

OIL DAILY

Today's complete oil and gas news briefing

Encore Buy Gives Denbury Bakken Foothold

Denbury Resources has announced plans to acquire Encore Acquisition, thereby creating one of the largest, oil-focused, independent exploration and production firms in North America with over 500 million barrels of oil equivalent in reserves recoverable through enhanced oil recovery (EOR).

Dallas-based Denbury said the cash and stock deal was worth a total of \$4.5 billion cash after factoring in the assumption of debt and acquisition of a minority stake in Encore Energy Partners.

Denbury specializes in using carbon dioxide (CO₂) floods to flush additional barrels from mature fields. Addition of Encore's assets will give the company one of the largest CO₂ enhanced recovery platforms in the US, with holdings in the Gulf Coast and Rocky Mountain regions (OD Feb.25'08,p1).

Denbury's stronghold is in Mississippi, but it also has a presence in Louisiana and Texas. Through Encore it will gain oil-prone assets in the northern Rockies, including fields with EOR potential in Wyoming and Montana.

"Encore has built an enviable asset portfolio in the Rockies, anchored by mature legacy crude oil assets, and our combined size and

scale of operations will allow us to undertake significantly larger CO₂ projects in the Gulf Coast and Rockies," said Denbury Chief Executive Phil Rykhoek.

Denbury will also acquire 19,000 acres in the Haynesville Shale natural gas play of northern Louisiana, along with holdings in the Permian Basin of West Texas — where Encore is partnered with ExxonMobil (OD Mar.29'06,p6).

The deal also marks Denbury's entry into the booming Bakken oil play of North Dakota, where Encore is a sizable player with 300,000 net acres.

Denbury has not yet announced its 2010 budget, but said on Monday that a significant portion of it spending will be directed to the Bakken play.

The Bakken and Haynesville assets are expected to provide Denbury with short-term production growth and cash flow that will complement its longer term EOR programs.

"The acquisition provides near-term growth drivers in the Bakken and Haynesville plays and longer term growth potential from tertiary oil projects in the Rockies," wrote analyst Michael Scialla of Thomas Weisel Partners.

Earlier this year, Denbury announced

News in Review

In This Issue:

Dubai Refiner Eyes Dragon	2
Volatile Market Closes Higher	3
Petrobras in Downstream Expansion . . .	4
Firms to Shutter Refining Capacity . . .	4
Energy Stocks Bounce Back	5
Putin Reignites Gas Dispute	5
Chesapeake Profit Falls	6
Pacific Rubiales Boosts Spending	8
Saudis Lift Light Oil Prices	8

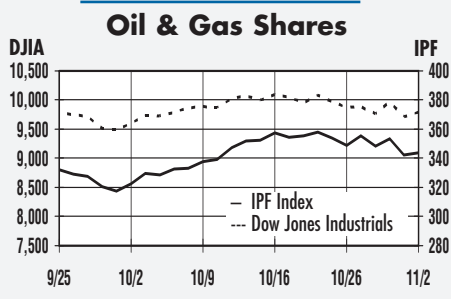
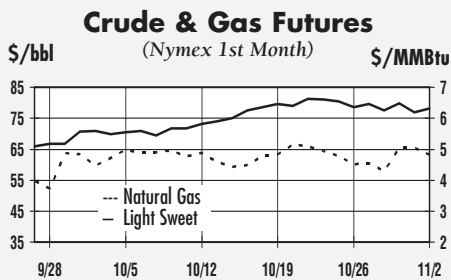
plans to look into the feasibility of building a CO₂ pipeline from two proposed coal gasification plants in the US that would add to its existing CO₂ pipeline network in Mississippi or Louisiana (OD Jul.15,p4).

Up to now, the company's EOR projects have used CO₂ from a natural underground source in Mississippi, but Denbury has also started to think about capturing CO₂ from industrial sources.

Under the merger agreement, Encore stockholders will receive \$50 for each share of Encore common stock, comprised of \$15 in cash and \$35 in Denbury common stock — a 35%

(See Denbury, page 2)

Latest Market Trends



Iraq Gears Up to Sign Upstream Mega-Deals

Iraq is set for a busy week of deal signing with foreign oil companies that could rake in some \$40 billion and vault production to beyond 5 million barrels per day. If all goes to plan, Baghdad will wrap up at least two postwar mega-contracts in the run-up to national elections in January.

Top Iraqi oil officials on Monday inked an initial 20-year technical service contract with an Eni-led group for the Zubair oil field, while BP and China National Petroleum Corp. (CNPC) are due to sign a final contract for Rumaila on Tuesday.

"November is going to be a decisive month in wrapping up contracts from the first bid round," an Iraqi official told *Oil Daily* on Monday.

A deal for West Qurna-1 — another of the giant fields left on the block from the June licensing round — should also be decided in the coming days, a senior Iraqi oil

official said. Groups led by Exxon Mobil, Russia's Lukoil and CNPC have all accepted Iraq's maximum remuneration fee of \$1.90 per barrel, he said.

Eni's Zubair pact now heads to the cabinet, where it is expected to receive swift approval, as was the case with the BP/CNPC deal for Rumaila.

However, companies signing contracts face much political uncertainty as there is no guarantee that the next Iraqi government will honor deals already on the books.

But high-ranking Iraqi officials insist there is widespread agreement that foreign help is needed to tap oil fields — long neglected due to sanctions and wars — that are struggling to pump 2.5 million b/d. And the lure of Iraq's vast, low-cost reserves has international oil companies taking the plunge regardless of the risks.

(See Iraq, page 2)

Dubai-Based Refiner Launches Bid for Turkmenistan-Focused Explorer

Dubai state-owned refiner Emirates National Oil Co. (Enoc) has agreed to splash out \$1.9 billion to give it 100% ownership of Turkmenistan-focused oil explorer Dragon Oil.

Enoc's cash offer of £4.55 (\$7.46) per share for the 48.5% of Dragon it does not already own is 35% higher than the UK-listed firm's closing price on Jun. 3 — two days before Enoc announced it was considering making a bid — and values Dragon at £2.36 billion (\$3.88 billion).

Dragon's shares, which have jumped 32% since Enoc first announced its interest, closed Monday up almost 9% at £4.47/share.

Dragon's independent directors' committee, formed after the initial bid approach, advised investors on Monday to accept the offer. The committee is itself being advised by HSBC Holdings and Davy Corporate Finance, while Enoc's advisers are Standard Chartered and Goodbody Stockbrokers.

Analysts believe Dragon is worth more. While some said shareholders should accept

the offer anyway, London-based broker NCB recommended they hold out for £8.05/share. Back in June, a number of analysts had said a fair bid would be above £5/share, and since then oil company stock prices have risen on the back of higher oil prices.

NCB oil analyst Peter Hutton said in a research note that, "The background of financial constraint in Dubai is constraining Enoc's ability to finance a deal at fair price," adding that he does not expect the Dubai firm to raise its offer to anywhere near £8/share. Enoc needs the support of 90% of minority shareholders to close the deal.

Dubai is struggling to restructure a foreign debt pile of around \$80 billion and is trying to diversify its economy after the financial crisis took a heavy toll on its huge tourism and real estate markets — hitting property values, construction and employment.

Not only would a takeover of Dragon represent the first major acquisition by a Dubai government entity in over two years, it would allow refiner and marketer

Enoc to expand upstream.

"This acquisition represents a major step in Enoc's strategy of building a vertically integrated oil and gas group with a strong upstream position," Group Chief Executive Saeed Khoory said Monday.

Enoc would fund the deal using existing cash resources as well as a loan from Standard Chartered Bank and National Bank of Dubai.

A takeover would give Enoc a toehold in Turkmenistan, holder of the world's fourth biggest gas reserves, which is trying to attract more foreign investment.

Dragon's main producing assets are in the Cheleken contract area in the eastern part of the Caspian Sea off Turkmenistan, which is estimated to hold 645 million barrels of oil and 3.2 trillion cubic feet of gas reserves. It also has interests in blocks 35 and 49 in Yemen. The company produced 46,060 barrels per day of oil in Turkmenistan in the third quarter of 2009.

📞 **Deb Kelly, London**

Iraq . . .

(Continued from 1)

"Some people in parliament say the service contracts are illegal," the senior oil official said. "This is a new democracy and people can say anything they want, but the cabinet has given its final authority for the ministry of oil to negotiate and sign."

Eni recently agreed to Baghdad's payment terms of \$2/bbl for Zubair, where it aims to boost output from 195,000 b/d to 1.125 million b/d within seven years, working with partners Occidental Petroleum, South Korea's Kogas and Iraq's South Oil Co.

The Italian major has said it intends to invest \$10 billion to develop the 4 billion bbl southern oil field, but Iraqi Oil Minister Hussein al-Shahristani was reported as saying he expects spending to reach \$35 billion — \$20 billion in capital expenditure and \$15 billion in operating expenses.

Eni was among a number of international oil companies that bid for contracts in the June licensing round, but initially rejected the government's stiff terms.

BP and CNPC were the only firms to emerge with a long-running service contract the day after accepting Baghdad's remuneration fee of \$2/bbl. The partnership has pledged to spend some \$15 billion to nearly treble Rumaila's output from just over 1 million b/d to 2.85 million b/d within seven years.

BP boss Tony Hayward has predicted a 15%-20% return from the Rumaila contract and Eni's Paolo Scaroni said the Zubair deal meets "our requirements in

terms of return on investment."

A deal for the southern Nassiriyah field — which is not included in Iraq's two postwar bid rounds — is still being negotiated with a Nippon-led consortium, the senior oil official said. The Japanese group, which includes Inpex and JGC, is expected to invest up to \$8 billion via an engineering, procurement and construction contract to develop the field and build a power station.

In the north, Royal Dutch Shell is due to present a reworked technical and commercial proposal for the giant Kirkuk field to the oil ministry in the next few days, the oil official said. For now, Baghdad is insisting that Shell accept its maximum fee of \$2/bbl for the field, also left over from the first round.

Iraq is due to hold its second bid round, which will feature more big oil fields such as Majnoon, West Qurna-2, Halfaya and East Baghdad, Dec. 11-12.

📞 **Peg Mackey, London**

Denbury . . .

(Continued from 1)

premium to Encore's closing price last Friday.

Denbury plans to sell off at least \$500 million in non-core oil and gas properties next year to pay down new debt incurred as part of the transaction.

The purchase is being financed with a combination of equity and debt and is expected to close in the first quarter of 2010, pending share-

holder and regulatory approval. Denbury received a commitment letter from JPMorgan for a \$1.6 billion bank revolving credit facility and \$1.25 billion bridge financing.

After closing, Denbury stockholders will own between 63% and 68% of the combined company while Encore stockholders will own the remaining 32% to 37%.

For Encore, the sale is in keeping with the deal-making history of its chairman and founder, Jon Brumley.

Brumley and his son founded Encore in 1998 using earnings the elder Brumley garnered when Mesa Petroleum merged with Parker & Parsley Petroleum in 1997. That \$4.2 billion deal marked the creation of Pioneer Natural Resources.

Brumley was recruited to lead Mesa Inc. by the investor group that rescued the financially troubled firm from founder T. Boone Pickens in 1996. Brumley spearheaded the battered E&P company's turnaround and, barely a year later, it attracted merger partner Parker & Parsley.

Prior to working with Mesa, Brumley and two partners had formed Cross Timbers Oil — now known as XTO. Brumley left the firm in 1996 because the management team no longer needed his day-to-day participation.

Brumley started his career at Southland Royalty, a regional player before Brumley sold it to Meridian Oil, the predecessor to Burlington Resources, in 1985.

📞 **Rachael Seeley and Barbara Shook, Houston**

Volatile Oil Market Ends Session Higher on Positive Economic News

The oil market began the week with a good bit of volatility. After a sell-off on Friday, crude futures initially bounced back in early Monday trading, hitting \$78.66 per barrel on strong economic news. Prices subsequently traded as low as \$76.56/bbl before rallying again to settle above \$78/bbl.

Oil prices got an early boost from a strong performance by equities that resulted from buoyant manufacturing and housing numbers and better-than-expected earnings at Ford.

However, equities and oil both failed to hold to early gains as uncertainty about the econom-

ic recovery resurfaced to weigh on prices.

Nevertheless, the oil market ultimately finished in positive territory following a late-day rebound in the equities market.

On Nymex, December light, sweet crude gained \$1.13 to \$78.13/bbl. In London on ICE Futures, Brent crude was up \$1.35 to 76.55/bbl.

Nymex Heating oil futures jumped 4.08¢ to \$2.0460 per gallon.

Despite signs of improved economic conditions, prices are capped by high inventories and sluggish demand.

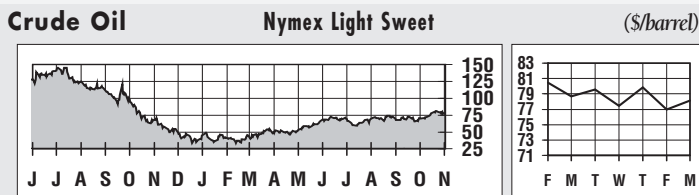
Although fundamentals are mixed, that has not kept investors from piling up on the long side, or betting on higher prices. On Friday, the latest Commodity Futures Trading Commission (CFTC) report showed that net longs in the crude market — futures and options combined — have reached an all-time high.

With so many market participants now on the long side of the market, prices could fall sharply if a large number of players take profits all at once.

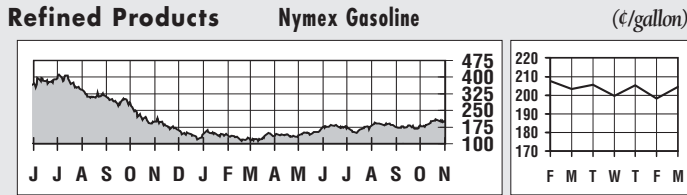
☎ **Matt Piotrowski, Washington**

Daily Oil & Gas Price Review

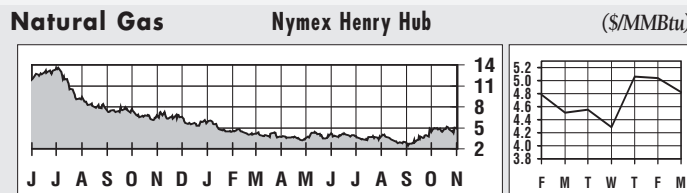
Prices for Monday, November 2, 2009



North American Crudes (\$/barrel)				
Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+1.14	75.90	76.17	67.09
LLS (St. James)	+1.14	79.10	79.30	70.39
ANS (California)	+1.18	76.12	76.28	69.00
Mars (Cloveilly)	+1.14	74.70	75.09	65.86
Maya (Mexico)	+0.74	70.44	70.82	62.50



US Product Spot Markets ^h	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	+2.66	195.76	197.38	174.65	+2.66	200.26	202.68	176.90	+1.91	190.51	194.37	185.40
Premium Gasoline	+2.91	205.26	206.58	184.40	+2.24	214.76	216.81	189.40	+1.91	214.01	218.07	209.40
Regular RBOB	+2.91	197.01	198.58	172.65	+2.91	197.26	199.63	173.90	+1.91	202.01	206.07	197.40
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	+2.96	198.47	198.84	174.81	+4.50	200.72	200.39	176.06	—	—	—	—
No. 2 Low Sulfur Diesel	+3.21	200.22	199.99	176.56	+4.50	201.97	201.99	179.06	+2.96	204.47	204.99	179.06
Jet Fuel	+3.46	200.97	201.04	178.06	+3.21	203.97	204.63	180.06	+4.71	208.22	207.24	183.06
Residual Fuel (\$/bbl)												
No. 6 Oil (low sulfur)	0.00	71.78 ^A	72.47	63.00	0.00	74.13 ^B	75.06	64.88	—	—	—	—
No. 6 Oil 1% S	0.00	71.03 ^C	71.74	62.78	0.00	71.13 ^D	71.75	62.63	—	—	—	—
No. 6 Oil 3% S	0.00	68.88	69.55	62.22	0.00	69.38	70.13	62.38	0.00	460.00 ^E	460.00	425.00



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	+1.13	78.13	78.40	78.82	79.51
ICE Brent	+1.35	76.55	76.71	77.36	78.12

Cash/Spot					
	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	+1.04	78.05	78.33	70.23	62.80
WTI (Midland)	+1.14	77.60	77.93	69.79	64.64
Brent (Dated)	+0.65	75.75	76.08	65.61	59.27

International Crudes (\$/barrel)				
Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket ¹	+0.38	75.56	76.10	67.15 ⁶
Nigeria Bonny Light	+0.65	76.95	76.84	66.41
Dubai	+1.43	75.95	76.38	67.77
Oman	-0.44	76.18	76.04	67.90
Russia Urals	+0.65	75.05	75.38	65.04

Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)					
Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	+3.08	199.03	200.19	201.20	203.62
Heating Oil	+4.08	204.60	202.67	207.83	210.51

ICE (London)				
	Change	Spot Price	5-Day Avg.	Month-Ago
Gasoil (\$/ton)	+2.50	627.25	632.30	635.25
Gasoil (¢/gal.)	+0.79	199.13	200.73	201.67

Nymex Henry Hub — Prompt Month (\$/million Btu)				
Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex (\$/MMBtu)				
Henry Hub	-0.221	4.824	4.755	5.162

Spot Gas Prices (\$/MMBtu) ^F				
Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	+0.26	4.84	4.91	3.20
Henry, Louisiana	+0.20	4.33	4.72	2.86
Chicago	+0.14	4.52	4.75	3.07
Katy, Texas	+0.22	4.33	4.60	2.81
Southern California Border	+0.28	4.53	4.98	3.04
AECO Hub (Canada)	-0.17	3.76	4.23	2.76

Petrobras Sets Out Plans to Expand Domestic Refining Capacity

Weak refining margins in the US and Europe have prompted integrated oil companies and independent refiners to slash crude runs, cut operating costs and even close some plants. However, Brazil's Petrobras is following a quite different path.

In addition to its ambitious upstream program, the state-controlled company plans to build five refineries and add 1.3 million barrels per day of crude processing capacity through 2015, according to Petrobras downstream executive Jose Carlos Cosenza.

By building new plants and upgrading existing ones, Petrobras will seek to satisfy growing domestic demand and service product markets overseas, focusing primarily on diesel output.

"Petrobras wants to add value to our crude," Cosenza told the Global Refining Strategies conference near Houston on Friday.

The company projects that its crude oil production will grow to 3.7 million b/d in 2013 and 5.7 million b/d by 2020, mainly as a result of developing Brazil's vast sub-salt offshore oil reserves.

At present, however, Petrobras operates just 2.2 million b/d of refining capacity. The company's 11 plants in Brazil con-

tributing nearly 2 million b/d of that total, with the balance made up by refinery assets in Japan and on the US Gulf Coast.

"We need more refineries. This is not enough," Cosenza said.

Petrobras plans to invest \$47.8 billion in downstream infrastructure between 2009 and 2013, with 73% of those funds going towards refineries.

Cosenza detailed five downstream projects scheduled to come online in Brazil as early next year which will service a variety of product needs, from diesel to jet fuel and petrochemicals.

Investment in new and existing refineries include an effort to increase the percentage of Brazilian crude used at Petrobras' refineries, which currently stands at around 78%.

Cosenza predicted that by 2020, Brazilian crude would account for 95% of the crude processed at the company's domestic refineries.

The construction of cokers — two are already under construction — as well as hydrotreaters and other advanced refinery units are an important part of the company's efforts to retrofit Brazilian refineries so they can run heavy Brazilian crudes and convert them into high-value products.

Petrobras also wants to increase the ca-

pability of its plants to produce diesel fuel, gradually shifting the emphasis away from gasoline production, for which the existing plants were originally configured. "Diesel is the principle product in our country," said Cosenza.

The company has already taken steps to tweak existing refinery capacity towards diesel production because Brazil's mass production of flex-fuel cars — that can run on gasoline or ethanol — means that the domestic gasoline market has little margin potential.

Consumption of refined products in Brazil is growing at around 2.6% per year, Cosenza said. Petrobras projects domestic demand of 2.3 million b/d by 2013 and 2.9 million b/d in 2020.

In view of these projections, the additional refinery capacity coming online should create a significant opportunity for exports. Cosenza predicts that exports of refined products — mostly diesel — could reach around 600,000 b/d as a result of the expansion plans he laid out.

So in addition to the other pressures they have to contend with, it appears that US and European refiners will also have to compete with imports of high-value imports originating in Brazil.

④ **John Galante, New York**

Japanese Firms Plan to Shutter Additional Refining Capacity

About 200,000 barrels per day more Japanese refining capacity will disappear than originally envisioned as a result of the merger of Nippon Oil and Nippon Mining Holdings — but observers say that will still leave the country with a surplus, given the extent to which oil demand is falling.

The companies unveiled the merger — the most radical shake-up of Japan's oil sector in almost a decade — last December, when they said it would lead to the closure of about 400,000 b/d of capacity. But Nippon Oil said last week the plan now is to shutter 600,000 b/d of capacity — 400,000 b/d by Mar. 31, 2011 and a further 200,000 b/d by Mar. 31, 2015.

Nippon Oil has seven refineries with a total capacity of 1.32 million b/d, while Nippon Mining, the parent of refiner Japan Energy, has two plants with a combined 514,000 b/d.

Closures are expected to occur at Mizushima, in southern Japan, the only site where both have refineries. Nippon Oil has already started restructuring its excess capacity — it has converted its 60,000 b/d Toyama refinery into an oil

terminal, while PetroChina is keen to buy a 49% stake in the Japanese firm's 115,000 b/d Osaka plant, which could be turned into an export facility.

Nippon Oil and Nippon Mining are to set up an integrated holding company, JX Holdings, owning three subsidiaries — refining and sales, oil exploration and production, and metals and mining. Investors in Nippon Oil will get 1.07 shares of the new company's common stock for each Nippon Oil share they own, while Nippon Mining shares are valued at parity.

The exchange ratio was decided after a financial analysis by Mizuho Securities, JP Morgan Securities and Nomura Securities, and has to be approved by an extraordinary meetings of shareholders on Jan. 27.

The plan is for Nippon Oil and Nippon Mining to delist from Japanese stock exchanges on Mar. 29, 2010 and for JX Holdings to start trading on Apr. 1. Nippon Oil President and Chief Executive Shinji Nishio will become JX Holdings' chairman, while Nippon Mining President and CEO Mitsunori Takahagi will take over as president and CEO.

The bigger combo will command 34%

of the Japanese fuel market, ahead of Exxon Mobil subsidiary TonenGeneral Sekiyu with about 17%, and will look to expand globally, particularly in the growing Asian market.

In April the new company will unveil a three-year management plan designed to yield a minimum 10% return on equity in the initial stages. The merger is expected to lead to savings of at least 60 billion yen (\$666 million) a year in the first three years and possibly 100 billion yen annually thereafter.

With Japanese oil demand tumbling faster than forecast, the move could spur similar action by other refiners. According to a local consultant, Japan now has 700,000 b/d of surplus capacity — so it will still have an excess after the planned Nippon cuts.

The government reckons product demand will fall by an average of 3.5% per year between now and 2013.

Nippon Oil and Nippon Mining will also combine their upstream holdings. Nippon Oil produced an average of 126,000 b/d in 2008 and had reserves of 669 million bbl; Nippon Mining had 15,000 b/d of output and 32 million bbl of reserves.

④ **Clara Tan, Singapore**

Energy Stocks Bounce Back to Beat the Broader Market in October

The Energy Intelligence Finance (EIF) index of 13 integrated oil and gas companies was lifted by the rising tide of higher oil prices, gaining 5.9% in October. For the first time in several months, the EIF index outperformed the S&P 500 stock market index, which fell 2.0%.

ConocoPhillips was the best performer within the group, jumping 11.1% over the month as it announced measures to address low returns on capital. Investors responded well to Conoco's announcement that it would shed \$10 billion in assets over the next two years and dramatically reduce capital spending (OD Oct.8,p.4).

Chevron also had a strong month after it announced better-than-expected year-over-year production growth of 11% for the third quarter of 2009 (OD Oct.9,p.7). The company's strong growth profile continued to attract investor interest for the remainder of the month.

Share prices for the European companies in the index fared slightly better than their North American counterparts with an average increase of 2.6% compared to 2.3%.

BP led the European integrations as its shares rose 6.4%. The UK supermajor had a particularly strong finish to the month when its third-quarter earnings came in higher than expected. BP posted a third-quarter profit of \$5.3 billion beating analysts' consensus by \$1.5 billion, according to a poll conducted by Thomson Reuters.

Canada's Suncor and Spain's Repsol YPF had the weakest performances in October as prices retreated after sizeable increases during the

previous month.

Suncor's shares were down 4.5% in October after rising 12.8% in September on the announcement that it would sell most of Petro-Canada's natural gas assets, following its recent acquisition of that company. Thanks to the merger, which was announced in March, Suncor still has the strongest year-to-date performance of the EIF Index constituents — a gain of 69.3%.

Repsol was down 2.1% in October after advancing 9.3% in September when it announced two major gas discoveries in Venezuela and Sierra Leone. The shares also weakened on news that China National Petroleum Corp. (CNPC) does not plan to acquire a stake in Repsol's Argentine unit YPF (OD Oct.23,p.7). Nevertheless, Repsol's shares have increased 23.7% year-to-date.

Exxon Mobil, which has lagged behind the other integrated oils during 2009, was up 4.5% in October, which could be reflect a shift in investor preferences.

In recent months, investors have preferred "high-beta" stocks, such as smaller independent exploration and production firms, that are more volatile and tend to be more responsive to movements in oil and gas prices.

While high beta stocks are still popular among mutual funds looking to benefit from any additional upswings, hedge funds may now be shifting to a defensive stance in case oil prices fall, Deutsche Bank analyst Paul Sankey said in a research note.

Deirdre Daly, New York

Share Performance

Top Oil & Gas Companies

Company	October	YTD
ConocoPhillips	11.1%	-3.1%
Chevron	8.7	3.5
BP	6.4	21.1
Statoil	5.0	42.0
Exxon Mobil	4.5	-10.2
Shell-B	4.3	13.1
Shell-A	3.9	12.2
Hess	2.4	2.1
Total	1.4	8.6
Marathon	0.2	16.8
Eni	-0.5	3.7
Repsol YPF	-2.1	23.7
Suncor	-4.5	69.3
IPF Index	5.9	8.2
S&P 500	-2.0	14.7
FT WORLD Index	-2.2%	2.3%

Note: 13 leading oil equities traded in New York

previous month.

Suncor's shares were down 4.5% in October after rising 12.8% in September on the announcement that it would sell most of Petro-Canada's natural gas assets, fol-

Putin Urges European Union to Help Ukraine Pay for Russian Gas

Russian Prime Minister Vladimir Putin has raised the possibility of a renewed cut-off of gas supplies to the European Union this winter, calling on Brussels to get out its wallet and help crucial transit state Ukraine pay its bills to Moscow.

"It seems we are again having problems with the payment of our energy supplies, which is extremely sad," Putin said after a telephone conversation with his Ukrainian counterpart Yulia Tymoshenko.

Putin said he understood that Ukrainian President Viktor Yushchenko was blocking normal cooperation between the government and Ukraine's central bank, preventing the transfer of funds to pay the October gas bill. The bill must be settled by Nov. 7.

Moscow has warned Sweden — which currently holds the EU presidency — of possible disruptions because of the problems with Ukraine. Putin on Sunday telephoned Swedish Premier Fredrik Reinfeldt to alert him to "the fact that Ukraine risks not being able to meet its payment commitments to the company Gazprom," a

Swedish statement said.

A European Commission spokesperson had earlier said the EU would not be drawn into what was essentially a political matter ahead of January presidential elections in Ukraine, in which Yushchenko and Tymoshenko are running against each other.

Russian gas supplies to European consumers were badly disrupted in January when a row over payment led to four pipelines transiting Ukraine being shut down.

Putin on Monday urged Brussels to "open its wallet" and ensure a steady supply of gas for all, saying that the EU had given Kiev "not a single cent, not a single hryvnia."

Jonathan Stern, director of gas research at the Oxford Institute for Energy Studies, told Energy Intelligence's Oil & Money conference in London last month that Russia would not want to give its buyers any excuse not to take gas. European gas firms have been plagued by low demand this year but are still obliged to import set vol-

umes under take-or-pay contracts.

"I can see buyers in Europe praying for a disruption in January given their situation," Stern said.

But Ukrainian state gas firm Naftogaz Ukrainy issued a defiant statement last week amid growing speculation about its ability to pay. "The company officially declares that it will pay for all the natural gas used in October timely and in full, the same way as it has done in the previous periods of the current year," Naftogaz said.

Tom Daly, Moscow

Motiva Expansion on Track

Motiva Enterprises expects to finish the 325,000 b/d expansion of its 285,000 b/d refinery in Port Arthur, Texas, in the first quarter of 2012, Chief Executive Robert Pease said Friday.

"We are seeing this through to completion," Pease told a refining conference. "If you haven't planned on a 325,000-bbl expansion in refining capacity, then pencil this in for the first quarter of 2012."



NEWS ALERT

From staff and wire reports

Corporate News

Statoil Simplifies its Name

Norwegian producer StatoilHydro officially became plain-and-simple Statoil on Monday, just over two years after the original Statoil merged with the oil-and-gas business of Norsk Hydro.

The company decided to drop Hydro from its name in March after spending \$1.6 million on a renaming exercise. As part of the change, Statoil also has a new logo, centered on a magenta-colored star, and a new catchphrase, "Crossing energy frontiers."

A least one former Hydro employee has quit the company in protest at the way the name-change was handled. The Norwegian government, the majority shareholder, said earlier this year that it would not accept any name that did not give prominence to Statoil.



OIL DAILY

Founded 1951 • www.energyintel.com

• Washington Editorial Tel.: (202) 662-0700
• Fax: (202) 783-8230. New York Tel.: (212) 532-1112.
Houston Tel.: (713) 222-9700

Published By:



Raja W. Sidawi, *Chairman*

Marcel van Poecke, *Vice Chairman*

Thomas E. Wallin, *President*

Andrew Kelly, *Editor*, Oil Daily

akelly@energyintel.com

Jane Collin, *Editor, International Edition*

Editorial: Sarah Miller *Editor-at-Large*. **Washington:** Jason Fargo, Paul Merolli, Bill Murray, Matt Piotrowski.

Houston: Andrew Kelly, Alan Lammey, Casey Sattler, Rachael Seeley, Barbara Shook, Emily Wilkinson.

New York: John Galante, David Knapp, Leslie Palti-Guzman, John van Schaik, Lisa Viscidi. **London:** James Batty, Deborah Kelly, Peg Mackey, Kerry Preston.

Singapore: Song Yen Ling, Ramsey al-Rikabi, Clara Tan. **Moscow:** Nelli Sharushkina. **Dubai:** Onur Ant, Alex Schindelar.

Production: Terry King, *Production Manager*

Ronald Hernandez, *Production Coordinator*

Copyright © 2009 by Energy Intelligence Group, Inc. ("EIG") ISSN 1529-4366. Oil Daily ® is a registered trademark of EIG. All rights reserved. Access, distribution and reproduction are subject to the terms and conditions of the subscription agreement and/or license with EIG. Access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with EIG is willful copyright infringement. Additional copies of individual articles may be obtained using the pay-per-article feature offered at www.energyintel.com.

Earnings

Chesapeake Profit Falls

Chesapeake Energy said on Monday its quarterly profit fell sharply from a year ago as lower natural gas prices hurt results and the year-ago period was boosted by a large gain related to hedging.

Net profit in the quarter was \$186 million (30¢/share) compared with \$3.29 billion (\$5.62/share) in the same period a year ago.

Excluding one-time items, the Oklahoma City-based company had earnings of \$440 million (70¢/share).

On that basis, analysts on average had expected a profit of 65¢/share, according to Thomson Reuters I/B/E/S.

Revenue in the quarter was \$1.81 billion, down from \$7.49 billion a year ago. Analysts had expected revenue of \$1.96 billion for the 2009 third quarter.

Exploration & Production

Eni Starts Longhorn Gas Output

Italy's Eni said it has started output from its Longhorn gas field in the Gulf of Mexico which will initially produce about 200 MMcf/d.

The field located 60 miles off the Louisiana coast will pump gas from four subsea wells in 2,500 feet of water. The wells are connected to the Eni-operated Corral platform, previously known as Crystal.

Eni operates the Longhorn field with a 75% working interest, while Canadian oil company Nexen holds the remaining 25%. The field was discovered in July 2006.

The Corral platform has been fitted with a newly built production and compression facility with a processing capacity of 250 MMcf/d of gas and 6,000 b/d of liquids, Eni said.

In addition to the Longhorn field, the Corral platform is being outfitted to boost liquids production capacity up to 12,000 b/d to accommodate the future tie-in of the Appaloosa oilfield, which is 100% operated by Eni. That field is currently under development with production expected to start in 2010.

Eni said it owns lease interests in 376 blocks in the Gulf of Mexico with net output capacity in excess of 100,000 boe/d, 60% operated by Eni.

UTS Sells Alberta Lease Stakes

UTS Energy said it agreed to sell its 50% working interest in three Alberta oil sands leases to Imperial

Stock Market Scorecard

Integrated Majors	Close 11/2	1-Day Chg.	% Chg.	10-Day % Chg.	52-Wk % Chg.	YTD % Chg.
Repsol YPF	27.05	+0.45	+1.69%	-3.08%	+48.22%	+25.76%
Eni	50.30	+0.72	+1.45	-6.33	+11.14	+5.19
BP	57.27	+0.65	+1.15	+4.11	+16.40	+22.53
Exxon Mobil	72.15	+0.48	+0.67	-1.33	-3.35	-9.62
Total	60.40	+0.33	+0.55	-4.38	+10.58	+9.22
Chevron	76.64	+0.10	+0.13	-0.22	+7.94	+3.61
Statoil	23.69	+0.03	+0.13	-3.93	+30.74	+42.20
Hess	54.75	+0.01	+0.02	-9.74	+3.05	+2.07
Marathon	31.97	0.00	0.00	-8.34	+24.69	+16.85
Shell-A	59.35	-0.06	-0.10	-3.32	+6.32	+12.11
Shell-B	58.08	-0.08	-0.14	-2.78	+2.02	+12.93
Suncor	32.97	-0.05	-0.15	-14.41	+46.34	+69.08
ConocoPhillips	49.98	-0.20	-0.40	-3.81	-0.34	-3.51
IPF Index	343.57	+1.62	+0.47	-3.80	+5.05	+1.14
Large Producers						
Murphy Oil	62.29	+1.15	+1.88	-2.47	+31.66	+40.45
Anadarko	61.84	+0.91	+1.49	-7.85	+99.29	+60.42
Apache	95.48	+1.36	+1.44	-7.08	+27.63	+28.11
Nexen	21.78	+0.31	+1.44	-13.30	+42.45	+23.89
Occidental	76.82	+0.94	+1.24	-6.77	+51.19	+28.05
Pioneer	41.54	+0.43	+1.05	-2.76	+65.83	+156.74
EnCana	55.68	+0.29	+0.52	-10.80	+16.15	+19.79
Devon Energy	64.98	+0.27	+0.42	-8.84	-9.47	-1.11
EOG Resources	81.97	+0.31	+0.38	-11.68	+12.94	+23.12
Talisman	16.96	-0.01	-0.06	-12.26	+90.13	+69.77
XTO Energy	41.44	-0.12	-0.29	-7.64	+25.61	+17.49
Chesapeake	24.14	-0.36	-1.47	-15.80	+16.90	+49.29
Canadian Natural	63.47	-1.20	-1.86	-16.13	+35.27	+58.75
Refiners						
Alon	8.60	+0.20	+2.38	-11.16	+16.06	-6.01
Sunoco	30.90	+0.10	+0.32	-5.24	+12.98	-28.90
Tesoro	14.01	-0.13	-0.92	-8.97	+41.52	+6.38
Holly	28.55	-0.46	-1.59	-4.07	+72.30	+56.61
Frontier Oil	13.60	-0.26	-1.88	-9.69	+25.46	+7.68
Valero	17.75	-0.35	-1.93	-10.08	+1.72	-17.98
Integrated Energy						
Enbridge	38.82	-0.02	-0.05	-5.20	+20.04	+19.56
Oneok	36.17	-0.04	-0.11	-4.46	+24.25	+24.21
Duke Energy	15.78	-0.04	-0.25	-0.06	-2.83	+5.13
TransCanada	30.37	-0.17	-0.56	-5.00	+5.16	+11.90
El Paso	9.68	-0.13	-1.33	-12.71	+10.50	+23.63
Williams	18.48	-0.37	-1.96	-7.32	+3.59	+27.62
Sempra	49.79	-1.66	-3.23	-5.90	+22.70	+16.80
Service Companies						
Schlumberger	62.71	+0.51	+0.82	-9.22	+23.25	+48.15
Nabors	20.97	+0.14	+0.67	-6.76	+54.99	+75.19
Enco	46.06	+0.27	+0.59	-2.60	+23.98	+62.24
Transocean	84.24	+0.33	+0.39	-7.51	+15.40	+78.29
Patterson-UTI	15.64	+0.06	+0.39	-9.02	+25.12	+35.88
Baker Hughes	42.21	+0.14	+0.33	-10.25	+28.03	+31.62
Halliburton	29.26	+0.05	+0.17	-3.75	+55.23	+60.95

Note: Ranked by daily percentage change.

Oil and Exxon Mobil.

The company said the sale of interests in leases 421, 022 and 023 is expected to close over the next month.

UTS said the deal is in line with its strategy of generating cash reserves organically, by finding new oil sands resources and that it sees after-tax proceeds of about C\$200 million (US\$185 million) from the sale.

The company remains strongly funded with an estimated C\$440 million in cash and cash equivalents, it said.

RBC Capital Markets and TD Securities Inc acted as financial advisors to UTS on the transaction.

Quicksilver Sees Production Rise

Quicksilver Resources said it expects average daily production in 2010 to grow at least 20% over the projected 2009 level. It said it is on pace to produce more than 325 MMcf/d for 2009.

The company said it is currently producing 340 MMcf/d compared with its third-quarter production of 311 MMcf/d, adding that the growth in volumes was driven by continued development of its Barnett shale assets in the Fort Worth Basin in Texas.

"Improved pricing for natural gas liquids coupled with lower service costs for pressure pumping have significantly enhanced our opportunities to begin accelerating completion activities in the southern portion of the basin," said Chief Executive Glenn Darden.

Quicksilver also said it added new derivative contracts covering a portion of its expected natural gas production for calendar 2010 through 2012 and natural gas liquids production for 2010.

Devon Hits Haynesville Home Run

Devon Energy said one of its Haynesville Shale wells initially produced 30.7 MMcf/d, making it among the most prolific onshore natural gas wells in the US.

The Kardell Gas Unit 1H well is located in San Augustine County, Texas, and was drilled to a total measured depth of 18,350 feet, including a horizontal lateral section of 4,500 feet.

Devon operates the well with a 48% working interest and Crimson Exploration owns the remaining 52% working interest.

The Oklahoma City-based oil and gas producer said it now plans to accelerate drilling activity in the Haynesville where it holds leases on 570,000 acres.

"With a flow rate of more than 30 MMcf/d, we believe the Kardell well is the highest rate well ever drilled in the Haynesville," said Devon Executive Vice President David Hager.

"We plan to go to a five-rig program in 2010 in this southern play area. Our longer-term objective is to continue to systematically evaluate and de-risk our entire Haynesville Shale position."

International

Gazprom Opens China Gas Talks

Gazprom said Monday it has opened commercial talks on gas deliveries with China National Petroleum Corp. (CNPC). The Russian gas giant said the talks, led by Chief Executive Alexei Miller, focused on "matters related to pricing, volume, routes and the timeframe for gas supplies," but provided no further details.

It said a second round of discussions, to be held by the end of the year, will go over the same issues and also look at potential joint projects, such as the construction of gas-chemical complexes in Russia's Far East.

The talks follow on from a framework gas sales deal signed last month following preliminary agreement on gas pricing. The deal, inked during a visit to China by Russian Prime Minister Vladimir Putin, stipulates deliveries starting in 2014-15 at around 70 Bcm/yr, sourced from West and East Siberia and fields off Sakhalin Island.

Gazprom and CNPC signed a broad strategic partnership agreement in 2004 that provides for the possible construction of gas processing and gas treatment projects in Russia's Far East and in third countries.

OMV Strikes West of Shetlands

Austria's OMV said Monday that it has discovered oil and gas with its first exploration well west of Shetlands in the UK Atlantic Margin.

The Tornado discovery well 204/13-1 and sidetrack 204/13-1z were drilled in Block 204/13 in a water depth of 1,048 meters using the *Stena Carron* drillship and are OMV's first operated wells in the deepwater West of Shetlands area.

The first well was spudded on Sep. 26. Following the discovery of hydrocarbons, the sidetrack was started on Oct. 17 and reached a total depth of 2,638 meters. OMV has collected extensive data on the prospect and will now determine its commercial viability.

OMV did not provide an estimate of potential reserves. The Austrian company operates the block with 30%. Its partners are the UK's Dana Petroleum (30%), Danish Dong (20%), UK-based Faroe Petroleum (10%) and Japan's Idemitsu (10%).

Chevron Gets China Gas Nod

Chevron has received Chinese government approval for the first phase of its Chuandongbei sour gas project in Sichuan province.

The US major said in an emailed statement Monday that it and partner China National Petroleum Corp. (CNPC) have been given the go-ahead by the National Development and Reform Commission for the first stage of project development.

This includes drilling 16 wells and completing three natural gas purification trains and a sulfur plant. Chevron Chief Executive David O'Reilly had said last week that the firm was moving into "full execution" phase for the project following preliminary work.

Total costs of the three-phase scheme are put at \$4.7 billion. Up to 740 million MM-

cf/d of gas is expected to be sold into the Chinese market once peak production is reached. The next two stages entail developing three more fields and building more gas processing facilities.

Chevron said the joint venture is "aligned on the need to produce first gas at the earliest possible date." The US firm signed a production sharing contract for the block in 2007 and is operator with 51%; CNPC has 49%.

Hungary Well Abandoned

Partners Exxon Mobil, Mol, and Falcon Oil & Gas have plugged and abandoned their Foldeak-1 well in Hungary's Mako Trough after a third fracture test at the site delivered disappointing results.

The well — one of the first to test the tight gas potential of the southern Hungary Basin — has proved disappointing to the partnership, which was operating under a \$50 million initial work program in the Mako.

The latest fracture yielded 20,000 cubic feet of gas per day initially, but the volume dropped to 7 mcf/d at the end of the 130-hour test period.

Early last month, Exxon's Hungary affiliate gave a recommendation to Falcon and Mol to cease operations at Foldeak-1, but the three partners later agreed to finish the third fracture test before making a final decision (OD Oct.9,p7).

The Mako Trough is just one unconventional gas region in Europe that Exxon has expressed interest in exploring in coming years as part of a general shift toward natural gas projects (OD Oct.30,p1). Exxon is also pursuing programs in Germany and Poland.

EOR Boosts Oman Output

Oman expects production of crude oil and condensate to bounce back to levels seen earlier this decade thanks largely to enhanced oil recovery (EOR) projects, top Omani oil officials say.

After peaking at 960,000 barrels per day in 2001, liquids production shrank to just over 700,000 b/d in 2007. But Oil Minister Mohammed al-Rumhy recently told the local press that output is expected to average 850,000-900,000 b/d next year.

Production is already on its way up — it recently hit 840,000 b/d, after averaging 757,000 b/d in 2008.

The bulk of the increase is coming from EOR schemes at the Mukhaizna and Marmul fields.

US Occidental's steam flood project in the Mukhaizna heavy oil field is expected to push production to over 100,000 b/d in 2010 from 88,000 b/d now, a top oil ministry official told *Oil Daily* Monday. Output at Mukhaizna averaged 10,000 b/d in 2006

and 50,000 b/d at the end of last year.

Dominant upstream player Petroleum Development Oman (PDO) is meanwhile undertaking a polymer flooding project at Mar-mul. The field will be commissioned this year and will add 10,000 b/d to Omani capacity when fully operational, the official said — although it may take up to six months to reach capacity.

Latin America

Venezuela Improves Terms

Venezuela has extended the timeline for production from Carabobo heavy oil projects so that participation in the Orinoco belt tender would be more attractive for companies interested in bidding, according to sources close to the process.

Conditions given by the Energy Ministry to investors set a timeline for finishing the initial stages of the Carabobo project and producing crude blends by 2012, the sources told Reuters.

The change in terms of the much-delayed Carabobo project, which is now due to be auctioned in January, is part of Venezuela's ongoing effort to attract interest in the project as the Opec nation faces reduced oil revenues due to the global recession and weaker prices of crude oil.

The new timeline allows companies producing from the Carabobo area two years of "early production" — that is, without using an upgrader to refine the Orinoco's tar-like heavy crude — compared with the one year allowed under previous terms.

The new terms also allow four years, as opposed to three previously, for the completion of a crude upgrader, they said.

"The previous timeline was too tight to meet the conditions set by the Energy Ministry," said a manager at one of the 19 companies thinking of bidding. He said the longer period allowed for initial oil output will increase the cash flow of the projects.

Pacific Rubiales Boosts Spending

Pacific Rubiales, a Toronto-based company with operating interests in 32 hydrocarbons blocks in Colombia and Peru, has announced a major expansion of its investment program.

In a conference call with analysts Monday, Chief Executive Ronald Pantin said the investment would allow Pacific Rubiales to more than double its net equity production by the end of next year.

Pantin predicted that net production would rise from an estimated 46,000 barrels of oil equivalent per day at the end of this year to 92,000 boe/d.

The company says it now plans \$853 million in capital spending next year. That figure is 86% higher than the previous forecast of \$459 million, which the firm disclosed in an investor presentation as recently as Oct. 6.

By comparison, for all of 2009, Pacific Rubiales budgeted just \$382 million for capital spending.

Pacific Rubiales says it will spend \$342.3 million next year to boost gross production at its Rubiales heavy oil block in Colombia's Llanos basin, to 170,000 b/d from about 85,000 b/d today.

Pacific Rubiales owns a 40% stake in the Rubiales block, while Ecopetrol, Colombia's state oil company, owns the rest.

The company also plans to spend \$190.8 million on exploration activities next year. Of those funds, \$96.1 million will go to drill 36 wells, of which 20 will be in Colombia's Quifa block.

Furthermore, the firm plans to spend \$65.5 million on infrastructure that would allow it to start oil production at Quifa. The company projects initial output to total 30,000 b/d.

Pacific Rubiales owns a 60% operating stake in Quifa, with Ecopetrol accounting for the remainder.

Oil & Gas Markets

Saudis Lift Light Oil Prices

Saudi Arabia is effectively increasing its prices for the lightest grades for December lifting, mostly in line with market expectations.

The US will see formula price increases for light and heavier grades. Asian refiners will see the premium versus Oman/Dubai increase for Arab Light, Arab Extra Light and Arab Super Light, while the discounts for Arab Medium and Arab Heavy will widen versus the benchmark.

Northwest Europe and the Mediterranean will see limited changes for lighter grades with deeper discounts for heavier oil.

Saudi Crude Price Differentials

December barrels on a f.o.b. basis

(\$/bbl)

	US WTI	Europe B-Wave	Asia Oman/Dubai
Extra Light			
December	-2.1	-1.05	1.25
November	-3.35	-1.1	0.4
Arab Light			
December	-3.75	-1.8	0.5
November	-4.6	-1.6	0.15
Arab Medium			
December	-5.2	-3	-0.55
November	-5.7	-2.65	-0.45
Arab Heavy			
December	-6.15	-3.45	-1.45
November	-6.2	-2.8	-1.05

Correction

Vitol Acquisition

An article in the Oct. 27 edition of *Oil Daily* incorrectly stated that Vitol's recent acquisition of Petroplus assets in Antwerp, Belgium, included a 110,000 b/d refinery (OD Oct.27,p5) We regret the error.