Coming Sunday
A special section covers Houston-area real estate, including prices by neighborhood.

BUSINESS

AT A GLANCE

- **DOW** 17,826.30, down 279.47 (-1.5%)
- **S&P 500** 2,081.18, down 23.81 (-1.1%)
- **CRUDE OIL** $55.74, down 97¢ (-1.7%)
- **NATURAL GAS** $2.634, down 5.0¢ (-1.9%)

Houston Chronicle @HoustonChron Houston Chronicle | Saturday, April 18, 2015 | HoustonChronicle.com and Chron.com Section D ★★

REGULATION

U.S. may require higher royalties on public lands

By Jennifer A. Dlouhy

WASHINGTON — The Obama administration on Friday took the first formal steps to boost the royalties that energy companies must pay for oil and gas they pull from public lands, angering an industry already reeling from plummeting crude prices.

The Bureau of Land Management's announcement that it will propose changes marks the first major effort in decades to update onshore royalty rates that are among the lowest in the world.

"It's time to have a candid conversation about whether the American taxpayer is getting the right return for the development of oil and gas resources on public lands," Interior Secretary Sally Jewell said.

Sally Jewell says it's time to talk about the returns from public land use.

In unveiling an "advanced notice of proposed rule making" on the subject, the bureau essentially kickstarted a long-planned public conversation about what the government should charge for the oil and gas on federal lands. Those royalty rates are currently locked in at 12.5 percent of the value of the extracted oil and gas — in contrast to the 18.75 percent charged for production from federal offshore leases.

The Government Accountability Office has repeatedly cast that rate as too low — below what many states and private landowners charge, suggesting that companies are paying far less than fair market value for the oil and gas they glean from federal lands.

Matt Lee-Ashley, director of public lands at the liberal Center for American Progress, called the administration's move "a common sense step toward delivering a fairer return for taxpayers from the oil and gas boom and leveling the playing field within U.S. energy markets."

But oil industry leaders said any royalty hikes onshore could further discourage interest in resources on public lands, building on existing concerns about navigating regulatory mandates and permitting delays on the territory.

"Despite the renaissance on state and private lands, energy production

Public continues on D4

REAL ESTATE

Reinvention instead of demolition

EDI International

Arel Capital has started the revamp of the 17-story River Oaks Luxury Apartments high-rise at 3433 Westheimer. It had upwards of 600 apartments, but 84 condos will replace them.

Deteriorating River Oaks Luxury Apartments will get new life as a high-end condominium project

By Erin Mulvaney

New Yorker Richard Leibovitch says local developers advised him to demolish the River Oaks Luxury Apartments — the aging midcentury high-rise his firm bought last fall — and build two side-by-side towers with upward of 600 units.

Instead, his firm, New York-based Arel Capital, decided to redevelop the 1967 structure with fewer but larger units for a luxury condominium project. During its heyday, the developer says the 17-story apartment building at 3433 Westheimer was iconic for its "exclusive address, expansive grounds and Miesian-style architecture," with its steel frames, curtain walls, prominent use of glass and open interiors.

The River Oaks Luxury Apartments is a 1960s-era 17-story high-rise. Units will start at $875,000.

Karen Warren / Houston Chronicle

The building deteriorated over time, with aging plumbing and yellowing walls.

"What we wanted to do was basically renovate this building and bring it back to its old level," Leibovitch said in an interview. "We are taking the bones of the building and bringing it into the 21st century."

Construction is underway on the 84-unit condominium project. The project will retain the original footprint on the 3-acre property along Westheimer in the heart of River Oaks. Initial renderings show a contemporary-style building with floor-to-ceiling windows and terraced gardens all around. The design includes panoramic views, corner balconies and large roof terraces. Floor plans will range

Building continues on D4

Crude notches strong week

A slip at the end, but futures are still near high for the year

By Robert Grattan

Crude ended a stellar week with a whimper on Friday, as traders sent prices down for the first time in seven days of trading.

Still, the oil and gas industry will head into the weekend with at least a little cheer in a mostly gloomy time. Friday's 97-cent loss left the price of U.S. benchmark West Texas Intermediate crude at $55.74 per barrel, up 7 percent for the week and near its high for the year.

International benchmark Brent crude gave up 53 cents to $63.45, but it gained 9.6 percent for the week.

Since falling by 50 percent last year, oil prices have been volatile. Several conflicting factors have muddied the oil markets' fundamental interpretation of supply and demand, including a rising U.S. dollar, potential easing of sanctions on Iran that have kept its oil off the market, a slowdown in the U.S. production boom, and continued violence and turmoil in the Middle East.

The stars aligned for the price bulls this week.

The U.S. Energy Information Administration's weekly estimate showed Wednesday that

Signs continues on D4

SCHLUMBERGER

Executive is eager to reinvent the well business

By Collin Eaton

Nearly four years into his job leading the world's biggest oil field services company, Paal Kibsgaard is trying to steer his industry through oil's downturn with a new way of doing business.

His plans involve offering the sector's first make-or-break contracts for onshore oil field work that would pay his company based on how much oil it helps clients take out of the ground, doing away with up-front payments that cover initial labor and technology costs.

It's a change that could weed out weaker players if the industry mimicked Kibsgaard's bellwether company, Schlumberger, as competition in the oil patch intensifies.

In a quarterly conference call with investors Friday, the CEO said Schlumberger wants to work more closely with the oil producers it supplies with tools and services, from designing

CEO continues on D4

FROM THE COVER

CEO aims to change way of doing business

CEO from page D1

projects to execution.

He said better access to oil field projects could help flush out costs and improve profitability, and Schlumberger would have an incentive because it would have "more skin in the game."

"This isn't something we can do by ourselves," Kibsgaard said.

"Given the capabilities we have, I think we're underutilized today and we have a lot more to contribute, even in design elements. We can engineer costs out of the system before we go to implementation."

It's about more than changing the psychology of the industry or bringing oil companies and their suppliers closer together, analysts say.

"He's trying to change the business model for the industry," said Bill Herbert, an analyst with Simmons & Company International in Houston.

If the industry followed, Schlumberger would have a distinct advantage as the world's largest player but would have a better chance of pulling off the plan if the downturn has a few relapses on the road to recovery than if it recuperates quickly.

"It would be a beneficial transformation for the best-in-class companies," he said.

Herbert said performance-based contracts have been around for years in some areas of the oil business, but not with payment linked to production amounts, and not for refracturing — going in for a second high-pressure shot of water, sand and chemicals to boost well production.

Advances in that process, called hydraulic fracturing, and horizontal drilling have been central to the U.S. shale boom.

In the conference call, Credit Suisse analyst James Wicklund said Kibs-gaard's vision seems to expand beyond the current oil slump.

"In the past," he said, "companies have been willing to take participation or risk at the bottom of the cycle, but you're talking about a structural change in the industry, it sounds like."

Kibsgaard agreed with the assessment.

Under these new contracts, Schlumberger would absorb initial costs and get paid back based on the oil produced from field operations. It's an arrangement that trades fixed service prices for the upside — or downside — linked to the output of a project.

Schlumberger said Thursday that its first-quarter profit fell 39 percent and that it would more than double, to 20,000, the number of jobs it is cutting.

The refracturing business could work well under the new model.

"You're talking about billions in revenue opportunities over an extended period of time," Kibsgaard said, adding that thousands of North American shale oil and gas wells could be ripe for a second wave of fracturing. "But I think the key is we are so confident in our ability to identify the right candidates (of wells) and execute the work that we are prepared to take significant risk in terms of how we go about doing this work."

The price concessions that Schlumberger and its rivals have had to make to help oil companies cope with low oil prices have hit the hydraulic fracturing business the hardest, he said.

But re-fracturing isn't going to grow large enough to fix the oil service industry's biggest problem, an equipment glut that will be waiting for it even after the downturn subsides.

Kibsgaard said he doesn't expect the North American rig count to return to the highs it saw late last year before the oil price collapse, though it will likely land between that figure and the lows of today. Oil field services company Baker Hughes reported Friday that the oil rig count fell for the week by 26 to 734, down 55.4 percent since its peak in late October.

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Public able to comment

Public from page D1

on federal lands has fallen, and yet another set of costly changes to federal rules could drive more economic development and job creation off public lands," said Erik Milito, upstream director for the American Petroleum Institute.

The move comes amid an oil price decline that has already forced capital spending cuts and layoffs.

"If Interior now chooses to enact higher royalty rates and fees, it will likely result in lower revenue to the American taxpayer because it will accelerate the exit of producers from public lands," said Kathleen Sgamma, vice president of government affairs with the Western Energy Alliance.

The BLM also is inviting public comment on possible other changes to the minimum bids energy companies pay in government auctions for onshore oil and gas leases, the civil penalties that can be imposed for regulatory violations and the financial assurances that guarantee that drilled sites will be properly reclaimed — sealed and restored to the land's original condition — even if a firm goes under.

The current minimum bonding rates and maximum penalties haven't kept up with the times, BLM Director Neil Kornze said.

"We are long overdue to consider an update that will help us ensure that oil and gas sites are properly managed and reclaimed and that taxpayers aren't left picking up the tab," he said.

The current minimum acceptable bid in onshore auctions is $2 per acre. Because that is well below the rate at which most tracts sell, Interior officials believe the floor for those bids could be higher.

Rental rates are generally set at $1.50 per acre annually for the first five years of a lease, increasing to $2 per acre for years five through 10.

The public will have 45 days to comment on the possible changes.

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Signs still point to oversupply

Signs from page D1

U.S. production — one of the major new fonts of crude that flooded the market and sent prices over the cliff last year — may have peaked or begun to fall off.

"You saw a drop in production, and that got everybody fired up," said Kyle Cooper, of Houston energy consulting firm IAF Advisors.

In the same report, the Energy Department Agency said that U.S. stockpiles of crude oil rose by 1.3 million barrels for the previous week. The smaller-than-expected build also gave prices a boost.

Even on Friday, the first losing day for prices since April 8, the Baker Hughes rig count showed 23 more oil rigs falling idle. Producers have now dropped more than half of the rigs they were using to chase crude six month ago, adding weigh to the view that production may slow in the months ahead.

But for each point pushing crude higher, analysts have pointed to others pulling the ticker lower. By Friday, the rally had run out of steam.

A Thursday report from the Organization of the Petroleum Exporting Countries showed Saudi Arabia had boosted its daily production by 659,000 barrels to 10.3 million barrels in March.

The Saudi production hike, along with output by other members of the Organization of the Petroleum Exporting Countries, put 810,000 new barrels per day of OPEC crude on the market, potentially offsetting U.S. cutbacks.

And U.S. production totals may not fall much if producers are able to ramp up output from their best wells and leverage enough cost savings to keep the drilling rigs turning.

"The big question is whether the decline in the rig count is going to be offset by gains in drilling efficiency combined with near record production in Saudi Arabia," said Andy Lipow of consulting firm Lipow Oil Associates.

Tom Kloza, co-founder of Oil Price Information Service, noted that the recent winning streak may not signal a significant change from the oversupplied markets that have sent the price of oil down so far.

"I think it's still a head fake," Kloza said. "The burden of proof is going to be on people who think that this recovery can be sustained."

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Courtesy of EDI International

The former apartment community at 3433 Westheimer will be geared toward wealthy buyers who do not want to maintain mansions.

Building to retain '60s touches while adding modern features

Building from page D1

from 1,500 to 9,000 square feet.

The design retains influences from the original midcentury design, but it also takes modern inspiration from Houston's Menil Collection and the Museum of Fine Arts, Houston.

The interiors will feature hardwoods and limestone. Amenities will include a state-of-the-art fitness center, massage and yoga rooms, two pools, a dog park and outdoor kitchens. It will offer two garden residences and two penthouses with private pools. Units will start at $875,000.

During the recent real estate boom, many properties in the River Oaks and Galleria areas were torn down to make way for high-end, high-density projects.

"Our theme has always been about breathing life into real estate again," Leibovitch said. "Our business has always been about finding opportunities in good locations. Historically we've bought older and tired properties and renovated them. ... We want to go against the grain of what has been done a lot over the last 15 years."

In Houston, Arel Capital owns two other projects, in Timbergrove and in Alief, but the River Oaks building is its first redevelopment project here. The company also develops in New York City, Denver and Austin.

Leibovitch said the company was attracted by the River Oaks high-rise because of its downtown views and proximity to shopping in the Galleria area. He said he expects buyers to be empty nesters and wealthy business people who want to live in luxury, but not necessarily maintain mansions.

While thousands of rental apartment units will come to market across Houston this year, condominium projects are much less common.

Other announced condo projects in the Galleria area include a 26-story development called Belfiore being built at the Post Oak Lane and South Wynden Drive, and a 28-story condominium tower called Astoria on Post Oak Boulevard.

Bill Pederson, executive director of the graduate real estate program at the University of Houston, said there is a market and need for condominiums in desirable locations, like River Oaks and the Galleria area.

"They bought a building with some value," Pederson said. "You will continue to see in-fill near River Oaks. This is the epicenter. This is where all the action for the wealthy is."

The River Oaks is slated to be completed by fall 2016.

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