Devon Energy Corp said on Wednesday that it would sell some liquids-rich natural gas assets in Canada to Canadian Natural Resources Ltd for about $2.8 billion and posted a better-than-expected profit as it produced more profitable crude oil.

Devon shares were up 3 pct while Canadian Natural’s shares traded in Toronto rose 4.6 percent.

Devon, along with many other U.S. oil and gas producers, has been selling off its natural gas holdings to focus on more profitable crude oil assets in North America.

To help achieve that aim, Devon has made some radical changes, including the $6 billion purchase of oil-producing properties in the Eagle Ford formation in south Texas in November.

“We’re not investing in gas properties or dry gas properties at this time,” John Richels, Devon’s chief executive officer told investors on a conference call.

Devon said it plans to use proceeds from the asset sale to repay debt incurred in the Eagle Ford deal. This year, Devon expects to spend $4.8 billion to $5.2 billion, slightly lower than 2013, drilling wells in places that produce crude oil like Texas’ Permian Basin.

After the deal with Canadian Natural, Devon’s only Canadian assets are its Horn River gas holdings in northern British Columbia and heavy oil properties in Alberta.

Devon is also looking to sell other non-core natural gas assets in the United States that produced 144,000 barrels of oil equivalent per day in the fourth quarter. The company’s oil production rose 17 percent to 177,000 barrels per day in the fourth quarter output from its Permian Basin wells in Texas grew. This year oil production is forecast at 198,000 to 216,000 barrels per say, Devon said.

“Our pursuit of oil production resulted in higher revenue and improved profitability,” Richels told investors.

Adjusted profit was $1.10 per diluted share. Analysts on average had expected $1.08, according to Thomson Reuters I/B/E/S.
Big Deal
The acquisition is Canadian Natural's largest since 1996, when it bought Anadarko Petroleum Corp's Canadian unit for $4.1 billion. It came as a surprise to most because the Devon assets are natural-gas rich and Canadian Natural has limited spending on its already substantial suite of gas assets because of low prices. But the company said it sees an opportunity to squeeze down costs on Devon's properties and boost production of valuable natural-gas liquids and oil. It also believes that gas prices may strengthen on depleted U.S. storage levels.

"That helps the metrics of this deal but that's not the driver," Steve Laut, Canadian Natural's president, said on a conference call. "It's the assets themselves and the ability to integrate those assets ... and just develop some light oil properties and liquids-rich natural gas on these properties that drive the acquisition."

Adding Devon's 383 million cubic feet per day of gas production will push Canadian Natural's output of the fuel to around 1.5 billion cubic feet per day, about the same as Encana Corp, now the largest producer of gas in Canada.

"It's a good deal for them," said David McColl, an analyst with Morningstar. "Price-wise it's a good deal and asset-wise." The company said the acquired royalty revenue would either be folded into a new vehicle to provide steady cash flow to existing shareholders or be sold off later this year.

Shares of Devon rose $1.93 to $64.84 in midday New York Stock Exchange trading. Canadian Natural shares were up C$1.83 to C$41.00 on the Toronto Stock Exchange.

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BEFORE ALBERTA EMISSIONS INQUIRY BEGINS, SPARRING OVER EXPERT CREDENTIALS

A hearing examining oil emissions in the Peace River area hasn’t yet begun and already participants are attacking each others’ credentials. The hearing, commissioned by the Alberta Energy Regulator, is mandated to examine residents’ concerns related to odours and emissions from nearby heavy oil operations and come up with recommendations for solutions and, possibly, regulatory changes.

Oral proceedings begin Tuesday but participants have been filing reports to the regulator for months. In many cases, they have not just rebutted opposing points of view but called into question the credentials of expert witnesses. Early on, lawyer Keith Wilson, who represents a group of residents from the Reno area, questioned why the regulator invited Donald Davies to participate as an independent expert.

Davies, who holds a PhD in Nutrition and Toxicology from the University of Guelph, is chairman of an environmental consulting firm. According to his curriculum vitae he has worked extensively for oil companies to provide assessments of health impacts relating to specific developments.

In his reports to the inquiry Davies concluded that there was “no obvious prospect” for emissions from nearby oil facilities to harm residents in Reno or Three Creeks – the two areas where residents had been complaining of health problems.

In a letter to the regulator, Wilson wrote that Davies’ “past work could create a reasonable apprehension of bias on the important issue of health impacts.”

When Global News left Davies a voicemail requesting comment, the energy regulator called instead.
Davies would not be available for interviews, AER’s Bob Curran said in a voicemail. “We want to ensure the proceeding is not compromised in any way.”

Oil firm Baytex Energy, which owns several oil wells and storage tanks in the Peace River area, has also taken issue with an expert’s resume. Margaret Sears, a researcher and chemical engineer, submitted reports on toxic materials found in bitumen and wrote that many of the studies on air quality and toxicity the inquiry was considering were flawed in some way.

Baytex wrote that Sears has twice submitted affidavits on behalf of plaintiffs in lawsuits and had her evidence found inadmissible as expert opinion. One 2009 case was an application for a class action lawsuit heard at the Court of Queen’s Bench of New Brunswick relating to spraying herbicides at CFB Gagetown. The judge found Sears’s affidavits did not “meet the test of admissibility for expert opinion evidence” as she was not a medical doctor and did not have “specific expertise” in toxicology and other subjects.

The other case mentioned by Baytex, also in 2009, also related to an application for a class action lawsuit at CFB Gagetown – this time heard at the Court of Queen’s Bench for Saskatchewan. In this case the judge decided the evidence was to be admitted not as expert opinion but instead as a summary identifying existing information on the topic.

When contacted by Global News, Sears said the regulator told her not to give interviews, but wrote in an email that the case in question was “a long time ago.” “My resume is available on the Proceeding’s website, and on that basis the AER hired me,” she wrote.

In a telephone interview, AER’s Curran told Global News that questions about experts’ credentials are “not unusual for a hearing.” Concerns and questions about the experts, he said, “will be addressed in the context of the hearing.”

Participants will have the opportunity to ask questions of all expert...
witnesses and other participants during the oral proceedings, scheduled from January 21 to 31. Once oral proceedings are complete, the panel will assess the information and may recommend regulatory changes.

**CONSERVATIVES EYE ARCTIC REINDEER RESERVE FOR OIL AND GAS EXPLORATION**

Tracts of land that had been set aside for reindeer grazing in Canada's North have instead been offered up by the Conservative government for oil and gas exploration, newly released documents show. Companies interested in obtaining petroleum exploration rights in the Mackenzie Delta and Beaufort Sea region of the Northwest Territories were asked last year to nominate blocks of land that they wanted to see included in a subsequent call for bids. Reindeer-grazing reserves near the communities of Inuvik and Tuktoyaktuk were among the lands that were included in that call for nominations, pending a necessary amendment to an order-in-council imposed in 2010. Documents show officials at Aboriginal Affairs and Northern Development Canada have discussed just such an amendment in order to allow the reindeer-grazing land to be included in the bidding for exploration licences.

“Most Crown lands in the Mackenzie Delta are withdrawn from disposal under an order-in-council to allow for a reindeer-grazing reserve,” says a briefing note to a top department official from last August. “These lands have been included in the call for bids, pending amendments to (the order-in-council) to confirm the Crown’s ability to dispose of these lands for oil and gas exploration.

While the timing of these amendments remain uncertain, should these lands become available for issuance they may be included in the call for bids and a note to potential nominators is included in the call to this effect.”

The Canadian Press obtained the documents under the Access to Information Act.
Aboriginal Affairs Minister Bernard Valcourt’s office said the move is part of the government’s effort to balance resource development with environmental protection.

“The government of Canada continues to deliver on initiatives under the Northern Strategy to realize the economic and social aspirations of Northerners,” spokeswoman Erica Meekes said in an email.

“This includes issuing exploration licenses in the North while implementing measures that ensure the protection of our Northern environment.”

While the reindeer-grazing reserve land was included in last year’s call for nominations, the government says no companies have asked to bid on it.

The Mackenzie Delta region is a trove of oil and natural gas. After decades of starts and stops, the National Energy Board in 2011 approved a 1,200-kilometre natural gas pipeline that would start at the Beaufort Sea and continue south through the Mackenzie Valley to the northern Alberta boundary.

The region hasn’t always been home to reindeer. In the late 1920s, caribou became scarce and the people of the Mackenzie Delta, who depended on the caribou for food, began to starve. So in the early 1930s, the Canadian government bought some 3,000 reindeer from a company in western Alaska and hired Sami herdsmen from northern Europe to bring the animals to the delta, thousands of kilometres away. When they finally reached their destination, the herders taught the locals how to care for the reindeer.

The program never really took off, but descendants of the original herdsmen remain there today.

One of them, Lloyd Binder, a reindeer herder from the Mackenzie Delta region, said any concerns about opening the land to oil and gas exploration would likely be “streamrolled.”

“We can work around it, I think,” Binder wrote in an email. “We are in the survival business and oil/gas will run out in a decade or three!”

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