

Breathing new life into Ontario's oil and gas industry

A London-based, family-run business is consolidating the oil and gas production in the province
Ontario Farmer

West Lorne - Ontario's oil and gas industry keeps largely below the radar. Many don't even realize there is oil and gas produced in this province. But every so often, touring the countryside, one sees the pumpjacks bumping up and down, pulling oil out from below one of the layers of the earth's crust.

Small wells pull from shallow pools, in the Devonian layer; bigger wells pull from deeper pools in the Cambrian layer.

"You've got to have two faults to trap the oil."

Describing this process is second nature to Jennifer Nisker. She is the third generation of her family to search and drill for oil and natural gas in Ontario. She and two of her three siblings are vice-presidents of Lagasco Inc., which now owns about 85 per cent of Ontario's oil and gas production. The head office is in an industrial subdivision on Adelaide South, in London.

During the past few years, Ontario's oil industry has suffered just like the West, with dropping oil prices and cheap natural gas.

Farmers should be able to relate. "It's a commodity business. We're both price takers," said Nisker. "We can sell as much as we produce, but we don't set the price."

So Lagasco has been growing by mergers and acquisitions of companies that couldn't compete. The latest - and biggest - was purchasing the assets of Dundee Oil and Gas Ltd. after it declared bankruptcy? The deal finally closed last November, and it gives Lagasco four times the assets to manage. This includes offshore natural gas wells in Lake Erie, and a slate of new landowners.

"We're trying to cut costs and learn about the business," said Nisker.

Nisker, who graduated from the Ivey School of Business, in London, has her chartered accountant accreditation, as well as experience in mergers and acquisitions. She's not only been juggling business acquisitions, she's been starting a family. She has a four, three and "almost one" year old, and apologies for stifling a yawn as we barrel down a backroad in her black Suburban.

Nisker has become the public face of Lagasco, doing a lot of the public relations, with both landowners and politicians, trying to breathe new life into the industry.

Nisker's message to Ontario's Petroleum Institute, where she spoke recently, was: "we're open for business".

"We've got three drill ready plays right now that we're seeking partners for," she tells Ontario Farmer. Two of those involve drilling at existing sites, and the third is more exploratory.

"It's exciting to drill a new well!" says Nisker.

It's also expensive. "Drilling a well costs a million bucks. (But) if you hit something, it can be very lucrative." So, Lagasco is looking for joint venture partners where they contribute equipment and

investors provide financing. Because it's big money with no guarantees, they've also worked with consortiums to spread the risk.

The first Cambrian oil pool discovery since the 1970s is the Paton Pool by Iona Station. Nisker knows the landowners associated with this site because seven years ago she and her brother negotiated the land leases. It's across the Highway 401 from a pool her grandfather developed, that's been producing oil for 45 years! The oil storage for the Paton site is tucked along the edge of a bush at the back of a neighbouring farm, so it's less visible. The tanks are surrounded by a corrugated steel wall, lined with an impermeable membrane to collect the oil if there happened to be a leak. This is where the oil is transferred to a tanker, and taken to Sarnia or to a new buyer, in Pennsylvania.

Paton's oil well is also situated at the back of the farm, where it's least visible, and accessed via a lane through the woods, rather than through the farmyard.

"I didn't want to look at it," Paton told Ontario Farmer. In fact he said he was "very reluctant" to sign another oil lease at all.

"When we bought the farm it was in the second or third year of a ten-year lease." When it expired, he refused to renew, and the company wasn't happy.

And so, Paton put a number of conditions in the lease agreement with Lagasco, and "they did what they said they were going to do!" The well has now been pumping oil for six years or so. "It's been worthwhile, but it needs to be worthwhile, because there's increased liability," he said in a phone interview.

"Worthwhile" amounts to 12 per cent of the gross income from the well when it is producing - and these depend on both production, which is variable, and on price, which is also variable.

There are also exploration leases which offer annual, per acre, compensation for a fixed term, and surface leases, which compensate for the use of the land, on the basis of crop losses.

"Our biggest challenge is with the farmers who don't want a well anymore," said Nisker. Oil production declines over time, and revenue declines with it. So, some farmers feel the royalties no longer compensate for the annoyance.

"We get calls every time a farm sells, from the farmer asking, "Can you surrender the lease?" "We take a look at it every time!" However, "Surrendering is rare. Most of the leases we have for a reason."

Nisker said one of the things landowners don't always understand is that the Ministry of Natural Resources and Forestry, which oversees oil production, requires a certain amount of land around the well to be leased before a well can be drilled. The area depends on the depth of the well...so 6.25 acres is required for a 100-metre Devonian well, and 50 acres for a 1,000-metre deep Cambrian well.

There's also been "reputational" damage to the industry, by Dundee, as production leases went unpaid, and abandoned wells went unplugged during the year of bankruptcy proceedings.

"We're trying to get that turned around," said Nisker. Also, because "nothing annoys landowners more than not getting an answer," Lagasco has also hired a company, Elexco, to manage its land leasing.

Mike Bossy, who invited Nisker to speak to the Canadian Association of Farm Advisors, said his clients report that Lagasco has been responsive... though landowners don't always like the response they get.

Nisker said the other concern is plugging abandoned wells. "We'll plug 15 wells this summer." This entails getting a rig on site to pull the rods out of the ground, and then pumping cement into the hole. Again MNRF determines the depth of cement needed. Finally, the hole is cut down to below plough depth, then backfilled and graded.

Like farming, the oil and gas industry is cyclical. And like farm families, Nisker is not only prepared to ride out the cycles, she's looking for new ways to grow both the family business, and the industry.

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