



Baytex Energy Corp. Goes Green: Buy This Smart Stock

Description

Baytex Energy Corp.'s ([TSX:BTE](#))(NYSE:BTE) latest move to partner with Kinetikor Resources Corp. shows how the company will continue to set a precedent when it comes to greenhouse-gas management. It has already invested more than \$100 million in infrastructure to manage and reduce emissions from its heavy oil operations.

Investors can relax knowing the company is taking pivotal steps to reduce its greenhouse gas emissions in preparation for the Alberta Climate Leadership Plan starting early 2017.

“The strategy integrates the use of gas gathering, underground gas storage and power generation to maximize the use of solution gas and significantly reduce flaring and fugitive emissions,” said Baytex CEO James Bowzer.

Changing climate legislation

The Alberta Climate Leadership Plan intends to reduce methane emissions by 45% from 2014 levels by 2025. Large industrial emitters, which includes most oil sands operators, are required to annually reduce their site-specific emissions intensity by 20% starting in 2017.

The largest source of these emissions is from venting, fugitive emissions, and flaring. Typically, gas is either flared or vented to reduce pressure on the equipment when a producer is unable to process or transport it.

One method of incentivizing these large emitters to reduce their emissions is to institute a carbon tax. In 2017 facilities will be required to pay \$20/tonne for greenhouse gas emissions over their reduction target. This tax will increase to \$30/tonne in 2018.

To put things in perspective, the Alberta Energy Regulator ranked Baytex second for total volume of gas flared in 2014 at an amount of 15 million tonnes.

Win-win situation

Not only is this partnership with Kinetikor mitigating the company's exposure to the changing greenhouse gas legislation, it's securing a contract for gas that would otherwise be flared or vented during operations, significantly reducing costs.

The partnership will consist of a multi-year gas-supply agreement with Kinetikor's early stage power project in Peace River, Alberta. It's a \$100 million project with the capacity to generate 100 MW of electricity, enough to sufficiently meet the needs of nearly 90,000 homes in the province.

Growing trend among producers

The regions where most oil sands companies operate are constrained by the amount of natural gas transmission. The transport of heavy oil consumes most of the pipeline capacity, so the next best option is flaring the gas. Unfortunately, the new laws coming into place are expediting the need for alternatives to reducing high-cost emissions.

Surge Energy Inc. ([TSX:SGY](#)) has entered into similar agreements with Kinetikor. In Q4 2015, the company agreed to provide the gas to a power facility near Shaunavon, Saskatchewan, in return for power from the facility. In addition to lowering its emissions, the agreement allows the company to reduce its exposure to rising electricity prices and electricity transmission charges in the province.

A smart buy

Investors should be reassured that management is taking the necessary steps to reduce costs from greenhouse gas emissions and mitigate risks associated with changing climate legislation.

This should help bolster investor confidence in the near term and reinforce the company's long-term strategy once this legislation takes affect in 2017. This stock will remain a smart pick for the rest of the year.

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