



Why Canada's Emerging Oil Plays Might Not Emerge in 2015

Description

Well respected energy intelligence firm Wood Mackenzie recently released its outlook of things to watch in the North American energy sector for the year ahead. Among the items was its view that companies like **EnCana Corporation** (TSX:ECA)(NYSE:ECA), **Chevron Corporation** ([NYSE:CVX](#)), and **ConocoPhillips** ([NYSE:COP](#)) will ease off the gas on Canadian unconventional drilling this year. Because of this, emerging plays like the Duvernay and Montney shale plays might not emerge as new pillars of growth in 2015 as previously expected. However, drilling isn't going to come to a halt as producers still see a bright future for these emerging plays.

Cutting back capital

We've already seen drillers like EnCana and ConocoPhillips announce 2015 capital budgets that call for a reduction in spending in both the Duvernay and Montney shale plays. Encana, which is actually [investing rather bullishly in oil-rich shale plays](#), is still reigning in some spending on these plays.

For example, the company is planning to spend up to \$350 million of its own money on the Montney this year, a huge drop from the up to \$900 million it originally expected to invest in 2014. Meanwhile, it's keeping its Duvernay spending rather flat as the company expects to spend up to \$350 million this year, just a shade higher than the up to \$300 million it planned for 2014.

Top U.S. independent oil company ConocoPhillips pretty much put its developmental drilling programs in these two shale plays on hold for 2015. The company, which reduced its capex budget by 20% over 2014, noted that it was deferring significant investment in all four of its emerging North American unconventional plays, which included the Duvernay and Montney, until commodity prices improve.

Not all bad news

That said, not all drillers are expected to take their foot off the gas and reduce spending on Canadian unconventional in 2015. Chevron, which has delayed releasing its 2015 capital budget as it adjusts to the rapid drop in oil prices, did [recently sign a US\\$1.5 billion joint venture agreement involving its Duvernay Shale position](#). Because of that deal it's very likely that the company won't decelerate drilling as its new partner will be funding a portion of Chevron's drilling costs.

There are a couple of niche plays that are likely to continue to see continued exploration. Wood Mackenzie specifically pointed to the Torquay play in Saskatchewan as seeing increased activity. One of the active participants will likely be **Crescent Point Energy Corp.**, which announced last year that it had successfully explored new sections of the Torquay that extended the play's boundaries into new directions. The company has already said that it expects to remain active in the Torquay this year as it's planning to initiate its first waterflood pilot in mid-2015 to further explore the play's potential.

Investor takeaway

The weak oil market is expected to take some of the wind out of the sails of emerging unconventional oil plays in Canada. That being said, producers aren't completely giving up on these new opportunities. Instead, most drillers expect to continue development in 2015 as the world will continue to need new supplies of oil in the future making these new plays a critical component of meeting future supply needs.

CATEGORY

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