NYMEX OIL: US$112.29
+$0.84
May delivery
NYMEX N. Gas: US$4.41
-$0.10 per MMBTU
May delivery

Oilfield NEWS

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Published By *NEWS COMMUNICATIONS* since 1977 | Weekender | Saturday April 23, 2011

ENCANA Q1 RESULTS

Encana Corp posted a 19-fold plunge in first-quarter profit as a result of lower natural gas prices, and backed its production target for the year. For 2011, the company forecast an annual growth per share of 5-7 percent, and said natural gas prices remain at unsustainably low levels. Along with gas producers across North America, Encana has struggled with stubbornly low prices for the fuel. During the quarter, gas on the New York Mercantile Exchange averaged $4.20 per million British thermal units, down 16 percent from the year before. Canadian gas prices were 23 percent lower. Encana, which posted a 2 percent rise in quarterly production to about 3.34 billion cubic feet equivalent per day (bcfe/d), expects to produce 3.47-3.52 bcfe/d in 2011. The company, which is working to close a $5.4 billion shale gas asset sale to PetroChina , earned $78 million, or 11 cents a share, down from $1.49 billion, or $1.96 a share, a year ago. Analysts on an average expected earnings of 15 cents a share. The natural gas producer maintained its capital investment for the year at $4.6-$4.8 billion. Cash flow, a glimpse into the company's ability to fund operations, fell 19 percent to $955 million, or $1.29 a share, from $1.17 billion, or $1.56 a share, in the first quarter of 2010. First-quarter revenue, net of royalties, more than halved to $1.67 billion.

ENBRIDGE EASES SHIPPING LIMITS

nbridge Inc said on Thursday it eased shipping limits on its massive pipeline system to the United States from Canada as a glut of crude that has plagued the Canadian industry shrinks. The situation -- a sharp turnaround from late 2010 when producers struggled to push crude through a clogged network -- suggests price spreads against benchmark grades could tighten in the coming months, industry sources said. "You do at least have things flowing better on the pipeline system, so that in and of itself is a positive," FirstEnergy Capital Corp analyst Martin King said. "You're also heading into the seasonal uptick for refinery use, asphalt and more heavy oil use, and the supply situation in the West is ramping up to probably its peak point for the year." This year, output of synthetic crude from the Alberta tar sands and heavy crude fields dropped after fires at upgraders run by Canadian Natural Resources Ltd and Husky Energy Inc. Enbridge, whose pipelines carry most of Canada's crude exports to the United States, said shippers will be able to move 93 percent of their nominated volumes for May on Line 5, which runs to Sarnia, Ontario, from Superior, Wisconsin. That is up from 92 percent for April. Line 6B, to Sarnia from Griffith, Indiana, will move 90 percent of orders, compared with 83 percent in April. That segment was shut down for nine weeks last summer due to a rupture and devastating oil spill in Michigan, which sowed the seeds of the Canadian glut. Enbridge has intensified inspection and maintenance of its two million barrel a day pipeline system since the incident and another line break in Illinois in September. "The apportionment results from a combination of high nominations from shippers and temporary capacity restrictions that Enbridge has instituted in connection with the focused pipeline integrity inspection program on our system," spokeswoman Jennifer Varey said in an email. Shipping restrictions on the artery for Canadian crude shipments to the West Coast, meanwhile, remain tight. The 300,000 bpd Trans Mountain system to the Vancouver area from Alberta will be able to deliver 70 percent of nominated volumes in May, operator Kinder Morgan Energy Partners LP said. That compares with 72 percent in April. Nominations are affected by 36 hours of maintenance scheduled for next month, the company said. Husky has resumed full operations at its 82,000 bpd a day Lloydminster upgrader, and Canadian Natural has said half of the output at the 110,000 bpd Horizon plant should return before the end of June, bolstering synthetic oil supplies. However, Suncor Energy Inc plans a six-week upgrader turnaround at its northern Alberta oil sands facility starting next month. The work is expected to cut output at the 350,000 bpd plant by 215,000 bpd over the duration. Early quotes for synthetic crude for June delivery were around $10 a barrel over West Texas Intermediate, compared with about $12 over in May. June Western Canada Select heavy blend was discussed at about $15.50-$16 a barrel under WTI, close to May pricing.

HIGH OIL PRICE UNJUSTIFIED

Saudi Arabia's oil minister says the current high oil price is unjustifiable and that speculation over the future oil markets is mainly behind the hike. Ali Naimi told reporters the lower demand for Saudi oil in March compared to February was a sign of an existing surplus on the global market. He says large quantities of oil were available as commercial stockpile or surplus production in some oil-producing countries. Naimi spoke after a meeting on Tuesday with Dutch Economic Affairs Minister Maxime Verhagen. Saudi Arabia is the world's largest oil exporter, with the capacity to pump 12.5 million barrels. In March, the kingdom cut daily output to 8.3 million, from 9.1 million barrels in February.

HIGH OIL PRICE SLOWS CHINA-U.S. DEMAND

High oil prices have hurt demand in top consumers China and the United States, and OPEC needs to be prepared to raise output around June to stem further price rises, the International Energy Agency's executive director said on Wednesday. The IEA has already warned that high oil prices are threatening to slow global economic expansion, which would in turn erode the pace of growth in fuel demand. A sustained price of $100 or more for the rest of 2011 would cause demand destruction simila to 2008, Nobuo Tanaka told Reuters in an interview. Then, fuel demand fell as the world economy reeled from the impact of the global financial crisis. "There is a six-month lag for the world economy to fully show the impact of high oil prices. But if they stay at current levels, the consequences will be bad," he said. Earlier this week, Tanaka described signs of the slowdown in demand as "alarming" Oil prices have risen to their highest levels since 2008 this year. Brent LCOc1 touched $127 a barrel earlier in April, and U.S. crude CLc1 rose above $113, on worries of unrest in the Middle East and North Africa. Investors and speculators would need to heed the growing chorus of warnings and "not repeat the same mistake made in 2008", when the price of crude was driven to over $147 a barrel, Tanaka said. Global demand fell by 500,000 barrels per day (bpd) in 2008 and 1.3 million bpd in 2009, according to the IEA. Oil markets were well supplied for now, but producer group OPEC would need to be prepared to boost output in June or July as European refineries come back online after seasonal maintenance and as Japan begins reconstruction in the wake of its devastating earthquake and tsunami last month, Tanaka said. "As Saudi Oil Minister Ali al-Naimi has always said: Saudi will fill the gap," Tanaka said. "So please, OPEC countries need to make sure this happens when demand comes back." OPEC next meets in June to discuss supply policy, but has to date taken no coordinated action to boost supply to cool prices. Top oil exporter Saudi Arabia said this week it cut supply in March from February as the market was oversupplied. The kingdom had ramped up output in February to plug the gap in supplies left by Libya, where civil war disrupted exports. OPEC ministers have joined the growing chorus this week of those warning that costly oil could place a major strain on consumer countries with fragile economies. China's measures to cool growth and slow inflation had contributed to a slowdown in demand there, Tanaka said, but high prices had played their part. Year-on-year, Chinese oil demand growth slowed to 9.6 percent in February from 16 percent in December, Tanaka said. "We have already observed slower oil demand growth rates in China. Clearly, the speed of growth is declining," Tanaka told Reuters. "Part of it would be monetary tightening but high oil prices also play a big role. The government has been deregulating the gasoline prices each month and certainly, that has eaten up some demand growth." The question for oil markets is whether Chinese demand growth, which has driven global oil consumption growth for a decade, is slowing faster than expected. The rate of Chinese annual oil demand growh was expected to slow to between 5-7 percent in 2011, according to a Reuters poll, down from a 12 percent increase in 2010. That would still have meant annual growth of 450,000 to 550,000 barrels per day, or around a third of the IEA's global demand growth forecast of 1.44 million bpd for 2011. Implied oil demand in March was up 11 percent on the year, according to Reuters' calculations, ahead of forecast growth. Global gas demand would likely see a big boost in the coming years after Japan's earthquake and tsunami damaged nuclear plants there, Tanaka said. Some governments would shy away from building new reactors and old nuclear plants could get retired earlier than expected. That would erode the glut in gas supplies in global markets earlier than previously expected, Tanaka said. "Governments will increase the use of gas for power generation. The current glut in gas supplies will evaporate very quickly," he said. "Gas demand could be much, much tighter in the future," he said, adding that the agency was in the process of revising its gas demand outlook. Tanaka has previously said the supply glut in global gas markets could take until the end of the decade to clear.

SOARING OIL PRICES TO LIFT OIL MAJORS' PROFITS

The big western oil companies, including Exxon Mobil and Royal Dutch Shell) are expected to report strong growth in first-quarter profits next week, thanks to higher crude prices and refining margins. A 38 percent rise in Brent crude in the quarter compared with the same period last year, due to strong global demand and political upheaval in the Middle East, will more than outweigh the impact of falling production at many companies, analysts said. Exxon, the world's largest non-government controlled oil company by market capitalisation, is expected to report a 59 percent rise in net income to $9.99 billion, also boosted by its acquisition of XTO last year, according to I/B/E/S estimates. Industry number two Shell is expected to post a 22 percent rise in current cost of supply (CCS) net income, excluding one-off items, to $5.89 billion, while U.S. rival Chevron is forecast to report a 29 percent rise in net income to $5.92 billion. "The year-on-year figures will look fantastic," said Iain Armstrong, oil analyst at brokerage Brewin Dolphin, even though the kinds of contracts oil companies have with resource holders means they pay increasing taxes as oil prices rise, so they don't get the full benefit of the rise. London-based BP, however, is expected to produce anaemic results as it is still suffering from the effects of last year's Gulf of Mexico oil spill. An around 10 percent drop in the oil major's oil and gas output, due to field sales to help pay for the disaster, is expected to limit the predicted rise in replacement cost (RC) net income, excluding one-off items, to only 2 percent, at $5.79 billion, according to a Reuters poll of nine analysts. CCS and RC net income exclude unrealised gains or losses related to changes in the value of oil inventories, and so are comparable to net income under U.S. accounting rules. Fighting in Libya has cut output for some companies -- most notably Italy's Eni -- and a recent hike in UK North Sea taxes will eat into profits, but the outlook for companies, especially in the United States, is seen as strong thanks to rising oil prices."Select Big Oils are on the cusp of a period of significant free cash generation," analysts at Credit Suisse said in a research note. "Cashflow per share at the U.S. Big Oils should outpace the S&P (stock market index) ... We remain overweight the U.S. Big Oils against the S&P but are more cautious on European IOCs (international oil companies) against the European Market," the investment bank added. Oil companies are also expected to report strong profits from processing crude for the first quarter. Global refining margins more than tripled in the first three months of the year, compared with the same period in 2010, according to BP data. Last month's earthquake in Japan will also benefit some gas producers, as it prompted a spike in North Sea gas prices, and supported prices of liquefied natural gas, as dealers predicted the shutdown in Japanese nuclear plants would lead to more gas-fired power generation. However, some analysts say the market may have priced in too much positive news. "There is the potential that people will sell the news," said James Dailey, portfolio manager of the TEAM Asset Strategy Fund in Harrisburg, Pennsylvania. "I would be surprised if there are any misses, but with the stocks up as much as they have been, the companies are going to have to beat estimates and guide higher. I think we are set up for disappointment."

CHESAPEAKE SUSPENDS FRACKING AFTER BLOWOUT

Chesapeake Energy suspended the use of a controversial drilling method in Pennsylvania on Thursday as it worked to contain a natural gas well blowout that spilled drilling fluid into local waterways. Chesapeake, the state's largest shale gas driller, planned to use a mix of plastic, ground up tires and heavy mud to plug the well, which has further raised concerns about the safety of the controversial "fracking" drilling process that blasts shale rock with a mix of water, sand and chemicals to release trapped natural gas. The fluid from the well in Bradford County initially spilled into a nearby waterway but was now being contained, Chesapeake said in a statement early Thursday. The well spewed thousands of gallons of fracking fluid, county emergency management officials said on Wednesday. "We have put all well completion operations on hold. Hydraulic fracturing is completely within that process," company spokesman Rory Sweeney said. Well completion is the preparation for production of a well after drilling is complete and involves the controversial process of hydraulic fracturing, or fracking. Chesapeake was listed as the largest shale gas driller in Pennsylvania, with 87 active wells in the second half of 2010. It was not immediately clear how many wells Chesapeake has at or near the completion stage.

SCHLUMBERGER SEES BRIGHT OUTLOOK

Schlumberger Ltd and Weatherford International Ltd said on Thursday the outlook is promising for the oilfield service industry as energy companies speed exploration in a time of high oil prices and growing demand. The outlook came as those global companies and others including Diamond Offshore Drilling Inc reported first-quarter earnings that were nicked by unrest in the Middle East and North Africa, a slow restart to offshore drilling in the Gulf of Mexico and bad weather in Australia. Oil prices have climbed above $110 a barrel, prompting producers including Saudi Arabia to ramp up spending on new fields to increase their output capacity and make up for supplies that have been cut off from Libya. "The absence of Libyan production worries the oil producers," said Schlumberger Chief Executive Officer Andrew Gould, adding that this along with increased oil and gas demand from Japan would drive more activity globally. "I think that I'm much more confident that the international stream will come back faster," the executive said on a conference call with investors. Shares of Schlumberger were up 1.6 percent at

$89.33 on the New York Stock Exchange at midday. Bernard Duroc Danner, the CEO of Schlumberger's smaller rival Weatherford, told analysts his company will raise capital expenditures to take advantage of improving international and North American markets for his company's services. Schlumberger, the world's largest oilfield services company, posted a lower-than-expected quarterly profit on Thursday, but its outlook for improved customer demand pushed its shares higher. Bill Herbert, oilfield services analyst at Houston-based investment bank Simmons & Co, described the company's outlook as "quite constructive." Schlumberger's first-quarter profit rose 40 percent to $944 million or 69 cents per share. Excluding one-time items, Schlumberger earned 71 cents per share, compared with the 76 cents that analysts expected, according to the average on Thomson Reuters I/B/E/S. Weatherford, the world's fourth-largest oilfield services company, reported a first-quarter profit compared with a loss a year earlier, helped by higher revenue in the company's North America segment. Still, Weatherford's results fell short of Wall Street estimates, sending its stock down 3.3 percent in New York trading. Companies that provide offshore drilling rigs have been hit hard by fallout from BP Plc's Gulf of Mexico well blow-out disaster one year ago. Many rigs were idled by the U.S. government's drilling moratorium in the Gulf and day rates to hire those vessels fell, but some recovery is expected this year. Diamond Offshore reported a 14 percent drop in quarterly profit as the rates paid for its oil and gas drilling rigs declined. Its rival Noble Corp reported an 85 percent drop in quarterly profit after the market close on Wednesday

BP SUES OVER GULF OIL SPILL

BP Plc has filed a lawsuit against Halliburton, the company which cemented the blown out well which caused the Gulf of Mexico oil spill, saying Halliburton concealed critical information which could have prevented the disaster. "Halliburton's improper conduct, errors and omissions, including fraud and concealment, caused and/or contributed to the Deepwater Horizon incident," BP said in a court filing. "Halliburton knew and understood it was misrepresenting material information," BP added. The suit was filed on Wednesday, one year to the day after the Deepwater Horizon rig exploded, killing 11 men. On Wednesday, BP also filed a $40 billion lawsuit against rig operator Transocean. Transocean called the lawsuit a "desperate bid" by BP to renege on a contract to assume full responsibility for pollution and environmental costs. "This suit is specious and unconscionable," it said in a statement. In a separate lawsuit, BP asked U.S. District Judge Carl Barbier, who oversees national litigation over the spill, to order Houston-based Cameron to reimburse it for "all or a part" of its damages. "The blowout preventer failed to work and perform the function it was designed and manufactured to perform -- i.e., to secure the well," BP said. "The blowout preventer was flawed in design, and alternative designs existed that did not have these flaws." BP said it took a $40.9 billion pre-tax charge in 2010 related to the spill, and by year end had incurred $17.7 billion of costs. In a statement on Wednesday, BP said it wants "to ensure that all parties involved in the Macondo well are appropriately held accountable for their roles in contributing to the Deepwater Horizon accident." Cameron did not address the substance of BP's claims in an emailed statement, and said Wednesday was a deadline for companies tied to the spill to file claims against each other. In one such case, cruise operator Carnival Corp filed claims against BP, Cameron, Transocean and several other companies connected to the well to recover damages for added fuel and vessel cleaning costs, as well as lost revenue from decreased bookings. A Norwegian testing company concluded in a report issued March 23 that the blowout preventer's failure was caused by a stuck section of drill pipe that blocked cutting devices from shearing and sealing the leaking well. That finding, in a report commissioned by the U.S. Interior Department and U.S. Coast Guard, is separate from earlier conclusions by a White House commission that oil industry and regulatory missteps set into motion events that led to the biggest offshore oil spill in U.S. history.