

EnCana to Split Into Gas, Oil Companies

EnCana Corp., Canada's largest natural-gas producer, said it plans to split into two energy companies, one concentrating on gas and the other on oil in a bid to increase its value with crude at a record high.

Shareholders will receive one share in each of the new companies. The standalone oil division will manage EnCana's oil-sands projects in Alberta and its US refineries, while the second company will focus on natural-gas holdings, Calgary-based EnCana said on May 11, Bloomberg said.

Chief Executive Officer Randy Eresman, who will lead the gas company, is raising output from fields in the US, where drilling costs have risen less than in Canada.

"EnCana agreed in November to buy out its partner in an East Texas field for \$2.55 billion, its largest acquisition since 2004.

"This is an avenue they said they'd explore if the market wasn't recognizing the value of the oil business within EnCana," said Jim Hall, who manages the equivalent of about \$1 billion at Mawer Investment Management in Calgary, including 560,000 shares of EnCana. "They are going to be two very good companies that can easily stand on their own."

EnCana formed a joint venture with ConocoPhillips in 2007 to extract heavy oil from Alberta's oil sands and refine the crude, which has doubled in price in the past year to \$125.96 a barrel. The company's shares have risen 39 percent in the past year, while oil surged. EnCana derived about 83 percent of its daily production in the first quarter from gas fields, according to the company's website



In 2007, revenue from the integrated oil operations was \$7.9 billion of EnCana's total \$21.4 billion for the year.

"Ultimately, you'll be better off as a shareholder with each company having a lower cost of capital because they'll run more focused businesses that are easier to understand and value," Hall said.

In the statement today, EnCana revised higher its pre-transaction cash flow estimates for 2008 to a range of \$9.6 billion and \$10 billion. The company last month forecast cash flow of \$8.8 billion.

"Individually, these two companies have the potential to shine even brighter when contrasted against their industry peer groups," EnCana's Eresman said at a press conference in Calgary.

Brian Ferguson, EnCana's chief financial officer, will head the new oil company. The transaction is expected to be completed in early 2009, the company said.

"Pure-play companies haven't suffered holding-company discounts and have therefore attracted higher market valuations, so this should result in a higher overall valuation for EnCana," said Randy Ollenberger, an analyst at BMO Capital Markets in Calgary in an email.

The gas company will increase production by 7 percent to 9 percent annually and the oil entity will boost output 4 percent to 6 percent, Eresman said.

The new oil company will pay a "meaningful" dividend of 3 to 4 percent annually, Ferguson said at the conference.

In the venture with ConocoPhillips, EnCana traded half its reserves and production in two oil-sands projects in return for 50 percent stakes in two US refineries owned and operated by ConocoPhillips.

EnCana, which has a market value of C\$64.9 billion (\$64.6 billion), will apply for reorganization through the Court of Queen's Bench in Alberta under the Canada Business Corporations Act. The split will require shareholder and regula-

tory approval.

EnCana was formed in April 2002 through Pan-Canadian Energy Corp.'s acquisition of Alberta Energy Co. The proposed oil company assets represent about one-third of EnCana's current production and proved reserves.

In 2007, revenue from the integrated oil operations was \$7.9 billion of EnCana's total \$21.4 billion for the year, the company said.

EnCana fell 96 cents to C\$86.52 on May 9 on the Toronto Stock Exchange. The stock, which has 12 buy recommendations from analysts, 12 holds and one sell, has risen 28 percent this year.

In the News

Developing Sweet Sorghum



What's sweet like sugarcane, looks something like corn and could be grown in much of the United States to make ethanol? Sweet sorghum.

American pioneers used sweet sorghum as a substitute for sugar to make syrup. The syrup is still available today, mostly made in Kentucky and Tennessee, but for decades most American sweet sorghum has been used for livestock feed. Today, some researchers are looking at using it to make ethanol to blend with gasoline and help reduce the country's dependence on oil, The state reported.

The timing may be right for sweet sorghum. The United States is reaching its limits on using corn for ethanol, and global concerns are rising about using grains to make fuel while food prices soar. At the same time, researchers are looking for ways to make biofuels that would do more to reduce carbon dioxide emissions. Sweet sorghum gets good marks on all counts.

In India, where researchers have made ethanol from sweet sorghum recently, it's known as a smart crop, because farmers can grow it for grain for food or for the stalks for animal feed or ethanol. It will grow in hot and dry conditions, and it tolerates salty land and water logging.

Sweet sorghum is harvested for its juice before the mature plant forms clusters of grain. The stalks are pressed, and the juice is fermented and distilled to make ethanol. The process is simpler and requires less electricity than making ethanol from corn. Growing sweet sorghum requires only about half the water needed for corn and about half the nitrogen fertilizer. And unlike sugarcane, which grows best in tropical conditions, fast-growing sweet sorghum can be grown in much of the country during the summer.

Big Drawback

But the crop has a big drawback: It is bulky to transport and can't be stored. In fact, processing has to start within about 24 hours after harvesting or sugar will be lost. Researchers are looking for better breeds of sweet sorghum and small-scale processing systems that might make economic sense.

"Sweet sorghum is really the sugarcane of the Middle West," said Michael McNeill, who runs an agricultural consulting business in Algona, Iowa. Studies at American universities have shown that an acre of sweet sorghum could yield enough juice for 400 to 600 gallons of ethanol, compared with 434 gallons from an acre of corn.

"It's pretty simple. It's low-energy input. I just think it makes a whole lot of sense," said Danielle Bellmer, an associate professor of biosystems engineering at Oklahoma State University. Ismail Dweikat, who researches sorghum genetics at the University of Nebraska, said studies suggest that it might be feasible to ferment the sugar to ethanol and distill it to an ethanol-water solution that could be transported to a central facility for making fuel-grade ethanol.

With water shortages, "we need a crop like sweet sorghum that requires no supplemental irrigation," Dweikat said.

Making Electricity

When the sugar is pressed from the stalk for ethanol, the leftover stalk, called bagasse, can be burned to make electricity or used as a livestock feed that's rich in nutrients and minerals, he said.

Dweikat said the cellular structure of the sweet sorghum plant also makes it a good choice for cellulosic ethanol, which uses the plant's leaves and stems instead of its juice or grain. The use of crops for ethanol already has provoked debate about the use of farmland. "We have so much available acreage to plant, and we're going to have to choose," said Bellmer. "Will we grow food or fuel or both? I don't think we can get around that."

Sweet sorghum in the Midwest is harvested in September and October--after nights get cool, but before a hard frost. That means there's only about a two-month harvest period when ethanol plants could run. The crop would have a longer window in the South, but still couldn't be grown from October to March.

Robert P. Anex, of the Department of Agricultural and Biosystems Engineering at Iowa State University, said it would be difficult to make an ethanol plant pay for itself if it ran for only a few months each year. Anex figures it would be "exceedingly difficult" to make a viable business out of sweet sorghum ethanol in North America, especially in the northern plains states.

But several companies have developed business plans to use sweet sorghum. One of them is Florida-based Renegie Inc., which wants to build the first US ethanol plant that uses only sweet sorghum. Renegie plans to start with 10.5-million-gallon plants in Louisiana and expand with another 10 in Florida. Florida gave Renegie a \$1.5 million grant last year. The company would blend its ethanol with gasoline at gas station pumps and sell it directly to the public locally, minimizing transportation costs, said Brian Donovan of Renegie.

China Faces Tanker Shortage

Driving China's pipeline strategy of seeking agreement with Russia and Central Asian states for transmission of oil and natural gas is a potential shortage beyond the energy issues so prominent in the media.

And China's potential shortage is tankers. According to a recent report in PortWorld, a prominent Chinese shipping executive commented that by 2015 China will need nearly 150 Very Large Crude Carrier tankers to meet its rising energy needs. For Beijing, the news is bad, as the country's top five shipping companies currently have a combined fleet of 27 VLCCs, Energy-daily said.

VLCCs are the second-largest class of tankers, displacing 200,000-320,000 tons, and are capable of carrying 2 million barrels of oil. Tankers are second only to pipelines in terms of efficiency, and their efficiency of large volume transport means that importing oil by tanker adds only two to three US cents per gallon to cost.

China's tanker fleet comes with problems that make Beijing's proposed Central Asian and Russian pipelines increasingly important as a backup policy in the event its tanker fleet is interdicted on the high seas, either by weather, terrorism or enemy navies.

The reality is that, in the short term, China relies on ever-increasing oil imports delivered by sea. In 2006 Chinese crude imports rose 14.2 percent to 2.9 million barrels per day. China's largest supplier

was Saudi Arabia, shipping 0.479 million bpd, a 7.6 percent increase from the previous year. Angola came in second, with 2006 imports rising an impressive 34.6 percent from 2005 levels to 0.471 million bpd, with Iran in third place with 0.337 million bpd, up 17.4 percent from 2005 levels. The Middle East was responsible for nearly 45 percent of China's oil imports in 2006, which totaled 1.32 million bpd, while African imports totaled 920,000 bpd, 31.5 percent of China's total crude imports.

What is significant in this pattern, however, are China's rising imports from Russia, which in 2006 reached 0.321 million bpd, a 24.9 percent increase. Unlike China's top three importing nations, Russian exports move exclusively by rail and pipeline on "interior" lines. Whatever Western analysts might say about the state of Russian democracy, the reality is that Russia is a stable political entity. In the interim, however, Beijing will be forced to rely on maritime transport to import its crude deliveries, a pattern that will not shift in the foreseeable future.

Further driving an emphasis on interior pipelines is the Chinese shipping executive's observation that China's tanker fleet by 2011 is estimated to increase to only 63 vessels, which will only be able to transport approximately 58 percent of China's crude imports.