Oil & Gas Bulletin

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Turkey buys new vessel for oil search

Hürriyet Daily News, *30.01.2013*

Turkey's state-run oil researcher TPAO has bought a seismic vessel to conduct two and three dimensional seismic surveys in Turkish seas, Energy and Natural Resources Minister Taner Yildiz announced.

TPAO paid around $130 million to Norwegian Polarcus company for the seismic vessel, which is 84 meters long and 17 meters width, as well as a Skorsky helicopter landing strip. The seismic vessel, which Yildiz said had proved its success in the international arena in two and three dimensional seismic surveys, will accelerate the search for oil and natural gas in the seas.

Yildiz said the vessel would conduct searches in the Black Sea and then in the Mediterranean Sea. Turkey is bidding for finding oil and gas both in the Black Sea and the Mediterranean. The vessel constructed in 2011 is able to make automatic predictions of direction and position due to satellite communications. The vessel, named "Barbaros Hayrettin Pasa," will be introduced to the public in an upcoming ceremony organized in Istanbul's Besiktas Pier. It passed through Dardanelles Strait yesterday to arrive Istanbul. The vessel will be painted red and white, which are the colors of Turkey's flag, after customs and harbor registration is completed.

Security forces reveal crude oil stealing in Turkey

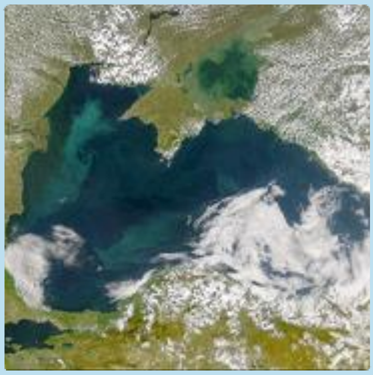
Today.az, *01.02.2013*

Turkish security forces have uncovered crude oil theft at the BOTAS pipeline near the Aksaray-Adana highway, located in southern Turkey. Gendarme teams discovered a 500 meter long setup attached to the pipeline after excavating the spot that local villagers had pointed out. The suspicions of the villagers were aroused after they saw an oil tanker return to the area on a number of occasions.

After discovering the theft, the authorities closed the valve on the main pipes that had been opened to steal the oil. Gendarme and BOTAS officials said the theft may have been going on for around six months.

Turkey to explore oil with Shell in Black Sea

Hürriyet Daily News, *28.01.2013*



TPAO plans to search for oil in the Black Sea with Shell, sources say. However, the ministry has not announced officially. Turkey's state-run oil researcher TPAO prepares to search for oil in the Black Sea with Shell, after failed attempts by international energy companies, according to sources.

The ministerial sources said TPAO and Shell have been in contact for an oil exploration partnership in the Black Sea. The contract date has been determined to be Feb. 14, when the two companies will reveal their search and production deal to the public, sources said.

Furthermore, TPAO, which has carried out oil and natural gas exploration by itself, has received a proposal from Shell to work together in the Gulf of Mersin, alongside the other companies' proposals, sources say. TPAO might strike a deal with Shell or another company for a partnership in Mersin, as it had talks with 13 companies for exploring in the İskenderun-Mersin Gulf last year. However, Energy Minister Taner Yildiz has stated that TPAO would make a deal with "a giant company" in the next two or three weeks for oil exploration in the Black Sea, but did not give a company's name. He also said in November 2012 that a company that has not made oil explorations in the Black Sea yet applied for oil exploration there. The world's leading companies, such as Petrobras, Chevron and ExxonMobil, have drilled in the Black Sea.

On the other hand, the Shell CEO said the company was working on the other side of Black Sea, but they would like to also work on the Turkish side, during his meeting with Yıldız and Prime Minister Recep Tayyip Erdogan in September 2012. Moreover, Shell Turkey's CEO recently stressed their interest in the Black Sea. Shell has been conducting gas and oil exploration with TPAO in Turkey in the southeastern provinces of Batman and Diyarbakır, the central Anatolian province of Sivas as well as off the Mediterranean shore.

Yildiz stated Turkey should urgently renew its aging power stations and grids, adding that electricity meters that have operated for ten years will be renewed and the cost will not be reflected on consumers, Anatolia news agency reported yesterday. "We cannot allow Turkey to have stations and grids used for 30 or 35 years in 2023. Turkey should be renewed completely in the energy sector in 2023," he said. Meanwhile, Yildiz stated that TPAO would continue its work in Libya despite the country's rising internal disorder. TPAO applied for new search fields during its visit to Libya two weeks ago.

Turkey trading coal for gas in electricity

Hürriyet Daily News, *29.01.2013*

The traditional wintertime smell of burning coal across Turkey appears set to become far more prevalent as the country turns to smoke-generating, coal-burning plants in an effort to break its large dependency on natural gas.

Applications for gas-burning plants decreased, while those for local and imported coal power plants have risen, energy market regulator said. “Using local resources to lower the production costs, as well as the Energy Ministry’s new model that opened up coal reserves to exploitation by the private sector, contributes to creating considerable added value, which helps balance the current account deficit.”

The country has had annual investments worth almost 4,000 megawatts in the energy sector in the last five years, EPDK President Hasan Köktas said, adding that the stake of natural gas power plants in these investments had begun to fall. Although investors’ building license applications for natural gas power plants had made up the major part among all applications in the energy sector, this number has considerably fallen because investors are withdrawing and canceling applications, according to officials.

Köktas also said last year’s cancelation of incentives of around 20 or 21 percent for natural gas power plants had increased the cost of construction while reducing investors’ attention. He said the policy was to lower the stake of natural gas in electricity generation, so the situation does not indicate any problem as far as they are concerned.

Turkey produces around half of its electricity from natural gas, a source for which it is largely dependent on Russia, Iran and Azerbaijan. The government is also harboring hopes for the planned Trans-Anatolia Pipeline (TANAP) project, which is slated to carry large amounts of Azeri gas to western Turkey, from where it will be transported to Europe. Investors have recently begun applying mostly to build coal power plants, including both local and imported coal, said Köktas. He also said applications for imported coal power plants had jumped due to stocked raw material and resource diversification, adding that the costs of these plants were lower than gas.

Energy Minister Taner Yildiz announced Jan. 27 that there were 510 million tons of coal reserves worth $50 billion in the Ergene River Basin in the Thrace region of Turkey. The reserves will be opened for exploration within the next few days, he said. The Energy and Natural Resources Ministry recently discovered 1.8 billion tons of lignite reserves, enough to fuel a thermal power station generating 5,000 megawatts of electricity for 30 to 40 years, in the Central Anatolian province of Konya. Turkey also signed a deal with the United Arab Emirates to develop coal fields in the southern province of Kahramanmaras.

Azure updates on Catalca work in Turkey

Natural Gas Europe, *29.01.2013*

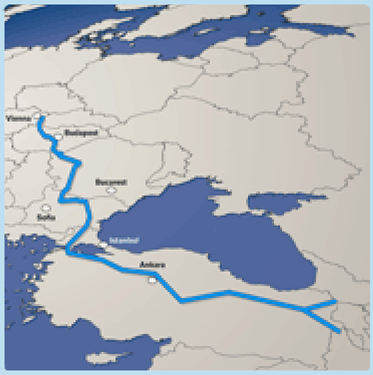
International oil and gas company Emperor Oil has announced an exploration update from Azure Resources Corp and Merty Energy, on the Catalca natural gas licence in Turkey's Thrace Basin.

Azure reports that drilling of the seismically identified Cayirlik-1 well (formerly named the 'Baglar-1 well') resumed last Friday, January 25, following a brief delay. A planned well depth of 800 metres had been interrupted at 217m due to adverse weather conditions and equipment changes. The well is primarily targeting natural gas in the Tertiary Osmancik Formation which is approx. 3 km. from a pipeline tie-in point.

The Catalca Licence covers 36,429 hectares and is situated 30 km. west of Istanbul in the European part of Turkey where natural gas is currently priced at a premium to North American markets. The Thrace Basin is the most important gas producing basin in Turkey with more than 15 gas fields and 3 oilfields. 70 % of this basin remains unexplored. Emperor has an earn-in agreement to obtain a 22.5 % working interest in the license from Azure, a Canadian listed TSX.V issuer. Merty, an established Turkish company in the domestic oil and gas industry, is the local operator.

Bayerngas says not to proceed with Nabucco talks

Natural Gas Europe, *29.01.2013*



Germany's south-western regional gas supplier Bayerngas said it was not continuing talks with the Nabucco-West pipeline consortium, which could be in line to help transport Caspian region gas to Europe.

"We are not continuing the talks," a spokesman for the Bavarian company told, adding Bayerngas was adjusting its strategy and was more focused on investing in pipelines in Germany. The Azeri gas and oil producer consortium Shah Deniz is expected to choose by mid-2013 whether to transport gas from its fields via the Nabucco-West pipeline or the rival Trans-Adriatic Pipeline (TAP) into Western Europe.

Bayerngas had been talking to the consortium since October 2011, but delays, possible cost overshoots and rival pipelines lessened the attractiveness of the plan, according to some critics.

KRG hopes to announce new oil block deals with majors next month

Hürriyet Daily News (Reuters), *30.01.2013*

The Kurdish Regional Government (KRG) is negotiating with two or three major international companies to operate oilfields and expects to announce the outcome in about a month, said officials.

The remarks by KRG's Natural Resources Minister Ashti Hawrami highlight the region's resolve to push ahead with development of its oil resources independently of the central government. KRG has upset the central government by signing deals directly with oil majors such as Chevron and ExxonMobil, providing lucrative production-sharing contracts and better operating conditions than in the south.

Hawrami stated last week that KRG, which is in the north of Iraq and has run its own administration and armed forces since 1991, had awarded Chevron a stake in the Qara Dagh oil block. "We are negotiating with two to three other significant companies. They will hopefully be announced in a month or so," Hawrami told reporters on the sidelines of a conference in London. He also said ExxonMobil's contentious deal to operate in the autonomous region was on track.

Baghdad issued Exxon an ultimatum this week, telling the American oil major it must choose between operating in the north or the south, after Exxon's chief executive Rex Tillerson had meetings in both regions. KRG stopped contributing exports to Iraq's pipeline from Kirkuk in the north to the Turkish port of Ceyhan in December.

Meanwhile, exports by truck stopped two or three weeks ago, Hawrami said, but they should resume next week and rise to around 20,000 barrels per day of crude and the exports would begin with a limited amount of condensate , very light oil. Condensate exports by truck to Turkey began last summer, and hit a high this month, despite the stoppage. Exports of crude oil from Taq Taq oilfield started at the beginning of January this year. "We are working on some procedures to have a clear monitoring and metering system at the border before we allow further exports." The central Iraqi government in Baghdad has repeatedly stated that it considers independent exports from the KRG as smuggling.

Iraq issues ultimatum to ExxonMobil

Upstream Online, *28.01.2013*

Iraq has told ExxonMobil that it must choose between working in the country's southern oilfields or in Northern Iraq, and expects the US oil major to make a final decision in a few days.

"We made it clear to Exxon in the last meeting that the answer we expected from them is to either work in the Kurdish region or to work in southern Iraq," Reuters quoted Oil Minister Abdul Kareem Luaibi telling reporters in Baghdad over the weekend. "ExxonMobil cannot work in both fields at the same time."

Baghdad says any deals signed with Northern Iraq are illegal, but Kurdish regional government says the constitution allows it to sign oil agreements with companies without permission from Baghdad.

OMV sells Croatian marketing arm in upstream switch

Upstream Online, *01.02.2013*

Austria's OMV has sold its Croatian marketing subsidiary as part of a billion-euro divestment programme to reduce refining and marketing activities to refocus upstream.

The Vienna-based integrated energy player said that OMV Hrvatska was being sold to Croatian downstream player Crodux Plin, which will retain its 62 filling stations and 63 staff. The selloff is the latest in a string of divestments by OMV under a September 2011 plan to to gradually to shift its portfolio from refining and marketing to exploration and production as well as gas and power.

The strategy aims to see €1 billion in divestments by 2014, and to raise upstream segment revenues to 55% of OMV's business from 35%. Earlier this month Romanian branch OMV Petrom sold its LPG subsidiary under the plans. Last November, OMV sold its Bosnian marketing arm to Serbia's NIS and in 2011 OMV offloaded its 50% stake in Cypriot retail company Kibris Türk Petrolleri. In December 2011, Bosnia-based Optima Group, ultimately owned by Russian state firm Zarubezhneft, had said it was "seriously considering" buying both the Bosnian and Croatian assets from OMV.

Russia hits Ukraine with $7bn gas bill

Upstream Online, *28.01.2013*

Russia has slapped a $7 billion bill on Ukraine for imports of gas it says Kiev was committed to buy last year but never took. The move by Moscow comes just days after the former Soviet republic signed a $10 billion deal with Anglo Dutch supermajor Shell for shale gas exploration aimed at reducing Ukraine's reliance on costly Russian gas imports.

It also handed a fresh concern to President Viktor Yanukovich's government as it prepared to meet an International Monetary Fund mission next Tuesday for talks on a possible new $15 billion loan programme to help Kiev meet foreign debt repayments this year.

"We have indeed received a bill for $7 billion," an unnamed industry source told Reuters. But the source said the Kiev government challenged the calculation by Russian gas giant Gazprom and saw a political tinge linked to Thursday's shale deal signed at the World Economic Forum in Davos, Switzerland. Past tensions over energy between the former Soviet allies erupted into open dispute in 2006 and 2009 causing disruption to Russian gas flows via Ukraine to the European Union. There was no immediate comment from Russian gas giant Gazprom in Moscow or from Ukraine's state gas company Naftogaz. Ukraine's government had no immediate comment either. "In our opinion, we don't owe anything to anyone. All the gas which we should have bought (last year) according to the contract, we bought and have paid for," the news agency quoted its energy industry source as saying. "It looks as if everything is linked to the signing of the agreement with Shell in Davos," he said.

Relations between Gazprom and Naftogaz have been especially fraught since the 2009 signing of a 10-year supply agreement brokered by then prime minister Yulia Tymoshenko. She is now serving a seven-year jail sentence for abuse-of-office linked to the contract. Under the deal, Ukraine currently pays about $430 per 1000 cubic metres for Russian gas - above market price - and is also committed to importing fixed annual volumes of gas under a 'take-or-pay' clause. The present Kiev government of Mykola Azarov says the price is exorbitant but has so far failed to persuade Russia to lower it. Moscow has also been unsympathetic to Ukraine's calls for agreed volumes of imported gas to be reduced.

Annual contract volumes can be changed by mutual agreement no later than six months before the start of a calendar year. This change should not exceed 20% of the original contract volume and Ukraine is obliged to take or pay for a minimum of 80% of the annual contracted volume, according to a copy of the contract published by a Ukrainian news site in 2009. The source told Reuters that Gazprom had calculated that Ukraine's Naftogaz had been committed to importing 42 billion cubic metres of gas in 2012 under the supply deal. Ukraine in fact imported 33 Bcm last year, the minimum allowed under the contract, he said.

Though most of this was by Naftogaz, a relatively small portion of it had been bought by a private Ukrainian gas trader which may have led to Gazprom inflating its calculations of a shortfall, the source added. Ukraine did not regard the (Gazprom) calculation as reliable, according to the source. The Azarov government, reshuffled following an October election, has been hoping that its efforts to seek alternative supplies, including tapping unconventional sources such as shale gas, would strengthen its hand in price talks with Moscow.

Under the 50-year production-sharing agreement signed in Davos, Shell will develop the vast Yuzivska field in the east of Ukraine to tap into national reserves estimated at 42 trillion cubic feet by the US Energy Information Administration. Ukrainian officials also see prospects of more shale exploration with US energy giant Chevron and offshore exploration in the Black Sea with an ExxonMobil-led consortium.

Gazprom 2012 LNG sales fall on supply, previous Sakhalin-2 delay

Hürriyet Daily News, *31.01.2013*

Gazprom's liquefied natural-gas sales fell in the first nine months of last year on a decline in fuel available for the Russian exporter to purchase, and the effect of earlier delays at its Sakhalin-2 development.

Gazprom's LNG sales dropped to 0.9 million metric tons from 1.9 million tons, the producer said in a preliminary prospectus for a planned Eurobond sale obtained by Bloomberg News. Sales were 2.3 million tons for the whole of 2011, 1.9 million tons in 2010 and 1.4 million tons in 2009, according to the document. Gazprom's press service confirmed the details in the prospectus.

The biggest gas producer took control of the Royal Dutch Shell Plc-led Sakhalin-2 site in 2006, while exports from the plant were delayed to February 2009. Moscow-based Gazprom bought higher-than-contracted volumes from Sakhalin Energy in 2010 and 2011 to make up for delays at Sakhalin-2 in the prior two years, resulting in lower sales in 2012, according to the prospectus. The plant has an annual capacity of 9.6 million tons and has been operating beyond that level as demand for LNG Asia grows. Production from the project was "no less than in 2011," Ivan Chernyakhovsky, a spokesman for operator Sakhalin Energy, said by phone, without disclosing figures. Gazprom has an agreement for the purchase and sale of 1 million tons of LNG a year from Sakhalin Energy.

Countries express interest in TAP in Davos

Natural Gas Europe, *29.01.2013*

Senior government ministers from Greece, Italy and Switzerland confirmed their countries' strategic interest in the Trans-Adriatic Pipeline (TAP) at the recent Davos summit.

Meeting with representatives of the pipeline in Davos, Italian Minister for Economic Development Corrado Passera, Greek Deputy Minister of Economic Development Notis Mitarachi and Director of Swiss Federal Office of Energy Walter Steinmann, reiterated their commitment to TAP becoming a reality. The TAP website recorded the event. It said the seniority of the meeting indicated the strategic and economic importance of the pipeline project.

President of Azerbaijan's gas and oil company, SOCAR, Rovnag Abdullayev, E.ON chairman, Klaus Schäfer, and CEO of Axpo Trading AG, Hans Schulz also attended. TAP will open the Southern Gas Corridor and contribute to the diversification of gas supplies to Europe, easing reliance on Russian gas. Gas transported via the pipeline will also be available on the Swiss market and beyond, increasing security of supply for European consumers. Kjetil Tungland, TAP's managing director, commented: "We met in Davos to discuss the tremendous progress that TAP has made in the last few months, including concluding the Host Government Agreement with the Albanian Government on January 18 2013."

Axpo's Schulz, who is also chairman of the TAP board, said: "As shareholders in TAP we continue to strive to conclude all the necessary agreements with the Shah Deniz Consortium. In November 2012 we finalized the last in a trio of agreements – the Shareholder Agreement. TAP already concluded the Cooperation Agreement in June 2012 and the Funding and Equity Agreement in August, again demonstrating how far advanced the project is."

Klaus Schäfer, chairman of the E.ON Ruhrgas board, added: "I believe that with the voiced support of the host countries TAP is now in a strong position to win the bid in June 2013. I very much look forward to the conclusion of TAP's Intergovernmental Agreement (IGA), due to be signed by the governments of Greece, Albania and Italy in February this year." Abdullayev of SOCAR commented: "I am very pleased to witness the strong commitment from all three governments to progress TAP. I believe the host governments of Italy, Greece and Albania are doing their utmost to expedite the agreements and permits necessary to make TAP a reality."

South Stream costs soar to $39bn

Upstream Online, *23.01.2013*

The cost of the South Stream gas pipeline being built from Russia to southern Europe has reportedly soared due to the need to upgrade the Russian trunk line network to connect with the new route.

Gazprom said it will need to invest an additional 510 billion roubles ($16.9 billion) to upgrade domestic pipe capacity, increasing the overall cost of South Stream to €29 billion ($39 billion) from the previous figure of around $21 million. Most of the upgrade expense, 232 billion roubles, would be spent on boosting the capacity of a trunk line from Ukhta in northern Russia to Torzhok, 230 kilometers north of Moscow.

Gazprom leads an international consortium that started construction in December of the gas pipeline that will run from Russia across the Black Sea to Bulgaria and onwards to Serbia, where it will connect with other countries in southern Europe. The route is scheduled to come on stream in late 2015 with annual flows of 15.75 billion cubic metres and is due to export 63 Bcm of gas per year to southern Europe from 2018. The consortium members are Gazprom with 50%, Italy's Eni on 20%, and Germany's Wintershall and France's EdF, each with a 15% interest. Gazprom's partners would pay half of the total cost of the pipeline but not including the domestic upgrade.

Iran legal threat over Caspian 'oily waste'

Upstream Online, *29.01.2013*

BP could face legal action from Iran over alleged oil discharges from Azeri fields operated by the UK supermajor in the Caspian Sea, according to a report.

Deputy head of the country's Department of Environment, Abdolreza Karbasi, accused BP of dumping oil waste into the Caspian Sea in a report by Iranian news agency Mehr on Tuesday and said Iran might take the company to court if such action persisted. "Last year, the southern coasts of the Caspian Sea were covered with oily patches, and in the last such case four months ago, 25 tonnes of patches were cleared from Iranian coasts," he was quoted as saying.

He claimed that a rise in the volume of oily materials in the inland sea was also killing off marine life. BP operates the Azeri-Chirag-Gunashli oilfield and Shah Deniz gas field in the Caspian Sea on behalf of the government of Azerbaijan, in partnership with state oil company Socar. A BP spokesman said the company was required to report any leaks from its operations in the Caspian but had not had to for some years. “We are a responsible operator in the Caspian and as such we have rigorous health, safety and environmental processes and procedures in place in line with international standards,” BP said in an emailed statement.

Socar has also denied the Iranian media reports of oil discharges from Azeri fields, saying that if a spill took place it was a very long time ago. “Great attention has been paid to the environment over recent years during the development of oil and gas fields, while measures of environmental safety are being strengthened. Therefore, oil spills in offshore fields developed by Azerbaijan are ruled out,” sources at the company said.

Venezuela to ‘modify’ windfall tax on oil firms

Upstream Online, *28.01.2013*

Venezuela is changing its oil windfall tax bands under which the government raises income for social spending and other purposes, Energy Minister Rafael Ramirez said.

Widening a previous sliding scale, state company PDVSA and foreign partners will have to pay the state 20% of income from sales of oil between $55-80 per barrel, 80% between $80-100, 90% between $100-110, and 95% over $110. President Hugo Chavez, currently battling to recover from cancer surgery, first introduced a windfall tax in 2008 of up to 60% on revenues from oil prices over $100 per barrel, based on the ideas of Nobel Prize-winner Joseph Stiglitz.

In 2011, the taxes were ratcheted up to a maximum of 95% for oil over $100, bringing in timely extra revenue before last year’s presidential election that Chavez won. The OPEC member’s oil sector has been the driving force of Chavez’s socialist reforms, contributing funds to a wide array of education, health, housing, sports and other programs. At a news conference, Ramirez added that PDVSA and Rosneft agreed in recent days to an investment plan of $37.7 billion until 2021 to develop various projects in the Orinoco belt to produce 1.1 million bpd.

32 killed in Pemex headquarters blast

Rigzone (Dow Jones), *01.02.2013*

Rescue workers dug through rubble Friday trying to find survivors from an explosion that tore through the headquarters of Mexican state oil company Petroleos Mexicanos on Thursday, killing at least 32.

Pemex, one of the world's biggest oil companies, said it did not know the cause of the blast but Mexican and international experts are investigating. "I want to emphasize the complexity of the investigation. We can't explain something like this in a few hours," said Pemex Chief Executive Emilio Lozoya.

Mexican officials privately said there was no early indication of sabotage in the blast, which sent a giant fireball into the sky and partially destroyed an administrative building next to the oil firm's landmark skyscraper, which has 48 floors and towers over the city's central skyline. Mexicans were shocked by the blast given that it took place at the headquarters of the country's biggest company, a symbol of Mexican nationalism. It also comes just months before President Enrique Pena Nieto is expected to propose changes that could end the company's monopoly on oil exploration, allowing private firms to partner with the state firm for the first time.

Analysts discounted the likelihood that the blast was an attack. "Instead, the explosion is a reflection of Pemex's aging infrastructure and lacking safety protocols," Alejandro Schtulmann, an analyst with political consultancy Empra, wrote in a note to clients. Pemex's headquarters lies in a dense neighborhood surrounded by hundreds of illegal street businesses, some of them owned by Pemex personnel, Mr. Schtulmann said. "Like most informal businesses in Mexico, many of these street shops rely on illegal connections to the local power grids as well as water and gas lines," he said.

Twenty of those killed were women who worked in the building in administrative jobs like payroll, Pemex officials said. Some 52 other people remained hospitalized Friday due to the explosion, which the company said hadn't affected its oil operations. It was unclear how many people might still be trapped in a basement part of the building, which was partially collapsed. Hours after the blast, officials said there might be about 30 people left in the rubble, but then said that number couldn't be confirmed. The four floors most affected by the explosion normally had about 200 to 250 people working on them.

If investigations confirm an industrial accident, it will be an embarrassing blow to the firm. Just two hours before the blast at Pemex headquarters, the company touted its security record at a conference titled "First Congress for Security, Health and Environmental Protection" in the city of Merida in eastern Mexico. "Operations Director Carlos Murrieta pointed out that we have reduced the occurrence of accidents in recent years," Pemex said on its Twitter page, adding that its accident rate was below international standards for similar companies.

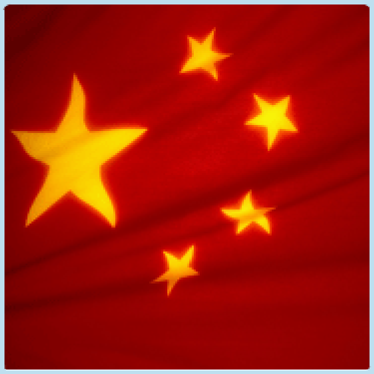
Pemex has fairly rosy numbers in terms of onsite industrial accidents, but most of the people who have died over a number of decades in Pemex accidents have been contract workers or others killed by fuel leaks and gas explosions, and those victims are not counted as workers for the purposes of reporting industrial accident rates, said George Baker, who runs a Houston-based energy consulting firm.

In September, a massive explosion at a Pemex natural-gas plant near the northern border city of Reynosa killed 30 workers and caused critical shortages of the fuel, causing the state-run electricity company Comision Federal de Electricidad to switch to more expensive fuels in order to free up some natural gas for industry. Just before Christmas in 2010, a crude-oil pipeline ruptured near the central Mexican town of San Martin Texmelucan, killing 30 people and damaging dozens of homes.

“This latest blast shows the results of a systematic lack of oversight in contracts at Pemex that the company relies on for everything, including industrial security,” said Alberto Islas, a security expert in Mexico City. Mexico’s lower house of Congress said this week it would put together a working group of lawmakers to investigate corruption within Pemex and the company’s safety record. Mexico’s oil output has fallen to about 2.6 million barrels a day from a peak of 3.4 million in 2004, and experts say Mexico could cease to be a major oil exporter within the next six years. Pemex was created in 1938 after Mexico nationalized its oil industry, a key moment in Mexican nationalism. “This tells you that Pemex needs to change,” said Mr. Islas.

China’s dependency on imported natural gas in 2012 approaches 29 percent

Oil&Gas Eurasia, *29.01.2013*



ChinaScope Financial reports that data released by the National Development and Reform Commission shows that last year China produced 108 billion cubic meters of natural gas, up 6.5 percent year-on-year (YoY).

The import volume of natural gas (including liquefied natural gas) in 2012 was 42.5 billion cubic meters, up 31.1 percent YoY. The apparent consumption of natural gas was 147 billion cubic meters, up 13.0 percent YoY. It is measured that the nation’s dependency on imported natural gas for 2012 amounted to 28.9 percent, higher than the 28 percent for the first seven months of 2012.

Data shows that China’s dependency on gas imports was only 2 percent in 2007. The figure rose to 5 percent in 2009, jumped to 11.8 percent in 2010, and surged to 24.3 percent in 2011. One energy official forecasts that coal consumption is likely to account for around 66.4 percent of China’s primary energy consumption in 2012, down 2 percentage points on 2011. The share of natural gas in the total primary energy consumption for 2012 is expected to increase by 0.5 percentage points to 5.5 percent, though it is still far lower than the global average level of 25 percent.

Interview with Sergey Komlev, Gazprom Export

Natural Gas Europe, *31.01.2013*

Natural Gas Europe was pleased to interview Sergey Komlev, Head of Contract Structuring and Pricing Directorate at Gazprom Export in advance of the European Gas Conference in Vienna.

Regarding the natural gas target model in Europe - why is it so important for Gazprom to keep the “old model” of long-term contracts with oil indexation while European companies seem to be able to adapt to the new one (and are even calling for more of the “new model” – if it is that unsustainable, then why asking for it?)?

Viable long-term sales contracts offer benefits to both buyers and sellers and are based on a fair risk sharing between the parties involved. Old oil-indexed contracts that effectively served European gas industry for nearly 40 years fully meet a viability definition. Shippers take responsibility to invest in upstream and in gas infrastructure in order to deliver natural gas to their clients’ needs in accordance with their daily nominations. If shippers fail to meet these obligations they are subject to serious fines. On the buyer’s side there are volumetric risks (take-or-pay obligations) and price risks which they share with the shipper. These arrangements give the shipper a guarantee that this investment will be paid off. The buyer has also a right for regular price revisions in cases where cheaper gas of other producers gets available locally.

The ‘new’ model for long-term contracts suggests shifting the balance of risks in favor of a buyer. Although such risk sharing scheme exists in some contracts, we doubt the viability and stability of a pricing system in which such contracts would be promoted to play a dominant role. In the case of 100 percent gas indexation, any take-or-pay obligations on the buyer’s side lose their function as a guarantee of demand security because buyers can dispose of excess volumes on hubs with no risk to their revenues. Producers from third countries will run the intolerable risk of gas price erosion because there is virtually no force in Europe interested in preserving the value of natural gas.

That situation is untenable for traditional suppliers who must take all the risks of price uncertainty without any means of affecting hub price formation, and who must incur the substantial additional costs of providing supply flexibility in these long-term contracts without any reciprocal benefits or tangible rewards.

Gazprom has been raising concerns over the evolution of the internal gas market in Europe for some time now but Brussels seems to be paying little attention. How do you explain this, knowing that you are Europe's first external supplier? Furthermore, how do you explain the European phobia against Russian gas? What critiques would you address to your own strategy? And lastly, why is there not a Brussels office?

Brussels is focused on geopolitics. Our company participates in various discussions held with the EU, but unfortunately, our arguments are often unheard or unwanted. Namely, we haven't yet heard a clear explanation why such a big emphasis is put by the EC on lowering the dependence on Russian gas. On the contrary, our approach is commercial-based: we want to sell as much gas as possible, at prices that provide for balance of interests of both buyer and seller and support investment cycle; we aim at harmonious development of European gas market that's in interest of everyone involved in it. As to the Brussels office, it is being established.

Regarding the possible removal of flexibility clause from Gazprom contracts, wouldn't things be worst if such a move is made at a time when Brussels is very much willing to reduce its imports from Russia (if not suppress) and when European companies are asking for more flexibility?

Preserving the flexibility of long-term contracts has its price. Long-term contract foresees not just a certain volume of gas to be supplied, as it is at spot market. It also provides for a certain package of services, possibility to change the delivery quantities even within one day depending on buyer's needs, gas delivery to the agreed point, storage, and so on. Spot trade does not provide for all that. Here, a certain volume is purchased on hub and then the buyer has to find himself how it would be transported, or stored if not consumed instantly, etc. If someone wants from us both a long-term contract (that is, security of supplies), and flexibility, and the spot price level, and – in some cases – no take-or-pay obligations – what should such a contract benefit to us supplier? How does it provide for balance of interests, or risk sharing that is incorporated in the current contracts?

Under such conditions we would prefer to sell gas on spot only when the price is favourable enough for us, and not to take any additional costs, or risk fines for not providing the flexibility demanded by the buyer. Or, this would force us to fully delete every flexibility from the contracts, imposing a 100 percent take-or-pay obligation. Especially when some other suppliers already removed any flexibility from their contracts, what in fact means that it is the Russian gas contracts that provide the flexibility of the whole European wholesale market.

Gas pricing formula is also a point of disagreement between Russia and China. With regards to China's wide imports options, isn't it time to make some concessions?

The problem is that Chinese party wants to buy Russian gas at prices that are bound to the internal prices in the country. These however are set by government and artificially kept down and in no way related to the market level. These regulated prices are part of artificial inflation restraining measures. But why should we subsidize the second biggest global economy through undervalued prices for our gas? What we aim is to sell gas to China at market prices. And the development of Chinese gas market makes us optimistic about the possibility to reach the agreement that would satisfy both parties.

What would you like to say about the anti-trust investigation launched in September against Gazprom?

This investigation aiming at our long-term contracts is in fact a political-moved operation through which the European Commission seeks to reach the decrease in gas prices for several countries of Eastern Europe. Long-term contracts with oil-pegged pricing are a standard practice in gas industry throughout the world, for pipeline gas as well as LNG. The pricing formula is individual in every contract, because the composition of alternative fuels and their prices are unique for every country. Therefore, if the gas prices resulting from different formulas vary between the EU countries at some moment, it gives no reason to accuse Gazprom of being "monopolistic". The pricing formula is agreed in advance, and itself it is a result of agreement of both contract parties. The European Commission says it has nothing against oil peg as such but against the price differences – this means then it has no clear view of the specifics of pricing based on the substitution price of an alternative fuels, in contrast to traditional demand-and-supply mechanism.

While Russian gas is being "ill-treated" by the European Commission, very little is said about Algerian gas. Is there a real difference in treatment? If so, why? Generally speaking, how do you explain the increasing energy relation tensions between the EU-Russia?

In Italy or Spain, where the bulk of Algerian gas goes to, the Algerian suppliers are not "patted on the back". But you are right noticing that Brussels speaks more often about Russian gas. It might be logical to explain that the reasons behind that are rather political than economical. But we, as a commercial company not dealing in politics, we would prefer not to comment on political issues.

Announcements & Reports

► *Electricity in a Climate-Constrained World*

Source : International Energy Agency
Weblink : http://www.iea.org/W/bookshop/add.aspx?id=445

Upcoming Events

Supported by PETFORM

► *Tight and Shale Gas Summit 2013* ***(in Turkey)***

Date : 27 – 28 February 2013
Place : Istanbul – Turkey
Website : http://www.wplgroup.com/aci/conferences/eu-eug2.asp

► *6th Annual Unconventional Gas Conference*

Date : 6 – 7 March 2013
Place : London – UK
Website : http://www.smi-online.co.uk/energy/uk/unconventional-gas

► *6th International Petroleum Technology Conference*

Date : 26 – 28 March 2013
Place : Beijing – China
Website : http://www.iptcnet.org/2013/

► *LNG17 – International Conference and Exhibition on Liquefied Natural Gas*

Date : 16 – 19 April 2013
Place : Houston – USA
Website : http://conferencehound.com/conference/lng17-international-conference-and-exhibition-on-liquefied-natural-gas/53874

► *Offshore Technology Conference*

Date : 6 – 9 May 2013
Place : Texas – USA
Website : http://www.gshtx.org/en/cev/908

► *12th Moscow International Oil & Gas Exhibition*

Date : 25 – 28 June 2013
Place : Moscow – Russia
Website : http://mioge.com/about/upstream.aspx

► *Oil and Gas Conference and Exhibition 2013*

Date : 3 – 6 September 2013
Place : Aberdeen – UK
Website : http://www.offshore-europe.co.uk/page.cfm/Link=1/t=m/goSection=1

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► *All Energy Turkey* ***(in Turkey)***

Date : 11 – 12 September 2013
Place : Istanbul – Turkey
Website : http://www.all-energy-turkey.com/?lang=tr

► *Texas Oilfield Expo*

Date : 6 – 7 March 2013
Place : Texas – USA
Website : http://www.gshtx.org/en/cev/906

► *21st Kazakhstan International Oil & Gas Exhibition and Conference*

Date : 1 – 4 October 2013
Place : Almaty – Kazakhstan
Website : http://www.kioge.com/2013/upstream2013.html

► *Deep Offshore Technology International Conference & Exhibition*

Date : 22 – 24 October 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/deep-offshore-technology.html

► *World Shale Gas Conference & Exhibition*

Date : 4 – 7 November 2013
Place : Texas – USA
Website : http://www.biztradeshows.com/trade-events/world-shalegas-exhibition.html