

N.S. regulator promotes gas prospects in offshore area near Sable Island

Michael Tutton, The Canadian Press

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HALIFAX - Nova Scotia's offshore regulator launched a push Tuesday to entice smaller, risk-taking oil companies to acquire rights to two parcels of the offshore - hoping to rekindle exploration after several years of disinterest.

Diana Dalton, chairwoman of the Canada-Nova Scotia Offshore Petroleum Board, emphasized a new fiscal regime that allows exploration firms to pay minimal fees for the first three years of their licence.

"We feel quite positive that this will give the impetus for new companies to look again at the offshore in Nova Scotia," she said after the call for bids was announced.

"We're looking for people who explore and find things, not necessarily those that develop things...it's the smaller companies that find the hydrocarbons and the larger companies come in to develop and partner with them."

Dalton was pitching the potential of the two parcels of land, arguing the prospects haven't been snapped up partly because the oil companies have been short on personnel to examine the data on the wells.

Wells were drilled in the Penobscot and Eagle fields by Shell and Petro-Canada during the 1970s, at a time when Ottawa provided generous tax incentives for exploration.

The companies let their licences expire, but Dalton says growing scarcity of hydrocarbons around the globe and better geological analysis of the prospects could revive interest.

"We feel there are projects that are as big as the Sable Offshore Energy Project, and possibly greater, or certainly bigger than Deep Panuke. There could be more because there is exploration potential still on these blocks," she said.

Penobscot and Eagle are both within a 30-kilometre range of the existing Sable Offshore Energy natural gas fields operated by Exxon Mobil, where there is an existing pipeline and processing facilities.

The Penobscott field is part of the same limestone reef as the Deep Panuke gas fields, which Calgary-based EnCana(TSX:ECA)recently announced would be producing natural gas by 2010.

The board's geologists estimate there are between 26 and 80 million recoverable barrels of oil in the Penobscot field, while the Eagle field could contain 283 to 720 billion cubic feet of recoverable gas.

The provincial government is eager to restart exploration activity in the province after several years of stagnation, in hopes of continuing the stream of royalties it receives.

The number of active licences has plummeted from 59 in 2003 to current levels of 16 active licences, with only two companies currently seeking to drill exploration wells in the province's offshore.

The province introduced a less expensive regime in April that only requires companies to commit to \$500,000 of work in the first three years, along with a \$50,000 licence fee.

If they determine there's potential in the wells, then in the fourth year the company can submit a work plan with larger cash commitments.

Under the old regime, companies had to post much larger amounts up front and had to commit to a minimum of \$1 million in work in the first three years.

"They can get in much cheaper now," said Dalton.

"It gives them the ability to get in and see what they have, and if they do have something, it's much easier for them to raise that kind of money."

Exploration of the offshore is far more expensive than land plays, with a typical well costing a minimum of \$25 million to drill.

The rates have been rising rapidly in recent years due to a shortage of drilling rigs.

Still, Dalton argues that with diminishing worldwide reserves, Nova Scotia will revive.

"In the past it was easier to find something else. But the exploration for oil and gas is getting more expensive everywhere you go. We feel we're very well placed."