WTI OIL: US$95.48
+$5.77
April delivery
NYMEX: N Gas: US$3.85
-$0.02 per MMBTU
March delivery

Oilfield NEWS

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NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was down 8 at 1,713 for the week of February 18, 2010. It is 368 rigs (27.4%) higher than last year. The number of rotary rigs drilling for oil declined 7 to 798. There are 358 more rigs targeting oil than last year. Rigs currently drilling for oil represent 46.6% percent of all drilling activity. Rigs directed toward natural gas were down 1 at 905. The number of rigs currently drilling for gas is 12 greater than last year's level of 893. Year-over-year oil exploration in the U.S. is up 81.4 percent. Gas exploration is up 1.3 percent. The weekly average of crude oil spot prices is 8.7 percent higher than last year and natural gas spot prices are 27.8 percent lower. Canadian rig activity was up 6 at 636 for the week of February 18, 2011 and is 66 (11.3%) higher than last year's rig count.

OIL PRICES SURGE

Political turmoil in oil-producing areas of the Middle East and North Africa continued to haunt financial markets on Tuesday, pushing up prices of crude oil and safe-haven investments as traders spurned stocks. While investors in the United States have so far ridden out much of the tumult in the Middle East and North Africa, analysts said they would have a harder time shrugging off the upheaval as it spreads. Much of the uncertainty is being stoked by fears over oil supplies. On Tuesday, the attention continued to focus on Libya. Independent verification of the repression of the_rebellion in Libya is difficult, but human rights advocates outside the country estimate that hundreds of protesters have been killed by forces loyal to Col. Muammar el-Qaddafi. Light, sweet crude oil for April delivery surged in New York, rising $5.30 a barrel to $95.01. The April contract for Brent crude, a global benchmark for oil that trades in London, was up 1 percent at $106.72 a barrel, after hitting $108.57 earlier in the session. The jump in oil prices came even as the Paris-based International Energy Agency tried to reassure the market that it "stands ready, as always, to make oil available to the market in the event of a major supply disruption if alternative supplies cannot readily be made available via normal market mechanisms." International Energy Agency's Fatih Birol said Tuesday that The IEA has a mandate to ask its members, the nations that belong to the Organisation for Economic Cooperation and Development (OECD), to release oil stocks in the case of emergency supply disruption. It rarely opens the taps but released oil product stocks in 2005 when Hurricane Katrina crippled U.S. Gulf oil operations. Birol declined to comment on whether he thought OPEC should boost output to soften high prices and ease concern about potential outages. Top oil exporter Saudi Arabia stood ready to pump more oil if needed, Birol said, before rushing to catch a flight to Riyadh, where energy ministers from consuming and producing countries were due to meet on Tuesday. The kingdom is the only producer with significant spare capacity to meet any large global supply outage.

ERCB RESPONDS TO NRDC SAFETY REPORT

The Energy Resources Conservation Board (ERCB) is concerned that a report on pipeline safety issued this morning by the Natural Resources Defense Council (NRDC) contains misleading statements on pipeline safety in Alberta and on the characteristics of diluted bitumen. The report implies that the Alberta pipelines have had a higher pipeline failure rate than the U.S. due to leaks caused by internal corrosion from transportation of diluted bitumen (DilBit). The NRDC's analysis of published ERCB pipeline data is flawed, leading to misleading and incorrect conclusions. The study includes incorrect statements about pipeline safety in Alberta including: "The Alberta hazardous liquid pipeline system has a relatively high rate of pipeline failure posing an early indication of the risks DilBit poses to pipeline integrity." "Despite its relatively recent construction, Alberta's hazardous liquid system, which carries a high proportion of diluted bitumen, had over four times as many reportable incidents per mile as the older U.S. System between 1990 and 2005." These statements are factually inaccurate. The NRDC's comparison of ERCB data with that collected in the U.S. is flawed, as it selected data from a much broader array of ERCB pipelines than those included in U.S. data as hazardous liquid pipelines. Additionally, the NRDC did not recognize that the ERCB requires all incidents to be reported, regardless of whether or not any product is spilled, and also regardless of spill volume, whereas in the U.S. only spills of five barrels of liquids or more are required to be reported. This results in a misleading comparison of pipeline failure numbers between the U.S. and Alberta. In the category identified by NRDC - pipelines shipping bitumen and blends of bitumen - the ERCB can identify only three spills resulting from internal corrosion between 1990 and 2005 (and only eight from 1975 to 2010). The resulting average failure frequency for the grouping of crude oil pipelines from 1990 to 2005 is thus 0.03 per 1000 km per year. This is significantly lower than the U.S. rate quoted in the NRDC study of 0.08 per 1000 km per year. The report also states that "there are many indications that DilBit is significantly more corrosive to pipeline systems than conventional crude." Analysis of pipeline failure statistics in Alberta has not identified any significant differences in failure frequency between pipelines handling conventional crude versus pipelines carrying crude bitumen, crude oil or synthetic crude oil. Diluent by nature is a lower viscosity, higher-vapour pressure solvent. It could then be considered to be more volatile in its natural state, as it consists of lighter end hydrocarbons. However, when blended with bitumen, the resulting blend is a new product consisting of thinned bitumen that more closely resembles conventional crude products. Once mixed with diluent, DilBit should behave in much the same manner as other crude oils of similar characteristics. In conventional oils sands processing, sulphur is removed during processing, as well as water (which is a primary concern in regards to corrosivity). The tariff specification for the Keystone XL project, for example, is virtually the same in regards to water content and solids contents as that specified for other heavy oil pipelines, thus there is no reason to expect this product to behave in any substantially different way than other oil pipelines. It should also be noted that pipelines in Alberta have never been safer. In 2009, Alberta posted a record-low pipeline failure rate of 1.7 pipeline failures per 1,000 km of pipeline (considering all substances), bettering the previous record-low of 2.1 set in both 2008 and 2007. If the NRDC had contacted the ERCB for information in compiling their report, the ERCB would have been pleased to assist them in interpreting the published data used to compare Alberta and the United States, eliminate the factual errors in the report, and ensure that readers have access to accurate and complete information about pipeline safety in Alberta.

REFINERY AGREEMENT PROMOTES VALUE-ADDED DEVELOPMENT

The Alberta government has successfully negotiated contracts for two projects that will advance upgrading and refining of bitumen in Alberta, increase supplies of diesel fuel and enhance Alberta's position as a secure supplier of clean energy. The first project with the North West Upgrading / Canadian Natural Resources Limited (CNRL) Partnership will lead to construction of a new bitumen refinery in Alberta's Industrial Heartland, northeast of Edmonton, as part of the government's bitumen royalty-in-kind (BRIK) initiative. For the second project, the Alberta government and Enhance Energy Inc. have agreed to terms and conditions specific to the first major carbon capture and storage (CCS) project in the province. Enhance will build the Alberta Carbon Trunk Line (ACTL), a pipeline which will deliver carbon dioxide (CO2) captured from the refinery, to be used for enhanced oil recovery from existing conventional oil fields. "This new refinery and CO2 pipeline will significantly advance Alberta's capacity for refining bitumen into value-added products and increase recoveries from Alberta's conventional oil reserves," said Premier Ed Stelmach. "These projects underline Alberta's commitment to responsible, cleaner energy production." Construction of Phase One of the bitumen refinery is targeted for completion in mid 2014. It will process for market 37,500 barrels daily of Crown bitumen in addition to 12,500 barrels per day of bitumen from Canadian Natural Resources Limited (CNRL). The refinery will process the Crown's bitumen for a processing fee which will result in the Crown receiving higher revenues created by the higher-priced refined bitumen products. The two projects will create about 10,000 jobs during construction, plus associated spinoff employment. During this first stage, the refinery will produce more than 5.5 million litres/day of ultra-low sulphur diesel while capturing over three thousand tonnes of CO2 daily. Enhance Energy will then transport the CO2 via the 240-km ACTL pipeline to conventional oil recovery projects throughout central Alberta where it will be injected into oil reservoirs to make the tough-to-extract oil flow more freely. "These projects are a win-win for Albertans," Energy Minister Ron Liepert said. "They represent a major step forward in producing value-added products while at the same time reducing greenhouse gas emissions. The potential of the enhanced conventional oil recovery ensures on-going jobs, investment and activity in surrounding communities." Alberta's Carbon Capture and Storage Development Council estimated in 2009 that sufficient enhanced oil recovery capacity exists in Alberta to potentially store 450 megatonnes of CO2 and produce an additional 1.4-billion barrels of oil from conventional reservoirs throughout the province, potentially generating up to $25 billion in additional provincial royalties and taxes. Approximately 18 per cent of conventional reserves in place are recovered using current technology. Injecting solvents, such as CO_2 into the reservoirs can increase total recovery rates to 26 per cent. The Government of Alberta announced its intention in 2008 to collect oil sands bitumen royalty volumes in-kind to encourage upgrading, refining and petrochemical development in Alberta. A Request for Proposals to purchase or process 75,000 barrels per day of Crown owned bitumen was issued in July 2009 and negotiations began with the partnership in May 2010. As the steward of the resource for Albertans, the Alberta government is entitled to take its royalty share of bitumen production in-kind, as it currently does for conventional oil production. Bitumen royalty in-kind and other value-added initiatives add value to the bitumen resource, diversify Alberta's economy, increase resource revenues and create jobs in the province. The Alberta government has committed $2 billion to reduce greenhouse gas (GHG) emissions through carbon capture and storage. The projects developed with support from the funding program and industry will help the province be at the forefront of developing clean energy technology. The four projects, including the ACTL supported through Alberta's CCS program are expected to reduce GHG emissions by five-million tonnes per year beginning in 2015.

OPTIMISM WILL DRIVE 2011 OIL & GAS AQUISITIONS

Increased optimism will drive robust transaction activity in the Canadian oil and gas sector in 2011, with a greater range of acquirers getting in the game, says Ernst & Young. "Strategic alliances and joint ventures are on the growth agenda this year as more Canadian companies partner with foreign entities to share risk and increase financial strength and resources," said Kevan Holroyd, Executive Director in Ernst & Young's Oil and Gas practice. "We're also seeing confidence return to smaller oil-weighted companies who have been nursing their balance sheets and to financial investors who are re-establishing their interest in the sector." In 2010, Canada witnessed fewer but larger deals that included a 67% increase over 2009, (not including the $20.7 billion Suncor-PetroCanada merger,) in the value of Canadian oil and gas transactions to $35.7 billion. In terms of megadeals, the sector saw SINOPEC's acquisition of ConocoPhilips' Syncrude oil sands operation for $4.65 billion, Total SA's acquisition of certain properties from Suncor for $2.43 billion and Total Canada's purchase of UTS Energy Corporation for $1.5 billion, among others. The oil sands drove the IPO market with the two largest 2010 Canadian IPOs represented by Athabasca Oil Sands' $1.35 billion offering and MEG Energy's $700 million offering. This year, IPO activity levels are set to rise with upstream and oilfield services likely to remain the engine room of deal flow. "In oilfield services, we're seeing some big US companies sitting on large amounts of cash and looking to re-enter the Canadian market," said Holroyd. "This also rings true for Canadian services companies that have sat on the sidelines over the last few years and are now looking to consolidate and transact." High debt levels of junior oil and gas companies that are natural gas weighted mean corporate transactions will feature prominently in the deal mix this year, compared to the gas asset packages that dominated the 2010 transaction landscape. Natural gas prices, a victim of a robust supply in a time of moderate demand, will also be an important driver of the extent of transaction activity, particularly as prior opportunistic hedges come off the table and squeeze cash flows. "Despite an optimistic outlook for 2011, oil and gas companies need to prepare for the unwelcome return of rising costs, a lack of available labour, as well as project delays and budget overruns that plagued the sector leading up to the recent financial crisis," said Holroyd. Holroyd adds that there's significant growth ahead, especially for those companies in the Western Canadian Sedimentary Basin proactively pursuing new areas of sustainability, including the application of technology to drive down costs and enhance efficiency. This includes the strides made in horizontal drilling, multi-stage fracturing and enhanced oil recoveries, along with the continued building and strengthening of strategic relationships and alliances with key global players that were so prevalent in 2010.

TRANSCANADA LINE BREAK UPDATE

TransCanada Corp said on Tuesday it is meeting all customer demand for natural gas despite a rupture on its main gas pipeline system on Saturday night. The company said it has been able to route natural gas shipments on its Line 1, following the rupture of its Line 2 in a remote region of Northern Ontario, 170 kilometers northeast of Thunder Bay. A third line is not yet operating. A massive burst of flame lit up the skies over tiny Beardmore, Ont., late Saturday, as a section of the TransCanada PipeLines gas mainline ruptured and exploded. No one was hurt in the blast but residents of Beardmore, a town with a population of 325 people located 170 kilometres northwest of Thunder Bay, were roused from their beds by the blast just after 11 p.m. ET. TransCanada workers in Calgary were able able to remotely close valves on either side of the blast, but residual gas inside the line allowed it to continue burning throughout the evening until eventually burning itself out at 7 a.m. Sunday.

SYNCRUDE FINED FOR DEATH OF WORKER

Syncrude Canada has been ordered to pay a fine of $365,000 for the death of a worker at a processing plant in northern Alberta. Thomas Miller, who was 48, died on Dec. 31, 2008, at the Mildred Lake facility when he was struck by a slab of ice weighing hundreds of kilograms. Syncrude pleaded guilty in a Calgary court to one charge under the Occupational Health and Safety Act. The bulk of the money will go to developing a new course at Keyano College in Fort McMurray and $100,000 will go to bursaries and scholarships in Miller's name. Syncrude also paid a court fine of $10,000 fine and $1,500 to the victim's family. Miller was using steam to clear ice that had formed on pipes. Co-workers found him crushed against metal railings.

BHP BILLITON EXPANDS INTO U.S. SHALE GAS

BHP Billiton is buying shale gas assets from Chesapeake Energy Corp for $4.75 billion, pitting itself for the first time against oil giants and China in the battle for the fast-growing energy source in North America. The deal marks the top global miner's first attempt at picking up assets since failing on three mega-deals over the past three years and sets it further ap rt from its mining peers with a big bet on the world's biggest gas market. "BHP have had (three) multi-billion deals which have tipped over, so the market should be pleased that this is one that is going to go through and it is a change of direction in terms of looking at their petroleum division," said Ric Ronge, portfolio manager at Pengana Capital. BHP said it was buying Chesapeake's holdings in Arkansas' Fayetteville shale natural gas field, put up for sale by the No.2 U.S. gas producer just two weeks ago to help trim a heavy debt load. Chesapeake's move at the time sparked talk it was bowing to pressure from billionaire Carl Icahn, a 6 percent stakeholder. Following a shale gas asset buying spree and in the face of persistently low natural gas prices, the company has said it wants to back away from gas and look for oil instead. The deal pits BHP head-to-head against China in a race for global energy assets, following state-owned PetroChina's C$5.4 billion ($5.5 billion) agreement to buy shale gas stakes from Canada's largest gas producer, Encana Corp earlier this month. China's CNOOC earlier bought about $2.4 billion worth of shale stakes from Chesapeake, while Indian energy companies including Reliance Industries have also been investing heavily in the burgeoning sector. Energy firms have invested billions of dollars to develop shale gas in the United States in recent years, flooding the U.S. natural gas market with gas supplies and weighing down prices despite a bounce in other commodity prices in the past year. But BHP Petroleum chief Michael Yeager was bullish that U.S. gas prices would improve as demand for cleaner energy grows, and said even at current levels, the company would make healthy earnings margins on shale gas. "We're delighted to inform you today of a very, very substantive piece of business that we feel is a huge and very, very positive addition to our petroleum company within BHP Billiton Corporation," Yeager told reporters, adding the deal would be cash and earnings accretive from day one. BHP said it was paying $1.77 per thousand cubic feet of gas (Mcf) of proved reserves. ExxonMobil bought Petrohawk Energy's Fayetteville shale assets in December valuing its reserves at $1.92 per Mcf. BHP's acquisitions strategy has shifted focus to its petroleum division after regulatory and political obstacles dashed its $39 billion takeover bid for fertilizer maker Potash Corp , a full takeover of Rio Tinto and an iron ore joint venture with Rio Tinto. "It is probably the only division BHP has where they are not going to run into regulatory or anti-trust issues with an acquisition of size," said Ronge, whose resources fund owns BHP shares. Last week BHP said it planned to spend around $80 billion into expansions over the next five years to cash in on booming commodity prices. Chesapeake's Fayetteville shale assets include about 487,000 acres of leasehold and producing natural gas properties in Arkansas in the United States, one of the world's 30 largest gas fields. Chesapeake said the deal with BHP Billiton Petroleum included existing net production of about 415 million cubic feet of natural gas equivalent per day and about 420 miles of pipeline. BHP aims to triple daily production from the new asset as the field is developed, and plans to spend $800 million to $1 billion a year over 10 years to develop the field, Yeager said. Yeager was confident BHP would not run into any competition or environmental issues with the purchase, noting it was in a rural area in a state that is very pro-business. Chesapeake was advised by Jefferies & Company on the deal, which is expected to close in the first half of 2011.

BP PARTNERS RELIANCE IN INDIAN OIL HUNT

BP lined up one of the biggest foreign direct investments in India to date with a $7.2 billion tie-up with the country's Reliance Industrie to explore for deepwater oil and gas. This marks the second major deal under BP's new chief executive Bob Dudley, who last month agreed a share swap with Russia's state-controlled Rosneft to jointly explore the Arctic for offshore oil and gas. BP said on Monday it would pay Reliance Industries $7.2 billion and performance payments of up to $1.8 billion if the tie-up leads to the development of commercial discoveries. "BP is the best finder of hydrocarbons in deepwater in the world," Mukesh Ambani, Chairman and Managing Director of Reliance Industries, said at a press conference. BP wants to put last year's Gulf of Mexico oil spill disaster behind it, and said earlier this month it would look for long term growth through a fresh focus on discovering oil and gas via exploration partnerships. The oil spill prompted a $30 billion asset disposal programme to help cover BP's costs. But Dudley said BP still had plenty of cash to fund the investment in Reliance assets at a price equivalent to $7.50 per barrel. "We've been divesting assets at around $12 per barrel so for us this is a sensible transaction," Dudley said. BP will take a 30 percent stake in 23 oil and gas blocks and form a 50:50 joint venture for sourcing and marketing gas. "It's kind of similar to the Russian deal - it's getting access to longer term positions which could be material," Oswald Clint from Sanford Bernstein said. "But we've got a key risk here. The gas price is regulated, it's not rising as quickly as people expected," Dudley shrugged off concerns about the gas price and said the deal would help BP gain from rising energy demand in India. "The whole world's looking for gas, particularly in Asia... we believe it is going to be a very, very valuable fuel," he said, adding that the blocks involved had indicated resources of around 15 trillion cubic feet.