NYMEX OIL: US$99.96
+$0.043
February delivery
NYMEX N. Gas: US$3.139
-$0.030per MMBTU
January delivery

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BIG OIL TO CLEAN UP SHALE GAS BUSINESS

Big oil and gas companies say their increasing dominance of shale gas exploration will bring improved drilling practices and should end the safety lapses that have led to environmental opposition to the fast-growing, multi-billion dollar industry. Cases of water contamination and the leakage of flammable methane gas into homes are due to occasionally shoddy activities by some of the small players, who developed the industry over the past decade, rather than fundamental problems with shale gas drilling, some industry executives said. Oil majors such as Exxon Mobil, BP and Royal Dutch Shell Plc have begun to buy up the first movers in the industry. At the World Petroleum Congress (WPC) in Doha this week, big company bosses said they would help the shale industry improve its game. "I think Shell, or for that matter Exxon, coming in a big way into this shale gas operation will actually drive the standards up," Shell Chief Executive Peter Voser told a joint press conference with Exxon CEO Rex Tillerson. Environmentalists said, however, the desire to avoid legislation was likely behind Big Oil's claims of future better practices. "We do not believe this. The large companies violate the law regularly," said Amy Mall, senior policy analyst with the Natural Resources Defense Council in Washington, D.C. The oil and gas industry fears that public opposition will drive increased regulation and restrictions on where it can drill. "Nature has given mankind the gift of natural gas. But our hope now is, 'Please don't let government mess it up'," Jim Mulva, chief executive of ConocoPhillips told the Congress. The industry leaders say their massive research efforts can help ensure the safety of the 'fracking' technique, which involves blasting water, sand and chemicals into deep underground reservoirs to release the gas trapped inside. "I think companies like Exxon, we always put a high priority on technology, so whether that's shale gas or any other resource development, technology is a key part of it for us," Rich Kruger, president of Exxon's production unit, told Reuters. Jack Gerard, president of the American Petroleum Institute, the U.S. oil and gas industry's main trade association, said tough financial constraints on some of the companies that led the shale gas revolution may have contributed to some of the problems associated with drilling. "There's a lot of competitors in the business, and as people are driving those opportunities and looking for opportunities ... it tends to move rapidly, and sometimes they're not thinking of the total consequences," he said. But Erika Staaf, clean water advocate with Philadelphia-based PennEnvironment, said the claim that bad practices would be phased out as so-called "rogue" operators are taken over was not new. "That is a refrain that we've heard again and again," she said. One thing the arrival of the big players to the market is unlikely to bring is additional money. As the business expands, companies are seeking to reduce the amount of spending on drilling. Shell has established a "well manufacturing" joint venture in China, which it hopes will provide more cost-effective means of drilling shale gas wells that can be applied worldwide. Speaking at the WPC, Andrew Gould, chairman of Schlumberger , the world's largest provider of services to the oil industry, said companies had significant opportunities to cut costs. "Current methods are wasteful and expensive," he said.

IMPERIAL OIL GREEN LIGHTS KEARL EXPANSION

Imperial Oil Limited has announced its board of directors has approved the expansion phase of the Kearl Oil Sands Project, a surface mining operation under construction northeast of Fort McMurray, Alberta. Imperial Oil's share of the Kearl Oil Sands asset is 71%. The Kearl initial development, sanctioned in 2009, was reconfigured in mid-2011 with a capital appropriation of $10.9 billion. The initial development is currently 80 percent complete and progressing on the planned timeline towards an expected start-up in late 2012. Initial production is targeted at 110,000 barrels per day, with a subsequent increase in mining output to reach plant capacity of about 145,000 barrels per day. The expansion phase has been appropriated for $8.9 billion and will bring on additional production of 110,000 barrels per day by late 2015. When combined with the Kearl initial development, the expansion will develop 3.2 billion barrels at a cumulative unit development cost of approximately $6.20 per barrel. Future debottlenecking of both phases will increase output to reach the regulatory capacity of 345,000 barrels per day to fully develop the 4.6 billion barrel resource. “We expect overall unit development costs to be similar to cumulative unit development costs, which now include investments in tailings management and downstream pipelines that were not included in the previously communicated $5 per barrel cost,” said Imperial Oil Chairman, President and CEO Bruce March. With the approval of this expansion phase, Imperial Oil has appropriated approximately two-thirds of the estimated development costs to achieve 345,000 barrels per day capacity. About one-half of these appropriations have been spent to date. Work continues to optimize the scope of the remaining one-third of development costs. As with any large and long-life asset, sustaining capital to support the continued operation will be required over the asset life. The plan is to complete the investments to achieve the capacity by about 2020. The Kearl expansion project is a key element of Imperial's plan to double its production to approximately 600,000 oil equivalent barrels per day by 2020.

NEB APPROVES BAKKEN PIPELINE PROJECT CANADA

the National Energy Board has announced its approval of the Bakken Pipeline Project Canada application submitted by Enbridge Bakken Pipeline Company Inc., on behalf of Enbridge Bakken Pipeline Limited Partnership. The Board determined that there is enough commercial interest to support the use of the Bakken Pipeline during its economic life. Enbridge Bakken successfully demonstrated that there will be sufficient oil supply markets for the projected production. The Bakken Pipeline would connect to the Enbridge Pipelines Inc. (EPI) Mainline and would serve as a continuous, long-term source of supply to Eastern Canadian and US Midwest markets, thus maintaining the long-term competitiveness of refineries in those regions. In its application, Enbridge Bakken requested approval to build and operate a 123.4 kilometre pipeline and a new pump station to transport crude oil from the Bakken and the Three Forks Formations in Montana and North Dakota to refinery markets in North America. With a starting point in Steelman, Saskatchewan, the pipeline will be linked to EPI's Mainline in Cromer, Manitoba. The Board has also given Enbridge Bakken approval to acquire and operate Line EX-02, which is currently owned by Enbridge Pipelines (Westspur) Inc. With an expected in service date of early 2013, the capital cost for this project is estimated to reach $180.1 million.

AOSC ANNOUNCES 2012 CAPITAL BUDGET

Athabasca Oil Sands Corp. has announced its board of directors has approved a 2012 capital budget of $819 million to be invested in its 100% owned assets. The budget includes $403 million for the Oil Sands Division and $403 million for the Light Oil Division. In addition, a $203 million capital budget was approved by the board for Athabasca's joint venture assets. The majority of this joint venture spending is intended to cover Athabasca's 40% interest in the first phase of the MacKay River development and will occur if the put/call option is not exercised. "Athabasca is moving into the development phase of its projects and is focused on advancing towards production and positive operating cash flow," says Sveinung Svarte, president and CEO. "This is the largest capital budget in Athabasca's history and we are confident we have the capacity to effectively execute our strategy. Our growing production should bring significant value to our shareholders." The oil sands budget includes $227 million to be invested in the Hangingstone area. The majority of the funds are targeted to progress development of Athabasca's first 12,000 barrels/day (bbl/d) steam assisted gravity drainage (SAGD) project. The Company expects to receive regulatory approval in 2012, with first production anticipated in 2014. The remainder of the Hangingstone budget is for 3D seismic and delineation drilling activities associated with subsequent development projects in the area. Athabasca has budgeted $131 million to be invested in the Dover West area. The Company is constructing a permanent road to provide year round access to the Dover West area. The budget also includes funds for regulatory and engineering activities for the first oil sands development project in the area. Athabasca filed a regulatory application for a 12,000 bbl/d SAGD project earlier this month. The Company previously announced it also filed an application for a pilot project designed to extract bitumen from the Leduc Formation using thermal assisted gravity drainage (TAGD) technology. The budget includes funds to progress this pilot project through regulatory, engineering and procurement activities. At Birch, $45 million has been budgeted to prepare a regulatory application for a 12,000 bbl/d SAGD project. The Company's budget for its light oil division is $403 million with $310 million to be spent on drilling and completions. Athabasca plans to initially focus on the development of the Montney Formation in its Kaybob and Simonette asset areas. To facilitate this development, Athabasca is building a 12 inch, 63 kilometre pipeline from the Kaybob area to the Keyera Simonette gas processing facility. The pipeline and associated processing facilities will minimize the Company's dependence on third parties and will facilitate reaching its target production rate of 8,000 - 10,000 barrels of oil equivalent per day by the end of 2012. In addition to the primary Montney development wells, the Company plans to continue appraisal and development of its highly prospective Duvernay, Nordegg and Charlie Lake acreage position. Athabasca holds over 1.7 million acres of petroleum and natural gas rights in Alberta. The Company has budgeted $202 million (net) for activities related to its projects at MacKay River and Dover. The majority of these funds will be directed toward the 35,000 bbl/d (gross) MacKay River Phase 1 project. Athabasca's share will be financed from funds available under the loan agreements with Cretaceous Oilsands Holdings (Cretaceous), a wholly owned subsidiary of PetroChina. If the put or call option relating to the MacKay River project is exercised, Athabasca's share of joint venture capital spending will be reduced by the balance of any remaining portion of the MacKay River budget.