Oil & Gas Bulletin

► *20.01.2012*

PETFORM

Gas use breaks record in Turkey

Hürriyet Daily News, *19.01.2012*

Due to the unseasonably chilly winter weather, Turkey broke a natural gas consumption record on Jan. 16, consuming 178 million cubic meters of natural gas.

Energy Ministry officials, however, said an 8 to 10 million cubic meter deficit is not a cause for concern and the deficit stems from the fact that people have consumed more electricity leading to a strain on the natural gas conversion plants, which convert natural gas to electricity. The situation is expected to be resolved by Jan. 21. “This period has not affected residential and industrial natural gas usage and will not affect usage going forward,” the officials said.

Meanwhile, Turkey’s state-run pipeline company BOTAS’ Executive Board Director and General Manager Fazil Senel said the news regarding BOTAS urging citizens in the Marmara and Ege regions to move toward secondary fuel sources was partly true. “There is missing information though. Our citizens need not be concerned. There is no likelihood of natural gas being shut down in either residential or industrial establishments,” he said, adding that companies which were capable of producing electricity for a three to four-day period with secondary fuel sources like oil had already begun to do so. “It is only for these firms we have applied the natural gas reduction to. This does not affect the average citizen,” said Senel.

Turkey to take Iranian gas price to arbitration

Hürriyet Daily News, *17.01.2012*

International arbitration over the price of Iranian natural gas is ‘inevitable’ due to Tehran’s reluctance to provide a discount, Energy Minister Taner Yildiz said, just a day before Iran’s foreign minister comes to Turkey for economic cooperation talks.

“We have close cooperation with Iran in natural gas and we shared with them our unease about the high gas price. They did not share the same view,” Yildiz told. “Our demand for a discount continues. An international arbitration tribunal is inevitable,” he said, adding that there was only a week left for negotiations. “If they want to talk, we are ready.”

The issue was not initially supposed to be on the agenda of the Turkey-Iran Joint Economic Commission meeting, which is scheduled for Jan. 18 and will feature Iranian Foreign Minister Ali Akbar Salehi, an energy ministry official said. The discount Russia recently made for Turkey had led to “quite a difference” between the prices of Russian and Iranian gas, the official said, adding that Iran also failed to deliver the promised quantities. Turkey has already won an arbitration case against Iran over deliveries of sub-standard quality gas, he added. Turkish officials involved in the negotiations are said to be using the growing pressure on Tehran as a bargaining chip to secure a discount.

Gazprom: South Stream construction to start year-end

Rigzone, *20.01.2012*

Alexey Miller, Chairman of the Gazprom Management Committee moderated a meeting Friday at the Company’s headquarters. The meeting was focused on the South Stream project implementation.

Pursuant to the assignment by Vladimir Putin, Prime Minister of the Russian Federation, a decision was made to significantly speed up the project implementation launch. The meeting approved a detailed action plan that would make it possible to start the South stream gas pipeline construction in December 2012 instead of 2013 as had been previously planned.

“We have everything in place to significantly expedite the previously announced date of the South Stream construction launch. We have a regulatory basis, great interest of the project participants in Europe, the required funds and the unique track record of delivering large-scale gas transmission projects offshore. The project is in great demand, people are looking forward to it and we are ready to launch it,” said Alexey Miller at the meeting. The South Stream construction schedule developed by Gazprom will be submitted to the Board of Directors of South Stream Transport in February.

Turkey unlikely to cut Iranian crude, fearing extra costs

Today's Zaman, *20.01.2012*

Turkey is unlikely to switch oil imports from the eastern neighbor to an alternative source given the risk of impeding a relatively more profitable oil purchase contract with the Islamic Republic.

Turkey supplies one third of its daily oil consumption, 200,000 barrels on average, from Iran. The Turkish Petroleum Refineries Corporation (Tüpras) imported 7.41 million tons of Iranian oil, around 38 percent of which it processed in 2010. The corporation is planning to meet Saudi Arabian oil authorities this month with a view to switching to alternative crude sources by the summer.

Turkey provides oil from separate sources, including Russia and Azerbaijan and the largest supplier is Iran. Oil market experts argue that Iran still remains a relatively more profitable source for Turkey to meet its oil demand. Amid rising tension with Western powers who seek to stalemate Iran -- which they accuse of developing atomic weapons -- through economic sanctions, Iran earlier threatened to close the Strait of Hormuz, used for a third of the world's seaborne oil trade. Iran's foreign minister warned neighboring states on Friday not to "put themselves in a dangerous position by aligning themselves too closely with the US."

The US already maintains pressure on key allies to cut oil trade with Iran while the EU foreign ministers are expected to meet on Monday to agree on a possible oil embargo against Iran. The EU-candidate and US ally Turkey however, has not yet given a signal to join the import embargo on Iranian crude. The Turkish energy ministry earlier said the country is bound by UN sanctions against Iran and did not consider additional moves in this regard.

Necdet Pamir, an energy policy expert and academic at multiple prominent Turkish universities told Today's Zaman switching oil supply from Iran to Saudi Arabia is unlikely for Turkey at the moment. "Saudi Arabia is the world's No.1 oil supplier and they have the highest amount of spare capacity -- estimated at 3.5 million barrels a day. … Figures show Saudis can meet a possible increased global demand without having to make new investments for a certain period of time. But Turkey would have to pay more for Saudi oil than it pays for Iranian oil under current agreements," he noted.

The global daily oil demand is 87 million barrels and Saudi Arabia provides 10 million of this. Iran produces 4.2 million barrels of oil a day and exports 2.4 million of this. Iran in December said it had extended its crude export contract with Turkey for 2012. "The question is who will compensate for the difference." Also the World Energy Council Turkish National Committee board member, Pamir said Turkey should also consider international political balances.

"The US administration could eventually opt to tolerate Turkey's oil trade with Iran since Turkey has already done its best to make the US happy regarding Iran's alleged nuclear weapon program," he says, referring to a missile shield deal earlier signed with the US. Pamir added that Saudi Arabia may not be able to cover all of the import requirements, considering the large amount of demands made by China, Korea, India, and Japan.

Sohbet Karbuz, head of the hydrocarbons department at the Paris-based Mediterranean Energy Observatory (OME) and a former expert at the International Energy Agency (IEA) said in a phone interview with Today's Zaman that although it enjoys a geographical proximity to such large oil producers as Russia and Azerbaijan, Turkey would still see the worst adverse impact from a possible crisis in Iranian oil supply. "When you look at the surrounding geography Turkey is one of two countries [along with Greece] that have the highest level dependence on Iranian oil. … Turkey buys 200,000 barrels of oil from Iran per day on average." Before deciding to switch oil supply from Iran to other countries Turkey should make a well cost and benefit assessment. Drawing attention to possible hikes in oil to reflect on Turkish customers, he said: "The US economy will possibly see no harm from sanctions on Iran but Turkey's could. … We should have a strong political will to protect the public interest in the first place."

Genel Energy sole contractor at Northern Iraqi field

Hürriyet Daily News, *17.01.2012*

Genel Energy increased its stake four-fold in one of Northern Iraq's largest oil fields and became the leading oil and gas player in Northern Iraq, according to a company statement released.

The local firm purchased 40 percent Chia Surkh exploration block shares from Longford Energy for $68 million, said Genel Energy in an e-mail statement. Total shares of Forbes & Manhattan, a subsidiary of Longford Energy in the exploration block rose to 80 percent with the recent purchase.

Chia Surkh covers 984 square-kilometers in the southern part of Northern Iraq and has prospective resources estimated at more than 300 million barrels of oil. The payment will consist of $42 million to be paid directly to Forbes & Manhattan and $26 million to be paid to the Regional Government in respect of F&M's outstanding obligations. Forbes & Manhattan is the only company scheduled to enter the London bourse FTSE 100 Index following the merger between Genel, the Turkish company owned by Mehmet Emin Karamehmet and Valares, a fund financed by former BP chief executive Tony Hayward in November. Despite the increasing number of contracts signed between Turkish companies and the Regional Government, Iraq's central government stated previously that no contacts would be accepted without their approval.

Putin's spokesman denies reports Gazprom CEO to resign

Rigzone, *19.01.2012*

A spokesman for Russian Prime Minister Vladimir Putin denied media reports that Chief Executive Alexei Miller of state gas giant OAO Gazprom will resign.

Russian media cited people close to Gazprom as saying Miller, who has run the company since 2011, may exit the company. Gazprom, Russia's biggest company and a supplier of a quarter of Europe's gas needs, has been criticized for poor corporate governance standards. Industry experts say the company is in urgent need of reform. Miller, a close ally of Prime Minister Putin, is not seen as a reformer and has previously referred to himself as a 'bureaucrat.'

Gazprom's shares gained 1.4% in Moscow on Thursday compared to a 0.7% rise in the overall market. At 0858 GMT on Friday, Gazprom's shares were trading 0.4% higher at 186.21 rubles each on the Micex exchange, valuing the company at $140.7 billion. Rumors that Miller could be replaced by Leonid Mikhelson, CEO of independent gas producer OAO Novatek, sent Novatek's shares down 1.7% to trade at RUB383.4 a share.

Last year, the government extended Miller's contract for the second time to 2016, but rumors of his exit have appeared regularly in Russian media in the past few years. Putin's spokesman denied the rumor late Thursday. However, when the government in September 2010 replaced the head of state oil champion OAS Rosneft, Sergey Bogdanchikov with current CEO Eduard Khudainatov, the market was also rife with rumors, which were denied by officials until the replacement actually took place.

Iran says oil embargo means economic suicide for Europe

Trend.az, *17.01.2012*

Imposing sanctions on Iran's oil industry would be a suicide for the European economy, said Iran's representative to the Organization of the Petroleum Exporting Countries.

"European states are already grappling with an economic crisis," Mohammad-Ali Khatibi said, adding that any kind of sanction against Iran's oil industry will worsen the situation for them, according to the Mehr news agency. Given the economic crisis in the Eurozone, the imposition of any sanctions on Iran's oil will push the European countries into a deeper crisis," he said, referring to the European debt crisis.

"The U.S. and some European countries must avoid adventurism in the global oil markets," Khatibi warned. Iran, OPEC's second biggest producer after Saudi Arabia, exports an average 2.2-2.3 million barrels per day, of which roughly 18-20 per cent goes to the European market. EU member states have agreed in principle to impose an embargo on Iranian oil exports to Europe, but are still working out the details and timing of an embargo, diplomatic sources in Brussels have said.

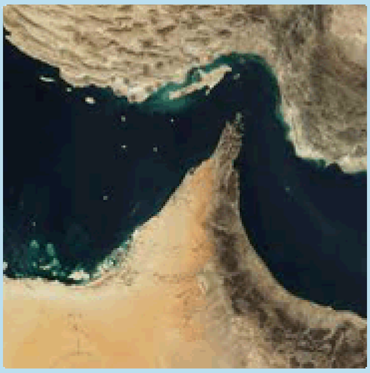
An embargo is likely to have a much bigger impact on the EU member states that depend most on Iranian oil as a source of their imports and in particular Spain, Italy and Greece. Some member countries reportedly have been seeking a grace period of around six months for the embargo to give them time to source alternative supplies.

Iran has starkly warned Persian Gulf states not to make up for any shortfall in its oil exports under new U.S. and EU sanctions. "If Arab neighbors compensate for a looming EU ban on Iranian imports, we would not consider these actions to be friendly," Khatibi was quoted as saying by the Sharq newspaper. "They will be held responsible for what happens in that case," he said, adding ominously: "One cannot predict the consequences."

"If the oil producing Persian Gulf states give the green light to replacing Iran's oil, these countries would be the main culprits for whatever happens in the region, including the Strait of Hormuz," Khatibi told. "Our Arab neighbors should not cooperate with these adventurers. These measures will not be perceived as friendly." Saudi Arabian Oil Minister Ali al-Naimi said on Saturday the world's biggest oil exporter was ready and able to meet any increase in demand, without making any reference to sanctions on OPEC rival Iran.

Strait talk in Europe over Iran oil embargo

EurActiv, *18.01.2012*



EU countries are intensifying efforts to agree an oil boycott and muscular financial sanctions against Iran, which is sizing up the option of shutting down the Hormuz Strait.

EU Foreign Affairs ministers are set to discuss the timeframe for implementing an oil embargo, and possible sanctions against individual members of the Iranian Revolutionary Guard Corps and institutions linked to Teheran's financial sector. But the debate is pitting countries such as Italy, Spain and Greece, which account for 68% of the EU's Iranian oil imports, against richer nations like France, Britain and Germany.

"There's such a clear divide in Council between the different member states that put forward proposals for a three months delay and the other member states that originally wanted 12 months, but we are compromising, trying to find a happy medium and we're getting there," a diplomat from one EU country. Reports suggest that France wants an embargo within three months but the EU spokesman Michael Mann would only say that "the precise terms of any new sanctions are still being discussed by the 27 member states and need to be agreed unanimously."

Other EU sources were tetchier. "How can you delay something that has not been introduced?" one said. "This is nonsense. The US sanctions come into force in July. It is not like they are instantaneous either. People should get a sense of perspective and reality." The expected EU Foreign Affairs Council discussion on 23 January will follow US sanctions, which were imposed on financial institutions trading with Iran's central bank on 31 December, as the dispute over Iran's nuclear program intensified.

Iran responded to those sanctions with a counter-threat to close the Strait of Hormuz, through which around 35% of the world's seaborne crude oil and 20% of the world's traded oil transits. The United States has said that any disruption to the waterway would "not be tolerated". Tensions grew in January as Iran announced a long-range missile test and began enriching uranium to 20% in an underground bunker, while an Iranian nuclear scientist was assassinated in Teheran.

But European minds have been focusing on the potentially disastrous oil price shock that could accompany any closure of the Hormuz Strait, which would carry such high risks for Iran's own economy that only a full scale US or Israeli attack had been thought likely to trigger it. "It is always a possibility and we are working on contingency plans," an EU diplomat confirmed. "It would be implausible to imagine that any member state hasn't thought about a contingency plan, but we certainly have." If the Strait were closed, "a number of measures have been put forward to placate the markets," the diplomat added.

On 16 January, oil prices rose to $111 a barrel on fears of a waterway shutdown. Any closure of Hormuz could cause a “price shock and severe economic downturn,” with oil prices rising above $150 a barrel, the point they reached in 2008 when the world slump began, oil analyst Stephen Schork told. “I don’t think the EU is prepared for a closure, given the lack of growth we are seeing there,” he said on the phone from New York. “It may be sending a strong message that it won't back down but it is also vulnerable, because of the currency crisis, and the fact that the ‘PIGS’ buy a lot of Iranian oil.” PIGS refers to Portugal, Italy, Greece and Spain.

Recent comments by the Italian Prime Minister Mario Monti that sanctions should be phased in, possibly over a six-month period, to allow time for arranging alternative supplies, were “sending a signal to the market that Europe lacks cohesiveness,” Schork said. “The EU is showing signs of playing with a weak hand,” he said. Italy gets 13% of its imported crude from Iran – as opposed to France’s 3% - and is pushing for a sanctions exemption for its largest oil company Eni.

EU sources say that negotiations are currently trying to clarify whether existing oil import contracts will cease to be applicable in one to two months, or 12 months, before sanctions are agreed. But even if an EU oil embargo is imposed, some analysts question whether countries such as China, Russia and Turkey would respect it. EU countries currently buy about 450,000 barrels per day of Iran’s 2.6 million bpd in exports, making the bloc collectively the second largest market for Iranian crude after China.

OPEC says pumping more than new ceiling

Platts, *17.01.2012*

OPEC’s new 30 million b/d crude production ceiling came into effect at the beginning of January, but OPEC’s latest monthly oil market report on January 16 showed that the group’s output had already exceeded the new ceiling by more than 800,000 b/d in December.

December volumes were also well above the 30.1 million b/d which OPEC estimates as the call on its crude this year a 60,000 b/d upward revision from last month’s report and the 29.84 million b/d which it sees as demand for OPEC crude in the first quarter. OPEC estimated production from all 12 members at 30.822 million b/d in December.

Saudi Arabian production was estimated at 9.763 million b/d, slightly down from 9.783 million b/d in November. Libyan production recovered to an average 773,000 b/d in December from 563,000 b/d in November, according to the estimates. Other small increases came from the UAE and Iraq, whose respective output averaged 2.59 million b/d and 2.72 million b/d. Demand for OPEC crude is projected to fall to 28.98 million b/d in the second quarter, traditionally the weakest season for oil demand, before rising to 30.84 million b/d in the third quarter and 30.91 million b/d in the fourth.

A Platts survey of OPEC and oil industry officials and analysts last week estimated OPEC's December production at 30.83 million b/d, already significantly above the new ceiling that was agreed at the group's December 14 meeting and which came into effect on January 1 this year. The new ceiling does not define individual quota levels, but OPEC said in its official communique that member countries had agreed to reduce output voluntarily if this became necessary.

OPEC said in its latest report, meanwhile, the Eurozone crisis had been a key factor beyond oil price volatility but had so far had little impact on market fundamentals in other regions. "However, if the situation were to worsen, the effect on the oil market could be seen not only through a further decline in oil demand in Europe but also with spillover effects on oil demand in the emerging economies, amid an adequately supplied market," OPEC said.

"Whether this materializes, the ongoing impact of the Eurozone debt crisis on market sentiment is also likely to add to oil price volatility," it said. "Effective steps to meet these challenges should lead to an improvement in economic growth and increased oil market stability," OPEC continued. But, it added, "at the same time, geopolitical uncertainties are likely to continue impacting crude oil prices going forward, either by increasing or reducing the risk premium in the market."

The report made no mention of a EU ban on the import of Iranian oil. The EU imports an estimated 500,000 b/d of Iranian crude. OPEC's report projects world oil demand at 88.9 million b/d in 2012, an upward revision of 30,000 b/d from its previous forecast a month ago. Year on year, OPEC sees demand rising by 1.21 million b/d, slightly lower than its previous estimate of 1.22 million b/d.

Oil demand from OECD countries is expected to fall to 45.8 million b/d in 2012 from 45.87 million b/d in 2011, with growth in demand coming instead from China (up 420,000 b/d), the Middle East and Latin America. OPEC also made only minor revisions to its estimates of non-OPEC oil supply in 2011 and 2012. The group now expects non-OPEC oil supply to average 53.1 million b/d in 2012, down from a previous estimate of 53.13 million b/d.

Growth in non-OPEC oil supply is expected to amount to 690,000 b/d this year, up from a previous estimate of 670,000 b/d and from a much smaller estimated increase in 2011 of 130,000 b/d. The increase in non-OPEC oil supply is expected to come mainly from Canada, the US, Latin America and the former Soviet Union, with gains from these regions outweighing declines from Mexico, Norway and the UK.

Nigeria protests suspended after fuel price cut

Reuters, *16.01.2012*

Nigerian President Goodluck Jonathan announced a cut in petrol prices to 97 naira ($0.60) a litre, a gesture that prompted unions to suspend mass protests to allow further negotiations with the government.

But the main labor unions said strikes that paralyzed Africa's second-largest economy last week would resume pending further talks, and residents of Nigeria's largest city Lagos reported soldiers in the streets in an apparent security move. "They are searching vehicles. It looks like they want to maintain law and order," one resident said.

Oil output by Nigeria, Africa's biggest crude exporter, has not been affected so far by the labor unrest, which began after a fuel subsidy was lifted on January 1, more than doubling the pump price of petrol to 150 naira per litre from 65 naira. Jonathan met union leaders in search of a compromise to end the strikes but he said later the talks had "yielded no tangible result" and he would pursue a policy of removing subsidies seen as breeding waste and corruption. "The government will continue to pursue full deregulation of the downstream petroleum sector. However, given the hardships being suffered by Nigerians, and after due consideration and consultations ... the government has approved the reduction of the pump price of petrol," he said in a national broadcast.

Chika Onuegbu, a senior official at Nigeria's umbrella Trade Union Congress and its main oil union PENGASSAN, said further talks with the government would be held and he hoped for progress that would allow a suspension of strikes. PENGASSAN previously said it would cut oil production if there was a complete breakdown of labor-government talks. Workers had suspended strike action over the weekend to give space for talks and allow protesters to rest.

Global oil prices were boosted by fears of reduced supplies from Nigeria late last week. A serious production outage would push them sharply higher, traders and analysts say. Several people were killed in clashes between strikers and police last week and 600 were treated for wounds, according to the International Red Cross.

The government and unions had a first round of talks on January 12 and a second round two days later, with both sides reporting progress but saying that more deliberations were needed. Unions said they wanted the government to immediately bring the petrol price back down to 65 naira, at which point they would cancel strikes and protests and talks could continue. But it would be a politically damaging climb-down for the government to slash the pump price back to 65 naira without any assurance of subsidies being removed in the future.

Economists said the subsidy should be dropped because it was wasteful and open to corruption. Protesters have countered that argument by asking the government to work harder to tackle graft and waste before rescinding public benefits. Jonathan gave approval on Sunday for an investigation. Oil Minister Diezani Alison-Madueke said she had written to the Economic and Financial Crimes Commission inviting the regulator to examine the subsidy procedure.

The state oil company NNPC and fuel regulators have come under fire for a lack of transparency and mismanagement from independent reports, including one by KPMG. Alison-Madueke pledged to review these reports. Nigeria produces more than 2 million barrels of crude oil a day but decades of graft and mismanagement have forced it to import almost all its needs for refined fuel.

Alison-Madueke said she would meet legislators in the next week to seek progress towards passing a wide-ranging Petroleum Industry Bill that has been stuck in parliament for years, costing Nigeria billions of dollars in lost investment. Africa's most populous nation holds the world's seventh largest gas reserves but infrastructure only provides enough power to support a medium-sized European city, meaning most of the country's 160 million people live without electricity.

BP strongly refutes speculation it will settle Macondo case for $25B

Rigzone, *20.01.2012*

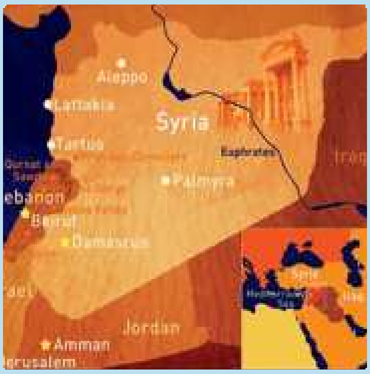
BP has strongly refuted a Morgan Stanley report that suggested that it would pay a settlement of between $20 billion and $25 billion in connection with the 2010 Macondo oil spill in the Gulf of Mexico which would significantly exceed the $12 billion that BP has set aside in provisions.

Civil litigation against BP, and other parties connected to the disaster, is due to begin at the end of February, with the trial focusing on claims for economic loss, injuries and environmental damage associated with Macondo. But the Morgan Stanley research note said that the investment bank's base case "remains a settlement agreement."

This settlement agreement, suggested the bank, would not only include BP's civil charges but also include criminal penalties and natural resource damage. However, a spokesman for BP told Rigzone Friday: "There was no basis for what was an entirely speculative report by that analyst". The spokesman added that the company was "not going to comment on any reports that we may or may not be in discussion with the Department of Justice." BP's share price has been under pressure since the Morgan Stanley note was published and closed down three percent on Friday.

Oil sanctions have cost Syria $2 billion

Oil & Gas Journal (Eric Watkins), *20.01.2012*



Syria's oil minister said sanctions imposed by Western governments on his country's petroleum exports have cost $2 billion in lost revenues since last September.

"We have suffered important losses as a result of our inability to export crude oil and petroleum products," said Sufian Alao, adding that the shortfall and losses from Sept. 1, 2011, until now add up to that $2 billion total. The European Union, which bought most of Syria's 130,000 b/d of oil exports, imposed sanctions on Sept. 2, following a similar decision by the US.

Alao said the embargo has caused a plunge in production of 150,000 b/d. Alao also said sanctions were imposed on five state-owned firms, namely General Petroleum Corp., Syrian Co. for Oil Transport, Syrian Gas Co., Syrian Petroleum Co., and Sytrol. In his statement of losses, Alao - adopting a government view- said "terrorist" attacks on oil and gas pipelines and other energy infrastructure targets had killed 21 workers, disrupted supplies and caused an estimated $34 million in damages.

In December, the United Nations said Syrian President Bashar al-Assad's security forces had killed more than 5,000 people since the unrest erupted in mid-March. The government responded by saying that "armed terrorist groups" had killed 2,000 security personnel. Alao told state media that Syria was still trying to replace EU crude oil contracts with new customers, but that it was having trouble securing the necessary shipping insurance and trade credit.

The outlook for Syria's oil exports worsened after UK Prime Minister David Cameron called on Jan. 19 for harsher sanctions on Damascus in an effort to further weaken al-Assad's regime. Cameron said, "Britain needs to lead the way in making sure we tighten the sanctions, the travel bans, the asset freezes, on Syria." He also accused Iran and the Lebanon's Shiite Hezbollah movement of supporting al-Assad, who he called "a wretched tyrant."

Current EU sanctions target 30 entities and 86 individual Syrians, but EU diplomats said a further 8 companies or institutions and 22 individuals would be targeted by stricter sanctions to be agreed by member states on Jan. 23—the same day that further sanctions are to be considered against Iran.

Meanwhile, US officials said they identified an Iranian-chartered tanker attempting to carry Syrian oil to the Islamic Republic for resale, with the proceeds apparently to be returned to Damascus. Earlier reports said the tanker took on 91,000 tonnes of crude in late November at Syria's Mediterranean seaport of Baniyas, and intended to unload it at Iran's Ras Bahregan oil terminal. US officials notified the ship's insurers and registry that in picking up the Syrian oil, the ship had violated US sanctions that prohibit doing business with Syria's petroleum sector. The tanker was insured by the Mutual Protection and Indemnity Club (P&I) and registered by the Liberian International Ship and Corporate Registry, headquartered in Washington, DC.

EIA: U.S. gas exports to boost U.S. gas prices

Rigzone, *19.01.2012*

Increased natural gas exports from the U.S. will lead to higher natural gas prices, a recent report by the U.S. Energy Information Administration (EIA) has concluded.

Larger export leaders will lead to larger domestic price increases, while rapid increases in export levels lead to large initial price increases that moderate somewhat in a few years, EIA commented on Thursday. "Slower increases in export levels lead to more gradual price increases but eventually produce higher average prices during the decade between 2025 and 2035," EIA said.

EIA concluded that U.S. gas markets will balance in response to increased gas exports mainly through increased gas production. Increased production will satisfy about 60 to 70 percent of increased gas exports, with a small contribution from Canadian gas imports. Approximately three-quarters of this production increase will come from shale sources across most of the cases examined in the study. The remaining portion is supplied by gas that would have been consumed domestically if not for the higher prices.

"Due to higher prices, the electric power sector primarily shifts to coal-fired generation, and secondarily to renewable sources, thought there is some decrease in total generation due to the higher price of natural gas," EIA commented. "There is also a small reduction in natural gas use in all sectors from efficiency improvements and conservation."

U.S. consumers will see their gas and electricity bills increase on average, even as they consume less gas. From 2015 to 2035, gas bills paid by end-use consumers in the residential, commercial and industrial sectors will rise by three to nine percent over a comparable baseline case with no exports, depending on the export scenario and case. Electricity bills paid by end-use customers will increase from one to three percent.

The report was conducted in response to an August 2011 request from the U.S. Department of Energy's Office of Fossil Energy for an analysis of different scenarios of how increased gas exports could impact domestic energy markets, focusing on consumption, production and prices.

Several liquefied natural gas terminals (LNG) constructed in the U.S. to import LNG are now seeking permission from the U.S. government to export LNG. The explosion in U.S. shale gas production in recent years has unleashed significant gas supply in the U.S. market, and reversed previous forecasts that the U.S. would need to import LNG to meet domestic demand.

API: U.S. oil use down 1.2% in 2011

Rigzone (Dow Jones), *20.01.2012*

U.S. oil demand fell 1.2 percent to 18.9 million barrels a day last year, trade group American Petroleum Institute said Friday.

Early data from the federal Energy Information Administration issued Jan. 10 showed a 1.6 percent, or 310,000 barrels a day, drop to 18.87 million barrels a day. The International Energy Agency, the oil-market watchdog for the major industrialized nations, such as the U.S., that make up the Organization for Economic Co-operation and Development, this week estimated a decline of 1.8 percent, or 340,000 barrels a day, in U.S. demand, to 18.84 million barrels a day.

The API said its estimate for 2011 showed that, except for 2008, the drop in demand was the most in the last decade. December 2011 U.S. petroleum deliveries, a measure of demand, were down 5.9 percent from a year earlier, to a 15-year low of 18.6 million barrels a day. Demand for gasoline, the most widely used U.S. petroleum product, fell 4.3 percent in December from a year ago, to 8.531 million barrels a day. Annual demand was 2.1 percent lower, at 8.803 million barrels a day.

“The weakness in gasoline demand in 2011 reflected the overall weakness in consumer spending,” said John Felmy, API chief economist. Despite the decline in demand for refined products, supplies remained ample, with gasoline production for the year averaging a record high of 9.1 million barrels a day, up 0.5 percent from 2010. Distillate production, at 4.5 million barrels a day, was up 6.1 percent for the year. Refinery inputs fell by 1.5 percent in 2011 compared with 2010.

Demand for distillate fuel--diesel fuel and heating oil--rose 3.2 percent in 2011, to 3.921 million barrels a day. Within that figure, demand for ultra-low-sulfur diesel fuel rose 5.3 percent. Ultra-low-sulfur diesel fuel accounts for 90 percent of distillate demand.

Total petroleum imports dropped 5.6 percent in 2011, API said. Although up slightly in December, crude-oil imports for the year fell by 3.4 percent. Imports of refined products dropped 14 percent for the year and were down more than 33 percent for December. Total petroleum exports--almost all of which were product exports--jumped 25.5 percent in 2011 compared with 2010.

Crude-oil production rose 2.5 percent in 2011 to an average of 5.6 million barrels a day. In December, crude-oil production rose by 0.5 percent to an eight-year high for the month. Crude-oil stocks ended the year up 0.4 percent from 2010 and were at a 17-year high for December, at 334.6 million barrels, while gasoline stocks in December were up 0.1 percent from a year ago. Distillate stocks ended the year at 145.6 million barrels, down 11.4 percent from a year ago and at a five-year low for December, API said.

Bulgarian parliament bans shale gas exploration

Rigzone (Dow Jones), *18.01.2012*

Bulgarian lawmakers slapped a ban Wednesday on shale gas exploration and production, bowing to strong public pressure over environmental concerns.

In a special resolution, the parliament “banned the use of the method of hydraulic fracturing for natural gas and oil exploration on Bulgarian territory and its Black Sea waters.” It also specifically banned “shale gas exploration using the above mentioned method.” Violators risked fines of 100 million leva (EUR50 million, $65 million) and confiscation of all equipment, according to the resolution which was backed by 169 deputies of the 175 who cast votes.

Hydraulic fracturing, or ‘fracking’, uses high pressure injections of water, sand and chemicals to blast through rock and release oil and gas trapped inside. But although popular in the U.S., opponents warn of the environmental impact, insisting there is high risk of contaminating the land and drinking water and of triggering earthquakes.

Wednesday’s ban was a U-turn on the previous government’s plans to start drilling for shale deposits in northeastern Bulgaria as a way to wean the country off its total dependence on Russian natural gas deliveries, and followed vehement protests from environmentalists across the country in recent months.

On Tuesday, the government revoked a five-year test drilling permit granted last year to U.S. oil giant Chevron Corp. citing “the lack of sufficient assurances that the commonly used shale gas drilling method of hydraulic fracturing can guarantee environmental safety.”

Prime Minister Boyko Borisov meanwhile cited public pressure as the reason for backing off plans to develop shale gas, after anti-fracking rallies in Sofia and other major cities drew thousands of people last weekend. Environmentalists welcomed the ban Wednesday but insisted that shale gas exploration by fracking should not only be banned in a resolution but forbidden by law, as is the case in France. “A quickly adopted resolution can be cancelled just as quickly,” Mariana Hristova from the Fracking Free Bulgaria group told AFP.

Offshore drilling trends for 2011

Rigzone (Trey Cowan), *16.01.2012*

Our one-word choice for characterizing the offshore drilling industry during 2011 is stability. At the beginning of 2011 there were in total 517 floaters and jackups operating around the globe.

Today, the number of rigs under contract is approaching 570 rigs. Backing out the fifty odd newest rigs that were scheduled for delivery in 2011 (18 ultra-deepwater drillships, 21 jackups, and 16 semisubmersibles) leaves a mature rig count under contract that only modestly budged between the beginning of 2011 and now.

Looking specifically at dayrates, stability continues to hold as our buzzword. Heading into 2011, worldwide average dayrates were in the low-$230s. Entering 2012 dayrates have grown just slightly (i.e. averaging in the mid-$230s during 4Q11) from where the year began. Similarly, utilization trends are not much different now than on a global basis relative to the beginning of the year (73 percent in Dec. 2011 versus 71 percent in Dec. 2010).

Drilling down by both region and type of rig provides some interesting insights. For instance, dayrates for floaters operating in the Gulf of Mexico (GOM), now averaging in the low-$460s, are on par with pre-Macondo levels. And while currently there are four fewer ultra-deepwater rigs servicing the GOM, by May of 2012 rigs re-entering the region will push the fleet size back above levels seen before the oil spill.

Furthermore, according to our Riglogix database, GOM dayrates are expected to grow 9 percent annually to the high-$460s versus 2011's average annual rates. Also, the contracted GOM fleet is expected to grow 21 percent year-over-year to average 32 floater's servicing the region during 2012.

As illustrated in the preceding table, drilling off the coast of Africa experienced the greatest surge in activity during 2011. West Africa was the primary recipient of the additional deepwater rigs and some of the increase was caused by rigs displaced from GOM waters due to a lack of permitting. Latin America finished second with Brazil's quest to develop its vast offshore reserves as the primary impetus here.

Average Number of Floaters Under Contract

	4Q11	4Q10	Change
Africa	34	26	27.8%
Australia/Far East	14	16	-16.3%
SE Asia	22	22	-1.5%
GOM (US only)	27	25	8.1%
Latin America	75	64	18.3%
Middle East	7	8	-8.3%
North Sea	37	36	2.8%
Total	222	204	8.7%

Average Dayrates for Floaters ($000s)

	4Q11	4Q10	Change
Africa	419	437	-4.1%
Australia/Far East	380	393	-3.3%
SE Asia	365	338	7.9%
GOM (US only)	460	370	24.5%
Latin America	337	326	3.5%
Middle East	362	442	-18.1%
North Sea	382	406	-5.9%
Total	383	373	2.5%

Average Number of Jackups Under Contract

	4Q11	4Q10	Change
Africa	23	18	27.3%
Australia/Far East	22	24	-7.0%
SE Asia	75	74	0.9%
GOM (US only)	36	31	16.1%
Latin America	36	35	3.8%
Middle East	98	98	0.7%
North Sea	38	28	34.5%
Total	337	317	6.5%

Average Dayrates for Jackups ($000s)

	4Q11	4Q10	Change
Africa	98	107	-8.2%
Australia/Far East	133	123	8.2%
SE Asia	105	115	-8.3%
GOM (US only)	68	63	7.6%
Latin America	100	105	-4.4%
Middle East	103	114	-10.0%
North Sea	157	153	2.2%
Total	106	111	-4.6%

With the exception of the GOM and SE Asia, dayrates for floaters increased slightly (or in many cases declined) throughout much of the world. Rigs that were on standby rates (due to permitting delays in the GOM) during 4Q10 skewed the average down for the region. Adjusting for the low base would have made the GOM look more like the rest of the world with respect to dayrates last year.

The count for jackups that were under contract or operating grew by 20 rigs or 6.5 percent during 2011. On average, the North Sea experienced the largest increase of shallow water activities last year, providing half of the global growth or ten additional jackups. An emphasis on redeveloping some more mature fields as well as a focus on deep gas discoveries were at the root of more activity in the region.

On average, shallow water dayrates declined globally nearly 5 percent during 2011. Looking across the regions; Australia, the Gulf of Mexico, and the North Sea bucked the downward trend. Harsh conditions and higher operating costs explain why drilling in both the North Sea and Australia is more expensive than average. And while improving nearly eight percent, the GOM jackup dayrates still have significant room for improvement to pricing achieved pre-Macondo. Unfortunately, the permitting environment continues at a slower pace than what would push rates dramatically higher any time soon in the region.

Announcements & Reports

► *Energy Deals 2011 – Merger and Acquisition Activity in Turkey's Energy Market*

Source : PwC Turkey
Weblink : http://www.pwc.com/tr_TR/tr/publications/industrial/energy/assets/Energy-Deals-2011_v11.pdf

► *OPEC Monthly Oil Market Report (Jan 2012)*

Source : Organization of the Petroleum Exporting Countries
Weblink : http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_January_2012.pdf

► *Effect of Increased Natural Gas Exports on Domestic Energy Market*

Source : U.S. Energy Information Administration
Weblink : http://www.eia.gov/analysis/requests/fe/pdf/fe_lng.pdf

Upcoming Events

► *6th Africa Economic Forum*

Date : 5 – 7 March 2012
Place : Cape Town – South Africa
Website : http://www.petro21.com/events/?eventid=728

► *TUROGE 2012* ***(in Turkey)***

Date : 21 – 22 March 2012
Place : Ankara – Turkey
Website : http://www.turoge.com/2012/

► *Iraq Energy Expo 2012*

Date : 23 – 26 April 2012
Place : Baghdad – Iraq
Website : http://www.iraqenergyexpo.com/2012/index.php

► *Oil & Gas Pipelines in the Middle East 2012*

Date : 20 – 23 May 2012
Place : Abu Dhabi – UAE
Website : http://www.theenergyexchange.co.uk/oil-and-gas-pipelines-in-the-middle-east-2012/s13/a170/

► *4th African Gas – LNG*

Date : 21 – 24 May 2012
Place : London – UK
Website : http://www.petro21.com/events/?eventid=735

► *25th World Gas Conference 2012*

Date : 3 – 8 June 2012
Place : Kuala Lumpur – Malaysia
Website : www.wgc2012.com

► *Iraq Future Energy 2012* ***(in Turkey)***

Date : 24 – 26 September 2012
Place : Istanbul – Turkey
Website : http://www.theenergyexchange.co.uk/iraq-2012-future-energy/s13/a255/