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Tumbling crude a benefit to consumers, but cause for concern in oilpatch (Economy-Energy) By Lauren Krugel
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CALGARY _ Shriveling oil prices will continue to knock down the price of fuel, while the oilpatch braces for rocky times as profit margins narrow and credit becomes tougher to come by.

Crude oil ended Friday US$8.89 lower at $77.70 a barrel on the New York Mercantile Exchange, its lowest settlement price since Sept. 10, 2007, an staggering from July´s all-time high of US$147.

Since crude oil represents a big chunk of the cost of producing gasoline, the lower prices will in time filter down to the retail level, although other fa such as supply, demand and competition also sway the pump price.

Some stations in suburban Ottawa were posting prices below 97 cents per litre Friday, though the Canadian average hovered around C$1.15 per litr according to price-tracking website Gasbuddy.com.

That´s down from the $1.30 level a month ago, when refineries along the U.S. Gulf Coast were recovering from hurricanes Gustav and Ike.

"Reductions in demand for gasoline and in crude prices are starting to gain the upper hand, and prices at the pump have ped in recent weeks," said Desjardins Securities in a commodity commentary.

"This trend should continue if oil stays below US$100 per barrel."

Many consumers who have been watching the violent swings in commodity prices are well aware the relief may not last long.

"One thing that everybody understands is that gas prices will definitely go up again. It´s only a matter of time," Scott Wilson of the Alberta Motor Association said earlier this week, as he urged drivers to keep their consumption in check.

A petroleum adviser with En-Pro International Inc. said he does not expect fuel prices to reflect the price in crude oil, since many refiners lost mone when crude costs soared a few months ago.

"The oil companies are basically making up for lost ground that they experienced in the summer," said Roger McKnight, whose Oshawa, Ont.-based advises the transportation and other fuel-consuming industries.

While consumers may have some reason to hope for relief in the short-term, weaker crude prices and strapped credit markets will pummel the oilpa said Derek Burleton, an economist with TD Bank.

A crude price around US$80 is break-even territory for some high-cost projects that require huge amounts of steel, construction equipment, labour natural gas.

Burleton said producers that entered the oilsands game recently will likely be hurt the most.

"The amazing thing is if you go back a year when a lot of the oilsands activity was forging ahead and a lot of new projects were being announced, c prices weren´t that much different from current levels," he said.

However, projects conceived more recently were likely designed around a much more bullish crude forecast.

"Those are the ones that are vulnerable to being delayed or shelved," Burleton said.

There have also been murmurs that EnCana Corp. (TSX:ECA) might put off or even scrap its proposed split into separate oil and natural gas compa

Genuity Capital Markets analyst Philip Skolnick said the Calgary-based company, whose stock has been sliced in half since the split was announced May, has good reason to rethink its plans.

"I know the cost of capital has risen. Chances are that it´s higher for the two than the sum. If that´s the case then it won´t go through," he said.

"Share prices are down significantly so it makes both parts, especially the oilsands part, vulnerable to takeover."

In addition, EnCana currently has a substantial amount of free cash flow to fund growth projects, which would be reduced for each of the spin-off companies.

"They may be taking that into consideration. They may not want to give that up," Skolnick said.

The credit-market turmoil has been particularly tough on junior oil and gas players, which rely much more heavily on credit to grow their businesse than their larger counterparts, said Gary Leach, utive director of the Small Explorers and Producers Association of Canada.

The ability to finance mergers and acquisitions is especially important among junior oil and gas players, he said.

"It´s a very dynamic sector. Companies are started and grown and built to be sold," he said.

But uncertainty about where commodity prices are heading has made it increasingly difficult to do deals.

"If you don´t know from week to week what the price of oil is going to be, if you don´t know what the price of natural gas is going to be, it makes i
really hard to value the underlying assets of these companies," he said.