



## 3 Key Numbers From the Montney

### Description

Higher crude prices and narrowing price differentials between Canadian crude blends and West Texas Intermediate is generating considerable activity in Canada's oil patch. Driving renewed interest among government agencies and players in the patch to uncover and develop further petroleum resources. This is seeing considerable interest in Canada's unconventional oil and gas formations, most notably the Montney and Duvernay.

The Montney formation lying across northwestern Alberta and northeastern British Columbia is fast shaping up as one of the most exciting emerging unconventional oil and gas plays in Canada. In 2013, the formation was formally evaluated by Canadian federal and provincial authorities with some startling results.

#### 1. Considerable oil and gas resources

The evaluation of the Montney formation found it contained considerable potential oil and gas resources. The assessment identified 1.2 billion cubic meters or 449 trillion cubic feet of natural gas, 14.5 billion barrels of natural gas liquids and 1.2 billion barrels of crude.

These tremendous natural gas resources make the Montney one of the world's largest known natural gas formations. The majority of the natural gas and non-gas liquids lie in the section of the Montney in British Columbia while the Alberta side contains the majority of the oil resources.

#### 2. 100 years of Canadian natural gas consumption

Based on total 2012 Canadian natural gas demand of 88 billion cubic meters or 3.1 trillion cubic feet, the Montney gas resource holds around 145 years of Canada's natural gas needs.

#### 3. One of Canada's most economic gas plays

Even though the Montney is in the early stages of development it is already producing significant amounts of natural gas. In 2012 alone natural gas production from the Montney grew to an average of 48.6 million cubic meters or 1.7 billion cubic feet, making up over 12% of Canada's total natural gas production.

The key reason for this rapid growth in production is because the Montney has been identified as one

of the most economic natural gas plays in Canada. The National Energy Board found natural gas supply costs in British Columbia, where the majority of the Montney's natural gas resources lie, were some of the lowest in Canada at 10% lower than the weighted national average.

### **What does this mean for investors?**

There is a range of energy companies operating in the Montney and the formation continues to attract considerable attention from energy juniors and majors. In late 2013, **Talisman Energy** (TSX: TLM)(NYSE: TLM) sold 75% of its Montney acreage in northeast British Columbia to Progress Energy Canada, a subsidiary of Malaysia's Petronas, for \$1.5 billion.

The biggest operator in the Montney is Canadian natural gas heavy weight **Encana** (TSX: ECA)(NYSE: ECA), which has been active in the formation for almost a decade. The Montney has become a focus for Encana because of development costs coupled with its assets in the formation being rich in higher margin natural gas liquids such as butane, propane and condensate.

Encana has allocated between \$400 million and \$500 million for further drilling in the Montney in 2014. This is because the formations characteristics fit well with the company's turnaround strategy, which is focused on boosting lower cost natural gas and more profitable natural gas liquids production. The formation also has plenty of running room with Encana having identified 25 years of drilling opportunities in the formation.

Even with Encana's share price having popped 16% for the year to date, there are still [plenty of reasons to buy Encana shares](#). This includes gaining exposure to what is shaping up as one of the lowest cost and most exciting natural gas plays in Canada.

### **Foolish bottom line**

The Montney is fast emerging as one of the most exciting unconventional natural gas and natural gas liquid plays in Canada, which is particularly appealing because of the low development costs associated with the formation. This, coupled with the formation's considerable resources, will continue to attract the attention of energy companies and investors alike.

## **CATEGORY**

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