WTI OIL: US$91.53
-$1.33 per barrel
July delivery
NYMEX: N Gas: US$2.692
+$0.083 per MMBTU
June delivery

Oilfield NEWS

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NORTH AMERICAN RIG COUNTS

The U.S. rotary rig count was up 12 at 1,986 for the week of May 18, 2012. It is 156 rigs (8.5%) higher than last year. The number of rotary rigs drilling for oil was up 10 at 1,382. There are 428 more rigs targeting oil than last year. Rigs drilling for oil represent 69.6 percent of all drilling activity reaching an all time high for the weekly data. Rigs directed toward natural gas were up 2 at 600. The number of rigs currently drilling for gas is 266 lower than last year's level of 866. Year-over-year oil exploration in the U.S. is up 44.9 percent. Gas exploration is down 30.7 percent. The weekly average of crude oil prices is 4.0 percent lower than last year and natural gas prices are 40.0 percent lower. Canadian rig activity is up 3 at 123 for the week of May 18, 2012 and is 20 (14.0%) lower than last year's rig count. The number of rigs drilling for oil was up 6 to 76 and is 3 (4.1%) higher than last year. Gas directed rig count was down 3 at 47 and is 23 (32.9%) lower than last year.

OIL FALLS ON IRAN TALKS PROGRESS

Oil prices fell on Tuesday as signs of a deal between the U.N. nuclear watchdog and Iran on Tehran's nuclear program eased fears of oil supply disruptions, while the euro zone debt crisis continued to threaten economic growth. International Atomic Energy Agency (IAEA) Director General Yukiya Amano said he expected to sign a deal with Iran soon to boost cooperation with the investigation into Tehran's nuclear activity, although differences remained. Germany dismissed a French-led call for euro zone governments to issue common bonds, cooling hopes a day before a European Union summit that the meeting would produce fresh measures to tackle the region's debt problems. Waning optimism about Wednesday's meeting pushed the euro lower against the dollar and the dollar index strengthened. A stronger U.S. currency can pressure dollar-denominated commodities like oil by making them more expensive to consumers using other currencies. Oil prices also felt pressure from an Organization for Economic Co-operation and Development (OECD) report warning that failure to contain Europe's crisis could derail fragile global growth led by Japan and the United States. "There is perception that Iranians are more agreeable at this point to slowing down its nuclear efforts, but they still have to show some concrete action regarding their nuclear program to justify such hopes," said Gene McGillian analyst at Tradition Energy in Stamford, Connecticut. Brent July crude slipped 40 cents to settle at $108.41 a barrel, after reaching $109.36. The expiring U.S. June crude contract fell 91 cents to settle at $91.66, after trading from $91.39 to $93.01. U.S. July crude fell $1.01 to settle at $91.85 a barrel. Brent's premium to U.S. crude CL-LCO1=R pushed back above $16 a barrel, ending at $16.56 based on July contracts. Trading volume remained lackluster, assisting choppy trading trajectories. Brent volume was 24 percent below the 30-day average and U.S. turnover 32 percent under its 30-day average.

CANADIAN SPOT GAS PRICES FALL ON ALBERTA SUPPLY

Canadian spot natural gas prices fell on Tuesday despite hot weather in some big markets as short-term supplies in Alberta rose. Spot gas at the AECO storage hub in southeastern Alberta fell 4 Canadian cents from Friday to average C$2.13 a gigajoule. Deals were done between C$2.08 and C$2.16 a GJ. Southern Alberta high temperatures are expected to be cooler than the seasonal average until Monday, Environment Canada said. Daytime highs in Toronto are forecast well above normal through Monday. Alberta's main pipeline system ran at 17.13 billion cubic feet, 328 mmcf higher than operator TransCanada Corp's target line pack. Producers delivered 9.67 bcf into the system and a net 1.21 bcf was injected into storage facilities in the province. Export prices weakened. Spot gas at Niagara, for shipment into the U.S. Northeast, fell 2 cents from Friday to average $2.75 per mmBtu.

KINDER MORGAN TO BEGIN PONY EXPRESS OPEN SEASON

Kinder Morgan's Pony Express Pipeline and Belle Fourche Pipeline are looking for shippers to use their newly planned pipeline to send their light, sweet crude to the oil hub of Cushing, Oklahoma, just recently connected to U.S. Gulf Coast refineries. The 100,000 barrel per day Pony Express pipeline will run from outside Baker, Montana, just over the state line from North Dakota's booming Bakken oil shale play, about 1,000 miles southeast to Ponca City, home of Phillips 66 198,400 bpd refinery before continuing on to the oil storage hub of Cushing, Oklahoma. Belle Fourche Pipeline (BFPL) is part of the privately-held True Companies, a family held pipeline and energy company based in Cheyenne, Wyoming. BFPL has a system that gathers and transports 50,000 barrels per day of crude oil in the Williston Basin of western North Dakota, including the prolific Bakken shale oil play and the Powder River Basin in Wyoming, to gathering stations including one in Baker, Montana. Once the Pony Express reaches Cushing it will be near the Seaway pipeline, now able to carry 150,000 bpd of oil to the Gulf Coast with expansion plans to over 400,000 in the works. The Seaway, which was reversed last week to carry oil out of the Midwest, is the first of several planned pipelines to siphon off the glut of crude that has built up in the Midwest thanks to growing oil production in the United States and increased oil flows south from Canada. The Pony Express already has 30,000 bpd of space committed to a long-term shipper but will vie with shippers with at least two other planned projects to carry the light, sweet crude south from Baker to Cushing, Oklahoma. Included is TransCanada's 100,000 bpd Bakken Marketlink, which is planned as a feeder into the controversial Keystone Pipeline. ONEOK Inc, a big player in natural gas pipelines, is making an initial foray into the crude arena with a planned 200,000 bpd pipeline from Montana's Williston Basin to Cushing to come online in 2015. However, growing production in the region is seen supportive of pipeline construction. Although plans are on the book to move Bakken crude north and east, production in the region topped 510,000 bpd in March and is expected to continue to expand. The Pony Express pipeline is expected to begin service in the fourth quarter of 2014. Open season ends on June 20, 2012. A separate open season is starting for a pipeline to carry crude from Guernsey, Wyoming and the Denver-Julesburg (DB) basin to Cushing and Ponca City.

PENN VIRGINIA EXPAND PIPELINE PROJECTS

Penn Virginia Resource Partners LP said its unit will spend about $380 million to extend its natural gas pipeline in Pennsylvania and provide related midstream services to producers in the Marcellus shale. PVR said it will extend its existing 30-inch trunkline about 19 miles north through Lycoming County and into Tioga County, Pennsylvania, under agreements with three companies - Southwestern Energy Co, a Royal Dutch Shell unit and Range Resources Corp. PVR will also construct lateral pipelines for Shell and Range to bring gas from the wellheads to the trunkline for transport to the Transcontinental pipeline, the company said in a statement. The company, which expects to spend the $380 million between 2012 and 2018, is also building some infrastructure for privately held Inflection Energy LLC. PVR spent $1 billion in April to add high-profile customers, who are expected to continue drilling in the gas-rich Marcellus shale field despite decade-low prices for the fuel.

SEAWAY PIPELINE SENDS OIL TO TEXAS

The Seaway pipeline began pumping crude from Cushing, Oklahoma, oil tanks to the heart of the U.S. refining industry in Houston on Saturday, marking a historic shift in the way oil flows across the United States. The first barrels went into the line about noon CDT Saturday and volumes were expected to increase within days to 150,000 barrels per day (bpd), spokesman Rick Rainey of operating partner Enterprise Products said by email. Enbridge Inc is a 50 percent partner in the project. The startup is the first direct link from Cushing to the Gulf Coast, the biggest U.S. refining center. Cushing is the delivery and storage point for the U.S. benchmark oil futures contract, which represents a blend of crudes from the Midwestern states. It has been landlocked in Cushing and steeply discounted to world prices as a result. Historically, the 669-mile (1,077-km) Seaway system had flowed from the Gulf Coast to Cushing, carrying crude oil from South Texas, but had been underutilized recently. The first oil will take 12 days to reach Houston, 550 miles (885 km) south of Cushing, but market anticipation of the event already has lifted inland crude prices in North America, although analysts disagree how much and how fast prices will change with the reversal of Seaway. The spread between U.S. benchmark West Texas Intermediate and global benchmark Brent, similar crudes historically priced at near parity, narrowed to $15 from almost $19 Wednesday. It was as much as $28 late last year, costing U.S. and Canadian oil producers billions but boosting profits for Midwestern U.S. refiners. The Seaway pipeline, which goes to Freeport and Houston, opened in 1995 with a south-to-north flow. A surge in Canadian oil sands output and U.S. shale oil production, however, has rendered the south-to-north flow unnecessary. Interest in reversing Seaway to flow north-to-south intensified in the past 18 months as Cushing inventories surged and NYMEX WTI fell to unprecedented discounts. Cushing stocks hit a record 45 million barrels last week. Last fall, ConocoPhillips sold its 50 percent interest in the line to Enbridge, which then agreed with co-owner Enterprise to reverse Seaway. It has taken several months of work on pump stations to bring the plan to reality. A new pump station is under construction at the Cushing end to allow flows to reach 400,000 bpd in early 2013. Ultimately, Enbridge and Enterprise plan to more than double the line's capacity to 850,000 bpd. That and other planned pipeline projects, along with rail and barge transportation of crude, will be required to ease the Midwestern oil oversupply more fully and permanently, most analysts have said. "One theory is that once barrels start moving out of Cushing and the pipeline expands to 300,000 or 400,000 bpd by early 2013 the spread will narrow. We're seeing some of that," said Tom Bentz, director of BNP Paribas Commodity Futures in New York. "The other theory is that even though crude is moving out, there is still more coming into Cushing due to increased Canadian and U.S production. Also North Sea (Brent) production problems will keep the spread very wide," Bentz said. Analysts had mixed opinions whether the first crude down Seaway would be light sweet or heavy sour or a mix. The type of oil makes a difference to refiners as well as pipeliners. Much of the stored oil at Cushing is now Canadian heavy sour. Enterprise did not disclose the initial mix of oil grades. Light oil is easier to handle at pipeline startup than heavy, making light the likely choice, said Abudi Zein of Genscape, an industry data monitor. "The biggest bang for the buck would be to displace foreign light sweet with much cheaper domestic light sweet," said Rusty Braziel of RB Energy consultants in Houston. Mark Routt of KBC Advanced Technologies in Houston had a different opinion. Heavy crude costs more to pipeline than light crude but Gulf Coast refiners are geared for cheaper heavy, he said. "My guess is that slightly more heavy than light will be flowing," Routt said.

REPSOL COMES UP DRY IN OFFSHORE CUBA

Spanish oil company Repsol said on Friday that the first well in an oil exploration project in Cuban waters has come up dry, delivering bad news to the communist island striving for economic strength and energy independence. At least two more wells are expected to be drilled by other companies. Repsol began drilling at the end of January after the Scarabeo 9, a massive Chinese-built drilling rig owned by Italy's Saipem, arrived at the island after traveling half way around the world from Singapore. When Repsol finishes plugging the well in the next few days, the rig will be handed over to Malaysia's state-owned Petronas, which in partnership with Russia's Gazprom Neft will sink a second well about 100 miles west of the current drill site. Venezuela's PDVSA is tentatively scheduled to get the rig for a third well in the island's waters. Repsol drilled the only previous Cuba offshore well in 2004 and said that it had found oil but it was not commercial. It said it was evaluating other well prospects in Cuba to decide whether it will drill again. Cuba has said it may have at least 20 billion barrels of oil in its part of the Gulf of Mexico, although the U.S. Geological Survey has estimated a more modest 5 billion. The island receives about 115,000 barrels of oil daily from socialist ally Venezuela, most of which goes toward meeting its internal demand and the rest for refining into oil products for Caribbean and central American nations. In exchange, Venezuela receives the services of thousands of Cuban medical personnel and other professionals. It also is a heavy investor in numerous joint projects with Cuba.

OPEC SAYS OIL SUPPLY ABOVE MARKET NEEDS

OPEC is pumping enough oil to keep world markets more than satisfied and oil prices have been high largely due to geopolitical risk, the oil producing group said on Thursday. The Organization of the Petroleum Exporting Countries (OPEC) said its own production had risen in April to 31.62 million barrels per day (bpd) as Iraq ramped up and Libya's oil industry recovered. And the increased flows have helped push oil down $15 from a March high of $128 a barrel. "Higher OPEC crude oil production underscores the current trend of plentiful supply in excess of market requirements," OPEC said in its monthly Oil Market Report. Secondary sources now say that OPEC pumped 1.62 million bpd above its supply target, and demand for its own oil, in April. The extra OPEC oil is filling gaps caused by an unusually large number of supply outages globally. Supply breaks were running at nearly 1.3 million bpd as of early April. It has also offset a decline in exports from Iran, which is facing stiffening western sanctions over its disputed nuclear energy programme. Production figures reported directly by OPEC members to its Vienna headquarters show even higher rates. The "direct communication" figures for March put OPEC output at 32.4 million bpd versus the 31.3 million bpd assessed by secondary sources. Output levels directly reported by OPEC members rose even more in April. Lead producer Saudi Arabia said it pumped 10.1 million bpd in April, up 179,000 bpd from March. And Iran told OPEC its output in April was 3.76 million bpd, steady since February, effectively denying that supply has been impacted by sanctions against Tehran. Supply from producers outside OPEC is also on the rise, according to the report, with non-OPEC supply growth seen at 640,000 bpd this year, up 50,000 bpd on the previous forecast. "It is important to note the general consensus among various sources regarding the good performance of non-OPEC supply this year, implying more barrels will be available in the market," said the group which pumps more than a third of the world's oil. OPEC also said the decline in world oil demand growth had stopped, at least for the short-term, as the U.S. economy stabilises and non-OPEC demand continues to grow. It said world oil demand would grow by 900,000 bpd in 2012, up 40,000 bpd from its previous assessment in April. "Given the stabilisation of the U.S. economy and the shutdown of the Japanese nuclear power plants, world demand has - at least, for the short term - stopped its decline and has begun to show growth," said OPEC. The U.S. Energy Information Administration also raised its 2012 world oil demand growth forecast this week. The agency sees demand growth at 960,000 bpd - up 70,000 bpd from estimates.