WTI OIL: US$106.72
+$0.38 per barrel
April delivery
NYMEX: N Gas: US$2.325
+$0.056 per MMBTU
March delivery

Oilfield NEWS

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Published By *NEWS COMMUNICATIONS* since 1977 | Canadian Edition | Wednesday March 14, 2012

NORTH AMERICAN RIG COUNTS

The U.S. rotary rig count was down 16 at 1,973 for the week of March 9, 2012. It is 258 rigs (15.0%) higher than last year. The number of rotary rigs drilling for oil was up 3 at 1,296. There are 469 more rigs targeting oil than last year. Rigs drilling for oil represent 65.7 percent of all drilling activity which is the highest percentage since 1998. Rigs directed toward natural gas were down 21 at 670. The number of rigs currently drilling for gas is 212 lower than last year's level of 882. Year-over-year oil exploration in the U.S. is up 56.7 percent. Gas exploration is down 24.0 percent. The weekly average of crude oil spot prices is 2.5 percent higher than last year and natural gas spot prices are 41.0 percent lower. Canadian rig activity is down 26 at 655 for the week of March 9, 2012 and is 27 (4.3%) higher than last year's rig count. The number of rigs drilling for oil decreased by 20 to 494 and is 40 (8.8%) higher than last year. Gas directed rig count was down 6 at 161 and is 13 (7.5%) lower than a year ago.

NO END SEEN TO CANADIAN OIL DISCOUNTS

Bargain-basement discounts on Canadian crude are more than just a short-term irritant for producers as surging supplies and a limited U.S. Midwest refining market threaten to cut industry-wide revenues by as much C$18 billion a year, an analyst said on Monday. Wide light and heavy crude price spreads plaguing the Canadian market since the start of the year could expand even more in the coming two months as numerous refineries begin maintenance, and the end of that work and start of a reversed pipeline to Texas from Oklahoma won't bring permanent relief to fundamental problems, Andrew Potter, analyst at CIBC World Markets, said. "Discounts are severe," Potter told investors in a conference call. "If you don't think this is a big issue, think again." He said the situation could last beyond 2013, when the Keystone XL southern portion starts to drain large volumes of supply from the Cushing, Oklahoma, storage hub and moves it to Texas refineries. The northern, cross-border portion of Keystone XL and or new pipeline capacity to Canada's West Coast are not expected to start up until the second half of the decade. Another factor that may ease the situation could be a reversal of Royal Dutch Shell's 1.2 million barrel a day Capline pipeline to Illinois from the Gulf Coast, Potter said. One source told Reuters on Monday that the concept is under discussion. Canadian synthetic crude, derived from the Alberta oil sands, and Bakken light oil, from North Dakota shale deposits, are selling for around $16 a barrel and more under U.S. Benchmark West Texas Intermediate crude and $34 under the international Brent marker. That compares with premiums to WTI as late as December, and comes at a time when supply is constrained by the unplanned outages at oil sands upgrading plants run by Syncrude Canada Ltd and Canadian Natural Resources Ltd. Last week, Canadian Natural executives said they are among those who believe differentials will improve by around mid-year. Then, maintenance at refineries equaling capacity of 350,000 barrels a day will have wrapped up, and the Seaway Pipeline, run by Enterprise Products Partners and Enbridge Inc , begins shipping 150,000 barrels a day to the Gulf Coast from the over supplied Cushing, Oklahoma, storage hub. Seaway is due to be expanded to 400,000 barrels a day by the early part of 2013. However, Potter said his view has changed to the more pessimistic over the past three weeks as he delved into expectations for supply increases as well as the impact of three major U.S. Midwest projects to shift to heavy from light oil feedstock. Conversions at the Wood River, Illinois, refinery run by ConocoPhillips and Cenovus Energy Inc, Marathon Petroleum's Detroit refinery and BP Plc's Whiting, Indiana, plant will add a total of 470,000 barrels a day of capacity for Canadian heavy crude. However, those projects will also displace 430,000 barrels a day of light crude in an already glutted market, with Bakken supplies surging at a rate of as 10,000-20,000 barrels a day each month. Such gains were not anticipated when the conversions were first being planned. That is expected to create competition between light and heavy grades as refiners could choose to run light barrels with so much available, pointing to deeper discounts for all Canadian grades, Potter said. Stocks most at risk under the scenario include producers that do not have refineries and produce much of their oil in Canada, such as Canadian Natural, Canadian Oil Sands Ltd , all of whose cash flow is derived from its 37 percent stake in Syncrude, as well as shale-oil producers Crescent Point Energy and PetroBakken, he said. Integrated companies, including Suncor Energy Inc and Cenovus, would benefit as their refineries have access to cheap feedstock. Despite the fact that they are forgoing revenue on exploration and production due to the deep discounts, "they're absolutely printing money on the downstream side," Potter said.

OPEC TRIMS OIL DEMAND FORECAST

Opec on Friday trimmed its 2012 global oil demand growth forecast for the second time in two months because of worries about developed countries' economies and higher crude prices. The Organisation of Petroleum Exporting Countries now expects demand this year of 88.63 million barrels per day, down from its forecast a month ago of 88.76m bpd, it said in its March monthly report. This still represents growth compared to 2011, when demand was 87.77m bpd, according to Opec figures that were revised slightly downwards. "The weak pace of growth in the OECD economies is negatively affecting oil demand and imposing a high range of uncertainty on potential consumption growth," the report said. "Although US economic data points toward a better performance, the situation in Europe along with higher oil prices has resulted in considerable uncertainties on the future oil demand for the remainder of the year." Geopolitical factors, most notably tensions over Iran's nuclear programme and speculation of Israeli military action, sent Opec's reference basket oil price 5.1 per cent higher in February to $117.48 per barrel. The monthly average was the highest since April last year. Solid economic data in the US and easing worries over the euro zone debt crisis, coupled with speculative activities in oil futures markets, also served to push the price of crude higher, Opec said. Meanhile, Saudi Arabia and other Gulf producers say surging oil markets are beyond their control and prices could spike higher unless tensions between the West and Iran subside. Saudi Oil Minister Ali al-Naimi and OPEC Secretary General Abdullah al-Badri are expected to focus on high oil prices in their addresses to the International Energy Forum gathering of oil ministers and executives on Wednesday, several OPEC sources said. "Volatility is a concern for us and it can only be resolved if the issue with Iran can be resolved," said a Gulf oil industry source. The Forum in Kuwait is one of the biggest gatherings of the oil industry bringing together producing and consuming nations, including the United States the European Union and members of the Organization of the Petroleum Exporting Countries. Gulf OPEC oil ministers said they would prefer to see oil trading at around $100 a barrel, rather than current levels of $124 that they fear could hurt the global economy and lead to a repeat of a spike and subsequent collapse in oil prices in late 2008. Oil prices climbed to 10-month highs and hit an all-time record in euros last month on concern over potential disruption to supplies of Iranian oil. "Oil prices are on the high side but they are really reacting to what is happening in the Middle East," UAE's Oil Minister Mohammed bin Dhaen al-Hamli told reporters. High oil prices have become a major headache for Western politicians heading for reelection this year, including United States President Barack Obama, due to fears they could hamper a fragile global economic recovery. "It's starting to hurt, we're seeing signs," said chief executive of oil major Total Christophe de Margerie. OPEC's lead producer Saudi Arabia holds most of the world's spare production capacity but oil markets are increasingly worried it would not be enough to fill a supply gap created if Iranian oil exports are disrupted or if Iran reacts to western pressure over its disputed nuclear program by trying to close the vital Strait of Hormuz. "The geopolitical tensions around the Gulf are much more real than before. I hope we will pass 2012-2013 without some kind of a flash point," Shihab Eldin, OPEC's former head of research, said. Eldin said new oil supply capacity due to come online over the next few years could inflate the spare capacity cushion if diplomacy can stave off any conflict in the Gulf in the meantime. "If at the moment spare capacity is a little bit on the low side, I think in a year or two you will see it back above average," he said.

SHELL TO STOP IRAN CRUDE BUYS AHEAD OF EU EMBARGO

European oil major Royal Dutch Shell PLC will stop buying crude oil from Iran ahead of July 1, when a European Union embargo of Iranian oil takes effect, a company spokesman said Friday. The spokesman confirmed a Reuters report that quoted Shell Chief Executive Officer Peter Voser, who was speaking in Houston. "We are complying with the sanctions. They do recognize previous commitments and contracts," Voser said in the report, adding that old contracts will be fulfilled and shipments delivered "within a matter of weeks." Though expected, the development signals that Tehran may lose at least some of its customers well before July 1 because some annual term contracts expire at the end of March. While European buyers are unlikely to renew their term deals, Asian refiners in countries such as Japan and South Korea are also under Western pressure to reduce term volumes when they renew their contracts. Sanctions are affecting Iran's oil exports more quickly than many expected, largely because many shipping companies are finding it increasingly difficult to insure vessels calling at Iranian ports, a U.S. State Department official said Wednesday. The Shell spokesperson didn't say how much crude oil Shell buys from Iran. Traders said it wasn't clear if Shell's move would affect joint venture Showa Shell Sekiyu K.K. (5002.TO), Japan's largest buyer of Iranian crude at 100,000 barrels a day. "I'm not sure if Showa Shell will also cut" oil purchases from Iran, a Japanese trader said. Japan, one of the largest buyers of Iranian crude, is in final-stage talks with the U.S. on cutting its imports of Iranian crude oil, Japan's foreign minister said Wednesday. Japanese officials are seeking an exemption from U.S. sanctions on Iran, saying they will damage the Japanese economy. Following new sanctions imposed by the U.S. weeks earlier, the European Union in January approved an oil embargo against Tehran that takes effect July 1. The moves are aimed at choking off Iran's key oil revenue in an effort to force it to halt its nuclear program.

IRAQ STARTS OIL EXPORTS FROM NEW FLOATING FACILITY

Iraq began loading oil from a long-awaited new floating Single Point Mooring (SPM) platform in the Gulf on Thursday, two sources at the state-owned South Oil Company said, in a breakthrough that could substantially boost its exports. "We started the loading at 2:45 pm (1145 GMT). The loading process is normal. The situation of pipes and the SPM is stable, and we have no problems," said one of the sources. The average loading rate into the tanker Maersk Hirado was 22,000 barrels per hour, the source said. Iraq's oil exports have been held back by a lack of loading capacity in the Gulf after decades of neglect of infrastructure caused by war and economic sanctions. The new terminal is the first of a planned four, each of which will ultimately have a capacity of 850,000 barrels per day, adding 3.4 million barrels of export capacity to make way for a doubling of Iraq's oil production in the next few years. For now, the South Oil Company says the first platform will increase its exports by 300,000 barrels per day. Iraq said this week it had increased total outpout to above 3 million barrels per day for the first time since 1979. Iraq's output last month was just 2.65 million bpd, with production held back by a lack of export capacity. Its exports have been slightly more than 2 million bpd. The Iraqi government aims to more than double its oil output in the next few years and has set a long-term goal of 12 million bpd that would rank it alongside Saudi Arabia and Russia as one of the world's oil superpowers. While many experts say that goal is too ambitious, Iraq is still expected to be the biggest source of new oil in the world over the next few years.

CHINA TO ANNOUNCE ENERGY CONSUMPTION CAP

China, the world's top energy consumer, is expected to announce in the first half of this year a plan to cap total energy consumption for 2015, including individual targets for provinces, media reported. The report in the Shanghai Securities Journal cited remarks by Wu Yin, deputy head of the National Energy Administration (NEA), the agency assigned to prepare the plan, but gave no further details. Chinese media have reported the government was considering setting the cap for 2015 at about 4.1 billion tonnes of standard coal. China used a total of 3.48 billion tonnes of

standard coal last year, 7 percent higher than 2010, official figures show. The reported target of 4.1 billion tonnes implies China will have to rein in growth over the next four years at 17.8 percent. Beijing's policy-setters, keen to grow the world's second-largest economy in a greener and sustainable way, have said they want to use provincial energy caps to measure local officials' performance, as they did to curb the energy consumption per unit of GDP, or energy intensity. China missed the energy intensity goal last year as it dropped by 2 percent, versus a target of 3.5 percent.

ANADARKO PROFITS FROM ALGERIAN TAX DISPUTE

Anadarko Petroleum Corp., the largest independent U.S. oil and natural-gas producer by market value, rose after announcing an Algerian tax settlement that will increase revenue by $1.8 billion in the first year. The company values the settlement at $4.4 billion, including revisions to its production-sharing agreement and tax liability, according to spokesman John Christiansen. The agreement with Sonatrach, Algeria's state-run oil producer, increases Anadarko's share of crude from Algerian wells and extends the production-sharing agreement to 25 years. "We are very pleased to have reached a fair and balanced resolution that will return significant value to Anadarko," Al Walker, chief operating officer of The Woodlands, Texas-based company, said in the statement. The value of the revised profit-sharing agreement and the tax settlement is $2.6 billion, in addition to the increased crude share the first year. Subject to government approval that is expected within four months, the agreement will also lower payments under Algeria's 2006 exceptional-profits tax, the source of the dispute.

PETROBAKKEN Q4 RESULTS

PetroBakken Energy Ltd. has announced fourth quarter and year-end 2011 financial and operating results. December 2011 production averaged 50,250 barrels of oil equivalent per day ("boepd"), exceeding our exit production guidance estimates and setting a new corporate benchmark. This is an 18% increase over December 2010.

Fourth quarter production was 48,007 boepd (87% light oil and liquids weighted), a 23% increase over the third quarter of 2011 Operating netback for the fourth quarter was $59.21/boe, an 18% increase over the third quarter of 2011. Record fourth quarter funds flow from operations was $231 million ($1.24 per basic share), a 52% increase over the third quarter of 2011. Proved plus probable ("2P") reserves increased by 19% to 203.5 million barrels of oil equivalent ("MMboe") at December 31, 2011, replacing 2011 production by 315%. 2011 net income was $209 million ($1.12 per basic share), a slight decrease compared to 2010 primarily due to increased cost pressures and production timing delays related to poor weather conditions, and a $50 million impairment charge. The impairment charge was caused by low natural gas prices and a lack of development activity in our northeast British Columbia natural gas assets. Net capital expenditures totaled $909 million in 2011, an increase of 34% from 2010. The increase in capital expenditures year over year was primarily a result of increased drilling and completion activity in the Cardium business unit and higher service costs. Company-wide drilling and completion costs were $802 million, representing 88% of our total net capital expenditures in 2011.

ENBRIDGE MAY WRITEDOWN NEW BRUNSWICK GAS UNIT

Enbridge Inc warned on Monday that it may write off all or part of its C$460 million nvestment in a New Brunswick natural gas distribution business as the province's government readies new rules that will lower the price of the fuel for consumers. Enbridge, Canada's largest gas distributor, said the province's Progressive Conservative government is ready to implement new rules limiting the rates Enbridge can charge customers. The company said it has reviewed draft regulations for a bill altering its 1999 agreement with New Brunswick to establish gas distribution in the province and believes the new limits will damage the profitability of its operations. "As drafted, they impose explicit limits on the rates that (Enbridge Gas New Brunswick) can charge to individual classes of customers," said Jennifer Varey, a spokeswoman for the company. The new rates are "substantially below current rates and below the level required to recover Enbridge's investment," she said. The New Brunswick government said the province's consumers are now paying among the highest natural gas rates in North America and have not benefited from decade-low prices for the fuel because prices are tied to alternative fuels like heating oil. "As natural gas commodity prices have been decreasing, rates in New Brunswick have been increasing," said Craig Leonard, New Brunswick's energy minister. Leonard said the regulated utility's need for revenue has climbed while the high rates it charges have made it difficult for it to lure new customers. "This is a move that government had to make," he said. "It was a model that was flawed and broken, and the government has the responsibility to step in and try to correct a situation that was clearly off the rails." Enbridge, which serves 11,000 customers in New Brunswick, said it is not yet able to say how large a writedown it will need to take should the draft regulations stand. "We can't finalize that until we've completed our discussions with the government," Varey said.

VERO 2011 RESULTS

Vero Energy Inc.has announced its 2011 financial results. Vero is pleased to report to its shareholders that the Company successfully continued with its plans to transition to more oil and liquids weighting throughout 2011. Ultimately Vero initiated a major transition into oil by starting the process to sell the majority of its natural gas assets. Vero delivered an 8% increase in average production levels, for the year ended 2011, achieving 9,238 boe/d over 8,522 boe/d in 2010. Funds flow from operations was 16% higher at $65.9 million compared to the $56.8 million in 2010. Vero realized a net loss of $74.9 million in 2011. The loss was principally attributable to impairments taken on the oil and gas assets as well as goodwill at the end of the year. Further loss was driven by write-downs associated primarily with the fair value of the natural gas assets sold. The Company embarked on an initiative to sell the majority of its natural gas production. Discussions for the sale of the gas assets occurred during the fourth quarter of 2011 which culminated in a binding purchase and sale agreement that was executed on January 2, 2012. Gross proceeds from the sale, prior to adjustments, were $209 million. Upon the closing of the sale on January 31, 2012 Vero repaid all of its existing bank indebtedness. Vero's exploration and development capital spending in 2011 was $124,939, which was flat with the capital spent in 2010. The Company drilled 31 gross (23.6 net) wells versus 31 gross (24.5 net) wells drilled in 2010. Vero's net debt stood at $177,201 at December 31, 2011. In the year the Company sold a portion of its non-core assets for proceeds of $5.4 million. By concentrating drilling efforts on our expanding Cardium land base, the Company grew oil production by 69% during the year. In shifting the focus to the more profitable oil and liquids production throughout the year, we were able to increase the percentage of revenues coming from liquids by 10% as the average contribution from liquids production was 52% throughout 2011. The future looks very bright for Vero as the sale of the natural gas assets has put the Company in a great position financially and strategically. The decision continues to look solid as natural gas prices have further declined into 2012 and look to be under severe pressure for some time with high natural gas storage levels and high production levels in North America. Vero is strongly capitalized and has successfully restructured its business into a high growth, pure-play Cardium light oil producer. The Company is now focused on a commodity and a play that looks to command solid commodity prices generating solid returns for some time. This is recognized in the future prices for the next few years where prices are well over $100 per barrel for West Texas Intermediate oil. The management team has plenty of technical experience in the play and area having drilled over 44 horizontal wells to date in the Cardium formation. With the restructuring of the business complete and a very strong capital structure, the Company has put a plan in place that will have maximum flexibility to execute its business plan. Vero received an initial borrowing base of $45 million, and current forecasts for 2012 are to spend $62.5 million on its exploration and development program. This includes the planned drilling of 28-30 wells (16-17 net) all of which will target horizontal Cardium light oil prospects. Vero currently forecasts that production should average 2,300 - 2,500 boe/d with 67% light oil and liquids production during 2012. The Company will prudently manage its capital throughout the year and anticipates a net debt to cash flow ratio at the end of the year of approximately 0.5 times, based on the fourth quarter's projected cash flow. To protect Vero's cash flow position and secure the execution of its capital plan, the Company has entered into hedges such that approximately 44% of its forecast 2012 production has a floor of just over $88/bbl Canadian.