

RESOURCES

Two energy trusts slash payouts to unitholders

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Two Calgary-based energy trusts have run into more heavy weather - and heavy punishment on the stock market as well.

Enterra Energy Trust, which slashed its monthly cash distributions to unitholders by 50 per cent at the beginning of this year, said it is now suspending them entirely until further notice to help pay down debt.

Meanwhile, **Wellco Energy Services Trust** said it has cut its distributions in half, citing "prolonged weakness in Western Canadian oil field service activity, a consequence of continuing high natural gas inventories."

Investors handed a beating to both trusts in Toronto Stock Exchange trading yesterday. Enterra's units plunged 49.2 per cent, and Wellco's declined 14.3 per cent.

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Enterra also disclosed that Kim Booth, the chief operating officer of its U.S. unit, Altex Energy Corp., has resigned to "pursue other opportunities" and that Jim Tyndal, senior vice-president and COO of the parent company, will assume her responsibilities.

The announcements came five days after Enterra revealed plans to sell non-core properties to help pay off its debt, and a week after it said chief financial officer Victor Roskey has resigned.

Enterra said in a news release yesterday that it is suspending the payouts for a minimum of six months, adding it believes the action is in the best interests of all its stakeholders, because it will "preserve the net asset value of the trust and will improve financial flexibility."

It also said it is in compliance with all the financial covenants under its credit facilities.

"However, the allowable borrowing base under the trust's senior credit facilities is currently being reviewed by the lenders," it said. "... Should the borrowing base be reduced below current aggregate borrowings, any excess will be required to be repaid within 60 days. As a result, both management and the board of directors are of the view that conserving cash now, in advance of those requirements, is the prudent course of action."

Enterra operates petroleum and natural gas assets in Western Canada and Oklahoma.

Meanwhile, Wellco said yesterday that it will pay 3.5 cents a unit for September, while management reviews all business lines.

It is Wellco's second distribution cut since it converted into an income trust in May, 2002. The trust disclosed in May it was negotiating a possible sale of the enterprise, but nothing has developed from those talks.

The income trust model has been a minefield for small investors, particularly in the energy services business, commented Toronto-based investor advocate Diane Urquhart.

She tallies that 42 per cent of Canadian energy services trusts have suspended or significantly cut their distributions - seven reductions and one suspension among 19 trusts, which she calls the worst distribution performance among all income trust sectors.

Among energy-producing trusts, she added, Enterra is the first to eliminate its distribution but six others have reduced their payouts, out of a total of 48.

"This is too high a distribution-cut percentage for an income security that was marketed to seniors for the purpose of paying household expenses and where capital preservation was said to be paramount," said Ms. Urquhart, a critic of the income trust phenomenon.

Enterra Energy trust

Yesterday's close: \$1.99, down \$1.93

Wellco Energy Services

Yesterday's close: \$3.47, down 58 cents

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