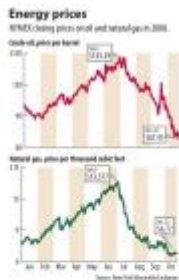


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# Powering down

Economy slows renewable-energy push

Denver Business Journal - by [Cathy Proctor](#)



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The nation's economic crisis is hitting Colorado's energy sector hard — with projects canceled or delayed, lower stock prices and the expectation of fewer drilling rigs at work in coming months.

But while the long-term view for the state's fledgling renewable energy sector is relatively sunny — due to tax credit extensions in the massive \$700 billion bailout package — analysts are uncertain what will happen to Colorado's \$23 billion-a-year oil and gas industry in the next few years.

Energy companies are taking a sharp look at their budgets and 2009 workload thanks to banks' tight hold on credit, falling prices for oil and natural gas, and a looming recession — if it's not already here.

"The major implication for oil and gas is that investments in new projects overall will be delayed and deferred," said Rod Eggert, a professor and director of the economics and business division at the **Colorado School of Mines** in Golden.

"Because of the uncertainty overall in the economic environment, and because of the uncertainty in the energy markets, what's happened with the equity and credit markets — that will affect investments in any sector of the economy," he said. "Add to that the dramatic fall in the price of crude oil and the volatility in its price, and

that will cause many investors to pause and examine and question whether they should actually be investing in new projects.”

Crude oil prices on the New York Mercantile Exchange have plunged from their record peak of \$145 per barrel in early July to less than \$70 per barrel in October. Natural gas prices also have dropped from a peak of \$13.58 per thousand cubic feet in early July to less than \$7 in October.

The price of gasoline in Colorado also has dropped, from a peak of \$4.09 per gallon in mid-August to less than \$3, and some are saying this winter’s heating bills in Colorado might be lower than last year.

That’s great for the consumer, but not for the companies that produce oil and natural gas.

“The stock of the group that I follow is down, as of Monday [Oct. 14], down 61 percent on average,” said Mike Scialla, a Denver-based oil and gas analyst with investment bank **Thomas Weisel Partners Group LLC** of San Francisco.

“We haven’t seen a lot of companies come out and announce that they’re cutting budgets, but I do think that’s coming,” he said. “They’ll lay down rigs, stop drilling in plays where it’s not economic.”

### **Whiting expects to cut back**

The stock price of Denver’s **Whiting Petroleum Corp.** (NYSE: WLL), which has oil and natural gas operations in Colorado and the Midwest, soared along with oil prices, peaking at \$110 per share in early July. It’s since dropped to between \$35 and \$45 in late October.

Whiting is expected to cut back in 2009.

The company’s capital expenditure budget in 2008 was \$850 million, “I expect it will be lower for 2009, with the intent of spending within our cash flow,” said company spokesman John Kelso. “We don’t want to take on any more debt, and who knows whether it will even be available.”

Whiting’s core areas of operation in Western Colorado and North Dakota will likely continue to be a focus, but the company might cut back in other areas, he said.

And if the company does have some extra money in 2009, it probably would look at paying down debt or doing a stock buyback program, Kelso said.

Canadian energy company **EnCana Corp.** (NYSE: ECA) — the parent company to Denver’s EnCana Oil & Gas (USA) Inc., which employs 1,000 people in Colorado — on Oct. 15 postponed indefinitely its plan to split into two companies due to the

financial crisis. And while the company traditionally announced its next year's budget in December, the Oct. 15 announcement included the company's pledge that "through this period of uncertainty, EnCana will act in a conservative, prudent manner ..."

"The net effect is that 1,400 rigs were working recently in the U.S. to drill gas [and] I think that's going lower," said Tom Petrie, principal of Denver-based **Merrill Lynch Petrie Divestiture Advisors**, a division of Merrill Lynch. "I think we're going to lay down some rigs and we'll have a loosening up of demand for oilfield services. People will have to use sharper pencils."

Basins that are expensive to work in, such as the booming Piceance Basin near Rifle, might get budget cuts in favor of other basins where it's cheaper and easier to get the natural gas out of the ground and to market.

That fundamental fact — as well as questions about how Colorado's new oil and gas rules will play out and whether a November ballot issue to raise the state's severance taxes by about \$300 million a year will pass — make Colorado's oil and gas future a question mark.

"We figure there are probably at least five large natural gas plays that don't make economic sense at \$7.75 [NYMEX prices]," Scialla said. "There are 400 rigs operating in those areas, and the Piceance Basin is one of them."

"There's pressure on Rockies producers to figure out if they should stay," said Porter Bennett, president and CEO of pipeline data firm **Bentek Energy LLC** in Evergreen. "All of these things make the industry much more uncertain, much more expensive compared to revenues, and the Rockies become a much less desirable place to do business — and Colorado is included in the Rockies."

Though the oil and gas industry's immediate future is uncertain, those in Colorado's renewable energy sector are confident in the industry's long-term potential.

"In the near term, it will be hard because everyone will be struggling," said Karlynn Cory, a senior energy and finance analyst at the **National Renewable Energy Laboratory** in Golden. "But long term, the outlook is good."

### **Renewable energy slowing**

Right now, activity in the renewable sector — such as wind power and solar power — is slowing as clients cut spending and financing is harder to get.

Solar installation companies report clients are canceling projects. And while 2008 should be the fourth straight record year for wind power nationwide, 2009 is expected to be slow, according to the **American Wind Energy Association** in Washington, D.C.

“Things are slowing down,” said Craig Mataczynski, CEO of **RES-Americas Inc.**, a wind farm developer based in Broomfield. “It’s very obvious what’s going on and what the drivers are: With the economy turning down and people are expecting negative growth in 2009, demand for energy in general has slowed. And that’s caused companies like Xcel and others we do business with to re-evaluate their expansion plans and move things back to next year.”

Mataczynski said one project being delayed is a proposed 250-megawatt wind farm in Elbert and Lincoln counties, southeast of Denver, in which RES-Americas is working with **Xcel Energy Inc.**

RES-Americas — which has 250 employees, including 100 in Broomfield — will build about 1,300 to 1,500 megawatts of wind power in 2008, Mataczynski said, adding, “We’re going to be down around half to two-thirds of that number [in 2009].”

But he also said that a slower year would allow the previously fast-growing company to focus on its core areas, spend more time training employees and bolster its internal processes.

“We’ll have a good year, not a great year, from a construction standpoint,” he said.

In the long term, renewable energy will continue growing, thanks to the tax-credit extensions for renewable projects in the bailout plan — one year for wind and eight for solar — as well as the nation’s desire for green energy. Industry experts say they’re not worried that interest in alternative energy will vanish along with high oil prices — as happened when oil prices plunged in the 1980s.

“The market is different from then,” Mataczynski said. “From a societal standpoint, there’s much more sensitivity to what we’re doing to the environment. That will make [renewable energy] more of a mainstay in the energy mix going forward, which will be helped out by the new administration. Both candidates are focused on increasing the amount of generation from non-carbon sources.”

Mines’ Eggert also said it’s unlikely renewable energy will fade.

“There’s a risk that people will return to business as usual, but I think there will be a legacy effect from the recent period of relatively high prices, combined with the recognition that with petroleum resources, there’s a geographic concentration of those resources in parts of the world that we don’t really want to rely on,” Eggert said.