs in one basket. As Canada's largest "pure play" natural gas firm, Encana's fortunes now hang on its ability to control the market, and it wants to double production by 2015.

**Here's why:** Technological changes in the extraction of natural gas (hydraulic fracturing and horizontal drilling) have led to the discovery of vast reservoirs that were not previously producible. This May, the Canadian Society for Unconventional Gas released a report stating that Canada's natural gas in place resource is almost 4,000 tcf (trillion cubic feet), with a marketable portion at between 700 and 1,300 tcf. According to Allan Boras, Encana spokesman, "our view is that gas will be abundant and affordable for a long period of time."

As of June 1, the price of natural gas is around \$4.30 – substantially under the approximate six dollar supply cost. Entering such a weak market might not seem like a good idea, but Boras is confident that the current price point is unsustainable. "Once the surplus is consumed, the market will return to a supply demand balance," he said.

And when it does, Encana aims to be the lowest cost producer. "We will be the most competitive and the most successful by producing greater volumes of gas at the lowest cost, and we constantly work on pursuing that equation as a company in all of our operations," he said.

Given that profit margins are negative in the short term, this is a good time to hire underemployed production workers and capital. The bottom fell out of the price of steel during the 2008 economic crisis – which means production costs are on track to rise significantly in the long run.

Encana is taking the long view, and it doesn't hurt that the company is big enough to wait the market out. When prices fell below \$4 mBTU last summer, Encana shut in nearly 500-million cubic feet of gas a day, a strategy CEO Randy Eresman publicly considered for this year.

Ultimately, the market will have to balance, but big money is far from assured. With so much energy focused on growing the renewable energy sector, natural gas (despite its clear environmental advantages) may get lumped in with the rest of the petroleum industry. At this point, Encana needs to lobby, and lobby hard.

# FYI

## Tim Pellerin named Vice President, Marketing and Merchandising, NSLC



Kevin Stoddart, Vice President, Knightsbridge Robertson Surette, is pleased to have assisted the Nova Scotia Liquor Corporation (NSLC) in the appointment of Tim Pellerin as Vice President, Marketing and Merchandising. A native Haligonian, Tim is a proven leader with more than 13 years of marketing experience in increasingly senior roles. In his new role, Tim will lead the evolution and communication of NSLC's brand strategy, as well as developing innovative marketing and merchandising practices that enhance the customer experience.

"It is a pleasure for us to welcome Tim to our team," said Bret Mitchell, CEO of NSLC. "His strong business acumen, customer focus, and track record of developing marketing strategies that maximize growth, will prove essential in identifying and capitalizing on emerging trends in this industry."

Please join us in congratulating Tim and welcoming him back to Halifax.



[www.kbrs.ca](http://www.kbrs.ca)

Kevin Stoddart, Vice President ♦ [kstoddart@kbrs.ca](mailto:kstoddart@kbrs.ca) ♦ 902.424.1128  
Toronto ♦ Montreal ♦ Calgary ♦ Vancouver ♦ Halifax ♦ Moncton ♦ St. John's

of the Offshore/Onshore Technologies Association of Nova Scotia (OTANS), sees many more benefits than what will, in the long term, be fairly modest royalties.

According to McEachern, the project has both economic and symbolic importance. On the economic side he sees the development of Deep Panuke as doing three things. "It is keeping some of our company skills at home, and that is important if you're trying to maintain a

current resume so you can sell your goods and services abroad. Secondly, it gives us a second customer, and everyone in business knows that it is absolutely crucial to your business to have two customers. And thirdly, by filling the provincial coffers with offshore royalty revenues it continues to solidify support for the sector among the public," he said.

Moreover, McEachern sees the Deep Panuke facility, even though it isn't yet operational, as proof of a mature sector, a

template for future development, and most importantly, a marketing tool. "I'm looking at it (Deep Panuke) as part of an attraction plan to get exploration jump-started again, because we have not had an exploration well in this province for at least four years," he said. "If we are going to attract other people to this area, and advise them, and suggest they risk huge amounts of capital here, you have to point to some successes, and Deep Panuke is essentially that. It is just as important a marketing tool for the province as it is a pool of natural gas for Encana."


McEachern puts a lot of faith in the growth that can come out of a successful Deep Panuke, but marketing offshore drilling isn't an easy exercise. Exploration is expensive, and having to work underwater adds huge costs to the equation, generally in the range of \$75-to-\$100-million a well.

Encana is hoping to double its overall production in the next five years, but it's not perusing any other offshore projects. "We don't have any exploration plans off Nova Scotia," said Encana spokesman Allan Boras. "We're focusing on developing Deep Panuke and bringing that on in a cost efficient and timely manner, but we have a large land base onshore and plenty of opportunity to grow [there]."

And then there's the oil spill in the Gulf of Mexico [see page NR8]. Never mind that it's oil, not natural gas, and under 1,500 meters of water, not 45 - offshore drilling isn't the place to find good publicity. For someone who spends his time championing the offshore, McEachern recognizes this as a significant problem. "The public is still waiting to see what happens here, and it really is too early to tell, but I don't think anybody should be smug enough to say this doesn't impact us... it's obviously going to impact us." he said.


For Encana, MacLean made sure to point out the apples to oranges comparison, but said safety was always a concern. "We're taking our drilling operations very seriously, we'll continue to monitor our activities off shore, and we'll continue what we've been doing since January," she said.


Just about a year from first gas, Encana can only continue as it has, determined to stay on budget and on target. It would be nice to see the project signal a renaissance for the Nova Scotian offshore, but it's too early to tell. | **NRM**



**SOURCE ATLANTIC**  
Industrial Distribution and Services Group  
www.sourceatlantic.ca

**Your Source for Thermal Imaging Products**

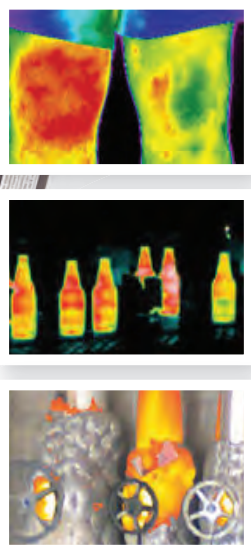





**EXTECH INSTRUMENTS**  
A FLIR COMPANY

**Get the Complete Solution**

**Detect it with FLIR | Solve it with Extech**



**FLIR Thermal Imagers and Extech Test & Measurement Tools**



**Contact Us Today! 1.888.846.7637**