

EurOil

EUROPE OIL & GAS MONITOR

21 June 2011

Week 24

Issue 107

❖ News
❖ Analysis
❖ Intelligence

Published by

❖ NewsBase

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Sourcing Nabucco

With the EU calling for gas suppliers to be allowed to join the Nabucco project, the consortium is urging the partners to allow gas suppliers to sign up to the venture.

- **With insufficient gas to fill the line, it has little choice but to target potential partners.** *(Page 2)*
- **Azerbaijan may supply gas from new fields, but it is not yet clear whether SOCAR will join Nabucco, while if the pipeline group can realise its hope of securing Turkmenistani gas, it may not need Iraqi volumes.** *(Page 2)*
- **The consortium is giving consideration to expanding beyond its current six members to include new partners that can provide added value.** *(Page 7)*

Mediterranean make up

After last week's resolution to the longstanding and damaging dispute over backdated gas payments, GNF and Sonatrach are looking at future co-operation.

- **The new deal means GNF will pay Sonatrach around US\$1.4 billion less than was previously thought, while Sonatrach will buy a 3.85% stake in GNF for around US\$740 million.** *(Page 4)*

For analysis and commentary on these and other stories, plus the latest oil and gas developments, see inside...

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Edited by Ian Simm

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COMMENTARY

Upstream winds

With the EU calling for gas suppliers to be allowed to join the Nabucco project, the consortium is urging the partners to allow gas suppliers to sign up to the venture

By *Tim Ferguson*

- With insufficient gas to fill the line, it has little choice but to target potential partners
- Azerbaijan may supply gas from new fields, but it is not yet clear whether SOCAR will join Nabucco
- If the pipeline group can realise its hope of securing Turkmenistani gas, it may not need Iraqi volumes

Note: This is the final instalment in a two-part commentary on the signing of the Nabucco project support agreement.

The signing by the five transit states in the Nabucco gas pipeline project of the Project Support Agreement (PSA) in the Turkish city of Kayseri two weeks ago was greeted favourably by parties further afield than the prospective markets the line will supply.

Support from the European Union was voiced by both EU Energy Commissioner Guenther Oettinger, who confirmed that Brussels supported Nabucco over rival projects, and by Richard Morningstar, the US special envoy for Eurasian Energy, that the US views the project as critical to the stability of Turkey and the Caucasus region and to Europe itself.

However, both also voiced concern at the current structure of the scheme and strongly urged the Nabucco consortium, which currently consists of only representatives from transit and target market countries – to open the project to other shareholders. They argued that both companies and countries to which the group expects to supply the gas should be invited to join.

Oettinger went further, confirming that the European Commission wanted the line to be extended all the way to the potential gas

suppliers rather than originating in Eastern Turkey, as initially envisaged.

That remark appears to have been in response to the suggestion raised earlier this year by the Nabucco consortium that it was considering extending its 31 billion cubic metre per year pipeline eastward from Erzurum in eastern Turkey through Georgia and Azerbaijan to Baku.

Turkish delight

Although this plan has been provisionally welcomed by Azerbaijan, no one knows yet whether or the State Oil Company of Azerbaijan (SOCAR) is seriously interested in joining the consortium. It is even less clear whether the gas from the Shah Deniz Stage 2 (SD2) field will be allocated to the Nabucco project in

preference to two rival projects.

The consortium operating SD2 – which includes SOCAR, as well as field operator BP and Statoil, Total, Eni, LUKoil and Turkey's TPAO – is expected to decide by the end of the year how it will allow the 10 bcm per year of SD2 gas it will have available for export to Europe. The group is considering Nabucco along with two rival projects, Trans Adriatic Pipeline (TAP) and Interconnector Turkey-Greece-Italy (ITGI), both of which aim to pump SD2 gas through Turkey's existing transit infrastructure to Greece, and then on to Italy.

Nabucco was dealt a surprise bonus at the PSA signing when Fazil Senol, the head of the Turkish pipeline operator Botas, warned that spare capacity in his company's network was extremely limited. What little spare capacity still exists could easily be used up, he said, if all the gas-fired thermal power plants (TPPs) currently under development in Turkey were built.

If this situation were realised, it would leave Nabucco as the only alternative to Russia as an export route for Azerbaijani gas to Europe. ▶▶



COMMENTARY

Banking on the Euphrates

But even if the Shah Deniz consortium decides in favour of Nabucco, the pipeline group will still be in need of a further 21 bcm per year of gas.

While the final source of that gas is still undecided, delegates at the PSA signing were clear on two points – namely, that they did not consider there to be any problem in sourcing sufficient gas and that the line in its expected format would only require two suppliers.

The list of possible suppliers includes three main candidates – Azerbaijan, Turkmenistan and Iraq – with both Kazakhstan and Uzbekistan mentioned as outsiders.

Azerbaijan is expected to have anything up to 15 bcm per year available in addition to SD2 gas.

The extra volumes could come into play over the next decade as four other fields come online.

These include the BP-operated Azeri-Chirag-Guneshli (ACG) block, which is believed to hold large volumes of gas at levels lower than those that are currently producing oil; the Absheron field, currently being test-drilled by Total; the Umid field, which is being drilled by SOCAR itself, and the Nakhchivan field, for which Nabucco consortium member RWE is currently in negotiations to become operator.

Adding more Azerbaijani gas to the pipeline would bolster the case for extending the Nabucco link to Baku, especially as the existing South Caucasus Pipeline (SCP) cannot carry enough gas to fill Nabucco to capacity. SCP was built to carry gas from Shah Deniz Stage 1 (SD1) to Turkey and has a maximum capacity of 20 bcm per year.

The prophecy

However, it would also risk undermining one of the main aims of the Nabucco project, which is to secure gas from a variety of suppliers.

Over-reliance on Azerbaijan could be avoided if the line were also to carry gas from Turkmenistan.

Nabucco delegates at the PSA signing were adamant that the consortium itself would not be responsible for building a pipeline across the Caspian from Turkmenistan to Azerbaijan.

However, they were also bullish about the prospects for construction of such a line and for making gas from Turkmenistan available to Nabucco.

Sufficient gas reserves exist in the Central Asian state, they said, and the only obstacle standing in the way of a trans-Caspian gas line being built is an inter-governmental agreement between Baku and Ashgabat allowing the transit of Turkmenistani gas through Azerbaijani territory.

More specifically, officials confirmed that they believed that Turkmenistan could supply gas as early as the planned Nabucco start-up in 2017.

Because of the fall in demand in Europe after the 2008 financial crisis, they pointed out, Turkmenistani gas exports to Russia had fallen from 40 bcm per year to 10 bcm per year.

They also noted that increasing production from existing fields and from new discoveries such as the South Yolotan-Osman field, which has reserves that may be as high as 21 trillion cubic metres, would make additional volumes available.

If indeed only two suppliers are required for Nabucco to be viable and if

those two suppliers are Azerbaijan and Turkmenistan, Iraq could by definition be left out of the equation, at least until Nabucco is expanded.

This would consequently reduce the cost of Nabucco, as it would no longer be necessary to construct a feeder line to the Turkey-Iraq border.

Iraqi option

It would also rule out the pipeline using any gas from concessions held in northern Iraq by Nabucco partner OMV.

The Austrian company's CEO, Gerhard Roiss, stated at the PSA signing that OMV was in the process of building an upstream portfolio with the aim of supplying Nabucco.

However, he declined to name specific countries or fields it planned to bring onstream.

OMV is known to be operating three gas fields in the Kurdish-controlled region of northern Iraq. It also holds a stake in two more gas fields, but again it is unclear when they will come online, what rate of production may be expected or when gas might be available for export, given Iraq's own pressing domestic needs.

Any supply of gas for Nabucco would also require an agreement between Turkey, Iraq and the Kurdistan Regional Government (KRG). This prospect currently appears a long way off.

In any event, some clarification of OMV's Nabucco upstream plans can be expected in September.

At that time, the company is intending to hold a major press conference in Istanbul, a venue clearly chosen with its strategic location in mind. ■



COMMENTARY

GNF, Sonatrach reach deal, move on

After last week's resolution to the longstanding and damaging dispute over backdated gas payments, GNF and Sonatrach are looking at future co-operation

By *Howell Llewellyn*

- The new deal means GNF will pay Sonatrach around US\$1.4 billion less than was previously thought
- The Algerian firm has also offered GNF a chance to pick up a 10% in the Medgaz pipeline

Radical changes are afoot in the natural gas sector that will affect Spain and its chief supplier, Algeria. After a lengthy dispute that involved arbitration tribunal rulings in two European countries and a potentially disastrous result for Spain's Gas Natural Fenosa (GNF), the latter and Algeria's state energy monopoly Sonatrach have reached a peace deal.

Apart from resolving a multi-million dollar natural gas price dispute, the deal will see Sonatrach become GNF's third biggest shareholder with a 3.85% stake, agreed by the Spanish firm's board on June 17. The stake will cost Sonatrach slightly more than 515 million euros (US\$740 million).

Dispute

The GNF-Sonatrach dispute dates back to 2007, when the Algerian company announced hefty gas price increases. GNF disputed the rise, and eventually the Paris arbitration tribunal last August found in Sonatrach's favour. GNF was ordered to pay Sonatrach nearly 2 billion euros (US\$2.9 billion) in back payments.

The tribunal also allowed Sonatrach to order new price increases, and it furthered outraged GNF by announcing immediate 30% rises for the three-year period 2010-2013. These are now invalid following the Algiers accord.

The original Paris ruling would have obliged GNF to pay Sonatrach the equivalent of one year's profits, and would have badly dented GNF's 2010-2014 strategic plan. GNF's 2010 net profit was limited to 1.2 billion euros (US\$1.7 billion), because the company

last year set aside an undisclosed amount of cash to pay the Sonatrach debt agreed under the Paris ruling. But the new deal means GNF will pay Sonatrach nearly 1 billion euros (US\$1.4 billion) less.

GNF appealed against the ruling to the Swiss arbitration tribunal in Geneva, which agreed to impose cautionary measures. The new agreement between the companies, reached outside the tribunals, followed a change in leadership in Sonatrach, which improved relations between the companies. Sonatrach's former leadership was dissolved following corruption charges.

Resolution

GNF shares rose 3.45% on the first day after the deal was agreed. The company's two biggest shareholders are savings bank La Caixa, with 37.5%, and oil group Repsol, with 30.8%.

Sonatrach and GNF signed the peace deal in Algiers late on June 14. The CNMV securities commission in Madrid reported that the deal saw GNF agree to pay Sonatrach US\$1.879 billion, covering backdated gas payments for a four-and-a-half-year period from January 1, 2007, to May 31, 2011.

This is down from the US\$2.85 billion Sonatrach had originally demanded for gas rises covering the three-year period 2007-2009.

GNF said the payment

would "have no impact on our accounts." The firm's president, Salvador Gabarró, described the accord as "positive," as it would guarantee stability in the relationship with an historic client, as well as GNF's most important supplier with more than 30% of its total gas imports. "With dialogue, respect and patience, we have resolved in a favourable way for both sides an important conflict, and for that we are both satisfied and pleased," said Gabarró.

Sonatrach president Nordine Cherouati said the accord did away with the gas contract dispute between the two companies, "and establishes a co-operation in new areas in a world economic context that favours this type of association."

While Sonatrach will now acquire the minor stake in GNF, the Spanish company may adopt participations in various Sonatrach projects, and the two firms may jointly undertake other business opportunities. ►►



COMMENTARY

Medgaz

Sonatrach has given GNF the chance to obtain a crucial stake of up to 10% in the recently inaugurated Medgaz underwater gas pipeline between Algeria and Almeria in south-east Spain, although a firm offer has not yet been made.

The Medgaz accord, which will not materialise until the end of 2011 at the earliest, will bring joy to the Spanish

government, which has long argued that Medgaz should have a direct Spanish natural gas partner.

The Spanish partners are oil and gas group Cepsa (20%) and utilities Iberdrola (20%) and Endesa (12%). Sonatrach is the main shareholder with a stake of 36%, while GDF Suez holds 12%.

All the partners must agree on GNF's entry into the Medgaz project, and

sources have said that this will take time, possibly not being completed until early 2012.

GNF has always seen Medgaz as a threat, because it competes directly with the Spanish firm's own project, the Maghreb gasline that links Algeria and Spain via Morocco, under the Strait of Gibraltar. ■

MARKET COMMENTARY

Prices fall as supply rises

Oil prices fell this week owing to more reasoned market sentiment; oil supply meanwhile, increased

By David Flanagan

Oil prices plunged in Week 25, driven lower by a combination of factors. A more measured interpretation of the Organisation of Petroleum Exporting Countries' (OPEC) decision in Week 24 not to raise output cancelled out all of the gains made in the market that week.

Further developments in the upstream side of the market have also raised confidence regarding long-term supply security. On top of these influences, speculators have no doubt been closing long positions in the crude market (i.e. selling), in order to take some profit, and this also added to the bearish feel of the market.

Reaction

It was perhaps inevitable that oil prices would react more soberly to OPEC's decision once the dust from Week 24's stormy meeting had settled.

The main issue is that Saudi Arabia, the key player in OPEC when considering the cartel's ability to alter output, had already increased output anyway. This context rendered Week 24's market reaction somewhat meaningless, and prices adjusted accordingly.

Indeed, Saudi Arabia has indicated that

it will step up output further still in the near future, towards the 10 million barrel per day level. To complete the picture, the oil-rich kingdom has signalled an early start to production at its Manifa offshore oilfield, now pencilled-in to begin production in 2014, a full 10 years ahead of schedule.

Iran, too, indicated the projected start-up of two new fields in 2012, all of which adds to a higher degree of confidence in production capacity following ExxonMobil's upbeat projections of US Gulf deepwater prospects last week.

So, after the near-hysteria of Week 24, the market has seen a correction to a level around 6% lower over the week, owing mainly to a more sober reflection on supply dynamics.

Fundamentals

On the demand side of the oil market, weak conditions are also prevalent in many parts of the market, and this poses questions about the logic of any oil price rally.

UK and Eurozone demand levels look very fragile, and while stock levels in the US are now declining, this may simply reflect lower imports in June.

Chinese crude imports, oil consumption and industrial activity are all strong, and May data suggest a stable picture for now. However, Chinese demand is still vulnerable to the dampening effects of stringent monetary policy there.

South Korea can also now be added to the list of Asian states applying the brakes to combat inflationary pressures. Hence, there are few signs to suggest that a major rally in oil prices can be justified if it is based on demand indicators.

Technical factors in the relative prices of West Texas Intermediate (WTI), the US domestic crude grade, and Brent and Oman crude have also been pointing to a realignment of prices. The differential, or spread, between WTI on the one hand, and Brent and Oman on the other, has been too high for the market's liking, at almost US\$20 per barrel.

The Brent/WTI spread is now narrowing, and that is dragging Brent futures prices back down. Looking forward, we have seen that prices have been strongly impacted by fundamentals this week, rather than by events, as has been more characteristic of the oil market in recent months. ►►

MARKET COMMENTARY

The relationship between oil supply and oil demand has moved sharply away from perceptions of shortage and crisis management, and towards a calmer and more orderly atmosphere. Prices reacted very quickly to this mood, and while sellers included speculators, there has been a set of very realistic motives behind the downswing in prices this week.

On the markets

On the InterContinental Exchange (ICE), Brent crude oil futures for July delivery began the week at around US\$118.05 per barrel on June 13.

The August contract took over as the 'front month' contract thereafter, and a slide in prices followed over the course of the week. A sharp decline in the contract to the US\$114 level was followed by a dip to US\$113.20 on June 17. A further downturn in trading was seen on June 20, with the contract closing at the end of UK trade at US\$111.51. The decline on the week of between US\$7 and US\$8 per barrel is

around 6%, and almost precisely cancels out Week 24's gains. In natural gas markets, prices saw a very modest slip downwards, after their somewhat unseasonal buoyancy in May and June. In the UK's National Balancing Point (NBP) market, the contract for July delivery on ICE lost a few points. Starting the week around the GBP0.58 (US\$0.938) per therm level on June 13, the contract dropped to GBP0.579 (US\$0.937) per therm on June 17, and then saw a further modest slip to GBP0.5725 (US\$0.926) by the close of trade on June 20.

UK gas prices have remained unusually high for the summer, owing mainly to a perception of increased demand following Germany's shelving of nuclear power generation capacity. But worldwide expectations of a gas market revival because of this decision, and of expanded Japanese demand following the earthquake, are supporting prices in most gas markets.

UK prices have stayed high also owing to the steady flow of gas in recent weeks

from the UK to mainland Europe via the UK Interconnector pipeline. However, warmer temperatures, ample stocks and adequate liquefied natural gas (LNG) imports have now finally begun to weigh down on prices. Mainland Europe has seen prices drift lower as a consequence of the inflow of UK gas, and on Germany's European Energy Exchange (EEX), its EGIX gas index, they dropped from 23.19 euros (US\$33.22) per MWh at the start of Week 25 to 23.12 euros (US\$33.12) on June 20. The likelihood is that UK NBP prices will drift lower now, as stocks are high, and usage will decline slightly as power generators see reduced electricity demand.

For the first time in some weeks, fundamentals perhaps came to the fore in the oil market again in Week 25. This has displaced issues regarding Libya and Syria. If the trend continues, it may suggest that oil prices will moderate again in the short term, as both demand and supply conditions now point to a more bearish mood for prices among traders.

UK settlement prices – ICE Futures Europe, June 20, 2011

Product	Price at UK close (US\$)	Change* (US\$)
Brent crude August (barrel)	111.51	-1.70
Gasoil July (tonne)	924.50	-15.75

Source: ICE Futures Europe

(*Change on previous trading day's close)

Crude and products market projections for Week 26

Oil prices reacted sharply to Week 24's rapid gains, and more than reversed these. Behind the fall were a number of factors, but a refocus towards fundamentals was the flavour of the week, and this looks set to continue. But what it does mean is that weak demand indicators are readily available, while some generally encouraging supply signs have also appeared. The overall mood is now bearish, and the Brent contract looks likely to shed a few dollars again in Week 26.

Gasoil prices will most likely match any downswing in the crude market. Natural gas prices, too, have hinted at a weaker course over the next few weeks. Warmer temperatures and high stock levels are finally cancelling out the supportive effect of German de-nuclearisation. At the UK NBP, prices should drift a little lower as this atmosphere continues.

Price Projection for August Brent Crude futures for Week 26: US\$105.00-110.00

Price Projection for July Gasoil futures for Week 26: US\$875.00-US\$925.00

Price Projection for July NBP futures for Week 26: GBP0.53-0.57 (US\$0.86-0.92). ■

PIPELINES & TRANSPORT

Nabucco open to new "added-value" partners

The Nabucco Gas Pipeline (NGP) consortium is giving consideration to expanding beyond its current six members to include new partners that can provide added value, the group said in a presentation made in Kayseri, Turkey, on June 8.

According to a Reuters report dated June 16, a Nabucco source said the consortium was presently in talks with a number of companies, including BP, Royal Dutch/Shell, the State Oil Company of Azerbaijan (SOCAR), Statoil, GDF Suez and Total. The source told the agency that gas-producing companies would be preferred partners.

Expectations of higher costs for construction are thought to be the primary reason behind the idea of enlarging the consortium. The official cost estimate for the project is still 7.9 billion euros (US\$11.3 billion). Recently, though, independent analysts have suggested that the cost of the pipeline may come to 14 billion euros (US\$20 billion), while NGP itself says this figure is under review.

The cost could be higher than originally projected as a result of the decision to extend the length of the pipeline to 3,900 km, including two feeder pipelines – one leading from Iraq, which would carry gas from fields in Kurdistan, and the other from Georgia, which would carry Azerbaijani volumes. The Nabucco group is also mulling the

idea of extending the pipeline as far as the Sangachal processing facility near Baku. It also wants to lengthen the link slightly to make the gas transported through it more accessible to European markets. (Previously, it had planned to terminate the pipe at the Central European Gas Hub in Baumgarten an der March, Austria.)

BP, Statoil, Total and SOCAR are all members of a separate consortium that is developing Azerbaijan's offshore Shah Deniz gas field, the second stage of which is scheduled to come onstream in 2017. Shah Deniz Stage 2 (SD2) is expected to yield 16 billion cubic metres per year; Turkey will receive 6 bcm per year of this, leaving 10 bcm per year available for sale to other customers.

Nabucco and two rival projects – Interconnector Turkey-Greece-Italy (ITGI) and Trans Adriatic Pipeline (TAP) – are competing for contracts to transport that 10 bcm per year to Europe. The Shah Deniz consortium has set a deadline of October 1 for supply contract proposals from the three pipeline groups.

Earlier this month, SOCAR's vice president for marketing and investments, Elshad Nassirov, said that Azerbaijan's state-owned company might purchase shares in whatever company was awarded the SD2 gas contracts.

Nassirov was quoted in media reports as saying that his company would look to join the consortium in order to provide

financing and assist in operating the project, as well as to have a say in the decision-making process for transit tariffs. He added that SOCAR did not, however, want to subsidise the tariff by acquiring more capacity than it needed to export its gas.

Representatives of NGP were in Kayseri on June 8 to sign Project Support Agreements (PSAs) with the five transit countries that will host the Nabucco pipeline – Turkey, Bulgaria, Romania, Hungary and Austria.

A statement released by the consortium said the main elements of the PSAs "are the affirmation of an advantageous regulatory transit regime under EU and Turkish energy law; the protection of the Nabucco Pipeline from potential discriminatory changes in the law and support for legislative and administrative actions for the further implementation of the project."

It added: "The PSAs also mark a commitment by each government to support the project. Together with the Intergovernmental Agreement [signed in mid-2009], the PSAs are a necessary prerequisite for the successful financing of the project. They create the stable, long-term regulatory regime, which is required by the group of international lenders to secure the financing of one of the largest single gas transmission projects worldwide." ■

E.ON enters Croatian market with gas supply deal

E.ON Ruhrgas has agreed a deal to supply gas to Prvo Plinarsko Društvo (PPD), a leading independent gas supplier in Croatia.

Under the terms of the agreement,

E.ON's Hungarian subsidiary will supply gas to PPD via the new gas pipeline between Hungary and Croatia, which was completed in December 2010. PPD will be one of the first companies to use the

pipeline.

The German firm said that it expected the PPD deal to increase competition in the Croatian gas market. ►►

PIPELINES & TRANSPORT

The market is currently dominated by the former national oil and gas company INA, which is co-owned by Hungary's MOL and the Croatian state and buys its gas from Italy's Eni.

Harald Draub, E.ON Ruhrgas' sales director, said: "Our co-operation is contributing to competition. We are looking forward to playing a part in the opening of the gas market that has been announced by the relevant Croatian authorities. E.ON Ruhrgas commands a broad portfolio with natural gas links to several countries."

This is the first time that E.ON Ruhrgas has supplied Croatia with gas on a standard contract basis, after having supplied gas to the country on emergency terms during the Russia-Ukraine gas

dispute in January 2009.

Pavao Vujnovac, PPD's CEO, said: "The agreement is playing a role in diversification and improving supply security for Croatia. The partnership with E.ON and the transfer of knowledge and know-how are supporting and accelerating the opening of the Croatian market. With our offer of natural gas supplies, we are reaching all of the



regions in our country."

PPD operates a 600-km gas supply network in its home region of Vukovar, although it maintains a presence in the market in other Croatian regions. It is currently offering free connection for households in Vukovar.

The new gas pipeline, known as the Hungary-Croatia Gas Interconnection, is 210 km in length and runs between Varosfold in Hungary and the Croatian-Hungarian border, and is bi-directional so as to allow Hungary to import liquefied natural gas (LNG) via Croatia's Krk terminal. The pipeline's capacity for transit to Croatia is 7.5 billion cubic metres per year, with a capacity of 5.5 bcm for transit in the opposite direction. ■

INVESTMENT

Vallares rockets out of the blocks with IPO

Vallares has raised GBP1.35 billion (US\$2.18 billion) through an initial public offering (IPO) in London.

The company, which is backed by BP's former CEO, Tony Hayward, said on June 17 that it intended to acquire interests in oil and gas companies with an enterprise value of GBP3-8 billion (US\$4.8-12.9 billion) – although smaller or larger firms would also be considered.

Vallares said smaller companies had accrued valuable assets in recent years but had lacked the cash or the ability to develop these to their full potential – a niche the investment vehicle might fill.

Conditional dealing in the company's shares began on June 17 and this will become unconditional on June 22, Vallares' statement continued.

The founders intend to focus on areas that are emerging or under-developed – such as the FSU, the Middle East, Africa,

Asia or Latin America.

In addition to Hayward, Vallares also involves: banking scion Nathaniel Rothschild; Petrofac's former chairman, Rodney Chase; the former head of Goldman Sachs' UK investment banking, Julian Metherell, and a partner in Vallar, Tom Daniel. The founders have committed GBP100 million (US\$161.6 million) of capital to the company, 80% of which has gone on acquiring shares via the IPO.

Daniel and Rothschild worked together on Vallar, which Vallares has said offers a successful model. Vallar carried out an IPO in July 2010 and bought into a "world-class" coal business in Indonesia.

Chase, who is serving as Vallares' chairman, said investor response had been positive and that the company would be "able to pursue our acquisition strategy."

Hayward and Rothschild both noted the interest in the natural resources sector from investors.

Credit Suisse worked as the global co-ordinator and joint bookrunner, JP Morgan Cazenove was also joint bookrunner and Evolution Securities was the co-lead manager for the placing.

Hayward was forced out of BP following the disastrous April 2010 oil spill in the Gulf of Mexico. He continues to serve as non-executive director for BP's Russian venture, TNK-BP, and has a position at recently listed commodities trader Glencore.

While publicly seen as gaffe-prone, he remains respected within the energy industry and should prove an asset to inking deals in emerging areas – although his past may make an investment in the US unlikely. ■

INVESTMENT

UK investment heading to Norway, says Lloyds

The recent tax hike for operators in the UK Continental Shelf (UKCS) is leading firms to choose Norway instead, a major bank has said.

“In terms of new production that we’re looking at financing, it is moving toward Norway and away from the UK,” said Andrew Moorfield, global head of oil and gas at Lloyds Bank, at a conference on June 13.

According to Moorfield, Lloyds is the largest lender in the North Sea, holding a multi-billion dollar portfolio across the region. Over the past three months, the bank has noticed a steady climb in Norwegian activity, with UK investment declining by a corresponding amount since the new tax was introduced.

He said: “The biggest leading indicator is my pipeline of deals and the pipeline

has definitely moved. There will be more activity in the Norwegian North Sea and that is going to be at the expense of the Scottish North Sea.”

Moorfield added: “Norway offers that wonderful thing that oil companies look for, which is fiscal stability.”

There have already been a number of high-profile withdrawals from the UKCS owing to the tax increase – a 12% rise in the supplementary oil and gas levy from 20% to 32% – which saw the value of investments in the UKCS fall by 24% overnight following the Budget on March 23.

On June 20, Japan’s Marubeni Corp. reportedly became the latest firm to seek an exit, following major names such as Centrica and Total, after it emerged that it had put up for sale all but one of its

North Sea oilfields for around US\$100 million.

Earlier in June, Scottish first minister Alex Salmond announced proposals which would see companies allowed a minimum rate of return before the tax was levied, in order to maintain investment.

“With some 30-40% of oil and gas reserves still to be extracted, it is essential that companies who are investing in the more marginal fields, where exploration and extraction is technically more difficult, are not penalised,” he said.

“Unfortunately the uniform hike in the supplementary charge does just that,” he added. ■

PERFORMANCE

Portuguese refining sector to grow with conversion project

With the conclusion of the conversion project for the Portuguese refineries of Sines, in the South-west, and Matosinhos, in the North, the sector is gathering to boost trade in the region.

The Sines Port Community (CPSI) was formed on June 9, integrating the main economic players acting in the area. The CPSI is aiming to develop the port, with a focus on trade. One of its goals is to make the port a focal point of the Iberian Peninsula, turning it into a key player in Iberian, European and transcontinental trade.

With the successful conversion of the Sines and Matosinhos refineries, the area is expected to gain further importance in

efforts to reduce the country’s dependency on fuel imports, especially gasoil.

Matosinhos will merge some of its activities with Sines.

Diario Economico reported that the investment in the Sines refinery should be concluded in the third quarter of 2011, and would begin bearing fruit in the form of around 400 million euros (US\$569 million) per year, beginning in 2012. Before the end of 2011, a further 970 million euros (US\$1.4 billion) will be spent on converting both of the refineries, Economico reported.

According to oil and gas firm Galp Energia, the project’s aim is to maximise

gasoil production starting from 2012, and thus reduce the production of fuel oil.

Overall, the conversion project represents an investment of around 1.4 billion euros (US\$2 billion), of which 75% will be invested in Sines and the remainder in Matosinhos.

Upon the conclusion of the upgrade, Galp will see its refining capacity increase to 330,000 barrels of oil per day from its current level of 320,000 bpd.

Work on both projects began in December 2008 and will be integrated through the shipping of naphtha produced at Sines to the aromatics plant in Matosinhos. ►►

PERFORMANCE

Bucking the trend

While Galp's domestic refining investment programme is coming to a conclusion, majors have been turning their backs on the European refining sector.

Total recently confirmed that it was looking to sell its UK retail chain, which includes the Lindsey refinery and 780 outlets. Three major US players – Chevron, ExxonMobil and Murphy Oil – are also pulling out of the UK market.

Although decreasing demand is an obvious factor in the shedding of assets, there are other issues, probably more commercial in nature, that are bringing about major changes in Europe's downstream sector.

"Stringent energy efficiency measures and the introduction of biofuels into the energy mix are putting pressure on consumption in

Europe," Jean-Jacques Mosconi, senior vice president of strategic planning for French integrated giant Total, said at a recent downstream industry conference in Abu Dhabi. "European refiners will also be suffering from Phase 3 of the [carbon dioxide (CO₂)] emission trading system [ETS] and by 2013 they could end up paying for an average 20% of the total emissions," he said.

"A lot of European refineries do not fulfil [the criteria required to be

commercially viable], with only 30% having a nameplate capacity of 200,000 barrels per day and 20% of them not being complex enough to produce distillates and high-value light products," Mosconi said.

The results are too obvious to ignore, with European and US majors selling their existing stakes in refineries in Europe. (See: *EurOil, Week 19, National Gulf players eye a role in changing European refining sector, Page 5*) ■

Country	Company	Plant	Capacity (kbpd)	Timing
UK	Petroplus	Teesside	100	2009
France	Total	Dunkirk	141	2010
Romania	Arpichem	Pitesti	70	2010
France	Petroplus	Reichstett	85	2011
France	Total	Gonfreville l'Orcher (Capacity reduction)	94	2011
Italy	Tamoil	Cremona	94	2011
Germany	Shell	Harburg	110	2012
Total Europe			694	

Data: IEA Midterm Report

Aurelian issues update on Polish tight gas operations

Aurelian Oil and Gas has announced it is to spud a new well at the Siekierki tight gas deposit in Poland in early July as part of a wide-ranging update on its unconventional projects in the country.

The Krzesinski-1 appraisal well could add "significant volumes" to the current estimate of 346 billion cubic feet (9.8 billion cubic metres) in the Greater Siekierki play, the company says. Krzesinski-1 will be Aurelian's fourth well on the play.

No horizontal drilling or fracking is planned at Krzesinski-1, and Aurelian said it anticipated reaching a target depth of 4,150 metres early in the fourth quarter of 2011. The Krzesinski-1 well will be drilled using the IDM 2000 rig previously working on the Trzek-3 well, Aurelian's second well in the Greater Siekierki.

Trzek-3 is making "good progress," Bainbridge said, with fracking expected to begin in early July and to last for six weeks. The well's 1,060-metre horizontal section has been drilled and fitted with a cement liner, and "good porosities and gas indications" have been encountered throughout the horizontal section, which contains a 142-metre Rotliegendes gas column. A flow test lasting between two and three weeks has been scheduled to begin in mid-August.

"Our second [multi-fracked horizontal well], Trzek-3, is making good progress. We are pleased to have successfully set the cemented liner and the well will now be fracked and tested during July and August. Further updates will be provided to the market throughout this period. The Krzesinski-1 well is an exciting prospect which, if successful, could add

significant volumes to the existing overall Greater Siekierki potential, which at present equates to 346 bcf (net to Aurelian) in the Siekierki Tight Gas Project," Bainbridge said in a statement.

Aurelian holds a 90% stake in the Poznan licences, which contain the Siekierki play, through its subsidiary Energia Zachod, with Avobone the only minority stakeholder on 10%.

Elsewhere in Poland, Aurelian said its first well on the Bieszczady play was producing oil and gas in a drill stem test of a 31-metre zone that indicates "potential commerciality." The well earlier faced delays owing to a need for extra cementing, although Aurelian said a turnkey contract would "mitigate" costs. Aurelian holds a 25% share in the licence. ►►

PERFORMANCE

“The first well in our Bieszczady concession is now drilling ahead after the operator, PGNiG, overcame some pressure-related well integrity problems. The well continues to provide encouraging signs in the short term flow

tests carried out in the secondary targets. We look forward to providing further updates as the well moves towards the primary target between 4,000 to 4,800 metres,” Bainbridge said.

Aurelian said it had also acquired 200

km of 2-D seismic on Block 208, which is adjacent to Siekierki, with processing and interpretation set to continue until the first quarter of 2012.

The company said it was targeting the Rotliegendes and Zechstein plays. ■

POLICY

Noble given green light for early Cyprus drilling

The Cypriot government has given an initial go-ahead to Houston-based Noble Energy to use drilling equipment already positioned offshore Israel for work in the Cyprus exclusive economic zone (EEZ). A cabinet decision on June 17 waived a contract obligation that Noble Energy tender for drilling equipment for use in Cyprus’s offshore Block 12.

The move is expected to move forward Noble’s plan to spud the first well in the Cyprus EEZ, which had been anticipated for the fourth quarter of 2011.

Cypriot officials now say that drilling could start as soon as September, the Cyprus Mail reported.

“Basically, [the] cabinet’s decision makes easier certain procedures so that under certain preconditions we can speed up the entire process for the drill,” it quoted Minister of Commerce, Industry and Tourism, Antonis Paschalides, as saying. It added that a drilling rig currently working in Israel’s offshore EEZ would become available in August.

Over the last two years, Noble has made some big discoveries offshore Israel: The 8.4 trillion cubic foot (238 billion cubic metre) Tamar field and the 16 tcf (453 bcm) Leviathan field, which was discovered in December 2010.

Noble has estimated that the structure which it plans to drill in the Cyprus A

field holds 10 tcf (283 bcm). A small part of the structure is reported to extend into Israel’s EEZ.

By waiving the tendering process, the Cypriot government is not only speeding up the exploration process but is also enabling Noble to save millions of euros.

Paschalides told the Cyprus Mail: “For example, instead of paying for moving a platform from one part of the world to another at a cost of 20-25 million euros [US\$28.7-35.8 million], we have the option of using one very close by at a fraction of the cost, let’s say 1 million euros [US\$1.4 million].”

The Sunday edition of the daily reported that Noble would have to meet certain preconditions set by the government before a final go-ahead was given to bypass the tender process. It said one such condition “will almost certainly entail a guarantee that the drilling date be brought forward.”

Noble and its main Israeli partner, Delek Group, are using the Transocean Sedco Express and Pride North America rigs for its work in the Tamar and Leviathan gas fields.

Earlier in 2011, Noble and Delek proposed the construction of a 15 million tonne per year liquefied natural gas (LNG) facility on the southern coast of Cyprus to the Cypriot government.

The facility would process gas from the Leviathan field, as well as any that Noble discovers offshore Cyprus. Noble also said that it could possibly deliver offshore gas by pipeline to the island by 2014. Cyprus still relies on heavy diesel for its electricity supply.

Delek first made the proposal for an LNG facility in Cyprus in a letter to the Cypriot government in January.

That development prompted a delay in negotiations that the island had been conducting with Shell LNG for the delivery of natural gas to the island.

That deal, which is still under consideration, would require the construction of a new regasification terminal at Vassiliko on the south coast. The government is now assessing the proposed construction of the regasification terminal, but is designing it so that it could in future be reconfigured to serve as a liquefaction plant.

Nicosia is waiting for the results of Noble’s drilling in Block 12 before it launches its next bidding round.

The island held its first round in February 2007, with only one licence – for Block 12 – being awarded.

Cypriot energy officials say there are as many as 14 offshore structures worthy of further examination. ■

POLICY

Greece looks to oil and gas for boost

Over the last week, the impact Greece has had on the state of oil and gas could hardly be called positive with regard to price stability and company sustainability. Industry observers have gone as far as to predict further drops from late spring highs as worries surrounding a possible default on the country's debt push the oil market still lower.

However, while Greece's current predicament is doing little to help the stability of the world's energy markets, many in the southern European country are betting that its energy could be a much-needed positive economic force in the difficult months ahead.

While the government led by George Papandreou has signalled that a wave of new spending cuts will be necessary even to start to ease its current economic challenges, no one appears to be backing

away from opening up the country to potentially lucrative oil and gas projects.

As riots and political division have kept Athens on its toes this month, the government has continued to promote plans to open up sections of the country to testing and exploration efforts, including calling for an international tender for oil and gas exploration on the island of Crete and in the western Ionia Sea.

The call follows a broader legislative plan, introduced earlier in 2011, to open up Greece's reserves to international firms and would likely produce a licensing round within the next 18 to 24 months, allowing the government to outline a responsible, sustainable plan for exploration and production. In addition to creating a more efficient and affordable national energy strategy, especially in light of the country's

current financial standing, the effort is intended to help Greece keep up with an estimated 4 to 5% annual increase in energy demand until 2030.

Any expansion of exploration and production within Greek territory would be welcome after years of delays related to territorial disputes with neighbouring Turkey.

The Greek government has also continued to push for the country's role in hosting sections of the Trans Adriatic Pipeline (TAP), intended to allow the transport of natural gas from the Caspian Region to the European marketplace. The pipeline would be a welcome boost to Greek demand and the economy, though its potential role as a pipeline hub for planned reserves from Cyprus and Israel remains uncertain amid long-held political disputes. ■

PROJECTS & COMPANIES

Total makes Barents Sea gas find

French super-major Total has discovered gas at the Norvarg prospect in Norwegian production licence PL535 in the Barents Sea. The find was made at Exploration Well 7225/3-1, 263 km north-east of Hammerfest.

The firm's Norwegian subsidiary, Total E&P Norge, operates PL535 with a stake of 40%. It is partnered in the licence by Det norske oljeselskap (Det norske), North Energy and Rocksource, which each hold stakes of 20%.

The licence for PL535 was awarded during Norway's 20th Licensing Round in 2010.

Preliminary well data indicate gas at three different levels, with much of it

located in the Kobbe Formation. The well has not yet been completed.

Carrying out the drilling is the South Korean-built West Phoenix rig, a semi-submersible with living quarters for 128 workers. The rig will maintain its position through the use of dynamic positioning systems with the aid of eight anchors.

No conclusion has yet been given about the flow rate characteristics and potential commerciality of the find, so a production test will soon be carried out to gather relevant information about the reservoir's production properties. This will begin once the drilling has reached a depth of 4,100 metres. The process will

take several weeks and as a result of the test, the completion of the well may take longer than was first expected.

Potential gross mean unrisked resources have been estimated at 226 million barrels of oil equivalent and net mean reserves have been pegged at 13 million boe. The chance of success has been estimated at around 29%.

The Norvarg well is the first of at least three drillings North Energy has planned for 2011 in the Barents Sea. Drillings are also set to take place at the Helio well – located in PL530 – and the Zapffe well – located in PL518. ■

PROJECTS & COMPANIES

Technip secures Shelley decommissioning contract

French contractor Technip has signed a GBP4.4 million (US\$7.1 million) agreement with FTSE-250 oil firm Premier Oil to decommission the Shelley field in the North Sea.

In a statement, Technip said that the contract covered decommissioning and recovery of 2 km of electro-hydraulic control umbilical, manifold structure, three production flexible jumpers, two well control jumpers and 121 concrete mattresses.

Two of the company's dive support vessels – the Orelia and Skandi Arctic – will execute the contract, which is due to be completed during the fourth quarter of 2011.

Commenting on the announcement, Bill Morrice, Technip's managing director in the UK, said: "It is fantastic to have been awarded the second phase of

this project, having successfully completed the first decommissioning works in 2010 ... We look forward to working with Premier Oil to stand down the Shelley field, which ceased production in July 2010."

The Shelley field, which Premier operates with 100% equity, was discovered in 1984 and is located roughly 40 km south of the company's Balmoral complex. Shelley holds two wells and began production in August 2009, ceasing last year.

The first phase of the abandonment saw the removal of the Sevan Voyager floating production storage and offloading unit (FPSO), which is currently at the Nymo yard in Arendal, Norway, where upgrade work required for Premier's Huntington field programme is being carried out.

On June 14, Premier's CEO, Simon Lockett, said that the Voyager's owner, Norway's Sevan Marine, might need a US\$40 million loan from the Huntington project's partners before the vessel could be deployed.

Sevan Marine withdrew a US\$275 million share issue earlier this year after warning of liquidity issues and posted a loss in the last two quarters. The company has said that it now does not have funds to cover cost overruns on Huntington, prompting Lockett's statement.

"We are working with them to see if we can stay on track, but it's not easy," he said, adding that the partners had some rights that "allow us to protect the schedule, to put up the money and make sure the project works." ■

Seabird to explore the Western Med

The Norwegian oil and gas company Seabird Exploration has requested permission from the Spanish Ministry of Environment and Rural and Marine Affairs to perform a seismic survey in the Mediterranean Gulf of Leon to explore for hydrocarbons.

The project will see seismic surveying carried out in the Gulf of Leon, off the coast of Catalonia and the Balearic Islands.

The request has been passed on to environmental organisations and institutions affected by the project and Seabird is currently awaiting their responses.

The company's move confirms a rising

interest in the potential oil and gas reserves of the Western Mediterranean.

However, Mallorcan newspaper *Diario de Mallorca* quoted industry sources as saying that the project was a risky venture and "having such a large campaign is expensive and there is no guarantee that the data will be of interest to anyone later on."

The sources note that Seabird obtains seismic data, which it then sells to its clients, mostly oil and gas super-majors and majors.

The sources added: "They will search for hydrocarbons in the free areas, that is to say, areas the major companies are not interested in exploring or areas where there has been some initiative which had no successful results."

Edinburgh-based Cairn Energy is already largely present in the area, as it is already exploring for oil and gas on the coast of Valencia, with an area of roughly 400,000 hectares (4,000 square km), while US-based Capital Oil and Gas is waiting for the approval of an exploration project in the region, explaining that this will be "a speculative campaign," as it "will sell the results to exploration companies." ■



PROJECTS & COMPANIES

Chevron granted Bulgarian shale gas exploration licence

The Bulgarian government awarded a five-year shale gas exploration contract to Chevron Corp. on June 15 for work to be carried out in the 4,400-square km Novi Pazar field.

In May, Chevron won a tender for the field with a 30 million euro (US\$42.6 million) bid, beating Canada's BNK Petroleum. Novi Pazar is located in the north-east of the country.

Chevron will prepare a 50 million euro (US\$71 million) exploration programme and will conduct and implement a 4 million euro (US\$5.7 million) environmental protection study during the course of the licence.

Shale gas production is environmentally controversial because of the process of hydraulic fracturing

(fracking), which involves fracturing the rock with high-pressure water and injecting sand and chemicals into the geological formation to force the gas to the surface. Critics have said that this method puts the quality of groundwater at risk. Shale gas deposits in the Novi Pazar licence are estimated to hold between 300 billion and 1 trillion cubic metres of gas. According to Bulgarian Economy, Energy and Tourism Minister Traicho Traikov, Bulgaria holds enough shale gas to meet its domestic gas requirements for 1,000 years. Bulgaria has pending two other shale gas tenders that are open for bidding until the end of June. Like Poland, Romania and Ukraine, Bulgaria is keen to reduce its dependence on natural gas supplies from

Russia. All four countries are looking to find and develop whatever shale gas reserves may exist. Bulgaria is also a member of the proposed Nabucco gas pipeline project that is designed to carry Caspian and Middle Eastern gas through Turkey to Europe. It has also entered the Interconnector-Greece-Bulgaria (IGB) project with neighbouring Greece, which is also to draw on the proposed Interconnector-Turkey-Greece-Italy (ITGI) system. Sofia has also signed documents with Baku concerning the future delivery of 1 bcm per year of natural gas from Azerbaijan.

Chevron has taken a strong interest in developing shale gas deposits in the US and Canada and also holds licences in Poland and Romania. ■

Noreco in ding-DONG over Siri rig repairs

Noreco and the Danish oil and natural gas company (DONG) have been arguing publicly over how best to repair the damaged Siri rig in the Danish North Sea, with some observers expressing fears for Noreco's financial health.

Noreco said that it would refuse to finance or participate in DONG's plan for repairs costing 2 billion Danish kroner (US\$385 million). The Norwegian company claims that it has a plan for a simpler repair solution at 10% of the price of the plan announced by Siri's Danish co-owner, but has not specified any details. In a statement that took DONG by surprise, Noreco went so far as to call the Danish company's solution "technically immature."

"The licence agreement requires unanimity, consequently DONG would have to execute this project at its own cost and risk," a spokesman for Noreco

said. "Noreco will not participate in, nor finance, such a project. Noreco will initiate the necessary measures to protect its own position, including but not limited to risks, damages, liabilities and potential consequential losses," he added.

DONG executive vice president for exploration and production Soeren Gath Hansen said: "Our licence partner is obligated to support us in securing a responsible operation and shall bear the costs accordingly."

Noreco's shares lost 30% of their value after the Norwegian company released the statement disputing the repair bill. Earlier in June, Noreco had reassured the markets that it had sufficient cash to continue operations.

Dow Jones Newswires quoted an unnamed Oslo-based analyst as saying that Noreco's refusal might be linked to a cash shortage at the company, which

posted a loss of 295 million Norwegian kroner (US\$53 million) in the first quarter of 2011. "There is a large risk of an equity issue. They don't have a lot of money," the analyst said.

DONG said that it had settled on a repair plan, under which work would be completed in 2012. The company reported that the costs would not affect its financial predictions for 2011, as rising gas prices would offset the repair costs. However, these calculations were made before Noreco's statement on June 15.

The Siri rig has been in need of repair since cracks were found in 2009 in a subsea structure connected to the rig's oil storage tank. Output resumed in January 2010 after Noreco and DONG added a temporary metal frame to the platform, although no repairs have yet been carried out on the original problem. ■

PROJECTS & COMPANIES

Tamboran takes aim at Irish shale gas prospects

The newly appointed CEO of Australian shale gas explorer Tamboran Resources sees good prospects for shale gas development in Ireland.

Richard Moorman said there was a "75% possibility" of finding commercial levels of gas in the north-west of the country, according to a June 11 report in the Irish Times.

In February 2011, two companies, the privately held Tamboran and the Lough Allen Natural Gas Company (Lango), were granted onshore petroleum licences to carry out preliminary testing in the Lough Allen basin, an area that includes the counties of Leitrim, Sligo, Roscommon, Cavan and Fermanagh, and is known to geologists as the North-west Ireland Carboniferous Basin.

Studies carried out five years ago estimate that there are 9.4 trillion cubic feet (226 billion cubic metres) of natural gas in the region around Lough Allen, which would be worth 120 billion euros (US\$170.75 billion) at current prices. The gas there was hitherto deemed uncommercial, but fracking has transformed its prospects.

Moorman told the Irish Times the two partners were encouraged by the shale deposits in the area, which are much thicker than in the US. "We have a good feeling about this," he said. Moorman said that extracting 10% of the Lough Allen gas would constitute a reasonable return and that the drilling process would take at least a decade. In the coming months, the companies will take rock

samples. Once these are analysed, they can drill boreholes, followed by proper test drilling, which could involve fracking, in two years.

Proper commercial drilling could be four years away or more, Moorman said. He added that Tamboran would start consulting local authorities next month. "We will have a completely open process," he said.

Moorman said Irish people could be reassured by the more stringent environmental standards that exist in Europe, relative to the US. "I would have every faith in Irish regulators. I say environmentalists are needed – they keep the companies doing the right thing," he said. ■

Naftohaz Ukrainy gets green light to sell gas to Poland

Ukraine's parliament on June 17 passed amendments allowing the national oil and gas company Naftohaz Ukrainy to export natural gas extracted in Ukraine to Poland. The motion was approved by the votes of 274 MPs, 48 more than needed, only three days after the government had submitted the bill to Parliament.

Naftohaz concluded a contract, which provides for selling 200 million cubic metres per year of gas to Poland until 2021, with the Polish state company PGNiG in October 2004. After January 2009, however, it became illegal for Naftohaz to export gas, because the contract it signed in January 2009 with Russia's Gazprom barred it from re-exporting Russian gas.

At the same time, Ukrainian laws prohibited Naftohaz from exporting gas extracted in Ukraine, stipulating that all

gas extracted by Naftohaz had to be used for the needs of Ukrainian household consumers. The new amendments remove this ban.

Ukraine extracts no more than 20 billion cubic metres per year of gas, while it imports 35-50 bcm per year from Russia.

In September 2010, Poland complained that Ukraine had breached the 2004 contract by stopping gas exports. Naftohaz resumed gas supplies to Poland in October, only to stop them again in January 2011.

In February, the Kommersant-Ukraine business daily reported that the government intended not only to resume such exports this year but also to increase them substantially. Ukrainian Energy and Coal Industry Minister Yuri Boiko also confirmed that gas export to Poland

would resume.

These announcements have been a source of worry for Gazprom, which reminded Ukraine of its obligations under the 2009 contract. As such, the only option left to Ukraine was to allow the export of domestically extracted gas.

The Ukrainian business daily Ekonomicheskije Izvestia suggested on June 20 that Ukraine had agreed to settle the export issue with Poland in exchange for PGNiG's withdrawal from Devon, a joint venture set up to produce gas. Last May, Devon won a lawsuit over the Sakhalin gas deposit in northeastern Ukraine against a well connected Ukrainian private company, Ukrnefteburenije. Devon was banished from the deposit by the Ukrainian government several years ago, which provoked protests from Poland. ■

PROJECTS & COMPANIES

Talisman seeks partners for Kildrummy appraisal

Canada-based Talisman Energy has announced that it is seeking companies to participate in the Kildrummy appraisal work programme in Blocks 15/12 & 17 on the UK Continental Shelf (UKCS).

According to Indigo Pool brokerage, this includes additional exploration upside via the Udney prospect and the North-West Hoy exploration well. Both are near the producing Piper field in the highly productive Outer Moray Firth Basin, in water depths that range from 140-145 metres.

The Kildrummy discovery, formerly known as the Lucy prospect, was found in April 2001 by Talisman (80%) as operator and partner Lasmo (20%). It has

P50 Stock Tank Oil Initially in Place (STOIIP) of 41.5 million barrels of oil equivalent, and Talisman has said that it has “a defined appraisal programme, with near-term development potential.”

The Udney Prospect has P50 STOIP of 7.6 million boe, just to the north-west of Kildrummy. NW Hoy, the exploration prospect to the south-west of Piper, has a P50 STOIP of 84 million boe. As Kildrummy and NW Hoy are adjacent to the Talisman-operated Piper infrastructure, a tieback to Piper would be the most likely development scenario.

The commercial prospects for Kildrummy have improved markedly since 2001. Following two appraisal

wells on the Kildrummy struck in 2002, Talisman announced that the discovery suggested that the reserves did not justify field development “under present economic circumstances.” The discovery was appraised by drilling two sidetracks from the original discovery well bore.

Although both sidetracks encountered oil in the target horizon, the column in each was significantly less than anticipated. As a result, both sidetracks were plugged and abandoned.

Dr Jim Buckee, president and CEO, said at the time: “Although the Kildrummy result is a surprise and disappointing, this prudent approach has avoided misallocating capital.” ■

NEWS IN BRIEF

POLICY

Huge fine for Shell

Energy giant Shell UK Limited has been ordered by Norwich Crown Court to pay a total of GBP1,242,000 in fines and costs over the explosion and fire at its Bacton gas terminal in Norfolk in 2008. The explosion blew the concrete roof off a buffering tank within the plant, hurling concrete and metal debris over a large area and sucking a nearby drain out of the ground. After investigating the incident HSE and Environment Agency (EA) jointly prosecuted the firm over safety, environmental control and pollution-prevention failures at the plant leading to the explosion. The court heard the blast happened shortly before 6pm in the plant's water treatment plant. No-one was killed or seriously injured.

UK PRESS, June 20, 2011

OIL

Repsol signs deal with Alliance Oil

Spanish oil giant Repsol YPF has signed an US\$800 million joint capital deal with Russia's Alliance Oil during a visit to Russia by prime minister José Maria Rodríguez Zapatero. Russia premier Dmitri Medvédev was also present at the June 19 signing at the St Petersburg International Economic Forum. The deal will mean cooperation in prospecting and the extraction of oil. Repsol will have 49% of the joint venture, and Alliance Oil 51%. The CNMV securities commission reported in Madrid that Alliance will provide assets valued at US\$600 million, and Repsol will invest US\$200 million, in the form of a capital expansion, plus acquire Alliance shares for another US\$200 million, raising its investment to US\$400 million.

Repsol possesses 3.47% of Alliance shares through the 2008 merger between West Siberian Resources and Alliance, plus 74.9% of Eurotek-Yugra.

NEWSBASE, June 21, 2011

Statoil CEO sees volatile oil ahead

Statoil expects oil prices to remain volatile in the short term and to rise over the long term as the production capacity of OPEC countries remains limited, the firm's chief executive said on Wednesday.

At a meeting in Vienna last week, OPEC failed to agree on a production increase sought by consuming countries and leading exporter Saudi Arabia after Iran and other producers said they feared it could cause prices to tumble.

“We see that OPEC's spare capacity is at this stage quite low, so prices could be relatively volatile,” Helge Lund told Reuters. ▶▶

NEWS IN BRIEF

“Over the long term, with reasonably normal (economic) growth rates, we see there will be a continuous (upward) pressure on oil prices, given the relatively limited spare capacity in OPEC,” he said in an interview. Lund declined to predict what price a barrel of oil could reach over the coming months. Iceland’s energy ministry told Reuters on Wednesday it was eyeing a tender of oil and gas licenses off its coast in upcoming months to encourage exploration for hydrocarbons. Lund said Statoil will “probably look at it. “We are clearly looking at areas in the vicinity of Norway,” he said. The Arctic could hold some 90 billion barrels of oil equivalent, 84% of its offshore, the US Geological Survey estimated in 2008. British oil firm Cairn Energy is attempting to drill for oil off Greenland but faces opposition from environmental groups such as Greenpeace. Lund said Statoil would not conduct any drilling in 2011 off Greenland, where it holds stakes in two licenses, together with Royal Dutch Shell and Gdf Suez. The firm is also part of the Kanumas Group, a group of companies that includes ExxonMobil, Chevron, BP and Shell, which conduct seismic surveys off Greenland. Members of the group have preferential rights for the upcoming licensing round off Greenland in 2012-2013. “We constantly look at high-impact areas that are associated with our core technologies and operational experience and I think Greenland is one such area where we think we could be a good partner,” Lund said. “We are already positioned for the next licensing round and we will of course look at opportunities then, in 2012-2013.” Also in the Arctic, Norway in July will start collecting seismic data in a newly delineated region of the Barents Sea that is half the size of Germany, after a new Norwegian-Russian maritime border came into force. Statoil’s head of exploration and

production in Norway, Oeystein Michelsen, said the firm was hoping for a fast-track impact assessment of the region so it could start exploring the area. “The interest from the (Norwegian) government side is huge and it looks like they want to get started as soon as possible,” Michelsen told Reuters. “We are hoping very strongly that an impact assessment study could be done as soon as possible. Maybe it is possible in 2014, but we don’t know.”

REUTERS, June 15, 2011

Norway sends Transocean to the Arctic as production declines

Transocean Ltd. is the world’s largest provider of offshore drilling services for oil and gas wells and it competes with players such as Diamond Offshore, Hercules Offshore, Seahawk Drilling, ENSCO International and Rowan Companies. Transocean also operates one of the most modern and versatile mobile offshore drilling fleets in the world that can function in challenging environments such as the North Sea. We have a US\$85.70 price estimate for the company, which is roughly at a 36% premium over its current market price. Norway is the largest producer of oil and gas in Western Europe producing around 230 million standard cubic meters of oil equivalents in 2010. However Norway’s status as one of the world’s leading producers of oil is being threatened by the rapid declines in oil production from its mature wells. The discovery of resources has lagged production ever since 1997 and this is leading to a steep reduction in the remaining reserves. The oil industry contributes to 25% of the country’s GDP and to keep the sector from declining, the government of Norway is encouraging offshore explorations in its northern territories. Norway expects new oil & gas finds in the Barents Sea region of the Arctic to offset some of the decline in its oil & gas output. This region could hold close to 6

billion barrels of oil that have yet to be discovered. The recent discoveries by Statoil (STO) in the Barents Sea have fuelled new interest in exploration activity in the Arctic regions of Norway, leading to record levels of drilling in 2011 with 4 additional wells planned this year and 7 more in 2012.

The Norwegian Petroleum Directorate expects investments exploration and production costs to keep increasing through 2013, which will directly result in higher revenues for providers of offshore exploration and drilling services. The settlement of the border dispute with Russia has also boosted exploration efforts.

As of February 2011, Transocean had 5 of its units drilling in Norway. Earlier this year Statoil contracted semi-submersible ‘Transocean Leader’ over the next 3 years to carry out drilling at depths below 1,500 meters. Only rigs with very high specifications can operate in the demanding climatic conditions of the Arctic.

Presently fleets in the North Sea are working at utilisation rates of 87% while the utilisation rates languish at 50-65% in some other parts of the world indicating that the market of high specification rigs is under-served. Transocean intends to capitalise on the situation by significantly expanding its fleet high specifications rigs over the next few years.

The expected higher utilisation of rigs in the Arctic as well as the higher day rates from operating in the harsh environment have been taken into consideration for our revenue expectations for the company. Our forecasts for these factors are presented above.

NASDAQ, June 16, 2011

Denmark seen an exporter of oil and gas for 10 yrs

Denmark is likely to remain a net exporter of oil and gas for a decade more, the Danish Energy Agency (DEA) said on Thursday, though it trimmed its production forecasts. ▶▶

NEWS IN BRIEF

The DEA trimmed its forecast for oil output from the Danish part of the North Sea this year to 12.6 million cubic metres from an earlier estimate of 12.7 million and lowered its 2011 gas production forecast to 4.8 billion cubic metres from 5.2 billion.

The agency said in a new report that Danish oil output is likely to fall to 9.3 million cubic metres and gas production decrease to 4.5 billion cubic metres in 2015.

“Although oil production has fallen by a third since 2004 and production of gas has been reduced by 25 percent since 2005, Denmark can count on maintaining its status as a net exporter of oil and natural gas for about 10 more years,” the DEA said in a statement.

With an oil price assumption of around \$110 per barrel, the Danish government can expect annual oil and gas revenues from the North Sea of 23 billion to 30 billion Danish crowns (US\$4.36 billion - US\$5.69 billion) up to 2015, the DEA said.

REUTERS, June 16, 2011

Maersk Oil approves UK North Sea oil field development plan

Denmark-based Maersk Oil has approved its \$1bn investment in the field development plan for the Golden Eagle area in the UK North Sea.

The company holds a 31.56% non-operated interest in the Golden Eagle area fields and its share of reserves is estimated to be around 45 million barrels of oil equivalent.

The Golden Eagle Area comprises the Golden Eagle and Peregrine fields, which are operated by Canada-based Nexen with Maersk Oil, Suncor and Edinburgh Oil and Gas as partners.

Construction of a platform and other infrastructure is expected to begin in November 2011, and first oil is expected in 2014 with initial production rates at between 60,000-65,000 barrels of oil a day.

Maersk Oil said its daily share is expected to be 19,000-21,000 barrels of

oil equivalent.

Maersk Oil UK managing director Martin Pedersen said the approval of the field development plan is an important step towards getting production going in the Golden Eagle Area.

EBR, June 20, 2011

Romania to sell Petrom stake by end-July

Romania plans to sell a 9.8% stake in its top oil and gas company Petrom, majority owned by Austria's OMV, by the end of July, Economy Minister Ion Ariton said on Friday.

The sale is part of a government plan to raise some 2.9 billion lei (US\$971 million) this year on the Bucharest bourse, according to the terms of agreements with the International Monetary Fund and other lenders.

“We're in an advanced stage and probably towards the end of July the transaction will be made,” Ariton was quoted as saying by state news agency Agerpres. “The price will be approved by the government after consultants finish their evaluation.” Romania owns a 21% stake in Petrom. Fondul Proprietatea, an investment fund set up to compensate Romanians whose assets were seized under communism, owns another 20%. The group advising on the secondary public offering of shares is made up of Renaissance Capital, EFG Eurobank Securities, BT Securities and Romcapital.

Officials have previously said the sale was expected to fetch more than 500 million euros (US\$718 million).

Other planned sales include 15% stakes in state-owned power and gas utilities Transelectrica and Transgaz and in unlisted gas producer Romgaz.

REUTERS, June 17, 2011

MOL chief executive charged with bribery

MOL chief executive Zsolt Hernádi has been charged with bribery by Croatia's chief prosecutor, Croatian daily Večernji reports.

According to the paper, Hernádi is being accused of paying former Croatia prime minister Ivo Sanader 10 million euros in 2008-2009 as part of a deal to allow MOL to acquire a majority stake in state-owned Croatian oil group INA.

MOL dismissed the report. “No payment or agreement on any payment was ever made, directly or indirectly, neither in the course of INA's privatisation nor thereafter to any actor or decision maker on the Croatian political scene,” MOL said in a statement sent to news wire MTI.

MOL said it had no official information on any investigation in the matter. Sanader was arrested in Austria in December on an international arrest warrant on suspicion of abuse of power and corruption. He is currently in custody waiting to be extradited to Croatia.

The prosecutors said Hernádi and Sanader also made a deal to enable MOL to buy the profitable business of INA, leaving the loss-making units with the state.

Former Croatian vice prime minister Damir Polančec is also implicated in the bribery, the paper said.

BBJ, June 21, 2011

Xtract targets all of Elko

London-listed Xtract Energy has offered to acquire all outstanding shares in Elko Energy which owns licences in the Dutch and Danish North Sea. Xtract shares have been suspended from trade on London's Alternative Investment Market while the transaction is carried out, which is based on an offer of seven Xtract share for every Elko share. Currently Xtract owns 50% of Elko's shares and has already received acceptances for the deal from 66.4% of the Elko shares in issue. Registered in Canada, Elko holds 33% equity in licences 02/05 and 1/11 in the Danish North Sea, close to the Central Graben, and royalty interest two Dutch licence blocks, P1 and P2.

XTRACT, June 21, 2011

NEWS IN BRIEF

Huge Maersk investment in Golden Eagle

Project partner Maersk Oil has agreed to give the go-ahead to the Nexen-operated North Sea Golden Eagle development and will invest US\$1 billion in the giant twin-platform project which will exploit an estimated 140 to 150 million barrels of oil equivalent of gross recoverable contingent resources. This would be the UK's largest find in recent years. Maersk's equity share in the project is 31.5% - equivalent to 45 m. boe. Golden Eagle will tap one discovery of the same name, and the Peregrine discovery – previously known as Pink, while another discovery, originally called Hobby, has been designated part of Golden Eagle. Drilling on the fields took place between 2007 and 2009, and first oil from the development – which Nexen has previously indicated would be based on a twin-platform project with up to 24 wells – is expected in 2014. The development is centred on block 20/1 in the UK Central North Sea and Nexen operates the project with 36.5% equity. Other partners are Suncor and Edinburgh Oil and Gas.

MAERSK, June 17, 2011

Valiant takeover of Sagex close to complete

North Sea operator Valiant Petroleum is close to completing a takeover of Sagex Petroleum which has interests in two forthcoming Norwegian exploration wells. By June 10 Valiant had received acceptances for the takeover representing 94% of the shareholders of Sagex, after offering to buy out the Norwegian company for NOK 64.1 million (GBP7.1 million). "Valiant remains confident that the transaction will reach completion ahead of the long stop date of 31 August 2011," the company said. Sagex has a 20% stake in a forthcoming exploration well in P471 which is expected to spud in early August targeting a large Cretaceous stratigraphic prospect called Chamonix,

which is to be drilled with the Borgland Dolphin semi-submersible and operated by OMV with 50% and Noreco with 30%. A secondary Jurassic target, Cortina, will also be drilled as part of the exploration operation.

VALIANT, June 17, 2011

First well consent at Volve field

Statoil has been given consent to drill a first well in Production Licence 569 near the Volve field by Norway's Petroleum Directorate. The new well designated 16/7-10 is to be drilled by the Ocean Vanguard semi-submersible after its current commitment at the 30/11-8a well which is also being drilled for Statoil. Awarded in the 2011 APA round earlier this year, PL569, which covers block 16/4, is operated by Statoil with 59.6%, and the well is due to be drilled in the south-western sector of the licence area, approximately 10 kilometres (6.25 miles) north-east of the Volve field. The other licence partners are ExxonMobil with 30.4% and Total with 10%.

NPD, June 21, 2011

Statoil promises production surge

Statoil expects to raise production from around 1.9 million barrels in 2010 to above 2.5 million barrels of oil equivalents per day in 2020. Celebrating its ten years anniversary as a publicly listed company. "We have made significant strategic progress and have proven ability to deliver competitive returns since our IPO in 2001. With a premium project portfolio and strong commitment to leverage the company's competitive strengths, we will continue our journey," said Helge Lund, president and CEO." Statoil grew production at a compound annual growth rate (CAGR) of 3% in the last decade, excluding the Hydro merger. Production is expected to continue growing at the same rate over the next ten years, reaching a level of above 2.5 million barrels of oil equivalents (boe) per day in 2020.

STATOIL, June 20, 2011

Statoil holds Skrugard up as example

Statoil reported that its Skrugard discovery provides renewed optimism for the whole Barents Sea region and reaffirms its long-term expectations for the Norwegian Continental Shelf. Statoil now estimates that the Skrugard discovery in the Barents Sea to contain approximately 250 million boe recoverable resources, with a significant upside potential in the license. The Skrugard well has significantly improved Statoil's understanding of other prospects in the area. Finding new discoveries and enhancing production from existing fields will be critical for Norway's future, the company said.

STATOIL, June 20, 2011

Norway holds record for decline in output

Norway recorded the largest decline worldwide in oil production in 2010, according to the BP Statistical Review of World Energy June 2011. BP reports that Norway had 3.3 million b/d of oil production in 2000; at the end of 2010, the country had 2.1 million b/d. Norway had estimated proved oil reserves of 11.4 thousand million barrels at the end of 2000; at the end of 2010, the country had 6.7 thousand million barrels.

BP, June 20, 2011

Weatherford to pay US\$75 million to BP for oil spill

Swiss-based oil services group Weatherford International, which provided equipment used in the doomed Macondo well, agreed to pay BP US\$75 million toward the cost of the Gulf of Mexico oil spill. BP has agreed to indemnify Weatherford in relation to economic claims from people affected from the spill and environmental damage. Its shares were up 1.9% at 14.52 francs by 0735 GMT, rebounding from Monday's record 14.03 francs low. ▶▶

NEWS IN BRIEF

However, the settlement -- the second BP has reached with parties involved in the well -- still leaves Weatherford exposed to possible government fines and punitive damages. Shares in BP gained 2.1% to 438.8 pence at 0721 GMT, outperforming the European oil and gas index, which was 1.2% higher and making the oil major one of the biggest risers on Britain's blue chip index. Japanese trading house Mitsui, which owned a 10% stake in the Macondo well through its exploration unit, agreed in May to pay US\$1.1 billion towards the spill clean-up in what was seen as a key victory in BP's battle to share the costs of the disaster. "It's not groundbreaking ... because Mitsui set the precedent," said Investec analyst Stuart Joyner. "The payment is symbolic, US\$75 million is neither here nor there in the context of the wider fund. I wouldn't overstate the importance, but it's a step in the right direction." BP said it was working to ensure its other partners in the well, including Anadarko Petroleum, Transocean and Halliburton, also contribute to clean-up costs. Weatherford had in April said it swung to a first-quarter profit of US\$59.2 million versus a year-before loss of US\$68.4 million.

REUTERS, June 21, 2011

GAS

Iberdrola gains most Spanish clients

Utility Iberdrola last year gained more new clients in Spain's gas sector than Gas Natural Fenosa according to new figures from the CNE national energy commission. By using a system of telephone contracting, Iberdrola gained approximately 300,000 new gas clients, said the CNE's Supervision of the Natural Gas Minority Market quarterly report. This report shows that GNF last year lost 120,000 clients, in addition to the transfer of 600,000 clients thanks to the obligatory divestments for Gas

Natural's purchase of Union Fenosa. This client transfer battle began at the end of 2009 between Iberdrola and Gas Natural, when the CNC competition authorities approved Iberdrola telephone contacting methods. The 600,000 transferred clients went in their majority to Galp and Naturgas, with Portugal's Galp growing by 370,000 clients at the end of 2009, and Naturgas by 200,000. Despite the setbacks, GNF remains Spain's top gas operator with 4.3 million clients, or 60.9% of the total. This is followed by Endesa with 1.07 million clients (15%), Naturgas with 823,400 clients (11.5%), Iberdrola 541,400 (7.5%), and Galp with 368,500 (5.1%).

NEWSBASE, June 21, 2011

Statoil looks to compression

Statoil and its partners want to compress gas on the seabed to boost recovery. Subsea compression was recently selected as the preferred concept for Gullfaks.

"Gas compression on the seabed represents an important advance in technology, and once again, Statoil is leading the way for development of new technology. This is one of our most important measures for improving recovery from existing fields," said Siri Espedal Kindem, Statoil's vice president of technology.

Since 2008, Statoil and its partners have worked with Framo Engineering to develop technology for compressing wet gas on the seabed. Statoil has now decided to take the concept a step further on the Gullfaks South subsea field. "This could increase production from the field by three billion cubic metres of gas, which means a six percent increase in recovery," said Ivar Aasheim, head of Field Development on the Norwegian shelf.

STATOIL, June 17, 2011

SERVICES

Statoil enters into an agreement with EDB ErgoGroup

EDB ErgoGroup has received notification that Statoil has exercised an option for consultancy services in the areas of SAP and Industrial IT for a further two years. The agreement entered into is an extension of a framework agreement that extends the current collaboration between Statoil and EDB ErgoGroup for consulting services. The agreement provides for EDB ErgoGroup to be the prime supplier of consulting personnel to Statoil in the competence areas of SAP and Industrial IT. In addition, EDB ErgoGroup will provide consulting personnel to Statoil in other areas of IT competence.

"To us this agreement reflects Statoil's recognition of the quality of our deliveries over the last two years, and a renewed expression of their confidence in EDB ErgoGroup. We look forward to continuing our excellent collaboration. Through our unique combination of in-depth business understanding of the Oil & Gas sector and our extensive SAP competence in the Nordic market, we will do our utmost to help ensure that Statoil continues to have the best possible IT systems," comments Terje Mjøs, CEO at EDB ErgoGroup.

The Industrial IT area comprises competence in relation to the production environment (platforms) and their administration, including integrated operations, aligning technology, work processes and people, security on platforms to enable safe interconnection between administrative and production systems, offshore data management, RFID, sensor and wireless technology, and other highly specialised Oil & Gas industry competence.

EDB ERGOGROUP, June 20, 2011

NEWS IN BRIEF

Major topside deal for Aker

Topsides modifications on the Åsgard floating production platforms are to be carried out by Aker Solutions to tie in a new subsea compression system. Aker has been awarded the deal by Statoil worth NOK 650 million (\$110 m) on an engineering, procurement, construction and installation basis, to provide electrical supply to topsides handling equipment for the new subsea compression system on both Åsgard A and B installations. Design and procurement work will get underway immediately for a new 800 tonne module and related fabrication work is due to start this October and to be completed in 2014. Last December Statoil awarded Aker solutions a NOK 3.4 billion deal to develop the world's first full scale subsea compression system.

AKER, June 20, 2011

Shipbuilding contract for Aker

Aker Solutions has won a contract from Daewoo Shipbuilding & Marine Equipment to supply a complete drilling equipment package for a new deepwater drillship. The contract is worth about NOK 540 million. The drill ship will be owned and operated by Tungsten Explorer Company, a subsidiary of Vantage Drilling. "We are very pleased to have won another contract to deliver our deepwater drilling equipment and systems, which underlines our strong and fruitful relationships with the yard and the team at Vantage Drilling," said Thor Arne Håverstad, executive vice president and head of Aker Solutions' drilling

technologies business.

AKER, June 17, 2011

Aker booked by Eni

Eni Norway has selected Aker Solutions to provide sub-surface consultancy services on its offshore acreage over the next three years. No figure was given. Aker will supply geology, geophysics, petrophysics, reservoir well site and operations technology under the three-year frame agreement through its subsidiary Aker Geo AS, and the deal includes options for another three years. Helge Nyrønning, head of sales and marketing at Aker Geo said the unit is currently seeing significant demand growth for its services offshore Norway, supporting oil companies with exploration and field development work.

AKER, June 21, 2011

De-merged Kvaerner chases growing opportunities

A prospectus on the demerged Kvaerner has been issued for its listing on the Oslo Stock Exchange by Aker Solutions. Kvaerner aims to compete as a top tier engineering procurement and construction contractor, to chase the growing prospects for offshore oil and gas development worldwide. "The upstream oil and gas EPC field development market is fuelled by a strong underlying demand growth for energy, requiring and justifying increased capital spending on developing oil and gas fields," Aker Solutions said in the newly-issued Kvaerner prospectus. The new company will be targeting a market where total global offshore spending is expected to soar, from US\$273 billion to

US\$460 billion in 2015, according to figures from Rystad Energy. Spending on deepwater facilities is expected to rise 13.2% on a compound annual growth rate for deepwater sector, while ultra-deepwater spending is expected to grow 12.7% in between 2010 and 2015.

AKER, June 16, 2011

REFINERIES

Fire hits Sisak refinery in central Croatia

A fire broke out at an oil refinery in the central town of Croatian town of Sisak on Monday, state television reported. "Firefighters are trying to extinguish the fire. The smoke has gone some 200 metres into the air," the report said. The 60,000 barrel-a-day refinery is owned by the INA oil and gas group.

The company's biggest shareholder is Hungary's MOL which owns 47.46%. The Croatian government owns 44.84%. INA is one of the biggest Croatian companies with upstream and downstream segments. It is active in gas and oil exploration at home, in Africa and the Middle East.

It has two refineries, one in the central town of Sisak and another in the northern Adriatic city of Rijeka.

A similar fire hit the Sisak refinery in early 2010.

Both refineries are undergoing modernisation work to be able to produce products for European Union markets. Croatia is on the verge of completing EU entry talks could join the block in mid-2013.

REUTERS, June 20, 2011

TENDERS & CONTRACTS

PROJECT	UK Field Development Project
Project Sector	Upstream
Location	Europe, UK, Central North Sea Areas
Project Holder/Operator	Marathon/BP
Scope of work	EC - Exploration Contracts
Current/Past Phase	The project had been on a drilling and appraisal phase
Contract Value Estimate	Over US\$95 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the subsea tieback development of South West Foinaven Oil Field
Future & Potential Sales Prospects	PreFEED - Preliminary Design and Engineering Contracts FEED - Front End Engineering Design Contracts EPC - Engineering, Procurement & Construction Contracts EPCC - Engineering, Procurement, Construction and Commissioning Contracts EPCM - Engineering, Procurement, Construction & Management Contracts EPIC - Engineering, Procurement, Installation & Commissioning Contracts

PROJECT	Norway Field Development Extension
Project Sector	Upstream
Location	Europe, Norway, Offshore, Norwegian Continental Shelf Areas
Project Holder/Operator	GDF Suez Group/Verbundnetz Gas AG/StatoilHydro ASA/ENAG/ExxonMobil/Petoro AS
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$165 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the extension of Njord gas field
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts CC - Consultancy Contracts

PROJECT	UK Field Installation Development
Project Sector	Upstream
Location	Europe, United Kingdom, UK Continental Shelf
Project Holder/Operator	BP
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$15 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development and installation of booster pumps on Schiehallion central manifold
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts CC - Consultancy Contracts

TENDERS & CONTRACTS

PROJECT	Norway Field Development Extension
Project Sector	Upstream
Location	Europe, Norway, Offshore, Norwegian Continental Shelf Areas
Project Holder/Operator	DONG - Danish Oil & Natural Gas/StatoilHydro ASA/Total
Scope of work	EC - Exploration Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$225 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development of Glitne oil field
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts CC - Consultancy Contracts

PROJECT	England Clean Fuels Project
Project Sector	Downstream
Location	Europe, England, Merseyside Area
Project Holder/Operator	Shell
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$240 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development of Shell Stanlow clean fuels
Future & Potential Sales Prospects	O&M - Operations and Maintenance Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts

PROJECT	Netherlands Chemical Feasibility
Project Sector	Downstream
Location	Europe, Netherlands, Zuid-Holland Area
Project Holder/Operator	Huntsman Corporation
Scope of work	FS - Feasibility Study Contracts
Current/Past Phase	The project had been on a negotiation phase
Contract Value Estimate	Over US\$390 million
Start up Timing	From 2019 - 2020
Development Stage	Potential Project
Brief	The project is associated with the MDI development of Rozenburg methylene diphenyl diisocyanate complex
Future & Potential Sales Prospects	PreFEED - Preliminary Design and Engineering Contracts FEED - Front End Engineering Design Contracts EPC - Engineering, Procurement & Construction Contracts EPCC - Engineering, Procurement, Construction and Commissioning Contracts EPCM - Engineering, Procurement, Construction & Management Contracts EPIC - Engineering, Procurement, Installation & Commissioning Contracts

TENDERS & CONTRACTS

PROJECT	England Chemical Development
Project Sector	Downstream
Location	Europe, England, Cheshire Area
Project Holder/Operator	INEOS
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$40 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the development of Runcorn tiger chemical unit
Future & Potential Sales Prospects	O&M - Operations and Maintenance Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts

PROJECT	Norway Methanol Expansion
Project Sector	Downstream
Location	Europe, Norway, Fjord Areas
Project Holder/Operator	StatoilHydro ASA
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on a completion phase
Contract Value Estimate	Over US\$200 million
Start up Timing	From 2010
Development Stage	Operational Project
Brief	The project is associated with the expansion of Tjeldbergodden methanol factory
Future & Potential Sales Prospects	FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts CC - Consultancy Contracts

PROJECT	England Gas Storage Construction
Project Sector	Midstream
Location	Europe, England, Lincolnshire Area
Project Holder/Operator	Wingas GmbH
Scope of work	EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase	The project had been on tendering and bidding phase
Contract Value Estimate	Over US\$95 million
Start up Timing	From 2011 - 2012
Development Stage	Operational Project
Brief	The project is associated with the construction of Saltfleetby onshore gas storage
Future & Potential Sales Prospects	O&M - Operations and Maintenance Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts

TENDERS & CONTRACTS

PROJECT		Finland Midstream Unit Development
Project Sector		Midstream
Location		Europe, Finland, Southern Finland, EteläSuomen Area
Project Holder/Operator		Gasum Oy
Scope of work		EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase		Working contracts have been won
Contract Value Estimate		Over US\$30 million
Start up Timing		From 2010 - 2011
Development Stage		Operational Project
Brief		The project is associated with the development of Finland LNG facilities.
Future & Potential Sales Prospects		FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts O&M - Operations and Maintenance Contracts. TC - Term Contracts

PROJECT		Hungary Gas Storage Development
Project Sector		Midstream
Location		Europe, Hungary, Csongry Area
Project Holder/Operator		MSZKSZ - Hungarian Association of Hydrocarbon Storage MOL - Hungarian Oil and Gas Plc
Scope of work		EPC - Engineering, Procurement & Construction Contracts
Current/Past Phase		Job contracts had been won
Contract Value Estimate		Over US\$850 million
Start up Timing		From 2010
Development Stage		Operational Project
Brief		The project is associated with the Szoreg development of Hungary strategic natural gas storage facility
Future & Potential Sales Prospects		O&M - Operations and Maintenance Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts PMC - Project Management Contracts TC - Term Contracts

PROJECT		France Midstream Test Project
Project Sector		Midstream
Location		Europe, France, SeineMaritime Region
Project Holder/Operator		Dresser-Rand Company
Scope of work		O&M - Operations and Maintenance Contracts
Current/Past Phase		The project had been on a completion phase
Contract Value Estimate		Over US\$20 million
Start up Timing		From 2009 – 2010
Development Stage		Operational Project
Brief		The project is associated with the Le Havre LNG test unit
Future & Potential Sales Prospects		CD - Conceptual Design Contracts C - Consultancy Contracts FC - Framework Contracts LSTK - Lump Sum Turnkey Contracts MC - Multi Contracts TC - Term Contracts

NEWSBASE INFORMATION

HEADLINES FROM A SELECTION OF NEWSBASE MONITORS THIS WEEK

Oil and Gas Sector

AfrOil

Apache has made a number of oil and gas discoveries in Egypt's Faghur Basin.

AsianOil

Petronas has awarded Subsea 7 the contract for installation work at the Kumang project offshore Malaysia.

ChinaOil

China became the world's top energy consumer in 2010, according to BP's latest global energy review.

FSU OGM

Russia is set to import 2 bcm of gas from Azerbaijan this year, double the 2010 amount.

LatAmOil

Brazil's OGX expects to sell stakes in its Campos Basin and Parnaiba Basin assets before the end of the year.

Downstream MENA

Iraq's NRC has awarded Honeywell an automation systems upgrade contract for its Baiji refinery.

MEOG

Saudi Aramco has issued three new tenders to carry out more frontier seismic work.

NorthAmOil

Goodrich has bought a stake in the Tuscaloosa Marine shale, but there are concerns over production rates.

Unconventional OGM

Analysts have forecast that the Bakken shale could produce around 25 billion barrels of oil equivalent.

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