

09/29/2002

Trinity CO2, Oxy Permian sign major deal

Mella
Midland Reporter Telegram

By Mella McEwen

Staff Writer

A major piece of Oxy Permian's North Hobbs Unit CO2 flood project will be provided by Midland-based Trinity CO2 LLC, general partner for Trinity Pipeline LP.

Oxy Permian, the largest producer in the state, and Trinity have signed a long-term contract for Trinity to transport up to 110 Mmcf of carbon dioxide to Oxy Permian's North Hobbs project.

"It's going to be the conduit for getting CO2 from its distribution center to Hobbs," said Pat Oenbring, Oxy Permian president and general manager. "It's a vital piece of the project."

Barry Petty, managing partner of Trinity CO2 said the contract will almost double the size of the company.

"We're looking forward to this partnership," he said.

The contract calls for installing a new 10-mile lateral pipeline as part of upgrading the capacity of Trinity's West Texas Pipeline, a project that is expected to startup in the first quarter of 2003.

"The North Hobbs Unit CO2 lateral pipeline represents a significant investment for Trinity," Petty said. "This project will bring our system utilization on the northern portion of this particular line to near full capacity."

Oenbring explained that Oxy Permian had several alternatives for transporting CO2 to the project, including laying the pipeline.

"They offered us a better deal," he said.

Oxy Permian announced the North Hobbs Unit CO2 project in March, calling it the largest CO2 flood project in the Permian Basin in the last 15 years and the company's largest capital project for 2002. Oxy Permian and the other working interest owners are investing \$130 million in the project, which is expected to extend the life of the unit by over 20 years and result in the recovery of an additional 75 million barrels of oil over the life of the field.

Oenbring said the next six months will represent the peak of the project, with construction underway.

"We have some pipe within the distribution system there and we're in the ramping-up stage of construction -- digging ditches for pipe, welding pipe and laying pipe," he said. He added that equipment for the battery has begun arriving and construction on the battery is expected to begin soon. A major milestone was reached, he said, with the spudding of the first horizontal well of the project.

"From now through the rest of the year into the first quarter of 2003 will be the peak of activity," Oenbring said. "A lot will be happening over the next six months and quite a few construction people will be on site and more arriving as the weeks play out."

An estimated 250 contract employees will be used during initial construction and plans call for additional capital and operating expenditures of over \$500 million to complete the first phase of the project. The first phase will cover 5,000 acres northwest of and adjacent to the city of Hobbs, N.M. and the construction of 10 injection/production satellite facilities, a central production facility and an electrical substation. Nearly 100 miles of field production flow lines and 80 miles of field injection flow lines will be installed and a new 9,000 horsepower gas recompression facility will recycle up to 75 million cubic feet per day of produced gas. An estimated 250 wells will be involved, including 60 new wells, 30 reactivated wells and 30 well conversions.

Petty noted that CO2 floods are a natural next step in the Permian Basin, due to its maturity.

"If you're going to be a player in the Permian Basin for the long term, you'll have to be involved in CO2," he said. "CO2 will be the next step in recovering more reserves."

Oxy Permian, he said, is very committed to the Permian Basin and "very much a player; they are committed to CO2 and are planning a major project for next year and one for the next year."

Trinity owns and operates over 200 miles of CO2 pipeline systems in West Texas and New Mexico. With this new project, Trinity will become the third largest CO2 pipeline system in America based upon its annual CO2 shipments. Petty said the contract with Oxy Permian will likely result in the hiring of an additional person to service Trinity's operations in Hobbs.