NYMEX OIL: US$82.64
+$1.17
November delivery
NYMEX N. Gas: US$3.78
+$0.05 per MMBTU
October delivery

Oilfield NEWS

Published By *NEWS COMMUNICATIONS* since 1977 | Canadian Edition | Wednesday October 6 2010

TUESDAY PRICES

Benchmark crude for November rose $1.17 to $82.64 a barrel on the New York Mercantile Exchange. In other Nymex trading in contracts, heating oil was up 1-cents at $2.29 /gal while gasoline rose a 3-cents to $2.12/gal. Natural gas gained 5-cents to $3.78 per 1,000 cubic feet. In London, Brent crude rose $1.47 to $84.75 a barrel on the ICE exchange.

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 9 to 1,659 for the week of October 1, 2010. It is 635 rigs (62.2%) higher than last year. The number of US rotary rigs drilling for oil was up 14 at 687. There are 384 more rigs targeting oil than last year. Rigs currently drilling for oil represent 40.8% percent of all drilling activity. US Rigs directed toward natural gas were down 5 at 962. The number of rigs currently drilling for gas is 250 greater than last year's level of 710. Year-over-year oil exploration in the US is up 126.6 percent. Gas exploration is up 36.2 percent. The weekly average of crude oil spot prices is 8.1 percent higher than last year and natural gas spot prices are 15.2 percent higher. Canadian rig activity was up 31 at 313 for the week of October 1, 2010 and is 75 (33.7%) higher than last year's rig count.

ENBRIDGE TO EXPAND TERMINAL

Oil pipeline operator Enbridge Inc. says it will expand the storage system at its Edmonton terminal to accommodate growing oilsands production from northern Alberta. The Calgary-based company's subsidiary, Enbridge Pipelines Inc., will spend about $260 million to expand the terminal's storage capacity by one million barrel. Construction will begin early next year and the expansion is expected to be complete by late 2012. “These additional tanks will help ensure the necessary infrastructure is in place to accommodate increased oil volumes anticipated in 2012 and will provide improved netbacks for our customers,” said Stephen Wuori, executive vice-president of Enbridge's liquids pipeline division. The expansion will be done in two phases: construction of four new tanks and the installation of short segments of pipeline and related infrastructure. The release follows a spate of pipeline expansion announcements in the oilsands region. Earlier this month, Enbridge inked a $475-million deal with Husky Energy Inc. to carry crude from its Sunrise oilsands project. Previously it said it would spend $185 million to expand its Athabasca system to accommodate crude from Cenovus Energy Inc.'s Christina Lake project. It also announced a $370-million project to handle volumes from Suncor Energy Inc.'s oilsands plant. Those companies and others are expanding their oilsands projects to feed the growing demand from U.S. and Canadian customers. Many of the projects are slated to come on stream over the next five years and require pipeline and storage expansions to carry the crude to markets.

ALGAR PRODUCTION UP

Connacher Oil and Gas Limited has announced today that combined bitumen production levels from its Pod One and Algar steam assisted gravity drainage operations exceeded 12,000 bbl/d during September 2010 and recently averaged 11,691 bbl/d for the seven days ended October 2, 2010. Algar and Pod One are located on the company's Great Divide oil sands lease block, approximately 80 km southeast of Fort McMurray, Alberta. Production levels during ramp up can fluctuate on a daily basis, as produced emulsions in the early stages of a ramp up are variable, as new equipment at the surface is activated and as volumes escalate towards design capacity. At Algar, bitumen production averaged approximately 5,015 bbl/d for the seven days ended October 2, 2010. To date 14 of the project's 17 SAGD well pairs have been converted to full SAGD production, with two wells remaining on circulation. The seventeenth well pair has not yet been steamed. The Algar production ramp up is ahead of both the initial Pod One ramp up and thus far is also running ahead of other record ramp up rates which have recently been reported for new SAGD operations by another operator. Based on learnings from Pod One, this in part reflects the impact of Connacher's ability to maximize steam injection into the Algar wellbores during the circulation phase, prior to the startup of SAGD production. Readers should note that Algar production, related costs and revenues will be capitalized and will not be recorded in the company's operating and financial results until such time as a declaration of commerciality occurs. It is anticipated commerciality with an effective date of October 1, 2010 may occur once the company is satisfied as to the reliability of Algar production and diluted bitumen ("dilbit") sales. This decision will likely occur later in the month of October 2010. The Company continues to anticipate a 2010 exit bitumen production rate of between 7,000 bbl/d and 7,500 bbl/d at Algar. At Pod One, bitumen production averaged approximately 6,676 bbl/d for the seven days ended October 2, 2010 although production exceeded 7,000 bbl/d for many days during the month of September 2010. Weekly variations may reflect minor operational issues, including pump replacements or other manageable operations matters which require temporary individual well shutdowns. Operational reliability at Pod One has improved subsequent to the activation of the cogeneration facility at Algar in early September 2010, which reduced the load on the regional power grid. With reliable power supplies, steady state steam injection, efficient plant operations, improved pumping operations and with the anticipated ramp up of production from two new SAGD well pairs, which were converted to full SAGD production in July and August of this year, bitumen production volumes from Pod One are anticipated to continue increasing towards targeted 2010 exit rates of between 8,500 bbl/d and 9,000 bbl/d. Average full year 2010 combined Pod One and Algar bitumen volumes have been forecast at 9,000 bbl/d. Connacher continues to anticipate achieving a total exit bitumen production rate for 2010 of between 15,500 bbl/d and 16,500 bbl/d, which in turn augers favorably for much higher bitumen production levels in 2011, on a successive quarterly basis and overall. The Pod One trucking terminal expansion was recently completed, on-time and on-budget and has been commissioned into service. With the recent activation of the company's dilbit sales transfer line connecting Algar and Pod One, the dilbit transportation requirements of both Pod One and Algar are now consolidated at and being coordinated from Pod One. Connacher is now able to handle 26,000 bbl/d of diluted bitumen ("dilbit") volumes at this facility and continues to truck produced volumes to numerous purchasers without interruption.

CONCERN OVER GATEWAY

The Whitefish Lake First Nation, Enoch Cree Nation, Samson Cree Nation, Sucker Creek First Nation, Montana First Nation and Louis Bull Tribe in Alberta are concerned about serious flaws with the regulatory process that is supposed to review the impacts of the proposed Enbridge Northern Gateway Pipeline.

The First Nations say that the regulatory panel is assuming that the pipeline in Alberta has less potential for environment impacts than the proposed port facilities in B.C. Enbridge's record does not support this assumption. The company reported more than 600 spills between 1999 and 2008, releasing more than 20 million litres of hydrocarbons.[1] Last year Enbridge was convicted of more than 500 environmental violations regarding a pipeline in Wisconsin. The Attorney General of Wisconsin commented that the violations were "numerous and widespread, and resulted in impacts to the streams and wetlands throughout various watersheds."[2] The recent Enbridge spill in the Kalamazoo River in Michigan is another cause for concern. Enbridge's proposed Northern Gateway Pipeline will cross or come close to a number of major rivers and lakes and pass through wetland areas in Alberta. The First Nations also say that the timelines for the review are too short, it is poorly funded, and that consultation with First Nations won't happen until the end of the process when the review of the project will be practically complete. Enbridge and the regulator have provided roughly half the resources to Alberta First Nations to participate in the review of the project that have been given to BC First Nations. Enbridge has promised economic benefits and work on the pipeline to offset impacts on First Nations but those discussions have been delayed without explanation for more than a year and the regulatory process is already underway. Chief Jackson of Whitefish Lake First Nation summed up the First Nations' concerns stating: "At this point we have no reason to believe that we will see anything from this project except for more environmental damage in areas where our people hunt, fish and pursue our traditional way of life."

EQUAL OPERATIONAL UPDATE

Equal Energy has announced that it has completed five and tied in four horizontal wells in the first phase of its drilling program for the second half of 2010. These included the first Viking well at Alliance, two wells at the Dina PPP pool, and two wells at Princess. Equal is currently drilling wells at the Alliance Viking trend, on the Cardium play at Lochend, and on the Hunton play in Oklahoma. For the fourth quarter Equal anticipates drilling up to eleven additional wells at the Alliance Viking play, Dina PPP pool, Lochend Cardium trend in Canada, and at the Circus play in Oklahoma. Equal's first Viking well exhibited a five day production average rate of 90 bbls/day of light sweet oil and 280 mcf/day natural gas for a total rate of 137 boe/day after tie-in. The first new well at the Dina PPP pool which swabbed clean light oil, will be produced at 90 bbls/day and has just been tied into existing field facilities, while the second well is entering the test phase. The Princess Pekisko horizontals encountered more water than originally targeted, and are producing a combined rate of 115 boe/day. This rate is anticipated to improve as the wellbore pump systems are optimized. Equal's Lochend Cardium wells continue to produce at or above expectations. The first Lochend well has been on production for three months and its initial 30 day continuous average production rate was 290 bbls/day of light sweet oil. The second well has been on production for nearly two months. Its initial 30 day continuous average production rate was 190 bbls/day. Both wells are currently producing approximately 90 bbls/day (in total 150 bbls/day net to Equal). Equal's Circus wells in Oklahoma continue to produce. The first well, Trapeze, has been on production for about four months and had an initial 30 day continuous average production rate of 223 bbls/day of light oil. Trapeze is currently producing approximately 82 bbls/day (33 bbls/day net to Equal). The second well, Juggler, has been on production for about two months and had a 30 day continuous average rate of 29 bbls/day. Juggler is currently producing 14 bbls/day (6 bbls/day net to Equal). The Juggler well is being considered for uphole recompletion to improve this rate. As a result of the unusually wet weather in September that has delayed Equal's Canadian drilling program, the temporary loss of 200 boepd from our Liebenthal gas field in Canada due to unanticipated water production, and the late start of drilling in Equal's Hunton play in Oklahoma, the Company's exit rate for the third quarter was lower than expectations at 9,060 boe/day. Accordingly, Equal is reducing its 2010 average production guidance slightly to between 9,000 and 9,200 boepd, down from previous guidance at the lower end of a range of 9,200 - 9,700 boepd. The arbitration hearing with Equal's Oklahoma farmout participant, currently under Chapter 11 bankruptcy protection, has been scheduled for the week of January 24, 2011. This proceeding will finalize the validity of Equal's January, 2010 termination of the farmout agreement with its former participant due to lack of drilling performance. Resolution of this issue will clear the way for the planned drilling program on Equal's Hunton play. Don Klapko, President and CEO of Equal, said, "We are pleased with the results from our recent drilling especially in the Cardium and Viking where we are targeting the majority of our near term efforts. The wet weather in western Canada has delayed our programs through 2010, particularly during the month of September. Our downward adjustment to guidance is disappointing, because it doesn't reflect the quality of our drilling opportunity portfolio, but instead results from certain things beyond our control. Finally, we are pleased to have a firm arbitration date in Oklahoma. This will provide the clarity needed to get on with our business in the Hunton play."

U.S. ISSUES RULES ON DEEP-WATER DRILLING

The U.S. government issued new rules Thursday to upgrade the safety of deep-water oil drilling following the massive BP oil spill. But regulators retained a 5-month-old moratorium on deep-water drilling in the Gulf of Mexico despite heavy lobbying by industry and Louisiana economic boosters who want the moratorium lifted. "We are raising the bar for safety, oversight and environmental protection," Interior Secretary Ken Salazar said in a speech announcing the rules. He said they'll reduce the likelihood of other spills. He also said the moratorium won't be lifted until he's sure that the risks of deep-water drilling have been "significantly reduced." The moratorium, issued in May, is set to expire Nov. 30. Officials have said it may be lifted earlier. The industry had hoped for some sign of that Thursday, says Eric Smith, oil and gas expert at Tulane University. What it got was "the prospect of more delays" as federal regulators gear up to administer new rules, Smith says. Nov. 30 will mark the beginning of a second "de facto" moratorium, Smith says, because it will take so long to get permits. Environmentalists hailed the new rules as necessary to minimize the risk of future accidents. But industry representatives said they mirror already-in-place best practices of leading companies. "Our companies meet most of these, or have been working to meet them" since many were first discussed in June, says Richard Ranger, senior policy adviser for the American Petroleum Institute. The rules address many criticisms of how BP drilled and secured the Gulf of Mexico well, which spilled 200 million gallons of oil into the waters before it was capped in mid-July. Among other things, the rules require independent third-party verification that a well is properly cemented to prevent gas leaks, which occurred and led to the sinking of the Deepwater Horizon oil rig and the ensuing spill. The rules also require that equipment intended to prevent a well blowout is strong enough to do the job. Such equipment, the last defense against a well blowout and spill, failed on the BP well in 5,000 feet of water. The moratorium, instituted after the spill began, idled several dozen rigs in the Gulf, which accounts for 30% of the USA's domestic oil production. At least two rigs, which employ hundreds of people, then left the Gulf for work in other countries. More rigs, and companies that service the rigs, may leave, too, if the permit process doesn't resume soon, Ranger says. "Every day (the moratorium) stays in place, it exerts an economic penalty on the region and the nation." So far, the Obama administration says job losses from the moratorium have been nil because BP hired so many people to help with the cleanup. Louisiana officials had earlier estimated that a six-month moratorium could cost 10,000 jobs.