

ON POINT

Vol 2, No. 6 June 2007



GORDON ENERGY
SOLUTIONS

Candid, Forward-Looking Analysis of the Oil & Gas Industry

IN THE NEWS

Oxy Continues to Build in the Permian – Oxy added BP's interests in the Seminole San Andres Unit, Sheep Mountain and in the Cowden area. The estimated 39 mmbob net reserves were added in exchange for Oxy's 21 mmbob interest in deepwater Gulf of Mexico Horn Mountain field plus US\$100 million cash. This follows Oxy's earlier cash acquisition of BP's West Texas Pipeline System with capacity to ship 191 Mb/d from the Permian to Cushing and a parallel sale of Oxy's remaining Pakistani interests to BP.

Nigeria – The announced results of Nigeria's most recent exploration acreage round are notable for at least two key reasons. First, while multiple blocks in several areas did not receive bids, cash commitments on a number of other blocks was quite high (US\$60 million and US\$105 million for deepwater OPL 258 and 295, respectively) and US\$105 million for shallow water block OPL 290. Second, the leading global competitors did not show up.

Total Acquires Stakes in Angolan

Relinquished Areas – The company has acquired interests in deepwater Blocks 15/06 (15%) and 17/06 (30% and operator). These blocks consist of relinquished areas from Blocks 15 and 17. Total's offer for Block 15/06 in the licensing round fell US\$500 million short of ENI's bid. Blocks 17/06 and 18/06 were awarded to the Sonangol/Sinopec JV (SSI). The cost of these acquired interests was not released.

ExxonMobil Bonaparte Gulf Farm-in –

ExxonMobil will acquire a 65% share in Drillsearch Energy's WA318P by paying 85% of the Marina 1 well. Drillsearch retains a 35% share. We can only speculate as to what ExxonMobil sees in this block. Drillsearch has stated that Marina has potential oil in place of only 200 to 250 mmbbls.

Update – We noted in our March issue that future natural gas supplies to North American are stalling out, California Governor Schwarzenegger has rejected BHPB's application to build the Cabrillo LNG terminal.

BP Entering Libya in a Big Way

BP entered an agreement with Libya to explore a 54,000 sq. km. block that includes positions both in the onshore Ghadames and in the offshore Sirt basin.

This extraordinarily large block includes three parcels. Two are in separate areas in the Ghadames basin. This acreage is near the Algerian border. Also, the Sirt acreage is an entirely different parcel that is in the deep and ultra-deep water offshore and to the west of Benghazi.

The work obligations associated with this deal includes an extraordinarily high exploration spending commitment of US\$900 million. The program is to include 4,500 km of 2D seismic, 30,000 sq. km. of 3D seismic, and 17 exploration wells.

BP's interest, the duration of the exploration period and work obligations in the three parcels are not available.

The significance of this exploration agreement extends beyond the specifics of the deal itself. This deal should be considered in combination with other efforts such as the company's previously announced Omani tight gas venture.

Seen as part of a broader strategic program, the Libyan award is part of a multi-step, much needed move by BP to acquire long-term investment opportunities that can reduce its Russian risk exposure.

The need to reduce this Russian exposure is highlighted by continuing rumblings about revoking the Kovykta license.

The Libyan and Omani initiatives are by no means the end of management's efforts to loosen the ties between BP's future and Russian policy.

While the Libyan deal makes a great deal of sense, we must note that the sheer

magnitude of the venture could become problematic down the road.

Gas Sales Agreements Advance Several Major BG Projects

BG is participating in several noteworthy gas sales agreements. These include

- An 11 year agreement between Chevron/BG and NGC to sell 220 Mmcf/d of gas from the East Coast Marine Area (ECMA) to the domestic market in Trinidad and Tobago
- A 15 year agreement to double Karachagnak gas sales to approximately 1.5 bcf/d. Gas will be sold to KazRosGaz, a joint venture between Gazprom and KazMunaiGaz. Gas will be supplied from a planned US\$8 billion expansion project (Phase III) and will be processed in an expanded Orenburg facility to be undertaken by KazRosGaz
- A 21 year agreement to supply 1.7 mtpa of LNG to the GNL Quintero terminal to be built in Chile and expected to be on-line in the last half of 2009. Quintero capacity is planned at 2.5 mtpa and its cost is estimated at US\$940 million. A US\$775 million EPC contract signed with Chicago Bridge & Iron. The cost of the project has more than doubled since initial estimates of US\$400 million. BG holds 40% of Quintero while ENAP, Empresa Nacional de Electricidad de Chile and Metrogaz hold 20% each.

The agreements in Trinidad and Kazakhstan are important continuing steps to maximize value from existing assets. The terms of these sales agreements (particularly the price terms) are not known.

Counter-balancing these positive events, in Italy, the proposed Brindisi

CONTACTS



Gordon Energy Solutions is an energy consulting firm specializing in competitor analysis, strategic decisions, political risk analysis, and global issues concerning the international, integrated oil & gas industry. We anticipate future opportunities and challenges confronting our clients and assist in exploiting those opportunities.

By integrating the corporate and financial dimensions of strategy and performance with detailed project level analytics, we maintain a unique approach to your business. GES provides value to our clients through our forward-looking, critical analysis and unique perspective.

Richard Gordon, Ph.D

President & CEO

rgordon@gordonenergysolutions.com

Steve Gordon

Vice President

sgordon@gordonenergysolutions.com

Gordon Energy Solutions

11286 Hadley St

Overland Park, KS 66210

(913) 451-9539

The cornerstone of our firm is supplying Research Services on Demand, enabling GES to deliver the analysis you want, when it's needed. Our services are uniquely tailored to fit your company's needs and reflects our role as a source of independent research and analysis.

Please feel free to distribute this to your colleagues. If you received this issue as a forward, and wish to receive it directly, please send an e-mail to subscribe@gordonenergysolutions.com. If you no longer wish to receive this newsletter and would like to have your e-mail address removed from our list, please send an e-mail to unsubscribe@gordonenergysolutions.com. Please let us know how we may improve this service.

For additional information concerning our most recent work or to find out more about our company, please visit <http://www.gordonenergysolutions.com>.

terminal for receiving LNG from BG's Egyptian operations is facing opposition from the location government.

While permits have already been approved for the project, the regional government wants to block the deal on environmental grounds.

The terminal's planned startup has already slipped by one year to 2010. It remains to be seen what impact, if any, that local opposition will have.

Alliances

Gazprom has recently entered several joint venture agreements through Gazprom Neft. Statoil and Gazprom Neft formed a working group to consider joint projects in Russia and elsewhere. Also, Gazprom Neft and Lukoil agreed to form a 51/49% alliance to pursue new Russian exploration opportunities. Elsewhere, Turkmenistan recently approved Lukoil to participate in three offshore Caspian projects.

Gazprom's size and the increasing role it is expected to shoulder in the new Russian industrial order can make alliances extremely useful tools. They can spread risk and maximize the range of business development opportunities that can be kept open as options for the future.

The logic of alliances from Gazprom's perspective is clear. Gazprom's reliability as an ally is debatable at best.

Elsewhere, Petrobras and ONGC reached agreement whereby each company will acquire a working interest in three blocks in the other company's host country.

ONGC will acquire interests in blocks in Maranhão, in the Sergipe-Alagoas Basin and in the Santos Basin. Petrobras will acquire interests in three blocks in the Krishna Godavari, Mahanadi, and Cauvery Basins. All of the blocks covered by this initial agreement are in deepwater and the logic of the alliance is substantial for this reason. The agreement calls for at least one well to be drilled on each of the six blocks.

This agreement expands ONGC's current position in Brazil. Previously ONGC acquired a 15% working interest

in four Shell-operated Campos Basin fields (Ostra, Abalone, Argonauta and Nautilus).

US Royalty Relief

As many of our clients know, Gulf of Mexico deepwater leases awarded in 1998/99 omitted price thresholds.

This has been a matter of no small amount of discontent in our government as oil and gas prices have risen well beyond levels considered likely at the time of the lease sales.

The House and the Senate continue to search for ways to "encourage" holders of these leases to "re-negotiate". These encouragements include a stick and a carrot.

The stick is evident in a House version of legislation in which recalcitrant companies will be barred from future lease sales.

An alternative, more carrot-like approach is being considered in the Senate. In this case, in exchange for re-negotiation, the lease terms can be extended.

US policy makers should be cautious in any future criticisms of Venezuela's attitude towards contract sanctity.

Canadian Heavy Oil Options

Rising Canadian oil sands output is creating a significant shift in oil transport plans and will likely trigger additional infrastructure investments in the near to medium-term.

ExxonMobil and Enbridge are studying a potential pipeline to carry crude supplies from Canada. The pipeline, which would be online by 2011, would ship oil from Illinois to Beaumont, Texas and then on to Houston.

The direction of flow of two pipelines has recently been reversed. These include an ExxonMobil project that re-opened an idle line and reversed direction to ship oil from Illinois to Nederland, Texas. Also, Enbridge acquired a BP pipeline and reversed the flow from Chicago to Cushing, Oklahoma.

Enbridge recently filed an application with the National Energy Board in Canada to build the Alberta Clipper Project.

This is a proposed new 36-inch diameter oil pipeline from Hardisty, Alberta to Superior, Wisconsin. Enbridge hopes to start construction in 2008 with the line to be in service by mid-2010.

Alberta Clipper capacity will be 450 Mb/d with potential for future expansions to 800 Mb/d. Initial, un-inflated cost estimates are US\$1.9 billion for the Canadian segment and approximately US\$1.0 billion for the U.S. portion.

Pacific Basin LNG

Papua New Guinea -- Oil Search and ExxonMobil have been evaluating an LNG export project based on gas from the country's Southern Highlands fields. The proposal includes an LNG liquefaction plant with capacity ranging from 5 to 6.5 mmtpa.

The estimated cost of this project varies with liquefaction capacity from US\$7 to US\$9.5 billion. Of the US\$9.5 billion cost of the 6.5 mmtpa project, US\$5 billion is estimated for the upstream and pipeline portions and US\$4.5 billion for the liquefaction component.

Oil Search, Santos and Nippon Oil hope to begin FEED by late 2007 or early 2008 with a final investment decision and startup by late 2008 and 2013, respectively.

It remains to be seen whether this project and InterOil's Elk gas discovery will be combined into a more comprehensive long-term supply program.

Russia -- Trouble is brewing for ExxonMobil's Sakhalin I project.

The source of the trouble won't come as a surprise to anyone at BP: Gazprom opposes gas exports from the project and, instead, believes the nearly 800 mmcf/d of gas should be dedicated to the domestic Far East Russian market.

In principle, Gazprom's position may make a great deal of sense. The two open questions are likely to be: (1) price and (2) delivery infrastructure and the related issue of potential delays.

China -- The government has decided that it must regulate natural gas imports to avoid

what has been characterized as chaotic competition and resulting inflation of the cost of natural gas.

Australia -- ConocoPhillips has recently warned that decisions concerning expansion of its Wickham Point LNG project are not likely anytime soon.

Prospective supply sources to an expanded facility are most likely to come from Greater Sunrise and the Caldita gas discovery.

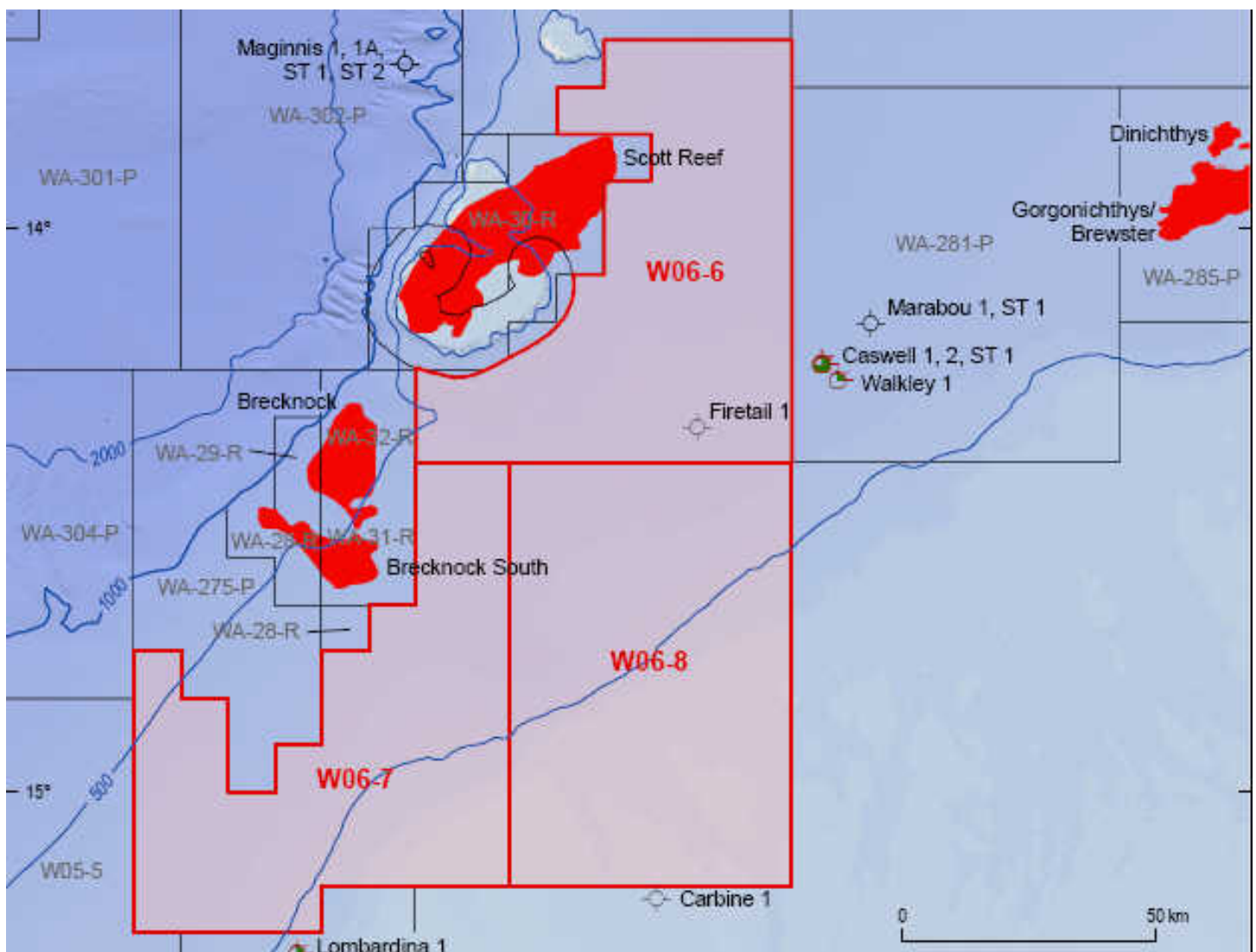
Elsewhere, ConocoPhillips and Woodside have locked-up substantial acreage bordering the undeveloped Brecknock and Scott Reef gas fields.

Three major blocks were awarded from the 2006 offshore acreage release. These blocks were W06-6, W06-7 and W06-8 shown in the map below.

As noted in earlier issues, Western Australia has become a focal point of a number of companies' efforts to establish new long-term gas positions.

ConocoPhillips and Karoon Gas won W06-6 with a work commitment bid of US\$94 million in the first 3 year work period and another US\$27 million in the second 3 year work period.

Woodside won W06-7 and W06-8 for initial work obligations of US\$57 million and US\$9 million, respectively. Second period obligations are US\$8 million each.



Source: Australian Government Department of Industry, Tourism and Resources

COST WATCH



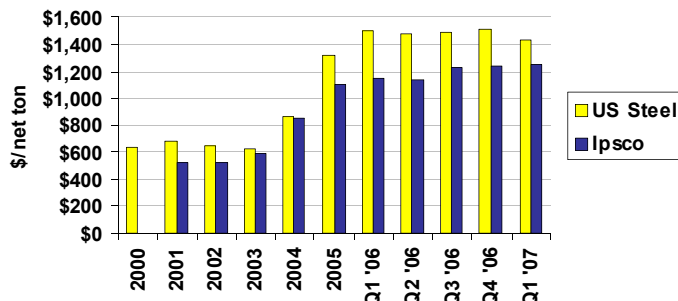
May Producer Price Indices and Cost Inflation Indicators

In April and again in May, drilling costs have declined at a very substantial rate compared to the same months in 2006 (down 10.5% and 14.5% in these two months, respectively). Drilling cost deflationary pressures are also evident in the month to month data for 2007.

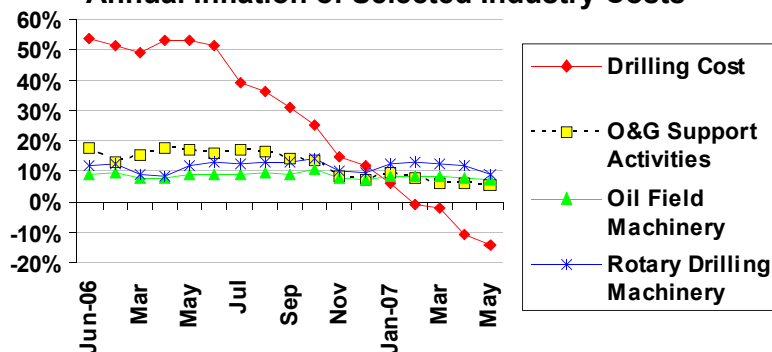
Other key costs, oil and gas support activities and oil field machinery, have continued to increase although the rate of change continues to be clearly decelerating

The key beneficiaries of the reduced cost pressures are primarily the onshore oil and gas producers pursuing heavy drilling programs.

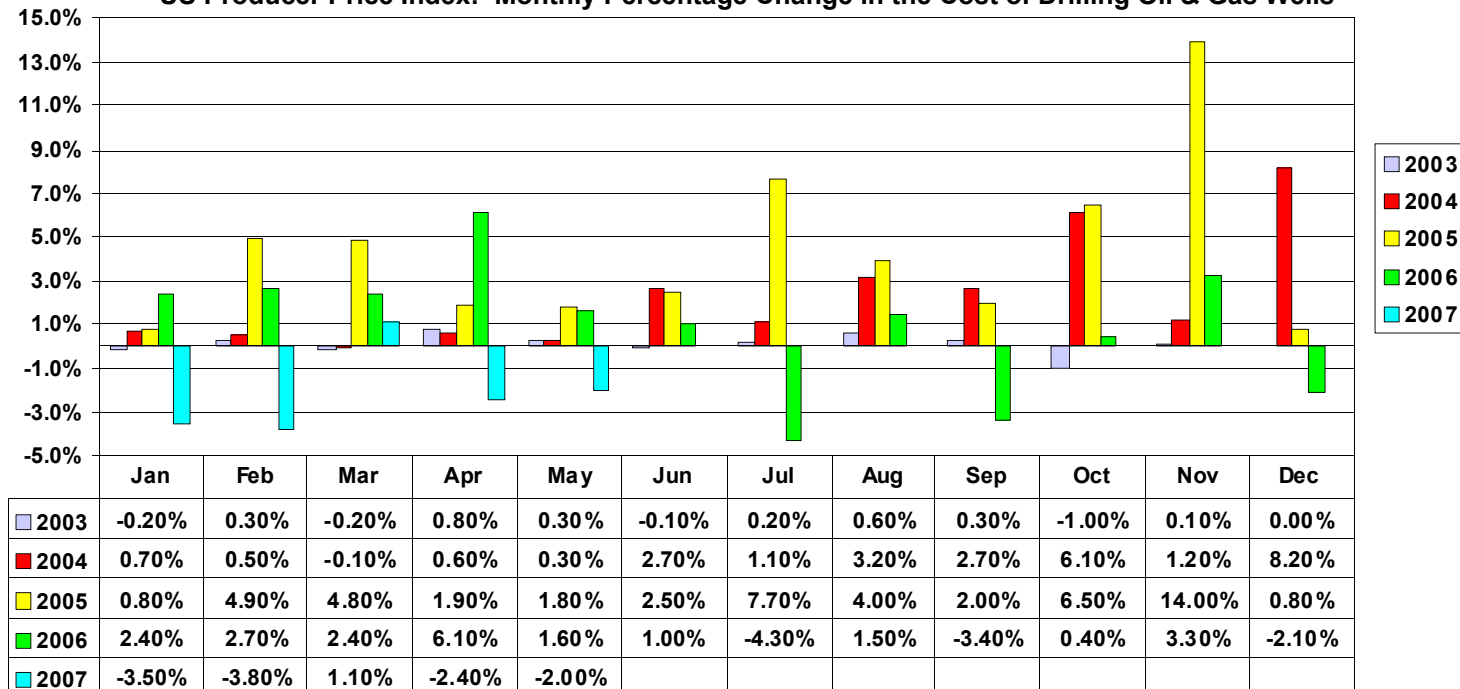
Tubular Steel Products Price



Annual Inflation of Selected Industry Costs



US Producer Price Index: Monthly Percentage Change in the Cost of Drilling Oil & Gas Wells



Year over Year Percentage Change

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2005	27.2%	31.7%	36.5%	37.8%	39.4%	39.2%	45.8%	46.6%	45.9%	46.3%	59.1%	51.7%	43.2%
2006	53.3%	51.1%	48.7%	53.0%	52.7%	51.3%	39.2%	36.7%	31.3%	25.2%	14.5%	11.6%	37.8%
2007	5.7%	-0.8%	-2.0%	-10.5%	-14.1%								