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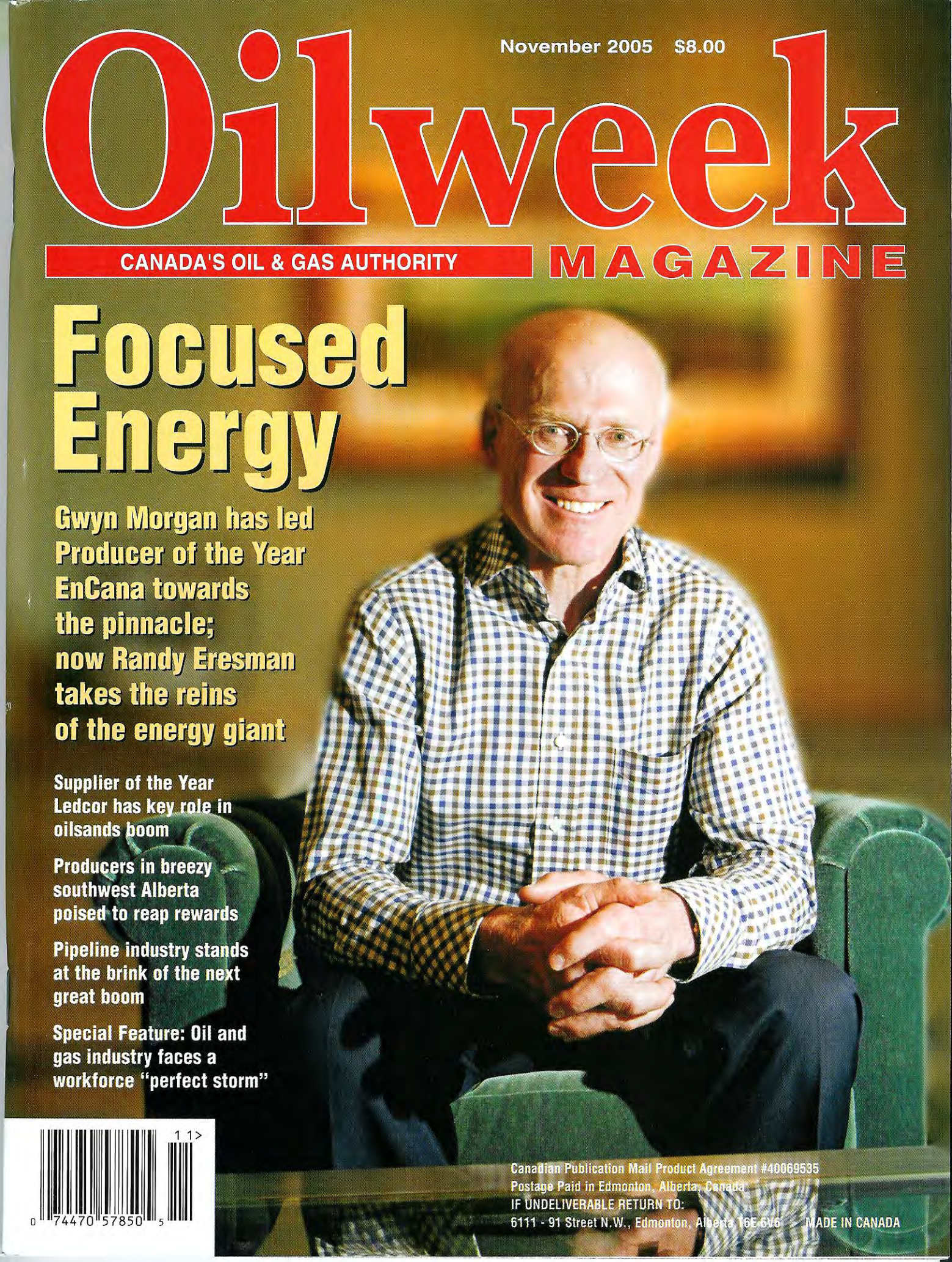

Focused Energy

Gwyn Morgan has led Producer of the Year EnCana towards the pinnacle; now Randy Eresman takes the reins of the energy giant

Supplier of the Year Ledcor has key role in oilsands boom

Producers in breezy southwest Alberta poised to reap rewards

Pipeline industry stands at the brink of the next great boom

Special Feature: Oil and gas industry faces a workforce "perfect storm"

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Focused Energy

2005 Producer of the Year EnCana Corporation sets the standard

BY DEBORAH JAREMKO

With an enterprise value of about US billion and an undeveloped N American land position the size Massachusetts, EnCana Corporation is on the largest companies in Canada, if not largest. Its size is not the reason why the c pany has been selected as *Oilweek*'s 2 Producer of the Year, however, and it's not w continues to drive this determined, focused innovative organization to success.

Rather, it is the approach the comp takes towards itself that gives it pow from its creation and list of industry f

LEFT TO RIGHT:
Don Swystun, *President, EnCanEcuador*

Mike Graham, *Executive Vice-President & President, Canadian Foothills Region*

Brian Ferguson, *Executive Vice-President, Corporate Development*

John Watson, *Executive Vice-President & Chief Financial Officer*

John Brannan, *Managing Director, Frontier & International New Ventures*

Gwyn Morgan, *President & Chief Executive Officer*

Jeff Wojahn, *Executive Vice-President & President, Canadian Plains Region*

Roger Biemans, *Executive Vice-President & President, EnCana Oil & Gas (USA)*

Bill Oliver, *Executive Vice-President & President, Midstream & Marketing*

Randy Eresman, *Executive Vice-President & Chief Operating Officer*

Drude Rimell, *Executive Vice-President, Corporate Services*

to its community relations strategy and plans for reserves replacement in a mature basin.

"Bigness was never in itself the objective, but perfection was," says Gwyn Morgan, who has been EnCana president and chief executive officer since its inception, but who will step down at year-end and remain with the company as vice-chairman. "We decided we were going to act like Apollo 13—failure was not an option."

The company may be just three years old, but its history stretches as far back as the construction of Canada's first transcontinental railway more than a century ago. In January 2002, PanCanadian Energy Corporation and Alberta Energy Company (AEC) officially joined in a "merger of equals" to become one, and they called it EnCana. Although it was a giant effort, the merger appeared smooth and effective.

"It certainly didn't take them long to get focused as one entity. People thought it would take longer," says Martin Molyneaux, managing director of institutional research for FirstEnergy Capital Corporation. "They made it look easy on the outside."

Morgan, veteran chief executive officer of AEC, took the helm at EnCana right away and remains there today. He admits the merger was a challenge on the inside, but the fledgling company overcame its struggles by being structured early and internally communicative from the beginning.

"Everyone who comes together in a merger is going to go through some pain, chaos and uncertainty. You want ▶

the vast majority of people to feel it is worthwhile," he explains. "Our sense of mission was that we could truly create a Canadian-headquartered company that was able to compete in a way that made us as strong as any company anywhere in our business."

Morgan says that although EnCana stock didn't begin trading until April 2002, the internal structure was decided and announced right from the day the two companies announced the merger in January.

"We couldn't actually implement [the changes], but we could tell everyone what it was going to be like. By the time there was actual approval, within 10 days everyone got a letter saying what their job was going to be."

FirstEnergy's Molyneaux says employees of both companies showed great diligence in the creation of EnCana.

"The amount of effort of every person in that organization was phenomenal. Everyone had to push to make it an EnCana story," he says, adding the commitment expressed to the new company was and is a rarity. "There is a high degree of intolerance for PanCanadian ideas or AEC ideas. These are now EnCana ideas. People say they work for EnCana."

EnCana's carbon dioxide flood at Weyburn is an industry first

After the merger, it was time to take a hard look at the companies' combined assets, says EnCana chief operating officer Randy Eresman, which included many onshore and offshore plays in North America and internationally.

"Most of our assets were in these very large play areas that require specialized techniques to extract some value fro them. Primarily unconventional gas a heavy oil were really driving the compan performance."

Recognizing this, EnCana opted focus on what it calls "resource plays" North America and defocus its internatio al business unit, as well as divest its natur gas liquids and natural gas storage oper tions and sell its minor interest in Syncru to pursue about 40 billion barrels of 1 per cent owned oilsands assets.

"We had to make some very stro positional changes internally. It meant had to be very decisive about where would go and where we wouldn't g Eresman says, adding the decision to foc on North America was made two years a but couldn't be communicated externa until recently.

"It was the sale of Buzzard that allow us to announce the entire strategy."

In December 2004, EnCana closed US$2.1-billion deal selling off its acreage the United Kingdom's North Sea, whi included the Buzzard field, to Nexen, f lowed soon after by the US$2-billion s of its Gulf of Mexico assets to Statoil a the US$1.42-billion sale of its oil a pipeline interests in Ecuador to And Petroleum Company.

"All we are doing is returning to o roots," Morgan says, while admitting refocusing has been a substantial challen inside EnCana. "It's not just an asset issu it's a people issue. The challenge was to g through that process of creating mo uncertainty. It was a tough thing, throwi more uncertainty at people who h already been through a lot." ▶

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The international new ventures unit is now about one-third the size it was at the time of the merger, Eresman says, and is now focused on finding ways to monetize positions where the company has no intention to be an operator.

Morgan says the strategic changes have caused business uncertainty for segments of the company, but communication has helped enable success.

"Even though there were major changes, at least everybody knew where they stood."

All "EnCanans," as they are called, likely know very well where the company stands right now. All it takes is one look at the title of its 2004 annual report: "Unconventional."

"It's more than just a cute statement. It means the whole way you think about this business is different," Morgan says.

That thinking has spawned many significant industry firsts for the company. EnCana owns the world's first commercial-scale steam assisted gravity drainage (SAGD) oilsands project at Foster Creek, Alberta, the first commercial-scale natural gas from coal (NGC) project in Canada with joint venture partner MGV Energy, and the country's first commercial-scale carbon dioxide enhanced oil recovery project at Weyburn, Saskatchewan. Investment in new technology is all because of a belief in potential, says Randy Eresman, who has been named to replace Morgan as president and chief executive officer.

Foster Creek, Canada's first commercial SAGD project, is under expansion

"Our investment is simply driven by the size of the prize. It's really the opportunity that is presented by the size of the resource and if, historically, we have had a large land position in that resource."

The idea, Eresman says, is to delineate the resource while working on technologies to unlock its value and find a way to capture additional land on the play before anyone else knows how much it's worth.

"We pilot technologies until we are comfortable enough to see through a scaled operation to become a profitable venture."

FirstEnergy's Molyneaux says EnCana's industry firsts stretch beyond Canada into the United States, pointing to an example of a record number of perforations in one completions pass in the Piceance Basin in Colorado.

"It really boils down to engineering experience and not being afraid to push the envelope," the analyst says.

Currently, EnCana's focus is on a number of key resource plays determined by lifespan and production repeatability potential. This includes NGC in south-central Alberta; the Greater Sierra gas play in northeast British Columbia; Cutbank Ridge gas, which straddles the border between British Columbia and Alberta; shallow gas in the southeast corner of Alberta; the giant Jonah gas field in Wyoming; the quickly growing Piceance Basin; as well as prolific lands in north and east Texas.

The company is also ramping up heavy oil production at Pelican Lake in central Alberta, as well as expanding SAGD operations and breathing new life into the Weyburn oilfield by injecting CO2.

"We tend to like the kind of production performance we've got out of [these plays] and our ability to improve them year over year," Morgan says, adding that EnCana

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effective because of the way the company is structured.

"We have fully accountable business units that are like entrepreneurial, aggressive companies focusing on what they do and where they do it. We bet on their ideas in a significant way when it is the right thing to do."

There are about 25 of these small companies inside EnCana, Eresman says, each on the same floor, focused on the same objectives.

"They compete for capital internally. It takes away from the company being seen as a behemoth."

He explains that this makes those at the corporate level "portfolio managers" who go over all aspects of each operation with the individual units.

"To get more capital, they have to share the good, the bad and the ugly of the previous program. It's a learning experience across the company."

Another part of EnCana's strategy is to seek out opportunities where it can be a 100 per cent owner and operator. Eresman says this is characteristic of the plays the company produces from, which require a lot of piloting before commercial scale operations.

"Resource plays require a great deal of trial and error to crack the technical nut. With partners, you're sharing wealth with them in the early days. You're increasing your competition."

This attitude towards field operations is reflected in the company's corporate constitution, which Morgan unveiled in September 2003. He says that some questioned the idea of a constitution for a company, saying only countries have constitutions, but he says this highly personal document acts like an inte nal compass for EnCana employees and i contractors.

"The fundamental cornerstone of a comp ny that will sustain itself, build and grow in th long term is the fundamental value system, th strategy and how we think about ourselve [It's] the ethics, values, relationships and als

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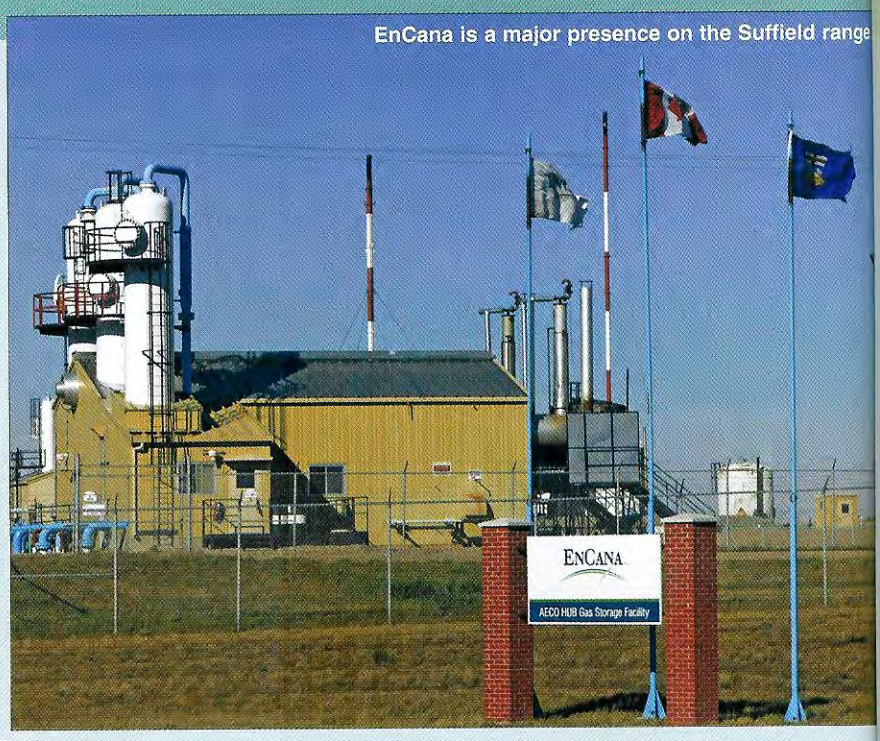
the basic business. We're in it for the long term, and our day-to-day decisions are all directed with that in mind, capturing large resources and learning to develop over time. That sounds a lot like resource plays," Morgan says. "To me [the constitution] was a very important part of establishing the company on a track I hope will continue long after I stop sailing."

The philosophy that is meant to bind EnCana together extends into the community relations aspect of the business, something the company has been commended and awarded for.

"EnCana has been an absolutely wonderful company to work with. We're just delighted that they are in our area," says Chris Morey, mayor of Fort Nelson, British Columbia, where EnCana is the major operator in the area. "They're not just talking; they are active in our community. It's made a huge difference in the local economy."

In October 2005, the Fort Nelson and District Chamber of Commerce named EnCana "Business of the Year" for the second year in a row. Fort Nelson is an area that has been a regional supply and service centre for the oil and gas industry since the 1950s, but until recently, activity only ramped up during the winter before slumping again during the remaining months of the year.



EnCana is a major presence on the Suffield range

"EnCana doubled its summer drilling program in recent years, spurred by the province's new oil and gas strategy and the use of summer access mats, injecting $80 to $100 million into the local economy and providing year-round employment for the local service sector," the company says.

In 2003, EnCana also helped make hist ry in the Fort Nelson area, when Ensig Drilling and the Fort Nelson First Natio entered into an agreement to make it the fi British Columbian Aboriginal community own and operate a drilling rig. EnCana utiliz the rig through a best-efforts clause, whic stipulates "first up and last down" priority.

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"This rig represents the building of a foundation for us: a foundation for future opportunities and benefits for our community," Fort Nelson First Nation Chief Liz Logan said in a release. "Fort Nelson First Nation, Ensign Drilling and EnCana are breaking new ground in British Columbia with this collaborative partnership."

Chief executive officer Morgan explains the approach EnCana takes to community relations.

"Where you go to operate, the objective is that the people and the community would be better off than if you weren't there."

Morgan has had his share of experience with unsatisfied landowners. In the late 1990s, a rash of sabotage hit northwest Alberta oilfields, and some of the attacks were targeted directly at AEC. What did he learn from the experience?

"There are some people that you cannot ever satisfy," he says, but adds that he took away an important message from the experience. "Always, always, when you are in a situation that has a public profile, communicate early, communicate honestly and to the best of your ability. There's no finish line in this one. You're never good enough. You're going to have problems and you're going to be perfect. It's a question raising the bar."

When it comes to finish lin there are those who believe No American oil and gas production coming close, but the leaders EnCana say it is only the beginning something entirely new.

"Virtually all of North America very young with respect to unconventional plays we are pursuing," Eresman says. "The that we are talking about histori ly was measured in billions of cu feet or hundreds of thousands barrels per day discoveries. [Now could be] trillions of cubic feet hundreds of millions of barrels."

Eresman says the company continue to acquire land on resource plays, but there is a bala ing act between new purchases the vast land position the comp already has. At the end of 20 EnCana held approximately 18 lion undeveloped acres in No America.

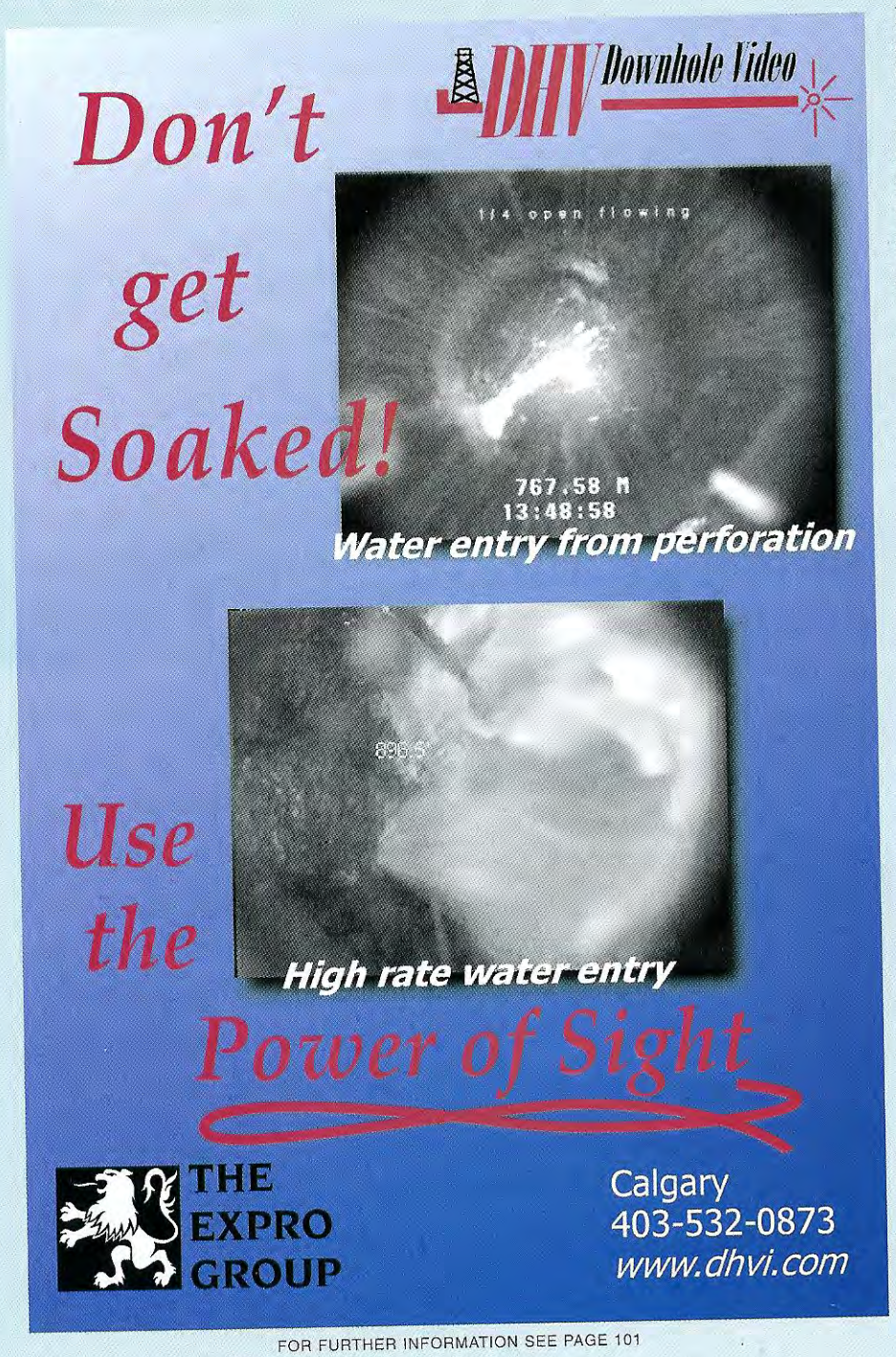
"They've got quite the war che says FirstEnergy's Molyneaux. "T are down to the core assets that make this thing move along. The done exactly what they said were going to do."

EnCana hasn't ruled out inte tional operations as long as a pro suits its core competencies. Eres says there is a strong possibility company will venture into resource plays in France or poss into heavy oil in Brazil.

"If the size of the prize is enough, we'll consider it," explains, but adds it is highly unl ly that this will include offsh projects because the company l the right experience to make oc born oil and gas an economic rea

It seems the bottom line is whatever EnCana chooses to do right now the company appears strong.

"It's gutsy what they've done, they have certainly stuck with plan. They are in a very envi position in the hottest natural market we have ever seen. Now going to be all about executi Molyneaux says, adding that the test will come if and when comm ty prices slump. "Everyone looks a rock star with $70 oil and $10 ural gas."



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