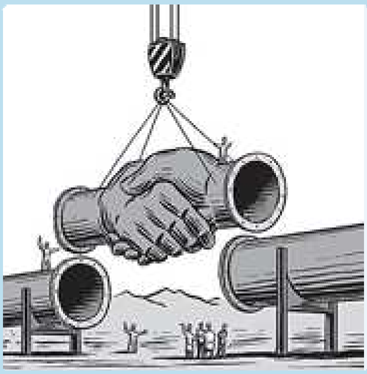
Oil & Gas Bulletin

► 04.06.2010

Turkey and Azerbaijan clear way for Shah Deniz agreement

Today's Zaman, *02.06.2010*



Turkey and Azerbaijan are expected to sign the Shah Deniz natural gas agreements next week, Turkish Energy Ministry officials said on Tuesday. Turkish Energy and Natural Resources Minister Taner Yildiz and Azerbaijani President Ilham Aliyev will sign the Shah Deniz 1 and 2 agreements in Istanbul next week.

Aliyev will be in Turkey June 7-8 for the third summit of the Conference on Interaction and Confidence Building Measures in Asia (CICA). The ministry executives said negotiations had been concluded and that the two countries had reached an agreement in principle on a few technical sticking points.

Turkish officials may discuss energy issues with Russian Prime Minister Vladimir Putin, who will also be in Istanbul when the agreements are scheduled to be signed. The Shah Deniz field is operated by BP, which has a 25.5 percent share. Other partners include Statoil (25.5%), SOCAR (10%), Total (10%), LukAgip (10%), a joint venture of Eni and Lukoil, NICO (10%) and the Turkish Petroleum Corporation (TPAO) (9%). Within the framework of the Shah Deniz II project, gas will flow to European countries via Turkey. The initial phase of Shah Deniz forecasts 318 billion cubic feet of gas production, increasing to 706 billion cubic feet once phase two comes online in 2012. Gas production at Shah Deniz began in December 2006.

Yildiz: No energy projects to be developed with Israel until relations normalized

Today's Zaman, *04.06.2010*

Energy and Natural Resources Minister Taner Yildiz stated that the two countries are not currently carrying out any joint energy projects, but there are several previously outlined projects that are in preparatory stages, the Blue Stream 2 pipeline to supply natural gas to Cyprus, Israel and other countries in the Middle East and the Manavgat River project to transport water from Turkey to Israel.

Yildiz stressed that "Turkey does not have any intention to initiate any part of these projects until Israel apologizes and expresses its regret".

"Now is not the time to talk about such projects when we are encountering serious problems while talking about human-centered issues. I hope relations will be normalized. Turkey has taken more than the necessary steps to this end but it is our natural right to expect Israel to make more of an effort. I can say that the things we've heard during the last two days especially have made us feel more comfortable," noted Yildiz. The minister noted that this decision does not apply to private sector projects and they have not directed firms to avoid trade with Israel.

Asked whether Israel's raid was related to a nuclear agreement signed between Brazil, Turkey and Iran last month in which Iran agreed to send some of its low-enriched uranium abroad in return for fuel rods for a research reactor, Yildiz replied that he wants to believe that it is not. Turkey contributes to every peaceful movement in the region, he added.

Turkey's fossil fuel sources may soon be depleted

Today's Zaman (AA), *31.05.2010*

Without new hydrocarbon exploration, Turkey's current proven reserves are equivalent to 18.5 years in crude and 8.5 years in natural gas. Turkey's oil reserves are calculated to be 44.37 million tons, and it is believed to have 6.2 billion cubic meters of natural gas reserves.

According to the recently announced Oil and Natural Gas Sector Report for 2009 prepared by the Turkish Petroleum Corporation (TPAO), Turkey drilled 143 oil wells in total last year -- 51 for exploration, 50 for the determination of reserves and 42 for production.

As a result of these studies, TPAO was able to extract 2.4 million tons of oil along with 729.4 million cubic meters of natural gas. So far in Turkey, since domestic production started half a century ago, 132.5 million tons of crude and 11.3 billion cubic meters of natural gas have been produced within Turkey's borders. The report also pointed out the decline in productivity of the oil wells. For instance, production sustained a fall of 12.6 percent during the last decade primarily due to the deterioration of the oil production facilities and the depletion of oil reserves. However, the report notes that the rate of decline has slowed thanks to the exploration of new oil fields.

As for natural gas production, new reserves discovered in some parts of Thrace and the establishment of new production platforms around old wells has triggered an upswing in natural gas output, the report underlined. In 2009, TPAO met 75.8 percent of Turkey's total crude production; the rate was 38 percent in natural gas. The report also included expectations regarding global hydrocarbon reserves. There are 1.34 trillion barrels of proven oil reserves in the world and assuming the same consumption levels are maintained, these reserves will run out in 44 years. The proven natural gas reserves in the world are estimated to be 178.4 trillion cubic meters.

US and EU envoys speak out in support of Southern Corridor at Baku energy summit

Hürriyet Daily News, *02.06.2010*

Top U.S. and European envoys at the oil and gas summit in Azerbaijan's capital on Wednesday encouraged an agreement between Turkey and Azerbaijan on the Nabucco pipeline that would secure energy exports to the European market, bypassing Russia and Iran.

In Baku for the Caspian Oil & Gas 2010 Conference, the U.S. secretary of state's special envoy for Eurasian energy, Richard Morningstar, on Wednesday addressed the expected Azerbaijani – Turkish agreement on gas prices and transit tariffs, reported on Wednesday.

Morningstar said, "We hope Turkey and Azerbaijan will sign an agreement on gas transit next week." "Azerbaijan is a key country in the Caspian basin and we encourage the transit of Kazakh energy sources via Azerbaijan to the world market. There will not be a Southern Corridor without the Azerbaijani gas from the second stage of Shah Deniz," Morningstar told the conference. "Iraq may also be a supplier to these projects, but as for Iran, the U.S. position on this remains unchanged. I do not think that Iran can take part in the Southern Corridor," he said. Richard Morningstar was received by Azerbaijani Foreign Minister Elmar Mammadyarov after the round table.

Director for security of supply and energy markets at the European Commission's Directorate General for Energy, Heinz Hilbrecht, said the commission supported transit routes via Turkey and the Black Sea region. "In Azerbaijan we are working on gas supplies within the framework of the second stage of the Shah Deniz field development and the European Commission has already expressed interest in supplies of Shah Deniz gas via the Southern Corridor. This proves the growing role of Azerbaijan for the whole of Europe and its increasing potential to diversify energy sources," Hilbrecht said. He said that the Nabucco, Turkey-Greece-Italy and Trans-Adriatic gas pipeline projects were mutually complementary systems.

Azerbaijan's Minister of Industry and Energy Natiq Aliyev made a positive forecast for regional output, News.Az reported. "Today the capacity of the Baku-Tbilisi-Ceyhan pipeline is 1.2 million barrels and in 2011 it will grow to 1.6 million barrels per day," the minister said. "We are interested in supplies of gas to Bulgaria, Greece and Romania, including by the Southern Corridor." he said.

Rovnag Abdullayev, head of Azerbaijan's state oil company, SOCAR, told the conference that Baku supported the Southern Corridor project for energy resource supply to Europe. "In terms of diversifying supplies, we support a policy of stability and want to see no discrimination in implementing projects. I hope that these principles will be understood and supported by our partners from other countries," Abdullayev said. "In the near future, annual oil production in Azerbaijan will reach 60 million tons and gas production 35 billion to 40 billion cubic meters. Azerbaijan's role as an energy supplier to world markets will, therefore, grow," he said.

PETFORM

Noble Energy sees 30-plus tcf resource off Israel and Cyprus

Oil & Gas Journal, *03.06.2010*

Consulting engineers, using cores from the Tamar-2 appraisal well in the eastern Mediterranean off Israel, have estimated Tamar field's recoverable gas at 8.7 tcf proved and probable, said Noble Energy Mediterranean Ltd.

Delek Group, a partner in Tamar, said the volumes will be categorized as proved and probable reserves subject to approval of the Tamar field development plan. The previous estimate was 7.7 tcf. Proved recoverable volumes are 6.5 tcf, up from 6 tcf. Meanwhile, Noble revealed preliminary findings from the processing and interpretation of 3D seismic shot on the Amit, Rachel, and parts of the Hannah, David, and Eran licenses and the Alon A and Alon B licenses.

Noble estimated a gross mean recoverable resource of the Leviathan prospect on the Rachel and Amit licenses to be 16 tcf with 50% probability of geologic success. The prospect is found in Tertiary layers of sand that correspond to the reservoir sands identified in Tamar. Noble plans to recommend to the partners the drilling of an exploratory well on the Leviathan prospect to spud in this year's fourth quarter, subject to partner approval. Noble also identified other Tertiary prospects on the Ratio Yam license with 3 tcf of unrisked estimated gross mean resource potential.

Noble said that based on 2D and 3D seismic it has identified more Tertiary prospects in other licenses including Block 12 off Cyprus. Noble estimated unrisked gross mean resource potential at more than 30 tcf including Leviathan and all of the other prospects. "Furthermore," Delek Group said, "Noble noted that it began to examine the potential existence of additional layers of pre-Miocene age (significantly deeper than the Tertiary sand layers) in the partnership's licenses (including the Tamar and Dalit areas), which may have further potential for oil and gas. These examinations have not yet crystallized into specific prospects."

Tamar field holding percentages are Noble Mediterranean 36%, Isramco Negev 2 LP 28.75%, Delek Drilling LP 15.625%, Avner Oil Exploration LP 15.625%, and Dor Gas Exploration LP 4%. Noble also estimated that gas reserves in Mari-B field, 70 miles south of Tamar, may increase by 50-100 bcf based on production data and reservoir pressure history.

BP’s future at risk as takeover speculation starts

Hürriyet Daily News (Bloomberg), *02.06.2010*

BP’s failure to stop an oil leak from spewing millions of gallons of crude into the Gulf of Mexico may leave the biggest oil and gas producer in the U.S. in a fight to stay independent.

BP shares have plunged 34 percent since the Deepwater Horizon drilling rig leased by the company exploded on April 20, wiping more than 40 billion pounds ($58 billion) from the company’s market value. That may make BP cheap enough to attract acquisition interest, investors said. “The market value of BP has eroded substantially, so it could be a takeover target,” said Dirk Hoozemans, who helps manage about $4.5 billion at Robeco Group in Rotterdam.

What matters now is how forceful BP’s Chief Executive Officer Tony Hayward is in tackling the disaster and the aftermath, Hoozemans said. With a permanent end to the leak depending on so-called relief wells that are some two months from completion, Hayward faces costs that may reach $22 billion, or more than last year’s profit, according to ING Wholesale Banking. The company also faces a criminal and civil investigation in the U.S. into the disaster.

In addition to being the largest oil and gas producer in the U.S., BP is the biggest operator in the Gulf of Mexico, where it holds more than 500 leases and pumps 450,000 barrels of oil a day. The company plans 10 projects in the Gulf during the next five years, more than other regions of the world, according to a BP presentation.

“Forty percent of BP’s reserves are in the Gulf of Mexico and if there’s a chance that they would be banned from operating in the U.S., then those reserves would be valued at a much lower multiple than their rest-of-the-world reserves,” said Gordon Kwan, the Hong Kong-based head of regional energy research at Mirae Asset Securities. “They might have to sell at a fire sale to others.”

Some analysts estimate the potential for criminal investigation and civil lawsuits facing BP could be as high as $40 billion, which would justify the roughly $50 billion loss in market value, Kwan said. The U.S. Justice Department is investigating whether any criminal or civil laws were violated in the spill, Attorney General Eric Holder said on Tuesday.

Holder announced the investigation at a news conference in New Orleans, the same day U.S. President Barack Obama called the spill “the greatest environmental disaster of its kind in our history.” Obama last week extended a moratorium on deep water drilling permits by six months. He has dropped plans to open waters off the coast of Virginia to drilling, canceled a lease sale in the Gulf and suspended the permit process for Royal Dutch Shell’s planned wells off Arctic Alaska. He said new safety rules will be imposed on drilling.

BP has spent $990 million on trying to stop the gusher on the seabed about a mile below the surface and on cleaning up oil from the Gulf. Payments to landowners, hoteliers and fisherman claiming losses from the spill will cause the bill to rise further. “The tab is rising every day,” said Fadel Gheit, an analyst at Oppenheimer in New York. “BP could be facing a huge liability in compensation, damages and other charges.”

The cost for the Exxon Valdez tanker disaster in 1989, previously the worst U.S. oil spill, resulting from clean-up costs, fines and settlements has reached at least $4.3 billion so far. BP spokesman Scott Dean said in an e-mail May 19 that the London-based energy company is self-insured against losses and damage claims resulting from the spill.

In a worst-case scenario, where hurricanes, technological difficulties, or unforeseen problems thwart BP’s attempts to contain the oil and seal the well, the leak could spout almost 4 million barrels of crude into the Gulf of Mexico by Christmas, petroleum geologists and industry analysts said.

The oil could suffocate fish and other marine life, damage shorelines along the Gulf Coast, sweeping around to Florida’s Atlantic Coast, and harm the economies that are dependent upon fishing and marine life, according to marine scientists. Toxic crude from the spill could remain trapped in layers of ocean water for decades, scientists say. BP pumped 3.95 million barrels of oil and gas a day last year, making it the world’s largest producer outside government-owned oil companies. Exxon Mobil, its closest rival, pumped 3.93 million barrels a day.

BP’s market value, which surpassed Shell at the start of the year, has fallen behind Petroleos Brasileiro, Chevron and Russia’s Gazprom. Paris-based Total pumped 2.28 million barrels last year and is priced about $9 billion less than BP on the stock market.

“We’re getting into share price territory where analysts speculate about takeover possibilities, because the loss of market value is much greater than the estimated ‘worst case’ costs,” said Ivor Pether, who helps manage $9.2 billion at Royal London Asset Management. “But there aren’t any buyers at this point because the near-term uncertainty is so high.”

BP is now trying to contain the spill by fitting a pipe over the leak to bring the oil to a drillship on the surface. The operation may temporarily increase the flow of oil into the Gulf before a cap can seal the pipe, BP said. Hayward has promised to clean up ‘every drop’ of oil in the Gulf and on the shoreline from the well that has gushed up to 19,000 barrels of oil a day, according to a government estimate. BP is drilling two relief wells to intercept the damaged well and permanently plug it, a process that won’t be completed until August.

Gazprom may seek joint venture with Naftogaz on parity basis

Hürriyet Daily News (Bloomberg), *31.05.2010*

Gazprom Chief Executive Officer Alexei Miller concluded in talks with Ukrainian Energy Minister Yuriy Boyko that Gazprom and Naftogaz Ukrainy, could move toward creating a joint venture on a parity basis.

A 50-50 venture with Naftogaz Ukrainy may be a 'first step' toward uniting the two state-run energy companies, Miller said in an e-mailed statement after meeting with Boyko in Moscow, Bloomberg reported. A merger of the companies, proposed by Prime Minister Vladimir Putin last month, has raised questions because Naftogaz was just 6 percent the size of Gazprom in terms of sales last year.

Ukrainian President Viktor Yanukovych later said a merger would have to be on parity terms. "The parties agreed that the process could be gradual," Gazprom said in a statement. At this point, the companies need to determine which assets they want to include in the joint venture, Miller said in the statement. Separately on Friday, Energy Minister Sergei Shmatko told reporters that Russia hoped the companies would do their best to complete the talks on possible scenarios for the merger 'as soon as possible'.

Naftogaz obviously could offer its sprawling pipelines, or a portion of them, said Alexander Nazarov, a gas industry analyst at investment company Metropol. Gazprom could give the joint venture partial ownership of the gas fields that it is developing, Nazarov said, adding that a full unification was out of the question. "Most likely, a joint venture is all that the proponents of a merger can count on," he said in a note to investors. Gazprom has a market capitalization of more than $120 billion, and with sales of $98.5 billion in 2009, it is also the world's largest gas producer. Naftogaz, which is not publicly traded, reported sales of $5.75 billion for last year.

The proposal to merge the companies appeared after Putin said Russia cooled off to the idea of leasing Ukraine's pipelines in a consortium with Naftogaz and European Union energy companies to run and maintain the network. Yanukovych resurrected the plan, which his predecessor, Viktor Yushchenko, ditched in the early 2000s. Gazprom initially wanted a say in running the Ukrainian pipelines to ensure the immunity of its Europe-bound transit to politically tinged pricing disputes. It said it would pay to upgrade the deteriorating lines.

The Russian gas export monopoly is interested in the merger now more for the sales on Ukraine's giant market than because of transit, energy industry expert Bohdan Sokolovsky, who advised Yushchenko, said earlier this month. The EU is prepared to consider a consortium to run the Ukrainian pipelines, Fernando Valenzuela, head of the bloc's office in Russia, said Friday.

EU starts defining energy strategy for next decade

EurActiv, *01.06.2010*

EU ministers yesterday (31 May) gave their first views on the upcoming EU energy strategy for 2011-2020, agreeing that it should be ready for endorsement by EU leaders in March 2011.

During a meeting of the Energy Council in Brussels, EU ministers gave their first input into the energy priorities until 2020. The strategy, originally intended for a 2010-1014 time frame, has been delayed. The EU executive decided to extend the horizon to 2020 to align it with the 'Europe 2020' strategy and give a stable framework for long-term energy investments, an EU official told.

The ministers agreed that to meet the 2020 climate goals, it is important to first implement existing legislation fully. But considering the long lead time of energy investments, they stressed that the strategy should also be in line with long-term climate goals. The European Commission is planning to present a 2050 energy roadmap early next year to provide a long-term vision for EU energy policy. Many ministers also stressed the importance of external energy policy, calling for progress on interconnections.

The difficult economic situation in which many European governments currently find themselves shines through some of the more cautious language of the conclusions, published at the end of the ministerial meeting. The ministers stressed that there is a balance to strike between sustainable energy aspirations and economic growth. They further added that cost-efficient reporting and monitoring requirements, as well as review mechanisms, will be necessary to adapt policies to changing circumstances while guaranteeing national governments the right to decide on their energy choices.

The debates feed into a public consultation, which will run until the beginning of July. As part of the exercise, the Commission's energy department published a 'stock-taking' document outlining outstanding issues. Among the shortcomings of EU energy policy identified by the Commission are poor implementation of EU energy legislation, lack of interconnected and smart grids, underachievement of energy-efficiency potential, weak coordination of external energy policy and relatively low levels of the R&D spending required to lead on innovation leadership.

The implementation of the 3rd internal energy market package, as well as the Strategic Energy Technology (SET) Plan, should be key priorities of the new strategy, the EU executive argued. But while many ministers called for speedy implementation of the projects outlined in the SET Plan, they expressed concern that national administrative burdens could increase.

Iran denies awarding gas fields to Revolutionary Guards

Hürriyet Daily News (AFP), *31.05.2010*

Iran's state-run South Pars Oil and Gas denied on Monday reports that it had awarded the rights to develop phases 13 and 14 of the giant South Pars gas field to Iran's elite Revolutionary Guards.

"South Pars Oil and Gas denies the report," the Mehr news agency quoted a statement from the company as saying. "The managing director of the company did not give such an interview in this regard," Mehr quoted the statement as saying, referring to a media report Friday that quoted managing director Ali Vakili saying Guards unit Khatam al-Anbiya would form a consortium to develop these phases.

Iran had recently warned global firms Royal Dutch Shell and Repsol to take a decision on whether they wished to move forward on the two phases. An ISNA news report on Monday quoted deputy oil minister Mohsen Khojastehmehr as saying that negotiations with Iranian companies are currently on for developing the two phases. Iran has the world's second-largest reserves of natural gas. The South Pars field in the Gulf has around 500 trillion cubic feet (14 trillion cubic meters) of gas, about 8 percent of global reserves. The projects have been divided into 28 phases.

Iran – Pakistan Gas Pipeline ready to commence

Rigzone, *02.06.2010*

The Iran – Pakistan gas pipeline sovereign guarantee agreement was signed on June 1. The Gas Sale and Purchase Agreement between Pakistan and Iran is for the import of 750 million cubic feet daily of natural gas with a provision to increase it to one billion cubic feet per day.

The imported gas volume is nearly 20% of Pakistan's current gas production and supply is for a contracted period of 25 years, renewable for another five years. All of the imported gas will be dedicated to the power sector, supporting approximately 5,000 Megawatts of power generation.

As a part of the Conditions Precedent to be completed by parties to make the GSPA effective, the Government of Pakistan is providing a performance guarantee on behalf of Inter State Gas Company. With all other CPs of the GSPA are completed, the project is now ready to enter into its implementation phase. As per current Project Implementation Schedule, the first gas flow is targeted by the end of 2014. The project is planned to be funded through public/private partnership. The capital cost for the Pakistan section is estimated at US $1.65B. The construction of pipeline will also create job opportunities, vocational training and health facilities and social uplift in backward areas of Balochistan and Sindh. Natural gas fuel will ensure substantial carbon credits being an environmental friendly fuel.

ExxonMobil delays well on drilling ban

Upstream Online, *04.06.2010*

ExxonMobil confirmed it has delayed plans to drill a development well in a long-producing oilfield in the Gulf of Mexico in response to a US moratorium on deep-water drilling, a spokeswoman said.

The company planned to start the well last month in the Hoover Diana field about 321 kilometres south of Houston, a field discovered in the late 1990s and producing since 2000. It is in water about 1463 metres deep. Upstream has earlier reported the sublet arrangement between Devon Energy and ExxonMobil was prematurely cancelled due to the current US ban on offshore drilling in the Gulf of Mexico.

The rig charter with Devon Energy was due to expire in 2014 and had been novated to BP after the British oil major took over Devon's deep-water exploration acreage in the US Gulf. The US government has called a six-month moratorium on deep-water drilling after the 20 April well exploration at BP's Macondo project that killed 11 works and spawned a massive oil spill.

Announcements & Reports

► *2010 Competition Letter to EMRA*

Source : Energy Market Regulatory Authority
Weblink : http://www.epdk.org.tr/duyuru/genel/acil/rekabet/2010RekabetMektubu.pdf