Setting the agenda for Moscow

WPC president Renato Bertani tells Upstream what themes he believes will dominate this year's high-profile event.

China set for golden age
IEA report says gas demand is booming in world's second largest economy

Crude under pressure as ISIS advances on Baghdad

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21ST WORLD PETROLEUM CONGRESS

SUNDAY 15 JUNE 2014

THE OFFICIAL DAILY NEWS

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Arctic battle
Greenpeace targets semisub being upgraded for ExxonMobil.

Lukoil cheer
Russian giant hits production targets at West Qurna 2.

Norway drops
Investment in country's offshore sector expected to fall.

Four for Peru
Country plans to host four bidding rounds over 2014 and 2015.

Shelf eyes rigs
Middle Eastern rig owner may use some of IPO proceeds to buy more units.

Looking ahead:
WPC president Renato Bertani
Photo: KATHRINE SCHMIDT

Behind the Wood Review
The background to the UK’s North Sea blueprint

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Qatargas
Setting the scene for Moscow

As the World Petroleum Congress gets set to kick off its twenty-first instalment in Moscow, Upstream correspondent Gareth Chetwynd in Rio de Janeiro got the views of the event’s president and chief executive of Brazilian independent Barra Energia, Renato Bertani, on what themes are likely to pervade this high-profile industry show.

Renato Bertani: I had the honour of serving WPC for about 17 years, the last three of which as president. Over this period the world has changed at an unprecedented pace — and so did the oil sector.

In addition to innovating and deploying the highest (level of) technology, the industry now has to engage with all stakeholders and adhere to the key principles of sustainability — responsible profitability, increasingly strict practices on environmental and safety management, and ethics and transparency as an intrinsic part of the business model.

We still have a long way to go on improving sustainability and this subject will be high in the agenda of this congress and, I suspect, for subsequent ones.

Upstream: What are the main themes that will be under discussion at the 21st World Petroleum Congress this year?

Bertani: A significant part of the programme will be dedicated to discussing the long-term sustainability of the industry, which has to meet increasingly more strict requirements with respect to environmental protection, safety and ethical standards in doing business.

Under the theme “Responsibly Energising a Growing World”, we have a broad agenda of discussions that will cover all sectors of the industry and the new technologies and innovative solutions being developed for the exploration and production in ever more challenging environments and delivery of energy and high quality products to the final consumer in an affordable and reliable way.

We will also look at how to address the steadily growing energy demand driven by demographics and economic development, particularly in the non-OECD countries.

Oil and natural gas currently account for about 60% of the world’s energy matrix and we expect that this will continue to be the case in the next few decades.

Upstream: How has current geopolitical tensions — such as between Russia and Ukraine, China and Vietnam and the situations in Libya and Iraq — affected planning for WPC in Moscow?

Bertani: WPC is a non-political organisation and we do not express an opinion or take positions on political matters.

Nevertheless, we strongly encourage that any disagreements regarding cross-border energy matters be settled through negotiation and diplomacy.

The challenges that the industry energy faces in the next decades are truly global and, as such, require a high degree of co-operation between exporting and importing countries.

In this context, the long-term solutions will be based on balanced inter-dependence between producers and consumers.

It is only in such a co-operative environment that we will be able to attract the huge capital and technology requirements that will be necessary to ensure the sustainable and reliable supply of oil and natural gas for the benefit of all societies.

Within this context, WPC in Moscow is a great opportunity to promote the high level dialogue that is necessary to sort out such geopolitical issues.

Indeed, we have confirmed participants at a very high level of most of the countries mentioned and we look forward to creating the constructive atmosphere for a productive discussion.

Upstream: What are your thoughts on developments in the golden deep-water triangle of West Africa, Brazil and the Gulf of Mexico?

Bertani: In all of these areas, oil exploration and production has been going on for decades and vast reserves have been discovered and brought on stream, mostly from turbiditic or shallow marine sandstone reservoirs. It would normally be expected that further exploration would yield discoveries progressively smaller and/or of lower productivity.

This is where challenging existing paradigms and innovative thinking change the game. The Lower Tertiary play of the Gulf of Mexico and the new pre-salt province discovered offshore Brazil and most recently in West Africa, prove the point that it pays to innovate.

None of these geologic settings looked particularly promising if results from shallower water were to be simply extrapolated to deeper waters. However, careful assessment of these deeper petroleum systems has indicated that major accumulations could be sitting there. It took courageous decisions and the drilling of very expensive wells to prove the play — and the rest is history, as the saying goes.

Multi-billion barrel fields have been discovered and some of the world’s most productive wells have been drilled in these geologic provinces, some of them producing steadily over 30,000 barrels per day.

Moreover, exploration is still in the very early stages and it is reasonable to expect that many more large accumulations will be discovered in the ultra-deep waters of the Gulf of Mexico, Brazil and West Africa.

I think we will see strong and continuous interest of the industry in gaining access to acreage in all of these basins, and I am very optimistic that regulatory hurdles will be dealt with and the pace of bids for exploration acreage will generally accelerate.

We must understand that countries have their own internal policies and are free to implement the industry model that they deem appropriate.

Nevertheless, as a matter of principle, we think that, by providing access to acreage through transparent bidding processes and awarding contracts under stable and fair terms, countries and societies will benefit the most from their natural resources.

Upstream: Where do you expect to see a particular rise in activity in the oil and gas industry?

Bertani: I expect that oil companies will seek to increase their reserves bases in two ways: gaining greater efficiency in oil and gas recovery from the currently producing reservoirs, and pushing the envelope on new frontier exploration.

Virtually every single existing oil and natural gas province is a
2014

candidate for a new surge in activity, because we can always find new oil and old fields and basins with new technologies. I also expect a bigger role for small- and medium-sized companies that will focus on less capital intensive projects, while majors and large national oil companies will focus on the much bigger prospects where they may replenish their reserves.

Technology and innovation will, once again, be central to any future growth and longevity of the industry. There are several areas where I think the industry would benefit the most by lowering reservoir risk and uncertainty — improving drilling efficiency and bringing costs down, and improving safety and environmental standards. Perhaps due to my geoscience background, I would be really keen on breakthroughs on seismic imaging at the reservoir level and enhancement of reservoir performance and recovery factor.

•• See tomorrow’s edition of the WPC Official Daily News for the second part of this exclusive interview with Renato Bertani.

It took courageous decisions and the drilling of very expensive wells to prove the (pre-salt) play — and the rest is history, as the saying goes.

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Crude under pressure as ISIS advances on Baghdad

Kurdish Regional Government forces take control of Kirkuk as bulwark against advance of militant group, with analysts warning risks to oil and operations could increase if tensions rise even further

CRUDE prices remained high this weekend as political tensions in Iraq increased further with al-Qaeda-linked insurgents said to be nearing the capital, Baghdad.

The capture of key towns by the Islamic State of Iraq and the Levant (ISIS) recently has led to market anxiety over a possible supply shortage. The per-barrel price reached a nine-month high of $114.69 on Friday before being pared back due to an element of assurance on demand, Reuters said.

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"However, southern production will be expected, a further spike in oil prices would be expected.

The situation has escalated to such a degree that US President Barack Obama is considering the use of air strikes – possibly within days – against the insurgents, while Iran has sent Major General Qassem Suleimani, a key power-broker in the Iranian revolutionary guards, to Baghdad to meet militia leaders and tribal chiefs.

Raad Alkadiri, senior director of upstream research at IHS Energy, said: “Oil and gas infrastructure – including the northern crude export route and its downstream assets will be vulnerable to repeated attacks, and the risk of disruptions to domestic product supply is high.

"ISIS will also pose a continued threat to operations in some Kurdish-awarded blocks that lie in disputed territories. "The risk to operations will rise further if ISIS' operations prompt external intervention, possibly by Turkey or Iran, which will exacerbate internal tensions even further.

"However, southern production and exports are unlikely to be directly affected," he added.

On alert: Kurdish security forces on the outskirts of Kirkuk earlier this week

Photo: REUTERS/SCANPIX

Chevron in Chad sale

US SUPERMAJOR Chevron has sold its 25% non-operating stake in a producing oil concession and the related export pipeline interests in southern Chad for about $3.5 billion.

Chevron said the assets to the Chad government in a deal that closed on Friday.

The company had owned the assets for the last 14 years.

"The combination of current market conditions and the size of the assets relative to our portfolio make this an ideal time for a divestiture," said Ali Moshiri, president of Chevron Africa & Latin America E&P.

The deal includes the sale of Chevron’s interests in seven fields in Chad’s Doba basin, which produced 18,000 barrels per day of crude in 2013.

The sale also includes a 25% non-operated stake in a pipeline system that transports crude to the Cameroon coast.

OIL PRICE

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Photo: REUTERS/SCANPIX

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Join us at 11.45 a.m. MSK in the Plenary Hall on Monday, 16 June.
Cairn hits back after protests

UK INDEPENDENT Cairn Energy has come out fighting after it was targeted by Greenpeace last week over its exploration plans near Spain’s Balearic Islands.

A group of protesters from the environmental watchdog descended on the operator’s Edinburgh offices, while its flagship Rainbow Warrior prepared to protest against Cairn’s plans.

However, Cairn hit back, saying it currently has no drilling plans and is only applying to conduct seismic acquisition.

“Cairn is working in Spain at the invitation of the Spanish government and is at the very early stages of assessing whether to explore for hydrocarbons,” it said.

“Exploration in the Spanish Mediterranean is not new as it has been going on for almost half a century with nearly 200 wells drilled and over 100,000 kilometres of seismic acquired.

“Cairn strongly believes that sustainable and safely offshore Spain and we have put in place a comprehensive and robust plan with health, safety and environment as our focus and priority.”

Greenpeace has taken up position at a Norwegian yard to target a rig being upgraded for drilling work by ExxonMobil in Russia’s Kara Sea this summer.

The environmental group’s protest vessel Esperanza sailed this week into the fjord of the Westcon yard at Olen near Haugesund on Norway’s west coast, where upgrade work is being carried out on the semi-submersible West Alpha.

The rig, owned by Seadrill unit North Atlantic Drilling, is being winterised at the yard in readiness for the controversial Arctic drilling effort due to be carried out by the US supermajor between July and September.

The wildcat will target the Universitetskaya structure at the East Prinovozemelsky block and will be the first to be drilled by ExxonMobil under its Arctic exploration pact with Russian state-owned Rosneft. The licence overlaps Russia’s Arctic National Park that is a habitat for a diversity of wildlife, including polar bears and walruses, and also hosts a bird colony.

Greenpeace activists were displaying protest banners while riding in a rubber raft but had not apparently initiated any direct protest action against the rig on Friday.

The West Alpha was also targeted earlier this year by activists who boarded the rig dressed as polar bears.

The environmental group recently boarded the semi-submersible Spitsbergen in an abortive attempt to block drilling by Statoil in the Barents Sea that was spudded earlier this month.

The Esperanza had to be towed away by a Norwegian Coast Guard vessel after occupying the drilling site.

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NORWAY

Greenpeace sets sights on Kara Sea rig at yard

Environmental group moves into Westcon facility on Norway’s west coast as it targets semi-submersible being upgraded for ExxonMobil

STEVE MARSHALL

Oslo

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Lukoil hits production targets at West Qurna 2

RUSSIAN giant aims to produce 400,000 bpd by end of year and is already setting sights on exports

On site: Lukoil’s West Qurna 2 facility in Iraq

Lukoil Overseas, the company’s international operations wing, informed the Iraqi Oil Ministry last week that it has “fulfilled its contractual obligations for first commercial production” at the project.

The company maintained average production of at least 120,000 barrels per day for 90 days. Current output is about 200,000 bpd.

“The West Qurna 2 project is developing at a fast pace, and production is going up,” said Lukoil Overseas president Andrey Kuzyrev.

“Timely cost recovery for the early oil phase will enable (Lukoil) to proceed to active implementation of the subsequent phases of the field development,” Lukoil brought the field on stream at 120,000 bpd in late March after a series of delays.

The company is looking to hit 400,000 bpd by the end of this year and has already set its sights on a start of exports by about the start of August.

Also around that time, Lukoil plans to complete work on the field’s central processing facility, which will include nine trains, each capable of handling as much as 50,000 bpd. That ramp-up will eventually include a natural gas processing plant, and Lukoil’s goal is to boost production to a maximum of 550,000 bpd from its Mishrif activities.

“West Qurna 2 is expected to provide a backbone of production for Iraq’s aspirations to boost its oil exports to 3.4 million bpd this year,” the oil company said.

Lukoil holds a 75% operating stake in the field, with Iraq’s state-controlled North Oil Company holding the remaining 25%.

Ultimately, Lukoil believes it can produce 1.2 million bpd with its next project after Mishrif — known as Yamama — expected to add another 600,000 bpd.

Lukoil will complete front-end engineering and design for Yamama in mid-2015 and hopes to begin construction by the end of 2015.

Earlier this month, the company signed a new agreement to allow investors to get a faster return on costs for the construction project at West Qurna 2.

The deal has been changed to include the construction of the Tuba-Fao pipeline and will allow for change in the procedure for project investors to recover costs.

The Tuba-Fao project, for which pre-front-end engineering and design studies have already been carried out, will see the construction of two pipelines between the Tuba tank farm and the Fao tank farm, the main export hub in Iraq on the Persian Gulf coast.

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GLOBAL ENERGY MARKETS

Fossil fuels are here to stay...

The latest analysis from Norway's Statoil predicts that growth will come mostly from non-OECD countries — and natural gas will become increasingly important.

JOHN O'CONNOR and OLE KETIL HEGENSEN
London and Oslo

NO MATTER which way one looks at it, a sustainable global energy system will continue to require a large input from oil and gas, according to Statoil's latest annual analysis of macroeconomic and energy market developments.

In three very different developmental scenarios, one recurring theme the Norwegian oil giant found is that growth in energy demand is set to come from non-OECD countries, while the role of natural gas in the energy mix is most likely set to swell.

Statoil's "Energy Perspectives 2014" looks at how markets are set to develop up to 2040, with three different scenarios analysed to illustrate the major uncertainties in modelling long-term developments.

The three scenarios are:

- The Reference scenario, with already decided energy and climate policies, as well as ambitions and targets, that focuses on likely developments in policy measures as the starting point for the modelling.
- The Low Carbon scenario, where more comprehensive energy and climate policies are applied to incentivise a more rapid increase in energy efficiency, green growth and technology development.
- The Policy Paralysis scenario, where protectionism and geopolitical rivalry lead to lower growth, a less green energy mix and lower energy efficiency. Global energy demand will grow 44%, 4% and 26%, respectively, in the scenarios but, "to a varying degree", the growth will mainly come from non-OECD nations.

"Annual global economic growth in the Reference scenario is projected to average 3% over the next three decades," Statoil said. "This is in line with growth over the past 20 years."

"Emerging economies are expected to continue to lead the way, with non-OECD growing at 4.5% on average per year and OECD at 1.9%." The Reference scenario is set to see demand grow for all energy sources, though oil demand growth is only set to climb 0.6% per year to 2040, while renewable will jump 8% per year.

"Whereas fossil fuels supplied 81% of the primary global energy demand in 2010, this is set to drop to 79% by 2040 in this scenario."

The Low Carbon scenario will see coal consumption plummet, the share of oil drop and the use of gas to increase globally by about 10% from 2010 to 2040.

In the Policy Paralysis scenario the global fuels mix becomes less green, with coal growing but the oil share dropping. There will also be big regional differences for natural gas as importing regions see a decline in use, while exporting regions see a rise.

"Natural gas is 'likely to become an increasingly important fuel in the decades to come', demand for the commodity growing 1.4% per year in the Reference scenario, 2% in the Low Carbon scenario and remaining relatively stable in the Policy Paralysis scenario."

"The analysis confirms the results presented by the International Energy Agency — that within a sustainable energy system, there is still a strong need for oil and gas in the energy mix over the coming decades," Statoil said.

Natural decline "Given maturations of the world's existing oil and gas fields, all three scenarios imply major investments to replace current production. Even a strong growth in renewables will not be enough to replace the natural decline from producing fields and meet the global demand for energy", Statoil's chief economist Eirik Waerness commented.

He added: "Fossil fuels are here to stay. Even in the Low Carbon scenario, huge investments in oil and gas are required. Existing fields cannot meet the demand."

Statoil expects a decline in the use of fossil fuels in OECD countries in the coming years, with most of the growth to come from Asia.

"As the economic centre of gravity moves eastwards, so will the energy demand. We expect China alone will represent 27% of the energy demand in 2040. In our Reference scenario, China's demand for oil is 60% higher than today," Waerness said.

"During the period, Statoil believes energy consumption will rise at a slower rate than economic growth. "Due to higher energy prices, climate policies, new technologies and the fact that more economies will reach a higher level of prosperity, we believe that the world will use 40% less energy for each dollar earned"."

Waerness told Upstream that Statoil now believes that carbon capture and storage (CCS) will come later than previously expected.

"The development of this technology has been somewhat slower than the optimists hoped for. It now seems that it will take a bit longer time than expected," he said.

"There are many reasons for this. There are no ongoing CCS projects at all in Europe. We think this technology will come at the end of the 2020s. However, formidable investments are needed for CCS to make an impact."
Finally, the most awaited 21st WPC has come into reality and the WPC Youth Committee welcomes all the young professionals and students from all corners of the world working in the energy industry. WPC YC has worked very hard for the 21st WPC to meet the expectations from youth, and address the issues currently facing the industry.

With increasing challenges and demand for the global energy mix, the WPC exhibition is ready to showcase their technologies and how they are able to tackle the issues.

The Youth Lounge has been set up at the exhibition centre to attract not only young professionals but also chief executives and senior professionals.

Visitors can discuss some of the emerging issues along with technical sessions and tours, Petro Olympic games and have a chance to talk about the future of the industry. YC encourages all delegates to actively participate and exchange ideas on the key topics of the 21st WPC Youth Program, where the current problems can be addressed.

The young generation in this industry has excellent opportunities to expand its horizons in various fields, and WPC is an ideal platform to make new friends in the industry — after all, who are the future energy leaders?

In particular, YC recommends all volunteers and recipients of student grants to participate actively in the Youth Connect platform and to make the most of the many career prospects at hand.

WPC YC urges all youth participants to use the time at the Congress to seek new knowledge by attending the sessions, and not least to actively engage with the Congress speakers.

It is essential for career development that you dare to ask questions, seek answers and expand your network.

We are a global industry and we, the youth, must take steps to build new bridges across this industry, as we are the ones who will lead it into the future.

Ten, 20 or 30 years from now we will be where our present executives are and we need to prepare ourselves for this journey, understand the risks and challenges we will face, and obtain knowledge about how to meet what awaits us.

This all starts with initial steps to leave your comfort zone, approach other people around you and make contact. If you do not do this, who will do so on your behalf?

WPC YC Moscow is honoured to showcase its excellent work, and is pleased to inaugurate the Youth lounge during the official exhibition opening of the 21st WPC. We hope to see you there!
Former BP engineer is cleared

AN ENGINEER convicted as part of the ongoing lawsuit in regards to the 2010 BP Macondo blowout has won a new trial, with his previous conviction thrown out.

US District Judge Stanwood Duval tossed out his December conviction of former BP employee Kurt Mix, stating the jury was not impartial, Reuters reported.

“These extreme circumstances place the very sanctity of the impartial nature of Mix’s jury at issue,” Duval reportedly said.

Mix was convicted on one count of obstruction of justice for deleting hundreds of messages he exchanged with his supervisor and a contract after the spill.

He was the first of four BP employees to be charged in regards to negligence surrounding the spill.

Mix was part of the team that plugged the Macondo well and worked to figure out how much oil was leaking.

Duval called on jurors to testify based on allegations that a series of interviews had occurred which could have affected the outcome of the decision.

Five jury members claimed that one juror said she heard information outside the court that gave her “comfort” in finding Mix guilty.

The judge said the juror’s actions were “in contravention of the court’s instructions”.

“The jury further failed to heed the court’s instructions in that after this information was imparted to the jury, the jury failed to inform the court of its occurrence,” Reuters reported.

The Macondo well explosion in 2010 killed 11 workers on the Deepwater Horizon drilling rig.

What followed was an 87-day oil spill in which millions of gallons of crude escaped into the Gulf of Mexico.

A court date has been set for BP’s trial in a federal court to discuss penalties.

The appearance on 20 January 2015 is for the third and final phase of a civil trial that could result in up to $17 billion in penalties being levied against the UK supermajor over the spill.

Investment in Norway’s offshore sector to drop

Industry spending expected to fall by 21% next year, according to quarterly report from statistics agency

STEVE MARSHALL
Oslo

INVESTMENTS in Norway’s offshore sector are expected to drop sharply in 2015 after hitting a forecast record of Nkr231.7 billion ($38.7 billion) this year as major oil companies cut back on spending to boost lagging returns, according to the country’s statistics agency.

Industry spending is expected to fall by 21% to Nkr182.4 billion next year after peaking in 2014, mainly due to significantly lower investments in fields under development and those already on stream, according to companies surveyed in the quarterly forecast by Statistics Norway.

The projection for the current year is up Nkr8 billion from a previous estimate — and Nkr20.4 billion higher than last year — although much of this is accounted for by shutdown and removal spending, which is included for the first time in the quarterly figures.

The predicted spending drop would bring to an end a decade in which investments in the country’s key oil and gas sector have tripled, fueling a costs spiral that is now forcing oil companies to apply the brakes on spending.

State-owned Statoil said earlier this year it was looking to cut costs by more than $5 billion between 2014 and 2016 and reduce annual investments by 8% to $20 billion over the same period, with savings targeted in a range of business areas, including maintenance and modification of existing platforms.

The agency forecasts spending on field development projects will fall Nkr12.2 billion, or 33%, to Nkr56.3 billion in 2015 compared with the estimate for this year.

However, this decrease is likely to be moderated by the inclusion of figures for the giant Johan Sverdrup scheme — with targeted investments of up to Nkr110 billion in the first phase — after expected submission of the development plan early next year by acting operator Statoil.

Investments in producing fields are seen at Nkr75.5 billion next year, a drop of Nkr21.2 billion, or 22%, on the estimate for this year when spending is already expected to fall Nkr11.8 billion compared with last year.

Eni and KazMunaiGaz in Kazakh Caspian Sea block pact

ITALIAN giant Eni has forged a joint venture with state-owned KazMunaiGaz to exploit potential resources in a Caspian Sea block off Kazakhstan.

The pair will each hold 50% stakes in exploration and production rights for the Isatay block in the northern Caspian under a strategic pact signed on Thursday by Eni chief executive Claudio Descalzi and KMG executive chairman Sauat Mynbayev.

They will also participate in a joint operating company that is being set up to tap expected significant oil resource potential in the block.

The two companies have agreed to develop a new shipyard at Kuryk in the Mangystau region on the Caspian coastline that will be run by a project company to be formed by the pair, apparently in an effort to secure local content for future field development projects.

The deal raises Eni’s profile in Kazakhstan, where it is already a co-operator of the Karachaganak field and a partner in the giant Kashagan field, where production is presently halted due to technical issues.
PERU

Peru set for four rounds in the next 18 months

Block 1AB in Marano basin sees Perupetro seeking new operator, with onshore and offshore acreage to follow

TONYA ZELINSKY
Calgary

PERU’S government plans to host four bidding rounds onshore and offshore the South American country between 2014 and 2015. The first parcel up for bid will be Block 1AB in the northern part of the Marano basin when the 30-year contract for the current lessee expires.

A spokesman for state-owned Perupetro said the government is looking for a new operator for the block. At present the block has 116 active wells and 12 fields under production. Current production is 14,000 barrels per day and reserves are estimated at 71.1 million barrels. It also borders three rivers — Tigre, Corrientes and Pastaza. The second bidding round will offer blocks 3 and 4 in the Talara basin in south-west Peru. The third round includes an additional 26 exploration blocks in the jungle basin, beginning with seven blocks later this year. The fourth round of bidding, taking place early next year, will include six blocks in the offshore sector.

The government said it is currently conducting 12,000 square kilometres of 2D seismic on a multi-client basis and acquiring an additional 25,000 square kilometres.

Revamp of OGPar approved

A BRAZILIAN court has signed off on a restructuring plan for the independent formerly known as OGX.

The renamed OGPar said late last Friday that Rio de Janeiro’s fourth corporate court had approved the plan for the company to emerge from one of Latin America’s largest bankruptcy proceedings and avoid liquidation.

The company, originally controlled by Brazilian magnate Eike Batista, has gone through a spectacular corporate downfall that culminated in the bankruptcy filing last October after widely missing production targets at fields off Brazil. A reorganisation plan floated in February, which accounted for debt of $8.8 billion, will give shareholders willing to put up a total of $215 million a controlling 65% stake in the company.

Former controlling shareholder Batista — now being investigated for insider trading among other financial charges — will see his share cut to 5.02% while minority holders — will see his share cut to 5.02% while minority holders — will see his share cut to 5.02% while minority holders — will see his share cut to 5.02% while minority holders — will see his share cut to 5.02% while minority holders — will see his share cut to 4.98%.

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That figure includes $4.3 billion owed by sister company OSX.

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UK POLICY

Challenge ahead for industry

THE UK oil and gas industry has largely welcomed the Wood Review, although some executives have said they are waiting with interest to see how it will work in practice, writes Rob Watts.

Rob Keillier, chief executive of services company Wood Group — the family business Ian Wood built into the global force it is today — says he is encouraged by the report.

“There is a need for greater collaboration across the industry, but we need a balance between collaboration and competition,” he says.

“I am encouraged by the report but it will be interesting to see what comes next. How the recommendations can be put into practice and how we can collaborate across the supply chain.

“It will only be as effective as the implementation.”

However, Keillier points out: “It is likely it will impinge, to some respect, on the individual decision-making of companies for the greater benefit of the basin.

“When you are constraining people to do things that they believe to be sub-optimal to their own individual position, it will be interesting when that tension point is reached.”

He adds: “I think it may be difficult to change the behaviour of people without there being a reasonable degree of sanction available.

“I can’t help thinking some of the companies we deal with may talk collaboration, but at the end of the day may find it difficult because of their corporate constraints. It will be challenging.”

Judith Aldersey-Williams, a partner at the Aberdeen office of law firm CMS, who was interviewed by Wood’s team for the review, echoes that view.

She says: “Something that is in the interests of maximising recovery for UK plc may not be in the commercial interests of every single company. And these companies are not charities.

“They have obligations to their shareholders and they are not going to do something that is contrary to their commercial interests unless they are legally obliged to.”

Aldersey-Williams believes the report could present other legal obstacles, not least in relation to the complex jigsaw of agreements associated with any North Sea development.

She says: “If you want to add something into that, it has to be consistent with that jigsaw, or you have got to get people to change things.

“And people are not going to change things unless they are obliged to do so or unless they are compensated for doing so.

Inevitably, Aldersey-Williams says, the speed of any change would be dictated by the most cautious party or the one with the least resources.

North Sea blueprint lays

Wood Review aims to ensure industry leaves a lasting legacy, but its implementation will require a radical cultural change for some companies

ROB WATTS

London

Early in 2013, just as Ian Wood was winding down his schedule after retiring as chairman of services giant Wood Group, officials from the UK Department of Energy & Climate Change (DECC) approached him for advice.

Wood says it was two or three meetings before he realised he was being “lined up for a task”. The product of that task – the Wood Review – has set out a radical blueprint for reversing the fortunes of the mature North Sea oil and gas province.

Its success will, in part, require a major cultural change among the region’s oil and gas companies, which are being asked to end their long-standing adversarial approach to business.

Three months on from the publication of the final report, Wood says he is glad he accepted the challenge.

Pondering why he agreed to take the job, Wood says it was not so much about leaving a personal legacy, rather ensuring that the North Sea industry would itself leave a good legacy.

“Oil and gas and the North Sea have been my working life. It is what I’ve done. I sensed this was an opportunity for essential and important change – a moral moment,” he tells Upstream in an exclusive interview.

Not long before he was approached by DECC, Wood accepted an invitation to chair a Scottish government commission examining the development of the country’s young workforce. He is also closely involved in the work of the Wood Family Trust, the charity he established in 2007.

While the prospect of the North Sea review was exciting, it filled him with trepidation. For one thing, the job would require a lot of time and energy.

On top of that, there was one person whose permission he would have to seek before accepting the post. Wood says: “I got my wife’s approval, as I knew I was about to breach every promise I had made to her when I retired from Wood Group.” In 2013, before he announced he was stepping down from the Wood Group board, he had promised his wife Helen that they would spend more time with their grandchildren, travel more together and play more golf.

However, he says: “She recognised it was hard for me to turn down this role, frankly.”

North Sea problems Wood says it had been clear for some time that the North Sea industry was facing problems.

In 2009 Wood stepped down from government-industry forum Pilot, but found himself back at the table in 2012.

He quickly sensed that DECC had contracted to a size “where it was clearly struggling” with the number of developments and increased number of operators in the North Sea.

Wood says: “I knew – everyone knew – there were issues. Clearly DECC was severely undermanned. They have some good quality people but they were swimming under-
Regulator can be the catalyst for change

UK CONTINENTAL SHELF
Players see wisdom of Wood Review

Despite being told it needs to change aspects of its culture, the North Sea industry has welcomed the Wood Review. The report has also been fully backed by government. Malcolm Webb, chief executive of lobby group Oil & Gas UK, said: “I haven’t come across anybody in industry who is saying this isn’t right.”

“It is brilliantly written. It is almost a self-evident truth that you cannot go on in a highly regulated environment like the (UK continental shelf) without a strong and active regulator. It is needed as a catalyst for change.”

Webb said he looks forward to the regulator enabling better collaboration between oil companies and also believes it will foster improved cross-government collaboration and interaction between the Department of Energy & Climate Change (DECC) and the Treasury.

However, there have been small pockets of uncertainty about how effective the report will be in practice. Ian Wood says he was not particularly surprised by the reaction of many individuals, because “my report reflects the content of the interviews”.

However, he did have reservations about how industry would react collectively.

Any doubts on that front were dispelled when he faced industry as a group for the first time at a meeting of Pilot.

“I wasn’t sure what would happen when they all got together and started talking among themselves,” Wood says.

“The Pilot meeting was the first time I had faced 20 or 25 of them together.

“I had spoken to all of them but I wasn’t sure how it would go.

“Actually, they just asked (Energy Secretary) Ed Davey ‘how quickly can this be done?’”

At 71, Wood admits that at times last year he found his responsibilities tough.

“It was a lot of hard work. Between that and my other commission role I was probably working more hours than I did with Wood Group, and I worked a lot then,” he says.

“But there were a lot of interesting experiences also. There were some good sessions with the chancellor, the prime minister, and I addressed the Cabinet.”

Role free from politics

Some critics have argued the UK government commissioned the Wood Review in part to fend off claims being made in the run-up to September’s referendum on Scottish independence that it did not fully understand the North Sea. However, Ian Wood rejects any suggestion the review was politically motivated.

Wood says he sought several guarantees from Energy Secretary Ed Davey before agreeing to carry out the review, one of which was that the review was completely non-political.

Other assurances he sought were for complete independence in carrying out the review and that it should be done quickly.

“The industry cannot afford a two-year investigation, let’s get it done in nine months and focus on the major issues,” Edward Davey was totally behind that,” Wood says.

“I honestly think there were no political motives whatsoever. I think it was purely concern about the number of key measures, and indices, in the North Sea falling.

“It was also a realisation that something had to be done to build up the Department of Energy & Climate Change (DECC). No, I don’t think it was politically driven at all.”

He adds: “I take my hat of to Ed Davey, because governments don’t often invite someone to look at themselves — and that was exactly the remit of the review.”

SOME sector strategies recommended:
- Explanation strategy - revitalising exploration, facilitated by efficient access to well and seismic.
- Asset stewardship strategy - to ensure operators are held to account for the proper stewardship of their assets and infrastructure consistent with their obligations to maximise economic recovery from the fields under their licences.
- Regional development strategy - to ensure the development of UK continental shelf resources on a regional, rather than solely a field-by-field basis. Licence holders should make their infrastructure, such as pipelines, available to producers at smaller, marginal fields under fair terms.
- Infrastructure strategy - ensure the life of existing infrastructure is prolonged to help with the processing, transport and export of the UK’s offshore oil and gas resources, and that investment in new infrastructure is achieved.
- Technology strategy - to ensure existing technologies are deployed to their full effect and relevant technologies are developed to maximise recovery from the UK continental shelf.
- Decommissioning strategy - major assets should not be decommissioned prematurely to the detriment of production hubs and infrastructure. Field life should be extended for as long as economically possible.

WEED

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UK FLOTATION

MIDDLE Eastern rig owner Shelf Drilling could use some proceeds from a planned $500 million flotation in London to purchase more units, although there are no plans to place fresh orders any time soon.

The Dubai-based player, which last week confirmed earlier reports that it will seek an initial public offering in the UK capital, could have at least $250 million to spend on what chief executive David Mullen described as “opportunistic” acquisitions once the flotation — planned for around July — goes through.

Shelf, set up by a trio of private equity outfits in 2012 to buy 38 drilling units from rig giant Transocean, is looking to raise at least $500 million from the IPO, half of which will go towards paying down some debt under its $300 million term loan. The other half will come from principle shareholders selling down their stakes, although Mullen said they will collectively continue to own between 30% and 79% of the company post-IPO.

“We are looking opportunistically at acquiring existing rigs where there may be a strategic rationale to sell them,” Mullen told Upstream, adding, however, that it was not considering buying a whole fleet.

“We are not going to order rigs on speculation, and we are not going to buy assets if we don’t have a home (charter) for it — a home that is going to generate the returns that you see from us today,” Mullen said.

The company currently has 37 jack-ups in service, plus a single swamp barge. It concentrates on the markets of the Middle East, South Africa, Mediterranean, South-East Asia, India and West Africa.

Shelf also recently ordered two LeTourneau Super 116E-design jack-ups at Sharjah-based Lamjedt for more than $350 million after sealing charter contracts with US supermajor Chevron worth $682 million for the rigs to work off Thailand for five years each.

Mullen described Chevron Thailand as “by far and away the most efficient exploration and production drilling company there is out there, which on average “drills and completes wells in five days”.

He continued: “Our goal is to be able to save about 20% on that five days (with our two newbuilds), which is already best-in-class. So, I see that as a catalyst for other opportunities with other big E&P operators and the national oil companies.”

“I see the United Arab Emirates as a huge market and we are in discussion with (Abu Dhabi’s) National Drilling Company on a big opportunity there. I see Qatar as having a lot of potential to grow — maybe not this year but certainly (in years ahead), Qatar Petroleum is looking to increase quite significantly its liquid oil production, and some time in the future they will lift the moratorium on gas drilling.”

The number of shares to be offered in the IPO has not been decided, but there is expected to be an over-allocation facility of no more than 15% of the total. Shelf said it intends to pursue a divided pay-out policy of between 40% and 60% of net income once the flotation goes ahead.

Player monitoring Mexican market but holding off on move into country

LONDON-listing hopeful Shelf Drilling has no immediate plans to break into the burgeoning Mexican jack-up market, although it has already held numerous meetings with state oil giant Pemex.

The private equity-backed rig owner will continue to concentrate on its core markets of the Middle East, South-East Asia, the Mediterranean, India and West Africa once a proposed $500 million plus initial public offering goes through. Although the Mexican market is soon to open up to international exploration and production players, Shelf chief executive David Mullen is not yet ready to expand the company in that direction.

“You can’t ignore the Mexican market as it is a big growth market. But as long as we see compelling growth opportunities within our existing geographical footprint, we will continue to prioritise our existing geographical footprint,” said Mullen.

“(However,) we will continue to monitor Mexico — we have had a number of visits with Pemex. But making a move on the Mexican market would require us to rethink our organisation.

“If we were to step out into Mexico we would have to re-think that, because you can’t run Mexico from Dubai.”
North America on the upswing

Analyst says continent is set to become the world’s largest gas-producing region — and a net exporter — by 2018

STEVE MARSHALL
Oslo

North America is set to overtake Russia’s as the world’s biggest gas producer by 2018 on the back of the shale boom amid explosive growth in Asian energy demand over the next two decades led by powerhouse China, according to a leading research firm.

UK-based Wood Mackenzie predicts North America will also become a net gas exporter by the same year as rapidly expanding production exceeds domestic demand, with output set to double to 1 billion tonnes of oil equivalent (7.9 billion barrels of oil equivalent) by 2030 to make the continent the world’s largest gas-producing region.

“There is a change in the supply and demand structure that is changing forever the global energy market,” said Wood Mackenzie’s principal analyst for global trends, Paul McConnell.

Energy production has undergone an abrupt reversal, which will make the region a net exporter of energy before the 2020 and will redefine global energy markets as it provides a robust and stable energy supply.

“It will also facilitate the global rebalancing of energy demand towards Asia, providing increased supply in a period of long-term demand growth, as well as reshaping commodity trading patterns across the world,” McConnell said.

At the same time, Europe’s reliance on gas imports is expected to grow by 50% over the period — from 215 million toe (1.7 billion boe) to 320 million toe (2.5 billion boe) — as it is exposed to high fuel costs and insecure supplies.

However, Russian gas delivered by Gazprom is still anticipated to remain the cornerstone of European supplies, despite the ongoing Ukraine crisis that has raised renewed fears over supply stability, as it remains competitive against other fuels.

Demand growth in the region will outpace that of North America by five times over the next 15 years, which is effectively like adding a new Brazil to global energy demand every year between now and 2030, according to the analyst.

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Gas and power principal analyst Massimo Di-Odoardo said “the centre of gravity for global energy demand will have decisively shifted East” by 2030, with giant consumer China leading the way, followed by India and other developing economies in Asia.

North American oil output, also fuelled by shale development, is predicted to outpace major producer the Middle East by four barrels to one by 2020, and to have increased by 390 million toe (3.1 billion boe) by 2030 from the level of 650 million toe (5.1 billion boe) in 2005.

Wood Mac’s head of macro oil research, Ann-Louise Hittle, said increasing US tight oil and Canadian oil sands output “are expected to continue to add stability to the international oil market.”

McConnell said investor pressure on oil companies to cut costs and boost short-term cash flow has led to a greater focus on value over volume, leading to a rebalancing of supply more in line with expected demand growth, which is softer than anticipated a few years ago.

“On the energy industry adjusts and settles into this new equilibrium, cost pressures will remain at the forefront of executive concerns,” he said.

“However the expansion of developing markets, the impact of new techniques and technology on the supply mix, and the increasingly interconnected character of global energy trade, provides an endless spread of opportunities for growth over the long term,” he added.
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AUSTRALIA

Talisman eyes sales in Asia

TALISMAN Energy is reported to be looking at a possible sale or disposal of part of its Asian asset portfolio, valued at about US$4 billion, writes Steve Marshall.

The Canadian independent is looking to sell off assets to cut debt and bolster its balance sheet, with its Norway portfolio — including the ill-fated Yme field project — already on the block.

The company is now also reviewing its Asian oil and gas portfolio, which is considered a core part of its business, and is working with Goldman Sachs on the review, sources told Reuters.

It is unclear whether Talisman will opt to sell the entire portfolio or retain some assets, with a partial listing of the assets also one of the options being discussed, they said.

Talisman owns oil and gas assets in Indonesia, Malaysia, Vietnam, and the Asia-Pacific region that are expected to generate about US$1.2 billion, or nearly half of Talisman’s 2014 estimated cash flow, according to company presentations.

Earlier this year, the company put up for sale its interests in the Kilian and Laminaria-Corallina oilfields in the Timor Sea.

Talisman plans to put US$2 billion worth of assets on the market in the next 12 to 18 months, after raising US$6.6 billion through asset disposals since 2011.

The company did not disclose the names of the projects it plans to sell as part of the restructuring.

A possible sale of core Asian assets would mark a major strategic shift by the company.

Malaysia PSC for Enquest

UK-LISTED EnQuest has confirmed it will take over two mature upstream assets off Malaysia from ExxonMobil.

Under a new production sharing contract with state-owned Petronas, EnQuest will take ExxonMobil’s interest in the Seligi oilfield and Block PMK.

Enquest has closed the deal with Petronas Carigali for a 50:50 PSC lasting for up to 30 years, taking over operatorship as part of the deal.

Upstream previously reported the company was in prime position to take over the assets.

The PSC is expected to involve brownfield work, including infill drilling and modifications or upgrading of existing platforms.

This is the company’s third deal in Malaysia. EnQuest announced the current PMK PSC is set to expire on 30 June, with EnQuest and Petronas entering into an agreement to continually develop and produce from PMK and the Seligi oilfield until 2033.

SGH’s deal for Nexus is rejected by shareholders

Administrators appointed at Australian player after 57% vote against proposed takeover

JOSH LEWIS

Perth

AUSTRALIA’s Nexus Energy has called in administrators as shareholders rejected a deal for Seven Group Holdings (SGH) to take over the struggling company.

Independent restructuring and corporate advisory firm McGrathNicol revealed on Friday that its partners Matthew Caddy, Tony McGrath and Jason Preston had been appointed as voluntary administrators of Nexus.

The move into administration came as 57% of shareholders voted against SGH’s proposed A$275 million (US$21.4 million) takeover, which would have seen them offer A$0.02 per share. A condition of the takeover required at least 75% of shareholders to approve the scheme put forward by SGH.

McGrathNicol said on Friday that the Nexus board had determined they had no alternative other than to appoint administrators following the non-approval of the scheme and the absence of an alternative proposal that provided adequate and immediate access to funding.

“The administrators will be working with all key stakeholders, including employees and regulatory agencies to ensure the trading operations continue,” McGrath said. “Administrators will also be working with the Nexus board and management to assess recapitalisation, restructuring and sale opportunities.”

Melbourne-based Nexus warned last week that it was likely to enter voluntary administration after shareholders representing more than 50% of the issued shares in the company had made it known they were against the takeover.

McGrathNicol said nine subsidiaries of Nexus had not been placed into administration, while the boards of those subsidiaries set to work with the administrators and SGH to put in place funding arrangements to enable the Longtom, Crux and Echuda Shallows projects to continue with minimal interruption.

SGH has previously told Nexus that, if the scheme was voted down, it would not grant waivers under the bridging loan facility it provided Nexus to pay its debts while the proposed scheme of arrangement was implemented.

While shareholders rejected the proposed scheme, SGH could still take control of Nexus anyway as it has previously advised it would seek to acquire all of Nexus’ shares or some or all of its assets through the administration process.
BW OFFSHORE sees a significant increase in demand for floating production, storage and offloading vessels over the next five years after an earlier market contraction triggered by project delays and cost overruns.

The Oslo-listed floater contractor estimates a demand for 70 such vessels to 2018, of which 55 units would be newbuilds or conversions and the remaining 15 set to be redeployed from other fields, according to an investor presentation on Thursday.

BW — headed by chief executive Carl Arnet — is targeting a slice of capital expenditure by oil companies on FPSO projects estimated at $82 billion over the same period.

The more bullish outlook follows a market shake down due to lower project demand in recent years that has led to consolidation of the sector, with now only seven active players.

As a result, the future supply-demand balance appears more positive, with the tally of lease awards starting to exceed the number of contractors, according to the company.

BW is now the joint market leader with SBM Offshore — each with a fleet of 17 FPSOs, including units under construction — alongside smaller rivals Modec, Teekay Petrojarl, Bumi Armada, Bluewater and Yinson Holdings, which recently acquired Norway's Fred Olsen Production.

The company said there is now "solid demand" for FPSOs, as well as fewer contractors, while projects typically have greater technological complexity and higher capital expenditure, therefore increasing barriers to entry.

BW, with a current order book of $10 billion having recently bagged the coveted FPSO award on Premier Oil’s newly approved Catcher field off the UK, sees a total of up to 45 potential floater contract opportunities over the next three years off Brazil, Africa and in South-East Asia. There could also be a handful of further awards in the Gulf of Mexico and Northern Europe, it said.

The jury is currently out on the concept for Statoil’s stalled Johan Castberg project in the Barents Sea where an FPSO was recently touted by consultancy Wood Mackenzie as a more commercially viable solution to develop the Arctic field, with a decision by the Norwegian state-owned operator expected imminently.
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1) Upstream readership survey, TNS Gallup 2012.
WEST AFRICA

TOTAL has launched production from its deep-water Clov field cluster project in prolific Block 17 off Angola.

The project — comprising the Cravo, Lirio, Orquidea and Violeta fields — is the fourth major field development scheme to be brought on line in the block operated by the French supermajor.

The new field complex, with proven and probable reserves of 500 million barrels and production capacity of 160,000 barrels per day, is set to boost Total’s output from the offshore block to 700,000 bpd.

Clov is being developed using 34 subsea wells tied back via 180 kilometres of flowlines to a floating production, storage and offloading vessel with 1.8 million barrels of storage capacity, which is operating in water depths of between 1100 and 1400 metres.

The other three fields in the block — Girassol, Dalia and Pazflor — are also being tapped by FPSOs.

“Clov is a flagship project for Total. It demonstrates the group’s capacity to successfully start up projects on time and within budget while mastering cutting-edge deep offshore technologies and keeping safety and environment a top priority,” said Total’s exploration and production president Arnaud Breuillac.

He added the output boost from the latest field project, located 140 kilometres off the capital Luanda, would bring Total a step closer to its production goal of 3 million bpd by 2017.

Produced gas from Clov will be exported via a subsea pipeline to the Angola LNG plant.

Total is also working on developing its ultra-deepwater Kaombo field.
**Finance boost for Tullow**

UK INDEPENDENT Tullow Oil has gained an additional $1 billion (Nkr7 billion) in credit financing to bolster its war chest for exploration spending offshore.

The company said it has increased the size of its overall loan facility from Nkr2 billion to Nkr3 billion and also extended the duration of the arrangement to 2017 under a refinancing exercise.

The revamped facility replaces an existing credit deal due to expire in December this year that was originally arranged by Spring Energy before the latter’s acquisition by Tullow.

Chief financial officer Ian Springett said the new facility will provide pre-funding for about 75% of Tullow’s planned exploration and appraisal spending offshore.

The London-listed company is a partner in the OMV-operated Wisting Central discovery in the frontier Hoop area of the Barents Sea, where another wildcard is currently being drilled on the Hansemann prospect, results of which are expected shortly after reaching total depth.

It will also be looking to acquire further acreage in the Arctic region in Norway’s upcoming 23rd licensing round.

However, the explorer has failed to deliver with a pair of recent wells drilled on the Mantra and Getama prospects in the country’s mature North Sea play.

**CGG survey in Barents**

FRENCH geophysical contractor CGG has begun a multi-client survey in the south-east Barents Sea to identify possible hydrocarbon seepages on new exploration acreage to be offered under Norway’s 23rd licensing round.

The surface geochemistry survey, being carried out by CGG unit Robertson Geolab, involves taking shallow core samples of mud from the sea-floor to determine the presence of oil and gas.

“The main aim of the survey is to detect active petroleum systems in the area, targeting both larger and smaller structures of interest,” the contractor said.

“This information will be of prime importance in connection with de-risking of areas by the oil companies, before more detailed investigations,” it added.

The survey, which is being pre-funded by a major industry player, will cover all the blocks to be offered under the upcoming round.

Data from the work, expected to be available in December, will be incorporated into existing seismic and other geological information to be used by potential bidders for the acreage in the frontier Arctic region.

**UK gives go-ahead for Premier’s Catcher drive**

**Field development plan in central North Sea gets approval from Department of Energy & Climate Change**

THE UK government has approved Premier Oil’s field development plan for the Catcher area development in the central North Sea.

Premier revealed that the UK Department of Energy & Climate Change had approved the plan, which involves the development of three fields — Catcher, Varadero and Burgman.

Premier’s plan will see 22 subsea wells drilled at the fields, consisting of 14 producers and eight water injectors, which will then be tied back to a leased floating production, storage and offloading vessel which is being supplied by BW Offshore.

“Having discovered Catcher in 2013, we are extremely pleased to have brought the Catcher area through the development approval process,” said Premier chief executive Simon Lockett.

“Once on stream, this project, which has been facilitated by the government’s small field allowances, will underpin our growing cash flows.”

UK Energy Minister Michael Fallon said the development was good news for the industry as it showed there continued to be “an extraordinary” level of interest in the North Sea.

“The project represents over £1 billion ($1.7 billion) of investment and almost all of the subsea expertise and equipment needed for this development is being supplied by British companies right across the country,” he added.

Premier has awarded all major service contracts for the project and is targeting first oil from the development by mid-2017.

Premier operates the Catcher development, which lies in central North Sea Block 28/9, with a 50% stake and is partnered by Cairn Energy on 30% and Winter- shall on 20%.

**Good news: UK Energy Minister Michael Fallon**

Photo: AFP/SCANPIX

**VNG gets drilling on Norwegian Sea Bue prospect**

GERMAN explorer VNG has started drilling at the Bue prospect in the Norwegian Sea, targeting more resources in the vicinity of its earlier landmark Pil discovery, according to partner Rocksource.

The 6406/12-3A sidetrack is being drilled by semi-submersible Transocean Arctic to the north of Pil in VNG-operated production licence 586, with pre-drill uninsured resources estimated by Rocksource at between 8 million and 32 million barrels of oil equivalent.

The latest probe, expected to take about 40 days, is a follow-up to a recent appraisal at Pil that looks set to further boost resource potential from the original estimate of 50 million to 170 million boe given by operator VNG.

Rocksource, which holds a 15% stake in the licence, has upgraded its own resource estimate for the find to between between 90 million and 150 million boe, giving a mean figure of 115 million boe.

VNG, led by managing director Atle Sonesen, has a 30% operating interest with remaining partners Spie Exploration and Faroe Petroleum on 30% and 25% respectively.
THE US Bureau of Safety & Environmental Enforcement (BSEE) is looking into why the travelling block onboard Transocean’s semi-submersible Deepwater Nautilus plummeted to the rig floor during drilling of a development well on the Glider field in the deep-water Gulf of Mexico.

Operator Shell told Upstream the incident occurred “late in the afternoon” on 8 June when the rig “experienced a failure of the draw works — the large winch-like piece of equipment that assists in maneuvering drilling pipe and casing in and out of the well within the derrick.”

“The unexpected failure allowed the travelling block, which is connected to the draw works, to fall to the drill floor while crews were in the process of extracting drill pipe from a recently drilled well about 100 miles (160 kilometres) off the coast of Louisiana,” Shell said. “There were no injuries and the well remains secure.”

BSEE said inspectors were to board the rig as soon as weather permits in Green Canyon Block 248, which is about 100 miles south-east of Marsh Island, Louisiana, and subsequently fell off.

Six people were aboard but none was injured.

Travelling block falls from Transocean rig

ANTHONY GUEGEL
Houston
MEDIUM-TERM GAS MARKET REPORT

CHINA, the world's second-largest economy, is expected by 2019 to enter the golden age of gas as demand for the cleaner fuel is booming, according to the International Energy Agency (IEA).

Gas demand in China is forecast to almost double over the next five years, and this will compensate for a slight reduction in demand growth in many other areas of the world, said the IEA in its 2014 Medium-Term Gas Market Report.

Air quality concerns in China have prompted Beijing to adopt tough plans to reduce pollution, and gas is being touted as a major part of the solution. The power generation, industrial and transport sectors will drive overall Chinese gas demand to 315 billion cubic metres in 2019. Half of this new gas demand will be met from domestic sources — the majority from unconventional gas projects such as shale gas and coal gasification.

China's gas production is forecast to rise by 40% to 450 bcm by 2019 and half of all new LNG exports will come from Australia, said the IEA, while North America will then account for around 8% of the global LNG trade.

Looking ahead, unless we see timely investment in new production and LNG facilities and the reversal of the recent cost inflation of LNG, only a very strong climate policy commitment could redirect Asia's coal investment wave to gas," said Van der Hoeven.

However, the anticipated gas demand growth in Asia is not mirrored in Europe, where there is limited power demand growth and widespread government support for renewable energy projects in many countries. European gas consumption is not expected to recover to its 2010 peak at any time during the next five years. Also, there will be no "meaningful diversification" of European gas supplies through the end of the decade, according to the agency.

The report also found that, despite abundant resources, the Middle East in the coming few years will struggle to achieve its full production potential and some nations will even experience gas supply shortages. "The main reason for this is unrealistically low regulated gas prices that hinder upstream investment and encourage wasteful consumption," said the IEA.

"The issue is essentially above ground and has its roots in the discrepancy between the cost of developing non-associated or tight gas fields and domestic gas prices, often below $2 per million British thermal units." The golden age of natural gas is already well-established in North America, noted the Paris-headquartered IEA.