Oilfield NEWS

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US NATGAS RIG COUNT AT LOWEST IN YEAR

The number of rigs drilling for natural gas in the United States fell this week to the lowest level in more than a year, dropping seven to 899. The gas-directed rig count has dropped in 10 of the last 13 weeks, now standing at its lowest level since February 2010. The count is down 10 percent from its 2010 peak of 992 in mid-August, its highest since February 2009, when 1,018 rigs were drilling for gas. Horizontal rigs -- the type most often used to extract oil or gas from shale -- lost ground for a second straight week, falling 11 to 970 after hitting a record high 984 two weeks ago. Analysts estimate that nearly two-thirds of horizontal rigs are drilling for natural gas, and these comprise part of the overall rig count. The rest are drilling for oil. Some firms have said they will shift spending away from gas to more profitable liquids or oil-related ventures due to relatively low gas prices, but the changes have yet to have a significant impact on output. The gas rig count of 899 is still well above the 800 level some analysts say is needed to significantly cut production and tighten overall supplies. Most analysts don't expect any major slowdown in domestic gas output until the second half of the year at the earliest. The gas rig count is 44 percent off its record peak of 1,606 from September 2008, and 27 rigs, or 3 percent, below the same week last year. Rising output from shale gas has been the primary driver of increased gas production in the last few years, and most traders agree it will be difficult to tighten the gas market unless drilling slows sharply. While cold temperatures this winter shaved an extra 200 billion cubic feet or more from record high inventories, storage is still likely to end the heating season at a comfortable level between 1.5 and 1.6 trillion cubic feet. With production still running at or near record highs many traders expect gas prices to remain on the defensive, at least until an improving economy boosts industrial demand, which accounts for nearly 30 percent of U.S. gas consumption.

'TRIPLE PLAY' IN DRILLING IN THE MARCELLUS SHALE

Major League Baseball's spring training has started and Range Resources CEO John Pinkerton is excitedly talking about a "triple play." But not the baseball kind of triple play. Pinkerton is talking about the huge Marcellus Shale natural gas play in the eastern U.S., where Range -- a Fort Worth-based natural gas and oil producer -- is already producing the equivalent of 260 million cubic feet of natural gas per day. It plans to reach 400 million by the end of this year and exceed 600 million by the end of 2012. Pinkerton, in a conference call with investment analysts Tuesday, said he views the Marcellus as a triple play -- or "really three plays in one." Range has the potential to produce natural gas and natural gas liquids not only from the Marcellus Shale but also from the Upper Devonian Shale above the Marcellus and the Utica Shale about 1,000 to 2,000 feet below the Marcellus. That potential makes it "one of the most economic plays in North America," said Pinkerton, according to a transcript released by the Morningstar investment research firm. Range announced Monday that it is selling almost all its Barnett Shale holdings for $900 million to an undisclosed company to improve its cash flow and allow it to focus on more lucrative areas such as the Marcellus. The sale is expected to close in late April. "A very significant advantage we'll have in developing the Upper Devonian and Utica will be that we'll be drilling where we've been drilling Marcellus wells," Pinkerton said. In those instances, Range will already have "incurred the cost for acreage, roads, surface location, water management, gas lines and compression," he said. "Therefore, the incremental costs to develop the Upper Devonian and Utica will be reduced by approximately one-third versus developing those zones on a stand-alone basis," he said. "We believe this will allow us to continue to drive down the cost of the entire play." Range believes that about "60 percent of 700,000 net acres that we plan to develop for the Marcellus has potential for the Upper Devonian and Utica shales," Pinkerton said. Range is particularly excited about a new "step-out" Marcellus well in southwest Pennsylvania that yielded the equivalent of 18.6 million cubic feet of natural gas per day on a five-day test. "It is our very best well yet," Range Senior Vice President Rodney Waller said Wednesday. It's called a step-out well because it is 35 miles "from where the heart of our drilling is" and thus offers a promising new area for development, Waller said. Pinkerton said Range believes that it will ultimately realize net production equivalent of 2 billion to 3 billion cubic feet of gas per day from the Marcellus. If Range achieves that production level -- roughly half the current daily production from all operators in North Texas' Barnett Shale -- "that will be huge and our shareholders are going to make a whole bunch of dough from that ... including all of our employees that have a lot of stock," Pinkerton said.

MEXICO LAUNCHES AUCTION FOR OIL FIELD CONTRACTS

Mexico's state oil company kicked off its first-ever auction of oil field operating contracts on Tuesday with executives saying they hoped to have private partners playing a major role in the industry by theend of the decade. Mexico will award contracts to reactivate and operate three small oil fields to private companies this summer in a bid to bring private capital and expertise into the industry to reverse a worrying decline in oil output. Pemex officials said representatives from 120 companies attended the conference, reflecting the wide interest of international oil companies in gaining access to Mexico, whose oil industry has been restricted to a state monopoly for more than 70 years. Mexico, the world's number 7 oil producer, lost nearly a quarter of its output capacity between 2004-2009 due to the rapid aging of its oil fields and a lack of investment in exploration for new deposits. Although output has stabilized around 2.5 million barrels per day, a renewed decline in production could well force Mexico to become a net importer of oil. Mexico relies on oil revenues to fund around a third of its government budget and two debt rating agencies downgraded the country in late 2009, citing its heavy reliance on the declining oil industry and a lack of political will to broaden the tax base. The first round offers only three small oil fields with relatively little oil, but Pemex officials say the potential of the areas, which were discovered before Mexico found its giant offshore oil fields, has not yet been fully exploited. "Why are we doing this? We haven't had enough resources to go back to these fields that have huge potential," Pemex Chief Executive Juan Jose Suarez said at a press conference. Suarez said up to a quarter of Pemex's future projects over the next decade may fall under the new contracting scheme. "Businesses which decide to participate in this first bidding round and in subsequent rounds can be sure that this type of contract is a great opportunity to expand their investment portfolio," he said. Changes to Mexico's highly-restrictive energy legislation in late 2008 permit Pemex to offer more flexible contracts that pay bonuses when targets are exceeded. Attempts to create operating contracts under the older legal regime proved largely unsuccessful as restrictions on the operators made it very difficult to earn an attractive return. Court challenges to the constitutionality of the new legislation and delays within Pemex in drawing up the new contracts have proven frustrating for potential operators but long-time Pemex watchers were in a good mood on Tuesday. "We're finally here. I can't believe it. We may not bid for these contracts but it is an important step that we are finally here," the chief executive of a European oil company's local unit said. Pemex plans roadshows later this month in Houston, Calgary and possibly Buenos

Aires to support the first bidding round. Company officials said they also hoped to be able to hold another two bidding rounds this year, one for mature oil fields in northern Mexico and the other for areas of the Chicontepec project, where Pemex has been stymied by challenging geology.

HALF OF LIBYAN CRUDE NOW SHUT IN

The International Energy Agency said Wednesday it believed between 850,000 b/d and 1 million b/d of Libyan oil production is currently shut in due to the civil unrest in the country. In a statement, the IEA said it was difficult to assess the exact lost volumes because of the "very poor communication channels and staff shortages in Libya." "Based on available information, it would appear that between 850,000 b/d and 1 million b/d out of a total of 1.6 million b/d of Libyan oil production is currently shut in," it said. It said there also continued to be "conflicting reports" on the status of Libyan port activity due to very high winds affecting operations in some of the ports. However, the IEA said European refiners seemed to be coping with the disruption. "Reports from some European refiners indicate there is ample crude until at least the end of March and that they are now scheduling for April supplies," it said. "Currently, crude oil markets in Europe are not perceived as constrained, with crude demand relatively low due to a period of large-scale maintenance of refineries in Europe." Libyan rebels seeking to end Muammar Qaddafi's 41-year rule clashed with security forces loyal to him and moved closer to his birthplace of Sirte Thursday after repelling government attempts to retake oil hubs in the east. Fighting spread along the Gulf of Sidra, with clashes in the oil port of Ras Lanuf and the desert area of Al Agaila. Some pro-Qaddafi units withdrew from Ras Lanuf after a split within the government forces during the battle with rebels.Ras Lanuf has a tanker terminal that exports about 200,000 barrels a day as well as Libya's biggest refinery, with a capacity of 220,000 barrels a day, more than half the country's total, according to the International Energy Agency. In Brega, an energy hub east of Ras Lanuf with a smaller terminal and refinery, an oil company building was bombed. The rebels have repelled government attempts to retake Brega over the past three days. Contracts tied to the cost of shipping Middle East oil jumped 11 percent because of speculation Saudi Arabia will ship more crude to compensate for lost Libyan production and as fuel prices rose. Forward freight agreements tied to the cost of shipping Saudi Arabian oil to Japan rose to the equivalent of $33,200 a day from a closing value of about $30,000 yesterday. Saudi Arabia has said it is ready to make up for any shortfall in Libyan oil shipments.. Such a change could cause longer distance shipments from the Middle East, according to owners including Overseas Shipholding Group and Teekay Tanker Services.

KBR AWARDED FEED CONTRACT FOR LNG PROJECT

Kitimat LNG partners Apache Canada Ltd. and EOG Resources Canada Inc. have announced they have awarded KBR the Front End Engineering and Design (FEED) contract for the planned natural gas liquefaction and export facility on British Columbia's west coast. Financial terms of the contract were not disclosed. "This is another important milestone for Kitimat LNG, taking us a significant step closer in being able to export LNG to Asia-Pacific markets as soon as 2015," said Janine McArdle, president of Kitimat LNG. "KBR is a recognized industry leader in LNG developments and brings extensive experience to our project." Last month, Kitimat LNG Partners entered into an agreement to purchase the remaining 50 percent interest in Pacific Trails Pipeline Limited Partnership, thus securing full ownership in the infrastructure to transport natural gas from production areas to the Kitimat LNG facility. The Pacific Trails Pipeline is a planned 463-kilometre (287-mile), 914-mm (36-inch) diameter underground line that will carry natural gas from Summit Lake to Kitimat. The Kitimat LNG export facility is planned to be built on First Nations land under a unique partnership with the Haisla First Nation. Apache Canada and EOG Canada are in marketing discussions with potential Asia-Pacific LNG customers. The partners expect to have firm sales commitments in place by the time a final investment decision is made near the end of 2011. Initial shipments of LNG are expected to begin in 2015. Kitimat LNG currently has an application pending for a 20-year export licence before Canada's National Energy Board. A hearing on the application is set for June 7, 2011.