Oil & Gas Bulletin
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Problems with BTC pipeline cost Turkey $208 mln

Today's Zaman (Ismail Altunsoy), *15.04.2010*

Turkey has lost nearly $208 million in the past three years due to problems it has faced in the operation of the Baku-Tbilisi-Ceyhan pipeline (BTC), carrying Caspian Sea crude oil to European markets, officials from the Energy Ministry told.

Once hailed as 'the project of the 21st century,' the BTC now seems to have lost its charm as the pipeline has been costing Turkey millions of dollars in losses for the past three years. Relations between BOTAS International Ltd. (BIL), an affiliate of BOTAS that operates the Turkish section of the BTC, and the BTC Co., the major firm responsible for the operation of the entire route, have been at odds for some time.

According to claims that have recently surfaced, BIL complains that the BTC Co. failed to meet the criteria stipulated in their contract and that this has led to the loss of around $300 million for BIL over the past three years. BIL signed a contract with the BTC Co. to operate the Turkish part of pipeline in 2006. BIL had a condition in the deal that the BTC must drill oil at full capacity, to which the BTC Co. agreed. However, an unexpected alteration to the contract –a switch to natural gas from oil in drilling operations– cost BIL millions of dollars in losses.

In 2007, BIL decided to use natural gas in compressor and drilling stations since it is relatively cheaper; however, a swift rise in gas prices starting from that year led to large losses for the company. The company is now demanding that the BTC Co. compensate BIL for their loss.

BIL recently applied to the Prime Ministry's arbitration committee to solve the problem. The company said they would not be able to profit from the project until the year 2012 unless the current issue is solved. Turkey faces another problem in the project: According to the contract, if the pipeline operates at full capacity, Turkey would receive $170 million for transit services per year. However, the pipeline was operating at 57 percent capacity in 2007, 67 percent in 2008 and 79 percent in 2009, incurring a loss to Turkey of $165 million in transportation revenue alone. BIL paid $32 million for oil compared to $10 million in 2009. The use of natural gas has cost BIL $70 million in three-and-a-half years. With these amounts combined, BIL's loss is anticipated to exceed $300 million by the end of 2010.

The BTC is a crude oil pipeline that covers 1,768 kilometers (1,099 miles) connecting Baku, the capital of Azerbaijan, Tbilisi, the capital of Georgia and Ceyhan, a port on the southeastern Mediterranean coast of Turkey. The BTC is the second longest oil pipeline in the world after the Druzhba pipeline. The first oil that was pumped from the Baku end of the pipeline on May 10, 2005 reached Ceyhan on May 28, 2006.

Uysal: Shale gas offers new hope for Turkish energy

Hürriyet Daily News, *12.04.2010*

A new method of obtaining oil and natural gas through shale has increased hopes of a significant rise in global natural gas and oil fossil fuel reserves. The Turkish Petroleum Corporation (TPAO) has entered the picture with a possible collaboration with a US company for the drilling of shale. TPAO has reached an agreement with a large energy firm based in the United States to drill shale, a fine-grained sedimentary rock composed of rich organic materials.

Without revealing the name of the company, TPAO Managing Director Mehmet Uysal recently said the deal would be signed at a ceremony following the approval of the board.

The new method, which is applied in the U.S. and enables reaching previously-unattainable natural gas and oil resources, has been adopted by other places in the world as well. Referred to as the largest energy innovation of the last 10 years by some experts, the method increases hopes of a significant rise in global natural gas and oil fossil fuel reserves while providing reduced natural gas prices. The world's leading energy companies are researching ways to find new shale fields, particularly in Asia, Europe and North Africa. At the same time, some energy analysts expect shale to reduce Europe's dependency on Russian natural gas. Thanks to the U.S. innovation, analysts predict oil and natural gas reserves in several countries may increase significantly within the coming 20 years and expect the global market landscape to be vastly altered within the next five years.

Discussing the resource, Uysal said shale is the main rock associated with oil production. When oil is contained within a rock, only 10 percent is released to seep underground. The new technology the U.S. has developed can penetrate the rock and extract oil, he said. "The rocks are fractured with sand under high pressure. Once the rock is fractured, gas or oil in that main rock flows through the fracture zones. This production has a significant potential. The U.S. has attained its 100-year natural gas demand through this method and produces more than Russia with it."

Within Europe, Poland, Austria, the Netherlands and Turkey reportedly have a significant potential in terms of shale output, Uysal said. Noting that there is little need for shale exploration because TPAO already knows the main locations of the rocks in Turkey, Uysal said what is important is to reach natural gas or oil by drilling into the rocks. Regarding the deal with the U.S. Company, drillings will begin immediately, Uysal said. "In conventional oil exploration, it is necessary to find where oil gathers. However, in this method, you enter directly into the main rock and get the oil and natural gas through a long drilling process. This removes all handicaps in the conventional method."

Shale gas drilling is easier but more expensive compared to conventional oil and natural gas exploration, the TPAO manager said. However, considering current oil and gas prices as well as energy imports, these investments are still profitable, according to Uysal. “Therefore, the TPAO is interested in this issue in a serious manner.” The global reserve for shale gas is not accurate as sufficient drillings have not yet been conducted. However, the U.S. expects to meet natural gas consumption for 221 years with the current usage rate, although an optimistic outlook puts this figure at 690 years. The preliminary forecast for European shale gas resources is 11.5 trillion cubic meters.

TransAtlantic targets tight gas in Turkey

Rigzone, *12.04.2010*

TransAtlantic Petroleum has entered into an agreement with TPAO. In the initial phase of the agreement, the company will participate in two licenses, one in the Thrace Basin and one in Southeastern Turkey, and will re-enter a total of 4 wells and drill a total of 4 wells over the next year. These wells will target tight sand and shale formations that do not produce under normal conditions.

Malone Mitchell, the company’s Chairman, said, “TPAO has taken the lead in introducing new technologies in Turkey to access these unconventional resources.”

“We are privileged and humbled to have this opportunity to be a junior partner with such a talented and resourceful company. We hope this initial exploration phase will be a good beginning to a long lasting relationship.” The company is mobilizing frac and other equipment into Turkey to enable it to explore for unconventional resources. Mr.Mitchell and his staff will bring their experience in exploiting unconventional resources in North America.

“There is the potential for unconventional resources to contribute greatly to Turkey’s energy needs. But it bears noting that the success in the development of unconventional resources will, I believe, improve over time as techniques are refined and knowledge of these particular reservoirs increases,” he said.

Turkey looks to diversify gas supply with five-year energy plan

Hürriyet Daily News, *15.04.2010*

Diversifying the country's natural resource supply and pursuing alternative energies top the list of the Turkish Energy Ministry's five-year strategic plan, which was introduced Thursday to the media.

In its new plan for 2010-2014, which was originally unveiled in March, energy import-dependent Turkey plans to increase power generation by using domestic resources, diversifying natural gas suppliers, increasing the amount of oil pumped to Turkey's oil hub Ceyhan and beginning construction of nuclear power plant by the year 2014.

At the end of 2009, Turkey had oil reserves which could meet consumption for a year and natural gas reserves enough for two months, the ministry report said. Turkey's producible oil reserves are estimated at around 39.4 million tons and natural gas reserves are 6.1 bcm. Turkey's annual oil consumption is around 31.1 million tons while natural gas consumption is nearly 36 bcm. Turkey imports natural gas from five countries, with two-thirds of the supply coming from Russia. The Turkish government, however, wants to reduce its dependence on Russia and plans to cut the Russian stake in Turkey's gas imports to below 50 percent in a move to diversify supply.

Turkey also plans to raise its oil and gas production by launching projects to explore oil and natural gas in the Black Sea and the Mediterranean. According to the strategic energy plan, Turkey plans to extend the duration of a crude oil pipeline deal with Iraq, finalize negotiations on the Nabucco pipeline project deal this year, commence construction on the pipeline in 2011 and launch a project to connect the natural gas networks of Turkey and Syria by 2011.

The government also aims to make Ceyhan, a port in the southern province of Adana, a wholly-integrated oil hub by the year 2015, when the amount of oil pumped to the port is expected to reach 500 million barrels a year. On electricity, the Turkish government plans to complete the construction of several coal-fired thermal power plants and hydropower plants throughout the country by 2013, with the planned power plants presenting a total capacity of 8,500 megawatts.

The last priority remains the construction of the country's first nuclear power plant by 2014, which would aid in increasing the ratio of renewable energy resources to 30 percent in total energy generation by 2023. According to the government's plans on energy-efficiency, Turkey will save 10 percent in energy by 2015 and 20 percent by 2023 over existing levels.

Energy Charter appoints Ambassador Kuneralp as the new conference chairman

Energy Charter, *07.04.2010*

On 7 April 2010, Ambassador Selim Kuneralp was appointed Chairman of the Energy Charter Conference. The new Chairman is currently Ambassador, Permanent Delegate, of the Turkish Permanent Delegation to the European Union and has enjoyed a distinguished career with the Turkish Foreign Ministry.

Previously he worked as an official at the GATT, served as the Turkish ambassador in Sweden and South Korea, as the Director General of the Directorate for Policy Planning of the Turkish MFA and most recently as Deputy Under-Secretary for Economic Affairs.

Ambassador Kuneralp takes up his new post at a crucial time for the Energy Charter. Following the 20th Meeting of the Energy Charter Conference in Rome in December 2009, member states have launched a process of modernisation of the Energy Charter in response to the fast changing realities of regional and global energy markets. A crucial element of the modernisation process is the establishment on 22 March 2010 by the Energy Charter Conference of a Strategy Group with a mandate to promote modernisation.

EU energy chief touts ‘Southern Corridor’ from Caspian region

Oil & Gas Journal (Eric Watkins), *15.04.2010*

“Major European companies are interested in establishing full and mutually beneficial partnership with Turkmenistan,” Gunther Oettinger, European Union’s Energy Commissioner, said in Ashgabat while Turkmen President Gurbanguly Berdymukhammedov said his country is prepared to consider ‘any proposal’ to expand his country’s export routes.

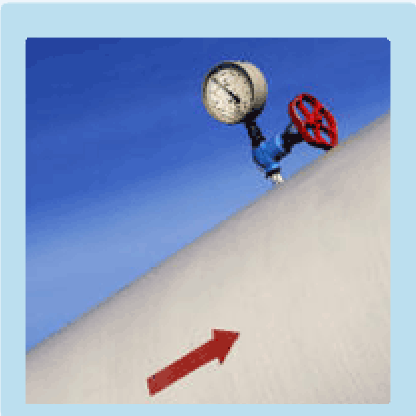
Oettinger’s remarks in Turkmenistan echoed earlier ones in Azerbaijan, where he met with Azeri President Ilham Aliyev and representatives from the State Oil Co. of the Azerbaijan Republic (SOCAR).

In Azerbaijan, Oettinger stressed the importance of creating the transport corridor between the Caspian region and the EU, saying, “Progress on the Southern Corridor will be high on the agenda.” As part of his mission to the region, Oettinger said the EU also would attempt to improve relations between Azerbaijan and Turkmenistan. That’s hardly surprising as good relations between the two countries are vital to EU energy plans: the passage of Turkmen gas to Europe will depend on the Trans-Caspian pipeline which is to link Turkmenistan with Azerbaijan.

Meanwhile, visiting the Turkmenistan Gas Congress, as well as holding meetings with Berdymukhammedov, Oettinger said the EU had agreed to set up working groups with the Central Asian state “to develop the legal foundations for the Nabucco agreement.” Last month, the Nabucco consortium outlined its plans concerning the line.

Gazprom cuts Turkmen gas order

Upstream Online, *16.04.2010*



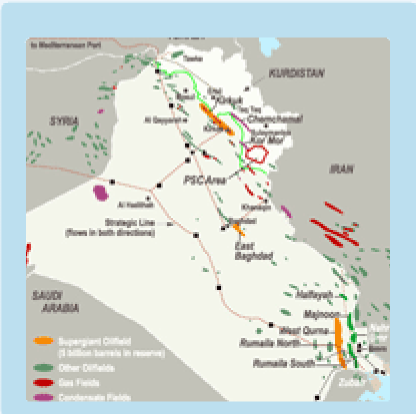
Russian gas giant Gazprom looks set to import only 10.5 billion cubic metres of Turkmen gas this year –a third of the agreed maximum volumes– as poor demand and other fuels’ usage eat into consumption.

“As we know, Turkmenistan and Russia signed an agreement. The shipping volumes will total 10.5 bcm this year of Turkmen gas,” Reuters quoted an official from Kazakh state pipeline Kaztransgas telling reporters. Gazprom had earlier projected a further gas output increase in three years to produce 565.5 bcm of gas in 2013 compared with a projected 529 bcm this year and 461 bcm in crisis-hit 2009.

Gazprom bought 50 bcm of Turkmen gas annually before a pricing row between Russia and Turkmenistan halted deliveries for almost nine months in 2009. Russia and Turkmenistan agreed to resume Turkmen gas imports late last year. Serik Yestai, head of Intergas Central Asia, a subsidiary of Kaztransgas, also said Turkmen and Uzbek gas imports to Russia through Kazakhstan will total around 25 bcm. He did not disclose pricing terms.

Iraq plans new licensing auction for 3 gas fields

Rigzone (Dow Jones), *07.04.2010*



The Iraqi Oil Ministry is planning to hold this year a third licensing auction to develop three discovered gas fields Akkas, Mansouriya and Siba, Abdul Mahdy al-Ameedi, director-general of the Ministry's Petroleum Contracts and Licensing Directorate, said Wednesday.

Ameedi told that out of the 44 international companies pre-qualified for last year's first and second bidding rounds, only 15 will be invited to submit bids for the gas fields. He didn't name them, but described them as 'the large integrated firms which can develop both oil and gas fields and those specialized in developing gas fields.'

He said he expected the licensing auction for these three fields to take place by the end of this year. The Oil Ministry is offering a 20-year long technical service contracts similar to those awarded during the first and second bidding rounds. Iraq awarded 10 oil deals to international companies during the first and second bid rounds last year with the aim of boosting its crude oil production to 12 million barrels a day in six to seven years. Iraq is currently producing 2.4 million barrels a day.

Among the companies which won oil deals are Royal Dutch Shell, BP, ExxonMobil, Eni SpA, Lukoil, Total, Japan Petroleum Exploration Co., China National Petroleum Corp. and Petronas. Both Akkas and Mansouriya fields were included in the first bid round last June. A consortium led by Italy's Edison SpA, which was the sole bidder for the 4 trillion-cubic-feet untapped Akkas field in the western Anbar province, was rejected because it sought $38 for each extra barrel of oil equivalent produced while the ministry offered a maximum fee of $8.50 a barrel.

None of the 33 participating companies submitted a bid for the untapped 3.3 trillion-cubic-feet Mansouriya gas field located in the restive Diyala governorate in eastern Iraq. Siba gas field, with estimated proven reserves of more than 3 billion cubic meters in Basra governorate near the border with Iran, was dropped from the list of oil and gas fields listed in the second bid round which took place last December.

Ameedi said it was decided to offer these gas fields for development because Iraq desperately needs gas to feed its power generators which are providing less than half of the country's need. The announcement of the new bid round came only a few days after a senior Iraqi oil official said that a Shell gas development project was in trouble. Shell failed last month to sign a 25-year deal with Baghdad to produce gas from southern oil fields which is currently being flared. Both Iraq and Shell agreed to extend negotiations for another six months. Iraq, which has proven natural-gas reserves of 3.15 trillion cubic meters, has a daily natural-gas production of 1.64 billion cubic feet, 70% of which is flared.

Iraq's gas exports may reach 25 bcm

Hürriyet Daily News (Bloomberg), *15.04.2010*

Iraq, holder of the world's third-largest oil reserves, may produce enough natural gas to export as much as 25 billion cubic meters in 2016.

Much of the fuel will be produced at oil deposits that the government auctioned off last year, Deputy Oil Minister Ahmed al-Shamma told reporters on Wednesday in Ashgabat, Turkmenistan. Iraq, dependent on oil revenue for most of its income, is seeking to boost output and rebuild infrastructure after six years of conflict and prior economic sanctions. It awarded service contracts to develop 10 oil projects auctioned last year.

The country has been named as a source for the Nabucco gas pipe that's meant to reduce Europe's dependence on Russian fuel. Iraq is mostly considering associated gas produced along with oil for export from fields near Akkas, close to the border with Syria, Shamma said. Iraq isn't planning to export gas from the northern region, he said. "Iraqi gas exports eventually will go to Europe," he said. "It will go to Turkey. From there, where it is connected is something to decide. Turkey is our natural route."

Exporting gas would require the expansion of an existing pipeline with a capacity of 8 bcm a year and the construction of new ones, Shamma said. Iraq has provisions to reimburse companies already working in the area to encourage them to expand pipelines, he said. Iraq's prime minister pledged last year that the country will be able to export 10 bcm of gas a year to Europe, he added.

Qatar opens door to Gazprom

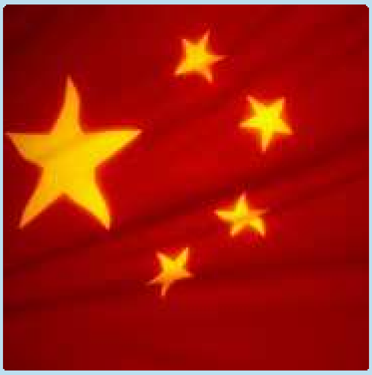
Upstream Online, *15.04.2010*

Russian gas giant Gazprom said today Qatar has invited it to take part in liquefied natural gas projects after 2014.

Qatar, the world's largest exporter of LNG, has in turn expressed interest in developing gas fields on Yamal, a Russian peninsula jutting into the Arctic Ocean with enough gas in the ground to satisfy world demand for five years, a Reuters report said.

China ups gas prices as economy grows

Today's Zaman, *15.04.2010*



China raised gasoline and diesel prices Wednesday for the first time in five months in a move reflecting Beijing's confidence it can control inflation and keep growth strong.

The price hikes of 4 percent to 4.5 percent were in line with expectations following recent gains in global crude prices. Oil rose above $84 a barrel Wednesday in Asia, breaking a five-day slide, as rising global stock markets raised optimism over the global economic outlook. The government releases data Thursday that are expected to show the economy grew at a nearly 12 percent annual pace in the first quarter.

The government has kept stimulus in place while trying to curb lending and discourage excess investment it worries could undermine growth in the long term. Beijing has been gradually raising government-set fuel prices to bring them into line with global levels and help state-owned refiners that suffered massive losses due to soaring crude costs. "The price rise is to ensure fuel supplies to meet the peak consumption as spring planting season approaches and industrial activities accelerate," the National Development and Reform Commission said on its website.

Announcements & Reports

► *Energy Policies of IEA Countries – Canada*

Source : International Energy Agency
Weblink : http://www.iea.org/w/bookshop/add.aspx?id=395

► *OPEC Bulletin (April 2010)*

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