

# OIL DAILY

Today's complete oil and gas news briefing

## Exxon Trims Capex, Still Eyes European Shale

Exxon Mobil plans to trim its capital spending this year, bringing it back in line with 2008 spending levels. However, the US integrated oil giant has also signaled that it remains committed to the pursuit of unconventional gas plays in Europe.

On a third-quarter conference call with analysts and investors, Exxon's David Rosenthal said his firm is likely to spend closer to \$26 billion on capital projects this year. Although that is in line with last year's budget, the move marks a 10% drop from the \$29 billion forecast in March (OD Mar.6,p1).

Nevertheless, the investor relations vice-president assured participants on the call that the reduction in spending would have no material impact on Exxon's project pipeline.

"Nothing has been taken down or canceled ... There's no change to our long-term investment strategy," he said.

Instead, Rosenthal attributed the reduction to several factors, ranging from \$600 million in captured cost savings to favorable foreign exchange impacts that cut the company's international outlays.

He also cited slower-than-expected

government approval and permitting processes, although he declined to provide further details.

Operationally, Rosenthal highlighted the acceleration of Exxon's efforts to tap unconventional gas basins in Europe.

Exxon made its foray into continental Europe's promising, though largely untested, unconventional gas basins in 2007, when it inked a joint agreement with Hungary's Mol to evaluate the Mako and Bekes basins in southern Hungary.

According to Mol, the joint study gave way to an exploration program in April of last year with the aim of reducing uncertainty surrounding the Mako Trough's resource distribution, production potential, and expected well and production costs.

Should the exploration program prove successful, field development and production start-up is slated for 2012-14, says Mol.

Rosenthal said testing operations are continuing in the Mako Trough as partners Mol, Falcon Oil & Gas and Exxon "evaluate the results gathered so far."

According to *Oil Daily* sister publication *World Gas Intelligence*, the trio is planning a

## News in Review

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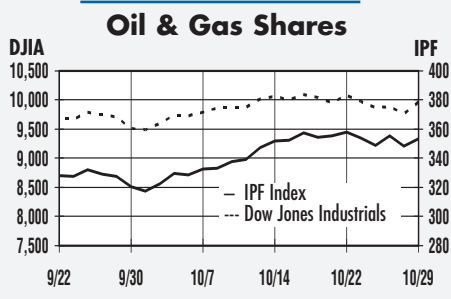
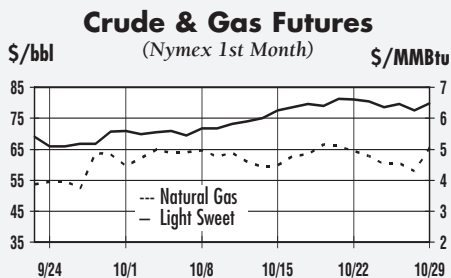
third fracture test of the Foldeak-1 well — one of its first major tight gas wells in the play — after two other well tests yielded small volumes of gas (OD Oct.9,p7).

Rosenthal said Exxon and Mol are also planning on running "further testing operations" in the Bekes Basin, which sits northeast of Mako.

In Germany, Exxon continues to assess the shale gas potential of the Lower Saxony Basin.

Exxon has 750,000 acres in the northern part of the German state of Lower Saxony, where, according to German press reports, (See Exxon, page 2)

## Latest Market Trends



## Apache Hits Major Production Milestone

Houston-based independent Apache's production exceeded 600,000 barrels of oil equivalent per day for the first time during the third quarter of 2009. Output hit 607,118 boe/d — up 19% over the same period of last year — driven by strong performances in Egypt, Australia and the North Sea.

Oil production was up 18% averaging 285,521 barrels per day, primarily reflecting a surge in output in Egypt where volumes rose 144% due to higher production in the Faghur Basin and at the Khalda Offset Concession.

And oil production at Apache's Forties Field in the North Sea had its second-best quarter ever with output of 67,288 b/d.

Natural gas production jumped 120% to 1.86 billion cubic feet per day, as production in Australia soared 311% year-on-year to 225 MMcf/d. The increase was primarily attributable to Apache's Varanus Island gas-processing plant being brought back on line

in December 2008 after it was shut down because of an explosion the previous June.

Apache's natural gas production in Egypt was also up 130% driven by two new processing trains at the company's Salam Gas Plant.

"Apache's regional growth drivers put the company on track for record production and solid financial results in 2009," said Chief Executive Steven Farris.

Despite the substantial increase in production volumes, Apache's revenues for the third quarter fell by just over \$1 billion to \$2.3 billion because of lower oil and gas prices. As a result, net income fell to \$441 million (\$1.30/share) from \$1.19 billion (\$3.52 billion) in the third quarter of 2008.

Apache said production will likely plateau in the fourth quarter, but it sees further growth in 2010 as a result of the completion (See Apache, page 2)

# Executives Strike Different Tones as They Weigh Refining Woes

As two of the world's biggest integrated oil companies, Exxon Mobil and Royal Dutch Shell both preside over sizeable refining operations.

But while they both acknowledged that the economic downturn and low refining margins have hurt their downstream businesses, senior executives from the two companies struck decidedly different tones at the Global Refining Strategies conference near Houston this week.

Shell's head of refining expressed his concern about the dismal demand outlook for refined products, particularly in the US, and the need for the industry to downsize and cut operating costs. However, his counterpart at Exxon was more upbeat and stressed the need for the refining industry to develop the technologies it will need to overcome the many hurdles it faces.

Tom Botts, executive vice president of global manufacturing and downstream at Shell, said economic recovery alone will not be enough to make the industry whole again. He cited a forecast by the Energy Information Administration (EIA) of an 11% decline in US demand for refined products between now and 2030 and expectations of long-term weakness in the gasoline market.

From an international perspective, Botts said extremely weak margins in Asia are al-

ready showing the impact of additions to refining capacity in the region.

And when the impact of current and future climate change regulations are factored in, Botts said it was clear that not everybody was going to survive the coming shake-out in the refining business. This was already evident from depressed refinery utilization rates and the EIA's prediction of an average industry-wide run rate of 78.5% in the US in 2010, he added.

Against this backdrop, Shell plans to reduce its refining capacity by 15%, targeting underperforming facilities in the US and Europe. The Anglo-Dutch supermajor will be "competing in markets where we have the best chance of winning — those places that have the greatest potential for maximizing returns," he said.

Exxon's refining business is subject to the same economic, competitive and policy-related pressures facing Shell, but Sherman Glass, the US giant's president of refining and supply, focused more on the "certainty" of future increases in demand, with growth concentrated in emerging economies.

Capacity will need to increase as demand soars, Glass said, citing growing demand for refined products in the Asia-Pacific region and pointing to Exxon's development of a refinery in China. "Refiners will need to move

aggressively to meet that goal," he said.

Glass also cited a US Geological Survey study showing that the world has some 4 trillion barrels of traditional and non-traditional sources of oil, adding that alternative forms of energy such as nuclear and wind will not deliver enough energy to replace hydrocarbons.

To compete, Glass said, refiners will need a "steadfast commitment to develop new technologies." These will include the development of more flexible plants that can run different types of crude and deliver different product yields while also using cogeneration technology to cut costs.

Exxon has also conducted research to improve vehicle performance by making better plastics, tires, lubricants and batteries, and is investing in the development of algae-based biofuels through a \$600 million deal with Synthetic Genomics, Glass said.

Exxon is "investing throughout the business cycle," Glass said, noting that the company expects to invest \$1 billion at refineries in Texas, Louisiana and Belgium "to meet the growing demand for low-sulfur diesel."

So while the refining industry currently finds itself in a period of transition and uncertainty, it is not a period that is devoid of opportunity.

☎ **John Galante, Houston**

## Exxon . . .

(Continued from 1)

the company plans to drill 10 wells over the next year and spend at least €100 million (US\$149 million).

The Irving, Texas-based supermajor has also recently acquired licenses covering roughly two million net acres in a prospective coalbed methane play spanning Lower Saxony and the state of North Rhine-Westphalia, Rosenthal said in Exxon's first public announcement of the acreage position.

Exxon will begin a core hole drilling program in the play next year.

Rosenthal also elaborated briefly on the company's onshore acreage position in Poland, which was initially confirmed earlier this month (OD Oct. 14, p6).

Exxon has been awarded the Wodynie license in the Podlasie Basin, which Exxon believes holds "significant shale gas potential."

The company now has over one million net acres in the play and will begin initial work in the basin next year.

Interest in Europe's unconventional gas resources has grown in recent years due to maturing conventional gas fields and increasing concerns over the region's dependence on Russian gas. But Exxon appears to be taking

the lead among the integrated majors.

The move is part of a broader shift within the company toward natural gas projects.

For the third quarter of this year, Exxon reported a \$4.73 billion (98¢/share) net profit, down from \$14.83 billion (\$2.85/share) in the same period of 2008. Revenues declined 40% to \$82.3 billion.

Exxon's third-quarter oil and gas production rose by about 2.5%, to 3.69 million barrels of oil equivalent per day from 3.59 million boe/d in the year-earlier period.

☎ **Casey Sattler, Houston**

## Apache . . .

(Continued from 1)

of several key development projects.

In the first half of next year, Apache hopes to add 40,000 b/d of oil from its Van Gogh and Pyrenees fields in Australia's North West Shelf. Apache also said it will ramp up gas production at its Horn River Basin shale play in northeast British Columbia during the second quarter of 2010.

Apache also plans to drill more than 20 horizontal wells next year in the Granite

Wash tight gas play located in the Texas Panhandle. Apache said its first well in the play was recently producing 17 MMcf/d of gas and 800 b/d of liquid hydrocarbons.

The Granite Wash is an attractive play for Apache because of its high natural gas liquids content, which has favorable economics in a low natural gas price environment.

To ensure production growth beyond 2010, Apache has been pursuing several longer term projects. In an effort to monetize natural gas from its Julimar and Brunello discoveries in Western Australia, Apache and its partner Kuwait Foreign Petroleum Exploration Co. (Kufpec) recently agreed to supply gas to Chevron's Wheatstone LNG liquefaction facility.

The deal opens the way for development of 2.1 trillion cubic feet of gas reserves and will generate 15 years of steady cash flows, Farris said in a conference call with investors and analysts.

Earlier this month, Apache also signed a contract to supply 50 MMcf/d of natural gas from two fields in Argentina's Neuquen and Rio Negro provinces starting January 2011.

☎ **Deirdre Daly, New York**

# Crude Futures Soar on GDP Data, Traders Ignore Bearish Demand

Crude futures soared to just under \$80 per barrel Thursday on higher-than-expected US GDP data that showed the economy grew at 3.5% in the third quarter. Strong consumer spending, improvements in the housing market and government stimulus money all helped lift GDP which grew for the first time since the second quarter of last year.

For the oil markets, the economic data confirms that the recession is abating and that the oil demand outlook should improve.

Nymex December crude gained \$2.41 to

\$79.87/bbl. On ICE Futures, Brent was up \$2.18 to \$78.04/bbl.

Although the GDP data is an indication of a healthier economy, there is no guarantee that oil demand is poised to take off. Unemployment continues to rise, cutting into demand for the main products such as gasoline and diesel, and the Energy Information Administration (EIA) has released bearish demand data the past couple of days.

On Thursday, it said that US oil demand averaged 18.73 million barrels per

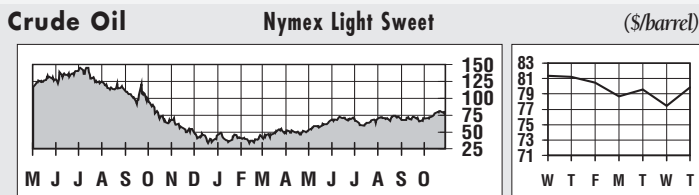
day in August, which was revised downward by 582,000 b/d versus preliminary weekly numbers due to a massive downward adjustment in "other" fuels. This put August demand down 2.8% year-on-year. The market ignored the revised bearish data, as it normally does, because traders consider it old news.

In its release of weekly data on Wednesday, the government agency said that total US oil demand over the past four weeks fell by 3% versus the same period a year ago.

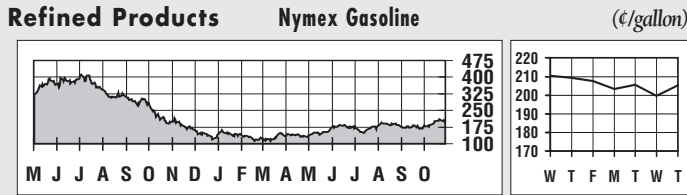
☎ **Matt Piotrowski, Washington**

## Daily Oil & Gas Price Review

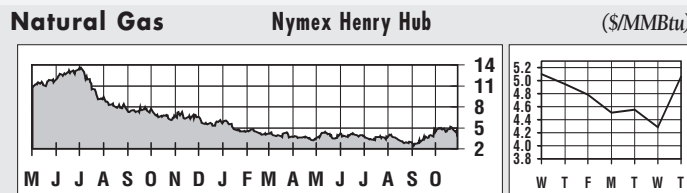
Prices for Thursday, October 29, 2009



North American Crudes (\$/barrel)	Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)		+2.59	77.65	76.74	67.31
LLS (St. James)		+2.69	80.85	79.77	70.66
ANS (California)		+2.93	77.96	76.90	69.31
Mars (Cloveilly)		+2.49	76.55	75.71	66.08
Maya (Mexico)		+2.03	72.14	71.47	63.05



US Product Spot Markets <sup>H</sup>	Gulf Coast				New York				Los Angeles			
	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago
Gasoline (€/gal.)												
Regular Gasoline	+4.37	199.79	199.83	172.29	+3.29	204.54	205.69	176.04	+0.62	195.29	198.44	184.54
Premium Gasoline	+4.37	209.04	209.08	181.29	+4.00	218.75	219.88	189.04	+0.12	218.79	222.34	208.54
Regular RBOB	+5.12	200.79	200.64	171.29	+3.29	201.54	202.69	173.79	+0.12	206.79	210.34	196.54
Mid-Distillates (€/gal.)												
No. 2 Heating Oil	+6.44	202.68	200.63	175.71	+7.40	204.55	202.08	178.71	—	—	—	—
No. 2 Low Sulfur Diesel	+7.94	204.18	201.65	178.71	+6.15	205.55	204.08	181.46	+6.44	208.68	206.93	181.46
Jet Fuel	+6.44	204.68	202.98	178.46	+7.28	208.93	206.65	180.96	+6.44	210.68	209.15	186.46
Residual Fuel (\$/bbl)												
No. 6 Oil (low sulfur)	+1.15	73.53 <sup>A</sup>	73.21	63.97	+0.75	75.88 <sup>B</sup>	76.16	63.47	—	—	—	—
No. 6 Oil 1% S	+1.15	72.78 <sup>C</sup>	72.48	63.72	+0.84	72.72 <sup>D</sup>	72.38	63.13	—	—	—	—
No. 6 Oil 3% S	+1.16	70.63	70.31	63.13	+0.81	71.03	70.96	62.97	0.00	460.00 <sup>E</sup>	457.00	435.00



Produced by Oil Daily in cooperation with Reuters. All spot assessments are bid prices published by Reuters at 5.30 p.m. ET.  
 Notes: A—0.7% sulfur low pour. F—Source: *Natural Gas Week*  
 B—0.3% sulfur high pour. G—20-day avg.  
 C—Low pour. H—Bid prices for latest spot deals at press time.  
 D—High pour. I—Opec basket price is for previous day.  
 E—Price is for 380 CST, given in \$/metric ton.

**Light Sweet Futures — Prompt Month (\$/barrel)**

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	+2.41	79.87	79.21	80.40	80.95
ICE Brent	+2.18	78.04	77.60	78.81	79.53

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	+2.45	79.81	79.05	70.64	63.19
WTI (Midland)	+2.59	79.45	78.54	69.71	63.46
Brent (Dated)	+2.07	77.37	76.82	67.46	60.96

**International Crudes (\$/barrel)**

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket <sup>I</sup>	-0.90	75.53	76.75	65.55 <sup>6</sup>
Nigeria Bonny Light	+2.27	78.57	77.59	68.56
Dubai	+2.39	77.35	76.95	68.74
Oman	-0.98	75.67	76.95	68.85
Russia Urals	+2.07	76.67	76.17	66.89

**Heating Oil/Gasoline Futures — Prompt Month (€/gallon)**

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (€/gal.)					
RBOB Gasoline	+3.26	201.90	203.07	202.48	204.36
Heating Oil	+5.73	205.42	204.31	207.87	210.88

ICE (London)	Change	Spot Price	5-Day Avg.	Month-Ago
Gasoil (\$/ton)	+19.25	644.00	638.15	651.00
Gasoil (€/gal.)	+6.11	204.44	202.59	206.67

**Nymex Henry Hub — Prompt Month (\$/million Btu)**

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex (\$/MMBtu)				
Henry Hub	-0.004	5.062	4.642	5.428

**Spot Gas Prices (\$/MMBtu)<sup>F</sup>**

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	-0.53	4.49	5.45	3.13
Henry, Louisiana	-0.46	4.10	4.99	2.92
Chicago	-0.43	4.34	5.23	3.02
Katy, Texas	-0.47	4.09	4.99	2.90
Southern California Border	-0.44	4.32	5.20	3.12
AECO Hub (Canada)	-0.27	3.87	4.74	2.65

# Shell Gloomy About Prospects for Sustained Recovery in Demand

Royal Dutch Shell on Thursday failed to sustain investor optimism about the energy industry by unveiling a set of third-quarter results that were over 70% lower than a year ago and striking a pessimistic tone about the potential for a sustained recovery in demand.

The Hague-based supermajor reported earnings of \$2.99 billion during the quarter, down a whopping 73% on last year. Revenues were 44% lower at \$76 billion.

“Our third-quarter results were affected by the weak global economy. Upstream and downstream profitability has been sharply reduced compared to year-ago levels,” Shell Chief Executive Peter Voser said of his first quarter in charge after taking over from Jeroen van der Veer on Jul. 1 (OD Jul.1,p2).

“We see some indications that energy demand and pricing are improving, but the outlook remains very uncertain, and we are not expecting a quick recovery,” he said.

On a conference call with reporters, Simon Henry, Shell's finance chief, struck a similar tone, warning that “fundamentally we do not see demand turning as yet.”

Voser, even before he took charge, had made it clear that he wanted to increase efficiency at the company. This solidified into Shell's “Transition 2009” program,

which aimed to simplify the organization and cut back on costs — similar aspirations to those announced by BP's Tony Hayward when he took charge in 2007 (OD Oct.28,p2).

And arguably, his changes are having a more immediate impact than Hayward's. Shell has achieved operational cost reductions of around \$1 billion compared with this time last year, and if the positive foreign exchange movements are included, this figure increases by \$2.5 billion, outpacing the \$3 billion of cuts announced by BP.

The main savings internally came from job cuts, which are expected to number 5,000 positions by the end of the year and include a 20% cut in senior management positions. This will result in a one-off charge in the fourth quarter of somewhere in the hundreds of millions of dollars, Henry said.

But Shell had to borrow money to help finance its spending commitments during the quarter, in contrast to BP's \$800 million debt repayment from cashflow. The company generated cash flow from operations of \$7.3 billion, but paid out \$7.8 billion in capital expenditure and \$2.7 billion in dividends. It announced a 5% rise in the third-quarter dividend to \$0.42 per share (£0.26/share).

The resulting gap of \$3.2 billion, less \$400 million generated through divestments, was plugged by borrowings. The company's gearing ratio, which shows how large its debt pile is compared with the company's overall size, increased from 6% this time last year to 13.7% at the end of September.

This is still lower than most of the majors, with BP's ratio currently in the low 20s. Shell had said its gearing ratio would end this year in the lows 20 as well, though Henry said it may be lower than this now because of the changed macro-economic environment.

Shell's output remained broadly flat year-on-year at 2.9 million barrels of oil equivalent per day, with new volumes from Sakhalin-2 in Russia and Norway's Ormen Lange canceling out declines elsewhere in the portfolio.

The company is targeting annual output growth of 2%-3% between 2009 and 2012, but so far this year output has fallen by 4% year-on-year in the first quarter and 6% in the second (OD Jul.31,p4).

Henry pointed out though that the majority of the growth over this period will happen in 2011 and 2012 with projects representing some 1 million boe/d currently in the works.

📍 James Batty, London

## Analyst: Shale Plays to Account for 35% of US Gas Output by 2013

Natural gas produced from shale plays could account for as much as 35% of US gas production by 2013, analyst Dave Pursell of Tudor Pickering told the Platts Appalachian Gas Conference Thursday.

Pursell sees shale gas accounting for 22 billion cubic feet per day of US production by 2013, up from 8 Bcf/d or 12% of US production in 2008.

He also said a greater percentage of the US rig fleet would be dedicated to shale gas drilling. He predicted that 614 rigs, or 41% of the US rig count, would be targeting shale gas in 2013, up from around 357 rigs, or 18% of the rig count, in 2008.

Production ramp-ups at emerging shale gas plays like the Marcellus of Appalachia, and the Haynesville of East Texas and northern Louisiana are expected to account for a good portion of the increases.

But as production of shale gas rises, Pursell said conventional gas production will have to decline in order to keep supply and demand in equilibrium.

Significant declines in conventional output are already being seen in the US Gulf of Mexico.

Natural gas production from the Gulf of Mexico has halved in the last eight years, falling from 14 Bcf/d in 2001 to 7 Bcf/d at present, Pursell said. The number of rigs drilling for gas there has fallen from around 170 in 2001, to less than 100 today. “The Gulf of Mexico is not a growth basin,” he said.

Pursell said declines are also likely to come from conventional production in South Texas and the Rocky Mountain region.

The shift toward shale gas production is also likely to have marked effects on oil service providers and drilling contractors.

Since shale gas wells are more service-intensive than conventional gas wells, Pursell said this shift will be bullish for service firms. Conversely, the high production rates of shale wells will mean that fewer rigs are needed, a bearish development for drillers.

Pursell sees the total US rig count reaching a long-term equilibrium at

around 1,500 rigs in 2011, well below the 2,350-rig peak reached late last year, according to RigData figures.

Pursell said the current US rig count — of around 1,050 rigs — is too low, and therefore unsustainable in the long-term. He said supply will be unable to keep up with demand at these levels, bearing in mind the steep decline in output from shale wells during their first year of production.

If the US gas rig count stays at current levels, onshore gas production will fall 10% this year, he said.

Pursell expects declining production to push gas prices higher next year, and spark a recovery in onshore gas drilling.

The Tudor Pickering analyst also sounded in on the cap-and-trade debate. Climate legislation, he said, is unlikely to pass this year as policy-makers in Washington are tied-up with more pressing issues like health care and the economy.

“The best thing for cap-and-trade is health care,” he joked.

📍 Rachael Seeley, Pittsburgh

# Head of Small Siberian Producer Tipped to Become TNK-BP's New CEO

Maxim Barsky, the former head of a small Russian oil producer, is expected by the end of November to be announced as the new chief executive of TNK-BP, ending a year-long search for a replacement for the ousted Robert Dudley.

The appointment of a permanent chief executive to run Russia's third-largest oil company is on the agenda of the joint venture's board meeting on Nov. 13.

Sources close to the TNK-BP shareholders say Barsky, 36, who is the Russian side's choice, is the clear front-runner in a two-horse race with BP-backed Pavel Skitovich.

"It is 120% certain to be Barsky," one source said.

It is unclear if Barsky will take over the reins immediately from Mikhail Fridman, who has been acting CEO for the past six months, or whether he will initially be appointed as the CEO-designate, signaling that he needs more time to hone the skills needed to run a company with 60,000 employees. If so, he would probably move into the hot seat in the first quarter of 2010.

UK major BP and Russia's Alfa Access Renova (AAR) group, which each own 50% of TNK-BP, are not in a desperate hurry to pick a permanent CEO, as the company has nevertheless been growing steadily over the past year.

But both sides recognize there is a need to not leave the issue hanging in the air for much longer, and to take the burden off Fridman, TNK-BP's chairman, who is busy with work commitments outside the group.

"Fridman has made it clear that he wants to get out, and has made it clear that Barsky is the one," said another source close to the company.

It will be a big step up for Barsky, who formerly headed 30,000 barrel per day producer West Siberian Resources. TNK-BP produces over 1.4 million b/d of crude and more than 10 billion cubic meters per year of natural gas and has a large refining and marketing operation.

One source close to the company described Barsky as a "Siberian deal-maker," who has yet to prove that he has the vision to continue the expansion of a company as important as TNK-BP, which last year paid \$30 billion in taxes to Russia.

Another insider said Barsky was "very entrepreneurial, a dynamic young manager." At West Siberian he had 40,000 shareholders, although his international experience was limited to dealing with the company's connections with Sweden, where its shares were listed.

Sources say that the power behind the throne will continue to be German

Khan, an executive vice president of TNK-BP who is also one of the four main Russian shareholders and orchestrated last year's battle with BP for control over the joint venture that ended with Dudley's departure.

Barsky's appointment would be a triumph for AAR, which proposed him as a candidate for the post after BP had put forward its own candidate in Skitovich. A former head of Polyus Gold, Skitovich was regarded as having more management experience, but he could not match Barsky's background in the oil industry.

Both men were appointed executive vice presidents six months ago to see who would make the grade. "Against the AAR candidate, it was always uphill for Skitovich from the start."

Even though BP ostensibly has the right to nominate the CEO, the likely victory of AAR choice Barsky is a mark of how much control the UK giant has ceded to the Russian side.

BP seems content to sit back and take the money. Its initial investment of \$8 billion has long been paid back and the dividends keep rolling in. All is "harmony and light" at the joint venture, BP Chief Executive Tony Hayward said in a recent interview with Energy Intelligence.

① **Michael Ritchie, London**

## Senate Version of Cap-and-Trade Bill Puts Heavy Burden on Refiners

Senate legislation to mitigate climate change includes measures that may further burden US refineries. The refining industry was already expected to suffer the most of any energy-intensive or extractive industry as a result of legislation to curb emissions of greenhouse gases.

Budget rules required the Senate's Environment and Public Works Committee to craft a cap-and-trade climate change bill in such a way that it would not add meaningfully to the national deficit.

This has forced the committee — named after Senators John Kerry and Barbara Boxer — to reduce the number of free emissions allowances granted under the House bill by 10% and auction them off.

This will cut into the 2.25% of the free emissions allowances that refiners were set to receive.

Refiners had complained that the amount of free emissions allowances granted to the industry was already too low to prevent a spike in the price of petroleum fuels if a climate bill were to be passed.

Emissions from petroleum-fueled vehicles make up more than one third of total US emissions, a similar amount to the electric utility industry, which is set to receive 30% of the free allocations granted under both the Senate and House climate change bills.

Bill Klesse, chief executive of Valero Energy, the nation's largest oil refiner, told the Senate committee Wednesday that the Senate bill would cost the refining industry around \$67 billion a year if the price of emissions allowances reached \$20 per metric ton of carbon dioxide.

"One of our chief concerns is that this legislation provides foreign refiners and petrochemical operations a competitive advantage to American businesses," Klesse said. "Today's vehicles operate primarily on traditional gasoline and diesel. Emerging technologies will be part of the fuel mix, but are still years, if not decades away," he added.

Edinburgh-based consultancy firm Wood Mackenzie estimates that by 2015 US refiners would have to purchase emissions allowances worth about \$100 billion

a year, assuming a carbon cost of about \$33 per metric ton. The Senate bill, if enacted, would have little impact on foreign refinery operators — which would not have to buy credits to cover emissions from refineries based outside the US.

Nevertheless, refiners around the world all stand to lose as a result of efforts to tackle global warming. If nations meet the targets that negotiators have announced in preparation for the United Nations Climate Change conference in Copenhagen in December, there could be a net reduction of 450,000 to 790,000 barrels a day in global demand for liquid fuels by 2020, according to an analysis by Washington-based consultant Clearview Energy.

The Senate panel, chaired by Senator Barbara Boxer of California, is unlikely to heed the pleadings of the oil industry because the committee is dominated by members from regions of the country that are not major oil producers. Four additional Senate committees must pass the legislation out before it gets consideration by the full Senate.

① **Bill Murray, Washington**



# NEWS ALERT

From staff and wire reports

## Exploration & Production

### Provident Sells Heavy Oil Assets

Provident Energy Trust said Thursday it has reached a deal with Emerge Oil & Gas to sell Provident's oil and natural gas assets in the Lloydminster area for \$87 million. Provident said the agreement consists of \$70 million in cash and \$17 million in equity.

The divestiture of the Lloydminster properties is part of a larger initiative to reposition Provident's upstream business unit by divesting non-strategic assets in Saskatchewan and the Lloydminster area of Alberta.

The Lloydminster operating area includes assets in the vicinity of Lloydminster on the Alberta and Saskatchewan border and around Provost, Alberta. Production from the assets during the third quarter was 2,200 boe/d and is predominately heavy oil. Provident said

proved plus probable reserves were approximately 4.4 million boe earlier this year.

The transaction is expected to close by Nov. 30.

### Alaska Lease Sales Net \$8.5 Mln

A pair of independent oil producers and a handful of private investors put up a combined \$8.5 million in high bids Wednesday for the rights to explore nearly 320,000 acres of state territory on Alaska's North Slope, according to preliminary figures released by the Alaska Division of Oil and Gas.

Bidding in the state's annual area-wide North Slope lease sale was more active than expected, said Kevin Banks, acting director of the division.

Bidding was dominated by a group called 70&140 LLC, an affiliate of Denver-based Armstrong Oil and Gas that is named for the geographic location of the huge Prudhoe Bay field.

The partnership picked up tracts on the western North Slope, mostly located between the Kuparuk field, the nation's second-largest oil field, and the Colville River Delta, site of the ConocoPhillips-operated Alpine field.

Also bidding was Denver-based Savant Resources, which acquired exploration rights to tracts near the BP-operated Badami field and the Exxon Mobil-operated Point Thomson field on the eastern North Slope. Savant has been working in an arrangement with BP to explore for potential new opportunities at Badami, where BP has suspended production because of poor performance.

In a second lease sale, for state territory in the foothills of the Brooks Range, only one bid was submitted, according to the division. That sole bid was from a private investor. The area is considered to hold good potential for natural gas rather than oil.

### Natgas Reserves Hit New High

US proved reserves of natural gas reached their highest level at the end of 2008 since the Energy Information Administration (EIA) began reporting them in 1977, the EIA said Thursday.

New gas discoveries amounted to 29.5 trillion cubic feet in 2008, leaving year-end reserves at 244.7 Tcf, an increase of 2.9% over 2007 year-end reserves of 237.7 Tcf, the EIA said.

Reserves from shale reservoirs grew dramatically last year, up 51% over 2007 and now accounting for 13% of total proved re-

## Stock Market Scorecard

Integrated Majors	Close 10/29	1-Day Chg.	% Chg.	10-Day % Chg.	52-Wk % Chg.	YTD % Chg.
Statoil	24.76	+1.07	+4.52%	+0.28%	+57.51%	+48.62%
Repsol YPF	27.67	+1.04	+3.91	-1.71	+68.41	+28.64
Suncor	34.56	+1.29	+3.88	-12.02	+91.15	+77.23
ConocoPhillips	51.33	+1.84	+3.72	+0.96	+12.52	-0.91
Hess	56.57	+1.85	+3.38	-4.59	+30.44	+5.46
Marathon	33.40	+0.98	+3.02	-1.45	+50.59	+22.08
Chevron	77.95	+2.06	+2.71	+3.30	+26.32	+5.38
BP	58.30	+1.48	+2.60	+8.65	+45.21	+24.73
Total	62.48	+1.31	+2.14	-0.35	+41.13	+12.98
Eni	52.30	+1.06	+2.07	-1.77	+40.52	+9.37
Exxon Mobil	73.96	+0.12	+0.16	+2.95	+11.91	-7.35
Shell-B	60.13	-0.43	-0.71	+3.25	+39.61	+16.92
Shell-A	61.36	-0.46	-0.74	+2.33	+37.27	+15.90
<b>IPF Index</b>	<b>353.27</b>	<b>+5.25</b>	<b>+1.51</b>	<b>+0.40</b>	<b>+24.72</b>	<b>+4.00</b>
<b>Large Producers</b>						
Pioneer	44.10	+2.16	+5.15	+5.40	+104.07	+172.56
Anadarko	63.98	+3.13	+5.14	-7.76	+135.48	+65.97
Chesapeake	26.04	+1.27	+5.38	-8.60	+47.54	+61.04
Nexen	22.74	+0.92	+4.22	-9.37	+104.68	+29.35
Murphy Oil	63.49	+2.55	+4.18	+0.86	+60.09	+43.16
EnCana	57.78	+2.29	+4.13	-8.24	+46.24	+24.31
XTO Energy	43.12	+1.61	+3.88	-2.71	+43.64	+22.26
Devon Energy	67.89	+2.39	+3.65	-3.48	+5.30	+3.32
Canadian Natural	67.88	+2.29	+3.49	-9.96	+89.24	+69.78
Apache	97.09	+3.24	+3.45	-2.82	+50.85	+30.27
Talisman	17.83	+0.59	+3.42	-7.04	+140.95	+78.48
EOG Resources	85.84	+1.57	+1.86	-6.12	+36.28	+28.93
Occidental	79.14	+1.31	+1.68	-3.22	+88.07	+31.92
<b>Refiners</b>						
Holly	30.52	+1.86	+6.49	+10.26	+100.00	+67.42
Alon	9.00	+0.44	+5.14	-8.72	+35.54	-1.64
Frontier Oil	14.65	+0.47	+3.31	+4.12	+50.41	+15.99
Tesoro	14.81	+0.41	+2.85	+1.58	+72.21	+12.45
Sunoco	31.95	+0.73	+2.34	+7.25	+32.52	-26.48
Valero	18.94	+0.24	+1.28	+0.69	+25.35	-12.48
<b>Integrated Energy</b>						
Williams	19.52	+1.27	+6.96	-1.26	+22.77	+34.81
El Paso	10.32	+0.32	+3.20	-2.92	+39.65	+31.80
Oneok	37.15	+0.77	+2.12	-1.51	+43.99	+27.58
Duke Energy	16.11	+0.27	+1.70	+2.09	+2.48	+7.33
Sempra	52.17	+0.86	+1.68	-0.97	+41.04	+22.38
Enbridge	38.89	+0.34	+0.88	-6.56	+33.92	+19.77
TransCanada	30.50	+0.03	+0.10	-5.84	+19.14	+12.38
<b>Service Companies</b>						
Patterson-UTI	16.74	+1.12	+7.17	-0.24	+58.22	+45.44
Nabors	22.33	+1.25	+5.93	+1.36	+80.52	+86.55
Baker Hughes	44.25	+2.13	+5.06	-4.24	+48.69	+37.98
EnSCO	48.18	+2.26	+4.92	+2.27	+44.38	+69.71
Halliburton	30.33	+1.39	+4.80	+3.91	+81.83	+66.83
Schlumberger	64.80	+2.53	+4.06	-1.88	+49.72	+53.08
Transocean	86.84	+3.08	+3.68	-3.82	+35.81	+83.79

Note: Ranked by daily percentage change.

serves of natural gas, the EIA said.

"This year's report underscores ... the technological shift in domestic exploration and production from conventional reserves to unconventional shale plays," said EIA Administrator Richard Newell. "Given the drop in the price of natural gas during 2008, growth in proved reserves is remarkable."

US proved reserves of crude oil declined by 10.3% in 2008 to a year-end total of 19.1 billion barrels, despite a third year of increased discoveries — primarily in the Gulf of Mexico, West Texas and in the Bakken formation of North Dakota. The overall drop in oil reserves reflects use of low end-of-year prices to assess reserves under existing finan-



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cial accounting standards, the EIA said.

Low prices also affected proved natural gas reserves, the agency said, but this effect was less severe than for oil, and new discoveries were large enough to more than offset both negative net revisions and the volume of gas produced during the year.

## International

### Iraq Set to Ink Deals

The Iraqi Oil Ministry will sign a final deal with BP and China National Petroleum Corp. on Nov. 3 to develop the huge Rumaila oil field and an initial agreement on Nov. 1 with an Eni-led consortium for the Zubair oil field, a spokesman said on Thursday.

The BP contract has already been approved by the Iraqi cabinet. The contract for Zubair with Eni, Occidental Petroleum and South Korea's Kogas, will have to go before the cabinet, said Oil Ministry spokesman Asim Jihad.

### BP to Drill in Libya in 2010

BP will begin exploratory drilling next year on both its onshore and offshore concessions in Libya, the head of the company's operations in the North African country said on Thursday.

BP's total investment on the two concessions would be more than \$1 billion over the seven-year license period, with the bulk of that being spent on drilling, said Hugh McDowell, president and general manager of BP Exploration Libya.

"By the end of this year we will have the first of several prospects in the pipeline for [exploratory] drilling starting next year," McDowell said at the Energy Exchange North Africa Oil and Gas Summit.

"Preparations to start drilling, both onshore and offshore, next year are very well underway," he said at the conference in the Tunisian capital.

BP's two contract areas in Libya — the offshore Sirte Basin and the Ghadames Basin in the Sahara Desert — represent the company's biggest single exploration commitment.

The firm signed an exploration and production agreement with Libya's state-owned National Oil Co. in 2007, after the lifting of international sanctions on Libya removed legal barriers to doing business there.

Both concessions are enormous. The northern part of the Ghadames Basin alone is the same size as Kuwait and the offshore Sirte contract area is the size of Belgium.

### Iran, Turkey Sign Gas Accord

Turkey and Iran signed a preliminary agreement late Wednesday that, if finalized, could allow Iranian gas to be shipped to Eu-

rope via Turkey and enable increased gas trade between the two neighbors.

The memorandum of understanding (MOU) was signed during a two-day visit by the Turkish Prime Minister Recep Tayyip Erdogan to neighboring Iran, Iran's Mehr news agency reported.

The MOU stipulates the future sale of Iranian natural gas to European markets through a pipeline that would be built across Turkey. It also says Turkey can import gas from Turkmenistan by paying transit fees to Iran.

During the visit, Iran also agreed to extend the time it gave Turkish upstream company TPAO to make a final decision on development of parts of Iran's giant South Pars gas field.

TPAO is studying South Pars Phases 22-24 following earlier agreements signed last year and in 2007. Having failed to make a firm commitment so far, TPAO was recently given an ultimatum by Iran to finalize its decision on the field within a month, but that period has now been extended for three more months, Oil Minister Massoud Mirkazemi reportedly said.

### Russia to Amend Licensing Rules

Russia's natural resources ministry has proposed amendments to the country's subsoil legislation that should ease conditions for companies holding licenses to develop deposits "of federal significance."

The ministry's subsoil usage agency, Rosnedra, proposed granting licenses for newly discovered deposits to companies that made the finds at their own expense, ministry head Anatoly Ledovskikh told journalists Thursday.

The ministry also proposed fining firms that fail to comply with license requirements for developing hydrocarbon deposits instead of revoking their development rights, the official said.

"We believe it expedient not to rush with punitive sanctions on subsoil users that have not complied in full with the license terms of the agreement because of the financial crisis," Prime-Tass news agency quoted Ledovskikh as saying. "All subsoil users cannot be grouped into one category," he added.

Under current legislation, companies that fail to comply with license terms are given three to nine months to address any violations before their license is withdrawn. The ministry is proposing to fine a company the amount of money the state would have otherwise received from collecting taxes from the acreage development.

It's unclear, however, whether the ministry's proposal would impact foreign investors. The ministry has often threatened to punish foreign investors that violate terms by revoking licenses, including the one to develop the huge Kovykta gas field in East Siberia.

## Chile's Enap to Divest Stake in Iran Block

Enap, Chile's state oil company, plans to divest its stake in Iran's Mehr block and exit the country.

Speaking Wednesday at the Oil & Gas Outlook LatAm 2009 conference in Houston, Alison Saffery, Enap's head of structured finance, said Enap plans to return its share in Mehr to the Iranian government.

Enap has a 33% stake in an exploration contract for the Mehr block, which is located in southwestern Khuzestan province near Iraq and Kuwait.

The Chilean firm operates in Mehr through a partnership with Austria's OMV and Spain's Repsol YPF. OMV is the operator of the block.

Speaking privately with *Oil Daily* after her conference presentation, Saffery said both economic and political reasons lie behind Enap's decision to pull out of Iran.

In the first place, she said, the investments necessary to bring Mehr into production were too large for a company of Enap's size.

She estimated Enap would have to invest some \$200 million in Mehr. That figure, she noted, is equal to about half of Enap's total capital expenditure for this year.

In addition, Saffery said that US government restrictions on companies doing business with Iran also played a role in the decision.

According to Saffery, Enap tried to sell its stake in the Mehr block in 2007 but failed to find a buyer.

As a result, last year Enap decided to return its stake to Iran. That process is currently underway but has not yet been completed, Saffery said.

According to Saffery, Enap is currently in negotiations with the Iranian government over the compensation that would be paid for the exploration work conducted.

In 2005, Enap and its partners announced an oil discovery at Mehr's Band-e Karkheh field. Enap estimates that the field has reserves of 217 million barrels.

**Jason Fargo, Houston**

## Latin America

### Pemex Posts Third-Quarter Loss

Mexico's state oil monopoly Pemex posted a loss of 3.69 billion pesos (\$273 million) in the third quarter, less than the 14.393 billion pesos it lost in the same period a year ago, the company said in a filing with the Mexican stock market on Wednesday.

Pemex said its results improved due to lower taxes and cheaper fuel imports but these positive factors were partially outweighed by reduced volumes of crude oil exports.

Declining output at the giant but aging Cantarell oil field have led to a 25% drop in Mexican production since it peaked in 2004.

However, Mexico managed to post stable output in September and officials say they have finally got a grip on the problems at Cantarell.

Pemex's heavy reliance on debt to finance its capital investment program and its large unfunded pension obligations have sent its long-term liabilities surging.

The company reported long-term debt of 545 billion pesos, up from 446 billion pesos in the third quarter of 2008.

Other long-term liabilities, mostly unfunded labor benefits, were 591 billion pesos, up from 494 billion pesos last year.

Long-term assets totaled 917 billion pesos, some 217 billion pesos less than Pemex's long-term liabilities.

### Peru Eyes Oil Exports

Peru hopes that the start of light oil production at a field in the northern Amazon will also help the country export heavy oil.

Daniel Saba, chairman of state oil licensing agency Perupetro, told *Oil Daily* that Talisman Energy may mix light oil with heavy crude and transport the mixture via pipeline to the coast for export.

Saba spoke to *Oil Daily* earlier this week at the Oil & Gas Outlook LatAm 2009 conference in Houston.

The light oil would come from Block 64, near the Ecuadorean border, where Talisman discovered oil in 2005 (OD Jan.18'06,p4). According to Saba, Talisman will declare the find commercial in January.

Talisman has a 50% stake in Block 64 and is the operator.

According to Saba, the start of light oil production from Block 64 could also enable the export of heavy crude that otherwise could not be sold economically.

The Maranon basin in northern Peru, where Block 64 is located, has been the site of several discoveries of heavy crude in recent years.

However, Saba said, much of that crude is

too heavy to transport via existing pipeline to the coast without adding diluent, which raises the cost.

Saba also said that Anglo-French company Perenco is preparing to drill 10 wells in Maranon Basin Block 67 which he said will start producing about 50,000 barrels of heavy crude per day in 2013. Perenco says the block may hold more than 300 million barrels of crude.

### Pemex Names New COO

Mexico's state oil monopoly Pemex named Carlos Rafael Murrieta as its new chief operating officer on Thursday, the latest switch after the government fired the company's chief executive amid a slump in oil production.

President Felipe Calderon replaced Pemex boss Jesus Reyes Heroles last month with former banker and beer executive Juan Jose Suarez.

In a Mexican stock market filing, Pemex said Murrieta is a chemical engineer who has worked at Mexico's Petroleum Institute and as a private sector consultant, with oil sector experience in the US, Mexico and Brazil.

Pemex is widely seen as a bloated bureaucracy and experts say it lacks the funding, expertise and access to strategic partnerships with other oil companies needed to tap new reserves and turn around its falling production.

Mexican oil production has fallen by more than one quarter since 2004 as yields have dropped at the country's aging offshore Cantarell oil field.

## Legislation/Regulation

### Jail Sentence for Alaska Oilman

The businessman at the center of Alaska's wide-ranging political corruption investigation, once a pillar of the Alaska oil industry and the state Republican party, was sentenced on Wednesday to serve three years in prison and to pay a \$750,000 fine.

Bill Allen, who built Veco Corp. into Alaska's biggest oil services company and a political heavyweight in the state, pleaded guilty in May 2007 to three counts of bribery and conspiracy. Allen subsequently resigned, and his company was taken over by CH2M Hill.

Charges were brought against him after federal agents videotaped him passing out cash to state legislators and discussing other payments and favors that would be given in exchange for industry-friendly votes on an oil-tax bill and other oil policies.

The corruption investigation, which became public in Alaska when Federal Bureau of Investigation agents raided several lawmakers' offices in August 2006, has

been a watershed in Alaska history. Allen became one of the key witnesses in the federal investigation.

The probe ensnared one of the state's political icons, Ted Stevens, the longest-serving Republican in US Senate history. Stevens was convicted a year ago of seven counts of concealing valuable gifts, most of them from Allen and Veco. A US judge threw out that conviction in April, saying prosecutors withheld important evidence from the defense.

## Mergers & Acquisitions

### Magnum Acquires Triad Assets

Magnum Hunter Resources Corp. said Thursday it has signed a deal with privately held, Appalachian Basin-focused Triad Energy Corp. and affiliates to purchase all of Triad's oil and gas exploration and production operating assets.

Additionally, as part of the transaction, Magnum Hunter will acquire 100% of Triad's ownership interests in certain oil service-related drilling, pipeline and salt water disposal assets. The acquisition will occur as part of Triad's reorganization plan under Chapter 11 bankruptcy.

Magnum Hunter will pay about \$81 million for the assets in cash, shares and assumed debt. The transaction is expected to close in late 2009 or early 2010.

## Natural Gas

### Gas in Storage Rises by 25 Bcf

Stocks of working natural gas in US storage facilities rose by 25 Bcf in the week ending Oct. 23, leaving storage levels at an all-time high of 3,759 Bcf, according to the Energy Information Administration. Gas in storage is 373 Bcf higher than at the same time last year.

## Working Gas in Storage

(in Bcf for week ended Oct. 23)

Region	Oct. 23	Oct. 16	2008
E. Consuming	2,058	2,041	2,001
W. Consuming	513	506	450
Producing	1,188	1,187	935
<b>Total</b>	<b>3,759</b>	<b>3,734</b>	<b>3,386</b>

Source: Energy Information Administration

## Oil & Gas Markets

### Saudis Drop WTI as Benchmark

Saudi Aramco said it will start using the Argus Sour Crude Index (ASCI) published by Argus Media as the benchmark price for all grades of crude oil sold to US customers.

Saudi Arabia's national oil company had been using West Texas Intermediate (WTI)

crude prices published by McGraw Hill's Platts unit as the benchmark for crude sales to the US since 1994. The new policy will be in effect for January sales to the US.

This fundamental change in policy reflects the increased importance of the US Gulf coast sour crude market, where production and trading activity are both rising sharply. Saudi Arabia exported over 1.5million b/d of crude to the US last

year, second only to Canada.

The Argus Sour Crude Index (ASCI) was launched in May of this year to represent the daily value of US Gulf coast medium sour crude, based on physical spot market transactions. The daily ASCI price is the volume-weighted average of all deals done for three grades of crude combined: Mars, Poseidon and Southern Green Canyon.

Saudi Aramco will publish monthly price differentials for its crudes versus a monthly average of the daily ASCI price published by Argus. Argus prices are already extensively used in the US Midcontinent and Gulf coast crude markets to price long-term supply contracts.

The CME says that it will launch two new futures contracts based on the ASCI before the end of the year.

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