

OIL DAILY

Today's complete oil and gas news briefing

Abu Dhabi's Taqa Buys Canada's Northrock

Abu Dhabi National Energy Co. (Taqa) is to buy Calgary-based Northrock Resources, which has producing assets in Western Canada, from US-based parent Pogo Producing for \$2 billion. The move adds to Taqa's rapidly growing resource base and raises much-needed cash for troubled Pogo.

The sale is expected to close during the third quarter of this year. Once the deal goes through Taqa will take on Northrock's 142 million barrels of oil equivalent proven reserves in the Western Canadian Sedimentary Basin, the company said in a statement on Tuesday. In the past three years, Northrock has averaged production of 35,700 barrels of oil equivalent per day, consisting of 19,200 barrels per day of oil, condensate and natural gas liquids and 98.8 million cubic feet per day of sales gas.

Taqa said it expects to produce 37,700 boe/d by the end of 2007.

Pogo said in a statement on Monday that Northrock has total reserves of approximately 706 billion cubic feet equivalent (118 million boe) of estimated proven reserves as of Dec. 31, 2006, and

its fields currently produce approximately 29,000 boe/d.

Based on Taqa's estimate of the proven reserves, the deal works out at around \$14 per barrel of oil equivalent. Based on Pogo's more conservative estimate, it works out at around \$17/boe. According to research firm John S. Herold, the average price paid for proven reserves in Canadian mergers and acquisitions amounted to \$18.65/boe in the first quarter of 2007.

The deal represents first entry into Canada for Taqa, an Abu Dhabi government-controlled entity tasked with holding almost 80% of Abu Dhabi's power generation and over 90% of its water desalination capacity. Previously Taqa said it was looking to invest between \$3 billion to \$6 billion in oil and gas assets in 2007, targeting mainly the Mideast, North Africa and the UK-Dutch North Sea.

"Northrock provides the ideal entry vehicle to Canada for Taqa," said the company's chief executive, Peter Barker-Homek, adding that Northrock's 2.6 million acres of land holdings provided "ample growth opportunities" for the business.

News in Review

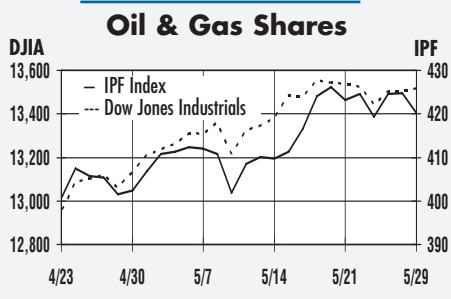
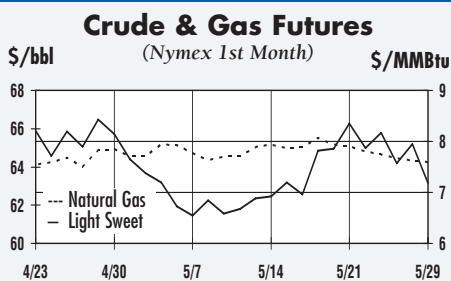
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Buoyed by an influx of petrodollars, Mideast Gulf companies such as government-controlled Taqa have been busily expanding their portfolios. The company bought BP's Dutch exploration and production business for \$694 million earlier this year and in January announced it would acquire Canadian Talisman Energy's Brae interests in the UK North Sea for \$550 million (OD Jan.17,p7).

In contrast, Pogo has been under pressure from investors for alleged mismanagement and has divested parts of its portfolio. Last month, the company announced (See Northrock, page 2)

Latest Market Trends



BP Signs Breakthrough Libya Gas Deal

BP has signed a near billion-dollar upstream natural gas exploration and LNG deal in Libya, marking the UK supermajor's return to the North African country more than 30 years after its interests there were nationalized.

The deal, which has been under negotiation for nearly two years, was signed late Tuesday during a visit to Libya by outgoing UK Prime Minister Tony Blair, who arrived in the coastal city of Sirte earlier in the day.

As part of the agreement with Libya's National Oil Co. (NOC), BP and its Libyan partner, the Libya Investment Corp., will explore around 28,850 square feet of the onshore Ghadames and offshore frontier Sirte basins. During the exploration and appraisal phase, BP will acquire 2,123 sq miles of 2-D seismic and 11,585 sq feet of 3-D seismic data.

BP Chief Executive Tony Hayward said in a statement that the deal was worth at least \$900 million, adding it was "BP's single biggest exploration commitment."

The deal gives BP the right to drill 17 wells in the offshore Gulf of Sirte Basin and the onshore Ghadames Basin. BP discovered the huge Sarir oil field in the Sirte Basin in 1961, one of the first big finds in Libya.

Hayward was on hand to sign the massive deal, securing his first major project since taking over from John Browne at the start of this month (OD May3,p2). Most of the groundwork for the deal was laid under Browne, who had made several trips to Tripoli to meet Libyan leader Muammar Qaddafi and other senior officials. But Hayward was also involved as head of BP's exploration and

(See Libya, page 2)

Report Addresses Green, Social Issues Ahead of Exxon Meeting

Exxon Mobil might be the darling of Wall Street but it's no prince in the eyes of some of its shareholders.

The Texas-based company made \$39.5 billion in profits in 2006 and its stock rose 35% in the last year. But an outspoken group of investors maintain the supermajor must do more to address climate change, alternative energy, CEO compensation and employee rights.

Exxon insists it is making progress. The company's "2006 Corporate Citizenship Report" claims its workforce incident rate fell by 68% from 2000, oil spills were down 21% from the previous year and its emission-reduction strategies resulted in a drop of about 8 million metric tons of carbon dioxide emissions since 1999.

The company's greenhouse gas emissions were 146 million metric tons, a 5.4% increase over 2005, due to increases in oil production in Africa and energy-intensive liquefied natural gas production in the Mideast, according to the report.

Exxon has pledged to improve energy efficiency in its worldwide operations by 10% by 2012.

The report, released May 23, arrived a week before shareholders are expected to press the company on environmental, governance and social issues at its annual meeting on Wednesday in Dallas.

Last week, a group of institutional investors, including the California state teachers retirement fund, state treasurers of six states, labor union pension funds and some mutual funds threatened to withhold their votes for Exxon

board member Michael Boskin for his refusal to meet with shareholders on climate change issues (OD May25,p5).

In all, investors have filed more than a dozen shareholder resolutions seeking changes in the company's behavior on everything from climate change to political contributions.

The dissident shareholders contend that Exxon has spent relatively little money on renewables, opposes a strong national climate policy and continues to fund groups that question the scientific consensus on climate change.

"Exxon Mobil's inaction on global warming stands in stark contrast to industry peers such as BP, Shell, Chevron and ConocoPhillips," said Mindy Lubber, president of investor and environmental coalition group Ceres.

Exxon's massive profits and winner-take-all tactics have long made it a target of environmentalists and other public interest groups. Recent record prices at the pump haven't helped the supermajor's public image (OD May29,p1).

Exxon has said it has dropped funding of some groups that downplay the risks of greenhouse gas emissions and that its position on climate change has been misunderstood (OD May21,p6).

In the corporate citizen report, Exxon said, "Because the risk to society and ecosystems from rising greenhouse gas emissions could prove to be significant, strategies that address the risk need to be developed and implemented."

Nevertheless, shareholders contend the

company hasn't done enough to combat climate change. Among the shareholder resolutions are calls for Exxon to set specific greenhouse gas reduction goals and increase spending on climate-friendly renewable technologies. Exxon opposes both measures, arguing that its traditional fossil fuel-based business promises far greater value than renewables.

Another shareholder resolution would require Exxon to list the amount of CO2 emissions generated by gasoline and diesel sold at its retail stations. Exxon says the proposal is not an "effective or appropriate way to address public concerns about climate change."

A group of New York nuns, who say Exxon ranks sixth on the list of worst US corporate polluters in terms of amount and toxicity of pollution, is asking the company to issue a report on its environmental impacts in the communities where it operates. Exxon says the additional report is unnecessary.

A number of the shareholder resolutions address what dissidents insist is excessive executive compensation, asking the company to limit or give shareholders a say in CEO compensation. Exxon opposes each of the resolutions.

The company recommends shareholders vote against a resolution calling for increased transparency of Exxon's political contributions.

Exxon also opposes a resolution asking it to adopt in writing a nondiscrimination policy against homosexuals.

☎ **Robert Dillon, Washington**

Libya . . .

(Continued from 1)

production over the period.

Another key figure in the negotiations was Mark Allen, a senior BP advisor who previously worked for the UK's Secret Intelligence Service, or MI6, helping to broker the groundbreaking agreement with Libya that led to the lifting of sanctions in 2004.

Overseeing the agreement on the Libyan side were NOC's Ghanem and Seif al-Islam, one of Qaddafi's sons.

According to an industry source familiar with the negotiations, BP earlier mulled an alliance with Tamoil, the Libyan state-owned refiner and downstream investment vehicle registered in the Dutch Antilles.

Tamoil is one of several Libyan state-owned oil companies with assets outside the country — including London-based service companies Teknica and Umm al-Jawaby — that Ghanem has proposed either selling off or relocating to Tripoli.

Two years ago BP's rival Royal Dutch Shell became the first major Western oil company to reach an integrated gas devel-

opment deal with Libya, [securing four Sirte Basin exploration blocks, coupled with a pledge to rehabilitate the Mersa el-Brega LNG plant (OD May4'05,p5).

Libya is set to launch a gas-focused licensing round later this year, with first details due to be announced at the start of July.

☎ **Paul Sampson and Peter Kemp, London**

Northrock . . .

(Continued from 1)

nounced it had sold off its Gulf of Mexico assets to Houston-based Energy XXI for \$420 million and sold some of its US Gulf Coast onshore assets for \$102 million. It also said it was actively looking to sell its Northrock assets.

Pogo reported a net loss of \$21.2 million for the first quarter of 2007, versus a net profit of \$67.5 million in the same period of 2006.

☎ **Alex Schindelar, Dubai**

JED Sells Alberta Assets

Calgary-based oil and gas company Jed Oil said it agreed to sell its assets in the North Ferrier section of Alberta for about \$33.9 million in cash to fund the acquisition of Canada's Caribou Resources Corp.

The sale of the assets is expected to be closed on Jun. 8, the oil and natural gas company said in a statement. The name of the buyer was not disclosed.

On May 23, JED announced that it had made an offer to Caribou to acquire all of its shares and settle with its creditors.

JED's offer includes payment to Caribou's major secured creditor of approximately \$26.7 million. JED's offer is open for acceptance until Jun. 1.

JED offered one share of the company for every 10 shares of Caribou, which in January filed for protection under the Canadian Companies' Creditors Arrangement Act, similar to Chapter 11 protection in the US.

Caribou's production at the end of 2006 was 1,200 boe/d, while JED currently produces about 1,100 boe/d, JED said in a statement.

US-Iran Talks Help Drive Crude, Products Futures Lower

Crude and product prices tumbled on Tuesday on the back of recent bearish developments, including a thaw in relations between the US and oil producer Iran. Positive news in Nigeria — where the new president was inaugurated peacefully — added to the selling. In the gasoline market, refinery troubles supported spot prices in the Midwest, but the futures market plunged on expectations of another build when the US government reports its weekly petroleum data on Thursday.

Over the three-day weekend, high-level officials from the US and Iran held talks in

Baghdad, the first meeting between the two countries in almost three decades.

“A big part of the surge in oil prices has been speculation because of geopolitics,” said Fadel Gheit at Oppenheimer & Co. “If tensions cool between the US and Iran, a big fear is removed from the market.”

In London on ICE Futures, Brent crude lost \$2.56 to \$68.13 per barrel.

On the New York Mercantile Exchange (Nymex), light, sweet crude for July was down \$2.05 to \$63.15/bbl. Nymex gasoline futures lost 10.58¢ to \$2.2979 per gallon.

While gasoline futures tumbled on Tuesday, Midwest spot prices traded almost 40¢ over Nymex because of a delayed restart at a BP refinery in Ohio.

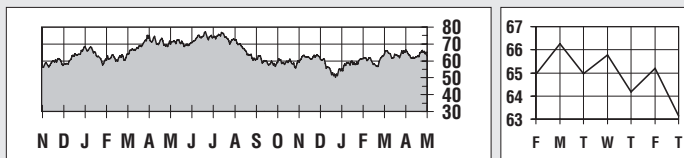
Although the markets came off sharply, analysts warned that the losses might not necessarily be the start of a trend. With maintenance ending, refiners will have a growing appetite for crude in order to meet gasoline demand. Moreover, even if another build is reported for gasoline stocks, they are still below average and will take some time to rebuild.

☎ **Matt Piotrowski, Washington**

Daily Oil & Gas Price Review

Prices for Tuesday, May 29, 2007

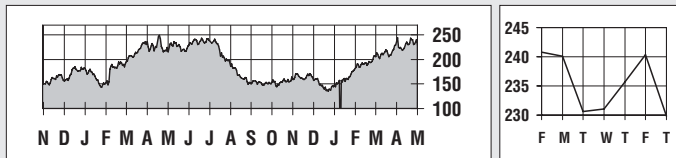
Crude Oil Nymex Light Sweet (\$/barrel)



US Domestic Crudes (\$/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+0.76	60.26	59.92	58.62
LLS (St. James)	-1.04	69.96	70.96	69.72
ANS (California)	-1.19	64.60	65.55	66.58
Kern River (SJV)	+1.03	56.38	56.03	57.43
Line 63 (SJV)	-1.19	65.10	66.05	67.08

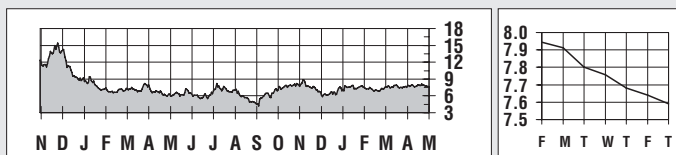
Refined Products Nymex Gasoline (¢/gallon)



US Product Spot Markets^H

Gasoline (¢/gal.)	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
Regular Gasoline	-11.90	222.85	226.22	230.25	-12.20	219.05	225.83	228.75	-11.40	230.10	237.47	256.50
Premium Gasoline	-11.40	230.10	232.47	233.50	-9.45	244.80	247.58	249.00	-13.40	259.10	264.67	287.50
Regular RBOB	-3.90	232.35	233.19	231.25	-10.20	237.05	241.33	245.75	-13.40	240.10	247.67	264.50
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	-4.91	193.75	196.40	188.75	-5.91	188.00	191.80	189.65	—	—	—	—
No. 2 Low Sulfur Diesel	-3.91	202.75	204.95	197.75	-5.91	200.50	204.30	203.40	-5.70	209.50	212.19	213.00
Jet Fuel	-5.91	203.75	207.55	204.75	-5.91	208.25	212.05	208.40	-8.20	205.00	210.89	213.40
Residual Fuel (\$/bbl)												
No. 6 Oil (low sulfur)	0.00	55.95 ^A	55.97	56.00	0.00	55.60 ^B	55.62	57.63	—	—	—	—
No. 6 Oil 1% S	0.00	53.60 ^C	53.55	53.00	0.00	52.15 ^D	52.17	51.25	—	—	—	—
No. 6 Oil 3% S	0.00	50.10	50.10	51.25	0.00	51.95	51.97	50.38	0.00	365.00 ^E	372.20	335.00

Natural Gas Nymex Henry Hub (\$/MMBtu)



Produced by Oil Daily in cooperation with Reuters. All spot assessments are bid prices published by Reuters at 5:30 p.m. ET.

Notes: A—0.7% sulfur low pour. F—Source: *Natural Gas Week*
 B—0.3% sulfur high pour. G—20-day avg.
 C—Low pour. H—Bid prices for latest spot deals at press time.
 D—High pour. I—Opec basket price is for previous day.
 E—Price is for 380 CST, given in \$/metric ton.

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

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	-2.05	63.15	64.65	64.38	65.36
ICE Brent	-2.56	68.13	69.93	68.53	68.92

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	-1.33	63.16	64.22	65.75	69.22
WTI (Midland)	-0.89	63.41	64.22	65.47	68.68
Brent (Dated)	-1.31	70.15	71.37	67.28	68.08

International Crudes (\$/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket ^I	-0.74 ^I	66.00	67.70	63.89 ^G
Nigeria Bonny Light	-1.61	72.10	72.08	70.02
Dubai	-2.57	63.97	66.01	64.44
Oman	-1.76	65.36	66.83	64.99
Russia Urals	-1.41	66.35	67.65	62.87

Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	-10.58	229.79	233.50	219.34	214.14
Heating Oil	-7.01	186.90	191.53	187.31	189.11

ICE (London)

	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
Gasoil (\$/ton)	-8.50	597.00	605.10	600.50	605.00
Gasoil (¢/gal.)	-2.70	189.52	192.10	190.63	192.06

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

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex (\$/MMBtu)				
Henry Hub	-0.049	7.591	7.694	7.731

Spot Gas Prices (\$/MMBtu)^F

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	+0.20	8.26	8.23	8.30
Henry, Louisiana	+0.05	7.52	7.66	7.71
Chicago	+0.16	7.25	7.50	7.57
Katy, Texas	+0.00	7.29	7.47	7.44
Southern California Border	+0.83	7.20	7.43	7.35
AECO Hub (Canada)	0.02	6.43	6.74	7.03

Yar'Adua Takes Office in Nigeria; Refineries Sold to Top Businessmen

Nigeria's top businessmen took control of three of the country's four refineries Monday, a day before the country's new president, Umaru Yar'Adua, took office in the first civilian hand-over of power in the country's history.

The controversial sale of the decrepit state-owned refining facilities to local bigwigs was rushed through in the last few days of President Olusegun Obasanjo's eight-year rule.

Despite street protests in Lagos at the conduct of the controversial April presidential poll, Yar'Adua's inauguration passed without incident in the capital of Abuja Tuesday.

Other state asset sales in the years since Obasanjo was elected in 1999 have made a small group of Nigerians extremely wealthy as they have bought hotels, telecommunications, fertilizer, steel and cement companies. Critics say the privatizations have benefited a tiny clique of businessmen close to Obasanjo who now control much of the country's economy.

The refineries, which were offered unsuccessfully to foreign oil companies in a package with exploration acreage, are almost the last significant state-run sector to fall under the sway of local entrepreneurs.

In one of Obasanjo's last acts as president, the Bureau of Public Enterprises (BPR), the state privatization agency, transferred 51% of the two Port Harcourt refineries and the Kaduna refinery to the local Blue Star Oil Services consortium.

The handover went ahead after oil workers at state Nigerian National Petroleum Corp. called off a strike to protest the sales, having earlier secured a 15% pay rise. The settlement averted a strike across the entire energy sector (OD May29,p1).

At his inauguration, Yar'Adua admitted to "lapses and shortcomings" in the election process and said addressing the violence on the Niger Delta, the country's troubled oil producing heartland, would be among his priorities.

The refinery sales netted \$721 million, of which \$561 million was for the Port Harcourt refineries, which have a combined capacity of 210,000 barrels per day, and \$160 million for the 110,000 b/d Kaduna refinery. The state will retain minority shares in the units. Only the 125,000 b/d Warri refinery is still in majority state hands.

☞ **Peter Kemp, London**

Canadian Producers Hope to Replicate US Shale Gas Success

Canadian companies, casting an envious eye south of the border to the prolific Barnett Shale play in North Texas, are starting to kick the tires on some shale gas plays in their own backyard.

The move follows the pattern of coalbed methane development in North America, which is already well established in the US and has recently been gaining significant momentum in Canada too. Canadian junior Stealth Ventures said on Tuesday it has closed a farm-in deal covering an additional 17 gross sections of land in the Wildmere project area of eastern Alberta.

The deal, with an unnamed oil and gas trust, will give Stealth interests in a total of 97 gross sections of land in the area where it is targeting the Cretaceous Colorado shale.

Stealth already has production from five wells, with one more well currently awaiting tie-in to a pipeline. An additional five wells are scheduled for stimulation and tie-in operations.

The company has assigned a C\$10 million (US\$9.3 million) budget to the Wildmere project, with 20 to 25 wells to be drilled this summer. To the east, in the province of Saskatchewan, Stealth and its partner have initiated a shale testing program in the Foam Lake and Moose Jaw areas which will continue throughout the summer.

To date 39 wells have been drilled on the company's four properties in Saskatchewan which have found and exhibited similar characteristics to the producing shale gas property in Alberta. Stealth and its partner are preparing a fracture stimulation program which is expected to start this summer.

Separately on Tuesday, Triangle Petroleum said it had taken another important step in its Canadian shale gas development program by acquiring 516,000 acres of land in Nova Scotia.

Earlier this year, the company announced a 68,000 acre farm-in agreement for a shale gas prospect in New Brunswick.

Triangle said it will transfer the experience it has gained from projects in the Fayetteville Shale (Arkansas) and Barnett Shale (Texas) to the new shale gas opportunities in Eastern Canada.

The company will earn a 70% working interest in the block in the Windsor area of Nova Scotia, subsequent to paying a deposit to the provincial government before Sep. 15, 2007 and then electing to drill a test well no later than Sep. 15, 2008.

"Our geo-science team has identified comparable geological attributes in the Eastern Canadian basins to the Barnett and Fayetteville trends of the Fort Worth and Arkoma Basins," said Ron Hietala, president of Triangle's operating subsidiaries.

☞ **Andrew Kelly, Houston**

Cooling Degree Days

For the week of May 26, 2007

State/City (PADD)	- Week Dev -			-- Cum Dev --			State/City (PADD)	- Week Dev -			-- Cum Dev --			
	Week Total	From Norm	From Year Ago	Cum Total	From Norm	From Year Ago		Week Total	From Norm	From Year Ago	Cum Total	From Norm	From Year Ago	
ALA/Montgomery (3)	49	-11	-41	321	44	16	-29	46	28	34	94	40	N.M.	70
ARIZ/Phoenix (5)	146	27	-8	979	334	52	127	44	-2	-69	265	82	45	-77
ARK/Little Rock (3)	60	2	-43	338	92	37	35	1	-6	0	7	-3	N.M.	-25
CALIF/Los Angeles (5)	0	-7	-7	61	16	N.M.	16	26	4	19	69	8	N.M.	40
San Francisco (5)	3	3	2	23	14	N.M.	11	24	17	23	34	16	N.M.	32
COLO/Denver (4)	0	-8	-26	15	0	N.M.	-25	43	-22	-46	282	-31	-10	-54
CONN/Hartford (1)	21	9	19	46	13	N.M.	42	8	1	-13	24	14	N.M.	-6
DEL/Wilmington (1)	18	-1	13	56	1	N.M.	43	75	18	-37	404	153	61	46
DC/Washington (1)	33	1	25	110	7	7	62	66	-6	-65	412	114	38	-233
FLA/Miami (1)	92	-13	-16	1,356	155	13	81	74	-10	-27	558	50	10	-165
GA/Atlanta (1)	52	5	-29	243	50	26	23	10	-2	-41	104	79	N.M.	-2
IDAHO/Boise (4)	7	-1	-4	61	37	N.M.	-10	14	7	9	36	17	N.M.	31
ILL/Chicago (2)	28	14	16	66	22	N.M.	44	29	-2	5	145	24	20	59
IND/Indianapolis (2)	48	26	33	128	67	N.M.	92	0	0	0	2	2	N.M.	-6
IOWA/Des Moines (2)	25	7	-5	112	57	N.M.	55	41	20	32	141	52	N.M.	97
KAN/Wichita (2)	31	2	-53	125	41	N.M.	-76	17	10	13	39	17	N.M.	32
KY/Louisville (2)	54	23	32	244	134	122	164	0	0	-6	2	2	N.M.	-6
LA/New Orleans (3)	71	-11	-24	541	57	12	-155							
MAINE/Portland (1)	15	13	15	15	13	N.M.	15							
MD/Baltimore (1)	20	-2	12	69	4	N.M.	44	31	6	9	158	28	21	40
MASS/Boston (1)	27	17	24	53	26	N.M.	47	34	12	-4	132	55	71	36
MICH/Detroit (2)	24	10	14	42	6	N.M.	29	55	-8	-42	365	56	18	-100
MINN/Minneapolis (2)	21	7	-7	72	39	N.M.	42	3	-4	-19	39	24	162	-14
MISS/Jackson (3)	56	-5	-35	339	40	13	-42	43	6	-5	292	113	63	39
MO/Saint Louis (2)	53	20	4	224	102	84	106							
MONT/Billings (4)	0	-7	-16	12	2	N.M.	-25							
NEBR/Omaha (1)	28	10	-10	113	57	N.M.	28							
NEV/Las Vegas (5)	108	21	-14	682	313	85	112							
NH/Concord (1)	14	7	12	28	13	N.M.	26							
NJ/Atlantic City (1)	18	4	11	52	16	N.M.	36							
NM/Albuquerque (3)	12	-12	-61	43	-8	N.M.	-111							
NY/Buffalo (1)	20	13	20	28	5	N.M.	24							
New York (1)	42	25	35	86	42	N.M.	59							
NC/Raleigh-Durham (1)	35	2	3	198	62	46	61							
ND/Bismarck (2)	4	-3	-15	12	-3	N.M.	-16							

TNK-BP Looks Set to Lose Kovykta Licenses After Court Ruling

Time appeared to be running out Tuesday in the standoff between Russian-UK joint venture TNK-BP and Moscow regarding TNK-BP's licenses for the huge Siberian Kovykta gas fields.

An arbitration court in the East Siberian province of Irkutsk Monday upheld a petition by two Russian regulators against TNK-BP subsidiary Rusia Petroleum, which holds the Kovykta licenses. The local court was TNK-BP's last chance to hold up or reverse the license revocation process, according to most observers.

The Russian Ministry of Natural Resources environmental oversight board Rosprirodnadzor began an inspection of the field on May 23. Rosprirodnadzor Press Secretary Anna Khitrova wouldn't tell *Oil Daily* when the board would issue a summary of its findings. However, Rosnedra, the Russian subsoil agency and final authority on licensing issues, has a scheduled a meeting on the issue for June 1, according to media reports.

Pressure from Rosprirodnadzor was a key factor in Russian state gas company

Gazprom taking a majority stake in the Royal Dutch Shell-led Sakhalin-2 project offshore Russia's Far Eastern Pacific coast at the end of last year (OD Dec.22,p1).

The deck is already stacked against TNK-BP because Kovykta's production will be well short of the 9 billion cubic meter per year production levels outlined in the company's licensing agreement. A recent Rosprirodnadzor inspection confirmed that the Kovykta had not reached its required output level.

The Ministry of Natural Resources has been threatening to revoke the Kovykta licenses since 2004. Looming elections and the end of Russian President Vladimir Putin's term in office next year, combined with his policy of resource nationalism, have convinced most observers that, despite BP's attempts to curry favor with the Kremlin — for example by bidding for a lot in the recent Yukos auctions — the Kovykta licenses will be revoked and the field's assets put under Gazprom's control, with BP possibly allowed to remain involved as a minority partner.

Gazprom's trading arm, Gazprom Export, which has a monopoly on Russian gas export sales and negotiates these on behalf of TNK-BP, has said it has been unable to agree on a suitable price for deliveries of Kovykta gas to China or South Korea, stalling the full development of the \$18 billion project.

An international feasibility study released in 2003 outlined domestic development of the project as its first stage — gasifying the Irkutsk region then connecting to neighboring regions further south, before proceeding on to the Chinese border.

But, without profit-making export contracts in place, TNK-BP has been slow to proceed with gasifying these nearby regions.

Meanwhile, Moscow has yet to approve a unified plan for the development of East Siberia's gas resources. For its part Gazprom has claimed that it would like to turn Sakhalin-2 into a LNG hub for the entire region — and does not exclude taking volumes for this scheme from Kovykta.

☎ **Stephen Bierman, Moscow**

Forest Sells Alaska Assets to Pacific Energy

Forest Oil has parted ways with its upstream assets in Alaska as part of a company plan to pay down debt following the recent purchase of Houston Exploration.

Denver-based Forest announced Tuesday that it is selling its oil and gas assets in Alaska to Pacific Energy Resources for \$464 million in cash and stock. As part of the transaction, Pacific Energy is offering \$380 million in cash to repay Forest loans, another \$68 million in cash to be paid to Forest up front, and 5.5 million shares of Pacific Energy stock, which is valued at about \$16 million, will be issued to Forest.

Pacific Energy's newly acquired properties produce approximately 38 million cubic feet per day of gas equivalent. The assets, which are located in the Cook Inlet area and other parts of Alaska, hold proved reserves of 181 billion cubic feet of gas equivalent. In addition to the producing properties, Pacific is acquiring roughly 1 million acres of undeveloped acreage as well as Forest's interest in the Cook Inlet Pipe Line Co.

Pacific Energy is paying \$2.56 per thousand cubic feet equivalent for Forest's proved reserves in Alaska, a price in line with recent upstream transactions in North America.

Forest put its Alaskan operations up

for sale earlier this year, following the company's \$1.5 billion purchase of Houston Exploration (OD Jan.9,p1). The Houston Exploration deal made Forest a stronger player in the producing regions of South Texas, East Texas, and the Arkoma basin of Arkansas and Oklahoma.

Pacific Energy is a newcomer to Alaska. Darren Katic, the company's president, explained that Pacific Energy targeted Forest Oil's Alaskan assets because they offered an opportunity to build a new position in a way that fits with the company's strategy and expertise.

"These large legacy assets have exactly the kind of characteristics we look for when pursuing acquisition opportunities. The established production, with long-life reserves, generates strong, predictable cash flow," Katic said, adding that the company plans to grow production on the properties through low-risk redevelopment.

Until Tuesday's deal, Pacific Energy's operations have been focused on California, both onshore and offshore. Production from the company's five properties is currently averaging 3,000 barrels of oil equivalent per day. The acquisition of Forest's production in Alaska lifts Pacific Energy's output to close to 10,000 boe/d.

☎ **Jeff Gosmano, Houston**



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NEWS ALERT

From staff and wire reports

Top Briefs

Court Backs Western-Giant Deal

The US District Court for the District of New Mexico has denied the Federal Trade Commission's (FTC) request for a preliminary injunction to block Western Refining's \$1.13 billion purchase of Giant Industries' assets (OD Apr.12,p1).

Western said Tuesday, however, that based on its conversations with the FTC the commission will appeal the District Court's ruling and seek an injunction from either the District Court or the US Court of Appeals for the 10th Circuit.

"The District Court's ruling affirms what we, as well as what many customers and state and industry leaders, have said all along. We believe a Western-Giant combination is pro-competitive and provides important benefits to the companies' stakeholders, including our customers, shareholders and employees," said Paul Foster, Western's president and chief executive officer, in a statement.

The FTC believes the merger would reduce competition in northern New Mexico, particularly the Albuquerque market, where the two companies currently sell petroleum products. Western and Giant said that absent a ruling from the 10th Circuit blocking the merger, the companies may close the transaction at any point after noon mountain time on May 31, 2007.

"There is no basis for the FTC to appeal the District Court's decision. We remain confident in our position and look forward to closing the transaction," Foster said.

Corporate News

Chevron Forms Biofuels Venture

Chevron and the Texas A&M Agriculture and Engineering BioEnergy Alliance announced Tuesday that they have entered into a strategic research agreement to accelerate the production and conversion of crops for manufacturing ethanol and other biofuels from cellulose.

Chevron Technology Ventures will support research initiatives over a four-year period through the Texas A&M BioEnergy Alliance, a partnership combining the collective strengths of Texas A&M University's research agencies in agriculture and engineering — the Texas Agricultural Experiment Station (TAES) and the Texas

Engineering Experiment Station (TEES).

"Forming an alliance with Chevron fits well with our research initiatives and allows us to leverage our strengths in biomass and biofuels to transfer new technologies from lab to the public, providing real solutions that are economical, sustainable and environmentally friendly," said Dr. G. Kemble Bennett, vice chancellor and dean of Texas A&M Engineering.

Over the past year, Chevron has forged energy research partnerships with the Georgia Institute of Technology, the University of California at Davis, the Colorado Center for Biorefining and Biofuels, the US Department of Energy's National Renewable Energy Laboratory and forest products company Weyerhaeuser (OD Oct.5,p5).

"Bringing biofuels to large-scale commercial production is an enormous challenge that requires the combined efforts of industry, universities and research institutions, and governments," said Don Paul, Chevron vice president and chief technology officer.

Between 2002 and 2006, Chevron spent roughly \$2 billion on renewables and alternative energy and energy efficiency initiatives, the company said in a statement. Between 2007 and 2009, Chevron expects to spend more than \$2.5 billion.

Rentech Gets Peabody CTL Funds

Coal producer Peabody Energy has pledged \$10 million in cash to Fischer-Tropsch technology developer Rentech toward a future coal-to-liquids (CTL) plant in Illinois, the companies said Tuesday. Peabody also obtained the right to purchase a 20% equity interest in the project and will supply about 1 million tons of coal annually to the plant.

Rentech plans to convert the former natural gas-fed Royster-Clark fertilizer plant into a combined CTL and ammonia-production complex. The Denver-based company will use gasification technology "to produce ultra-clean transportation and aviation fuels and fertilizer."

When the conversion is completed in 2010, Rentech expects to produce 1,250 b/d, equal to 17.8 million gallons annually, of high-quality diesel and other middle distillates.

The project, renamed Rentech Energy Midwest, is located in East Dubuque, Illinois. When completed, it would be the first commercial CTL plant in the US.

Stock Market Scorecard

Integrated Majors	Close 5/29	1-Day Chg.	% Chg.	10-Day % Chg.	52-Wk % Chg.	YTD
Repsol YPF	36.14	+0.14	+0.39%	+5.55%	+28.80%	+4.75%
Hess	60.12	-0.16	-0.27	+2.68	+24.40	+21.28
Statoil	27.74	-0.08	-0.29	+5.12	-5.03	+5.40
Chevron	80.71	-0.42	-0.52	-0.20	+35.67	+9.76
Marathon	118.89	-0.71	-0.59	+9.15	+57.03	+28.53
BP	67.25	-0.52	-0.77	+0.78	-6.10	+0.22
Exxon Mobil	82.62	-0.89	-1.07	+1.69	+34.30	+7.82
Norsk Hydro	35.03	-0.38	-1.07	+2.37	+26.51	+14.22
Total	75.00	-0.97	-1.28	-0.08	+14.29	+4.28
Petro-Canada	50.20	-0.67	-1.32	+6.63	+14.22	+22.32
ConocoPhillips	75.35	-1.07	-1.40	+6.55	+20.08	+4.73
Shell-B	74.94	-1.12	-1.47	+4.45	+7.72	+5.33
Eni	70.01	-1.08	-1.52	+3.50	+16.80	+4.06
Shell-A	73.78	-1.21	-1.61	+4.65	+10.38	+4.22
BG	75.56	-1.50	-1.95	+0.07	+14.61	+10.40
IPF Index	420.19	-4.55	-1.07	+2.57	+19.79	+7.28
Large Producers						
Anadarko	48.95	+0.57	+1.18	+5.95	+0.18	+12.48
Apache	78.28	+0.26	+0.33	+5.91	+22.39	+17.70
Nexen	29.72	+0.09	+0.30	+0.87	+10.63	+8.07
Pioneer	49.59	+0.06	+0.12	+1.72	+24.79	+24.94
Chesapeake	34.75	-0.14	-0.40	+0.67	+15.83	+19.62
Devon Energy	76.08	-0.52	-0.68	+0.11	+35.57	+13.42
XTO Energy	57.17	-0.46	-0.80	+1.98	+41.90	+21.51
EOG Resources	75.83	-0.78	-1.02	-1.66	+21.33	+21.43
Murphy Oil	58.36	-0.67	-1.14	+1.74	+13.25	+14.77
Canadian Natural	64.57	-0.92	-1.40	+2.18	+22.62	+21.30
Occidental	54.07	-0.89	-1.62	+4.28	+10.49	+10.73
EnCana	60.28	-1.00	-1.63	+2.19	+25.24	+31.19
Talisman	20.03	-0.34	-1.67	+2.77	+15.85	+17.89
Refiners						
Holly	69.37	+0.28	+0.41	+2.77	+70.86	+34.96
Frontier Oil	38.57	+0.10	+0.26	+7.59	+39.42	+34.20
Tesoro	119.65	-0.14	-0.12	+1.57	+80.82	+81.92
Alon	38.98	-0.12	-0.31	+2.18	+26.89	+48.16
Sunoco	77.70	-0.59	-0.75	+5.53	+13.78	+24.60
Valero	73.62	-1.12	-1.50	-0.11	+21.93	+43.90
Integrated Energy						
El Paso	16.15	+0.45	+2.87	+4.87	+7.10	+5.69
Duke Energy	19.39	+0.20	+1.04	-5.60	-29.62	-41.61
Williams	31.22	+0.22	+0.71	+8.67	+48.03	+19.53
Enbridge	34.73	+0.10	+0.29	+3.00	+16.70	+0.96
Kinder Morgan	107.38	+0.09	+0.08	+0.51	+27.33	+1.54
Sempra	61.69	-0.19	-0.31	-0.53	+36.42	+10.08
TransCanada	36.14	-0.28	-0.77	+0.56	+23.47	+3.40
Service Companies						
Baker Hughes	81.63	-0.04	-0.05	+1.77	-3.44	+9.34
GlobalSantaFe	67.72	-0.07	-0.10	+2.31	+14.45	+15.21
Transocean	96.15	-0.39	-0.40	+7.17	+18.70	+18.87
EnSCO	59.10	-0.33	-0.56	+2.52	+21.23	+18.06
Patterson-UTI	26.23	-0.21	-0.79	+2.62	-9.30	+12.91
Halliburton	35.79	-0.33	-0.91	+5.05	-3.01	+15.27
Nabors	34.52	-0.46	-1.32	+0.61	-4.08	+15.92
Schlumberger	77.88	-1.36	-1.72	+4.20	+19.34	+23.31

Note: Ranked by daily percentage change.

Exploration & Production

Weather Aids Rig Movements

Calm weather is allowing Canadian Superior to move a drilling rig to Trinidad and Tobago earlier than planned.

Canadian Superior Chairman Greg Noval said the semi-submersible drilling rig Kan Tan IV arrived in Trinidad Monday, after having made the a journey of 2,284 miles in 18 days from the port of Brownsville, Texas, to the Port of Chaguaramas.

Noval said the Kan Tan IV will spend about

two weeks in port for final loading operations before starting a multi-well drilling project, adding drilling will begin almost a week earlier than originally planned.

Once on station, the rig will begin a program of three back-to-back exploration wells on three large, natural gas prospects — Victory, Bounty and Endeavor — about 60 miles off the east coast of Trinidad on Canadian Superior's Intrepid Block. Noval said each of the wells in this drilling program are planned to take about 80 to 100 days to drill and fully evaluate.

The Intrepid Block is located next to BG's Dolphin and Dolphin Deep developments, with BP's Manakin and Statoil's Cocuina fields to the southeast.

The weather has also helped in the towing of a tension-leg platform for BHP Billiton in the Gulf of Mexico.

At Port Arthur, Texas, Signal International said SBM Atlantia's Neptune Seastar, a massive tension-leg platform, is being towed to BHP Billiton's Green Canyon 613 deepwater block in the Gulf of Mexico.

The platform will support seven subsea wells in water up to 4,300 feet deep that will be capable of processing up to 50,000 b/d and 50 MM-cf/d. Full production is expected in early 2008.

BHP has a 35% interest in the project. Other partners include Marathon (30%); Woodside (20%); and Maxus (15%).

International

PetroChina Makes Big Gas Find

PetroChina is preparing to announce the discovery of the country's largest gas field, with enough fuel for more than a decade of consumption at current rates, the official *China Daily* said on Tuesday.

The field in southwestern Sichuan province is two to three times larger than Sinopec's recently announced Puguang field, which holds nearly 360 billion cubic meters, the newspaper quoted a consultant attached to PetroChina's parent firm as saying.

It has been named the Longgang gas field, Han Xuegong, a senior consultant at China National Petroleum Corporation (CNPC) told the newspaper, and the official report of the discovery could come as early as next month.

A senior manager at PetroChina told the paper the company was planning to announce a big gas find but gave no further details. The company spokesman declined comment.

China has been pushing for greater exploration efforts from its state-owned firms to curb a rising dependence on foreign producers, which currently provide nearly half of its oil.

They appear to be bearing some fruit, with Sinopec's Puguang find and PetroChina's announcement this year of a huge offshore oilfield, one of the biggest discovered

worldwide this decade (OD May7,p1).

The Longgang field alone could hold around 700 billion cubic meters of exploitable gas reserves and geological reserves of up to 2 trillion cubic meters, Han said.

This would put it well above the current largest gas field, Sulige in Inner Mongolia, which has 534 billion cubic meters of proven reserves.

Latin America

PDV Certifies Carabobo Reserves

A survey has found 31 billion bbls of oil in block Carabobo 2 of Venezuela's Orinoco heavy crude belt, 6 billion of them recoverable, state oil company PDV said late Saturday.

Oil services company Ryder Scott had done the survey, PDV said, and it estimated proven reserves at about 6 billion bbl, based on a recovery rate of around 20% of the original oil.

Venezuela is currently certifying the reserves of the vast Orinoco basin, which energy authorities say contains some 235 billion bbl of tar-like crude.

The government of President Hugo Chavez on May 1 took over operations of four heavy crude upgrading projects as part of a nationalization drive meant to create a socialist economy (OD May2,p1).

PDV said on Saturday that engineering and construction company Stone & Webber, owned by The Shaw Group, inspected facilities of two of the projects and determined operations were continuing smoothly following the hand over.

PDV said financiers of the two projects, Ameriven and Petrozuata, carried out the study to allay concerns that the transfer of operations had damaged the projects operations.

The four projects, worth an estimated \$30 billion, have outstanding financing of around \$4 billion.

Companies involved in the projects are Exxon Mobil, Conoco Phillips, BP, Chevron, France's Total and Norway's Statoil.

BG, Chevron Sign Trinidad Gas Deal

BG and Chevron signed a \$2 billion agreement on Tuesday with the National Gas Co. of Trinidad and Tobago for the sale of 220 MMcf/d of natural gas.

The gas will be supplied from the Dolphin field, about 52 miles off the coast of Trinidad, over an 11-year period, with an option to extend the contract for an additional four years. The gas will supply the Trinidad and Tobago domestic market beginning Jan. 1, 2009.

Chevron and operator BG each have a 50% working interest in the East Coast Marine Area.

The deal underpins the commercialization

of up to 1.2 Tcf of gas reserves from the East Coast Marine Area, according to Martin Houston, BG vice president. The project will involve drilling of four new wells along with modifications to the Dolphin Platform, Houston added.

Repsol Inks Venezuela Deal

Venezuelan state oil company PDV and Spain's Repsol YPF have signed an agreement to jointly explore the Barua Motatan oil field that could yield up to 40,000 b/d, PDV said late on Friday.

The accord calls for the field to be developed by Petroquirquire, an existing joint venture 60% owned by PDV and 40% owned by Repsol.

Venezuela's Congress will have to approve Repsol's participation in Barua Motatan, located in the western states of Trujillo and Zulia.

Repsol is a minority partner with PDV in the Menegrande and Quirquire fields and is currently certifying reserves in block Junin 7 of the Orinoco extra heavy oil belt.

Gran Tierra Tests Colombia Field

Calgary-based Gran Tierra Energy announced Tuesday that it has successfully completed a drill stem test program on its recently drilled Juanambu-1 exploration well in the Guayuyaco Block in the Putumayo Basin of southern Colombia.

Production at a combined natural flow rate of 589 b/d of 32° API oil with constant well-head flowing pressure was obtained in three independent reservoir intervals. In addition, two additional zones produced oil with swabbing. One produced 6 b/d and the other produced 183 b/d with a jet pump.

Gran Tierra Energy holds a 50% working interest and is the operator of the Guayuyaco Block. Solana Resources Limited holds a 50% working interest and Colombian state oil firm Ecopetrol has a 30% interest back-in right on commercial discoveries, which if exercised, would reduce Gran Tierra Energy working interest to 35% and Solana's working interest to 35% in this new commercial field.

Gran Tierra holds interests in producing and prospective properties in Argentina, Colombia and Peru.

Legislation/Regulation

Wisconsin Tax Called Unfair

Exxon Mobil, BP and Chevron paid about \$7 million in Wisconsin corporate income taxes while making nearly \$166 billion worldwide during a three-year period.

Meanwhile, Royal Dutch Shell and Murphy Oil Corp. paid no state corporate income taxes from 2003 to 2005. Shell had worldwide profits of \$56 billion during those years. Murphy Oil's profits were nearly \$2 billion.

Gov. Jim Doyle said those profits justify his proposal to impose a 2.5% gross receipt tax on oil company sales in Wisconsin. The new tax would bring in an estimated \$270 million over the next two years to pay for transportation programs in the state. The proposal includes criminal penalties for any company that raises pump prices to cover the cost of the tax.

Doyle told the *Milwaukee Journal Sentinel* that oil companies have unjustly increased retail gasoline prices in recent weeks and should therefore contribute to the state's transportation infrastructure.

Oil companies argue the tax is unfair because they have no significant business presence in Wisconsin.

Erin Roth, with the American Petroleum Institute, said the proposal is unconstitutional and would discourage investment in the state.

"It's totally revenge politics and bad tax policy," he said.

Under state law, multinational companies can reduce their Wisconsin corporate income tax liability by operating in-state retail and refinery businesses as separate out-of-state subsidiaries. The state would do better to adopt combined reporting, which would treat subsidiaries as divisions of the parent company, Andrew Reschovsky, an economist at the University of Wisconsin-Madison told the *Milwaukee Journal Sentinel*.

The new tax, part of the governor's budget proposal, is under consideration in the state legislature. A final decision is expected before Labor Day.

ANWR Lobby Group Put on Hold

Alaska Gov. Sarah Palin has frozen the contract of a lobbying firm hired to advocate for the opening of the Arctic National Wildlife Refuge, after questions were raised about how the company spent state funds.

Oregon-based Pac/West Communications was granted a no-bid \$3 million contract last year by the state legislature. The company took out radio and newspaper ads, mostly in May and June 2006, urging voters in at least four western states to call on Congress to allow more oil drilling on US soil in the name of national security and lower gasoline prices.

The ad agency also conducted polling and focus groups and hired subcontractors to write opinion columns for newspapers and appear on talk radio.

The ads were identified as coming from Americans for American Energy, which described itself as a "grassroots-based group" but was formed by Pac/West.

The state legislature voted this month to extend and expand the contract for another year to promote Alaska energy issues. Palin decided to place a hold on the contract after questions were raised last week about how the ad agency spent \$1.3 million in state funds.

The governor said she was concerned the process of awarding the original contract was not open and transparent. Palin plans to "re-evaluate the needs of those dollars and, if appropriate, start a new award process" with competitive bids, Meghan Stapleton, the governor's spokeswoman, told local media.

State lawmakers who were in office when the original contract was awarded said it was done in haste to influence an upcoming vote in Congress on the wildlife refuge. The US House did vote to open ANWR, but the Senate failed to muster enough votes to overcome a filibuster.

Mergers & Acquisitions

Paramount Adds Dominion Assets

Paramount Energy Trust said on Tuesday it agreed to buy natural-gas producing properties in Alberta for C\$392 million (US\$366 million) to boost its production and reserves of the fuel.

The trust said the properties produce 47 MMcfe/d of gas and bring proved and probable reserves equivalent to 269.1 Bcf of gas.

The company is buying the properties from Dominion Resources, which is selling its Canadian exploration properties for \$583 million. Baytex Energy Trust is acquiring the remainder of Dominion's Canadian assets.

Paramount Trust said it will finance the acquisition with debt, a C\$75 million convertible debenture issue, and by issuing C\$250.5 million in subscription receipts.

The acquisition will raise Paramount's production by about 29% to 160 MMcfe/d. Its proved and probable reserves will double to 527.8 Bcfe.

Paramount said it will pay C\$43,725/boe of daily production and C\$7.62/boe of proved and probable reserves.

The properties are in east-central Alberta and include stakes in 13 gas plants, compressor facilities and 232,000 acres of exploration lands.

Oil Field Service

J. Ray Wins Aramco Contract

Engineering and construction company McDermott International confirmed Tuesday that its subsidiary, J. Ray McDermott, was awarded a four-year project by Saudi Aramco to engineer, procure, construct, install, hook up and commission the Manifa Field facilities in the Arabian Gulf.

The project also includes modification work which entails design, procurement, installation, hook up and commissioning of communication packages on 26 existing platforms.

Engineering is scheduled to begin on the Manifa project in May 2007 and the project is expected to be completed by 2011. During the period, J. Ray's marine vessels will carry out the offshore construction and hook up of the facilities in several campaigns.

Refining

Murphy May Expand Superior

Murphy Oil may expand its Superior, Wisconsin, refinery to process more crude oil from Canada, but the company is seeking a partner before making any decisions, a Murphy spokeswoman said.

"We would have to first make a deal with a Canadian producer ... But deals are made slowly, if at all, so it is certainly not something we consider imminent," said Murphy spokeswoman Mindy West.

West declined to comment on a report in *BusinessNorth* that the company could spend up to \$6 billion to add 200,000 b/d of new capacity at Superior.

BusinessNorth also reported that Murphy had hired a unit of engineering firm AECOM to help plan for the expansion and that it had bought up about 150 acres of land around its existing 35,000 b/d refinery.

Oil sands production is expected to jump from 1.1 million b/d in 2006 to at least 2.9 million b/d by 2015, according to the Canadian Association of Petroleum Producers.

The sharp increase in production has prompted producers to seek partnerships with US refiners to secure markets.

Superior, Wisconsin, is a major shipping hub on the massive Enbridge crude oil pipeline system which would give the Murphy plant a shipping cost advantage over refineries located further south.