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MACKENZIE PIPELINE GETS NEB APPROVAL

The National Energy Board has granted final approval for the Mackenzie Valley natural gas pipeline after the federal cabinet signed off on the long-delayed $16.2-billion project. "Having received approval from the federal cabinet the National Energy Board has issued a Certificate of Public Convenience and Necessity for the Mackenzie Valley Pipeline," the NEB said in a statement Thursday. That means the project, which had been tied up in formal regulatory processes for more than six years, has been given all necessary levels of government approval, although approvals from several other government agencies and local boards are still needed before construction could actually begin. Imperial's consortium, which includes Exxon Mobil Corp., ConocoPhillips, Royal Dutch Shell PLC, and the Aboriginal Pipeline Group, wants to build the pipeline from anchor fields off the Beaufort Sea coast, through the Mackenzie Valley in the Northwest Territories to theAlberta border, where it would link to southern markets. The companies' next step is to resume negotiations with the federal government over a fiscal framework for the project. Following that, Imperial and its partners will need to obtain about 6,000 permits from various government departments, restaff the project and resume engineering work. Given the "tremendous" amount of work ahead, the very earliest Imperial would be in a position to decide whether to go ahead with the project is late 2013, with start-up expected around five years later.

PEMBINA PIPELINE 2011 CAPITAL BUDGET

Pembina Pipeline Corporation has announced its planned capital spend for 2011 of approximately $470 million, with the majority targeted at projects expected to provide new sources of cash flow by mid-year. The Conventional Pipelines business expects to invest approximately $90 million in 2011, with the majority allocated to Alberta-based pipeline systems including the Willesden Green project. This will allow Pembina to strengthen its transportation service offering to producers in the Cardium oil formation . Investments to enhance system-wide operational reliability and integrity are also being made to support the expected increase in pipeline throughput across many of Pembina's systems. The Oil Sands & Heavy Oil business' capital spending plan for 2011 is approximately $220 million. This includes a $215 million investment to complete the Nipisi and Mitsue Pipeline projects, with the remainder being targeted at oil sands pipeline system upgrades. Midstream & Marketing intends to invest $65 million in 2011, excluding the recently announced acquisition of terminalling and storage facilities in the Edmonton, Alberta area which closed on January 7, 2011. Amajority of this spending reflects linefill purchases for the Peace Pipeline system (which became a single shipper pipeline system for crude and condensate volumes in January 2011) and for the Nipisi and Mitsue Pipelines (Pembina Midstream Limited Partnership, a wholly-owned subsidiary of Pembina, has contracted capacity on the Nipisi and Mitsue Pipelines). The remainder is expected to be used to increase the connectivity of Pembina's Midstream & Marketing assets, including the Pembina Nexus Terminal, and upgrade existing truck and storage terminals. Pembina's Gas Services business plans to spend approxmately $75 million in capital in 2011 to enhance natural gas liquids extraction as well as gathering and processing capabilities at the company's Cutbank Complex. The remainder of Pembina's 2011 capital budget will be used to complete a variety of corporate-wide projects, primarily allowing for system and technology upgrades.

SYNTHETIC PREMIUM REBOUNDS

Canadian synthetic crude price spreads widened on Friday in line with bigger premiums for U.S. crudes with similar characteristics and a thicker differential between U.S. and world benchmarks, industry sources said. Synthetic oil for April delivery was quoted at around $15 a barrel above West Texas Intermediate, up from about $10 a few days ago and close to levels at the start of this month. Synthetic, derived from Alberta's oil sands, has jumped above WTI this year due to the outage of Canadian Natural Resources Ltd's Horizon oil sands plant and a halving of output at Husky Energy Inc's 82,000 bpd heavy oil upgrader. Canadian Natural expects its fire-damaged 110,000 bpd operation to start pumping half its capacity before the end of June and return to full volumes in the third quarter. Husky has said it expects production at its plant at Lloydminster on the Alberta-Saskatchewan border to return to normal levels some time this month after a small fire restricted output in February. Synthetic has also climbed along with U.S. crude such as Light Louisiana Sweet LLS-, whose premium over WTI gained 80 cents on Friday to $15.50 a barrel. Meanwhile, Western Canada Select heavy blend was quoted around $20 a barrel under WTI, close to Monday's level. Heavy prices have been pressured in recent months by tight capacity on Enbridge Inc's export pipeline system to the U.S. Midwest as the company has increased testing and maintenance following two ruptures last summer. Enbridge said it had restarted its 290,000 bpd Line 6B after shutting it on Monday for repairs to part of the line in Michigan, the state in which the line ruptured in late July.

ENBRIDGE RESTARTS 6B

Enbridge Inc says it has restarted its 290,000 barrel per day Line 6B after shutting it on Monday for repairs to part of the line in Michigan. The company said the line resumed service early on Friday morning local time and was operating at pre-maintenance rates. Enbridge also said it successfully replaced a 3,450-foot span of the line running under the St. Clair River between Sarnia, Ontario, and Marysville, Michigan. New valves will be installed over the next few weeks and the existing segment will be decommissioned.

OPEC PRODUCTION COMPLIANCE FALLS

OPEC's compliance with the production quotas its members agreed to in 2008 fell last month. Average daily output from the 11 members of the group bound by quotas rose 131,200 barrels a day to 27.38 million barrels a day in February. That implies compliance of 40 percent compared with a revised 43 percent in January. Saudi Arabia, the organization's largest member and de facto leader, boosted production to 8.87 million barrels a day, an increase of 279,600 barrels. Venezuela and Angola made the next-biggest contributions to last month's gain, pumping 2.39 million and 1.7 million daily barrels a day, respectively. Members of the Organization of Petroleum Exporting Countries are discussing whether to hold an emergency meeting in response to protests in Libya that have cut the country's production in half. OPEC is next due to meet on June 8.

JAPANESE MASSIVE QUAKE SENDS OIL PRICES LOWER

The massive earthquake off the Japanese coast Friday morning sent oil prices lower as demand is likely to be decimated in the world's third-largest economy — and the third-largest oil importer in the world. About 20 per cent of Japan's refining capacity has been knocked offline, along with 11 nuclear power stations. Nuclear energy makes up 40 per cent of Japan's electrical needs. Japan's daily oil consumption in 2009 was 4.4 million barrels. Almost all of it has to be covered by imports. In late afternoon trading April oil was off $2.02 to $100.68 a barrel. Meanwhile, U.S. energy companies with operations in Hawaii, Alaska and along the coasts of California, Oregon and Washington were on alert on Friday for the possibility of a tsunami set off by a massive earthquake off Japan reaching U.S. shores. Tesoro Corp which has the largest concentration of refinery capacity in the region, said it had closed a few retail stations in some low lying areas of Hawaii as a precaution and was monitoring operations at its refineries in Hawaii, Alaska, California and Washington. The first signs of the tsunami began to wash up on Hawaiian shores early Friday, as waves seen on local television footage rose steadily over the southern beaches on the island of Oahu. The island state of Hawaii ordered evacuations of its coastal areas and braced for a tidal wave hours after the massive 8.9 earthquake in Japan, 3,800 miles (6,200 km) away, triggered the tsunami warning across most of the Pacific basin, including northern California and Oregon. The U.S. government said shorelines appear to be out of major danger from the tsunami, caused by the large quake which killed hundreds in Japan, but that there is still some risk to the U.S. West Coast. The U.S. Federal Emergency Management Administration (FEMA) said it was coordinating with local officials on the U.S. West Coast and in Hawaii on a response if needed. Shipping operations at the ports of Los Angeles and San Francisco were suspended as a precaution relating to the tsunami. The Port of Los Angeles suspended cargo operations ahead of the suspected 12 to 18-inch (30-46-cm) surge in one to two hours. Beaches near the port have been closed off. The port of San Francisco suspended oil and hazardous materials transfer as it expects a 3-foot surge at 8:08 a.m. local time. The port of San Diego, located in the southern part of California, said it expects no impact from the tsunami.

SHELL'S CASH FLOW CONUNDRUM

Royal Dutch Shell will need to convince investors it can put growing cash flow to good use when the Anglo-Dutch oil company updates them on its strategy plans next week. Shell is generating more cash after investing more than $100 billion in exploration and production over the last five years. After ploughing $23.7 billion into net capital investment in 2010, the company is aiming for $25-$27 billion in 2011. Shell reported a positive total cash flow of $3.725 billion in 2010, after investment activities absorbed less than in 2009, when it posted a negative total cash flow of $5.469 billion. But the recent oil price spike is not expected to change these plans at Shell's strategy update on March 15. "What is happening now with the oil price will not make a difference, oil majors plan long-term. The focus is on production growth beyond 2012," ABN AMRO Bank analyst Paul Andriessen said. Shell is aiming for 2012 oil and natural gas production to be 11 percent higher than in 2009 and says this will lead to a 50 to 80 percent increase in cash flow from operations, measured at $60 to $80 per barrel oil prices. Investors will be looking for details on its project pipeline after Shell started up six upstream and downstream schemes in 2010 and saw first offshore gas production at its Qatargas 4 LNG facility earlier this year. "I'm looking for more detail on projects from 2015 to 2020. I don't think there's enough detail on the projects after this bunch," said David Stedman, head of corporate research at Daiwa Capital Markets. Europe's largest oil company by market capitalisation will also be expected to give guidance on where the cash generated from newly finished projects, such as its Pearl gas-to-liquids (GTL) plant, will go. "With the likes of Pearl GTL there's no doubt Shell will deliver lots of cash flow. What are they doing to spend that cash flow on? How much of it goes back to shareholders," Daiwa's Stedman said. After its fourth-quarter profit was hit by weak refining and downstream results, Shell may also announce new plans to lower refining capacity and limit exposure to retail markets. "This is the window of delivery -- the back end of 2011 going into 2012 -- this is what it's been all about for the last five or six years, delivering operational performance and a cash flow upside," said ING analyst Jason Kenney. "But the question is, what happens next."

US NG RIG COUNT LOWEST IN 13 MONTHS

The number of rigs drilling for natural gas in the United States fell this week to the lowest level in 13 months, dropping 17 to 882, oil services firm Baker Hughes said on Friday. Horizontal rigs on the other hand gained ground for the first time in three weeks, rising 11 to 981, just shy of the record high of 984 hit three weeks ago.