



2015 Could Be a Big Year for Offshore Oil in Canada

Description

Canada's offshore oil industry is about to get much busier. Separate exploration efforts led by global energy giants **Royal Dutch Shell plc (ADR)** (NYSE: RDS-A)(NYSE: RDS-B) and **Statoil ASA (ADR)** (NYSE: STO) are expected to begin new exploration phases next year. If these exploration efforts are successful it could jumpstart oil production in the Atlantic in the years to come.

Exciting days ahead

Canada's first offshore well was drilled in the 1940s, but the wells saw the most success in the 1970s and 1980s. Enthusiasm for drilling, however, has waned over the years as Canada currently produces oil and gas from just a handful of projects in the Atlantic. That, however, is all about to change.

Over the past couple of years, Statoil and its partner **Husky Energy Inc.** (TSX: HSE) have made three oil discoveries in the Flemish Pass, which is off the coast of Newfoundland. The largest discovery, Bay du Nord, is estimated to hold 400 million barrels of oil. There could be a lot more oil discoveries to come as the pair has a significant acreage position in the region and has already identified several additional prospects that look promising.

Drilling on the next phase of exploration and development was to begin this quarter and is scheduled to continue throughout 2015. Given the discoveries that have already been made, investors should keep an eye out for announcements of additional discoveries in the year ahead.

The other exploration area to keep an eye on next year is off the coast of Nova Scotia. A few months ago, Royal Dutch Shell signed an agreement with **ConocoPhillips** ([NYSE: COP](#)) and **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) for a joint venture on an exploration program in the Shelburne Basin. The \$1 billion venture is expected to begin drilling late next year. The Shelburne Basin is an unexplored area, and therefore is a risky play for these producers. However, because it's a deepwater play, there is a greater likelihood that discoveries, if made, will be of oil and not natural gas. Furthermore, if a discovery is made it could increase the enthusiasm of oil and gas companies to keep searching for oil off Canada's Atlantic shores.

What this means for Canada's energy industry

Offshore oil production in Canada has been declining in recent years as the natural decline rate of mature oil fields has taken over. Husky Energy, for example, is expecting to see steady production declines from its existing oil fields in the Atlantic until 2017, when its \$2.8 billion West White Rose project comes online and boosts production. However, beyond that project Husky Energy is pegging its production growth hopes on discoveries from the Flemish Pass. If all goes according to plan, Husky Energy and Statoil should bring the Bay du Nord discovery into production sometime early next decade.

Meanwhile, the addition of ConocoPhillips and Suncor Energy to Shell's team is an important development for the industry. Suncor Energy has a lot of experience in the Atlantic as it operates the Terra Nova field and is a partner with Husky Energy at White Rose. Meanwhile, ConocoPhillips and Shell have deepwater experience that spans the globe. If there is any group that could find oil off Nova Scotia's shores, it's this trio.

Investor takeaway

Canada's offshore oil industry is expected to have a busy year in 2015. Hopefully, all that drilling won't be in vain and it will be a fruitful year for new oil discoveries. While there are no guarantees that commercial discoveries will be made, the exploration activities these companies are undertaking in 2015 is important because any discoveries will fuel much-needed production growth over the next decade.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date

2025/07/21

Date Created

2014/08/11

Author

mdilallo

default watermark