WTI OIL: US$96.97
-$0.40
June delivery
NYMEX: N Gas: US$4.18
-$0.13 per MMBTU
June delivery

Oilfield NEWS

oilfieldnews.ca

Published By *NEWS COMMUNICATIONS* since 1977 | Canadian Edition | Wednesday May 18 2011

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was down 6 at 1,833 for the week of May 13, 2010. It is 324 rigs (21.5%) higher than last year. The number of rotary rigs drilling for oil increased 13 to 947. There are 403 more rigs targeting oil than last year. Rigs drilling for oil represent 51.7% percent of all drilling activity. This is the fourth week since 1995 that the number of rigs targeting oil exceeded 50%. Rigs directed toward natural gas were down 16 at 874. The number of rigs currently drilling for gas is 77 lower than last year's level of 951. Year-over-year oil exploration in the U.S. is up 74.1percent. Gas exploration is down 8.1 percent. The weekly average of crude oil spot prices is 34.3 percent higher than last year and natural gas spot prices are 3.5 percent higher. Canadian rig activity was up 4 at 127 for the week of May 13, 2011 and is 6 (5.0%) higher than last year's rig count.

FIRES SHUT DOWN SOME OPERATIONS

Oil companies cut more production in northern Alberta on Tuesday as they moved to protect employees and installations from wildfires raging through the region and cope with the shutdown of a key pipeline. Penn West Petroleum said it has shut in 25,000 to 30,000 barrels a day of heavy oil production in north-central Alberta and suspending drilling in the region. Employees in the area have been removed and all are safe, although some have lost homes. Penn West's operations have also been affected by flooding in Manitoba and Saskatchewan, curtailing the company's total daily production by about 20 per cent or 35,000 to 40,000 barrels of oil equivalent. Cenovus Energy, also based in Calgary, was preparing to suspend output from its Pelican Lake heavy oil operations, 90 kilometres northeast of Slave Lake, which produce 22,000 barrels of oil per day. Sixty-five employees work at the project, and they and their families are not in danger, the company said. But the company is unable to transport oil from the facility because of the closure of the southern leg of the Plains All American pipeline from a terminal northwest of Slave Lake. The northern leg had been shut down since April 29 after a break that spilled 28,000 barrels. Canadian Natural Resources Ltd., said it had removed 1,300 personnel from two work camps as a result of a forest fire near its Horizon Oil Sands site. The fire was about 150 metres from one of the camps, the Chelsea Lodge. The company said a fire barrier had been put in place and has been successful so far in diverting the forest fire away from the lodge and the oilsands site. The fire has had no effect on any facilities at the Horizon operation, the company said. , Exall Energy Corp., said it had shut production, 921 barrels of oil equivalent daily, at its Marten Mountain field. During the evacuation, Exall said, its field operators were able to shut all of the company's Marten Mountain production for precautionary reasons. Exall is assessing the effect the fires have had on its infrastructure and equipment. "Aerial surveillance of the Marten Mountain area indicates that Exall's facilities and operations have not currently been impacted by the fires and are not at this time under threat from the fires," the company said in a release. "The fires currently appear to be south and east of Exall's Marten Mountain operations."

OBAMA SHIFTS TO SPEED OIL AND GAS DRILLING

U.S. President Obama, facing voter anger over high gasoline prices and complaints from Republicans and business leaders that his policies are restricting the development of domestic energy resources, announced Saturday that he was taking several steps to speed oil and gas drilling on public lands and waters. It was at least a partial concession to his critics at a time when consumers are paying near-record prices at the gas pump. The Republican-led House passed three bills in the last 10 days that would significantly expand and accelerate oil development in the United States, saying the administration was driving up gas prices and preventing job creation with antidrilling policies. Administration officials said the president's announcement, which included plans for expanded drilling in Alaska and the prospect of new exploration off the Atlantic coast, was intended in part to answer those arguments, signal flexibility and demonstrate his commitment to reducing oil imports by increasing domestic production. But in fact the policies announced Saturday would not have an immediate effect on supply or prices, nor would they quickly open any new areas to drilling. "These spikes in gas prices are often temporary," Mr. Obama said, "and while there are no quick fixes to the problem, there are a few steps we should take that make good sense." The president's turn to a domestic pocketbook issue comes after two weeks of intense focus on the killing of Osama bin Laden, terrorism more broadly and the multiple crises in the Middle East. In his weekly radio and Internet address, Mr. Obama said the administration would begin to hold annual auctions for oil and gas leases in the Alaska National Petroleum Reserve, a 23-million-acre tract on the North Slope of Alaska. The move comes after years of demands for the auctions by industry executives and Alaska's two senators, Lisa Murkowski, a Republican, and Mark Begich, a Democrat. The administration will also accelerate a review of the potential environmental impact of drilling off the southern and central Atlantic coast and will consider making some areas available for exploration. The move is a change from current policy, which puts the entire Atlantic Seaboard off limits to drilling until at least 2018. The president also said he would extend leases already granted for drilling in the Arctic Ocean off Alaska and the Gulf of Mexico that had been frozen after the BP spill last year. The extension will allow companies time to meet new safety and environmental standards without having to worry about their leases expiring. And the government will provide incentives for oil companies to more quickly exploit leases they already hold. Tens of millions of acres onshore and offshore are under lease but have not been developed. The actions signal a return to a more industry-friendly approach to offshore operations that Mr. Obama had adopted early in his presidency, though they do not reverse some of the steps the administration made to slow drilling after the gulf disaster. Hastening the review of drilling permits in

Alaska and the possibility of offering parts of the Atlantic Coast for lease in the next few years, in particular, represent a significant change from the administration's attitude toward drilling after the spill. The moves come after the House passed a series of bills that would force the administration to move much further and faster to open public lands and waters to oil and gas development. The administration formally opposed the bills as written, but officials said Friday that the White House might accept some provisions in the bills, like extending the frozen leases in the gulf and in Alaska. Responding to the shift by the administration, Brendan Buck, a spokesman for Speaker John A. Boehner, said, "The president just conceded what his party on Capitol Hill still denies: more American energy production will lower costs and create jobs. This reversal is striking, since his administration has consistently blocked American-made energy." Although Mr. Buck characterized the policy changes as "not terribly substantial," he added that they should "pave the way for legislation, like the bills the House passed in the past two weeks, to reduce the damage from the restrictions he imposed in the past." Congressional Democrats, who are largely united in their opposition to the Republican "drill here, drill now" legislation, said the president's proposals made sense as part of a broader policy that includes revoking tax breaks for the oil industry and encouraging companies to drill on the public land they already control. Representative Nancy Pelosi of California, the House Democratic leader, endorsed the measures Mr. Obama proposed Saturday but also advocated selling some part of the Strategic Petroleum Reserve, which now contains 727 million barrels of crude oil. The administration has so far resisted tapping the reserve, saying that it would have only a small and temporary effect on prices and was intended for critical supply shortages, which the country is not now experiencing. The president, in his address, said he supported increased domestic oil and gas development, if done safely and responsibly. "Last year, America's oil production reached its highest level since 2003," he said. "But I believe that we should expand oil production in America, even as we increase safety and environmental standards." The Alaskan petroleum reserve was set aside in the 1920s as a source of oil for the Navy. There have been fewer than a dozen lease sales there; the most recent one, in 2010, drew only modest industry interest. The government has lowered its estimate of recoverable oil under that vast tract, and the Obama administration is leaving large areas untouched because of their ecological and wildlife value. Response from environmental advocates was muted. Eric Myers, Alaska policy director for the National Audubon Society, said conservationists were willing to see an increase in drilling in the Alaskan petroleum reserve as long as it did not threaten wildlife, waters or sensitive lands. The more environmentally sensitive Arctic National Wildlife Refuge in Alaska will remain off limits to oil and gas drillers, administration officials said Friday. The president noted in his address that the Justice Department had formed a task force to look into potential market manipulation or excessive speculation in oil, and he repeated his call for a repeal of the $4 billion a year in tax incentives that the oil industry receives. "In the last few months, the biggest oil companies made about $4 billion in profits each week," Mr. Obama said. "And yet, they get $4 billion in taxpayer subsidies each year. Four billion dollars at a time when Americans can barely fill up their tanks. Four billion dollars at a time when we're trying to reduce our deficit." This week, the Senate will take up a Democratic bill to remove a portion of those subsides, but it is not expected to become law because of united Republican opposition in both chambers of Congress.

DENALI BOWS OUT OF ALASKA PIPELINE BID

Denali - The Alaska Gas Pipeline announced Tuesday that its open season efforts have not resulted in the customer commitments necessary to continue work on its Alaska North Slope gas pipeline project, which has an overall estimated capital cost of $35 billion . Denali will withdraw its Federal Energy Regulatory Commission pre-file application and, over the next few months, close out its operations. "Denali is ending its efforts because of a lack of customer support," said Bud Fackrell, Denali President. "Denali is a market-driven company. As such, we cannot spend the billions of dollars necessary to advance the project unless we have binding agreements with shippers. Although we have been in discussions with potential shippers for nearly a year and half, we have been unable to secure the financial commitments necessary to advance the project." Work to date has been substantial. Denali has conducted extensive stakeholder consultations, set up multiple data rooms with detailed information, submitted comprehensive public filings, and provided access to Denali's experts to help potential customers evaluate the project. Denali has spent over $165 million and invested more than 760,000 man-hours in its work effort. Since Denali began its efforts in 2008, the North American gas market has changed significantly, primarily as a result of the development of shale gas resources. This has created a very difficult environment in which to secure financial commitments from potential customers. "Although we are disappointed that Denali was not able to secure customer support, we are proud of our achievements," said Fackrell. "In particular, I want to thank the hundreds of Alaskan and Canadian companies and individuals who have worked on the project as well as the regulatory agencies, government officials, and the many Native Alaskan and Canadian Aboriginal groups who have supported our work effort over the last 3 years. Denali's work has advanced the project further than at any point in the past and has provided potential shippers an opportunity to evaluate the competitiveness of North Slope natural gas in the North American marketplace." Denali - The Alaska Gas Pipeline is owned by subsidiaries of BP and ConocoPhillips. Denali had been competing to build a line with TransCanada Corp., which continues work though lawmakers have expressed frustration with the pace. TransCanada has been moving forward with state financial support, something Denali never received.

KEYSTONE RESUMES PIPELINE OPERATION

TransCanada Corp. said its Keystone crude oil pipeline has resumed operations, restarting a day earlier than expected after shutting down last weekend because of an oil spill at a pump station. Earlier this week, the energy-infrastructure company predicted the pipeline would restart Saturday, one week after 500 barrels of oil spilled out from a North Dakota pump station. It was the 10th and largest spill related to pump-station equipment failure since the line went live in June. On Friday, TransCanada said 393 barrels of oil have been recovered. It added that 300 cubic yards of contaminated soil will be removed and replaced with clean soil and gravel. Before it was shut down, the pipeline was transporting 400,000 barrels of oil a day. The company said it will be able to move all volumes nominated by customers for the month of May.

ENERPLUS SELLS SOME MARCELLUS LANDS

Enerplus Corp has agreed to sell its non-operated natural gas properties in the massive Marcellus shale formation in the United States for $575 million in order to pay down debt, the company said on Monday. Enerplus said the sale includes lands in Pennsylvania, Maryland and West Virginia totaling 91,000 acres and containing an estimated 1.6 trillion cubic feet of gas. The properties produce about 5.4 million cubic feet of gas per day. The company has been buying up land in the Marcellus field, the largest North American shale gas deposit, since 2009. The sale locks in a profit for the Canadian producer and leaves it with about 110,000 acres of holdings in the region containing around 2.3 trillion cubic feet of gas. The proceeds of the sale will more than eliminate the company's bank debt. "The sale ... captures a significant gain for Enerplus and improves our financial flexibility," Chief Executive Gordon Kerr said in a statement. "In addition, we are retaining a concentrated, meaningful position in this top tier shale play." The company did not name the buyer. Enerplus first entered into the Marcellus in 2009 via a joint venture arrangement with Chief Oil & Gas Ltd., purchasing a 21.5% working interest in 540,000 gross acres. Subsequent to that transaction, Enerplus purchased additional leases and increased their ownership to over 200,000 net acres.

CONNACHER'S BITUMEN SALES HIT RECORD MONTHLY LEVEL

Connacher Oil and Gas Limited achieved record monthly bitumen production during February 2011 and record bitumen sales during March 2011, as operations at Great Divide Pod One were stable and the Algar rampup continued. Our first quarter 2011 bitumen sales were 13,059 bbl/d, an increase of 88 percent over Q1 2010, reflecting the continuing impact of Algar production volumes. With the recent completion of the mandated Algar turnaround in early May 2011, which was conducted in only five days, Connacher is optimistic about the prospect of achieving higher and sustainable bitumen production at much improved prices, with better netbacks, during the remainder of the year. Bitumen prices have almost doubled from their low in February 2011, as world prices have escalated, differentials have narrowed and certain factors which adversely affected bitumen and heavy oil markets during the early part of 2011, including weather, pipeline apportionment and regional upgrader purchase restrictions, have dissipated. On May 10, 2011, Connacher launched a tender offer to repurchase its outstanding "high yield" long-term notes due in 2014 and 2015. Among other things, the offer is conditional upon the tender of the notes and receipt of consents representing at least a majority of the aggregate principal amount of each series of notes outstanding on or prior to June 7, 2011 and the completion, by Connacher, of one or more long-term secured debt financings in the high yield market, on terms acceptable to the company and in an amount that is sufficient to pay the offered purchase price in respect of all notes tendered, including estimated and related fees and expenses. The initial settlement date pursuant to the tender is currently expected to be May 31, 2011. The objective of this transaction is to allow Connacher to refinance its long term debt with new debt at a lower interest cost with an extended term. The company believes this will result in an improvement in its overall financial condition and outlook.

OILSANDS QUEST COMPLETES WALLACE CREEK DRILLING

Oilsands Quest Inc. has released new independent resource estimates for its Wallace Creek property, which support the Company's view that Wallace Creek has the potential to support a 30,000 barrel-per-day commercial oil sands project. The estimates were prepared by McDaniel & Associates Consultants Ltd. at the request of Oilsands Quest with an effective date of April 30, 2011. The independent resource estimates include the results of OQI's recently completed five-well drilling program at Wallace Creek. The drilling focused on the western side of the Wallace Creek permit, which is adjacent to Cenovus' Telephone Lake and Grizzly Oil Sands' Firebag project areas. Two of the wells drilled encountered significant quantities of bitumen in the McMurray formation to support a 16 per cent increase in the Wallace Creek contingent resource estimates. The previously-announced 11 well winter drilling program was condensed to five wells primarily due to the limited availability of drilling rigs. "We are confident in the future development potential of Wallace Creek," said Simon Raven, Oilsands Quest Vice-President of Exploration and Development. "Based on the results from this year's drilling, we continue to believe that this area has the potential to be our second commercial development, following Axe Lake."

BP'S ARCTIC OIL DEAL WITH ROSNEFT COLLAPSES

BP's plan to gain a foothold in Russia's offshore Arctic oilfields through a deal with state-controlled Rosneft has collapsed, opening the way for other oil groups to try to fill its place. The tie-up unravelled because BP failed to mollify partners in its existing Russian venture TNK-B. They argue the British company had no right to strike a new deal in the country without them. BP chief executive Bob Dudley had trumpeted the Arctic exploration pact and share swap with Rosneft, signed in January, as a signal BP could still offer growth after its disastrous Gulf of Mexico oil spill last year. While some said BP was better off not pursuing the deal, failure to see it through has been seen as an embarrassment for Dudley, who said on Tuesday talks aimed at resolving the problem with TNK-BP partners had not reached agreement. "This is putting a brave face on a disappointing episode. While the market may see this as disappointing we believe it is better to walk away than have a bad deal," Evolution Securities analyst Richard Griffith said in a research note. The collapse also marks a personal setback for Russia's Deputy Prime Minister Igor Sechin. He has masterminded Rosneft's growth and development since it acquired the assets of bankrupt oil firm Yukos and went on to open an eastern pipeline export route for Russian crude to the Asia-Pacific. Sechin and his boss, Prime Minister Vladimir Putin, have become accustomed to being able to dictate terms in strategic oil deals. Sources say Sechin has a good personal relationship with Dudley and views the share swap component of the BP deal as particularly attractive. But Rosneft does have other options in the Arctic and is talking to Exxon, Shell, Chevron and Chinese companies to explore the offshore territory. BP's partners in TNK-BP -- four Russian billionaires represented by the Alfa-Access-Renova (AAR) took court action to block the Rosneft deal, leading directly to its collapse on Monday. BP and Rosneft made a last-ditch $32 billion offer including $9 billion in BP stock to buy out AAR, the source close to Rosneft said. But there was no agreement and, after months of wrangling, Rosneft has decided to pull out and search instead for new partners to explore the three Arctic Kara Sea blocks earmarked for the offshore venture with BP. A source close to BP said it still hoped to buy out its TNK-BP partners, although there was no timeline for this. The company said talks with Rosneft and AAR would also continue. That raised hopes among shareholders and analysts that a deal could yet be struck with Rosneft. Mikhail Fridman, Chairman of Alfa Group and one of the four tycoons who control AAR, said there would be more talks between the three parties. The TNK-BP partners are keen to get the Arctic exposure since the joint venture with BP has limited growth prospects due to a mainly mature onshore portfolio.