NYMEX OIL: US$88.18
-$0.43
January delivery
NYMEX N. Gas: US$4.26
-$0.16 per MMBTU
January delivery

Oilfield NEWS

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TUESDAY PRICES

Benchmark crude for January was down $0.43 to $88.18 a barrel on the New York Mercantile Exchange. In other Nymex trading in contracts, heating oil was down 1-cents at $2.46 /gal while gasoline lost 2-cents to $2.29/gal. Natural gas fell 16-cents $4.26 per 1,000 cubic feet. In London, Brent crude was down 3-cents to $91.16 a barrel on the ICE exchange.

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 10 to 1,723 for the week of December 10, 2010. It is 562 rigs (48.4%) higher than last year. The number of rotary rigs drilling for oil was up 21 at 763. There are 370 more rigs targeting oil than last year. Rigs currently drilling for oil represent 44.3% percent of all drilling activity. Rigs directed toward natural gas were down 11 at 948. The number of rigs currently drilling for gas is 191 greater than last year's level of 757. Year-over-year oil exploration in the US is up 94.1 percent. Gas exploration is up 25.2 percent. The weekly average of crude oil spot prices is 23.7 percent higher than last year and natural gas spot prices are 12.7 percent lower. Canadian rig activity was up 33 at 482 for the week of December 10, 2010 and is 115 (36.2%) higher than last year's rig count.

$100 BARREL PREDICTED

A drop in OPEC spare production capacity will signal a "second stage" in the oil market's recovery, lifting crude higher than $100 a barrel by the second half of 2011, according to Goldman Sachs Group Inc. The Organization of Petroleum Exporting Countries will supply more oil, reducing its spare capacity, as global inventory levels "normalize" from an overhang cause by the recession, the bank said in its 2011 commodities outlook dated yesterday. The 12-member group, which pumps about 40 percent of the world's crude, said at a Dec. 11 meeting it will maintain production targets at levels agreed in December 2008. "Inventories have declined rapidly in recent months as global demand growth has accelerated to one of the highest levels on record," Goldman analysts led by London-based Jeffrey Currie said in the report. "We expect global demand growth to remain strong at over 2 million barrels a day." Oil has risen 11 percent this year on speculation the global economic rebound will boost fuel consumption. The International Energy Agency, in its monthly report Dec. 10, upgraded its demand forecast for next year, citing gains in North America and China. Futures for January delivery on the New York Mercantile Exchange traded at $90.76 a barrel on Dec. 7, the highest since October 2008, and were above $88 today. OPEC members with formal output quotas, which excludes Iraq, produced 26.7 million barrels a day last month, 1.9 million more than targeted, according to data compiled by Bloomberg. Nigeria, Iran and Angola exceeded their quotas the most in volume terms. "As OPEC spare capacity is drawn down through the second half of 2011, we expect the market to begin to transition back to a structural bull market, with WTI crude oil prices rising back above $100 a barrel," the analysts wrote.

NEW DIRECTION FOR TAILINGS RESEARCH

Canadian Natural Resources, Imperial Oil, Shell Canada, Suncor Energy, Syncrude Canada Ltd., Teck Resources and Total E&P Canada announced today that they plan to work together in a unified effort to advance tailings management. The announcement reflects the companies' commitments to socially and environmentally responsible operations and responds to Alberta government policy to effect the timely reclamation of tailings. This will foster innovation and collaboration in research and development relating to tailings. "The issue is not whether we can manage tailings - the issue is whether we can do it better," said John Broadhurst, Vice President of Shell's Oil Sands Development, "We believe that this relationship is a key step towards tailings solutions that will allow us to accelerate the pace of reclamation using the most advanced environmental measures." Each company has pledged to share its existing tailings research and technology and to remove barriers to collaborating on future tailings R&D. Bringing all of the companies' scientific expertise together creates a strong foundation of resources that will lead to improvements in tailings management. This milestone is supported by the Canada Mining Innovation Council, an organization focused on the promotion and implementation of mining-related research to meet the needs of Canada's mining and minerals industries. The companies have agreed to the following core principles to guide the actions of the research collaboration: Make tailings technical information more broadly available to the industry members, academia, regulators and others interested in collaborating on tailings solutions; Collaborate on tailings-related research and development and technology among companies as well as with research agencies; Eliminate monetary and intellectual property barriers to the use of knowledge and methods related to tailings technology and research and development and; Work to develop an appropriate framework so that tailings information is organized, verified through peer review and kept current. Existing tailings research and development will form the base of knowledge for the collaboration. Research objectives will be finalized in 2011.

ALASKA'S TAX CLAIM AGAINST BP DISMISSED

An Alaska judge has dismissed the state's claim that BP owes several hundreds of millions of dollars in tax revenues the state claims it lost when the Prudhoe Bay oil field was partially shut down in 2006 because of a BP oil spill. The state's claims that it deserved compensation for lost taxes are not supported or defined in law as recoverable economic damages, State Superior Court Judge Peter Michalski said in an order issued Friday but only widely noticed on Tuesday. The ruling resolves most damage claims made by the state in its 2009 lawsuit against BP for alleged state losses from the 2006 Prudhoe Bay pipeline spills and partial field shutdown. The entire lawsuit sought about $1 billion in civil damages. Additionally, Michalski said, oil taxes can be collected only when there is production. "Taxes become due upon the occurrence of a taxable event. In order to sustain a claim for lost tax damages, it is necessary for the state to allege that a taxable event occurred. Here, there has been no taxable event, and therefore (BP) cannot owe taxes," he said. The vast majority of the alleged damages were for tax and royalty revenues the state claimed were foregone when BP temporarily shut down half of Prudhoe Bay production. Revenue losses due to Prudhoe Bay problems stretched over out for two years, the state claimed in its original complaint. BP attorneys have argued that the state's claims for lost tax and royalty revenues are baseless in part because production was simply deferred, and the oil in the reservoir was not lost. Still to be resolved are the state's claims for lost oil royalties, spill fines and other damages. A 2012 trial date has been set for the case. The state lawsuit stems from the 212,252-gallon oil spill that flowed from a corroded Prudhoe Bay transit pipeline -- the largest North Slope oil spill on record -- and a subsequent corrosion-caused spill that triggered the field closure and other pipeline problems discovered in 2006. The federal government also sued BP in 2009, seeking millions of dollars in fines for alleged environmental and pipeline-safety violations. The federal lawsuit does not seek compensation for alleged lost oil revenues.

LINE 6A RESUMES SHIPMENTS

Enbridge Inc. says it resumed oil shipments on its 670,000 barrel per day Line 6A pipeline late on Sunday, five days after shutting the conduit for safety testing. Enbridge, whose lines carry the bulk of Canada's crude shipments to the United States, said the line, which runs to Griffith, Indiana, from Superior, Wisconsin, was restarted Sunday evening at 10:50 p.m. eastern time. The extended shutdown of one of the key lines supplying Canadian crude to refineries in the U.S. Midwest is the latest of nearly five months of disruptions on Enbridge's pipeline network. Because of repeated shutdowns on its network, Enbridge's storage tanks are full and some feeder pipelines have had to suspend operations until room can be found for deliveries. That has forced some oil producers to find alternative ways of shipping their oil or shutting in production. Devon Energy Corp said last week that its Canadian heavy oil output would be cut by 10,000 bpd until at least the end of the month while Enbridge works to empty its storage tanks. Enbridge spokeswoman Gina Jordan said in an email the company is working with shippers, connecting carriers and feeder pipelines to manage high inventories on its system.

ENCANA LOOKING AT EXPORTING US NATURAL GAS

Encana Cor, Canada's biggest natural gas producer, said it is interested in marketing gas produced in the United States for shipment overseas as domestic production increases. Encana, which has interests in shale gas formations across the United States, on Monday came out in support of Cheniere Energy's plan to cool U.S. gas and ship it to markets across the world as liquefied natural gas. "With specific reference to (Cheniere's) application, Encana is interested in exploring LNG export market possibilities as one of many market options for its North American production," Encana's chief executive officer Randy Eresman said in a letter to the Department of Energy. Cheniere is currently seeking DOE approval to export LNG from Sabine Pass in Louisiana to all countries -- members of the World Trade Organization or not -- that have LNG import capacity. Currently, the company only has approval to export to countries with which the United States has a free trade agreement, which is restrictive for LNG exports. "Allowing (Cheniere) to open the door to new markets in the form of LNG will have a salutary effect on U.S. development efforts," Encana's letter said. A period inviting industry comment on the project, part of the DOE's decision-making process, closed on Monday. According to the DOE website, no objections were made to Cheniere's project, with Encana the only gas producer to come out in favor . However, postings of comments via mail could be delayed a few days, said a source at the Department for Energy who oversees the process. Encana is not in talks to supply gas to Cheniere's project, a company spokesman said on Tuesday, but is watching to see if it gets all the necessary approvals to go ahead with construction. "We would potentially speak to them going forward, that would be a logical conclusion. If they are successful, it is something we would certainly consider," the spokesman said. Cheniere's project, which could export up to 16 million tonnes per year of LNG, is one of three proposed LNG export plans in North America as increased production from shale gas and tepid demand push U.S. inventories to record highs. The Federal Energy Regulatory Commission (FERC) is currently considering Cheniere's project. The Encana spokesman said that the company is in favor of all three proposed export plants, including the Kitimat project in West Canada and the Freeport-Macquarie one in Texas.

STRONG RETURNS FOR GAS-WEIGHTED EXPLORERS

Some of Western Canada's gas-weighted oil and gas companies have been delivering the strongest returns for shareholders, a report released Tuesday shows. Bryan Mills Iradesso's iQ Report for the third quarter of 2010 shows that the top four juniors in terms of share price appreciation from July through November 2010 are all among the most gas-weighted companies in the sector. The top four performers over that period were Bowood Energy (TSX-V:BWD), Sure Energy (TSX:SHR), DeeThree Exploration (TSX:DTX) and Argosy Energy (TSX:GSY). All four companies had a natural gas weighting of more than 84 percent of overall production in the third quarter of 2010 and returned an average of 99 percent over the five-month period compared with a median return for the juniors of nine percent. "Opportunistic investors see some of the gassy juniors of today as the oily juniors of tomorrow," said Geoffrey Vanderburg, co-editor of the iQ Report. He said the best performing natural-gas weighted companies have all announced plans for oil exploration and development. "Investors see significant growth potential in select companies that may be undervalued because of their natural gas weighting." This is just one of the findings of Bryan Mills Iradesso's iQ Report, a comparison of the third quarter 2010 operating and financial results for all publicly traded junior and intermediate oil and gas companies operating in Western Canada. The report defines junior oil and gas companies as those with production between 500 and 10,000 barrels of oil equivalent per day (boe/d) and intermediates as companies with production between 10,000 and 100,000. The iQ Report shows Western Canada's oil and gas companies making a slow but steady shift away from natural gas production to oil exploration. The natural gas weighting for the median junior oil and gas company has fallen from 76 percent in the first quarter of 2009 to 71 percent in the first quarter of 2010 and 65 percent in the latest quarter. Over the same period the natural gas weighting for the median intermediate oil and gas company declined from 67 percent in the first quarter of 2009 to 66 percent in the first quarter of 2010 and 64 percent in the latest quarter. With the price of oil at more than three times natural gas based on energy equivalency at the burner tip, Vanderburg suggests the switch to oil is likely to continue until the gap narrows between oil and natural gas prices. In addition to robust oil prices, Vanderburg says investor interest in the potential of the latest horizontal drilling techniques is also driving the increase in share prices. While the 14 most oil-weighted juniors performed better on average than the 14 most gas-weighted juniors, the biggest gains in the sector were reserved for select gas-weighted companies. Vanderburg said gassy juniors with serendipitous or strategic land positions on promising oil plays are reaping the rewards. "Modern technology is breathing new life into old plays," he said. "New companies are forming and old companies are transforming to take advantage of continued strength in oil prices and drilling techniques that are opening new avenues for production from known oilfields." During the third quarter of 2010, an investment in the median junior would have resulted in a loss of five percent. The median intermediate had a return of seven percent over the same period. When the subsequent two months are factored into the calculation, the gap closed thanks to an upswing for the juniors. The median return over the five months since the start of the third quarter was nine percent for the juniors and 16 percent for the intermediates. While there was no apparent correlation between natural gas weighting and performance with the intermediate oil and gas companies, the correlation for the top performing juniors was surprisingly strong.