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TED ANDRUDE/The Globe and Mail

## Ontario oil patch readies for boom

*Often overlooked producer poised to benefit from growth spurred by strong energy prices*

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They're drilling for oil near the Lake Huron village of Grand Bend and tapping natural gas wells in Lake Erie, as Ontario's overlooked oil patch gets ready for what some predict could be a burst of growth amid strong energy prices.

And if you didn't even know that Ontario — better known for auto makers, farmers and Bay Street traders — had an oil patch, you're not alone.

It barely registers on the national oil and gas stage next to Alberta, British Columbia and Newfoundland. Ontario produces less than 3 per cent of its own oil and gas needs, pumping more than 14.8 billion cubic feet of gas and about 1.5 million barrels of crude each year. Production is worth more than \$100-million. Southwestern Ontario was the birthplace of North America's oil industry — the first commercial well was drilled in Oil Springs in 1858 — but saw its petro-

leum heyday arrive and depart more than one century ago when its relatively minor reserves were dwarfed by larger discoveries elsewhere in the world.

Still, today there are 60 to 70 oil and gas producers operating in Ontario, some from as far away as Texas and Alberta attracted in part by the opportunity to make higher profit margins than in Western Canada.

Unlike their Alberta colleagues who must pipe oil and gas halfway

across the continent to reach mass markets, Ontario producers need only ship their petroleum a few kilometres from sites in Lake Erie or places like Leamington.

"You can pretty well sell gas over the fence to Consumers Gas in Ontario," says David Mann, spokesman for Calgary-based **Talisman Energy Inc.**, by far the largest player in Ontario today. Much of the oil pumped in Ontario goes to local refineries.

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Ontario's proximity to the bulk of North American energy consumers means producers can get more than a \$1 extra a barrel of oil and an additional \$1 per thousand cubic feet for natural gas from area buyers — money that would otherwise have been eaten up shipping the product halfway across Canada.

"For the right player who knows his stuff, it [Ontario] can be reasonably attractive," says Calgary analyst Tom Ebbert with Newcrest Capital Inc.

The royalty system in Ontario is also easier on the balance sheet for petroleum players. Companies must generally pay landowners, rather than the Ontario government, royalties for production, and the royalties paid usually fall short of the kinds of levies in other provinces such as Alberta, where the government earns the royalties. Labeled production, however, is one area where the Ontario government earns royalties.

Still, the industry operates in near anonymity among many provincial residents. Acquaintances of Talisman Energy's Lyle Reiber do a double take when they first learn that the Welland canal-area resident is drilling for oil and gas in a region known for farming, wine and tobacco.

"[They] don't understand that we

have got 500 operating gas wells under Lake Erie," Mr. Reiber says, referring to offshore operations scattered from the Welland canal area all the way south to Point Pelee. About 1,500 kilometres of distribution piping carries gas from these wells to onshore facilities.

At any given time, there are about 1,200 natural gas wells and 1,100 oil wells at work in Ontario. Most can be found in the lower half of Southwestern Ontario — with

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other activity near Grand Bend and in Lake Erie.

Stand among the pumpjacks and oil batteries in some regions at the southern tip of Ontario, says Mr. Reiber, and you could almost pretend you were in the middle of Alberta's oil patch.

In other locales, the drilling and pumping equipment at work might give a visitor the impression they'd stepped back in time. Some producers still use "cable-tool rigs" — which operate somewhat like big pile-drivers — to drill for petroleum, while others use old-fashioned "jerker-rod" implements to pull oil from the ground.

"You'll see people come from Al-

berta and say 'Those things only exist in museums,'" says Steve Fletcher, executive director of the Ontario Petroleum Institute in London, Ont. "The technology never died away. It's proven but it's not fast."

Some producers reap only two-thirds of a barrel of oil a day from their slow but trusty wells.

The estimated reserves of oil and gas in Southwestern Ontario may not be huge by Alberta or world standards, but they manage to keep Talisman, one of the largest Canadian petroleum producers, content. It picked up Ontario holdings in 1997 when it bought privately held Pembina Resources Ltd.

Talisman alone accounts for 60 to 70 per cent of Ontario petroleum activity, producing roughly 25 million cubic feet of natural gas a day and approximately 3,000 barrels of oil and liquids daily.

Talisman finds the province a good place to hone its extraction skills. "If we are finding 100,000 barrel fields in Ontario, we can take that same expertise [that can be applied when] we're finding five million barrel fields in the North Sea," Talisman's Mr. Mann says.

Some juniors such as Daybreak Energy Corp., which is drilling near Grand Bend, have also set down roots in Ontario because there's relatively little competition, compared with Alberta. It doesn't matter that Ontario will likely never

produce a "mother lode find. For small producers, finding niche reserves and producing them efficiently is all they need.

"You have to realize that small explorers in Southern Alberta aren't looking for mother lodes either," says Wayne Karlen, president and chief executive officer of Calgary-based Daybreak which is listed on the Canadian Venture Exchange.

The geology of Southern Ontario also offers companies the ability to use underground petroleum reserves as natural gas storage containers that they can later remove and sell to markets when prices are hot.

Mr. Fletcher of the Ontario Petroleum Institute is bullish on the likelihood that the province's oil patch is set to grow after years of steady production levels. "Especially from the drilling side of things, we're seeing more activity."

He also points to the large amount of land under lease for possible exploration. "In discussions with some land companies, they indicate there has been a 50- to 100-per-cent increase in the amount of land now under lease for possible exploration. And most of it is from the larger companies . . . with the potential to implement larger drilling programs."

Adds Talisman's Mr. Reiber, of Ontario petroleum operations: "It is definitely not comparable to Sudan, but it's really nothing to sneeze at."