Vermilion Energy CEO Lorenzo Donadeo Sees No Relief For Canadian Energy Producers

Description

Do you hear that? That's the sound a money slowly being drained from the coffers of Alberta's energy industry.

Thanks to a shortage of transportation infrastructure, Canadian energy products are some of the cheapest in the world. Last year, Natural Resources Minister Joe Oliver told an audience in New Brunswick that the discount for North American energy supplies was costing Canada "$50 million every single day —$18 to $19 billion every year." And since then that figure has been revised higher.

In part two of my interview with **Vermilion Energy** (TSX:VET, NYSE:VET) Chief Executive Officer Lorenzo Donadeo, we discuss his outlook for energy prices and whether he sees any relief for North American oil and gas producers. Below is the transcript of our conversation; it has been lightly edited for clarity.

Robert Baillieul: Oil is trading at around a $10 to $30 per barrel discount to Brent depending on which benchmark you want to use. Alberta natural gas is going for $12 per thousand cubic feet discount to European benchmarks. From your perspective, will we see any relief in the near future for the North American energy industry? Do you see that discount narrowing any time soon?

Lorenzo Donadeo: Personally I don't see it on the oil side.

Right now the cost of getting rail is about $17 per barrel and so as a result the way I look at it is our netback prices in Canada relative to Brent is going to reflect a $17 to $18 differentiate until such time as we get pipelines in the ground whether it's Keystone, west to east, or [Northern] Gateway. But those projects are still two to three years out. I think we're going to be seeing those discounts continue until then.

On the gas side I think this cold weather is here for a while. It has really supported gas prices and we're really enjoying it right now. I'm not totally convinced that it's going to be a sustainable price level over the longer term just because there's just so much gas out there that people have put on the backburner when prices dropped off. When prices rise they'll just ramp up production again and we'll see gas prices range bound in the $4 to $5 range for the foreseeable future.

Baillieul: Yes, a quick look through the inventory reports show that there's a lot of gas sitting in storage. I don't want to put words in your mouth but in your previous conference call you listed a couple of bullish catalysts for European gas prices. Can you give a little colour on the market across the pond?

Donadeo: On the European side part of what has happened there is that the declines in the North Sea production have been more significant than originally anticipated. What's happening is that the market share for both Norway and Russia is increasing from about 45% to about 55% over the next year. And as a result Russia has been very determined in terms of tieing their gas production to higher oil brent pricing. And this just really strengthens their negotiating power.

In addition to that Russia is constructing a major pipeline to China over the next couple of years where they're going to have an alternative market for their supply that is going to consume significant volumes. As a result you're going to see strong European gas prices. I've seen reports calling for gas prices to trade around the $11 to $13 range over the next several years.

Coming up next…
There's a lot of media buzz about the emerging Duvernay shale field in northern Alberta. According to estimates from Alberta's Geological Survey, the play could rival the infamous North Dakota Bakken. In part three of my conversation with Lorenzo, we discuss the prospects for the Duvernay and Vermilion operations in the field.

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