NYMEX OIL: US$89.74
-$0.49
February delivery
NYMEX N. Gas: US$4.49
-$0.08 per MMBTU
February delivery

Oilfield NEWS

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CANADIAN NATURAL DECLARES FORCE MAJEURE AFTER FIRE

Canadian Natural Resources Ltd has declared force majeure on January shipments of synthetic crude from its Horizon oil sands plant after a fire last week and is still waiting to assess damage from the blaze, company officials said on Wednesday. The declaration allows the company to be released from its contractual obligations because of an event outside its control. The 110,000 barrel per day Horizon plant produces around 10 percent of Canada's synthetic crude. However output was suspended last week after a fire broke out in the plant's coker, a key part of the upgrading facility that converts tarry bitumen stripped from the oil sands into refinery ready synthetic crude. The lack of supply from Horizon has pushed up the price of synthetic crude, reaching a premium of $1.25 a barrel over the West Texas Intermediate benchmark on Wednesday, trade sources said. Last week it traded at as much as $4 below the benchmark. Government investigators have placed a stop-work order on the damaged coker, preventing the company from inspecting the site in order to estimate when output can resume, though employees have been allowed into a control room. Canadian Natural has said that two of four coker drums likely escaped serious damage and the plant may be able to produce up to half its nameplate capacity. Repairs after fires at other Alberta oil sands upgraders have taken anywhere from a few weeks to several months.

ALASKA PIPELINE RESUMES FLOW AT REDUCED RATES

Alaska's key oil pipeline was pumping 400,000 barrels per day, almost two-thirds of its normal levels, following a four-day shutdown due to a small leak, its operator said on Wednesday. The closure of the line on Saturday shut in around 640,000 bpd, or almost 12 percent of U.S. oil production, and threatened supply shortages for refiners on the U.S. West Coast. "The pipeline is scheduled to shut down again this weekend for about 36 hours to install the bypass pipeline and make repairs at Pump Station 1," the latest update from Alaska's Department of Environmental Conservation said. Producers have also been allowed to return to normal production, after being limited to 5 percent of prorated output. Oil flow in the pipeline is still at a rate of about 400,000 barrels per day, said Matt Carle, a spokesman for Alyeska Pipeline Service Co., not the 630,000-650,000 bpd that is normal for this time of year. "In terms of throughput, it's maintaining right about at 400,000," he said. Throughput will likely remain a bit limited as Alyeska prepares for the weekend shutdown, Carle said. "The focus is on how the system is performing during the interim restart," he said. The company is also focusing right now on managing the two cleaning pigs (scraper devices) that are currently in the pipeline, especially moving one of them away from Pump Station 8, he said. The pipeline was brought back into operation on a temporary basis late Tuesday to prevent its oil and water contents from freezing as temperatures in Alaska dropped. A small leak on the line still hasn't been repaired, but pipeline operator Alyeska is containing the leaked oil at a pump station along the 800-mile (1,280-kilometer) line. Alyeska awaits regulatory approval to repair the line and resume full shipment volumes, a process that requires welding a stretch of bypass line into place. The Trans Alaska Pipeline System will continue to run at reduced rates over the coming days, said Thomas Barrett, president of Alyeska, in a statement. Normal operations would resume after the bypass that sources familiar with the pipeline's operations say could take around five days. This interim restart is an important and necessary step to restoring operations while managing the risk of severe damage (to the) TAPS system (during) and extended winter shutdown," the operator said in a statement. There is no estimate yet of how long it will take to get the pipeline back to normal, said a spokeswoman for the "unified command" of Alyeska and state and federal regulators, which is directing efforts to fix the problem. "We're still working on fabrication of that bypass line for Pump Station 1," she said. The pipeline may have to be idled again briefly to complete the bypass, a source familiar with pipeline operations said, but that may take only one or two days when it happens. The pipeline's restored flow should allow Alaskan North Slope oil producers like BP Plc to resume most of the state's normal oil output of more than 600,000 bpd, while helping to replenish inventories at the Valdez terminal where oil stocks have fallen to around 27 percent of capacity since the pipeline was first shut down on Saturday. A prolonged outage at TAPS had threatened to send U.S. refiners scrambling for substitute supplies, and has been helping to drive up U.S. benchmark oil futures for a third consecutive day this week. Oil CLc1 rose 57 cents to trade at $91.67 a barrel. The temporary restart officially occurred at 9:03 p.m. Alaska time on Tuesday, though Alyeska started opening valves before then. Overnight, crews recovered 25 barrels (1,750 gallons) of crude oil from the leak site in the basement of the booster-pump building at Pump Station 1. Alyeska and regulators said they have found no leaked oil on or in the ground outside of the building. The total amount of oil collected in the basement of the building where the leak was discovered is about 55 barrels since 8 p.m. Jan. 11, according to the latest update.

LONG LAKE PRODUCTION UP

Production at Nexen Inc's Long Lake oil sands project averaged 29,100 barrels per day of bitumen in December, junior partner Opti Canada Inc said on Wednesday, up 11 percent from the prior month but still well below the facility's capacity. The C$6.1 billion ($6.16 billion) oil sands project hasn't been able to reach its 72,000 barrel per day capacity since it started up nearly three years ago. The thermal project, where steam is pumped into the ground to liquefy tarry bitumen deposits so they can flow to the surface, has struggled with problems at its processing plant and has had to boost its ability to generate steam. Nexen said in November it expects output at Long Lake to average between 38,000 and 45,000 bpd in 2011. The project produced 26,200 bpd in November. Nexen has a 65 percent stake in the project while Opti owns the remainder.

SHORT-TERM OUTLOOK FOR NON-OPEC SUPPLY GROWTH

On January 11, the Energy Information Administration (EIA) released its latest Short-Term Energy Outlook (STEO), which includes the first STEO forecast for 2012. EIA expects a continued tightening of world oil markets over the next two years. World oil consumption grows by an average of 1.5 million barrels per day (bbl/d) each year while the growth in supply from non-Organization of the Petroleum Exporting Countries (non-OPEC) countries averages less than 0.1 million bbl/d. Consequently, EIA expects the market will rely on both inventories and significant increases in production of crude oil and non-crude liquids by OPEC to meet world demand growth. Leading projected increases in non-OPEC oil production are China, Brazil, and Canada, each of which EIA expects to show average production growth of 120,000 to 150,000 bbl/d from 2010 to 2012. EIA also projects production increases averaging 50,000 to 80,000 bbl/d each year in Colombia, Vietnam, and Kazakhstan over the next two years. Ghana became a new non-OPEC oil producer with the startup of the Jubilee field in December 2010. Production from the Jubilee field is expected to reach maximum production of 120,000 bbl/d by 2012; additional developments are underway. In contrast, EIA expects that Russia's oil production will fall by about 40,000 bbl/d in 2011, and decline by an additional 230,000 bbl/d in 2012. While Russia has improved its infrastructure, which hampered oil sector development during the previous decade, the country's tax structure continues to impede upstream investment. The Russian government has indicated that a new tax structure is forthcoming. Should the planned tax reforms be implemented before the end of the forecast period, EIA is likely to raise its forecast for Russian oil production. Other non-OPEC liquid fuels production is also expected to decline. EIA forecasts the largest declines to occur in the North Sea with annual average production falling by 180,000 bbl/d in 2011 and by an additional 160,000 bbl/d in 2012, as the discovery and development of new reserves have not kept pace with the maturation and declining production from existing fields. The latest STEO also rojects that Mexico's production will fall by about 200,000 bbl/d in 2011 and then by 80,000 bbl/d in 2012. U.S. crude oil production, which increased by 150,000 bbl/d in 2010 to 5.51 million bbl/d, declines by 20,000 bbl/d in 2011. The 2011 forecast includes production declines of 50,000 bbl/d in Alaska and 220,000 bbl/d in the Federal Gulf of Mexico (GOM), which are almost offset by a projected 250,000-bbl/d increase in lower-48 non-GOM production. EIA also expects that fuel ethanol production will increase by 50,000 bbl/d (6 percent) in 2011.

CAN THE COURTS ORDER CARBON CUTS

The U.S. Supreme Court will hear a case over whether the judicial branch can essentially impose carbon limits on companies. The utility world is gleeful but should it be? The crux of the argument that the utilities are making is that these matters should be left to elected officials and regulators. The U.S. Environmental Protection Agency has already been given the authority to monitor the carbon emissions from power plants, which it is now trying to do. Understandably, power companies don't want judges telling them how to operate their plants. But they have been just adamant about having the EPA set new rules and regulations. "Public nuisance law would be an unwelcome, unpredictable and unwieldy addition to the utility regulatory landscape," says Christine Tezak, an analyst for Baird & Co. "It is better for the industry if the EPA or Congress manages this issue, instead of the courts." The case dates back to 2004 and is known as American Electric Power v. Connecticut. Here, several states, the city of New York and some interest groups said that coal-burning utilities were contributing to global warming and should therefore be liable under public nuisance laws. A district court threw out the suit, which was then taken to an appeals court. In 2009, that higher court said the matter could go forward. That's when the utilities in question - AEP, Duke Energy, Southern Co., the Tennessee Valley Authority and Xcel Energy - appealed to the U.S. Supreme Court. The High Court said it would hear those arguments in a case expected to begin in March 2011. The power companies say that these environmental issues should not be left to judges; rather, they should be decided by legislators who would abide by the Clean Air Act. In an ironic twist, the Obama administration that has clearly come down on the side of limiting carbon emissions has chosen to team up with the utilities. That is because it would prefer to handle the matter legislatively. Still, the administration is smiling behind the scenes because it places utilities and other corporate interests in the position of having to choose between judicial decrees or federal regulations - rules that are first put out for public comment before they are enacted."EPA has already begun taking actions to address carbon-dioxide emissions," says Neil Katyal, acting solicitor general for Obama's team, in a brief. "That regulatory approach is preferable to what would result if multiple district courts - acting without the benefit of even the most basic statutory guidance - could use common-law nuisance claims to sit as arbiters of scientific and technology-related disputes and de facto regulators of power plants and other sources of pollution." The environmental community is less sanguine, particularly the Obama administration's choice to join the utilities. It says that the while EPA has the authority to regulate carbon emissions it has been trying to placate industry for so long that absolutely nothing is getting done. At the same time, heavy industry is just waiting until a friendlier group of lawmakers gets voted into office so that they can torpedo the whole effort. The Natural Resources Defense Council, furthermore, says that the appeals court ruling is based on long-standing law. That is, the states have the strict right to relief from interstate air and water pollution. But this relief cannot be granted through the courts unless the EPA fails to act. Because those regulators have not technically moved forward to curb carbon, the High Court should rule against the utilities. The exact legalese: EPA has said it would reduce the "increases" in carbon emissions. It did not say it would make "cuts" in those levels, the group says. It and others in the green community see their original lawsuit as a way to cut through the bureaucratic red tape - and to either get the courts to act or to get EPA to move. "With some in Congress attacking EPA and the Clean Air Act, the federal courts are more important than ever to protect the health and welfare of millions of Americans put in danger by these power companies' enormous carbon pollution," writes David Doniger, with the defense council. He would like the federal courts to be able to force emitters to reduce their carbon releases by a certain percentage. In their appeal to the High Court, the utilities are saying that the states don't have a legal leg to stand on. Specifically, they argue that they cannot show that that have been harmed by anything those companies have done. In fact, one could say that they are helping from the standpoint of sustained productivity and employment. The U.S. Chamber of Commerce writes that if these issues are decided by courts it would have "staggering economic implications." "A court is not a regulator and may not enter relief against a particular defendant where the plaintiff's injury is not traceable to that defendant and where relief against the defendant would not redress that injury," the utilities add in their brief.

BP DOUG SHUTTLES TO STEP DOWN

Oil major BP said in an internal email that Doug Suttles, who last year helped lead the response to the Gulf of Mexico oil spill, was retiring as the company seeks to reshape itself in the wake of the disaster. Suttles, who spent 22 years at BP and most recently held the role of chief operating officer in the exploration and production division, was previously named by BP sources as someone who was at risk of losing their position. "In his role as Chief Operating Officer of E&P he was instrumental in the initial response to the Deepwater Horizon spill," said BP's chief executive Bob Dudley in the internal email. Suttles is the latest BP management casualty from the worst oil spill in U.S. history. Former chief executive Tony Hayward stepped down in October and exploration and production chief Andy Inglis was ousted in September.