

PROJECTS & COMPANIES

The company currently has 110 rigs in operation, down from 158 in August 2008.

The company's CEO, Aubrey McClendon, said the decision to reduce production had been taken in the interests of the shareholders.

"During March 2009, most mid-continent natural gas prices at major interstate pipeline delivery points will average around US\$2.70 per 1,000 cubic feet [US\$76 per 1,000 cubic metres], a price at which most natural gas production is unprofitable. We believe low wellhead prices combined with constrained capital availability will likely cause US drilling activity to decline well beyond the 40% drop already seen since August 2008."

In an attempt at optimism, Chesapeake said it believed that higher prices for gas and oil were developing later this year and in 2010.

Further attempts to cut costs included an announcement on February 26 that the company would reduce its Charleston office headcount, from 255 to 40. The

changes will see some job losses and some employees moving back to Oklahoma City.

PXP

Chesapeake also said it had amended the terms of its joint venture in the Haynesville shale with Plains Exploration and Production (PXP).

Chesapeake said it had granted its partner a one-time option to avoid paying US\$800 million, which had been committed under a drilling obligation worth US\$1.65 billion.

The option is available only for two weeks in June 2010 and would involve PXP handing over 50% of all its Haynesville joint venture assets to Chesapeake by the end of 2010. Up until that point, though, PXP remains committed to carrying Chesapeake.

Chesapeake said that, as of December 2010, PXP's assets in the Haynesville shale were predicted to be worth US\$3-3.2 billion. McClendon said he did not expect PXP to take up the offer.

Class action

In further Chesapeake news, Coughlin Stoia Geller Rudman & Robbins announced a class action had begun against the company over its secondary stock offering in July 2008.

A statement from the lawyers said Chesapeake's registration statement in July 2008 was "materially false and misleading" because it did not reveal "numerous facts" in relation to its hedging agreements. The class action alleged that Chesapeake's hedging deal contained "knockout" provisions that reduced protection when gas prices fell below a certain level, as well as its reliance on Lehman Brothers, despite the finance house's "rapidly declining financial condition."

The Coughlin Stoia statement went on to allege various other faults on the part of Chesapeake, including that it had run up the price of natural gas and that it had failed to write down impaired goodwill on its balance sheet. ■

Petrobank awards FEED to Vista

Calgary-based Vista Projects has been awarded the front-end engineering and design (FEED) contract for the well pad and pipeline package on the May River in-situ oil sands project in northern Alberta. The value of the contract was not disclosed.

The client is Petrobank Energy & Resources, which is moving ahead with the first phase of development. It is aimed at the production of 10,000 barrels per day of bitumen – with no net water use – through the commercial application of Petrobank Energy's patented toe-to-heel-air (THAI) injection technology.

"We have a long history in heavy oil and bitumen processing," said Vista Projects founder and principal, Alex Campbell. "Our expertise in providing innovative solutions is a good fit for Petrobank's flagship technology and development."

THAI technology is an innovative process for the extraction of bitumen and production of heavy oil. It uses an in-situ combustion technique that injects high-pressure air into the structure to ignite the bitumen. This results in the air forcing the thermally cracked oil towards the production wells.

The new system of extraction also offers substantial environmental and operational cost benefits, when compared with steam-assisted gravity drainage (SAGD) or the cyclical steam (CSS) processes, because of the minimal use of energy and water. THAI technology also requires lower capital investment than steam-assisted production of bitumen and yields a higher quality of heavy oil.

Petrobank plans to build four well pads with a total of 18 production and injection well pairs, a central processing facility (CPF) and a network of

infrastructure facilities, including roads, pipelines and power lines.

The CPF will include standard oilfield equipment, including inlet separators and fluid production treaters, produced gas treatment facilities with combustible gas and sulphur recovery, power generation facilities, produced water management and recovery facilities, utilities, air injection compressors, tankage and control room, offices, warehouse and maintenance buildings.

The May River project – which is to be built in three phases – is due to be completed in 2010-11. It can sustain production for 10-12 years. At a later date, Petrobank intends to increase output from the project to 100,000 bpd. There is no word, as yet, on the cost of the first phase but industry sources have estimated it to be at least C\$200 million (US\$156 million). ■