Energy Intelligence

Vol. 56, No. 124 Thursday, June 29, 2006

OIL DAILY

Today's complete oil and gas news briefing.

Gulf Shipping Lane Faces Prolonged Closure

The operator of a small Louisiana refinery is concerned that the oil spill that closed the Calcasieu Ship Channel outside of Lake Charles more than a week ago may not be cleaned up sufficiently to reopen the entire length until after Jul. 4.

Byron Hamilton, vice president and general manager of privately owned Pelican Refining, said he viewed the affected area by helicopter earlier this week. "It's a real mess that is going to take some time to clean up," he told *Oil Daily* on Wednesday.

The waterway was closed following last week's spill at Citgo Petroleum's Lake Charles Manufacturing Complex, which includes a 425,000 barrels-per-day refinery (OD Jun.23,p7). Heavy rainfall inundated the area on Jun. 19, and resulting floods overwhelmed Citgo's waste water storage tank area and dikes. A mixture of storm water and oil was released into the Indian Marais, Citgo's on-site drainage feature, and spread down the Calcasieu River toward the Gulf of Mexico.

Estimates of the volume of oil involved range as high as 40,000 bbl. Citgo has organized a clean-up effort in cooperation with the US Coast Guard. The company, owned by Venezuelan state Petroleos de Venezuela (PDV), is responsible for all cleanup costs.

Marine traffic to and from the Gulf of Mexico was halted for more than a week, cutting off deliveries of crude oil and other feedstocks to at least three refineries and multiple petrochemical facilities in the area. In addition, none of the facilities can ship products out by either tanker or barge, though rail and pipeline deliveries continue.

Drawings based on aerial surveys posted on the Coast Guard's website showed that at one point oil slicks ranging from heavy coatings to light sheens had spread the entire length of the channel. On Wednesday, however, a Coast Guard spokesman said much of the channel through Calcasieu Lake had reopened. Among the first vessels to make the journey was a liquefied natural gas (LNG) tanker destined for Southern Union's Trunkline LNG terminal south of Lake Charles. Another nine vessels are awaiting clearance to enter, the spokesman said, but he didn't know if they were crude or products carriers or LNG vessels.

The Coast Guard planned to run a tug from the Citgo refinery down the channel later on Wednesday to test the impact of ship movements through the affected area. A Citgo spokesman said that under the best-case scenario, the channel could reopen later on Wednesday or today.

Hamilton said Pelican has not been able to get any deliveries in more than a week and cannot operate. Normally the plant operates on Mexican crude. He declined to estimate the economic impact on operations, but said that a figure would be submitted to the Coast Guard.

Citgo earlier this week received approval for a 250,000 bbl loan from the US Strategic Petroleum Reserve (SPR) to allow it to continue operating, though at reduced rates.

(See Gulf, page 2)

News in Review

In This Issue:

Senate Seeks Regulation of OTC, ICE Trading

Senate investigators, partly blaming speculation in the oil markets for rising crude and gasoline prices, are calling for greater oversight of energy futures trading and disclosure of trading activities in foreign and online exchanges.

Legislation should be enacted to close a major loophole in federal oversight of oil and gas traders, said the Senate Permanent Investigations Subcommittee in a report issued Tuesday. It recommended expanding the oversight authority of the Commodity Futures Trading Commission (CFTC) and for US regulators to work with their foreign counterparts to make trading more transparent.

"I am concerned at the prices that hard-working Americans are paying for energy and troubled by the implication that excessive market speculation or manipulation may be a contributing factor," said Subcommittee Chairman Norm Coleman (R-Minn.).

Benchmark crude oil prices hit a record of $75.17 per barrel in late April while nationwide retail gasoline prices averaged a high of $2.99 per gallon in mid May. Soaring prices have been attributed to forces of supply and demand, but supplies have been more than adequate to meet demand, the report said. Oil inventories in the US reached an eight-year high of 347 million barrels on Jun. 16 — the highest level since 1998 when oil prices were $15/bbl (OD Jun.22,p3). Inventories in OECD countries also reached a 20-year high, said the report, suggesting that factors other than supply and demand may be at play in the sharp rise in oil and gasoline prices.

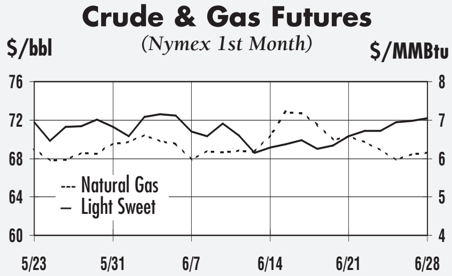
While many industry experts say that geopolitical concerns in oil-producing countries are supporting high prices, pan-

(See OTC, page 2)

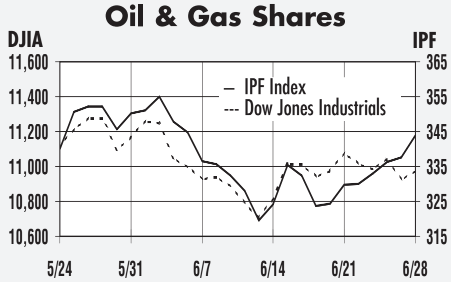
Latest Market Trends

Crude & Gas Futures

(Nymex 1st Month)



Oil & Gas Shares



Controversy Brews Over Authority of Camisea Pipeline Audit

The outgoing administration of President Alejandro Toledo is rushing a long-awaited government audit of the accident-prone Camisea gas pipeline in Peru.

"We're extremely concerned. There's a lot of pressure to accelerate the audits," outgoing Prime Minister Pedro-Pablo Kuczynski said in a recent interview.

The congressional committee investigating the Camisea leaks says Toledo and his administration are rushing the audit process because they want to select an auditing company before President-elect Alan Garcia is sworn in on Jul. 28. The recent start up of the Camisea gas field and expected gas exports by Peru LNG in 2009 are President Toledo's defining legacy. His outgoing administration wants to make sure it has a say in who audits the project, according to an engineer close to the project.

On Friday that same congressional committee said the Peruvian government failed to adequately supervise the construction of the 455-mile gas pipeline and 404-mile natural gas liquids line and called for a renegotiation of the upstream contract with Pluspetrol. The renegotiation could extend to the group holding the transportation concession, known as Transportadora del Gas de Peru (TGP), as well.

According to the committee report, there was a "systematic omission on the part of public authorities and officials from the energy regulator Osinerg" to directly supervise the design and construction of the project.

Since gas shipments of natural gas and gas liquids began in August 2004, the Camisea liquids pipeline has ruptured five times. This has angered local communities, which were promised that the project's upstream and downstream components would respect the environment, especially in Peru's pristine Amazon forest where the gas is extracted (OD Feb.28,p2).

The consortium operating the upstream phase of the Camisea project is led by Argentina's Pluspetrol and includes Hunt Oil of the US, South Korea's SK Corp., Tecpetrol, a unit of Techint, Sonatrach of Algeria and Spain's Repsol YPF.

That eco-friendly commitment convinced the Washington Inter-American Development Bank (IDB) to provide $75 million in loans towards the development of the first phase of the project, which in total cost about $1.65 billion. The IDB is now considering providing up to $400 million in financing for the development of the $2.5 billion second phase LNG export terminal (OD May16,p5).

The congressional committee says Garcia should select the auditing company, not Toledo. Throughout his campaign Garcia said his government could seek to renegotiate some elements of the Camisea contracts.

In a message emailed to *Oil Daily,* Jeanne Phillips, Hunt Oil's senior vice president for international relations, said CEO Ray Hunt "had a private meeting with President-elect Garcia. Mr. Hunt was extremely encouraged by this conversation and we believe that President-elect Garcia will create a positive business environment that will allow PLNG to move forward on schedule and successfully." Peru LNG is owned by Dallas-based Hunt Oil.

According to Peru's *El Comercio* daily newspaper, about 10 companies have so far bid for the $2.5 million contract to audit the pipeline.

In February, independent engineering consulting firm E-Tech International claimed that TGP used corroded pipelines to construct a portion of the pipeline. In May, the IDB's own report refuted the allegations, but noted that a portion of the pipeline had indeed been built in a high-risk area prone to slope movement.

Terrence Murray, New York

OTC . . .

(Continued from 1)

el staff members who compiled the report note that market speculators have poured billions of dollars into the energy commodity markets in recent years. Some $100-$120 billion has been invested in the global energy markets in the past three years and in the New York Mercantile Exchange (Nymex) alone about $60 billion has been invested. Some analysts have estimated that speculation has added as much as $20-$25/bbl to the price of a barrel of oil, pushing up overall oil prices from $50/bbl to $70/bbl, the report pointed out.

Despite the rise in speculative trading, existing law does not provide for adequate supervision, the report said. Growing online energy trading is exempt from the Commodity Futures Trading Commission's (CFTC) limits on speculative trading, the report said.

Also, oil and gas traders utilizing online or foreign exchanges do not have to file trader reports with the CFTC, which is key for the regulatory agency to "detect, prevent and prosecute manipulation and to analyze the effects of speculation."

Increasingly, US oil and gasoline traders are now trading on the Intercontinental Exchange (ICE), which is regulated by the UK Financial Services Authority, but not the CFTC. While traders on the Nymex must keep records for five years and report large trading positions to the CFTC, those using online or foreign exchanges are not required to. They are also not subject to other federal regulations, including limits on how much of a given commodity can be traded in a single day. An estimated 80% of US energy commodities are traded on ICE.

"Right now, there is no US cop on the beat overseeing US energy trades on over-the-counter (OTC) electronic exchanges or foreign exchanges," said Sen. Carl Levin (D-Mich.), calling for rules requiring traders to report extensively on the activities on the OTC or on a foreign exchange.

Stating it was time to explore legislative ideas, Coleman said Congress needs to determine whether the "scale needs to be tipped from the speculator to the regulator."

The report likely boosts prospects of bipartisan legislation introduced in the Senate in April that requires traders using online or other exempt trading facilities to keep records and to provide the CFTC and the Justice Department reports when requested.

Similar bills have failed narrowly in the Senate in the past.

Manimoli Dinesh, Washington

Gulf . . .

(Continued from 1)

The ConocoPhillips refinery at Lake Charles also is running below maximum capacity, spokesman Phil Blackburn said. The company has asked the government for a 500,000 bbl loan from the SPR (OD Jun.28,p7). The Energy Department approved the request on Wednesday. Both companies normally get the bulk of their supplies from Venezuela.

The Intracoastal Waterway, which runs west and east perpendicular to the Calcasieu Channel, has been opened to limited commercial traffic, but vessels must be cleaned after crossing the ship channel to prevent spreading the oil sheen further. No recreational boats can yet traverse the area.

The closure of the channel has supported prices of oil products like gasoline on the New York Mercantile Exchange (OD Jun.27,p3).

Barbara Shook, Houston

Nymex Crude Up Slightly on 'Moderately Bullish' Inventory Data

Fresh data from the Energy Information Administration (EIA) pushed crude futures prices higher on the New York Mercantile Exchange (Nymex) on Wednesday. But the gains were tempered because the new EIA numbers were not as bullish as originally thought. Furthermore, loans from the Strategic Petroleum Reserve (SPR) to Gulf Coast refineries squelched any chances of prices moving higher (see p1).

In New York, light, sweet crude for August added 27¢ to $72.19 per barrel. In London on ICE Futures, Brent rose 43¢ to $71.41/bbl.

The RBOB gasoline contract lost 1.04¢ to $2.3185 per gallon. Mike Wittner of Calyon said the EIA's report was only "moderately" bullish. "Most of the draw in crude was because of lower imports, and imports are volatile [week to week], so you can't read too much into it. Even with the draw, stocks are at 344 million barrels, which is a still a high number."

The EIA reported that crude inventories fell 3.4 million barrels to 343.7 million bbl for the week ending Jun. 23.

"In the bigger picture, some look to the weekly stats for a turning point or the start of a trend that would change their view. But these stats won't change anyone's mind — not the bulls, not the bears, and not the fence-sitters."

The most bullish number was a gasoline draw of 1 million bbl, which puts US inventories at 212.4 million bbl. Like crude, the gasoline draw was mostly due to lower imports. Gasoline imports were at 958,000 barrels per day, down 32% in just two weeks, the result of the trans-Atlantic arbitrage being closed.

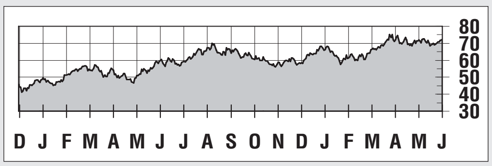
US oil demand averaged 20.78 million b/d for the last four weeks, down 1% versus the same time a year ago. However, gasoline and

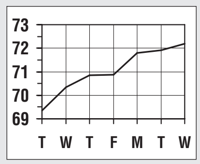
(See Futures, page 4)

Daily Oil & Gas Price Review

Prices for Wednesday, June 28, 2006

Crude Oil — Nymex Light Sweet ($/barrel)





Light Sweet Futures — Prompt Month ($/barrel)

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	+0.27	72.19	71.52	73.14	73.75
IPE Brent	+0.43	71.41	70.60	71.87	72.45

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	+0.10	72.12	71.35	71.39	55.50
WTI (Midland)	+0.42	72.50	71.48	71.32	55.32
Brent (Dated)	+0.40	72.15	70.88	66.59	53.51

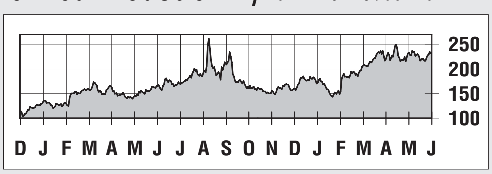
US Domestic Crudes ($/barrel)

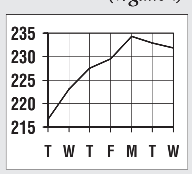
Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+0.32	68.05	66.43	65.82
LLS (St. James)	+0.42	73.70	72.47	72.32
ANS (California)	+0.10	70.77	70.00	69.84
Kern River (SJV)	+0.58	60.88	59.77	60.50
Line 63 (SJV)	+0.10	70.27	69.50	69.34

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket [I]	1.20[I]	65.79	65.88	65.41[G]
Nigeria Bonny Light	+0.50	72.50	70.02	68.81
Dubai	+0.49	66.50	65.85	65.55
Oman	-0.64	67.37	66.52	66.29
Russia Urals	+0.60	67.05	65.78	62.56

Refined Products — Nymex RBOB Gasoline (¢/gallon)





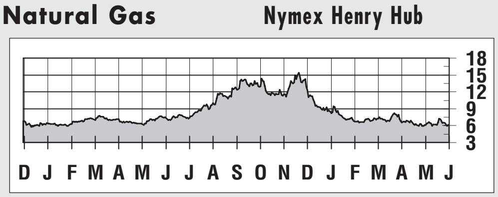
Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)

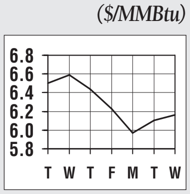
Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	-1.04	231.85	231.21	231.19	228.46
Heating Oil	-2.13	193.74	196.19	199.84	205.24
IPE (London)					
Gasoil ($/ton)	-3.50	634.00	629.85	640.75	648.50
Gasoil (¢/gal.)	-1.11	201.27	199.95	203.41	205.87

US Product Spot Markets[H]

	Gulf Coast				New York				Los Angeles			
Gasoline (¢/gal.)	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	+1.13	222.53	217.89	206.10	+1.63	214.53	209.86	204.35	+2.28	246.28	240.97	237.50
Premium Gasoline	-7.87	237.53	241.44	235.85	+2.40	247.50	241.04	230.35	+0.78	275.28	266.97	253.50
Regular RBOB	-1.72	233.53	232.13	230.48	+0.86	232.75	230.64	228.14	...	...	...	...
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	-1.40	192.25	193.94	194.15	-2.93	188.07	189.81	195.90	—	—	—	—
No. 2 Low Sulfur Diesel	-0.90	210.25	210.67	213.40	-1.18	206.07	208.26	215.40	-3.15	222.00	223.87	233.50
Jet Fuel	-0.15	202.50	204.09	205.65	-1.18	199.32	201.41	210.40	+0.35	218.50	218.77	221.00
Residual Fuel ($/bbl)												
No. 6 Oil (low sulfur)	0.00	44.75[A]	45.05	49.00	0.00	50.50[B]	50.68	51.85	—	—	—	—
No. 6 Oil 1% S	0.00	43.75[C]	44.05	48.00	0.00	46.40[D]	46.73	49.35	—	—	—	—
No. 6 Oil 3% S	0.00	45.50	44.88	48.90	0.00	45.75	46.02	48.35	0.00	317.00[E]	316.40	347.00

Natural Gas — Nymex Henry Hub ($/MMBtu)





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

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex ($/MMBtu)				
Henry Hub	-0.152	6.160	6.180	6.425

Spot Gas Prices ($/MMBtu)[F]

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	+0.21	6.74	7.31	6.58
Henry, Louisiana	+0.07	6.04	6.51	5.97
Chicago	+0.08	5.79	6.49	5.91
Katy, Texas	+0.06	5.89	6.41	5.63
Southern California Border	+0.02	5.78	6.22	5.28
AECO Hub (Canada)	-0.05	5.04	5.62	4.99

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

Futures . . .

(Continued from 3)

distillates demand were both up about 1%.

US Energy Secretary Samuel Bodman said on Wednesday that he authorized loans from the SPR to two Louisiana refineries that had to cut back runs due to the closure of the Calcasieu Ship Channel in southwestern Louisiana (OD Jun.27,p3). Bodman said he expects the crude to reach the refineries in a few days. One loan was for 500,000 bbl of West Hackberry sour crude oil to ConocoPhillips' 250,000 b/d Lake Charles, Louisiana, refinery. Citgo's 425,000 b/d Lake Charles plant will also receive 250,000 bbl of West Hackberry sour crude. In another bearish development, Saudi Arabia said that it cannot sell some of its crude because of a lack of buyers, the kingdom's ambassador to the US told a conference in Houston on Tuesday. "We have 300,000 to 400,000 b/d that is going unsold because there are no buyers," said Prince Turki Al-Faisal.

Matt Piotrowski, Washington

EIA Weekly Statistics

For Week Ended June 23, 2006

US Crude Oil: Stocks[1]

(millions of bbl)

	Current Week	Previous Week	Chg.
PADD 1	15.3	17.2	-11.0%
PADD 2	73.0	72.2	1.1%
Cushing, OK	24.1	23.6	2.1%
PADD 3	183.8	185.7	-1.0%
PADD 4	13.8	14.2	-2.8%
PADD 5	57.8	57.8	0.0%
Total US [1]	**343.7**	**347.1**	**-1.0%**

Crude Oil: Production and Imports

(average, thousands of b/d)

	Production [2]	Imports
PADD 1	—	1,507
PADD 2	—	1,086
PADD 3	—	6,271
PADD 4	—	234
PADD 5	—	1,448
Total US [2]	**5,162**	**10,546**
Previous Week	5,198	10,994

Products: Stocks

(millions of bbl)

	Total Motor Gasoline	Blending Compo-nents	Finished Motor Gasoline	Finished Reformu-lated	Kerosene Jet Fuel	Total Distillate Fuel Oil	<15 ppm Sulfur Dist. Fuel	15-500 ppm Sulfur Dist. Fuel	>500 ppm Sulfur Dist. Fuel	Residual Fuel Oil	Unfin-ished Oils
PADD 1	57.4	25.6	3.0	1.5	10.3	52.4	1.7	16.2	34.5	16.7	—
PADD 2	51.7	15.4	0.0	0.0	7.4	27.1	4.8	17.2	5.1	2.3	—
PADD 3	66.3	26.4	3.0	1.5	12.1	30.7	6.4	15.8	8.5	16.2	—
PADD 4	5.9	1.5	0.0	0.0	0.5	3.1	1.1	17.2	5.1	0.3	—
PADD 5	31.0	21.1	3.0	1.5	9.4	13.0	5.5	5.1	2.4	6.9	—
Total US	**212.4**	**90.1**	**239.9**	**4.5**	**39.7**	**126.3**	**19.5**	**55.7**	**51.0**	**42.4**	**91.6**
Previous Week	213.4	91.1	240.0	4.6	39.9	124.5	16.8	57.9	49.8	42.1	91.5

Products: Output

(thousands of b/d)

	Total Fin. Motor Gasoline	Reformu-lated	Conven-tional	Total Kerosene Jet Fuel	Commer. Kerosene Jet Fuel	Military Kerosene Jet Fuel	Total Distillate Fuel Oil	<15 ppm Sulfur Dist. Fuel	15-500 ppm Sulfur Dist. Fuel	>500 ppm Sulfur Dist. Fuel	Residual Fuel Oil
PADD 1	1,722	1,138	1,138	84	84	0	521	119	144	258	117
PADD 2	2,185	424	424	199	182	17	948	566	278	104	56
PADD 3	3,473	322	322	767	687	80	1,945	776	624	545	268
PADD 4	297	0	0	30	25	5	186	138	32	16	14
PADD 5	1,650	1,120	1,120	409	388	21	626	476	42	108	125
Total US	**9,327**	**3,004**	**6,323**	**1,489**	**1,366**	**123**	**4,226**	**2,075**	**1,120**	**1,031**	**580**
Previous Week	9,350	3,060	6,290	1,484	1,352	132	4,182	1,939	1,242	1,001	572

Products: Imports

(thousands of b/d)

	Total Motor Gasoline	Blending Compo-nents	Finished Reformu-lated	Finished Conven-tional	Kerosene Jet Fuel	Total Distillate Fuel Oil	<15 ppm Sulfur Dist. Fuel	15-500 ppm Sulfur Dist. Fuel	500-2,000 ppm Sulfur Dist. Fuel	>2,000 ppm Sulfur Dist. Fuel	Residual Fuel Oil	Other	Total
Total US	**958**	**620**	**0**	**338**	**188**	**264**	**62**	**103**	**75**	**24**	**385**	**1,152**	**3,102**
Previous Week	1,084	719	0	365	183	284	63	101	74	46	563	1,445	3,730

US Refinery Inputs and Utilization

(thousands of b/d)

	Gross Inputs	Crude Oil Inputs	Percent Operated
PADD 1	1,593	1,602	—
PADD 2	3,502	3,485	—
PADD 3	7,725	7,632	—
PADD 4	590	585	—
PADD 5	2,897	2,820	—
Total US	**16,307**	**16,124**	**94%**
Previous Week	16,224	15,968	93%

Notes:

Table is based on weekly statistics from the US Energy Information Administration's Weekly Petroleum Reporting System. The supply data are based primarily on company submissions for the week ending 7:00 a.m. the preceding Friday. Totals may not add due to rounding.

[1] Crude oil stocks excluding SPR.

[2] Crude oil production estimates are based on historical production patterns.

After Failed Stone Bid, Plains Plans Asset Sale, Big Share Buyback

Plains Exploration & Production plans to sell oil properties in California and Texas and put the proceeds toward share buybacks and debt reduction.

The decision to reshuffle its upstream portfolio comes after Houston-based Plains failed in its takeover attempt of Gulf of Mexico producer Stone Energy. Shortly after Plains offered to buy Stone for $1.5 billion, Energy Partners Ltd. (EPL) entered the mix and offered a higher $2.2 billion for the company (OD Jun.20,p7). Stone's board approved the EPL offer earlier this month.

In doing its homework for the failed Stone deal, Plains Chief Executive Jim Flores said Wednesday that changes needed to be made because the company realized that some properties were not hitting internal performance targets and were not key to Plains' growth over the next five years.

The properties included in the divestment plan produce approximately 8,000 barrels of oil equivalent per day. Plains expects to see about $1 billion from the sale proceeds and free cash flow for the remainder of the year.

In California, Plains will sell the Buena Vista and Mt. Poso fields in the San Joaquin Valley, as well as the Sansinena field in the Los Angeles Basin. In West Texas, Plains is offering for sale the Pakenham field. The sales will be conducted by negotiated and auction transactions, with closing expected in the fourth quarter.

Plains' board of directors approved a $500 million share buyback program in late 2005. Much of the money raised from the asset sales will help fund share repurchases.

For the second quarter, Plains said Wednesday it expects to report oil and gas sales volumes of 61,000-62,000 boe/d, which would be slightly higher than first-quarter volumes of 60,700 boe/d. For the second half of 2006, the company estimates that sales volumes will average 63,000-68,000 boe/d.

Plains also announced several management changes on Wednesday. Winston Talbert was promoted to executive vice president and chief financial officer. Talbert, who was most recently a vice president at Plains, joined the company in 2003. Doss Bourgeois, also most recently a vice president, was promoted to executive vice president of Plains' exploration and production operations.

Bourgeois replaces Thomas Gladney, who left Plains to pursue private exploration and production ventures.

Jeff Gosmano, Houston

Bolivia Sets New Price for Gas Exports to Argentina, Joins Pipe Group

Bolivia is today expected to announce an almost 60% price increase for the natural gas it exports to Argentina, a move that signals the end of more than a decade of cheap gas in Latin America.

Bolivian President Evo Morales and his Argentine counterpart Nestor Kirchner are expected to announce a deal today that will jack up the $3.50 per million Btu price that Argentina now pays for Bolivian gas (OD Jun.21,p7).

Buenos Aires has agreed to pay $5/MMBtu for the roughly 195 million cubic feet per day it buys from Bolivia until the end of its contract in December. Next year, the price will go up to $5.50/MMBtu, according to Bolivia's ambassador to Argentina, Roger Ortiz Mercado.

The presidents are also expected to announce Argentina's commitment to purchase additional gas from Bolivia. These could include higher flows to fill up the current export pipeline to its 270 MMcf/d capacity, plus future purchases of some 700-800 MMcf/d through the yet-to-be-built 622-mile Northeastern Pipeline. Construction of the line was suspended last year due to political instability in Bolivia, which led Morales to nationalize the country's hydrocarbons industry in May (OD May2,p1).

Bolivia has also agreed to formally join Venezuela, Argentina and Brazil in an ambitious transcontinental project to build a 4,970-mile natural gas pipeline. The project would bring gas to Argentina and Brazil from Venezuela's largely untapped 147 trillion cubic feet of reserves, with branches extending to Bolivia, Paraguay and Uruguay.

A recently-created special commission is expected to perform a feasibility study of the so-called South American Gas Pipeline over the next 60 days. The project has been met with skepticism by analysts due to its costs, estimated at around $20 billion, and the environmental effects of traversing the Amazon jungle. Some see it as a delusional vision of Venezuelan President Hugo Chavez, a leftist who seeks to expand his political reach throughout Latin America.

Bolivia is Latin America's second largest gas reserves holder — with 49 Tcf — after Venezuela. Its main gas export destination is Brazil, which currently buys some 280 MMcf/d of gas from Bolivia at around the same price Argentina pays, $3.50/MMBtu.

But unlike Argentina, Brazil refuses to go along with La Paz's demands for an increase in the price it pays for gas imported from the Bolivian fields of Brazilian state controlled oil giant Petrobras (OD May4,p1).

Petrobras said it will stick to the take-or-pay contract it holds with the Andean nation until 2019, which stipulates that the gas price is adjusted on a quarterly basis, based on a basket of international crudes.

Following this formula, Petrobras said Tuesday Bolivia's gas imports will be increased only by some 10% at the wellhead and 6% at destination in Brazil starting Jul. 1. The company projects no additional price increases.

Bolivian government representatives and Petrobras officials are expected to meet next week to discuss the price of Bolivian gas exports. Until now, Latin America's gas prices were the lowest in the world. It is expected that higher prices for Bolivian gas will bring regional prices more in line with global rates in the medium to long term.

Increased value for Bolivia's gas sales may not necessarily lead to a return of private investment to the country's upstream sector. Most private firms froze outlays in Bolivia after the nationalization. Private sector representatives are being left out of current price negotiations between Bolivia and Argentina and Brazil.

"The benefit of a higher price may be only for the government because companies have no clue of how much of that increase they will get," said an oil company representative. "With that uncertainty, no one will plan to invest more in Bolivia now."

Bolivia's effort to jack up its gas prices is one example of a trend in Latin America where governments are asserting greater control over their oil and gas resources to get a larger share of revenues.

"With oil prices showing little sign of moderating in the intermediate term, we expect the trend to continue," international rating agency Standard and Poor's said in a report Tuesday.

Patricia I. Vasquez, Washington

BLM Still 'Overwhelmed' by Surge in Rockies Drilling Permits

With natural gas demand anticipated to increase 25% over the next decade, the Bureau of Land Management's role in the US' energy future will continue to be essential. Public lands that BLM oversees now provide 18% of the nation's natural gas production. Last year, in hopes of ramping up production, Congress passed the Energy Policy Act that contained provisions seeking to improve oil and gas permitting by creating seven BLM pilot project offices.

These pilot offices are existing BLM offices that have processed about 70% of the applications for permits (APD) to drill in the last three years.

The pilot project partners the BLM with the US Fish and Wildlife Services and works to streamline the regulatory process. But 10 months since the energy law was enacted, it is clear that further fine-tuning will need to take place.

The number of APDs received by the BLM has increased every year since 2002. In 2002, the BLM received 4,585, a number that surged to 8,351 in 2005. Projections for 2006 top 9,300 and for 2007 they surpass 10,000.

"We are proud of the progress we have made in response to this increasing demand," BLM Director Kathleen Clarke told a Senate subcommittee on Tuesday. "In 2005, we processed 7,736 APDs, a record number. However, despite this significant achievement, it is clear that more needs to be done to improve the APD process."

At the heart of the matter is a report issued last June by the Government Accounting Office (GAO) that attacked the BLM, saying that the dramatic increase in permits required more time processing, resulting in the environmental mitigation duties of the agency to be pushed aside.

For the BLM, the Rocky Mountains region, where the agency estimates that five basins contain nearly 140 trillion cubic feet of gas reserves, has been problematic. The exploration surge by industry has been intense, with the impact on BLM inspections gravely apparent. For example, the Wyoming BLM office processed 2,900 APDs in 2005, and is expecting that number to nearly double this year to 4,500-5,000. Wyoming field offices in 2001 were able to complete 93% of the 1,750 required inspections. But this year, as with 2005, the state offices expect to complete just 66% of those required inspections.

"The Buffalo and Rawlins field offices have received almost all personnel to fulfill permitting goals," said Mary Flanderka, state planning coordinator for the governor of Wyoming's office. "But throwing money and personnel at a problem does not necessarily make for faster permitting. Experience and coordination are necessary if efficient permitting is to happen. It is ludicrous to expect field offices with up to 20% annual turnover rates to be operating at full speed."

But Clarke is optimistic and expects innovations to help meet future goals. To date, the BLM has hired 99 of the 105 identified positions for the pilot project offices. The agency has also hired 19 petroleum engineering specialists and 21 natural resource specialists for these offices and has transferred funds to the Forest Service, the Fish and Wildlife Service and the Army Corps of Engineers to fill another 19 positions.

When asked about whether the Energy Policy Act has allowed for the correction of the problems cited by the GAO last June, Dale Hale, director of the US Fish and Wildlife Service, responded, "I think that at least it has been lessened and the Act has helped us there. BLM-wide, I think they're still strapped funding-wise. A lot of them, and a lot of our folk, still feel overwhelmed."

Matthew S. Carr, Washington

NEWS ALERT

From staff and wire reports

Top Briefs

BP Faces Manipulation Charges

The US futures industry regulator said on Wednesday that a US unit of BP tried to manipulate US propane prices by cornering the market in February 2004.

"With the knowledge, advice, and consent of senior management, BP employees developed and executed a speculative trading strategy in which BP cornered the February 2004 ... physical propane market," the Commodity Futures Trading Commission (CFTC) alleged in a 42-page complaint filed in a US district court in Illinois.

BP denied that any market manipulation occurred and will contest the charges in court, company spokesman Ronnie Chappell said. BP has dismissed several employees for failing to comply with its guidelines, and cooperated fully with CFTC investigators, Chappell said.

Employees at BP Products North America Inc., a wholly owned subsidiary of BP, sought a profit of at least $20 million through its actions, the CFTC said. BP is the largest supplier of propane in North America.

According to the CFTC's complaint, BP employees bought "enormous quantities" of propane, until it owned more than 88% of all supplies to be delivered through the Teppco products pipeline from Mont Belvieu, Texas, to markets in the Northeast and Midwest US.

BP had a "dominant and controlling position" in propane that allowed it to drive prices up about 90¢ per gallon on Feb. 27,2004, the CFTC said.

Corporate News

Compton Cuts Capital Spending

Calgary-based natural gas producer Compton Petroleum is slashing its capital spending this year by 19% as natural gas prices decline and production costs rise, the company said on Wednesday.

Compton has cut the amount it plans to spend on drilling new wells to US$414 million from the US$511 million it budgeted last December, reducing the number of wells it drills to 360-380, down from the 480 first planned.

Compton said delaying some drilling until natural gas prices pick up will improve profitability.

Benchmark natural gas prices, set on the New York Mercantile Exchange, have dropped nearly 15% over the past 12 months to a recent US$6.10/MMBtu.

Gas prices, which reached US$15.38/MMBtu in December, have dropped as a mild winter in much of North America reduced demand and left above-average amounts of the fuel in storage when the winter heating season ended.

Larger firms, including Canadian Natural Resources have also announced plans in recent months to scale back drilling because of falling prices and rising costs to rent drilling rigs and hire staff.

Compton, which pumped out 34,029 bbl of oil equivalent a day in the first quarter, said the cuts would scale back its expected output for 2006 to between 34,000 and 35,000 boe/d from the 37,000 to 38,000 boe/d first forecast.

Moody's Downgrades Hunt Debt

Moody's Investors Service lowered independent Hunt Oil 's issuer rating to Baa2 from Baa1 following a review resulting from the termination of Hunt's production sharing agreement (PSA) covering Marib Block 18 in Yemen last year (OD Oct.21,p10). The rating outlook is stable.

Moody's said the downgrade reflects the material reduction in Hunt's production volumes and proved developed reserves following the loss of Block 18 and asset sales, the company's increasingly concentrated oil and gas asset portfolio and its heightened financial risk over the medium term.

Hunt's production is not expected to increase materially until the Yemen LNG project starts up in late 2008. Lower Yemen reserves and asset sales in Peru also contributed to a 28% reduction in its year-end 2005 proved developed reserves. Hunt added a substantial volume of proved undeveloped reserves (PUD) related to its Yemen LNG project in 2005 (OD Aug.30,p7). As a result, the company's proportion of PUD reserves rose dramatically from 20% at year-end 2004 to 65% at the end of 2005.

Hunt's assets have become increasingly concentrated, with most of its total proved reserves in Yemen and Peru. Hunt's asset concentration is exacerbated by the political risk of these two countries and environmental exposure in Peru. Hunt's Camisea production is transported in two pipelines through the environmentally sensitive rainforest and across the Andes. The liquids pipeline has experienced five ruptures since beginning production in August 2004, resulting in increased regulatory scrutiny (OD Mar10,p7).

Duke Spins Off Gas, Power Units

Duke Energy's board of directors has unanimously authorized management to pursue a plan to create two separate publicly traded companies by spinning off Duke's natural gas businesses to Duke shareholders.

Once the transaction is completed, Duke shareholders will own 100% of the equity in both Duke and a new gas company. The new gas company, which has yet to be named,

Stock Market Scorecard

Integrated Majors	Close 6/28	1-Day Chg.	% Chg.	% Chg. 10-Day	% Chg. 52-Wk	% Chg. YTD
Hess	50.41	+2.21	+4.59%	+16.05%	+39.16%	+19.25%
Marathon	81.80	+1.99	+2.49	+17.14	+49.32	+34.16
Exxon Mobil	61.12	+1.47	+2.46	+7.89	+5.11	+8.81
BG	64.92	+1.43	+2.25	+8.91	+56.13	+30.55
Statoil	27.90	+0.61	+2.24	+13.92	+42.49	+21.52
ConocoPhillips	64.14	+1.39	+2.22	+10.76	+10.19	+10.24
Chevron	61.36	+1.26	+2.10	+8.07	+8.24	+8.09
Shell-A	64.77	+1.23	+1.94	+5.33	+2.40	+5.33
Shell-B	67.54	+1.25	+1.89	+5.14	+2.46	+4.66
BP	67.97	+1.01	+1.51	+5.10	+7.04	+5.84
Norsk Hydro	26.75	+0.33	+1.25	+17.27	+48.12	+29.63
Total	62.54	+0.70	+1.13	+7.42	+6.68	-1.04
Eni	56.81	+0.45	+0.80	+1.00	+10.53	+1.84
Repsol YPF	27.27	+0.12	+0.44	+7.40	+5.99	-7.28
Petro-Canada	44.60	-0.11	-0.25	+7.96	+35.75	+11.25
IPF Index	**343.91**	**+6.33**	**+1.88**	**+6.08**	**+11.84**	**+8.39**
Large Producers						
Apache	65.38	+2.00	+3.16	+14.24	-0.41	-4.58
Canadian Natural	52.77	+1.55	+3.03	+14.44	+43.16	+6.35
Murphy Oil	53.13	+1.41	+2.73	+12.49	-1.72	-1.59
Occidental	101.58	+2.67	+2.70	+10.29	+28.65	+27.17
Anadarko	45.05	+1.04	+2.36	+0.85	+9.17	-4.91
EnCana	52.22	+1.13	+2.21	+12.64	+28.24	+15.63
Pioneer	44.90	+0.77	+1.74	+22.91	+7.03	-12.42
XTO Energy	43.32	+0.67	+1.57	+17.14	+28.89	-1.41
Nexen	53.38	+0.50	+0.95	+14.92	+71.03	+12.07
EOG Resources	66.43	+0.35	+0.53	+15.81	+18.84	-9.46
Kerr-McGee	69.26	+0.04	+0.06	+42.23	+82.41	+52.45
Devon Energy	56.27	-0.04	-0.07	+14.60	+9.86	-10.03
Talisman	16.30	-0.09	-0.55	+7.52	+28.38	-7.53
Refiners						
Valero	63.43	+0.92	+1.47	+13.78	+59.43	+22.93
Alon	30.19	+0.43	+1.44	+10.55	—	+53.64
Tesoro	70.43	+0.88	+1.27	+14.54	+46.73	+14.43
Sunoco	65.26	+0.43	+0.66	+4.52	+13.80	-16.74
Frontier Oil	28.03	-0.06	-0.21	+17.50	+97.74	+49.37
Holly	42.80	-0.42	-0.97	+15.74	+93.67	+45.41
Integrated Energy						
Sempra	44.84	+1.04	+2.37	+2.70	+10.39	0.00
Williams	23.05	+0.23	+1.01	+13.38	+22.80	-0.52
Enbridge	29.94	+0.23	+0.77	+0.98	+7.97	-4.25
Kinder Morgan	99.55	+0.25	+0.25	+0.81	+19.64	+8.27
El Paso	14.86	0.00	0.00	+6.83	+29.44	+22.20
TransCanada	28.23	-0.05	-0.18	-2.15	+6.85	-10.32
Duke Energy	28.38	-0.14	-0.49	-0.98	-2.77	+3.39
Service Companies						
Ensco	43.56	+1.09	+2.57	+5.63	+20.23	-1.78
Schlumberger	60.68	+1.03	+1.73	+11.20	+58.72	+24.92
Transocean	76.88	+1.22	+1.61	+7.30	+35.16	+10.32
Baker Hughes	77.69	+1.04	+1.36	+4.30	+54.15	+27.82
Halliburton	70.59	+0.69	+0.99	+3.40	+46.70	+13.93
Nabors	32.62	+0.31	+0.96	+8.59	+7.39	-13.87
GlobalSantaFe	53.86	+0.41	+0.77	+6.57	+31.37	+11.86
Patterson-UTI	26.50	+0.01	+0.04	+3.88	-4.12	-19.58

Note: Ranked by daily percentage change.

will consist of Duke's Natural Gas Transmission business unit, which includes Union Gas, and Duke's 50% ownership interest in Duke Energy Field Services (DEFS).

The businesses remaining in Duke will be the US Franchised Electric & Gas business unit, the Commercial Power business unit, the International business unit and Crescent Resources.

The company is targeting a Jan. 1, 2007, effective date for the transaction and expects the transaction to qualify for tax-free treatment for US federal income tax purposes to both Duke and its shareholders.

Paul M. Anderson, chairman of the board, said, "As two market-leading companies, the stand-alone electric and gas businesses will have increased flexibility to seize expansion opportunities and grow at a higher rate," Anderson added.

The announcement comes on the heels of Duke selling two North American power and gas trading companies to Dutch-Belgian Fortis financial services group on Tuesday (OD Jun.28,p6).

Detroit Pledges More Flex Cars

Two million cars and trucks capable of running on renewable fuels will be produced annually by 2010, doubling the production of such vehicles, three major US auto makers announced Wednesday.

The pledge to produce more flex fuel vehicles that can use E85 ethanol or biodiesel came in a letter to members of Congress from Chrysler Group CEO Tom LaSorda, Ford Motor Company CEO Bill Ford and General Motors CEO Rick Wagoner.

The three executives met with congressional leaders in May and discussed the use of more renewable fuels for US energy security.

Already, there are more than 5 million flex fuel vehicles on the road. The three automakers will add an additional million cars and trucks this year. "If all of these vehicles were running on E85, they would displace more than 3.5 billion gallons of gasoline a year," according to a joint press release issued by the three companies.

"We need business and government to work together to enhance the production, distribution and use of renewable biofuels," the CEOs said. "Our hope is that with this commitment, fuel providers will have even more incentive to produce ethanol and other biofuels and install pumps to distribute them."

Earnings

Lukoil Q1 Profits Disappoint

Russian oil major Lukoil announced hefty gains in first-quarter profits, but failed to meet analysts' expectations.

Also Wednesday, Lukoil said it would target a UK refinery being sold by BP. The Russian oil major, in which US ConocoPhillips owns a strategic shareholding, may buy the 172,000 b/d Coryton refinery, which BP recently put up for sale (OD Jun.28,p4).

First quarter net profits were up 43.1% against the same period of last year, at $1.69 billion, according to US GAAP reports. Analysts had expected the latest profits to exceed $1.9 billion. The company explained that accounting methods used to calculate a manager share options program accounted for a paper loss of over $203 million, which would reappear in the next quarter.

The company said the profits were buoyed by high oil prices, refining margins and production volumes, but noted that increased taxes on crude exports cut into the bottom line.

Total revenues jumped 41.7% to $15.04 billion, against $10.62 billion in the first quarter of 2005.

Oil production rose 4% to 1.88 million b/d, while gas production almost doubled to 240,000 boe/d. Refining throughputs were up 13.6% at 978,000 b/d, and the company would like to increase refining capacity further to better match upstream production.

Environment

BP, Caltech Form Solar Venture

BP and the California Institute of Technology on Wednesday announced a multi-million dollar solar energy research program they say could make the cost of solar electricity more competitive and increase current solar energy efficiency levels.

For an initial five year period, BP and Caltech will explore a concept based on growing silicon by creating arrays of nanorods rather than by casting ingots and cutting wafers, which is the current conventional way of producing solar cells. Nanorods are small cylinders of silicon that can be 100 times smaller than a human hair and would be tightly packed in an array like bristles in a brush.

A solar cell based on an array of nanorods would be able to efficiently absorb light along the length of the rods by collecting the electricity generated by sunlight more efficiently than a conventional solar cell.

The contract has clear links with BP's long-term renewable energy strategy, as well as its recently unveiled plans for a biofuels research center (OD Jun.15,p7). The program is also aligned with the launch of BP Alternative Energy in November 2005 — a new business unit focused on developing low carbon options for the power industry, which includes BP Solar (OD Nov.29,p1).

CO_2 Emissions Up Slightly in US

US carbon dioxide emissions from burning fossil fuels increased by just 0.1% in 2005, from 5,903 million metric tons of CO_2 in 2004 to 5,909 million metric tons in 2005, according to preliminary estimates released Wednesday by the US Energy Information Administration (EIA).

The 2005 emissions increase was the third smallest during the 1990 to 2005 period. Emissions declines were recorded in 1991 and 2001.

While the economy grew by 3.5% between 2004 and 2005, energy demand fell by 0.5%. The inflation-adjusted price of motor gasoline rose 19%, and the price of residential natural gas rose 16%. These price increases in oil and gas helped contribute to the overall drop in energy demand.

Total US energy-related CO_2 emissions have grown by 18.4% between 1990 and 2005. Energy-related CO_2 emissions account for over 80% of US greenhouse gas emissions (OD Dec.20,p7).

In the energy sector, preliminary data indicate that CO_2 emissions in the resi-

OIL DAILY

Founded 1951 • 1401 New York Avenue, N.W. Suite 500, Washington, D.C. 20005-2150 • Phone: (202) 662-0700 • Editorial Fax: (202) 783-8230

Published By: Energy Intelligence

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dential sector increased by 3.2% in 2005, mainly from increases in the residential demand for electricity.

Emissions from the commercial sector increased by 1.9% in 2005, also due mainly to increased electricity demand.

Industrial emissions fell by 3.3% in 2005 as the US economy continued to move away from heavy manufacturing and as petroleum and natural gas prices rose.

Transportation-related CO2 emissions, which account for about a third of total CO2 emissions, increased by 0.2% in 2005. Emissions related to gasoline demand decreased by 0.4%, and emissions related to diesel fuel grew by 1.0% while jet fuel emissions decreased by 0.5%.

Exploration & Production

Oman Assigns Rights to Blocks

Oman on Wednesday confirmed the winners of five blocks tendered in 2005, which were carved out of acreage relinquished by Petroleum Development Oman (PDO) as part of an industry shake-up.

Oman also awarded two licenses outside of the tender — Block 43a to Dubai-based Indago Petroleum, and Block 43b to Hungary's Mol.

The five blocks in the main tender were offered last year, with a bid deadline of Jan. 1, 2006. All five are on the fringes of the South Oman salt basin, with Blocks 54, 55, and 56 on the eastern flank and Blocks 57 and 58 on the west side.

Block 54 went to a partnership of US Occidental and Abu Dhabi's Liwa Energy, which also earlier won Block 53.

A consortium of Evertson Energy Services — which focuses on the US and South America — and local firms Al-Zakwani Enterprises and National Steel of Oman took Block 55, according to local reports.

A consortium of Australia's Oilex with Indian firms Gail, Bharat Petroleum, Hindustan Petroleum and Videocon Industries signed up for Block 56 (OD Apr.5,p1). Oilex will be operator.

Block 57 went to a grouping of six firms led by Oman's Muscat Overseas. Its partners are Russian firms Tamrus Exploration and Siburgeo, and US companies Great Basin Exploration Consultants, Lorenz Fischer and Decker Project Management. The consortium has formed a joint venture known as Taqa, or energy, to handle operations.

Thailand's PTTEP won rights to Block 58. The Thai firm was earlier awarded Block 44, where it aims to bring the Block 44 Shams gas and condensate field on stream soon.

International

McDermott Wins Qatargas Deal

McDermott International announced Wednesday that its J. Ray McDermott subsidiary was awarded a contract by Qatargas to provide engineering, procurement and installation services for Qatargas' Common Condensate SPM Facilities Project, offshore Qatar. McDermott did not release the value of the contract, but similar deals in the past have been valued at about $100 million.

"Our working history with Qatargas goes back to 1996 when we completed the first Qatargas Upstream Development," said J. Ray McDermott President and Chief Operating Officer Bob Deason. "With the anticipated growth of Qatar's oil and gas future, we are proud to continue providing support to its development program."

Deason said the facilities, once completed, will allow the export of condensate from Ras Laffan through two SPM CALM loading buoys, about 33 miles offshore, through a 42-inch diameter pipeline. J. Ray McDermott will support the project by providing detailed engineering services for the pipeline.

Design work will be performed both in Jebel Ali and Houston by J. Ray McDermott's specialist engineering unit, Mentor Subsea. In addition to the pipeline, J. Ray will install two SPM CALM buoys and pipeline end manifolds and three fiber optic cables, supplied by Qatargas.

Latin America

Maracaibo Channel Reopens

Venezuelan authorities on Wednesday reopened the Lake Maracaibo ship channel following a fuel tanker grounding reported on Tuesday, Maracaibo's port captain said.

"Movement through the ship channel has been restored, but the vessel has not been moved," Capt. Edgar Gonzalez said.

He said port authorities were working to remove the tanker's cargo so that it can be refloated. He said the unloading would be completed Wednesday night or Thursday morning. The ship would then return to shore to reload the cargo before continuing to its planned destination.

The 45,000-ton capacity Folegandros was delivering crude to the US West Coast when it got stuck in the sand, the shipowner said. The ship remained grounded as of late Wednesday, and the efforts to refloat the vessel would continue on Thursday morning.

The Greek-flagged crude tanker, owned by Eletson of Greece, was chartered by Chevron. The shipowner said it planned to unload about 10,000 tons of the oil cargo to aid the refloating process.

Venezuela's Lake Maracaibo is a key oil production area for Venezuela, the world's No. 5 oil exporter (OD Feb.17,p4).

Legislation/Regulation

Boutique Fuels Bill Introduced

A key Republican leader in the House of Representatives on Wednesday introduced legislation aimed at reducing the number of specially formulated fuels, or boutique fuels, used across the country.

The new legislation from House Majority Whip Roy Blunt (R-Mo.) calls for reducing the number of fuels and disallows the promotion of specialty fuels. In addition, it would provide the Environmental Protection Agency with additional authority to waive environmental rules if there are fuel distribution problems.

Though existing environmental rules requiring various fuels specifications benefit local air quality, they can, however, send prices of such specialized blends soaring if there is a supply disruption.

Energy and Commerce Committee Chairman Joe Barton (R-Texas) recently issued a draft proposal reducing the number of gasoline specifications to three. He, however, put the bill on the backburner after industry and other stakeholders showed little enthusiasm for it.

Offshore Bill Faces Changes

A key House of Representatives Republican Chairman on Wednesday was mulling changes to his offshore drilling legislation after the Congressional Budget Office (CBO) said it could cost the federal government $11 billion over 10 years.

The legislation eases the offshore drilling ban in much of the US coastline and provides more revenues from oil and gas royalties to states. The revenue sharing proposal is raising concerns in the White House, while the CBO cost estimates is making many members wary.

House Resources Committee Chairman Richard Pombo (R-Calif.) and other members expressed confidence that the bill would win approval in the House. However, the bill will likely be revised to bring down the cost to $3 billion, a source said.

A Committee spokesman said the bill would be up for a vote Thursday, brushing aside reports to the contrary (OD Jun.28,p1).

Mergers & Acquisitions

Penn West Abandons Spin Off

Calgary-based Penn West Energy Trust has abandoned its plans to spin off a small oil and gas exploration company following an acquisition after unitholders voting in proxies vetoed the move, the company said on Wednesday.

Penn West, which is acquiring rival Petrofund Energy Trust to form Canada's biggest conventional oil and gas income trust, said voting proxies received in advance of a shareholder meeting on Wednesday to approve the deal were 70% opposed to the scheme to spin off the small firm, ExploreCo (OD Apr.18,p7).

Penn West said shares and options in ExploreCo were offered to directors and managers as an incentive to work in the small firm.

Such schemes have become routine parts of many energy-trust mergers and acquisitions, as oil and gas properties no longer needed by the buyers get folded into a new firm. However, several earlier spin offs, where managers are given discounted shares in a private placement, have been criticized as offering too much to managers.

"There seems to be a generally widespread push back against private placements," said Will Lacey, an analyst at FirstEnergy Capital Corp.

Without support from unitholders, Penn West said the spin off would not proceed.

Oil & Gas Markets

ChemConnect Adds Ethanol Trade

The ChemConnect Commodity Exchange, an electronic exchange for trading midstream energy, chemicals and plastics has added ethanol as a new product for trading in its platform.

The addition of ethanol to the exchange will provide buyers and sellers a more efficient method for marketing and trading the gasoline additive, ChemConnect said.

"The ethanol industry is in a dramatic growth phase and is desperately in need of price discovery and an efficient transaction medium to help provide real-time visibility into the supply/demand balance," said Eric T. Paulsen, the exchange's vice president of commodity markets. "We believe an expanded and robust physical liquidity pool at some of the primary trading hubs should help create an orderly transition to an efficient market."

Ethanol is a globally growing alternative and renewable fuel with projected capacity expected to almost triple in the United States over the next 5 years.

US production capacity has already exceeded the 4 billion gallon goal for 2006 set by the 2005 federal energy bill (OD Jun.26,p1). Over 30 new ethanol plants are projected to be available through 2007, with demand growth accelerated by the phase-out of methyl tertiary-butyl ether (MTBE) in the US gasoline pool.

ChemConnect said it will initially add the capability to transact with counterparties on a bilateral basis at the primary ethanol trading hubs of Argo, Illinois, New York Harbor, Albany, Dallas/Ft. Worth, Houston, Phoenix and Los Angeles/Long Beach.

Lehman Commodity Index Set

Investment bank Lehman Brothers will launch on Jul. 1 its new commodity index, which will measure the performance of a mix of commodity futures contracts.

The Lehman Brothers Commodity Index (LBCI) will consist of 20 commodities from energy, metals, agriculture and livestock. The weights of each commodity will be reset annually, Lehman Brothers said in a press release. The weights will also fluctuate throughout the course of the year based on price movements. As of Jun. 23, the index was weighted 52.9% in energy. The LBCI kicks off at a time when there is close to $100 billion invested in commodities worldwide.

IBM Expands Oil Sands Services

IBM is investing $1.4 million to establish the IBM Oil Sands Center of Excellence in Calgary, opening later this year.

The center will expand IBM's consulting services beyond traditional oil and gas projects and expands on the company's 15 years of experience in the Canadian oil sands sector. The company noted that Canada is the largest foreign supplier of oil to the US, and oil sands production is making a greater percentage of the volume. IBM already has more than a thousand employees in its Calgary offices.

Currently, oil sands production stands at 1 million b/d, up from 400,000 b/d in 1995. By 2015, the volume is expected to rise to 2.7 million b/d. Oil sands reserves estimates are about 175 billion bbl, second only to Saudi Arabia's 260 billion bbl.