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Last summer's record oil prices led to commodities reform proposal

Obama administration officials didn't say so. But their May 13 announcement that they would seek new regulations for over-the-counter derivatives was a response to last summer's record crude oil prices.

"All OTC derivatives dealers and all other firms whose activities in those markets create large exposures to counterparties should be subject to a robust and appropriate regime of prudential supervision and regulation," US Treasury Secretary Timothy F. Geithner said.

"Key elements of that robust regulatory regime must include conservative capital requirements, business conduct standards, reporting requirements, and conservative requirements relating to initial margins on counterparty credit exposures," he continued in a letter to US Senate Majority Leader Harry N Reid (D-Nev.).

Current regulations under the Commodities Exchange Act and the Commodity Futures Trading Act don't cover markets outside regulated exchanges which have grown significantly. Speculators hid their trades and positions on these so-called dark markets so they could push crude oil and other commodity prices higher despite relatively ample supplies, critics have charged for the past 18 months.

They said that crude oil trades increasingly occurred on less regulated foreign exchanges or in OTC markets until crude oil prices were \$147/bbl. Speculators who never intended to actually take delivery of the product they traded then cut their positions sharply. Prices were already dropping by October when the economic downturn became a recession and energy demand fell sharply.

Four objectives

Geithner told Reid that OTC derivatives regulation should prevent activities in those markets from posing risk to the financial system; promote the markets' efficiency and transparency; prevent market manipulation, fraud, and other abuses; and ensure that OTC market derivatives are not inappropriately marketed to unsophisticated investors.

"To achieve these goals, it is critical that similar products and activities be subject to similar regulations and oversight," he maintained.

Michael Dunn, acting chairman of the US Commodity Futures Trading Commission, said that the May 13 announcement, and prior statements from members of the 111th Congress regarding substantial increases in the agency's budget, will buttress the CFTC's ability to fulfill its mission. "Today's announcement clearly articulates a comprehensive plan that will establish a regulatory framework for currently unregulated markets," he said.

In the markets that the agency regulates, he said that OTC derivatives have an impact on US futures markets' price discovery function. "By regulating these contracts and having the ability to set position limits, we will have the ability and necessary information to ensure market integrity," Dunn said.

Members of Congress who have pushed for commodities regulatory reform applauded Geithner's announcement. US Senate Agriculture Committee Chairman Thomas R. Harkin (D-Iowa) said on May 13 that the outlined proposal was a step in the right direction and a more substantial expression of commitment to regulatory reform than the previous administration's.

'Stronger regulation'

"I have long said that we need much stronger regulation in order to bring transparency and integrity to derivatives markets as a step toward rebuilding our economy. Though there are still more details that need to be address, I look forward to working with the [Obama] administration and my colleagues in Congress as we move forward on this critical issue," he said.

By imposing tough regulations on OCT markets, the United States is finally tackling what tackled its economy, according to Maria E. Cantwell (D-Wash.), a member of the Senate Finance Committee. "In public hearings and private conversations with the Obama administration, I have insisted that the Treasury Department move quickly to establish tough regulatory controls that will protect the public against speculative financial meltdowns. Treasury Secretary Geithner's pledge today to support a series of regulatory reforms which I have been advocating represents a historic and long-awaited step," she said.

"These reforms will realize the goal of regulating all forms of derivative dealers and transactions and will bring 'dark' markets to light by requiring publicly accessible trade recording and record-keeping. The administration's apparent commitment to aggregate positioning limits across all markets, once enacted into law, will protect the public from the reckless speculation that has greatly aggravated our current economic downturn," Cantwell said.

"We applaud the letter by Treasury Secretary Geithner, and we agree there must be strong, comprehensive, and consistent regulation of OTC derivatives," US Reps. Collin C. Peterson (D-Minn.), who chairs the House Agriculture Committee, and Barney Frank (D-Mass.), said in a joint statement.

They indicated that as chairman of the two House committees sharing jurisdiction on this issue, they would closely together to achieve that goal. "Increased oversight, accountability, and transparency of the financial markets are essential to restore consumer confidence in the marketplace, protect investors, and preserve the overall integrity of the financial system," they said.

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New Alaska gas pipeline deputy federal coordinator is seasoned hand

Deputy US Transportation Secretary Thomas J. Barrett will join the office coordinating federal agencies' responses to expedite construction of a natural gas pipeline from Alaska to the Lower 48 states as its deputy coordinator on May 26.

His appointment will bring an administrator to the office with experience not only in Alaska, where he was US Coast Guard Commander from 1999 to 2002, but also as a federal pipeline regulator.

Barrett, who is a retired US Coast Guard vice admiral, was sworn in as the first administrator of the US Pipeline and Hazardous Materials Safety Administration on May 31, 2006. He became deputy Transportation secretary on Aug. 8, 2007, after being named acting deputy secretary on March 3 of that year.

"I've had the pleasure of working with Tom for nearly 20 years, both in Alaska and the Lower 48 . . . [He] brings leadership, experience, and incredible energy to this new challenge which is so crucial to the long-term energy security of the United States and to the State of Alaska," said Drue Pearce, federal coordinator for Alaska Natural Gas Projects, as she announced Barrett's selection on May 6.

Three decades of discussion

Construction of a gas pipeline from Alaska's North Slope to markets in the Lower 48 states and in Alaska has been discussed for 30 years, Barrett noted.

"This pipeline is not just an Alaska project but is a vital national infrastructure project. Tens-of-thousands of good jobs will be created through the life of the project and clean energy will be delivered to Americans," he maintained. Barrett will return to Alaska, where he lived for 14 years, to direct the ANGP federal coordination and manage its field office in Anchorage.

Salt Lake City-based Northwest Energy Corp. originally proposed the idea of building such a pipeline in 1977, but dropped the plan soon after it became a Williams Cos. Inc. subsidiary.

Basic challenge

High gas prices in the late 1990s led to its revival. Depressed prices now, and the potential to produce gas from more shale formations in the Lower 48 states, have some observers questioning whether so massive a project would ever be economic. The challenge for federal and Alaska state government officials will be to keep it moving.

Alaska Gov. Sarah H. Palin welcomed Barrett's appointment. "His career has put him in positions to protect Alaska's people fisheries and environment. We are fortunate to have him watching over the development and construction of the Alaska natural gas pipeline," she said on May 6.

"I look forward to working with Federal Coordinator Pearce, Admiral Barrett, and their entire staff. Having this quality of individual involved in moving the Alaska gas pipeline project forward is a benefit to Alaska and the entire nation," said Mark Myers, the state's Alaska Gas Inducement Act coordinator.

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Bid for Senate vote on deputy Interior secretary's nomination fails

The US Senate refused to invoke cloture on May 13 and allow a vote on David Hayes's nomination to be deputy US Interior secretary.

Two Republican senators, Robert B. Bennett (Utah) and Lisa Murkowski (Alas.), had placed holds on Hayes's nomination

to protest US Interior Secretary Ken Salazar's cancellation of 77 leases in a Dec. 18 Bureau of Land Management oil and gas lease sale in Utah.

The 57-to-39 vote sent a message to the Obama administration that it needs to answer congressional Republicans' legitimate questions, Bennett said afterward. "Indeed, I want to do everything I can to confirm Mr. Hayes expeditiously, but it does not mean that I should give up my rights to get clear answers to my questions," he said.

"The real obstruction is coming from DOI and its unwillingness, despite commitments made, to answer direct questions from Republicans. There is a clear path forward and it is my hope that the secretary will follow through on the promises made by the department so we can confirm his nominee," Bennett maintained.

The cloture motion balloting was three votes less than the 60 which were needed. All but two Senate Republicans voted against the measure.

Straight answers

Murkowski said the issue moved beyond the cancelled Utah leases to a basic question of whether Republicans can get straight answers after Bennett asked DOI two months ago to review the lease cancellation decision because it was based on justifications that were not factual. DOI responded that it would once Hayes was confirmed, Murkowski said.

She said that she has other concerns about the direction DOI has headed on energy issues, adding that neither she nor Bennett have asked the department to adopt or repeal any specific policy, or take or repeal any specific legislative action. DOI responded with a May 12 letter which Murkowski said only provided vague and incomplete answers to her questions.

"This issue could be easily resolved if the administration would provide honest and specific answers to a few of my most important concerns about its plans for Alaska and the nation's energy policy," she declared.

Salazar called the result "a tired vote of bitter obstructionism. It may be uncomfortable for some to watch us have to clean up mess after mess, from corruption to lawbreaking, that is the previous administration's legacy at [DOI], but to cast a vote against such a qualified and fine person is the height of cynicism.

"We have answered every question and worked to find common ground on difficult issues, but the American people rightfully want change from the Obama administration and from [DOI]. The American people will know, once again, that [DOI] is wisely managing their treasured landscapes and their natural resources on their behalf," he said in a statement.

'A complete lineup'

In a floor statement supporting Hayes's nomination, Majority Leader Harry N. Reid (D-Nev.) said that senators with good intentions can disagree on issues, or with the administration. "But we should all be able to agree that the president and his cabinet deserve to have a complete lineup when their team takes the field on the most important issues we face," he continued.

Hayes successfully served in the same position during the Clinton administration and understands what it takes to run a federal department with 70,000 employees, Reid said. "Every state has unique challenges. Mr. Hayes is prepared to travel across the West to confront them head-on, not so he can tell states what to do, but rather so he can work with them to address each issue thoughtfully and respectfully," he said.

"Working together toward such solutions is the answer. Robbing a cabinet secretary of his right-hand man is not," said Reid.

In a keynote address to a dialogue on business and energy at the US Chamber of Commerce on May 13, Salazar said that actions during the Obama administration's first 100 days to reverse oil and gas steps his predecessor, Dirk A. Kempthorne, took toward the end of his tenure were necessary. In addition to canceling the Utah leases, these included extending the comment period for and broadening the scope of a new five-year Outer Continental Shelf that Kempthorne launched last summer, and recasting a solicitation for a second round of oil shale pilot proposals so that they would not involve as much land.

Salazar said that in all three cases, he felt that the earlier decisions were made without adequate consultations with other federal departments and agencies, state and local governments, adjacent property owners and other stakeholders. He also noted that during the same 100 days, DOI sold oil and gas leases totaling 1.5 million acres onshore and 1.8 million

acres offshore.

Court's OCS ruling

"That's been validated by the recent federal court decision here in Washington where the current OCS leasing program was vacated because part of the Alaska portion's potential environmental impacts had not been properly evaluated. This puts in question how we evaluate environmental impacts as we move into deeper waters, not only off Alaska's coast but also in the Gulf of Mexico," he continued.

Later that morning, as he testified before the US House Interior Appropriations Subcommittee about DOI's budget request for fiscal 2010, Salazar said that the court's decision was difficult because it seemed to throw the entire five-year OCS plan out. "In our petition for clarification, we argue that we ought to address problems the court identified in Alaska, but also ought to be allowed to proceed with the rest of the program, particularly in the Gulf of Mexico," he said.

The budget request includes increases of \$11.9 million to BLM and \$5 million to the US Minerals Management Service for oil and gas leasing, offsetting reductions in mandatory rental revenues which previously support the programs, he told the subcommittee.

In the area of audits and compliance, the proposed budget includes \$1.7 million to MMS to provide timely and accurate production and gas plant accountability data, \$3 million to MMS to implement a risk-based audit and compliance protocol, and \$2.5 million for BLM's oil and gas management program to enhance production verification capabilities, he added.

One of the subcommittee's members, Maurice D. Hinchey (D-NY), said that he approved of Salazar's decision to cancel the Utah leases. "Some members of the Senate don't agree with you because they're holding my deputy secretary's nomination hostage," the secretary replied.

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Senate panel hears pros, cons of strategic oil products reserve

Establishing a strategic products reserve could be challenging and costly, but would also increase the US capacity to respond to oil supply interruptions, witnesses told a US Senate committee on May 12.

The US Department of Energy still considers a large strategic petroleum reserve focused on crude oil storage the best way to protect the United States from impacts of a short-term interruption of crude supplies, said David F. Johnson, deputy assistant for petroleum reserves in DOE's Office of Fossil Energy.

"However, events of 2005 and 2005 have shown us that this system may be limited in its ability to address some short-term interruptions to our domestic refined products supply and distribution infrastructure," he told the Senate Energy and Natural Resources Committee.

"The question now to be answered is: Do we have an increased probability of events such as hurricanes in the Gulf of Mexico that lead to short-term disruptions of limited size that warrant the additional cost of developing a refined products reserve?" Johnson said.

Other witnesses included John Shages, Johnson's predecessor as deputy assistant for petroleum reserves in DOE's fossil energy office; Frank Rusco, natural resources and environment director at the Government Accountability Office; Didier Houssin, oil markets and emergency preparedness director at the International Energy Agency in Paris, and Kevin Book, managing director of ClearView Energy Partners LLC in Washington.

30 million bbl of products

They testified at a hearing examining S. 967, the Strategic Petroleum Reserve Modernization Act of 2009, which committee chairman Jeff Bingaman (D-NM) introduced last week. The measure would create a refined oil product reserve containing at least 30 million bbl of gasoline, diesel fuel and other transportation fuels as part of the nation's 1 billion bbl SPR.

"It makes sense that our reserves policy should evolve as our needs evolve. Many other countries around the world hold refined petroleum products in their strategic inventories, and it is time that we in the US did the same," Bingaman said.

Houssin said that while the IEA would welcome US expansion of its strategic reserve, it believes that simply adding more crude oil would not address vulnerabilities underlined by recent hurricanes. "Instead, we believe that additional SPR barrels in the form of finished product and held in strategic locations throughout the country, ready to be utilized when refineries or distribution networks are disrupted, would bring greater additional security for each dollar spent," he testified.

Arguments for establishing a strategic oil products reserve include increased US reliance on foreign refined products, possible reduced refining capacity during weather-related disruptions, the time needed for oil product regions to reach all US regions during such emergencies, and US port capacity bottlenecks which limit amounts of products which can be imported quickly during emergencies, Rusco said.

Some of the arguments against including refined petroleum products in the SPR are the surplus of gasoline in Europe, the high storage costs of refined products, US use of boutique fuels in several regions, and policy alternatives which may reduce US reliance on oil, he continued.

Efficiency vs. versatility

Witnesses noted that oil products storage can be harder than crude oil's because products degrade more quickly. They also said that creating a products reserve will require policymakers to balance efficiency and savings resulting from a single location on one hand and versatility, but higher costs, created by locations scattered around the country.

"If you start putting in large free-standing product reserve sites not associated with underground crude oil storage, the costs grow because steel tanks would be needed. Moving to other parts of the country outside earthquake zones could result in lower land costs, but would make sense only if they were near larger population centers such as Las Vegas with distribution capability to adjacent states," said Shages.

Establishing a strategic products reserve or group of reserves raises other questions, Book noted. "Pipelines share the same vulnerability as refineries: Both require electricity to operate. A single strategic specification for emergencies could solve the boutique fuels problem, but where would it be refined? Economically attractive expansion of existing refineries could provide an alternative to strategic storage, but permits would have to be expedited," he said.

Witnesses also said that the products degradation issue also could be addressed. "The home heating oil reserve we have is turned over every day so there's not a deterioration problem. France and Germany have underground product reserves where storage can be for longer periods than in aboveground steel tanks," Shages said.

There seemed to be strong support from both the committee's members and the witnesses to limit use of any strategic reserve to supply interruptions. "To the extent that we legislate establishing a strategic products reserve, we would say that its releases would be limited in this manner and not used to offset rapidly increasing prices," Bingaman said.

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Salazar seeks clarification of ruling vacating current OCS program

US Interior Secretary Ken Salazar asked the US Department of Justice on May 11 to seek clarification from a federal appeals court of its Apr. 17 decision vacating the current Outer Continental Shelf leasing program.

The US District Court of Appeals vacated the 2007-12 program as part of its decision that the Bush administration did not use sound science when it expanded leasing areas in the Beaufort, Bering and Chukchi Seas for the 2007-12 program. Relying on a National Oceanic and Atmospheric Administration study of environmental impacts of offshore oil and gas activity on Alaskan coastal areas was not sufficient, Chief Judge David B. Sentelle wrote in the opinion.

Salazar said that at his request, DOJ will ask the court to confirm its interpretation of the decision as not requiring retroactive invalidation of prior leases. It also will ask the court to let DOI and the US Minerals Management Service to fix the shortcomings in the Alaska portion of the five-year plan, which has been under way since July 1, 2007, without having to develop and approve an entirely new one.

"The previous administration's failure to apply the law has resulted in widespread uncertainty in the oil and gas industry and put reliable conventional energy production from offshore areas at risk. We must fix the problems the court identified and put oil and gas leasing decisions back on firm scientific footing," the secretary said.

In its decision, the court rejected other parts of the petition by the Center for Biological Diversity which argued that DOI should have considered potential climate change impacts in the 2007-12 federal leasing program. The court also rejected the group's arguments that the program violated provisions in the Endangered Species Act and the National Environmental Policy Act.

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Salazar limits ESA's application as he keeps polar bear rule

US Interior Secretary Ken Salazar announced on May 8 that he will retain a special rule issued in December to protect the polar bear under the Endangered Species Act. He also said that the ESA is not the right mechanism to address global climate change.

Congress granted Salazar authority under the 2009 appropriations act to revoke the rule under ESA Section 4(d) until May 10. He said that if he withdrew it, regulation would resume under an earlier, virtually identical interim rule that the Bush administration put into place when it listed the polar bear as a threatened species last year.

"Revoking the current rule would return us to an interim rule that would offer no more protections for the polar bear and would result in uncertainty and confusion about the management of the species," Salazar told reporters during a teleconference. DOI agencies will closely monitor the current rule's implementation to determine if additional measures are necessary, he added.

He said that he recognizes that melting of the ice cap is the most serious threat to the polar bear's habitat, but added that this apparent consequence of global warming needs to be addressed with a comprehensive policy instead of through the ESA. Rule 4(d) states that incidental impacts on polar bears resulting from greenhouse gas-producing and other activities outside the animals' range will not be prohibited.

"Both President Obama and I are committed to addressing climate change, and to protect the polar bear. We need to have a comprehensive climate change strategy, and are working to get legislation passed in the House and Senate," Salazar said.

Significant protection

Other DOI officials said that the polar bear will continue to have significant protection under the Marine Mammal Protection Act as well as the ESA. The animal's listing as a threatened species under the ESA provides civil and criminal penalties for killing or injuring the bears and prevents federal agencies from taking actions that are likely to jeopardize the species or adversely change its critical habitat, they indicated.

"We will continue to reach out and listen to the public and a wide range of stakeholders as we monitor the rule, and will not hesitate to take additional steps if necessary to protect this iconic species," said Thomas L. Strickland, assistant interior secretary for fish & wildlife and parks, who also participated in the teleconference.

"We intend to monitor the ongoing degradation of habitat, cub survival and other factors. We'll also monitor potential impacts of activities such as oil and gas that might affect the polar bear's habitat. Should we see significant population impacts, this monitoring will allow us to determine which provisions to implement," added another participant, Rowan Gould, acting director of the US Fish and Wildlife Service.

He said that oil and gas producers in Alaska already were working under the Marine Mammal Protection Act when Salazar's predecessor, Dirk A. Kempthorne, listed the polar bear as a threatened species under the ESA early last summer. Kempthorne also said at that time that the ESA was not appropriate for addressing global climate change. He subsequently pushed for a rule modifying the requirement for government agencies to consult under the ESA which Salazar and US Transportation Secretary Gary Locke restored on Apr. 29.

Working with producers

"We've long been concerned and have worked with oil and gas producers related to their activities on the Beaufort and Chukchi Seas. We want to continue to monitor and work with the oil and gas industry to preclude any damaging activity out there," Gould said.

He noted that Obama's fiscal 2010 budget request included an increase of \$7.4 million for polar bear conservation, \$3.2 million of which will be invested through FWS. It also would increase by \$1.5 million funding for an endangered species program specifically to reinstate and begin new inter-agency consultations on oil and gas projects, and to prepare for a range-wide polar bear conservation plan.

The budget also would increase by \$1.7 million financial support for FWS's marine mammal program to intensify work with partners to prepare, review and publish population assessments, conservation plans, and incidental take regulations, he said.

"We're going to look at the 4(d) rule to see if there are some refinements are needed to improve it. Congress gave us authority to withdraw the rule, and we decided not to. That does not mean that this is the end of the conversation. We will continue to look at this rule as it's being implemented and see if changes need to be made. This is an ongoing exercise," Strickland said.

Decision endorsed

Oil and gas industry groups applauded Salazar's action. "We welcome it because we, like the secretary, recognize that the [ESA] is not the proper mechanism for controlling our nation's carbon emissions. Instead, we need a comprehensive, integrated energy and climate strategy to address this complex, global challenge," American Petroleum Institute President Jack N. Gerard said.

Congressional Republicans, who previously expressed concern that Salazar might withdraw the interim rule, also approved of his decision. James M. Inhofe (R-Okla.), ranking minority member of the Senate Environment and Public Works Committee, said that the secretary made the right call and applied a common-sense approach. "The [ESA] is not the proper mechanism for controlling our carbon emissions. The same is also true of the Clean Air Act or any other federal law," he said.

Doc Hastings (R-Wash.), ranking minority member of the House Natural Resources Committee, said that Salazar's action assures that the ESA will not be used to regulate GHG emissions from activities outside the polar bear's range. "This decision will help protect crucial projects needed to stimulate our economy from becoming the target of frivolous lawsuits by environmental groups designed to stop economic development in our country," he said.

Sen. Barbara Boxer (D-Calif.), who chairs the Senate Environment and Public Works Committee, disapproved. "I disagree with the [DOI's] decision to limit the tools we have under the [ESA] to save the polar bear from extinction. Monitoring the situation will not tell us more than we know now: that the polar bear is threatened and we need to act," she said.

Environmental organizations have been divided over whether to use the ESA to address global climate change, Salazar observed during the teleconference. "There may be litigation over this issue. We'll defend our stand," he said.

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'Excessive oil purchases are the solid foundation of our net trade deficit'

Former US President Jimmy Carter, testifying to the US Senate Foreign Relations Committee on May 12, about what has happened since his administration addressed US dependence on foreign oil:

"The US now uses two-and-a-half times more oil than China and seven-and-a-half times more than India or, on a per capita consumption basis, 12 times China's and 28 times India's.

"Although our rich nation can afford these daily purchases, there is little doubt that, in general terms, we are constrained not to alienate our major oil suppliers. Some of these countries are publicly antagonistic, known to harbor terrorist organizations, or obstruct America's strategic interests.

"When we are inclined to use restrictive incentives, as on Iran, we find other oil consumers reluctant to endanger their supplies. On the other hand, the blatant interruption of Russia's natural gas supplies to Ukraine has sent a warning signal to its European customers.

"Excessive oil purchases are the solid foundation of our net trade deficit, which creates a disturbing dependence on foreign nations that finance our debt. We still face criticism from some of our allies who are far ahead of us in energy efficiency and commitments to environmental quality, and we must also remember that the poorest people also pay the higher oil prices that result from our enormous per capita consumption."

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SEC names two Dallas oil and gas promoters in fraud complaint

Two Dallas promoters raised \$10 million from 300 investors nationwide through fraudulent offers and sales of oil and gas joint venture interests, the US Securities and Exchange Commission charged on May 7.

It filed a civil injunctive action in US District Court in Dallas alleging that Hartmut T. (Hardy) Rose and James Patrick Reedy acted through Geo Companies of North America Inc., Geo Natural Resources Inc. and Geo Securities Inc. between August 2003 and August 2005.

The SEC's complaint said that the pair made numerous false and misleading representations and omissions in connection with the offers and sales of the interests, including Reedy's touting Geo's successful track record when, in reality, the firm had very few wells producing commercial quantities.

It also charged that in several instances, Rose and Reedy solicited funds from investors to complete wells without disclosing that Geo's geologists advised against completing them. Finally, the complaint alleged that Rose and Reedy sought additional money from investors by falsely portraying prior wells as successfully when they were actually dry holes.

It sought permanent injunctions, disgorgement of ill-gotten gains plus prejudgment interest, and civil penalties against the pair. Rose settled the charges by agreeing to pay \$58,914 in disgorgement, \$22,749.29 of prejudgment interest and a \$50,000 penalty, the federal securities agency said. Litigation continues against Reedy, it indicated.

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IFC approves loan to further privatize Albanian heavy oil field

The International Finance Corp. has agreed to financially support further privatization of Albania's Patos Marinza oil field with a \$50 million loan to Bankers Petroleum Ltd. of Calgary, the World Bank Group member said on May 11.

The Canadian oil and gas producer operates and has full rights to develop the Patos Marinza and Kucova heavy oil fields under a 25-year license agreement with the Albanian National Agency for Natural Resources, and a petroleum agreement with Albania's national oil company, Albpetrol ShA, according to information posted on Bankers Petroleum's website.

Patos Marinza is the largest onshore oil field in continental Europe, with about 2 billion bbl of oil in place, it added. IFC, which also approved a \$5 million environmental term loan to Bankers Petroleum, said that it also may make an equity investment of up to \$9.5 million.

Its announcement came hours after the European Bank for Reconstruction and Development in London said that it plans to make a similar \$64.5 million financial commitment.

IFC said that Bankers Petroleum's Albanian subsidiary has been operating a small portion of the Patos Marinza field since 2004. The expansion of its activity will modernize the field's operation by transferring specialized technical knowledge to a largely local workforce, it said.

This will contribute revenue to Albania's government and help promote foreign investment in the country's petroleum

industry, IFC added.

The loans also will support significant environmental improvement in one of Europe's most badly polluted oil fields following decades of mismanagement, both multi-government financing institutions said. They said that Bankers Petroleum will clean up existing wells it takes over and help reduce pollution and oil field contamination as it expands its activities.

IFC said that the United Nations Development Program classified Patos Marinza as one of Albania's pollution hot spots. It said that since the cleanup involves additional stakeholders, IFC and EBRD have established a working group to formulate environmental and social strategies. The agencies already have spoken with Albania's ministries to secure their support, and with the European Union to align ongoing initiatives, it added.

Bankers Petroleum said that it is in the process of creating a development plan for the second field, Kucova, which it expects to use a combination of reactivations, recompletions and secondary recovery techniques such as waterfloods.

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FERC recommends more mitigation steps for Jordan Cove LNG project

Construction and operation of liquefied natural gas terminal and associated pipelines near Coos Bay, Ore., would have adverse impacts which nevertheless could be mitigated, the Federal Energy Regulatory Commission said in a final environmental impact statement.

"Most of these impacts would be reduced to less-than-significant levels with the implementation of the applicants' proposed mitigation measures and the additional measures we recommend," FERC's staff said as it issued the final EIS on May 1.

Jordan Cove Energy Project LP, which is jointly owned by Fort Chicago Energy Partners LP of Calgary and Energy Projects Development LLC of Evergreen, Colo., has proposed constructing an LNG import terminal on the bay side of Coos Bay's north spit, about 7.5 miles up the bay's existing navigation channel, according to FERC.

Its sponsors said that the terminal will cost about \$500 million to build and could go into operation in early 2011, assuming it receives the necessary permits and clearances.

FERC said that the terminal would join a 230-mile sendout pipeline proposed by Pacific Connector Gas Pipeline LP, a joint venture of Williams Cos. Inc. of Tulsa, PG&E Corp. of San Francisco and Fort Chicago Energy Partners.

The 36-inch diameter pipeline would have the capacity to transport up to 1 billion cubic feet per day of regasified LNG from the Jordan Cove terminal to interconnections with Williams's Northwest pipeline near Myrtle Creek, Ore.; Avista Corp.'s distribution system near Shady Grove, Ore.; and transmission systems owned by PG&E and Transcanada Corp. subsidiaries Tuscarora Gas Transmission and Gas Transmission Northwest near Malin, according to its sponsors.

FERC's staff said that it reached its decision for several reasons, including the terminal's final engineering design incorporating detailed seismic specifications and other measures to mitigate earthquake impacts, and mitigation measures along the pipeline route to address landslides and other geological hazards.

It said that the terminal and pipeline would have specific plans to mitigate erosion and restore disturbed soil and vegetation; to compensate for impacts on water bodies, wetlands, vegetation and habitats; and to continue consulting with appropriate federal and Oregon government agencies.

The final EIS also recommended that the terminal and pipeline's sponsors implement an engineering peer review process to ensure compliance with all applicable regulations, codes, design specifications, and conditions of FERC's final order.

Commissioners will issue that order after considering the staff recommendations and the final EIS, FERC said.

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Ex-Im Bank preliminarily agrees to \$2 billion of financing for Petrobras

A preliminary \$2 billion financing commitment to Petroleos Brasileiro SA may lead to contracts for US companies with Brazil's national oil company, the Export-Import Bank of the United States said on May 7.

The Ex-Im Bank said that it is making the investment to encourage Petrobras to buy US goods and services. It added that it anticipates the financing will support more than \$2.2 billion of US exports to Petrobras once it is finally approved.

"Petrobras presents an enormous opportunity for US exporters in the oil and gas and many other sectors," said Barbara O'Boyle, the Ex-Im Bank's vice president for structured finance.

The bank, which is the official US export-credit agency, said that it expects this preliminary commitment to give Petrobras the opportunity to identify potential US exporters for its projects over the next two years.

Once the preliminary commitment becomes final, the financing could be used to support US exports on repayment terms of up to 10 years, including a potential conversion of part of the financing to establish a medium-term (1-7 years) credit guarantee facility, it said.

Petrobras, which expects to invest \$174 billion in development over the next five years, could use US goods and services financed under the agreement to develop its offshore oil and gas resources, particularly the large pre-salt reserves in the Santos Basin, and to develop and upgrade its refining and distribution system, according to the Ex-Im Bank.

It said that US companies of all sizes interested in exploring export opportunities with Petrobras should contact Philip Limon, treasurer of Petrobras America Inc. in Houston, by phone at (713) 808-2160 or by e-mail at plimon@petrobras-usa.com to learn more about the company's bidding process and how to participate in transactions which the Ex-Im Bank could financially assist.

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BLM completes early study of proposed gas project near Cody, Wyo.

The US Bureau of Land Management issued an environmental assessment and draft finding of no significant impact from a proposed natural gas project east of Cody, Wyo., on May 11.

Bill Barrett Corp., a Denver independent producer, proposed drilling seven natural gas wells and constructing access roads, pipelines and a compressor station in what it called the Rocktober Unit project in the McCullough Peaks area, BLM's Cody office said.

In his assessment and draft finding, Michael P. Stewart, the office's field manager, said that he determined that the proposed project is not a major federal action and would not significantly affect the environment in the area. "Therefore, an environmental impact statement is not needed," he said.

Comments on the finding and environmental assessment will be accepted through June 12. The documents will be available for viewing in BLM's Cody field office and are currently online at www.blm.gov/wy/st/en/info/NEPA/cyfdocs.html.

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