Gas Pains Likely to Ease for Canadian Producers !

Shawn McCarthy

Globe and Mail Energy Reporter

August 10, 2007

The Conference Board of Canada predicts natural gas prices, and producer profits, will rise in each of the next four years

Canada's natural gas producers can expect some relief from the tough markets they've experienced over the past year, with profits likely to rise steadily over the next four years, the Conference Board of Canada says.

In a report released yesterday, board economist Louis Thibault said he expects natural gas prices to climb an average of 6.2 per cent a year throughout his four-year forecast, after hitting recent lows in the fourth quarter of 2006.

Mr. Thibault said the higher prices should be enough to offset lower production volumes and higher production costs, boosting profits.

Profits fell 20 per cent in 2006, as cost increases and aggressive drilling programs combined with a slide in prices from the record highs set after hurricanes Katrina and Rita in late summer 2005.

Mr. Thibault said natural gas producers should see a 10-per-cent increase in profits this year - with similar increases in each of the following three years - as a result of higher prices and sharp reductions in drilling costs.

"Revenue growth will remain high, while some alleviation of high growth in costs will allow profit growth to remain robust," he said.

He added that producers are scaling back their drilling programs due to the drop from sky-high prices in late 2005 and early 2006, a rising Canadian dollar, which reduces export revenues, and the disappointing results of those programs.

Natural gas prices have been on a roller-coaster ride since spiking after Katrina. After hitting double digits in the winter of 2005-06, the fuel was trading at $6.83 a gigajoule on Calgary's Natural Gas Exchange a year ago.

The price hit a low of $3.01 a gigajoule last October, climbed to $7.80 over the winter, then slumped again this spring as North American inventories grew. Yesterday's spot price was $4.64 a gigajoule.

"We're slowly working back up" on prices, Mr. Thibault said. "The fundamental pressures in the market on the supply-and-demand front [are] really contributing to a sustained upward pressure on prices."

At the same time, continuing high oil prices should lead to higher natural gas prices over the medium term, with oil prices potentially driving industrial users and utilities to increasingly rely on gas.

Mr. Thibault noted that conventional gas supplies are declining and producers are turning to higher-cost sources, including methane trapped in coal beds and deep pockets of gas in tight formations.

"We're getting to a point where it is clear that reserves are not there any more. Eventually, you stop drilling like that, and that's what we've seen" with the drop in drilling activity, he said.

Employment in the natural gas sector boomed in 2005 and 2006, growing 14 per cent and 11 per cent. This year, however, the Conference Board projects that employment will fall 6.5 per cent, and then remain flat.

Natural gas production in Canada is forecast to fall 0.4 per cent this year and then by an average of 0.3 per cent a year over the next three years.