ENERGY

Penn West says regulator's rule change will impede asset sales

Globe and Mail 24 JUNE 2016

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Penn West Petroleum Ltd. believes a new rule that Alberta's oil and gas regulator has introduced will hamper the company's ability to sell assets – deals the company says are in the works and part of its transformation plan.

The Alberta Energy Regulator (AER) this week rolled out more stringent financial requirements for companies wanting to buy oil and gas assets. The standard, which the regulator indicates is temporary, comes as Penn West is trying to hive off projects worth between $100-million and $200-million in order to further buffer its balance sheet.

Dave Roberts, Penn West's chief executive officer, on Thursday speculated that the regulator's new financial stress test could impede his company's transformation process.

"It obviously would have an impact on some of the things we are doing," he told reporters after Penn West's annual meeting in Calgary. The Alberta regulator's new standard, however, will not trip up Penn West's $975-million asset sale in Saskatchewan's Viking play. That transaction is expected to close Friday, giving the Calgary-based firm the cash it needed to avoid breaching its debt covenants. The sale made Penn West much smaller and shifted its focus to Alberta.

When Penn West chose to gravitate toward Alberta, it did so "with the understanding ... that the regulator is sharp, tough but fair, generally transparent and, most important, consistent," Mr. Roberts told reporters. "I think the order they issued this week is off the mark on every one of those metrics."

The AER's new standard demands that companies purchasing oil and gas assets have a higher ratio of assets to liabilities than the previous hurdle. The regulator wants to ensure buyers have enough financial firepower to cover the environmental cleanup once wells are no longer producing oil and gas.

Kim Blanchette, vice-president of public affairs for the AER, said the main intent of this week's bulletin is to stop any kind of sale that would increase the risk of environmental liabilities being left on the table.

"The intent of the bulletin really is to get in there quickly, and stop anything opportunistic from happening," Ms. Blanchette said.

But now that the bulletin is in place, the AER is more confident that the integrity of the system will be protected, she said. The regulatory body is now in a position where it has some "discretion" as it relates to deals that were already in progress, and can look at whether environmental liabilities will be taken care of through means other than the strict assets-versus-liabilities stress test.

"Our message to industry is if you're a company in good faith that had an acquisition in the works, come talk to us – and we'll look at it on a case-by-case basis," Ms. Blanchette said.

Mr. Roberts believes the AER will eventually revise the rule.

"I think that ultimately as they listen to their constituency, which is the 500 or so companies that are now frozen out of the asset transfer market, that they'll come to a solution that we can all live with," he said.

Penn West's strategy to sell properties producing another 20,000 barrels of oil equivalent a day could be accompanied with asset sales. "We'll continue to right-size the organization to match the size of the enterprise," the executive said. Penn West, however, believes it can grow 10 per cent a year.

Grant Hofer, an analyst at Barclays Capital Inc., is not as confident that Penn West's assets in Alberta can meet this target. Penn West "believes the Cardium (and to a lesser extent, the Viking [in Alberta]) can drive 10-per-cent growth, although this seems challenging over time even under optimistic capital efficiency [and] decline assumptions," Mr. Hofer said in a note last week.

Meanwhile, Penn West received a takeover offer from China's Sinopec Ltd. around the time Mr. Roberts joined the company in the middle of 2013, according to two sources and reported in The Globe and Mail earlier this month. The board never put the written proposal, which ranged between $13 to $14, to shareholders. Asked why, Mr. Roberts repeatedly said: "I don't comment on rumours or speculation."