NYMEX OIL: US$88.03
-$0.35
February delivery
NYMEX N. Gas: US$4.42
-$0.01 per MMBTU
February delivery

Oilfield NEWS

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ECANA TO CUT SPENDING IN 2011

Encana Corp, North America's second-largest natural gas producer, will spend less money on operations in 2011 as prices for the fuel remain weak, the head of the company's U.S. unit said on Wednesday. Encana expects its capital spending budget to range from $4 billion to $4.5 billion when it is released in about three weeks, according to Jeff Wojahn, the USA Division president. Production growth for the year would likely be in the single-digit percentage range, Wojahn told investors on the sidelines of a conference in San Francisco. In October, Encana cut its 2010 budget by $200 million to $4.8 billion and warned that 2011 could be a leaner year if gas prices stay weak. The Calgary-based company is known for its unconventional gas plays in British Columbia, the U.S. Rockies, Texas and Louisiana. "We haven't announced it yet, but $4 to $4.5 billion is a good range," Wojahn said of 2011 capital spending. Encana shares were pressured late last year as Chief Executive Randy Eresman warned that the stated goal of spending about $6 billion a year for annual production growth of 14 percent would not be sustainable with natural gas prices hovering around $4 per million British thermal units. Gas settled down 19.6 cents at $4.55 per mmBtu on the New York Mercantile Exchange on Wednesday, while Encana shares, down 19 percent in the past year, closed 17 Canadian cents lower at C$29.14 on the Toronto Stock Exchange. While many companies are focusing more on liquids production due to the gas glut, Wojahn said Encana would merely increase its oil output on a "grassroots" level. "We're not going to go out there and blow our brains out buying an overvalued oil company," he told the Pritchard Capital Partners Energize conference, saying Encana would only start buying natural gas producers if gas prices remained in their current slump, which would be bad news for the sector.

CONNACHER GREAT DIVIDE OPERATIONAL UPDATE

Buoyed by continuing improvements in Great Divide Pod One production during the month of December 2010, Connacher Oil and Gas Limited achieved a seven day field-recorded rolling average production level of 14,750 bbl/d for the period ended December 31, 2010. This sets the stage at an excellent level at which to commence 2011. In addition, the company has commenced its Great Divide corehole drilling and 3D seismic program as well as a light oil horizontal multi-frac drilling program in central Alberta. During the month of December 2010, bitumen production averaged approximately 14,300 bbl/d, including 7,800 bbl/d from Pod One, the highest monthly average at Pod One since December 2009, and 6,500 bbl/d from Algar. Algar continues to rampup favorably, having only been on-stream since August 2010. During the month of December 2010, the seven day rolling average bitumen production at Pod One ranged from 7,380 bbl/d to 8,070 bbl/d, the variance in production due primarily to minor plant upsets resulting from extremely cold winter conditions. During the month of December 2010, the seven day rolling average bitumen production at Algar ranged from 5,400 bbl/d to 7,400 bbl/d, the variance in production due primarily to plant downtime associated with maintenance to the glycol cooling system. On a combined basis, peak rolling seven day average bitumen production in the month of December was 15,130 bbl/d. Full year 2010 bitumen production was estimated to have averaged approximately 8,250 bbl/d, within two percent of the company's full year guidance. Connacher is pleased with the improvement in the level and consistency of Pod One production, reflecting the benefit of stable power supplies, consistent steam generation and steam injection during the period since September 2010 when the Algar cogeneration plant was commissioned and placed into operation. Also, Connacher continues to be pleased with overall Great Divide production levels, which sets the stage for consistent sequential and year over year improvement in both operating and financial results, especially if crude oil prices persist at current levels, even with the strengthening in the Canadian dollar. Our systematic hedging program is also anticipated to provide significant protection against the downside risk of sharp declines in crude oil prices throughout 2011. As previously announced, Connacher anticipates a more modest capital program of $104 million during 2011, which we anticipate will be funded from cash and internally generated cash flow. Growth expenditures include a first quarter 2011 60-70 well core hole drilling and 3D seismic program at Great Divide and Thornbury, which has commenced and is designed to add new resources, upgrade resources to reserves and assist in the selection, in 2012 and later, of the location of the next round of well pads for new production at Pod One and Algar. Also, the company has spudded the second well of a three well light oil horizontal multi-frac drilling program in central Alberta. The first well in this program has already been drilled and will be completed shortly. Results of this high netback opportunity will be announced once all three wells have been completed later in the first quarter of 2011. The balance of our 2011 capital outlays will be for maintenance capital primarily at Great Divide and to comply with regulatory or other requirements at our Montana refinery.

HORIZON FIRE UPDATE

Two Alberta Occupational Health and Safety officers are looking for the cause of an explosion at the Horizon oilsands site and whether there were any safety violations. A stop work order has been issued for the site in northeastern Alberta where the blast sent flames and smoke hundreds of metres into the air Thursday afternoon. As many as five employees or contractors were hurt, said site owner Canadian Natural Resources Ltd. in a news release Friday. Three workers were hurt directly by the explosion — one had second-degree and third-degree burns, another had first-degree burns, while a third was treated for shock. Two other workers were hurt around the same time — one with back injuries and another with leg injuries. However, the company does not know if those injuries resulted from the fire or a separate incident. Only one person remains in hospital. That worker was moved to Edmonton. The structure is still smouldering and flagged off because there is the danger the coker might collapse, he said. Alberta Employment and Immigration Minister Thomas Lukaszuk said the province will be hiring third-party expert engineering consultant to look into explosion. Canadian Natural, the country's largest independent oil producer, could not say when its 110,000-barrel-a-day Horizon facility would resume normal operations, but it said it expects to have a repair schedule readied next week. The plant, the newest major project in Alberta's oil sands, cost C$9.7 billion ($9.8 billion) to build. The company said it has a $2 billion insurance package to cover the cost of repairs as well as the operating costs for the facility after 90 days. The incident reverberated through energy markets on Friday. Discounts on Canadian oil versus U.S. crude shrank after ballooning recently due to a squeeze in export pipeline capacity. The price spread between the West Texas Intermediate and Brent benchmarks also narrowed, in part because of the Horizon shutdown, analysts said. Canada is the largest foreign oil supplier to the United States and Horizon's output is equal to about 6 percent of the daily average of 1.84 million barrels that Canadian companies exported there in December. Until there's an estimate of how long repairs will take, investors are unable to gauge the impact on the company. A month-long outage could cut the company's 2011 production by about 1 percent from the midpoint of the company's estimate of 645,000-694,000 barrels of oil equivalent a day, Skolnick said in a note to investors. That would mean a reduction in cash flow of about C$145 million from the current C$7.6 billion estimate, assuming U.S. oil prices averaging $85 a barrel. A six-month outage could cut output by 8 percent and chop cash flow by C$885 million. Shares in Canadian Natural dropped C$2.35, or 5.5 percent, to C$40.60 on the Toronto Stock Exchange.