

WTI OIL: US\$107.85  
-\$0.62  
May delivery  
NYMEX: N Gas: US\$4.26  
-\$0.03 per MMBTU  
April delivery



# oilfield NEWS

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## NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 38 at 1,776 for the week of April 1, 2010. It is 311 rigs (21.2%) higher than last year. The number of rotary rigs drilling for oil increased 26 to 877. There are 375 more rigs targeting oil than last year. Rigs drilling for oil represent 49.4% percent of all drilling activity. Rigs directed toward natural gas were up 11 at 891. The number of rigs currently drilling for gas is 58 less than last year's level of 949. Year-over-year oil exploration in the U.S. is up 74.7 percent. Gas exploration is down 6.1 percent. The weekly average of crude oil spot prices is 26.7 percent higher than last year and natural gas spot prices are 13.0 percent higher. Canadian rig activity was down 144 at 285 for the week of April 1, 2011 as the spring thaw sets in and is 134 (88.7%) higher than last year's rig count.

## TRANSCANADA RESPONDS TO NY TIMES KEYSTONE REBUFF

TransCanada Corp said on Monday it's disappointed by an editorial in the New York Times that urged the U.S. State Department to reject the company's bid to build a \$7 billion oil pipeline across the U.S. Midwest from Canada. TransCanada's Keystone XL pipeline would carry crude oil produced in the oil sands of northern Alberta, and would stretch from near Edmonton, Alberta, to Nederland, Texas and link to TransCanada's existing Keystone system, which now carries 591,000 barrels of crude per day as far as Cushing, Oklahoma. The Obama administration last month ordered an additional environmental review of the project and the State Department will eventually rule on whether it will go ahead. TransCanada, Canada's largest pipeline operator, says the XL expansion would boost the system's capacity to around 1.1 million bpd and extend a line from the glutted Cushing storage hub to refineries on the U.S. Gulf Coast, where it is intended to replace dwindling supplies from Mexico and Venezuela. The company's plans have been roundly criticized by some environmental groups and land owners along the route. They are concerned about the environmental costs of rising production from the oil sands and about the potential for spills in Nebraska, where the line crosses the massive Ogallala aquifer. TransCanada argues that the aquifer is already crisscrossed with pipelines and that its new line would be built to the highest standard. It says it is not responsible for the development of the oil sands. The Times, often considered the most influential newspaper in the United States, sided with the environmental groups. Its editorial urged the State Department to deny

TransCanada a permit to build Keystone XL, citing the risks to the aquifer as well as the higher greenhouse gas emissions and other environmental problems that result from oil sands production. It also said that existing pipeline space was adequate for expanded exports from Canada, the biggest oil supplier to the United States. "Moving ahead would be a huge error," the editorial stated. "From all of the evidence, Keystone XL is not only environmentally risky, it is unnecessary." TransCanada condemned the editorial as unbalanced and said recent editorials in the Washington Post and USA Today, which supported the project, were more accurate. "We think it's very unfortunate that the New York Times, with the credibility that publication has, did not offer a fair and balanced editorial opinion on the project unlike what other outlets in the U.S. have done recently," said James Millar, a spokesman for the company.

## OIL-SPILL PANEL FOCUSES ON BLOWOUT PREVENTER

The examination of the blowout preventer that failed to stop last year's massive BP oil spill still left many important questions unanswered, the lead investigator testified Monday. Det Norske Veritas is the Norwegian firm hired by the U.S. government to perform an autopsy on the blowout preventer, the massive stack of closing valves and cutting blades that was recovered from the site of the largest oil spill in American history. Almost two weeks ago, the company released its technical forensic report, which primarily blamed the BOP failure on an unanticipated bowing of the drill pipe that ran from the rig above, through the BOP and into the sea floor. The 5.5-inch drill pipe is believed to be the only path through which oil and natural gas initially began spewing last April 20. The key to that conclusion was a model showing the drill pipe stuck at two pivot points, one at the top of the four-story-tall blowout preventer and another near the bottom. The bowing of the pipe prevented the BOP's last-ditch mechanism, the blind shear rams, from properly cutting and sealing off the flowing pipe. But in testimony before a joint Marine Board panel of Coast Guard and Interior Department investigators in Metairie on Monday, lead forensic investigator Greg Kenney said his team didn't have time to disassemble and review the valves that got the pipe stuck in the first place. Some previous testimony by rig workers indicated that a valve at the top of the BOP was open when the blowout happened, but the Det Norske Veritas report assumes it was closed, causing the pipe to bend. And yet, the evidence recovered from the BOP

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showed no physical signs of any bowed pipe. Kenney said the assumption that the pipe did bow was based on computer models. Det Norske Veritas' project manager, Neil Thompson, said the pipe was found straight when the BOP was lifted to the surface in September because it was elastic and returned to its natural position some time after the event. But under questioning by a lawyer for BOP manufacturer Cameron International,

Thompson acknowledged that one of the models depicted in the forensic report showed the pipe in the wrong position, adding again to the uncertainties in the Det Norske Veritas report. Thompson also admitted his team never conducted tests to determine flow pressures or figure out what forces might have caused the pipe to bend inside the BOP in the first place. One computer model showed that it would have taken an incredible 113,000 pounds-

per-square-inch of force on the pipe to bend it. Another important unknown is when the blind shear rams actually attempted to cut the pipe. Det Norske Veritas' report says it most likely happened two days after the accident. But some BOP experts questioned that conclusion. Det Norske Veritas tested a 27-volt battery that should have automatically triggered the blind shear rams moments after the accident. The examiners found it had just 7 volts of charge when it was recovered in June and 0.7 volts of charge when it was brought to dry land in September. Based on that, Kenney and Thompson concluded the automatic trigger failed, meaning it likely took until two days after the accident for remote-controlled submarines to activate the rams manually. But the two Det Norske Veritas witnesses also said it was possible that a backup control pod worked in the minutes after the blowout, overriding the low battery pod, and succeeded in triggering the blind shear rams. The question of whether the pods were maintained properly will likely be key in determining Transocean's liability in the accident. The pod that might have worked, was last pulled up for maintenance in 2009, but there wasn't any record of a tune-up for the pod with the nearly dead battery, Kenney said, correcting a misstatement in the forensic report. Transocean witnesses who were scheduled to testify Tuesday have refused to show up and could not be compelled to do so because they live out of the area, where the federal subpoenas served against them from New Orleans have no power. That caused the Marine Board of Investigation to cancel Tuesday's hearing. Testimony will resume Wednesday.

#### TRANSOCEAN ON 2010 SAFETY COMMENTS INSENSITIVE

Transocean Ltd has acknowledged that its description of 2010 as its "best year in safety" despite a blowout that sank one of its rigs, killing 11 workers and causing a huge oil spill, might be insensitive. In a filing with U.S. financial regulators on Friday, Transocean had said it achieved an "exemplary" safety record last year as measured by its total recordable incident rate and total potential severity rate. But Ihab Toma, the company's executive vice president of global business, said some wording in that statement "may have been insensitive" given the Deepwater Horizon accident caused by a blown-out BP well in the Gulf of Mexico last year. "Nothing in the proxy was intended to minimize this tragedy or diminish the impact it has had on those who lost loved ones. Everyone at Transocean continues to mourn the loss of these friends and colleagues." Toma said in a statement on Monday. Earlier on Monday, U.S. Interior Secretary Ken Salazar had disputed Transocean's claim that its safety record last year justified executives' safety bonuses. He told reporters on a conference call that Transocean was "at some fault" for causing millions of barrels of crude oil to

leak from the underwater well. On Friday, the head of the Interior Department's Bureau of Ocean Energy Management had chastised Transocean Chief Executive Steven Newman for not doing more to encourage two employees to attend a hearing this week for the government's probe of the oil spill. The hearing is examining why the rig's blowout preventer failed to stop what eventually became the largest offshore oil spill in U.S. history. Newman, who became CEO of the rig contractor less than two months before the April 20 blowout, received \$6.4 million in 2010, including \$850,000 in base pay and a \$5.4 million long-term incentive award, according to the filing on Friday.

#### BP CLOSE TO RESUMING DRILLING IN GULF OF MEXICO

Oil major BP is close to reaching an agreement to allow it to resume drilling at existing wells in the Gulf of Mexico almost a year after an explosion at its Macondo well caused a massive oil spill, the BBC reported. The U.S. regulator has given informal approval to allow BP to begin drilling again, said the BBC's website on Monday, without citing sources. The company has been told privately that it will be able to restart drilling in July, the report added. The U.S. Bureau of Ocean Energy Management, which issues permits to drill, said on Sunday that no deals had been reached with BP, following reports of an agreement in the Sunday Times and Financial Times newspapers. BP on Monday declined to comment on the status of talks with the bureau. Shell's plan for deepwater exploration in the Gulf of Mexico was approved earlier in March, the first such plan to be given the greenlight since the BP oil spill. The U.S. Interior Department said at that time that there were 13 deepwater plans pending approval. BP holds more acreage than any other company in deepwater in the Gulf of Mexico.

#### EMERGENCY OPEC MEETING UNLIKELY

Iran's OPEC governor said there is no need for the producer group to hold an emergency meeting, even as oil prices have surged by 30 per cent since February over unrest in the Arab world. Iran's semi-official Fars News Agency quoted Mohammad Ali Khatabi on Tuesday as saying that the spike in crude prices is linked to the unrest roiling several oil producing nations and that such factors are beyond the control of the Organization of the Petroleum Exporting Countries. Despite the gains, Khatabi said there will be no emergency meeting ahead of the bloc's June gathering in Vienna. Oil prices slipped below \$108 a barrel Tuesday, but remained near 31-month highs, amid expectations that U.S. crude stockpiles have risen and hopes that Libya is slowly resuming shipments of oil from rebel-held ports. By early afternoon in Europe, benchmark crude for April delivery was down 58 cents at



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\$107.89 a barrel in electronic trading on the New York Mercantile Exchange. On Monday, the contract gained 53 cents to settle at \$108.47, the highest since September 2008. In London, Brent crude for April delivery was down 47 cents to \$120.59 a barrel on the ICE Futures exchange.

#### OIL TANKER LAYUPS TO RISE ON TIGHT FREIGHT MARKET

NA flood of new tankers this year will exacerbate the freight market's oversupply problem and force more shipowners to lay up their vessels, a former BP shipping unit said on Tuesday. Average earnings for the benchmark Middle East Gulf to Japan export route .BAGJ has tumbled below the \$10,000 operating cost level for a Very Large Crude Carrier (VLCC), trading at a five-month low of \$3,659 on Monday. AVLCC typically transports 2 million barrels of crude oil. Analysts expect a difficult year not only for the tanker industry, but also for dry bulk owners, as a large surplus of tonnage keeps freight rates low and profit margins tight despite strong global

demand for oil and commodities. "We catch the doom and gloom of the industry," Andrew Lockie, director of International Shipcare told reporters at the firm's formal launch. "I don't think it's going to be too long now (for a pick-up in layup business). Banks are knocking at the doors of shipowners." The Singapore-based maritime firm was purchased for an undisclosed sum from BP at the end of last year by Lockie and other former shipping executives of the British oil major. International Shipcare currently provides maintenance and anchorage services to 20 vessels, ranging from crude and LNG tankers to dry bulk carriers and offshore service vessels, at its facility in Labuan, Malaysia. About 3 percent of the 5,388 tankers in the global fleet are believed to be idle, and that should rise "exponentially" in the next two to three years, executives said. Utilization rates for tankers were seen declining sharply from its current 85 percent if shipowners do not lay up or scrap their vessels, Lockie said. The average cost of laying up a vessel is around \$1,500 per day.