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NEXEN INC. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operator Instructions].

Our first question is from Brian Singer from Goldman Sachs. Please go ahead.

Brian Singer - Goldman Sachs

Thank you. Good morning. Could you speak more to your weather drilling plans for the BC shale play? Were we could be drilling principally horizontal wells, and what are your expectations for costs and recoveries?

Charles W Fischer - President and Chief Executive Officer

Our plans this winter? last winter, we had drilled two vertical wells. We are going to go back in and track those. We spent a lot of time in summer working at the information that we? that we obtained from those two wells. We will track those two first. We've got I think three horizontals that we plan to drill in the Deer Creek area. And we have one or two wells at Cordoba that we are going to drill, that will probably be verticals. So, that we can gather some information and start progressing our knowledge there as well.

So, that's more or less what's in the plans here in the short-term. And we are fairly new at? at shale gas, and so, we want to take another? at a measured pace here and do what we can to get all the technology and walk through as we go forward.

Brian Singer - Goldman Sachs

Okay. Any initial thoughts on how much wells are going to cost, and what you need to recover to meet your turnover?

Charles W Fischer - President and Chief Executive Officer

The issue I think is that there were early wells are going to cost more than what we think the wells would cost in drilling campaign, because we are doing a lot of extra work. We? for instance, last year, we only drilled two wells, but we did them with two separate rigs. So, we had different programs in terms of how we drill them, and so, it's started floating our costs. We think that if you are drilling in a drilling campaign, you are probably looking at drilling costs in the \$4.5 million to \$5 million range. Would you have a campaign where you are drilling multiple wells, you could plan on ahead and use the same kinds of drilling activity.

Brian Singer -Goldman Sachs

Okay.

Charles W Fischer - President and Chief Executive Officer

But they will be more expensive than that I have in the front end, because we are doing a lot of unique things. We have got cores doing a lot of things that you wouldn't do if you were moving into a commercial development.

Brian Singer - Goldman Sachs

Sure. Okay. And on Long Lake, can you give a little more color on, I guess, the various options here considering for future phases. What would you need to see both politically and cost wise that to move forward with future phases as planned?

Charles W Fischer - President and Chief Executive Officer

Well, I think we got two questions outstanding on the political front these days. So, we need to know what royalty decisions are going to be taken here in Alberta, and I guess, by the end of this week, we should have a good idea of that. We? I would say when I? when we look that the issue with? is not that we can't see any increases in royalties, but royalty increases have to reflect higher commodity prices. If our margins are growing, obviously, we can afford to pay more and? but there are elements in that royalty proposal that the panel put out like the oilsands severance tax, which? in our view, are quite egregious and cause some severe problems. So, we will see how the government deals with that.

On the Federal side, the issue for us is more trying to understand the details of their climate change strategy. We are thinking Alberta, Alberta has payables [ph] position their regulation, and with our technology, we would be a new facility without three years to establish a baseline of Long Lake one. And then we have to improve CO2 emissions by 2% per year as we went forward. The federal government? in its framework provides four similar types of opportunities, but they started up in a framework and have devils in the details. So, we need some clarity on the federal side to be sure that we'd be treated the same way. If we're treated the same way, then our intention would be to use the same technology as we go forward. We think there are opportunities in the region to capture CO2 and the industry has attacking with both prevention and federal government about captured transportation station project for CO2 coming out of the region broadly. And with our technology, we have the opportunity to capture CO2 pre-combustion rather post-combustion. So, we have technical advantages in terms of being able to do that if all of these things are going.

So, our intention will clearly be to move forward once we have got one-up, and we got clarity on these issues basically to build phase two on a similar strategy to what we have phase one, but we prepare to move phase two into a full capture scenario in some point of the future if the infrastructure is there for us to put CO2 into against the question.

Brian Singer - Goldman Sachs

Thank you.

Operator

Thank you. Our next question from Phillip Skolnick from Genuity Capital. Please go ahead.

Phillip Skolnick - Genuity Capital

Thanks. Couple of questions. First of all, it seems like given where production has been for the first nine months and you are talking about turn rates out of those days that production for the year is going to average somewhere slightly below 260,000 equivalent day. And is that fair to say and also what do you expect your exit rate to be? And how 2008 looking, do we need back things up or things being pushed back enough that maybe you are going to be set up for 10% growth something like that.

Charles W Fischer - President and Chief Executive Officer

Yes, I think when you do your math, the reality down here where we are today plus what we see in Q4, 360 is probably a good number. We are getting to rights that we are expected. It's just taking us longer than we anticipated. What we have seen is some shortfalls, largely in the U.S. and? but we are seeing some increased capacity in U.K., this offsetting some of that. So, when we are up in running with everything, we were in that 280, 285 range and our target is to get everything back on, just back up there as we go forward.

We had one pipe that we has to replace at Buzzard, we had some chariot cracking and we resolved that problem and we are coming back up. So, we expect through the balance of the year that? like the only thing that's not operate now fully is Syncrude decoking one of the coppers [ph] and so it's a little bit restricted.

Wrigley, we won't get the full rates till last year because we got to have some heat exchange. But we should? for the bulk of the balance of the year we will be running about 280ish type range.

Going into next year, we do get some less some things that we are doing and probably the biggest single thing that will add volumes in next year will be two things will be Long Like coming on and it will be wrapping up through the year, starting with bitumen probably in the second quarter going into synthetics sales in summer, and beyond. And then, we have got Ettrick coming on mid year at? Ettrick come around 20,000 barrels a day. So, we are 80% of that. And that should add significantly as well.

Phillip Skolnick - Genuity Capital

Okay. And just--?

Charles W Fischer - President and Chief Executive Officer

I can't tell you what the whole number is here, because the guys are just working on the budget and I haven't seen ourself that yet. But our folks will keep in touch with you, and as we get the numbers, we will let you know what they look like.

Phillip Skolnick - Genuity Capital

Is that a December 1?

Charles W Fischer - President and Chief Executive Officer

Which?

Phillip Skolnick - Genuity Capital

I think you know the budget.

Charles W Fischer - President and Chief Executive Officer

Yes.

Phillip Skolnick - Genuity Capital

Okay. Just the final one. I noticed that you are spending more than your cash flow gone year-to-date now. Is that went up because of the Canadian dollar, is it? how much is Canadian dollar I guess and how much is? just other things going on as well?

Charles W Fischer - President and Chief Executive Officer

It's a bit of a mix. The Canadian dollar actually helps us in a lot of places because we spent a lot of money around the world that are our US dollar base. Some of the increase obviously has been? is the increases in that capital cost at Long Like. We are paying for some of that this year. We also spent a bunch of money in the US this year and those things contributed on the way through.

Phillip Skolnick - Genuity Capital

Okay. Thanks. That's it.

Operator

Thank you. The next question is from Ted Isaac from Bear Stearns. Please go ahead.

Ted Isaac - Bear Stearns

Yes. Hi. Good afternoon or good morning. Congratulations on your entry report. The question on your share price, how you feel about your share price, price performance and with the production coming on as well as there and everything is kind? you meeting your targets. Would you be looking at maybe increasing your share repurchase program for--?

Kevin J. Reinhart - Vice President, Cooperate Planning and Business Development

Well. I think as we go forward and generate free cash flow that something that we would look at through this year with the increases from cost that we have experienced with Long Lake. The first thing we have to do is finish that project. I would expect that we are going to see free cash flow next year that would be a question that we would look to. If we don't have or the best alternatives to create value for our shareholders is buyback shares then we would look at buying back shares.

Ted Isaac - Bear Stearns

Would you only do it with free cash flow or would you look at increasing leverage at all.

Kevin J. Reinhart - Vice President, Cooperate Planning and Business Development

No, I don't think in the short-term that we would look the increase leverage. I think that we are going to be generating some free cash flow here pretty quickly and then we would love to do it with that.

Ted Isaac - Bear Stearns

Okay. Thank you very much.

Operator

Thank you. The next question's from John Herrlin from Merrill Lynch. Please go ahead.

John Herrlin - Merrill Lynch

Yes. Hi. I have got a bunch of them. Charlie, with the Gulf of Mexico wildcards that you delineated or you still working on. Could you refresh your memories in terms of the target sizes for Longhorn and Vicksburg?

Charles W Fischer - President and Chief Executive Officer

Longhorn had a range? and I am going for memories so somebody might give me? but I think it was between 60 and 220 bcf. And we are going back and looking at that assessment, given that we have seen very big piece section here and a little bit more than we had anticipated. At Vicksburg, we were looking at gross on risks, somewhere between 200 million to 500 million barrels. As Kevin said we have, we have kind of sidetracked and taken cores and we are evaluating the cores and it's a little early to say exactly what we have got, but once we have finished that analysis, we will describe it what we found there. for.

John Herrlin - Merrill Lynch

Thank you. With Long Lake, you said you had the terminal response. Could you have produced if you wanted in the quarter or you are just waiting as you said to have more of? first half type ramp just to ease everything up?

Charles W Fischer - President and Chief Executive Officer

What happens, John, is you have to heat everything up and as you are heating it up, for us as we are balancing the facilities that handle the returns, we have to bring them up slowly as well, and probably the biggest, the most critical piece there is the hot line softening units. So, for us, it was a big step to get returns from the well that have been steaming for a while and start handling the process water as well small amount of bitumen that are coming back through the system. But it is really too early to see significant volumes. We need to put heat in the ground here for probably four to six months before we are going to start seeing that significant ramp up that we described before. So, since we are a little bit later in getting steam in the ground, we are really looking at the end of the first quarter to start seeing this significant volume ramp.

John Herrlin - Merrill Lynch

Okay, that's fine. With Wrigley and the heat exchanger, do you have any sense of timing when that will be addressed?

Charles W Fischer - President and Chief Executive Officer

We are inching along, we don't operate that, but obviously we are tracking it closely. It's solvable. I need another heat exchanger and I think we are working on that. It should be months, it's not a huge long issue, but we need some more heat exchange

John Herrlin - Merrill Lynch

Okay. Last one for me in on marketing, obviously, the markets have been volatile, but compared to last year, you are not getting the same kind of earnings or cash flow contribution. How should we think of the business going forward?

Charles W Fischer - President and Chief Executive Officer

Again, we talked about marketing generally, since last year, we had a phenomenal year, but we talked about it generally being able to do about \$200 million in cash flow. And I think that's a good number you know this year we have seen some volatility on two counts one gas prices have been unusual and really decoupled out of where they would normally trade when you look at the high oil prices. And we haven't seen the same dynamics seasonally as we typically have and so that still could setup as we go into winter. And we are set for that to happen. The other thing that was a big change here through this third quarter as we went from? can tangle one oil prices as the feed backwardation with the front end price coming up so dramatically and a lot of our physicians were set to deal with the Cantengo [ph] and the quick momentum into backwardation cost of some money through the quarters so those are things we just change our strategies in terms of how we make those investments. We should get back on track here. So, we are looking for a lot there fourth quarter than we have in the third.

John Herrlin - Merrill Lynch

Great. Thank you.

Operator

Thank you. The next question is from Steven Calderwood from Raymond James. Please go ahead.

Steven Calderwood - Raymond James

Yes please. Thanks for taking my questions. First of all, the difference between the sales volumes than the production in the quarter, what project is stemming from and do you really expect to solve production in the fourth quarter?

Charles W Fischer - President and Chief Executive Officer

The bulk of it is sitting in the North Sea and it's related to Buzzard and really we have to nominate Buzzard volumes early, I think almost two months ahead and so what we had very good production though name-plate capacity. In September we have to nominate it against those for lifting and so that ended up being produced but it's sitting in storage on-shore and we will lift it in the fourth quarter. Typically, we try to make sure that we lift the vast majority of our inventories on the quarters. The only places where we really see inventory build up of any significant volumes would be in the UK and its largely around Buzzard the other place is in Yemen and typically we are able to schedule in tankers so that we can lift just for before month end and certainly on the quarters we try to do that so we get the full impact of the cash that we are generating.

Steven Calderwood - Raymond James

If I could follow up with the question on Buzzard, I think the 220 barrels a day growth is coming from nine well, are you still drilling and completing new wells and if so when do you need you think to need to bring more wells on.

Charles W Fischer - President and Chief Executive Officer

We are drilling when we had divide the program what we really have to set out to do is drill for about two years which gives us some excess capacity and then we would pack up so our plan originally was, I think drill 15 wells or 16 wells and then take a little bit of a break and then go back and then

keep drilling, I think alternatively we were looking at drilling 27 well producers and so some of those future wells will be drilled over time, with some of the higher H2S, S-wells that we have seen down dip on the structures, we are not producing those wells. So, we changed the drilling order little bit to make sure we can maintain strong deliver abilities while we have those H2S facilities.

Steven Calderwood - Raymond James

New wells you are drilling, have late subject to end [ph] or is there no new well results to talk about?

Charles W Fischer - President and Chief Executive Officer

No always there's the well that we're drilling are high on the structure and they have little or no H2S and probably if you look at the wells that we're producing they're averaging maybe two part per million some thing like that. So the way the structure works, is that the higher the structure and you have to remember this structure is from well water contact to the top of the structure is about 1200 feet. The top of the structure is the oil sleeve. The H2S is really at the bottom of the structure it really is located mostly in the north east part of the structure just at or slightly above the oil water contact and it's a bit of an anomaly that you would have high H2S or higher H2S levels in part of your reservoir were has gone through the reservoir total. And there are good analogs for this. We've looked around the world it's a bit of an unusual situation. So the way we manage this in short-term is to produce sweet oil on top of the structures and in the future when we have increased the H2S capacity analytic capacity we will able to produce the higher H2S wells.

Steven Calderwood - Raymond James

Ask a question on Aspen the rig or the sliding sleeve that need to investigate do you need a rig for that and can you comment on the availability of rigs in the Gulf of Mexico.

Charles W Fischer - President and Chief Executive Officer

Yes what we are doing actually because we had, in the well we had, very thick pay in two sections and we're just not seeing the rates. So this question as to whether, when we completed the wells we got to sliding sleeves open on both of the zones or not. What we're doing in the short-term is just marking up similar pressure environments and angles and all the rest of it and allow using the same equipment to see whether the mechanisms work after those conditions. That will give us some information. If we have to physically go down and investigate we need a rig and we have to find one. They are tight but it's a lot of different when you are doing permeation like this compared to drilling a well its you need it for a lot less time so we think we might be able to find a vessel and give you.

Steven Calderwood - Raymond James

And if I can follow up with one more question on Gulf of Mexico and then I'll quit here. The land sale that you're obviously very successful at acquiring new lands, do you know how many of those parcels of the land are offshore blocks, are you going to operate?

Charles W Fischer - President and Chief Executive Officer

Oh gosh. There was a mix on the way through and I can't tell you of the top, we were in? I think three different bid groups and some of it has to do with who had identified the prospects of the group, as to who would operate. But it's? what we typically do, we are successful in being the high bidder, what we usually do is wait until we have that confirmed in the MMS has actually released the blocks to us, and then, we would report on that. So, let's? we will get back on, on that as we actually see the MMS release the blocks. But we probably would have been at least if one of them would be operated.

Steven Calderwood - Raymond James

Thanks a lot.

Operator

Thank you. The next question is from Kam Sandhar from Peters and Co. Please go ahead.

Kam Sandhar - Peters and Co.

Hi, thanks. I have a couple of questions. First of all, the \$350 million to \$400 million you plan on spending for the Buzzard modifications. Is that spending? or I guess, what's the timeline for that spending? And whether or not there would be any significant downtime in the facility?

Charles W Fischer - President and Chief Executive Officer

We would? we filed with the government to start getting the regulatory approvals, and we will look at formally sanctioning the project, probably in the first quarter of next year. Which would mean somewhere in the second half of 2010, we would expect to have the facilities on. There are tie-ins that would have to be made, but they would be minimal and we would sketch up those when we would have regular turnarounds on the facilities, so that we would minimize any downtime. All of the facility? all of the fluids have to go through the facilities. So, as we're starting to get up, it would have some impact on the rates, but we don't see that as having a significant impact for very long.

Kam Sandhar - Peters and Co.

Okay. And the timing of your spending for that?

Charles W Fischer - President and Chief Executive Officer

Well, I mean the front end is all design work, so the bulk of the spending would be starting late this year through 2009, with the balance of the construction 2010. So, I haven't seen the numbers coming in because the guys are just putting the details together. But that would be my expectation that the high spend year would probably be next year? not next year, 2009.

Kam Sandhar - Peters and Co.

Okay. Just on Long Lake, I know that the last stop that you guys had said there about five of the ten CADs were steaming. Can you give us an update as to how many are currently steaming?

Charles W Fischer - President and Chief Executive Officer

Yes. When we look at Long Lake, we've got all the ones throughs, all of them have been working. We had an operator mistake, you got one of them too hot and we had to replace a couple of tubes and that should be done by the end of this week, and we'll have them all up and running again. I think we've got steam going into? we have 50 well pairs, and by the end of the month, we'll be putting steam in all, but CAD 10 and CAD 10 basically a week into November, we'll have steam there as well. I think the target was the 9, of November. So, it's coming up pretty much as we described.

Kam Sandhar - Peters and Co.

Okay. And the last question. Can you give us an update on, I guess, the current state of CBM activities and how your outlook could change going into next year?

Charles W Fischer - President and Chief Executive Officer

For this year, we were affected significantly by the funding capacity of our partner, and hopefully, that has been a resolve as we go into next year. So, really the question we have as it relates to CBM, it's really around the royalty changes in Alberta and we need to see what the impact of those royalty changes would be on CBM. It really changes a significant impact that we would be significantly reducing our capitals and our expectations if they are not we will be moving ahead as we have been. So, we really need to? the big question for us right now is what are the foot topping of the royalties because where most of our Alberta based things are relatively? affected on a relatively minor way through the royalty proposals. The two things that get affected was some sub-semis on the panels proposal with CBM and potentially oil sands that we need part.

Kam Sandhar - Peters and Co.

Okay. Great. Thanks.

Operator

Thank you. The next question is from Robert Plexman from CIBC World Markets.

Please go ahead.

Robert Plexman - CIBC World Markets

Hi Charlie, hi Kevin. A couple of questions on Buzzard and then a couple on Long Lake. You are talking about production that running at 227,000 barrels per day at Buzzard. Charlie, now should we regard that as a peak sustainable rate instead of 200,000 barrels a day? And then just wondering about the spending on Buzzard for H2S, will that qualify for the 100% allowance available in the U.K.

Charles W Fischer - President and Chief Executive Officer

Let me speak of the volumes, first. We actually had Buzzard beyond the 220,000 a day, so we know the big vessels have capacity to go further, but we start seeing vibrations in certain places. And so, for us to operate consistently and safely, we backed it down to the 220, and we are looking at how we might be able to debottleneck to enhance the capacity as we go forward. So, I feel pretty good about Buzzard, and its capacity to handle more fluids. And as we learn more about it, and test limits here, we may find that we got more capacity that we can access with relatively low capital modifying the facilities to capture that. In terms of the capital? the capital spent should work the same way as the capital spent on the initial investment, we are cash taxable in the U.K. with the volumes that we are producing and the high commodity prices we ground cold pretty quickly. And so, the capital that we spend here will be earning tax offsets as we spend it. That's just how their system works.

Robert Plexman - CIBC World Markets

Okay. Thanks for that. And regarding Long Lake the end of the second quarter, the upgrader was 90% complete. So, can you tell us where? was it the end of September? And you mentioned earlier about Long Lake bitumen volumes, just wondering at what point and the ramp up process, do you classify Long Lake as commercial and start counting those volumes?

Charles W Fischer - President and Chief Executive Officer

Well, we are working on that with our auditors, because we not only have to get bitumen production, but we have to get the upgrader started up. And so, we are having discussions as to when we would make that determination. The project? I mean, at this point, if you look at the site BC where largely commissioned the last two pieces to be started up will be Coach and they will come up in January. They are just doing the final installation and all sorts of things. So, basically fact is done. On the upgrader itself, on average would be little over? would be around 95%. At the end of the September, some of the units are done, number of the units are setting at about 95%, we have one unit that's behind that and the sulphur plant and it's puts about 75%, and it's the same is on the critical path that's that thing that has given us the most great year in terms of the schedule because we can start up until all of these reserve in place. So, they are all focus for us has been on the sulphur plant to make sure that we get it done on the revised schedule and that's the commissioning. To the extent that some of stuff has already done. The folks are already doing as much commissioning work as they can on those facilities. Charging on those fluids and getting controls? control systems to work, lot of challenges that we have with start up of the site B was just getting control systems balanced and getting all of those things functioning. So, I think those things that we can do to try and streamline the commissioning because they have a lot of given us start up and they are going to be done at different time, so the handover from construction to of commissioning, start up guys will be ongoing and will try to accelerate some of that as we work through it.

Robert Plexman - CIBC World Markets

Okay. Thanks very much for your answers.

Operator

Thank you. [Operators Instructions]. The next question is from Andrew Potter from UBS Securities. Please go ahead.

Andrew Potter - UBS Securities

Hi guys. Just wondering if you can talk a little bit on labor productivity at Long Lake? I know that was a little bit of an issue with the last cost overrun, is it basic, is it inline with kind of revised expectations are better or worst? And then I have question on Vicksburg after.

Charles W Fischer - President and Chief Executive Officer

Okay. If you looked at where we were when we announced the increase? we have the end of September 5% to go and probably close to 12% of the funds left to spend. So the anticipation was that is to go through the final activity productivity is low. But people do lots of little things and it's not very efficient in doing those little things because they need to get parts and tools and all of those such thing, and so we build in an expectation of relatively low productivity as we go through the commissioning in spite of days of this. So, we think we are increase in shape to get the estimates, but we have provided. When you look at the entire job and you breakdown the cost, the various elements and if you look at equipment cost or material cost or engineering or drilling or even labor in the module yards, we have some pressures, but they relatively small thing that deepening our launch all the way through this has been field productivity and field productivity was affected in two ways, one there weren't enough local people which meant we have spoke further away other parts of Canada and beyond to get workers and that just to add cost because you got moved on. The compensation math that we were having to not only provide gems which would normally due to case but lot of people we're providing LOA so that people would live off the camp and get additional funds. So, what we saw was not only poor productivity in terms of what amount of work you would get done toward yielded of labor, but we also saw that the costs were higher than what we have anticipated because we have to do lots more there to get the labor to the site and keep them.

Andrew Potter - UBS Securities

Okay. And then just on Vicksburg, after the quarter analysis, I mean if you like what you see, what is the timeline on drilling a follow-up well there? And do you have a rig? the shale have a rig, they would bring to this?

Charles W Fischer - President and Chief Executive Officer

I think shale has the drilling equipment that they would need, and they are putting together a strategy as to how they would proceed. We have got good land position here and we have ability to add to that, but we just want to get all information here and then put together a plan as to how we would go forward. That along to come together with the analysis and also with the results of last land sell.

Andrew Potter - UBS Securities

Great. Okay. Thanks.

Operator

Thank you. The next question is from Keith Ransburg [ph] from Chellaston Investment Company. Please go ahead.

Unidentified Analyst

Good morning. I was wondering could you talk little bit down H2S through the start up, the upgrader Long Lake? What you? do you anticipate the bitumen production is going to look like advance schedule? And as you go forward, I guess about potential purchases at the bitumen in the open market to fill that up, I am just wondering about sort of the matching of those of the stream what you require for that and that start up versus what you think is going to be produced?

Kevin J. Reinhart - Vice President, Cooperate Planning and Business Development

We had earlier and I am discussing it's on the website, but we have earlier done a chart that shows what we anticipated for ramp up for the bitumen and also for the operator and the old chart if you just move it to the right by over 3 months everything still applies. Our expectations is that we have enough bitumen being cursed from our operations I mean what we see start up and ramp up schedule for

the upgrader and now the upgrader comes up really well and really smoothly. What we have done is contracted for I think a like 6,000 barrels of day of our additional bitumen regionally where we could track-in and subside we have got the facility that would handle that someone handle. And we did that more as just the contingency we hope we never needed, but we thought let's be safe and make sure that the climbings are rather back at all or if? we see very good start up on the upgrader, we have got the supply.

Unidentified Analyst

And some of those well, I believe right fortunately shale break and I am just wondering what you ultimately think the productivity of these well is going to be?

Charles W Fischer - President and Chief Executive Officer

We have designed this for an average, I think that's around 900 barrels a day, on the commercial side. We were seeing rates on the pilots that would have been around 600. The reason the pilots well as were lowered than what we anticipate on the commercial side where that we were seeing what we call clean zones and all of the welfares of the pilots. And when we look at the commercial projects, we saw, oh gosh, I don't know less 2% of the wells have seen clean zones and so the quality of a reservoir that we encountered as that we drilled the commercial or the wells for the commercial facility were reservoir than we had seen in the pilot. And all of our correlations and analysis based on the work that we did through the pilot would give us confidence that we can meet those rates. We also have this for a few independently by our reserved auditors, and they would confirm that their expectations are really no different than ours.

Unidentified Analyst

And just one other question back to Alberta royalty review and the impact on CBM, similar to what you had mentioned on the oilsands. Is there also a part that you consider to be of the richest that you would need to be removed, or is this just, you need to see an overall lowering of the projected rates increasingly?

Charles W Fischer - President and Chief Executive Officer

Yes, we need to see a lowering, but one of the things? we have an unusual situation. To deal with the environmental issue, we are having many wells at surface, which has been an issues in some North American CBM developments. What we have done is gone to, what we would call drilling islands that we put at the intersection of four sections, and we drill horizontal wells. So, we significantly reduce the surface impact, and network of pipes and roads that could be checked all this stuff.

The way the system is working right now is that you would? you end up aggregating all of the production from the various horizontal wells, which are replacing all the horizontal leg, and it all feeds into a common vertical in the way the royalty works. This is the volume that comes out of the vertical, and that vertical is an aggregation of what would be many verticals if you didn't use environmentally more itself practice.

We have talked to the government about that and I think that will get fixed, but I think they just hadn't realized that the royalty proposals were actually in conflict with some of their environmental objectives. So, I think that'll get fixed, but we need to see it.

Unidentified Analyst

Thanks very much.

Operator

Thank you. The next question is from Kyle Preston from Salman Partners. Please go ahead.

Kyle Preston – Salman Partners

Good morning, gentlemen. Yes, just a quick question here on Yemen. I was just wondering if you guys made any progress on renegotiating the term of your contract there, I know that the Investor Day

in May there you are talking about getting extension, extension on your license there. Have you made any progress on that?

Charles W Fischer - President and Chief Executive Officer

No, we haven't. I mean that's? again, that the issue that we have there is continued advice that we will get the extension, but they don't tell us under what terms. And although, be at day one, they are ready to negotiate that. We will sit down in figure how that goes forward, but they haven't been all that keen in the short-term to deal with us.

Kyle Preston – Salman Partners

Okay. Thanks.

Operator

Thank you. There are no further questions, sir, at this time. I would now like to turn over the meeting back over to Mr. Reinhart.

Kevin Reinhart - Vice President, Corporate Planning and Business Development

Okay, Carroll. Just before we sign off, I would like to correct a comment I made earlier on Buzzard production, where I think I said that averaged a 136,000 a day. During the quarter, that's actually a 177,000 a day for a quarter. I apologize for that. And if there is nothing else, thank you for your participation this morning and have a good day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation and have a great day.

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