

Conoco boosts dividend, unveils \$12 billion capital budget

Posted by businessinsider

Posted: February 11, 2011 - 1:15 pm

By Chris Kahn, The Associated Press --

NEW YORK — Conoco Phillips said Friday it will reward investors with a 20 percent dividend increase and a plan to buy back \$10 billion of shares.

The company also announced a \$12 billion exploration and production capital budget for this year that includes some projects on Alaska's North Slope, where Conoco has major holdings.

The Houston oil producer will pay a 66-cents-per-share dividend on March 1 to shareholders of record on Feb. 22. The share repurchase plan, if completed, would more than double the amount spent on buybacks last year. Repurchasing shares takes them off the open market and pushes remaining shares higher.

Conoco has been aggressive in rewarding shareholders while transforming its business with the sale of some oil-producing assets during the past few years. The sales helped Conoco boost earnings last year nearly threefold to \$11.4 billion.

Morningstar Inc. analyst Allen Good said Conoco wants to make up for poorly timed acquisitions, including a \$35 billion deal for Burlington Resources, that haven't been worth as much as the company paid.

The company is focusing on its North American properties and using proceeds from the asset sales to pay back shareholders. The stock repurchase program is the industry's largest behind Exxon Mobil Corp., Good said.

"They're just trying to be more shareholder friendly," he said.

Shares rose 2.1 percent to \$71.58.

Separately, Conoco announced it will boost capital spending to \$13.5 billion this year. Most of that money will go toward finding and producing new sources of petroleum.

About \$6 billion will be used to develop liquids-rich shale fields in the continental United States. Other spending will be directed to oil sands projects in Canada and development of oil wells in Alaska.

Spending in Alaska is expected to be directed toward development of the existing Prudhoe Bay and Kuparuk oil fields, as well as the Western North Slope. The company did not specify how much of the \$6 billion is aimed at Alaska.

Another \$6 billion will be spent on operations in Europe, Asia and Africa. Conoco will continue to develop a coalbed methane-to-liquid natural gas joint venture in Australia and new fields offshore in Malaysia, Indonesia and Vietnam. Projects also will be funded in the North Sea, Africa and the Caspian Sea.

Conoco will spend \$1.2 billion on its refining and marketing business, with \$1 billion to be spent in the United States.

The Anchorage Daily News/adn.com contributed to this story

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US drilling rig count up by 19 to 1,732

The number of rigs actively exploring for oil and natural gas in the U.S. increased by 19 the week ending Jan. 28 to 1,732.

Houston-based Baker Hughes Inc. reported that 913 rigs were exploring for gas and 809 for oil. Ten were listed as miscellaneous. A year ago, the count was 1,317.

Of the major oil- and gas-producing states, Pennsylvania gained 10 rigs, Louisiana gained five, New Mexico gained four, Alaska gained three, Colorado gained two and Wyoming gained one.

Arkansas and Oklahoma each lost two rigs and California, North Dakota and Texas each lost one. West Virginia was unchanged.

The rig count peaked at 4,530 in 1981, the height of the oil boom. The record low of 488 was in 1999.

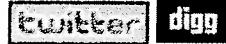
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Two more Oooguruk drill sites in the works

Pioneer's proposed Nuna project gives offshore unit onshore drilling pads, presumably to reach Torok formation in Moraine prospect

Kay Cashman

Petroleum News

Three weeks after Pioneer Natural Resources gave investors an expanded Oooguruk map that added six leases and one new onshore drill site to the south and southwest of the Beaufort Sea unit, the company delivered a proposed "Nuna" development project for the same area to the State of Alaska. But the Nuna map and fact sheet, released to the state in early December, called for two new onshore drill sites and a tie-in pad, plus associated gravel roads and pipelines.

Pioneer has made no secret of the fact it is searching for more sources of oil at Oooguruk. In an early May investor conference call, Pioneer President and CEO Tim Dove mentioned the possibility of a new onshore gravel drill site for the unit, noting that earlier in the year the Texas-based independent's Alaska subsidiary had drilled into the northern end of the Moraine prospect, a 3,000-foot well that produced from the Torok formation at initial rates of 1,100 barrels per day.

The new drill site, Dove said, would allow Pioneer to drill into the southern part of the prospect.

Oooguruk's existing drill site is a six-acre artificial gravel island about 5.7 miles



from shore.

Torok, the third producing horizon at Oooguruk, is a large stratigraphic trap of thinly laminated sands that sits about 1,000 feet above producing Kuparuk pool, which in turn overlies deeper and larger Nuiqsut.

Every Oooguruk well into the Kuparuk and the Nuiqsut has been drilled through the Moraine, so Pioneer has said it has a lot of data on the prospect.

Early production estimates from the unit, which sits in 4-5 feet of water, was close to 12,000 barrels of oil in November, up 5,000 barrels a day from its third-quarter average. Production is expected to reach 15,000-20,000 barrels per day in 2011.

Production currently comes mainly from Jurassic Nuiqsut sandstone and Kuparuk C sandstone reservoirs.

No permits filed yet

The Nuna details released to the state — permits won't be filed until sometime in early 2011 — do not mention an Oooguruk unit expansion or the Torok formation and the Moraine prospect; rather Pioneer said the two new onshore pads will allow the company to use extended reach drilling to "reach resources not accessible" from Oooguruk's existing offshore drill site.

If the Nuna project is sanctioned by Pioneer, civil construction "could commence in 2013 with first oil in 2014 or later," Pioneer said, noting that sanctioning "would not occur until completion of appraisal work and receipt of major agency approvals."

The company said "preliminary engineering" had identified a development scenario that included:

- Two drill sites on the eastern bank of the Colville River;
- A tie-in pad adjacent to KRU drill site 3S (DS-3S);
- Using existing infrastructure at the Oooguruk tie-in pad, including power generation, gas compression and camp facilities to reduce the need for additional infrastructure;
- Utility service, including water, gas and power, that would come from elevated flowlines from the Oooguruk tie-in pad to the new drill sites via DS-3S;
- Gravel roads to connect the two new drill sites to DS-3S;
- Waste streams injected into approved disposal wells at the drill sites; and
- Three-phase production that would be transported for processing to the ConocoPhillips-operated Kuparuk River unit via a flowline tie-in at DS-3S.

Standalone processing facility a possibility

Whether the Nuna development is ultimately part of a formal Oooguruk unit expansion or not, it still bodes well for increased production from the area for

Pioneer and its 30 percent partner in all the leases, Eni Petroleum. The more oil operator Pioneer can produce, the better chance it has of justifying the construction of its own processing facility.

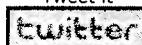
Currently, Oooguruk oil and small amounts of gas are being processed at Kuparuk, where PN sources say Pioneer has to pay stiff back-out fees because Kuparuk has to forego processing some of its own oil, and — some say — because Kuparuk is the only game in town. Neither observation has been confirmed by Pioneer, which has only praise for its facility sharing agreement with ConocoPhillips.

Here is what Pioneer spokesman Tadd Owens recently told PN about the possibility of Pioneer building its own facility for Oooguruk: "At this time we are not planning to construct our own production processing facility. However, that option remains available to us if at some point in the project's future we determine the economics justify constructing our own processing plant."

When asked if Pioneer was planning to use its partner Eni's soon-to-be-online facilities at the adjacent Nikaitchuq unit, he said: "At this time we have no plans to use facilities at Nikaitchuq to process production from Oooguruk. Going forward we will continue to evaluate any opportunities to enhance the economics of our project."

It would require an eight-mile line to deliver Oooguruk oil to Nikaitchuq's processing facility.

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Delegation urges CD-5 application action

Alaska's members of Congress have written to administration officials, expressing concern over delays in first NPR-A development

Kristen Nelson

Petroleum News

The members of Alaska's congressional delegation — Sens. Lisa Murkowski and Mark Begich and Congressman Don Young — have written to top administration officials to express concern about lack of coordination among federal agencies on ConocoPhillips Alaska's CD-5 permit application.

In February the Corps of Engineers rejected ConocoPhillips' plan to develop its lease holdings on the eastern edge of the National Petroleum Reserve-Alaska by constructing a gravel road and bridge across the Nigliq Channel of the Colville River. The corps said a pipeline buried under the Nigliq Channel would have less of an environmental impact.

ConocoPhillips appealed and in early December the corps remanded some issues for reconsideration.

In a letter to Secretary of the Interior Ken Salazar, Environmental Protection Agency Administrator Lisa Jackson and Assistant Secretary of the U.S. Army for Civil Works Jo-Ellen Darcy (Corps of Engineers), the Alaska delegation said they have "ongoing concerns and interest" in the appeal by ConocoPhillips Alaska of the denial by the corps' Alaska District of a permit for the CD-5 Alpine satellite development in NPR-A.

More wells planned at CD-1, CD-2, CD-3



ConocoPhillips Alaska is requesting approval to install additional wells at Alpine beginning this winter "because of the delays associated with the CD-5 development."

Two wells are proposed for the CD-1 pad, five wells for the CD-2 pad and eight wells for the CD-3 pad (Fiord).

The company said the number

Commenting on the decision by the corps' Alaska District, the three said the Alaska District "had insisted, despite nearly five years of environmental study and careful consultation with tribal, local, state, and federal stakeholders, that a three-phase buried pipeline — requiring exponentially increased air traffic and subject to uncertain monitoring issues over the life of the fields — would be less environmentally damaging than the proposed road."

Several of ConocoPhillips' reasons for appeal were validated, and remanded to the Alaska District.

"This may indicate the complexity of the issue, but we worry that it also speaks to a chronic and unacceptable void in communication and transparent analysis on the part of those agencies responsible for advancing this important project," the delegation said.

Not advocating specific course

The Alaska delegation said it was not advocating a specific course of action.

"We are, however, compelled to voice our serious and continued disappointment at the federal government's persistent inability to coordinate its agencies in such a way as to move this critical project forward on a reasonable timeline."

They argued that prospects in a National Petroleum Reserve should be the most "assertively pursued and permitted" of any national oil and gas prospects.

"The opposite has occurred in this case, and this is already proving needlessly costly in terms of jobs, federal leasing revenues, and the Administration's stated goal of energy independence."

Aquatic resource

On the subject of EPA's "designation of the Colville River Delta as an 'aquatic resource of national importance' for purposes of this application," the delegation said that "caused as both alarm and curiosity as regards the process and power behind this designation."

"Insofar as those who actually depend on the Colville for its aquatic resources, this designation flies in the face of their preferred method of accessing CD-5," the delegation said, and noted that this was not surprising, "since the designation requires no public input, consultation, or even notice."

They questioned whether steps to permit this and other projects in a petroleum reserve "give the applicant and the public a clear path forward and transparent public record," and said they hoped "to better understand what appears to be an opaque, unilateral process to many seasoned observers."

Whatever the outcome of ConocoPhillips' appeal, the delegation said they "expect both thoughtful and swift responses to the issues raised in this letter, and we expect those responses to occur in the form of both words and concurrent action."

of wells at CD-2 and CD-3 exceed the proposed number of wells in the original development plans for those pads. A total of wells was never proposed for CD-1.

All wells are planned for existing gravel.

—Kristen Nelson