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Making Marcellus pay

The US state of Pennsylvania is reconfiguring its relationship with the Marcellus shale and how best to ensure that the local population benefits from its output.

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For analysis and commentary on these and other stories, plus the latest oil and gas developments, see inside...

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COMMENTARY

Slow progress on Alaska Pipeline Project

Efforts to transport North Slope gas to the Lower 48 states continue to be held back by political indecision but the Alaska Pipeline Project is slowly moving forward

By Jim Brumm

- **The US government faces challenges in making decisions on long-term investments**
- **Denali has become the latest of several pipeline projects to be abandoned**
- **TransCanada and ExxonMobil are pushing on with their Alaska Pipeline Projects**

Federal Energy Regulatory Commission (FERC) Commissioner John Norris addressed the Natural Gas Roundtable this week on “the biggest big-picture challenge we face as a country right now” – getting investment in energy infrastructure rolling and keep it rolling.

“One of our biggest problems right now is the inability of government to make long-range decisions that provide the certainty for long-range investments and our long-range economic growth,” said Norris.

The regulator could well have been addressing the forty-year-old effort to market the natural gas found on Alaska’s North Slope.

APP advances

To get past political indecision, the Alaska Pipeline Project (APP) is taking it a step at a time.

The TransCanada ExxonMobil venture, expected to cost between US\$32-41 billion, is focusing “on resolving items we have some control over,” spokesman Terry Cunha said. This includes “advancing on commercial issues between APP and shippers and completing the field, engineering and other technical work for our [filings with regulators] in October 2012,” said Cunha.

“If we do that, and the state [of Alaska] and producers resolve Point Thomson and gas taxation, then our customers can decide if they are ready to commit their gas to our project” when the time comes

to take construction decisions in 2014-15, according to Cunha.

This effort has allowed the project to go beyond traditional deadlines, such as TransCanada’s self-imposed attempt to have signed agreements with gas shippers by the end of 2010.

Last month, when BP and ConocoPhillips abandoned the Denali proposal to build a US\$35 billion natural gas pipeline from Alaska to the Lower 48 states, TransCanada vice president Tony Palmer said the company was working to complete deals with prospective customers, called precedent agreements.

“We have made good progress on resolving pipeline shipper issues with our customers and have [settled] most of the items,” said Palmer.

EIS expected

Meanwhile, the FERC has announced plans for meetings related to an Environmental Impact Statement (EIS) for the APP as early as next January.

The FERC wrote more than 200 letters to Native American tribal governments in Alaska, asking for their input on the pipeline project.

Persily was widely quoted as telling a panel in Houston in early May 2011 that an Alaskan gas pipeline had no role in today’s North American gas market

As an example of the correspondence, SNL Financial cited a letter sent to the president of the Tanacross Village Council, Roy Denny.

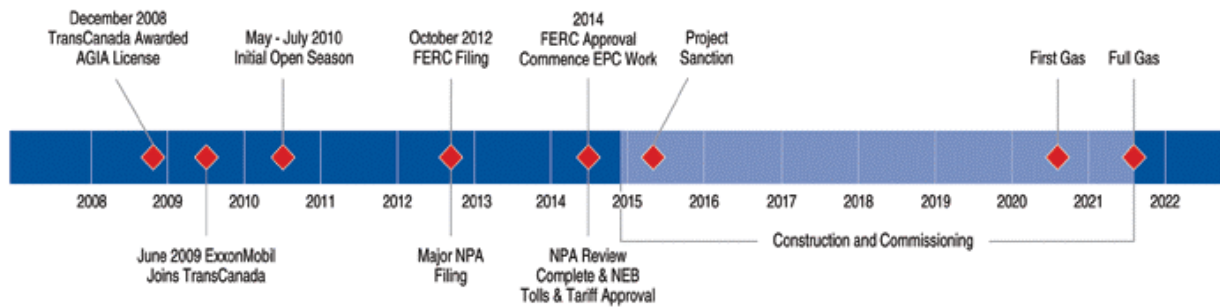
Noting that the Denali gas pipeline project has been withdrawn, the commission has informed Denny that it is the lead federal agency as the Alaska Pipeline Project begins the review process under the National Environmental Policy Act and National Historic Preservation Act.

“The FERC will pursue government-to-government consultation with all federally recognised tribal governments that could be directly affected by the APP,” the FERC deputy director of gas – environment and engineering – Michael Boyle, wrote in the letter to Denny, dated June 15. “Our initial identification of affected tribes is based on proximity to the project corridor.”

“It is our intention to co-ordinate the government-to-government consultation meetings with the public scoping meetings,” Boyle wrote. “Scoping meetings for EIS are tentatively planned to begin in January 2012.”

The regulatory effort parallels environmental, regulatory and land work, including extensive field studies, in both Alaska and Canada, that APP is conducting in order to file permit applications with the FERC and Canada’s Northern Pipeline Agency in October 2012, the project’s website said. ▶▶

COMMENTARY



Source: The Alaska Pipeline Project

Project withdrawals

While Commissioner Norris called for a once-in-a-generation kind of investment in massive energy projects, it has been a couple of generations since proposals first surfaced to market the massive gas reserves of Alaska's North Slope.

Denali's withdrawal has added BP and ConocoPhillips to a growing list of companies that once had plans to build a pipeline covering 1,750 miles (2,816 km) from Prudhoe Bay to connections with existing pipelines in Alberta.

The first certificate application was filed with the Federal Power Commission – the FERC's predecessor – by Arctic Gas Group in March 1974.

The next filing came from El Paso

Alaska, which had proposed to liquefy the gas for shipment to the Lower 48 states.

Asked in May 2011 about reviving this application, a spokesman said El Paso was now focusing on the Lower 48 states.

The US Environmental Protection Administration added to talk of another long delay in marketing North Slope gas when it removed the reserves from those expected to supply the US market over the next 25 years.

At the Energy Information Administration's (EIA) annual conference in April, officials said it was too late for the Alaska pipeline, explaining that proposed pipelines had stumbled in

securing firm shipping agreements.

Among the prominent nay-sayers in recent weeks was Larry Persily, head of the Office of the Federal Co-ordinator of Alaska Natural Gas Transportation Projects.

Persily was widely quoted as telling a panel in Houston in early May 2011 that an Alaskan gas pipeline had no role in today's North American gas market.

Not as widely reported was his view that the project still had the potential to gain a foothold in the next 10 years.

This is when the decisions will be made about the Alaska Pipeline Project, which will begin to deliver North Slope gas in the 2020s – if all goes to plan. ■

Pennsylvania to charge fees for shale gas wells

The US state of Pennsylvania is assessing its relationship with the Marcellus shale and how best to ensure that the local population benefits from its output

By Kevin Godier

- A plan to charge drillers a US\$40,000 fee for each gas well in the shale has gained traction in the state Senate
- The fee would be used to offset the impact drilling is having on local communities
- The US Environmental Protection Agency is watching developments in Pennsylvania closely

The US state of Pennsylvania is closing in on establishing a fee on shale gas drillers, after the state's Senate Environmental Resources and Energy Committee voted unanimously to move forward on a plan to charge drillers a US\$40,000 per gas well fee.

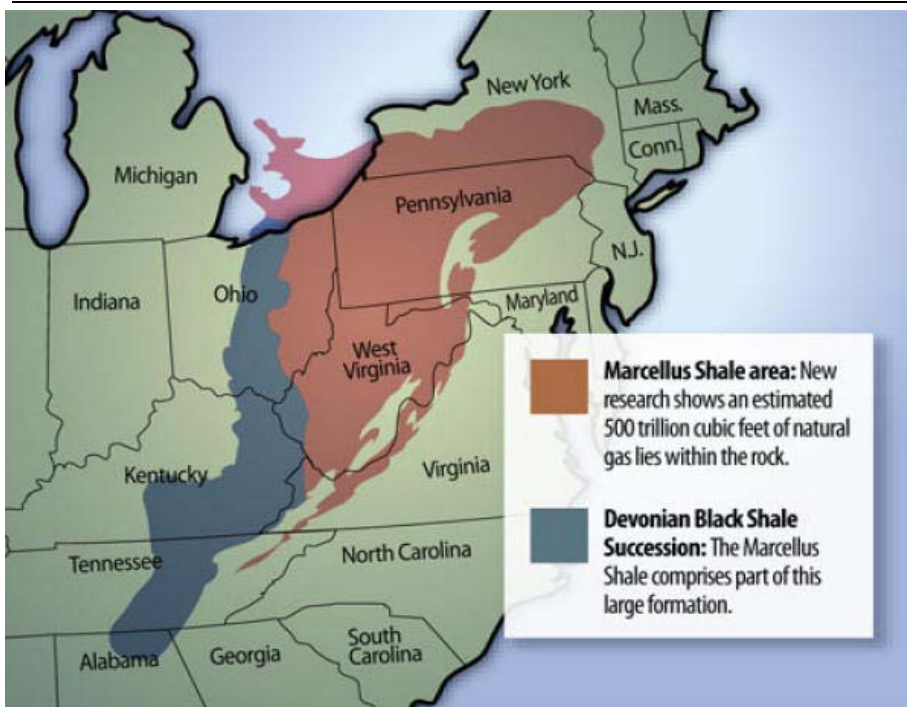
The measure comes around two

months after Chesapeake Energy Corporation was handed a record fine of over US\$1 million for its Marcellus shale drilling in Pennsylvania, which contaminated water wells with methane and triggered a fire at a drill site – and appears to be designed to transform what was initially intended as a severance tax

into a fee to mitigate drilling impacts.

"This is my best attempt to give some relief to those communities that are experiencing impacts," said state Senator Mary Jo White, who chairs the Senate environmental committee. ►►

COMMENTARY



opposed it owing to the environmental risks.

Pros and cons

The mindset revealed by the poll would seem to mirror wider views across the country, where US President Barack Obama has chosen natural gas as the cornerstone of his energy policy. Obama wants to slash US reliance on foreign oil and cut carbon emissions, leading to predictions by some analysts that shale gas could provide as much as 50% of the country's natural gas output within 20 years.

But the use of hydraulic fracturing to unlock the vast shale reserves under the ground has triggered huge worries over the environmental safety involved in extracting the fuel, especially its water and carbon footprints, turning up the environmental spotlight on North America's unconventional hydrocarbons industries.

In Texas, a pending fracking disclosure bill would require drillers to disclose their array of chemicals, while another would require them to use tracer fluid in the liquid they use for fracking, to prevent the industry facing false claims of groundwater pollution.

At a nationwide level, the EPA is conducting a two-year study on the safety of fracking and its impact on drinking water. Initial results of the peer-reviewed study are expected in late 2012.

The debate about the water contamination dangers posed by fracking intensified earlier this year, following problems at a Chesapeake natural gas well in Bradford County, Pennsylvania, which had reportedly allowed chemicals to seep into groundwater and contaminate 16 families' drinking water wells in northern Pennsylvania.

The state's Department of Environmental Protection (DEP) said in May that improper well casing and cementing was the cause of the accident. In April, the DEP ordered 15 water-treatment facilities in the state to comply with tighter regulations and to stop accepting wastewater from drilling operations. ■

The levy would be retroactively assessed against wells that were in production last year, and could raise a combined US\$180 million for 2010 and 2011, and US\$137 million in 2012. It marks the first tax or fee on natural gas drilling that has cleared a Pennsylvania Senate committee since 2009, when former Governor Ed Rendell urged creation of a severance tax (a tax imposed by a state on the extraction of natural resources that are to be used in other states).

Although Senate lawmakers supporting that measure said on June 14 that they had a list of revisions to work into the final version, Senate President Pro Tem Joe Scarnati, who introduced the impact fee bill, said after the committee vote that public pressure on lawmakers had generated a huge impetus to approve the bill with the state budget this month.

"The public has a perception that while we are cutting many line items in this budget, we are allowing an industry in this commonwealth to go without paying their fair share," said the Jefferson County Republican, quoted on June 15 by the Pittsburgh Post-Gazette.

EPA focus

Taking a keen interest in the forthcoming Pennsylvania legislation will be the US Environmental Protection Agency (EPA), which is looking closely at how the state is regulating the rush to explore the lucrative Marcellus shale formation, and is putting pressure on state regulators to toughen enforcement.

As the shale gas industry looks to expand drilling to new parts of the US, major moves into the Marcellus play have been made over the past year by oil and gas majors such as US-based Chevron and India's Reliance Industries Ltd (RIL).

In the state itself, public polling numbers released on June 14 by Quinnipiac University indicate that 69% of Pennsylvanians support a tax on drillers in the Marcellus shale to help balance the state budget. That support was highest in the drilling-free south-east, where 77% of respondents backed the levy, but was also strong in the south-west, with 72% in favour, and in Allegheny County (68%).

However, the good news for drillers was that, by more than 2 to 1, those surveyed said they welcomed drilling and its economic benefits, rather than

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Pennsylvania's new governor, Tom Corbett, has actually opposed a gas severance tax, stating that he would consider a drilling impact fee that did not go to the state's operating budget, but that he first wanted a recommendation from his Marcellus Shale Advisory Commission on the need for such a fee.

Pennsylvania's current version of the levy has lifted what was originally a US\$10,000 base fee, which would have fluctuated based on natural gas prices and production levels. Now drillers would be charged a per-well fee of US\$40,000, which would drop annually to US\$10,000 in years four to 10.

Illustrating the push to maximise local benefits, up to 30% of that fee would be credited if a drilling company donated to a local affordable-housing organisation. Most of the money collected would still be reserved for local governments, and could be spent on roads, bridges and

water and sewerage systems.

Marcellus potential

The focus on the Marcellus shale is unlikely to fade in the near future. The tract – which stretches from West Virginia and Ohio across Pennsylvania and into New York – has been estimated by some analysts to contain a possible 500 trillion cubic feet (14.16 trillion cubic metres) of natural gas, making it potentially the second largest gas field in the world.

Extending a total of 95,000 square miles (246,050 square km), its proximity to the high-demand markets along the US East Coast makes it an attractive target for energy development, but the environmental downside has included accusations of drinking water contamination by radium in Pittsburgh and elsewhere as a result of fracking.

When Chevron announced in May that

it was buying a large swathe in the Marcellus Shale in south-west Pennsylvania, roping into its portfolio an additional 5 tcf (141 bcm) of natural gas reserves, executives stressed that the company felt “comfortable” with its ability to meet any new regulations aimed at governing natural gas drilling and protecting drinking water supplies in the US.

Chevron, Chesapeake and other key shale gas players in the Marcellus such as Mitsui and Shell will inevitably face more opposition from environmental groups. In this respect, the fees set to be charged by the state for shale gas wells across Pennsylvania may mitigate at least some of the concerns that local communities will reap more problems than benefits, as the question of whether natural gas will become the dominant US energy source for at least the next few decades plays out in the years ahead. ■

PIPELINES & TRANSPORT

Energy Transfer and Southern Union in merger agreement

Energy Transfer Equity (ETE) has announced that it has entered into a definitive merger agreement with Southern Union Company (SUC), thereby creating a US\$40 billion natural gas midstream group.

Under the agreement, ETE will acquire SUC for US\$7.9 billion, which includes around US\$3.7 billion of SUC's existing debt.

“The acquisition of Southern Union will give ETE a larger, more competitive interstate and midstream platform and will add significant demand-driven pipeline assets to the energy transfer portfolio,” ETE's chairman, Kelcy Warren, said in a statement. “Furthermore,” said Warren, “the acquisition of Southern Union will significantly enhance and diversify

ETE's cash flow profile.”

According to ETE, the combined group will have more than 44,000 miles (70,796 km) of natural gas pipeline and production of around 30.7 billion cubic feet per day (869.3 million cubic metres) of natural gas transportation capacity, turning the group into one of the largest natural gas infrastructure players in the US.

“Under our management,” said SUC's chairman and CEO, George Lindemann, “we have grown Southern Union from a

“The acquisition of Southern Union will give ETE a larger, more competitive interstate and midstream platform”

value of approximately US\$125 million to approximately US\$8 billion. The combination with ETE is the right next step for the company's growth and delivers significant value for our shareholders. We have a shared vision for our companies. Our businesses and networks are highly complementary and together will provide a broader range of services and product offerings to existing and future customers.”

ETE said the merger would be beneficial to its cash flow and would also create organic growth opportunities in strategic geographic locations across the US. There are also potential affiliate joint ventures with the added possibility of multiple asset dropdown opportunities within the group. ■

INVESTMENT

Penn West to develop light oil plays in Western Canada

Calgary-based Penn West Exploration will invest nearly C\$1 billion (US\$1.03 billion) in 2011 in developing four light oil plays in Western Canada, following successful appraisal of the geology.

“We have gone through the learning curve and [have] drilled horizontal wells with multi-stage fracture stimulations,” company CEO, Murray Nunns, said at the Canadian Association of Petroleum Producers annual oil and gas conference. “We are now getting into the development mode and plan to invest 90% of our total 2011 [capital expenditure] of C\$1.2 billion [US\$1.23 billion] on developing assets in the Cardium formation in central Alberta, the Spearfish formation in Manitoba, carbonate formations in north-central Alberta and the Viking formation of the

Colorado Group in south-central Saskatchewan.”

The largest investment will be C\$300-325 million (US\$308-333 million) at the Cardium play, with nearly 100 wells to be drilled at West Pembina, Willesden Green, East Pembina and Alder Flats.

“We drilled 30-35 Cardium wells in the first quarter and the results are in line with our expectations. We will be driving ahead on this play continuously,” said Nunns.

In the Spearfish play, Penn West has allocated a budget of C\$140-175 million (US\$144-179 million) and intends to drill 80-110 wells.

“We have driven this play into the development mode and production has increased to 7,500 barrels per day [bpd] from 500 bpd in the past 12 months. We

are putting in site infrastructure in September and that will give us a capacity of 15,000 [boepd],” Nunns said.

In the carbonate formation in north-central Alberta, 30-40 wells are planned to be drilled in 2011, while in south-central Saskatchewan, 75-90 wells are planned for drilling in the Dodsland, Kerrobert and Altario areas in the Viking formation.

“Western Canadian light oil plays have been under-developed for the past 40 years and the basin is now undergoing a renaissance. We are positioning ourselves to be a major producer in North America in the 100,000-500,000 bpd range,” Nunns said.

Currently, Penn West’s output is 86,000 bpd of light oil and liquids. ■

Linc buys stake in Umiat field

Australia-based Linc Energy has bought a controlling stake in the 19,358-acre (78.3-square km) Umiat oil field in Alaska for US\$50 million. The field is located in the National Petroleum Reserve – Alaska (NPR) about 80 miles (128.7 km) west of the Trans-Alaska Pipeline System (TAPS). The purchase is of an 84.5% interest in Renaissance Umiat, which owns a 100% working interest and 80% net revenue interest in the Umiat project.

The 80% net revenue interest in the leases includes net probable and possible reserves of 201 million barrels of oil equivalent, with the current estimated original oil in place (OIP) within the acquired Umiat lease area of one billion barrels. Ten days earlier, Linc had announced the purchase of 14 oilfields in Louisiana and Texas for US\$236 million.

Peak production at Umiat will exceed 50,000 barrels of oil per day following

field development and the construction of a pipeline connecting into TAPS, according to Linc estimates. The company intends to build a US\$207 million pipeline linking to TAPS, which will take four to five months. The pipeline will be the first significant all-season oil transport infrastructure into the southern part of the NPR, opening up the area for further significant development. The Alaskan state government is proposing to build a 92-mile (148.1-km) all-weather road from TAPS to Umiat.

Subject to approval, Linc aims to fly a drill rig into the Umiat airstrip as soon as practically possible to commence further drilling in the area. Linc also plans to start shooting additional 2-D and 3-D wireless seismic upon the Umiat leases as soon as practicable, before the Alaskan winter.

The project development activities will

qualify for Alaska’s investment incentives, which have the potential to reduce Linc’s early drilling and construction costs significantly, said the company. “These incentives provide a natural opportunity to create a win-win situation for the State of Alaska, local communities and companies like Linc Energy, who are keen to invest in new resource projects in the region,” Linc CEO, Peter Bond, said.

“Using Umiat as a northern base of operations, we intend to increase our oil, natural gas and coal exploration and development activities across the North Slope Foothills,” he added. “I believe that this project should contribute significantly towards Linc Energy reaching its 100,000 barrel per day production goal over the coming years,” he said. ■

PERFORMANCE

Energy XXI racks up Gulf progress

Energy XXI has taken operatorship of blocks acquired under its deal with ExxonMobil at the end of 2010 and has celebrated strong results from a well offshore Louisiana. Work is also continuing on shallow-water ultra-deep wells in the Gulf of Mexico.

The UK-listed company's average production for the quarter has been 42,500 barrels of oil equivalent per day, with current output of more than 46,500 boepd. This should increase in the near future, it said, with the Ashton and Onyx wells, in the Main Pass 73 field, expected to contribute around 1,500 boepd within the next 30 days.

The A-15 well, drilled in South Pass 89, is flowing at 18 million cubic feet (510,000 cubic metres) per day of gas and 300 barrels per day of condensate. The well is the first of a six-well recompletion programme.

Energy XXI said production from this well, at 2,500 boepd, had surpassed expectations. The company had predicted the well would flow at 800 boepd and that its actual production had reached predictions for the entire six-well programme.

The J 21 well, drilled in the Grand Isle 16 field, has also been tested at around 1,200 boepd, most of which is oil. The well has been shut in while a platform rig is moved to the site to carry out completion.

Energy XXI struck a US\$1 billion deal with ExxonMobil in November 2010, under which it gained control of 66 million barrels of proven and probable reserves, with production of 20,000 barrels of oil equivalent per day. The recent update from the UK-listed company said it had been granted operational control of West Delta 30 and

West Delta 73.

"Gaining control of these fields allows us to move forward with our production optimisation and capital programmes," Energy XXI's chairman and CEO, John Schiller, said. "We expect to have the last field, South Timbalier 54, under our control by the end of the month."

A production test of the Davy Jones offset well is to be carried out in the second quarter. The well is in 20 feet (6.1 metres) of water and has been drilled and cased to a depth of 30,450 feet (9,281 metres).

Another ultra-deep well, Blackbeard East, has been drilled to a depth of 32,559 feet (9,923 metres) but has encountered mechanical difficulties. However, work is encouraging, Energy XXI said, and the well may be deepened to a depth of 34,000 feet (10,363 metres). ■

POLICY

BOEMRE approves Gulf of Mexico drilling plans

The US Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) approved 23 Gulf of Mexico drilling plans in the week of June 13-17. Eight of these plans – comprising the largest single chunk of



approvals – were entirely new exploration plans. Of these new plans, six were approved for Nexen Petroleum and two for Castex Offshore.

The agency also approved five revised development plans – two for Apache, and one each for Mariner Energy Resources, PetroQuest Energy and Dynamic Offshore Resources. Furthermore, BOEMRE passed five revised initial exploration plans – three for Chevron and one each for Apache and Next Petroleum. BOEMRE also approved four supplementary development plans – two for Arena Offshore, one each for Noble Energy and Pisces Energy, as well as one

supplementary exploration plan for Nexen.

The raft of approvals comes as politicians have been publicly pressuring the agency to act more quickly on approvals and as companies which have already had drilling plans granted have been reporting good results. BOEMRE authorised its first new drilling plan, in depths of over 500 metres, only at the start of April. Previously, a moratorium on drilling imposed in response to the Macondo blowout in April 2010 – which resulted in the largest ever offshore US oil spill – ran from May 30 to November 30 last year. ►►

POLICY

The agency is clearing a backlog of applications for drilling permits which has existed for several months. Many of the plans that were approved in the week of June 13-17 have been under discussion between agency and driller for

months. Nexen's plan to explore in Green Canyon Block 460 had originally been sent to BOEMRE at the end of April 2010. Modifications had been made to the plan almost every month since, sometimes several times per

month. Similarly, Castex's plan for Ship Shoal block 21 was submitted in November 2010. Located in just 90 feet (27.4 metres) of water, and within Louisiana's state waters, it should have been quick and easy to approve. ■

US speeds up NPRA lease sales

The US government is accelerating lease sales of oil and gas drilling leases in National Petroleum Reserve in Alaska (NPRA) west of Prudhoe Bay. The first will be held by the end of 2011, Interior Secretary Ken Salazar announced.

Salazar said that the Department of Interior (DOI) hoped to hold annual leases after that. The US Geological Survey estimates the reserve and adjacent state waters contain 896 million barrels of conventional, undiscovered oil and 53 trillion cubic feet of conventional, undiscovered non-associated gas.

In another move to increase domestic oil production, Salazar announced additional details of the plan by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) for a one-year extension on oil and gas leases in the Gulf of Mexico affected by

last year's suspension of deepwater drilling because of the massive Deepwater Horizon oil spill.

"As part of President Obama's comprehensive energy strategy, [the Department of] Interior is moving ahead with these concrete steps to continue to expand responsible and safe domestic oil production," said Salazar.

The government has previously conducted six lease tract sales in both the Northwest and Northeast Planning Areas of the NPRA, each about two years apart. Lease tracts were offered in the Northeast in 1999, 2002 and 2010, and in the Northwest in 2004 and 2006. In 2008, lease tracts were offered in both the Northeast and Northwest planning areas. The Bureau of Land Management, part of the DOI, currently administers about 191 federal oil and gas leases in the federally-

owned reserve.

In the Gulf of Mexico, in order to qualify for the extension leaseholders must demonstrate that there was no oil or gas production on the lease as of May 15, 2011. Additionally, they must show that the lease is in water of depths greater than 500 feet; and that the lease is scheduled to expire on or before December 31, 2015.

The extensions will provide lessees and operators additional time for exploration and development while fully complying with important new safety, environmental, spill response and containment requirements, said the DOI. According to a government official, some 1,535 leases should qualify for the extra time, reported the Houston Chronicle. ■

PROJECTS & COMPANIES

Progress enter LNG partnership with Petronas

A strategic partnership signed on June 2 between Progress Energy Resources and Petronas will lead to the construction of a 7.4 million tonne per year liquefied natural gas (LNG) plant, an export terminal and pipeline access to the facility in British Columbia, according to a top Progress Energy official.

"We will build two liquefaction trains, each [with a capacity of] 3.7 million tonnes per year," Progress CEO, Michael Culbert, said at the recently concluded

annual conference of the Canadian Association of Petroleum Producers. "We will start with a single train first, to be built over the next four to five years, and then move to the next liquefaction



unit. The project will require a total gas feedstock of 28 million [cubic metres per day]," he added.

"A feasibility study will be launched in September 2011, which will take 18-24 months to complete. It will include early engineering works, site selection and the regulatory process. The study will help us in developing the economic model of the [proposed] facility, including [internal rate of returns]," Culbert said. ▶▶

PROJECTS & COMPANIES

The facility, which will be 80% owned by Petronas, with the remaining 20% shares held by Progress, is part of a C\$1.07 billion (US\$1.1 billion) strategic partnership between both parties. Under the deal, Petronas will acquire 50% interest in three shale gas assets – Altares, Lily and Kahta – in Montney basin in British Columbia and will also spearhead the development of the grassroots LNG facility.

“The deal is due for closure by September and Petronas, with their global LNG experience, will play a hands-on role in overseeing the feasibility study,” said Culbert.

The Progress/Petronas plant will be the third LNG export facility planned to be built in Western Canada.

A hearing is under way at the National Energy Board, Canada’s federal regulator, on the application for a 5

million tonne per year plant – with an option to double capacity at a later stage – to be owned and operated by Kitimat LNG. Meanwhile, Houston-based BC LNG Co-operative is planning a 900,000 tonne per year facility to be operated by Douglas Channel Energy Partnership (DCEP).

DCEP is indirectly owned by LNG Partners of Houston and Hasila Nation DC LNG of British Columbia. ■

CNRL could put Alberta oil sands project on hold

Canadian Natural Resources Ltd (CNRL) will put its Alberta oil sands expansion project on hold if inflation gets out of hand, according to company president and CEO Steve Laut.

CNRL’s Horizon mine is slated to increase its output to 250,000 bpd, more than double its current levels. But Laut said the firm was prepared to scale back expansion efforts if inflation jumped to 2008 levels.

“We know there’s going to be a lot of pressure here in 2013 and 2014 with all the projects that have been announced,” Laut said during a recent Canadian Association of Petroleum Producers conference in Calgary. “That could put capital-cost pressure on us. We may stop – take a break – if that happens,” he said.

Laut’s comments come as oil prices in the US\$100 range have put oil sands projects back on track following the economic slowdown of late 2008 and 2009. Many new and expansion projects began to ramp up in 2010 as producers made long-term construction plans based on the strong average oil price.

Meanwhile, service companies are grappling with an impending labour shortage, which some say is already here. Drilling firms have encouraged the Petroleum Services Association of Canada and Canadian Association of Oilwell Drilling Contractors to organise a recruiting mission to Mexico.

Laut insisted that Horizon would continue to advance, pending any cost concerns.

“We remain on track for aggressive expansion at Horizon, and are committed to expand Horizon, but only if capital costs are reasonable and cost certainty can be obtained,” he said during the conference.

Assuming that all goes according to plan, Horizon construction will ramp up following preparatory work which is already under way. CNRL has revised its strategy and has said that the staged developments can be broken down into 46 individual projects, if necessary.

The employee total has been reduced to 5,500 per year, down from 10,000 in the first phase, which is currently in operation, and capital expenditures have been capped at C\$2-2.5 billion (US\$2.1-2.6 billion) per year.

Horizon is part of CNRL’s plan to boost all of its liquid petroleum production 65% by 2020. In 2011, the company expects production to grow 5% over 2010 levels, while capital allocations range from C\$2.4-2.8 billion (US\$2.5-2.9 billion).

Horizon, which now has a capacity of 110,000 bpd, has been shut down since early January, when a fire damaged its four coker drums. Northern Alberta forest fires have delayed the repair by three to four weeks, but plans call for the

upgrader to resume operations in August, said Laut.

“Although temporary, the impact has been significant,” said Laut. “We have taken the time to upgrade our operations capability and our operations discipline significantly.”

Meanwhile, another oil sands giant, Cenovus Energy, warned during the same conference that the scrapping of the proposed Keystone XL pipeline into the US could thwart its expansion plans.

Cenovus intends to increase its oil production to 500,000 bpd by 2020, compared with 137,000 bpd in the first quarter of 2011. Plans call for the proposed US\$7 billion pipeline to ship up to 700,000 bpd of diluted bitumen from Alberta to Texas refineries located on the Gulf Coast.

The proposal has come under considerable criticism from environmentalists and residents of the region.

“Overall, for industry, I think (Keystone XL) is important and if it doesn’t go [ahead], then obviously [for] economics we put together for these growth plans there will be wider differentials [and] we will have to work harder on an integrated solution,” Cenovus’ chief operating officer, John Brannan, said. ►►

PROJECTS & COMPANIES

Currently, Cenovus transports its bitumen via the existing Keystone pipeline to an Illinois-based refinery which it owns together with ConocoPhillips, but it does not have

sufficient capacity to handle planned expansions.

However, Brannan said a surplus of bitumen on the market could lead to the construction of more refineries in

Alberta. Producers often lament the scarcity of refineries in Western Canada, which results in higher shipping costs. ■

Weatherford reaches US\$75 million settlement with BP

Oilfield services company Weatherford US has consented to pay BP US\$75 million to settle claims related to last year's Deepwater Horizon spill in the Gulf of Mexico. Under the settlement, each company has agreed to mutual releases of all further claims against each other, while BP has also stated it will indemnify Weatherford for compensatory claims linked to the accident, including claims relating to pollution damage.

"This settlement allows BP and Weatherford to put our legal issues behind us and move forward together in strengthening processes and procedures, safety and best practices in offshore drilling," BP America's chairman and president, Lamar McKay, said. BP will immediately apply the payment to the US\$20 billion trust that it has

established, under an agreement with the US government, to meet individual, business and government claims, as well as the cost of the natural resource damages.

The agreement does not imply an admission of liability by either party regarding the accident, BP said. Weatherford manufactured the float collar used in the doomed Macondo well.

"At some point, we had always assumed that there would be some form of settlement between the service companies and BP – this appears to be the first resolution on this front," wrote Bill Herbert, an analyst with Simmons & Co, in a note. The settlement appears to be "a favourable development for [Weatherford]," he added, as reported in Fuelfix. "Macondo, and the attendant

legal distractions, are now in the rear-view mirror (and without any negative balance sheet impact)."

Weatherford is the second company within a month to settle with BP. In May, MOEX settled with BP for US\$1.07 billion. Part of Japanese conglomerate Mitsui, it had a 10% stake in the Macondo well.

In its announcement of the settlement, BP said it "is working to ensure that the other parties involved in the Macondo well – notably Transocean, which owned and operated the rig, Halliburton, which designed and pumped the unstable cement that the presidential commission found was a key cause of the accident, and Anadarko, which owned 25 % of the project – contribute appropriately." ▶▶

Cenovus plans new 180,000 bpd oil sands project

Calgary-based Cenovus Energy has filed a regulatory application with Alberta Environment to move ahead with a new 180,000 barrel per day oil sands project.

The Pelican Lake Grand Rapids facility will be located about 300 km north of the provincial capital Edmonton and is to utilise steam-assisted gravity drainage (SAGD) technology to recover oil from the Upper Grand Rapids formation.

"Once SAGD operation is set up, our plans are to incorporate [the] co-injection of light hydrocarbons, called solvent-

aided process, where feasible economically," the notification said. "The co-injecting process, along with SAGD, will reduce greenhouse gas emissions and water usage per barrel while increasing production and recovery rates."

The project is to be built in phases and to entail the construction of fuel gas pipelines, oil transportation facilities and diluents/condensate supply pipelines.

Meanwhile, Cenovus' COO, John Brannan, told UOGM that his company would partially open its data room this

summer in a bid to kick-start the process of seeking partners to develop future oil sands properties in northern Alberta.

"We will open up by August or September with a teaser, which will be a three-to-four page document outlining our overall objectives, development strategy, production plans and the required capital expenditure," he said on the sidelines on the recent Canadian Association of Petroleum Producers oil and gas conference in Calgary. ▶▶

PROJECTS & COMPANIES

Cenovus, which has a 100% working interest in bitumen properties north of Fort McMurray, has been looking for oil companies to partner on the development of these assets post-2015.

On June 6, Cenovus' CEO, Brian Ferguson, told a conference call of analysts that his company had received several unsolicited approaches from

firms that were interested in advancing Cenovus' holdings not included in its short-term development plans. A deal involving a partnership, farm-out, swap or divestiture is expected by end 2011, he said.

"By the third quarter, we will open up the data room fully and make available all information that potential bidders

would seek. At present, we are preparing for that process," Brannan said. He added: "We have been receiving healthy interest and enquiries are pouring in, particularly from Asia. A few years ago, we were in talks with [India's] Reliance Industries but a deal could not be reached." ■

JGC drills into Eagle Ford

A unit of Japan's JGC Corporation has bought a 10% stake in part of Texas' prized Eagle Ford shale for US\$65 million. JGC Energy Development signed a sale and purchase agreement with TriTech I on June 14, the Japanese company's parent said on June 20.

JGC said the stake was in the oil window of the Eagle Ford. The shale has come to prominence in recent times, as low gas prices and high oil prices in the US are making the pursuit of liquids increasingly lucrative.

The Japanese company said the stake was expected to be transferred by the end of July. Chesapeake Resources has a

50% stake in the 63,000-acre (254.95-square km) area and is the operator. Another US company holds the remaining 40%, JGC said, without specifying. According to previous reports, Stonegate Production holds the 40% stake and it was said to be offering this for sale also, in September 2010.

The Japanese company began working in the US in 2007, although it moved into the upstream in 2003 with a Mexican venture, alongside what was then Teikoku Oil. JGC said the expansion into new areas was part of its medium-term management plan.

The acquisition of a stake in the Eagle

Ford, it said, will allow it to "accumulate knowledge and experience to further its advancement into resource development fields." London-listed European Islamic Investment Bank (EIIB), the majority owner of TriTech, gave the estimated transaction cost, which it said was around US\$10,300 per acre (US\$2.58 million per square km). This amount will be settled in cash on completion of the deal, EIIB explained. EIIB is a Sharia'a-compliant equity investor and holds a 78% stake in TriTech. The private equity company's CEO, Subhi Benkhadra, said EIIB's investment in TriTech had been "extremely profitable." ■

Aker the loser in Blind Faith arbitration

An arbitration ruling has been reached regarding contractor Aker Solutions' Blind Faith platform in the Gulf of Mexico – and the outcome is expected to have a significantly negative impact on its bottom line.

The Norwegian company said the decision from the proceedings between it and operator Chevron would result in a US\$39.8 million (220 million krone) recordable loss for Aker's second quarter. The negative net cash effect is estimated to be US\$10 million.

The brunt of the financial impact will be taken by the soon-to-be-demerged Kvaerner, which will cover 75% of the costs, while Aker will shoulder the

remaining 25%.

The Blind Faith platform was installed in the Gulf of Mexico and started production in 2008. Aker had initiated the arbitration proceedings because of issues with compensation for changes to the work and associated acceleration work on the platform. The hearings took place in January and February 2011.

Chevron US had also previously filed numerous claims, including warranty claims, against the contractor. Blind Faith is one of the world's deepest producing platforms, operating at a water depth of 6,496 feet (1,980 metres) in Mississippi Canyon Block 650 in the Gulf of Mexico, about 160 miles

southeast of New Orleans. Chevron had operated the well with partner Anadarko.

According to Aker, it was the first use of its deep draft semi-submersible (DDS) concept, conceived specifically for the application of steel catenary risers in the Gulf's ultra-deepwater and current-heavy environment.

The company confirmed on its website that the Blind Faith platform, which is moored with eight polyester lines, was producing 45,000-60,000 barrels per day of oil and 45-150 million cubic feet (1.3-4.2 million cubic metres) per day of gas. ■

NEWS IN BRIEF

OIL

TransCanada finds, repairs causes of Keystone leaks

TransCanada executives said they have found and fixed the cause of a series of small oil spills in the company's Keystone pipeline system, which ships Canadian oil to the US. Premature wear of pumping-station valve fittings and gaskets caused by equipment vibration was the culprit behind several of 14 spills during Keystone's first year of operations, head of TransCanada's US pipeline operations, Vern Meier, said. The issue was fixed by replacing the parts with stronger materials and bracing equipment to reduce vibrations. The spills, including a 500-barrel spill in May at a pump station in North Dakota, have come at a sensitive time for the Canadian pipeline company, which is currently awaiting a US State Department decision on whether to approve an expansion of the Keystone pipeline. The expansion would nearly double the line's capacity and would extend its length from Cushing, Oklahoma, to the Gulf Coast. The US Environmental Protection Agency said in a letter to the State Department it is still unsatisfied with the company's system to protect against spills, especially in environmentally sensitive areas like the Ogallala aquifer that stretches across Nebraska and under the proposed expansion's path. A State Department decision is expected on the Keystone pipeline by the end of year.

DOW JONES NEWSWIRE, June 16, 2011

Canadian railways eyes Bakken riches for shipments

Canadian Pacific Railway CEO Fred Green said it is time for railways to get a piece of the oil pie. North American railways have traditionally taken a back seat to pipelines when it comes to shipping crude oil, but Green and other

rail executives said the prolific Bakken deposit offers a chance to change this dynamic. The Bakken field, which is estimated to hold as much as 4.3 billion barrels of oil, has emerged recently as one of North America's hottest energy plays, mostly under Saskatchewan in Canada, and North Dakota and Montana in the US. CP Rail and CN Rail have tracks in the region. CP's shipments of oil from North Dakota on its Soo Line main line from Canada to Chicago jumped in the past year to about 8,000 cars per year, up from 500, and it sees that growing to between 30,000 and 35,000 cars per year. Green believes that growth can spread north as the Canadian portion of the Bakken field is developed. Although more expensive than using pipelines, shipping by rail is more flexible, allowing producers to route shipments to refineries that are paying more for crude.

REUTERS, June 17, 2011

Green groups lobby for independent oil sands panel in Alberta

A collection of environmental groups from the US and Europe is calling on the Alberta government to form an independent panel of experts to assess concerns with a new provincial land-use plan for the oil sands region. The 16 groups, including the National Wildlife Federation and the Rainforest Action Network, bought advertising in local media spelling out misgivings with the Lower Athabasca Regional Plan. The letter said an independent panel is needed to "conduct an assessment of the LARP and recommend improvements to ensure the air quality, water quality and quantity, biodiversity and ecosystem health are not compromised." The groups said the plan fails to halt water withdrawals during times of low flow on the Athabasca River, set limits on water pollution, secure caribou habitat, and protect aboriginal land use and treaty rights. They have asked the province to halt further oil sands development until

the proposed panel completes its work. Duncan MacDonnell, a spokesman for Alberta Sustainable Resource Development, said the regional plan is currently only a first draft. The province has been soliciting public input for several weeks and will now use those contributions to make revisions, he said. A more finalised plan is expected to be ready later this year, although that will be a decision of cabinet.

POSTMEDIA, June 18, 2011

Oil production restarts for Caspian Energy's Kazakhstan wells

Caspian Energy announced oil production was reinstated June 15 at the East Zhagabulak field in Kazakhstan. Production at East Zhagabulak has been shut in since January 1, 2011 due to a combination of regulatory and technical issues. The pump at EZ 213 had failed and EZ 301 was shut in due to new gas flaring limits. Upon receipt of the flaring permit and, more recently, the permit for emissions, APC was able to re-commence production from the field. CEO William Ramsay said total production from the two producing wells in the East Zhagabulak field could exceed 800 barrels per day by July. The oil produced continues to be trucked to CaspianNeft TME's nearby facility for processing. Calgary-based Caspian currently owns 50% of Aral Petroleum, the operating entity in Kazakhstan. Aral holds a 25-year production contract for East Zhagabulak and an exploration contract for the wider North Block property, an area of some 1,549 square km that includes East Zhagabulak, portions of the Sakramabas trend and several other prospective sites. Asia Sixth Energy of China has purchased 50% of Aral from Caspian's original partner, Azden Management, with plans to acquire 10% of Aral from Caspian. Ownership will then be 60% Asia Sixth and 40% Caspian.

CASPIAN ENERGY, June 21, 2011

NEWS IN BRIEF

Delta Petroleum to sell non-core assets

Delta Petroleum has entered into a purchase and sale agreement with Wapiti Oil & Gas to sell its remaining non-operated interests in various non-core assets for US\$43.2 million. The transaction is expected to close by the end of June. The non-operated, non-core assets to be sold to Wapiti consist of Delta's remaining working interests in the fields of the DJ Basin and Texas. The working interests being sold in this transaction constitute the non-operated portions of these fields that were retained by Delta when Delta sold properties to Wapiti in August 2010. Carl Lakey, Delta CEO, said: "The expected proceeds from the sale of these non-core assets will allow us to fund current and future drilling activity in the Vega Area and reduce our senior secured debt balances. Our borrowing base with Macquarie will decrease by US\$22-33 million as a result of the sale. The sale of the remaining non-core assets makes Delta essentially a pure Piceance Basin company." Macquarie Capital and Evercore Group acted as financial advisors.

DELTA PETROLEUM, June 17, 2011

Anglo Canadian pooling/farm-in agreement

Anglo Canadian Oil has secured a pooling/farm-in agreement with Quatro Resources. Under the terms of the pooling of lands agreement, Anglo will contribute five sections of prospective Nordegg bearing lands while Quatro will contribute seven sections of prospective Montney and Nordegg bearing lands. Quatro will maintain, under the terms of the pooling, a 70% working interest in the pooled lands while Anglo will retain the remaining 30%. All Quatro and Anglo lands are adjacent and are in the Ante Creek North area of west-central

Alberta. In addition to providing a cost effective summer access, the agreement provides Anglo with a second target, the Montney, at little to no extra drilling cost. Anglo is committed to drilling one Montney/Nordegg on the original Quatro acreage, thereby earning a 75% WI in four sections of the pooled lands. Two option wells are contemplated within the agreement. The first option well drilled by Anglo will earn Anglo a 75% WI in three additional sections of the pooled lands while the second option well will earn Anglo a 75% WI in the remainder of the pooled lands. The commitment well is expected to spud in August, pending regulatory approvals, weather and equipment availability.

ANGLO, June 17, 2011

Aroway Energy spuds new well

Aroway Energy announced that drilling operations have started on the Company's third well of its 2011 exploration programme. The well will be drilled to a depth of 1,225 meters targeting oil in the base of the Debolt formation. The multi-prospective well will penetrate four additional stacked zones before reaching the target formation. The company is paying 50% of all costs associated with this well to earn a 50% interest in the well. Company president Chris Cooper said: "This is the third of a possible six to eight wells we have planned for our 2011 drill programme. We are optimistic this will be a successful oil well based upon the multi-prospectivity of this well with the four stacked zones in addition to the target formation."

AROWAY ENERGY, June 14, 2011

Encore, Vanguard buy Permian Basin reserves

Encore Energy Partners and its general partner Vanguard Natural Resources will

buy a 50% stake each in oil and gas assets in the Permian Basin in Texas for a total of US\$85 million from a private seller. The combined assets have estimated proved reserves of 5.48 million barrels of oil equivalent, of which about 70% are oil and natural gas liquids. At closing of the deal, expected by August 1, net production from the acquired assets is expected to be about 500 barrels per day of oil each. Vanguard owns a 46% stake in Encore Energy Partners. In March, Vanguard offered to buy the rest of Encore Energy Partners it does not already own for about US\$567 million.

REUTERS, June 22, 2011

Laredo snaps up Broad Oak

Tulsa-based Laredo Petroleum will acquire Dallas' Broad Oak Energy in a deal worth about US\$1 billion. The deal among the private exploration and production firms involves issuing new shares for Laredo for Broad Oak shareholders and paying off debt from a Broad Oak credit facility. "This transaction is a significant event for Laredo, as it meaningfully increases our scale while also deleveraging our balance sheet and adding incremental liquidity," said Randy Foutch, founder and CEO of Laredo.

FUELFIX, June 16, 2011

Senators demand limits on oil speculation

Senator Bernie Sanders introduced legislation today that would require the Commodity Futures Trading Commission to impose strict regulations on oil speculators, who some blame for rising petrol prices. Sanders said if the agency failed to meet the two-week deadline outlined in his legislation, he would call for the resignation of commission chair Gary Gensler. ►►

NEWS IN BRIEF

The legislation, if passed, would cap the amount of oil that speculators are allowed to buy and sell annually to 20 million barrels, increase the amount of money investors would have to back bets with from 6 to 12% and redefine investment banks as speculators rather than hedgers – investors who use the product they are buying for business.

FUELFIX, June 15, 2011

Anadarko settles royalty under-payment charges

Anadarko Petroleum and Kerr-McGee will pay more than US\$17 million to resolve claims it knowingly underpaid royalties on natural gas produced from federal land and Indian reservations, according to a release from the Department of Justice. Companies are required to report oil and natural gas production from federal lands to the US Department of the Interior on a monthly basis.

In 1996 the Department of Justice claimed that Anadarko and Kerr-McGee – which was acquired by Anadarko in 2006 – improperly deducted from royalty values the cost of boosting gas up to pipeline pressures and improperly reported processed gas as unprocessed gas to reduce royalty payments, as well as a series of outstanding administrative claims.

FUELFIX, June 20, 2011

FTC opens probe into oil, petrol markets

The Federal Trade Commission is investigating whether oil producers and refiners are doing anything to hamper competition in the production and refining of crude or petroleum products. In a letter on Monday to Senator Jay Rockefeller, a West Virginia Democrat, FTC Chairman Jon Leibowitz said his agency recognises the “tremendous strain” on consumers from recent increases in crude and petroleum product prices. “We remain committed to preventing and prosecuting any anticompetitive,

fraudulent, or otherwise illegal activity which we identify” through the investigation, Leibowitz wrote. He also said his agency would investigate whether producers or refiners have given false information to the federal government about the price of crude or petroleum products.

MARKETWATCH, June 20, 2011

House to push Alaskan offshore drilling

House Republicans will continue their push to knock down what they call undue government barriers to domestic oil-and-gas production. They’re planning a floor vote this week on legislation aimed at helping Shell Oil and other companies win federal permission to drill in Arctic waters off Alaska’s coast.

The GOP-led bill, which won five Democratic votes in the Energy and Commerce Committee, would set new deadlines for Environmental Protection Agency (EPA) action on offshore air permit applications, limit challenges and ease air pollution standards for offshore projects.

THE HILL, June 20, 2011

SEC scrutinises Conoco, Occidental

ConocoPhillips and Occidental Petroleum said they have received inquiries from the Securities and Exchange Commission related to their operations in Libya. ConocoPhillips spokesman John McLemore said the Houston oil company has received a request for information from the SEC and is co-operating fully. Occidental spokesman Richard Kline said in an email the company was “among the companies which received an information request regarding Libya from the SEC.” The SEC declined to comment. A source close to the inquiries said the SEC is asking oil companies for any type of communications they held with the government of Colonel Muammar Ghaddafi since 2008. “It’s a very broad inquiry for communications

with the Libyan government,” the source said.

WALL STREET JOURNAL, June 21, 2011

Exxon, Anadarko consider joint development of Gulf oil finds

ExxonMobil and Anadarko Petroleum said they are considering plans to develop two separate discoveries in the deep-water US Gulf of Mexico as a single unit. ExxonMobil, the world’s largest publicly traded oil company, last week unveiled three oil and gas discoveries, including the oil-rich Hadrian North prospect, located a few miles from Anadarko’s Lucius discovery, which the independent company announced in 2009.

Located some 250 miles southwest of New Orleans, Lucius and Hadrian North are so close that some analysts think they share the same giant oil reservoir. But the discoveries are in two different US government leases, which currently have different owners and operators. But that could change once the oil companies begin to draw plans for a production platform.

DOW JONES, June 17, 2011

US oil supply highest for May since 1980, API says

US oil supplies rose to the highest level in 31 years for the month of May as refineries processed less crude amid a decline in gasoline demand, according to the American Petroleum Institute. Inventories increased for a fifth consecutive month to 367.6 million barrels, a record for May in data going back to 1980, the industry-funded group said today in a report. Supplies were up 0.7% from April and 2.6% from a year earlier. Refineries processed 4.8% less crude than during the same month last year, at 14.7 million barrels per day.

BLOOMBERG, June 17, 2011

NEWS IN BRIEF

Americans support offshore drilling, but Washington wavers

The last year and a half has brought a rapid sequence of reversals in the Obama administration's policy toward oil and gas exploration on public lands and in US waters. Since the beginning of 2010, Washington has caromed from a restrictive approach to drilling to a permissive policy closely mirroring that of the Bush administration to a near-total shutdown of offshore drilling after the Deepwater Horizon blowout in the Gulf of Mexico.

After that fatal accident, the administration decreed a deepwater drilling moratorium, lifted it six months later, then took five more months before beginning to issue drilling permits. Throughout that time, the American public's attitudes toward domestic oil and gas development have been remarkably consistent: Americans are in favour of it, though Democrats and those on the coasts are much less likely than Republicans and those in the south and south-west to be supportive.

NY TIMES, June 16, 2011

Oil sands' impact on pipes needs study say lawmakers

US regulators should examine whether crude from Canadian oil sands corrodes pipelines and makes them more vulnerable to accidents, lawmakers said at a hearing on pipeline safety on June 16. Congressman Henry Waxman, the top Democrat on the House of Representatives' Energy and Commerce committee, said he was concerned regulatory oversight was not keeping up with the fact that U.S. pipelines were increasingly transporting diluted bitumen. "I'm concerned that the industry is changing, but the safety regulations are not keeping up with the changes," Waxman said at an Energy and Commerce subcommittee hearing.

REUTERS, June 16, 2011

GAS

Protesters call for inquest into fracking fluids

Environmental groups in Canada will ask a federal auditor to shed light on chemicals used to extract fossil fuels in the emerging industries of shale-gas and in-situ-oil sands development. Three organisations will present a petition to Canada's environmental commissioner with the hope of opening the books on how these growing sectors have an impact on the environment. The petition aims to ensure Canadians know exactly what is being blasted deep into the earth during processes that have sparked concerns across the country about groundwater pollution. The environmental groups are asking that companies be required to report to a public pollutant database on the chemicals and solvents injected underground to access these resources – and how much. The petition also calls on Environment Canada to share with the public what it knows about these substances and what it is studying about them, said Gillian McEachern of Environmental Defence, which signed the petition along with the West Coast Environmental Law Association and a Quebec association against atmospheric pollution. Quebec halted its fledgling shale-gas industry earlier this year following recommendations in an environmental assessment report which advised the province to conduct more studies on the ecological risks. Stiff public opposition to fracking has also surfaced in provinces such as New Brunswick, Nova Scotia, British Columbia and Alberta.

CANADIAN PRESS, June 20, 2011

Kinder Morgan-Copano increase EFS processing capacity

Eagle Ford Gathering, a 50-50 joint venture between Kinder Morgan Energy

Partners and Copano Energy, announced a long-term agreement with Williams Partners to process Eagle Ford Shale production at Williams Partners' Markham processing plant located in Matagorda County, Texas. Eagle Ford Gathering will construct a 7 mile (11.3 km), 20-inch lateral to connect its previously announced crossover pipeline project to the Markham plant and install approximately 3,400 horsepower of compression at a cost of approximately US\$27 million. The agreement will initially provide Eagle Ford Gathering with 100 million cubic feet per day of processing capacity at the Markham plant, with an option to increase its capacity to up to 200 mcf per day. Duane Kokinda, president of Kinder Morgan's Intrastate Pipeline Group, said: "The new agreement augments the previously announced agreement with Formosa Hydrocarbons Company, resulting in up to 375 mcf per day of total processing capacity through the crossover project. We expect to break ground on the crossover pipeline in July and to place it in service in the fourth quarter of 2011. In addition, the joint venture has 375,000 million British thermal units per day of processing capacity at Copano's Houston Central plant through Kinder Morgan's Laredo-to-Katy pipeline." President and chief operating officer of Copano Energy's Texas segment, Jim Wade, said: "The joint venture's 117-mile [188.3 km], 30- and 24-inch system through McMullen, La Salle, Dimmit and Webb Counties is nearing completion. We expect the system to be placed into service in September and begin processing joint venture gas at Copano's Houston Central complex." Through Eagle Ford Gathering, Kinder Morgan and Copano expect to invest approximately US\$300 million in midstream infrastructure to provide gathering, transportation, processing and fractionation services to Eagle Ford Shale producers.

KINDER MORGAN ENERGY PARTNERS, June 15, 2011

NEWS IN BRIEF

Canadian Quantum sells Bigoray

Douglas Brett, president and CEO of Canadian Quantum Energy, announced that Canadian Quantum has accepted an offer from an arms-length private oil and gas company to sell the company's interest in its Bigoray Gas Project, located in Alberta for cash consideration of C\$1 million. Closing of the transaction is subject to receipt of approval from the TSX Venture Exchange. Douglas Brett, president and CEO of the company, said: "The initial horizontal well drilled in February of this year on our Bigoray Gas Project did not meet our expectations and economic criteria. We are currently evaluating several other opportunities in which to deploy capital and with the sale of our interest at Bigoray, we will be able to move forward with a stronger project."

CANADIAN QUANTUM, June 16, 2011

Lone Star to build cross-Texas NGL pipeline

Energy Transfer Partners LP and Regency Energy Partners LP said they will build a US\$700 million liquid natural gas pipeline from west Texas to the eastern side of the state. The 530-mile (853 km) pipeline will be built by Lone Star NGL, a joint venture between Energy Transfer and Regency. The new pipeline, stretching from Winkler County to Jackson County, will have a minimum capacity of about 130,000 barrels per day with the potential to increase capacity depending on ongoing negotiations. The project currently has over 65% of the capacity subscribed with key producers and processors under 15-year agreements, and is expected to be completed by the first quarter of 2013. Energy Transfer will pay 70% of the construction cost and Regency will pay 30%. Drilling has increased in the Permian Basin area of West Texas, boosting the need for additional pipeline capacity to transport liquid natural gas,

Lone Star Senior Vice President Greg Bowles said in a statement. Lone Star NGL owns and operates natural gas liquids storage, fractionation and transportation assets in Texas, Louisiana and Mississippi.

AP, June 22, 2011

Alliance plans North Dakota NGL lateral

Alliance Pipeline said it plans to develop a pipeline and associated facilities in North Dakota to transport liquids-rich natural gas. The partnership said Hess has entered into a precedent agreement for service on the proposed 80-mile (128.7 km) lateral pipeline, which would connect production from Hess' gas processing facility in Tioga, ND to the Alliance mainline near Sherwood, ND, for onward shipment to the Chicago market hub. The pipeline's initial design capacity is about 120 billion cubic feet per day, and can be expanded based on shipper demand. The Tioga Lateral Project has a planned in-service date of July 2013, subject to regulatory and other required approvals. The Alliance system ships high-energy, liquids-rich natural gas, to NGL processing facilities owned by Aux Sable Liquid Products at the terminus of the mainline system near Chicago.

NEWSBASE, June 22, 2011

Pennsylvania officials examine report of gas in wells

State environmental officials are investigating new instances of methane contaminating private residential water wells and bubbling up in a northern Pennsylvania stream near a Marcellus Shale natural gas drilling operation. The Department of Environmental Protection found the flammable gas in seven water wells in Lycoming County and gas bubbling into the nearby Little Muncy Creek, prompting XTO Energy Inc., a subsidiary of energy giant ExxonMobil Corp., to voluntarily stop operations in the county and provide the water well

owners with bottled water for drinking. The company collected some data on the water wells before it began drilling and has given that information to the department, spokesman Dan Spadoni said on June 17. However, he said the agency has not determined the source of the methane.

AP, June 17, 2011

Ridge: gas industry must improve public image

Former Pennsylvania Governor Tom Ridge, now a consultant to the natural gas industry, said that drillers operating in the Marcellus Shale recognize they need to improve their image if they want to be "warmly embraced" by the public, not just "grudgingly accepted." Ridge toured several shale outcroppings with a Penn State University geologist, seeking to learn more about the gas-bearing rock that led to a drilling boom throughout northern and south-western Pennsylvania. While talking up the economic potential of the Marcellus, Ridge told the Associated Press that energy companies know they must do a better job of reassuring citizens that they take environmental protection seriously.

AP, June 16, 2011

GOP demands major industry voice on federal gas fracking panel

House Republicans are using Energy Department spending legislation to demand substantial industry representation on a federal advisory panel reviewing the controversial natural-gas extraction method called hydraulic fracturing. Report language accompanying the fiscal 2012 spending plan a House committee approved Wednesday calls for changes in the panel advising the Energy Department on the method – dubbed fracking – that's enabling a natural-gas boom but bringing fears of groundwater pollution along with it. ▶▶

NEWS IN BRIEF

“The committee is concerned that the selected panel members will not adequately represent industry perspectives, and therefore will not foster a spirit of partnership among industry, environmental and governmental parties,” states the report of House Appropriations Committee views.

THE HILL, June 16, 2011

SERVICES

Worker shortage worrying Canadian service companies

Oil and gas services firms are recruiting across Canada and abroad to staff up amid a labour crunch which is threatening their profit margins. Industry executives told a conference in Calgary there is a shortage of trained personnel caused by an uptick in oil and gas activity in Western Canada, while the demographic makeup of the sector causes long-term pressure. IROC Energy Services Corp. is hiring to operate its fleet of service rigs from Newfoundland through Manitoba and into Alberta, said president and CEO Thomas Alford. First quarter 2011 rig use was at a high of 78.4% for IROC's Eagle well servicing division. Some called for an industry-wide effort to hire abroad, suggesting the Petroleum Services Association of Canada and the Canadian Association of Oilwell Drilling Contractors organize a trip to appeal to underemployed skilled workers in Mexico. The Petroleum Resources Council predicts the sector will require 18,100 workers by 2020 to replace retirees if energy prices are low or 72,000 if prices are high.

CALGARY HERALD, June 18, 2011

Flint Energy signs construction agreement on Christina Lake

Flint Energy Services has signed a letter of intent with MEG Energy for

construction and pipe installation services at MEG's Christina Lake oil sands project near Conklin, Alberta. The Canadian energy services company also received additional field construction work on Suncor Energy's Firebag in situ project since the first quarter of this year.

Including the new agreement with Canadian oil sands developer MEG Energy, the added backlog for Flint's facility infrastructure segment is about C\$300 million. The project is expected to employ 600 people at its peak, Flint said in a statement.

REUTERS, June 20, 2011

Inter Pipeline Fund buys Danish storage for C\$500 million

Inter Pipeline Fund is beefing up its capacity in Europe with the purchase of four oil storage terminals in Denmark from a subsidiary of Dong Energy for C\$500 million.

The agreement with one of Northern Europe's largest energy companies marks a big step forward for the Calgary-based company's growth strategy in the region. The purchase includes the Asnaes, Ensted, Stigsnaes and Gulfhavn storage terminals, which together hold 10.7 million barrels of oil in 51 tanks. Inter Pipeline said the acquisition will more than double its storage capacity in Western Europe to 19 million barrels, making it the fourth-largest storage company on the continent.

The deal complements Inter Pipeline's existing operations in the UK, Ireland and Germany, the company said. The transaction is expected to close in October. Before the announcement, bulk liquids storage was a relatively small part of Inter Pipeline's portfolio.

Inter Pipeline is involved in oil shipping and natural gas liquids extraction, primarily in Western Canada. The company is a major shipper of oil sands crude to refineries through its 85% owned, 947 km Cold Lake pipeline and 989 km Corridor pipeline in northern

Alberta. It also operates the Cochrane and Empress II natural gas liquids extraction plants in Alberta.

CANADIAN PRESS, June 20, 2011

Miller Energy secures rig

Miller Energy Resources has entered into a contract with Voorhees Equipment and Consulting for the custom construction and purchase of a drilling rig to be used on Miller's Osprey offshore platform located in the Cook Inlet of Alaska. The contract sets a total purchase price of US\$17,927,770 for the rig. The addition of the rig will allow Miller to enhance its capabilities on the Osprey Platform, where Miller has had recent success. Earlier this week, Miller announced that it had reworked the RU-1 well and that it is producing 350 barrels per day of oil.

MILLER, June 16, 2011

Weatherford to sell up to US\$1 billion in assets

Oilfield-service company Weatherford International plans to sell between US\$500 million and US\$1 billion worth of assets, according to analysts with Wells Fargo Securities, who said company officials briefed them on the plan in a recent meeting. The divestitures would be of “mostly non-oilfield subsidiaries Weatherford has accumulated through its myriad acquisitions over the years,” the analysts wrote in a client note. Weatherford officials were not immediately available to respond to requests for comment.

DOW JONES, June 15, 2011

Arctic oil spill would challenge US Coast Guard

A major offshore Arctic oil spill could severely challenge the US Coast Guard, with no available infrastructure to base rescue and clean-up operations, the Coast Guard commandant said on June 20. ▶▶

NEWS IN BRIEF

“There is nothing up there to operate from at present and we’re really starting from ground zero,” said Adm. Robert Papp Jr.

“Now’s the time to be not just talking about it, but acting about it.” Several major oil companies, notably Royal Dutch Shell, have acquired leases to drill in the Beaufort and Chukchi seas off Alaska. Arctic waters are likely to be accessible to humans for longer periods as the planet heats up.

REUTERS, June 20, 2011

Texas: drillers must disclose fracking chemicals

Governor Rick Perry has signed a bill requiring drillers to disclose the chemicals they use when extracting oil and gas from rock formations, making Texas the first state to pass such a law. Some state agencies have passed rules forcing some disclosure, but no other states have made it a law.

Texas’ law will force drillers to post the chemicals and the amounts used beginning in July 2012. Hydraulic fracturing, or fracking, is being used in more states.

In the fracking process, drillers pump chemical-laced water into the ground at high pressure to crack the rock.

Environmental groups worry that the chemicals could taint water supplies. The industry says the process is safe.

NY TIMES, June 20, 2011

Deepwater Horizon’s top manager refused to testify

Jimmy Wayne Harrell, Transocean’s highest-ranking drilling employee on the Deepwater Horizon rig before it exploded and sank, refused to testify in civil lawsuits over the accident, according to court records. Harrell, the rig’s offshore installation manager, was in charge of drilling activities on the Deepwater Horizon, which exploded April 20, 2010, while drilling a BP well off the Louisiana coast. Harrell, the point man between BP and the drilling crew, told federal investigators at public hearings in New Orleans last year that he was in command of the rig before the explosion, which killed 11 workers and caused the worst offshore oil spill in US history.

BLOOMBERG, June 20, 2011

Transocean: BP did not assess risks properly before blowout

BP failed to properly assess, manage and communicate risks, didn’t adequately test cement and misinterpreted a key pressure test prior to the deadly blowout on the Deepwater Horizon rig, according to a report released by drilling contractor Transocean on June 22. The accident was a “result of a succession of interrelated well design, construction, and temporary

abandonment decisions,” mostly made by BP in the weeks before the spill, the report concludes, but the immediate cause of the accident was the failure of the final cement seal in the well. BP’s well design led to a cement job design that was risky, but those risks and the failure to adequately test the integrity of the cement was not communicated properly to the rig crew or others by BP, Transocean said.

FUELFIX, June 22, 2011

MOVES

Management shift for Baytex Energy

Baytex Energy announced a number of appointments to its management team. The current vice president of marketing, Shaun Paterson, will be retiring in October. Geoffrey Darcy, currently director of North American physical crude oil trading for Barclays Bank, will succeed Paterson. Darcy was formerly vice president of North American crude oil marketing with Nexen, and worked in crude oil supply for United Refining Company and Petro-Canada earlier in his career. Michael Kaluza is joining Baytex as vice president, planning. Kaluza was formerly chief operating officer of Delphi Energy. Brian Ector is being promoted to vice president, investor relations.

BAYTEX ENERGY June 21, 2011

TENDERS & CONTRACTS

PROJECT	US Exploration Project
Project Sector	Upstream
Location	North America, US, Gulf of Mexico, Green Canyon Area
Project Holder/Operator	Mariner Energy/Anadarko Petroleum/Cobalt International Energy/StatoilHydro ASA/Eni S.p.A./ExxonMobil
Scope of work	EC - Exploration Contracts
Current/Past Phase	The project had been on a drilling & appraisal phase
Contract Value Estimate	Over US\$140 million
Start up Timing	From 2012 - 2013
Development Stage	Potential Project
Brief	The project is associated with the development of Heidelberg oil field
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Field Development
Project Sector	Upstream
Location	North America, US, Colorado State
Project Holder/Operator	Williams Company
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$190 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development of Piceance basin natural gas reserves
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Gas Condensate Project
Project Sector	Upstream
Location	North America, US, Gulf of Mexico, Eugene Island Area
Project Holder/Operator	Bayou Bend Petroleum Ltd
Scope of work	EC - Exploration Contracts
Current/Past Phase	The project had been on a drilling & appraisal phase
Contract Value Estimate	Over US\$140 million
Start up Timing	From 2010
Development Stage	Potential Project
Brief	The project is associated with the development of Mt. Moran North gas condensate field
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

TENDERS & CONTRACTS

PROJECT	US Gas Gathering Project
Project Sector	Upstream
Location	North America, US, Oklahoma State
Project Holder/Operator	MarkWest Energy Partners/Newfield Exploration
Scope of work	EC - Exploration Contracts
Current/Past Phase	The project had been on a drilling & appraisal phase
Contract Value Estimate	Over US\$340 million
Start up Timing	From 2010 - 2011
Development Stage	Operational Project
Brief	The project is associated with the development of Woodford Shale Play and gas gathering facilities
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Coking Project
Project Sector	Downstream
Location	North America, US, Texas State
Project Holder/Operator	BP
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$1.6 billion
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the expansion of Walleye refinery
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	Canada Compressor Station Construction
Project Sector	Downstream
Location	North America, Canada, Alberta Area
Project Holder/Operator	Enbridge
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$540 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the construction of Waupisoo dual pipeline facilities
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

TENDERS & CONTRACTS

PROJECT	US Compressor Station Expansion
Project Sector	Downstream
Location	North America, US
Project Holder/Operator	Gulf South Pipeline Company LP/Boardwalk Pipeline Partners LP
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$790 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the expansion of East Texas to Mississippi pipeline
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Cracker Development
Project Sector	Downstream
Location	North America, US, Texas State
Project Holder/Operator	Valero Energy Corporation
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$440 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development of Valero Houston refinery
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Midstream Development
Project Sector	Midstream
Location	North America, US, Colorado State
Project Holder/Operator	Marathon/EPP - Enterprise Products Partners LP
Scope of work	TC - Term Contracts
Current/Past Phase	Job contracts had been awarded
Contract Value Estimate	Over US\$70 million
Start up Timing	From 2010 - 2011
Development Stage	Operational Project
Brief	The project is associated with the Piceance Basin development of midstream contract services
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts O&M - Operations and Maintenance Contracts

TENDERS & CONTRACTS

PROJECT	US Pipeline Expansion
Project Sector	Midstream
Location	North America, US
Project Holder/Operator	El Paso Corporation
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$420 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the expansion of Cheyenne Plains gas pipeline
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	Canada Expansion Project
Project Sector	Midstream
Location	North America, Canada, British Columbia Area
Project Holder/Operator	Enbridge/Alliance Pipeline/Fort Chicago Energy Partners LP
Scope of work	BOO - Build Own Operate Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$25 million
Start up Timing	From 2010 - 2011
Development Stage	Operational Project
Brief	The project is associated with the BC expansion and development of Alliance pipeline
Future & Potential Sales Prospects	EPC - Engineering, Procurement & Construction Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

PROJECT	US Pipeline Expansion
Project Sector	Midstream
Location	North America, US, Arizona State
Project Holder/Operator	Kinder Morgan Energy Partners
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$200 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the expansion of Pacific East Line pipeline
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts O&M - Operations and Maintenance Contracts

NEWSBASE INFORMATION

HEADLINES FROM A SELECTION OF NEWSBASE MONITORS THIS WEEK

Oil and Gas Sector

AfrOil

Apache has made a number of oil and gas discoveries in Egypt's Faghur Basin.

AsianOil

ConocoPhillips has followed Chevron and signed a gas production-sharing contract in Bangladesh.

ChinaOil

The IEA has said China could expand its refining capacity by 33% by 2016.

EurOil

Total has discovered gas at the Norvarg prospect in Norwegian production licence PL535 in the Barents Sea.

FSU OGM

Gazprom says it will allow third parties to use the Nord Stream gas pipeline.

GLNG

Oman LNG's 2010 net profit rose 18% to US\$1.38 billion on the back of buoyant global prices.

LatAmOil

Brazil's OXG expects to sell stakes in its Campos Basin and Parnaiba Basin assets before the end of the year.

MEOG

Saudi Aramco has issued three new tenders to carry out more frontier seismic work.

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