NYMEX OIL: US$73.69
-$1.79
July delivery
NYMEX N. Gas: US$4.78
+$0.14 per MMBTU
July delivery

Oilfield NEWS

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EIA LOWERS WORLD 2010 OIL DEMAND

The European debt crisis will reduce global oil demand this year while the U.S. moratorium on offshore drilling in response to the BP oil spill will cut world oil supplies next year. The U.S. Energy Information Administration lowered its estimate for oil demand growth this year by 70,000 barrels per day from its previous estimate, saying oil use will increase by 1.5 million bpd to 85.51 million bpd. After two years of decline in worldwide oil consumption, petroleum demand will still grow this year, but projected gains have been tempered by weak economic outlooks in the United States and In Europe. "Uncertainty about economic growth in China and in the euro zone has continued to weigh on oil markets, and declines in equity markets have led to fears that the economic recovery may not progress as fast as had been hoped," the EIA said in its new monthly forecast. The debt problems of Greece and other European nations could weaken the region's economy, resulting in less energy use. In addition, Europe would import fewer goods, many of which are made in China, which would reduce operations at Chinese factories that require less energy consumption. Oil traders will look to see if the Organization of the Petroleum Exporting Countries again cuts its estimate for world oil demand when the group releases its forecast on Wednesday followed by the International Energy Agency's output on Thursday. Last month, the IEA cut its 2010 global oil demand growth projection by 50,000 bpd to 1.62 million bpd, while OPEC raised it estimate by 50,000 bpd to 950,000 bpd. On the supply side, the EIA said the Obama administration's six-month moratorium on deep water oil drilling will shave about 25 million barrels off U.S. crude oil production next year, making world markets more reliant on OPEC supplies. U.S. oil output should fall by about 26,000 bpd in the fourth quarter of this year and decline about 70,000 bpd next year as the moratorium delays deep water projects, the agency said. "The effect of the moratorium is mostly going to delay projects by six months rather than lead to a situation of total loss," said Auggie Payne, an engineer with the EIA's regional office in Houston. Nonetheless, the EIA lowered its forecast for combined oil production growth this year in the United States and other non-OPEC countries by 160,000 bpd to just 500,000 bpd. "A more pessimistic outlook for supply growth in Brazil and Central Asia is the principle source of the downward revision, though these two areas (along with the United States) still constitute the bulk of expected non-OPEC supply growth in 2010, the EIA said. Non-OPEC supplies are expected to fall by 190,000 bpd in 2011, as supply growth from the United States slows due to the drilling moratorium.

U.S. DOUBLES GULF OIL SPILL ESTIMATE

U.S. government scientists on Thursday doubled their estimate of the amount of oil gushing out of a ruptured Gulf of Mexico oil well as British energy giant BP scrambled to stem the leak. The news that the flow rate may be as high 40,000 barrels (1.68 million gallons/6.36 million liters) per day came after U.S. markets closed. President Barack Obama has invited BP Chairman Carl-Henric Svanberg to the White House next Wednesday to discuss the spill. BP has come under increased pressure from the Obama administration in recent days and on Thursday British Prime Minister David Cameron said Britain stood ready to help the British company deal with the spill. Speaking during a visit to Afghanistan, Cameron said he would take up the matter with Obama when they speak in the next few days. It was the first time Cameron made a public comment about the spill. Based on a rate of 40,000 barrels per day, the stricken well could have spewed as much as 2 million barrels (84 million gallons/317 million of liters) of oil since it ruptured on April 20 -- eight times the amount that the Exxon Valdez spilled into Prince William Sound in Alaska in 1989. BP says it has collected 73,324 barrels (3.1 million gallons/11,7 million litres) of oil since installing the capping system. The new estimates, in which BP had no input, could have huge financial implications. Under the Clean Water Act, BP and others could be exposed to fines up to $4,300 for every barrel leaked into the gulf, according to legal experts and official documents. The wide variation in the estimates points to the difficulty in estimating a flow that is 1 mile (1.6 km) beneath the surface and reachable only by remotely operated robots.

HIGHER DRILLING COST AFTER U.S. GULF SPILL

Norwegian oil and gas group Statoil said on Friday it expected higher drilling costs on the Norwegian continental shelf with tighter regulation following BP's oil spill in the Gulf of Mexico. "If there is (tighter) regulation, it will push costs up," Statoil Chief Executive Helge Lund told Reuters following a meeting with authorities. He said the risk level was already seen as satisfactory, with 2,000 exploration wells having been drilled during the last decade without major incidents. "But I expect that authorities and industry will take measures," Lund said. Norway said this week that it will not open new deepwater areas for drilling until an investigation sheds light on BP's well blowout and large oil spill in the Gulf of Mexico. Statoil is the largest oil and gas producer on the Norwegian continental shelf. It is in the process of shutting down drilling on two deepwater wells in the Gulf of Mexico following a six-month drilling ban Energy Minister Terje Riis-Johansen said the accident would impact drilling regulations offshore Norway, but added that safety on the Norwegian shelf was seen as good. "We will use all the knowledge and experience from what happened," Riis-Johansen said.

OIL SANDS FUEL CRUDE OIL PRODUCTION GROWTH

The Canadian Association of Petroleum Producers (CAPP) continues to forecast significant growth in Canadian crude oil production over the next 15 years, driven largely by oil sands. "CAPP's 2010 Crude Oil Forecast reaffirms the trend of continued long term production growth in Canada," said Greg Stringham, vice-president of markets and oil sands at CAPP. "While the economic downturn in 2009 saw many projects deferred, a stabilizing investment climate, more robust commodity prices and market demand for Canadian crude have provided the foundation for several projects to return to active development." CAPP's 2009 forecast projected some oil sands projects would be deferred rather than cancelled. Project decisions since that time have largely confirmed this projection. CAPP's 2010 forecast exhibits a rate of growth consistent with last year's forecast. In 2010, the economic climate has recovered somewhat and some companies are now actively developing phases of their projects previously placed on hold. The pull back of capital spending last year had a limited impact on production growth over the short term, as companies that had already invested in the process continued to move forward. While not yet having a material impact on CAPP's production outlook there is an emerging expectation that new technologies being implemented in challenging conventional oil reservoirs, such as horizontal multi-stage fracturing, will enable more of these reserves to be produced. "Canada's oil and gas industry continues to develop and implement new technologies to better address the challenges of producing oil from more difficult reserves and continuing to reduce environmental impacts," said Stringham. The forecast is based on an annual survey of producers conducted by CAPP to determine planned production of crude oil through 2025. CAPP used this data along with other inputs from producer companies to prepare its annual forecast and illustrate production growth. For illustrative purposes, the forecast includes an Operating and Construction case that considers only projects currently in operation or under construction and does not include any planned future oil sands investment and construction. The CAPP forecast also breaks out production values by extraction method and tracks the amount of domestic upgrading. In 2009, 45 per cent of all raw bitumen production from the oil sands was derived from in situ recovery and 55 per cent was attributable to mining operations. Starting in 2017, production from in situ projects will account for the majority. In 2009, 62 per cent of bitumen was upgraded in Alberta which remains consistent over the forecast period. Please find the full report here: www.capp.ca/forecast

ARC AND STORM ANNOUNCE ACQUISITION AGREEMENT

ARC Energy Trust and Storm Exploration Inc.have announced that they have entered into an Arrangement Agreement whereby ARC will acquire all of the existing and outstanding common shares of Storm in a transaction valued at approximately $680 million (using ARC's 30 day weighted average unit price of $20.75) and includes the issuance of approximately 28.4 million ARC units (including the issuance of exchangeable shares of ARC Resources Ltd., that may be exchanged for ARC units) plus the assumption of approximately $90 million of total debt after receipt of option proceeds and including transaction costs. Under the terms of the Arrangement Agreement, each Storm shareholder can elect to receive either 0.5700 of an ARC unit or, subject to adjustment, 0.2021 of an ARC Resources Ltd. exchangeable share. Storm shareholders will also receive shares in a new, separate junior exploration and production company (ExploreCo), which will be staffed with certain members of Storm's management team and whose primary asset will be Storm's undeveloped land position in the Horn River Basin. In addition Storm will distribute a cash amount of approximately $1.00 per share to Storm common shareholders, representing the proceeds from the sale of its Surmont asset to a separate purchaser (expected to close on June 10, 2010). Assuming a net asset value of approximately $1.47 per Storm share for the ExploreCo assets, the total transaction value represents an approximate 33 per cent premium for the Storm shares using the 30-day weighted-average trading price of $10.68 per share. On completion of the proposed transaction, ARC's existing unitholders will own approximately 90 per cent and Storm shareholders will own approximately 10 per cent of the 282.5 million ARC units outstanding. In addition, ARC will receive $2.9 million shares in ExploreCo. Provided that the closing date occurs on or before August 17, 2010, Storm shareholders who elect to receive ARC units and who continue to hold such ARC Units after closing will be entitled to receive the cash distribution payable by ARC on September 15, 2010 to its unitholders of record on August 31, 2010. The Board of Directors of Storm has unanimously approved the Arrangement Agreement and Plan of Arrangement and has resolved to recommend that Storm shareholders vote in favour of the Plan of Arrangement.