COMMENTARY

Encana embroiled in gas land stink

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The bad news keeps piling up for Encana Corp., the beleaguered Canadian energy icon that seems to be embroiled in a collusion plot to deflate land prices with one of its top rivals in the United States.

In an ominous development, Encana issued a statement Monday quoting its chairman, David O'Brien, saying the company has started an investigation of its own into reports by Reuters that some of its most senior executives were plotting with Chesapeake Energy Corp., under the direction of CEO Aubrey McClendon, to sidestep the formal land bidding process in the Collingwood Shale formation in northern Michigan, potentially violating anti-trust laws at the state and federal level.

That O'Brien, a lawyer who is also the chairman of the Royal Bank of Canada and once ran Canadian Pacific Ltd., has stepped in suggests the matter is now in the hands of Encana's board of directors and beyond the authority of CEO Randy Eresman and his team.

O'Brien is widely regarded as a corporate governance hawk. O'Brien was chairman of PanCanadian Energy Inc., Encana's predecessor, when then-CEO David Tuer departed abruptly about 11 years ago.

Reuters surfaced email exchanges between executives at Chesapeake and Encana, North America's largest natural gas producer.

There was discussion about how to avoid bidding against each other in a public land auction in Michigan two years ago and in at least nine prospective deals with private land-owners.

The email loop involves Chesapeake vice-president Doug Jacobson, along with Encana vice-president John Schopp and Jeff Wojahn, the president of Encana's U.S. division. The emails imply that Eresman was aware of the discussions.

One exchange on Oct. 20, 2010, involves an update from Wojahn to McClendon: "From what I understand (Encana's) John Schopp has been leading the charge on working with your team on arranging a bidding strategy. I have a meeting with John planned on Friday and a review with Randy Monday," referring to Eresman.

Chesapeake even allegedly drew up a map showing how the two companies would divvy up the oil-prone parts of the play, so that each firm would end up with almost exactly 134,000 "oil acres."

In Monday's statement, Encana says it "takes compliance with all laws very seriously and is committed to ethical business conduct in all that we do."

The state of Michigan's department of natural resources said it is reviewing the emails in conjunction with the state's Attorney General's office. An official investigation has yet to be announced.

The allegations mark another strike against Eresman's Encana.

The company has disappointed investors by making ill-timed judgment calls in recent years, translating into a depressed stock price that fell another 3.7 per cent on Monday. The company was one of Canada's most valuable only a few years ago and was so favoured it could do no wrong.

Most recently, the company announced it would increase capital spending by US$600-million this year, to US$3.5-billion, and even more next year, to between US$4-billion and US$5-billion, spooking investors already worried the troubled global economy calls for restraint.

As well, they are worried the North American market is oversupplied with both oil and gas, energy prices are cratering and Encana has fewer defences: The rich hedging contracts that shored up its past earnings are running out.

The strategy between the two giant natural gas producers highlights how desperate they are to control costs amid depressed natural gas prices, which few expect to end any time soon, while at the same time securing prized shale gas or oil lands for better days.