NYMEX OIL: US$81.69
+$1.13
December delivery
NYMEX N. Gas: US$3.32
-$0.04 per MMBTU
November delivery

Oilfield NEWS

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ENCANA Q3 RESULTS

Encana Corporation has reported strong financial and operating results in the third quarter of 2010, despite continued downward pressure on natural gas prices. Encana generated third quarter cash flow of US$1.1 billion, or $1.54 per share, and operating earnings were $98 million, or 13 cents per share. Encana's commodity price hedges contributed $211 million in realized after-tax gains, or 29 cents per share, to cash flow. Total production in the third quarter was approximately 3.3 billion cubic feet of gas equivalent per day (Bcfe/d). Third quarter natural gas production per share increased 19 percent compared to the third quarter of 2009, on a pro forma basis. "Our company's solid financial and operating results once again demonstrate that Encana's significant inventory of natural gas resources is capable of supporting substantial production growth. Third quarter natural gas production was up 17 percent year-over-year to 3.2 billion cubic feet per day (Bcf/d). Our strong growth in both our Canadian and USA divisions aligns with our long-term strategy of doubling natural gas production per share over the next five years. Our hedging program helps sustain cash flow during periods of lower prices. We maintain a strong balance sheet and we remain focused on being among the lowest-cost producers, continually pursuing operational efficiencies across all of our operations to help us maximize margins throughout the price cycle," said Randy Eresman, Encana's President & Chief Executive Officer. "During this period of continued low prices, we remain focused on capital discipline and long-term value creation for every Encana share. We will not pursue growth at any cost. Capacity constraints for completion services, particularly in the USA Division's Haynesville play in Louisiana and East Texas, have hindered the addition of some of the production volumes we had previously forecast in the last half of this year. High demand for hydraulic fracturing equipment and services threatens to accelerate the modest inflation we have seen this year. Across our organization we are committed to minimizing or eliminating cost increases through improved operational efficiencies and technology innovation. As a result, we are developing strategies to bring on new fit-for-purpose completion equipment, patterned after a highlysuccessful program that saw our company contract for the construction and supply of fit-for-purpose drilling rigs – equipment that has improved our drilling and cost efficiency. Given these completion delays, we now are forecasting a deferral of about $200 million in capital investment from this year to 2011 and we have trimmed our production guidance to 3.315 Bcfe/d, an increase of about 12 percent per share from 2009," Eresman said. "North America's ongoing oversupply of natural gas production has driven prices for the near term to levels that we believe are unsustainably low. As such, we are slowing the near-term growth rate of our resource plays. For the longer term, we continue to build the underlying productive capacity of our enormous resource portfolio for future years' growth. Our low-cost assets are capable of achieving our stated objective – doubling production per share over five years from 2009 levels. However, if these low prices persist, we plan to adjust our growth rate to align with our capacity to generate cash flow," Eresman said. Canadian Division capital investment in the third quarter was $529 million, most of which was focused on continuing the steady growth in production across the division. Capital investment in the USA Division was $681 million, mainly focused on the Haynesville shale, with about $240 million of that directed at Encana's land retention strategy. With the continued strength of oil and natural gas liquids (NGLs) prices, Encana is sharpening its focus on plays that offer additional value enhancement by increasing oil and NGL production. In the Canadian Division, Encana is also adding liquids extraction equipment, such as refrigeratio Building on the company's experience in the Piceance, Montney and Horn River, Encana is advancing its industry-leading gas factory development approach in the Haynesville shale in northern Louisiana and East Texas, with eight rigs drilling on three gas factory locations. This low-cost manufacturing approach helps to lower environmental impact, advance natural gas development and optimize efficiencies by enabling the drilling of eight and potentially more horizontal wells, each containing multiple hydraulic fractures, from a single pad location. Encana's land retention strategy has helped the company delineate its enormous resource potential across its 430,000 net acres in the Haynesville shale. With lease retention obligations near completion, Encana expects to focus its future activities on gas factories.

WATER CONCERNS GROW OVER MEGA PIPELINE

Nebraskan officials are urging the U.S. State Department to ensure a proposed $7 billion pipeline that plans to send Canadian crude to refineries along the Gulf of Mexico would avoid a massive water reservoir that irrigates agriculture in the nation's breadbasket. Calgary-based TransCanada Corp had hoped to start building the 2,000 mile (3,200 km) Keystone XL pipeline next year, which would send crude from the country's oil sands. The project could bring 510,000 barrels per day of crude from one of America's closest allies to refineries in Texas and Louisiana reducing the U.S. dependence on oil from Venezuela and the Middle East. But environmental concerns on issues such as greenhouse gas emissions from producing, refining and burning oil sands, have delayed the project. The concern about water contamination follow recent high-profile pipeline leaks in Illinois and Michigan on Enbridge Inc ducts that deliver Canadian oil. Nebraska's Governor Dave Heineman wrote a letter to U.S. Secretary of State Hillary Clinton that said the proposed pipeline route would run 300 miles (480 km) over Nebraska and the Ogallala aquifer. The aquifer, one of the world's largest, spans eight states and yields nearly a third of the country's water used for irrigation. "Nebraskans are concerned that the proposed pipeline route could contaminate the Ogallala Aquifer and I share that concern," Heineman wrote in a letter dated Oct. 11. Nebraska's farm sales in 2008 hit $17 billion, Heineman, wrote. The State Department has indicated it may approve a line bringing Canadian oil to the United States for energy security reasons. "We've not yet signed off on it," Clinton said at an event in San Francisco last week. "But we are inclined to do so and we are for several reasons ... we'll either going to be dependent on dirty oil from the (Persian) Gulf or dirty oil from Canada," Clinton said. She said she has to to consider all the energy factors in when it comes to the nation's energy security. Greenhouse gas emission concerns surrounding the oil sands were one of factors that led the U.S. Environmental Protection Agency to request the State Department in July to revise its draft environmental impact statement on the pipeline. The EPA requested the State Department's final impact statement include information concerning pipeline safety and spill response capabilities. The State Department has the final say on the project and has said it could make the decision by the end of the year. TransCanada spokesman Terry Cunha said the company chose the rural route because it was less exposed to third party bulldozers and other diggers that sometimes cause pipeline leaks, and that there were fewer property owners along the path.

NO MORE MAJOR SHALE DISCOVERIES IN THE US

Aubrey McClendon, chairman, CEO, and founder of Chesapeake Energy, one of the first oil and gas producers to develop shale gas properties in the United States, says the "discovery bonanza" in the US is over and that investors shouldn't expect major new shale discoveries. Speaking to a group of investors and industry analysts from Chesapeake's headquarters in Oklahoma City, McClendon said investors shouldn't hold their breath in expectation of major new shale finds "because there won't be any." In added that, by the end of 2011, "It will all be over." In response to questions that Europe, India, China, South Africa, and other global areas have yet to develop their shale reserves, McClendon said that Chesapeake isn't planning any foreign investments. "We aren't going to Poland. We aren't [even] going to Canada," he said.

"In terms of spending Chesapeake capital overseas, I don't see it." Instead, the company plans to shift its focus from natural gas to crude oil. McClendon said the company is sitting on about 10 billion to 15 billion barrels of crude oil reserves, which he says will eventually change the valuation of the company. Michael Lynch, a consultant with Gerson Lehrman Group, says that McClendon's assessment is grim news for the natural gas industry. "For about a year now, there has been a steady drumbeat of natural gas company announcements of their shift in focus from gas to crude oil," says Lynch. "But the reason for this crude oil pursuit has not been that no more shale gas plays existed. The reason is steadily declining gas prices from about $5 million/Btu to $3.60 today." Lynch added that while some plays (Woodford and Fayetteville, for instance) are mature and some new wells are marginal, there are others that are in the early stages of development. "The Marcellus is big and barely developed," he says. "It will continue to grow for several years yet. The Haynesville, too, has several years to run, as does the Eagle Ford. But Eagle Ford operators are shifting to the northern oil rim and the middle rim 'condensate window.'" Lynch adds, "Given the high decline rates for all shale gas wells and the steady price pressure from an overwhelming volume of available LNG, the shale gas era in the US could taper off beginning in 2012 and end by 2020."

DEEP-WATER DRILLING SLOWS

A week after a temporary ban was lifted on deep-water drilling in the Gulf of Mexico, major oil companies say they are moving quickly to get back to work but finding a far more complex process for obtaining federal permits than before the BP oil spill. There are new safety and environmental regulations, some confusion over how to interpret them, and uncertainty about offshore rules that still may be in the offing. The situation suggests that while the deep-water drilling moratorium may be officially over, industry could still face permitting delays and other setbacks as it readies to resume work in the lucrative offshore region. "It's anxious times in industry," said Gary Luquette, president of Chevron Corp.'s North American exploration and production business, "but I think there's a little bit more optimism today than last week." In coming weeks, Chevron will be among the first oil companies to submit post-spill applications with the Interior Department to drill in the deep-water Gulf. That first batch of applications will be a closely watched indicator of how quickly drilling could resume in the deep water, as well as an important test of a new regulatory regime established in the wake of the Gulf disaster. Among the new requirements operators must now satisfy before receiving a deep-water drilling permit: chief executives of Gulf of Mexico oil and gas firms must certify that the drilling rigs meet updated safety rules, and companies must prove they have access to enough spill-containment equipment to respond to a "worst case discharge" of a well. Companies operating in the Gulf's shallow waters — which were unaffected by the moratorium but still subject to new offshore rules - have complained that the "worst case" rule has been nearly impossible to meet, leading regulators to hold up approval of drilling permits. Some analysts say deep-water drillers now could face similar delays. "As seen with the issuance of shallow-water permits, we would expect operators to take some time to figure out how to satisfy the new requirements," UBS analyst Angie Sedita wrote in a report to investors last week. Faced with that reality, some industry officials have greeted the end of the deep-water moratorium with caution and a bit of frustration, saying vaguely written rules are as much a hindrance to moving forward as the ban was. "We must have some sense of certainty and clarity in the regulatory process in order to make the long-term, multibillion-dollar investments that our business requires," said James Hackett, CEO of Woodlands-based Anadarko Petroleum Corp., a major independent oil and gas company that operates in the deep-water Gulf. "We must have some sense of certainty and clarity in the regulatory process in order to make the long-term, multibillion-dollar investments that our business requires," said James Hackett, CEO of Woodlands-based Anadarko Petroleum Corp., a major independent oil and gas company that operates in the deep-water Gulf. On May 27, the Interior Department ordered the halt of exploratory drilling on 33 deep-water rigs and banned new permits to drill in water deeper than 500 feet for the next six months. The office said the pause was necessary after the April 20 blowout at BP's Macondo well in mile-deep waters off the Louisiana coast killed 11 rig workers and launched the nation's worst oil spill. But last Tuesday, regulators lifted the ban nearly two months early, saying newly issued rules and regulations would make deep-water drilling safer than before. Prior to the BP accident, the U.S. Minerals Management Service, the Interior Department arm that then oversaw oil and gas activity in federal waters, was criticized for blindly approving drilling permits and being too cozy with industry. Michael Bromwich, head of the Bureau of Ocean Energy Management, Regulation and Enforcement that replaced the MMS, said the new agency will be more cautious, but still predicted the first new permits could be approved before the end of the year. On Monday, panelists at a hearing at the South Texas College of Law in Houston expressed lingering frustration over the deep-water drilling ban and its ripple effects. "The moratorium ends when the drilling begins," said Rep. Pete Olson, R-Sugar Land, at the event he organized with Rep. Kevin Brady, R-The Woodlands. Major oil and gas companies with operations in the deep-water Gulf said they are in various stages of complying with new rules and hope to be cleared to resume drilling soon. Chevron, one of the largest leaseholders in the deep-water Gulf, expects to submit a first "test case" drilling permit application within about 10 days, Luquette said. Depending on how that goes, others will likely follow soon thereafter. "If those permit applications are processed anywhere near what time they used to take, we could be back to work in November," he said, though he acknowledges that's probably an optimistic time frame. Forced to delay five deep-water wells during the moratorium, Chevron hopes to make up for lost time in 2011 by packing 18 months' worth of work into 12 months, he said. Shell, another major leaseholder in the Gulf, is also preparing several deep-water drilling permit applications and hopes to resume drilling in the region before the end of the year, spokeswoman Kelly op de Weegh said. Anadarko also said it is making plans to resume drilling soon. BP, the largest oil and gas producer in the Gulf and the reason for many of the changes in the basin, declined to comment.