

Water woes imperil Deep Panuke output

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The Deep Panuke project in Nova Scotia's offshore is now expected to produce roughly 50 per cent less natural gas than forecast because of its water problems.

Encana Corp., the gas field's Calgary-based owner, said Wednesday it has slashed the field's reserve estimate by about 200 billion cubic feet. Deep Panuke, which has been operating for 1½ years, is now expected to flow another 80 billion cubic feet of natural gas.

The project has produced about 69 billion cubic feet of gas as of Dec. 31, the company said. Deep Panuke has been in production since August 2013.

The field, which has four subsea wells, is about 250 kilometres southeast of Halifax.

An Encana spokesman said the company recently re-evaluated Deep Panuke because of higher than expected water production at this stage of the project.

"While the reserves attributed to Deep Panuke represent only about one per cent of Encana's overall proved reserves, this is disappointing news for our staff and stakeholders," Jay Averill said via email.

Averill said the company can't predict how long Deep Panuke will operate because the timeline depends on such factors as well and reservoir performance and how production is managed.

For instance, Encana announced in November that Deep Panuke would become a seasonal operation that produces during the heating season.

"Through seasonal operation, we expect to extend the life of the project while helping to meet the demand for natural gas in the winter months," Averill said Wednesday.

Deep Panuke's water troubles, which came to light last fall, seem to have intensified last month.

Doug Suttles, Encana's president and CEO, told analysts earlier in the day that officials are still working on the water problem.

"The platform was designed to handle large amounts of water production," Suttles said during a conference call to discuss financial results.

"We've been doing a lot of work between late last year and this year, just seeing, various production techniques, do they allow us to produce, ultimately more gas from the field. And we continue to test that."

Despite the water issue, Deep Panuke is producing at its target level of 180 to 200 million cubic feet per day so far this year, he said. Deep Panuke was originally expected to flow 300 million cubic feet per day.

Meanwhile, word that Deep Panuke likely won't operate for as long as expected was a surprise to the province and energy industry.

An Energy Department spokeswoman said government officials learned of the change via Wednesday's call and need time to study its potential impact on gas users or royalties paid to the province.

"We're pleased that Encana remains committed to the Deep Panuke project," Kyla Friel said. "The (department) is currently evaluating the impact a reduction in reserve projections will have."

A Halifax natural gas consultant and broker said it sounds like the field could run out some time in 2016 after about three years of production.

"Industry-wise, that's a pretty big move," Todd McDonald, CEO of Atlantica Energy, said of the change in Deep Panuke's expected output. "To have that big of a reduction that quick is a pretty big surprise."

Encana has previously said the project would operate for six to 13 years, although the company has since talked about selling Deep Panuke. However the project sells into a premium-priced gas market in New England and the Maritimes.

Deep Panuke is one of two producing gas fields off the province's coast. The other is Sable, where output has been dwindling for years. An industry think-tank, the Atlantica Centre for Energy in Saint John has predicted that Sable will run out of gas by 2017.

McDonald said gas users in the region will pay roughly 40 per cent more for the fuel once supply has to be imported from other regions due to shipping charges.

A spokeswoman for the Maritimes Energy Association, which represents supply and service companies in the sector, said Wednesday in an email that the downward revision of the Deep Panuke reserves was disappointing.

However, Julie Hebert added "many opportunities still exist for our member companies. They will continue to provide support to this project while demonstrating their exceptional skills and abilities. Successful execution of this project, however long that may be, is the top priority of our member companies."