NEWS FEBUARY 2014

North America

BP reports that is has made a significant oil discovery at its Gila prospect, which it co – owns with ConocoPhillips, in the deepwater US Gulf of Mexico. This is BP's third discovery in recent years in the emerging Paleogene trend – Kaskida was announced in 2006 and Tiber in 2009. The Gila discovery was made by an exploration well on Keathley Canyon bloc 93, in approximately 4,900 feet of water.

BP reported in mid - December that all of the major new units associated with the Whiting refinery modernization project had been successfully brought onstream after the start – up of the new 102,000 b/d coker the previous month. The reconfigured 413,000 b/d facility now has the flexibility to greatly increase heavy sour crude processing, delivering an expected incremental $1bn of operating cash flow per year, depending on market conditions, reports the company. BP recently completed a number of major investments in its other US refineries, including a clean – diesel upgrading project at its 234,000 b/d Cherry Point, Washington, refinery; and the addition of a continuous catalytic reformer to the 160,000 b/d Toldo, Ohio, refinery (a 50:50 joint venture with partner Husky Energy).

Shell has announced that it will not move forward with the proposed 140,000 b/d Gulf Coast gas – to – liquids (GTL) project in Louisiana and will suspend any further work on the project. Despite the ample supplies of natural gas in the area, the company has taken the decision that GTL is 'not a viable option for Shell in North America at this time', due to the 'likely development cost of such a project, uncertainties on long – term oil and gas prices and differentials, and Shell's strict capital discipline'.

Asia – Pacific

Petronas is reported to have commenced first production from the Kapal, Banang and Meranti cluster fields offshore peninsular Malaysia at an average rate in excess of 10,000 b/d. Production is expected to peak at 13,000 b/d. The fields are being developed by US company Coastal Energy under a risk sharing contract (RSC) with Malaysian oil services company Petra Energy. According to Platts, this is the third RSC to be successfully brought into production following the Balai cluster and the Berentai fields.

JTC, the Singapore government body that develops and promotes industrial facilities, has awarded operatorship of the Jurong Rock Caverns to Banyan Caverns Storage Services, a joint venture of Vopak (45%), Geostock (35%) and Jurong Consultants (20%). Reportedly Southeast Asia's first under – ground hydrocarbon storage facility, the caverns will have storage capacity of 1.47mn cm in the first phase of development, according to Platts.

Shell is to sell its 8% equity interest in the Wheatstone – lago joint venture and 6.4% interest in the 8.9mn t/y Wheatstone LNG project in Western Australia for $1,135mn to the Kuwait Foreign Petroleum Exploration Company (Kufpec).

Europe

OMV is to sell its 45% share in the German Bayernoil refinery network to Varo Energy, a joint venture between the Vitol Group and the Carlyle Group, for an undisclosed sum. In addition to the stake in the refinery network, the transaction includes related inventory, the bitumen plant in GroBmehring and the wholesale business related to Bayernoil. The sale marks the finalization of the planned reduction in OMV's annual refinery capacity by 4.6mn tones to 17.4mn tones. OMV will continue to operate three refineries – at Schwechat (Austria) and Burghausen (southern Germany), which feature integrated petrochemical production, while the refinery in Petrobrazi (Romania) is completely dedicated to processing Romanian crude oil.

Platform P-55 begins operation at Roncador

Petrobras's P-55 platform has entered operation at the Campos Basin Roncador field. The P-55 semi – submersible has been installed at a water depth of 1,800 metres and forms part of Roncador's Module 3 project. It will be connected to 11 oil and gas production wells and six water injection wells, and is capable of processing 180,000 b/d of oil, compressing 6mn cm/d of natural gas and injecting 290,000 b/d of water. P-55 is the biggest semi – cubmersible platform ever built in Brazil and one of the biggest of its kind worldwide. The new unit will operate alongside the P-52 and P-54 platforms, which are already installed on Roncador, and with platform P-62, that left the Atlántico Sul shipyard, in lpojuca (state of Pernambuco) late last year and is moving toward its located in module IV of the field.

Badra field produces first oil

Gazprom Neft produced first oil from the Badra oil field in eastern Iraq's Wasit Province following the successful completion of well – testing at its BD4 appraisal well at the end of December 2013. A daily natural flow rate of 7,000 barrels of oil was recorded. Testing continues at two other drilled wells within the same field and this year will also see work begin on the drilling of six production wells under the company's contract with China's ZPEC, with a view to bringing the field into commercial production in 2014.

Work also continues on the construction of a170,000 b/d central gathering facility, the first line of which, with a capacity of 60,000 b/d, will come onstream in the near future.

Preparations for the construction of a 1.5mn cm/y capacity gas conversion plant are also underway and work to connect the field to Iraq's main pipeline network in nearing completion.

Preliminary estimates indicate some 3bn barrels of total oil in place at Badra. Gazprom holds a 30% stake in the project, partnered by kogas of Korea (22.5%), Malaysia's Petronas (15%) and TPAO of Turkey (7.5%). The Iraqi government's holding is represented by the Iraqi Oil Exploration Company (OEC), which holds 25%. Gazprom Neft is the field operator. Production is expected to reach 170,000 b/d by 2017 and is expected to remain at this level for a period of seven years. A total of 17 production wells and five injection wells are planned.

Latest OPEC oil production figures

Oil production from OPEC edged up by 20,000 b/d to 29.72mn b/d in December 2013, up from 29.7mn b/d in November as increase from Saudi Arabia, Iran and Nigeria more than offset a drop in Iraqi volumes, according to the latest (10 January) Platts survey of OPEC and oil industry officials and analysts.

‘It’s Goldilocks time – not too hot, not too cold – for the oil market,’ said John Kingston, Global Director of News. ‘OPEC production, which some feared would blast through all predictions of what the group needed to produce, is hanging around a level that won’t tank the market and won’t let prices soar on the world’s various disruption… Prices are at a level which is keeping producers relatively happy, and consuming nations are able to bear these costs without significant harm to their economics. In US, the consumer is happy enough with these price levels, such that bigger cars are making a comeback. For both buyer and seller, everything seems just right.’

Despite the small increase, collective OPEC production has now been below the group’s 30mn b/d ceiling since September 2013. Last year’s December and November totals mark the lowest volumes since mid – 2011 when the uprising in Libya reduced the country’s production to a trickle.

Saudi Arabia boosted output by 50,000 b/d, to 9.8mn b/d, after having cut back from levels of around 10mn b/d during the high – domestic – demand summer months to 9.75mn b/d in October and November.

Nigeria, with Bonga crude oil back in the export programme after field maintenance in November, increased output by 40,000 b/d to 1.92mn b/d. Iranian output increased by 30,000 b/d to 2.75mn b/d. Ecuador and the United Arab Emirates (UAE) also boosted production, by 10,000 b/d each.

Iraqi output fell by 80,000 b/d to 3.02mn b/d, and that of Kuwait and Venezuela by 20,000 b/d each.

Libyan output was little changed between November and December, averaging just 250,000 b/d both months. Earlier in January, Libyan state – owned National Oil Company (NOC) said crude production had climbed above 546,000 b/d. This was due to a gradual resumption of production from the Sharara field, which had been shut in by protests and strike action since the end of October, after protesters at the facility agreed to half their blockade, although production has been disrupted regularly since June.

Sharara, a joint venture between NOC and Spain’s Resol, is one of Libya’s major onshore oil fields and feeds the 230,000 b/d Zawiya crude export terminal, the country’ second largest. Libya had been producing close to 1.6mn b/d before the uprising that ousted the regime of Moammar Qadhafi in 2011. Output had recovered to around 1.4mn b/d earlier this year before the blockades, strikes and protests that began in May. Analysts see little prospect of return to pre - uprising levels in the short term.

OPEC expects demand for its crude to average 29.6mn b/d this year, an 800,000 b/d year – over – year drop. A big rise in Iranian exports could push OPEC production well beyond this level, but with the clock yet to start ticking on the six – month nuclear deal reached between Iran and six world powers in November, analysts do not expect to see any significant increase from the Islamic Republic before the second half of this year at the earliest. A full lifting of the oil and banking sanctions that have crippled Iran's economy will depend on a comprehensive agreement on the nuclear issue.

UK shale gas licence first for Total

Total has acquired a 40% interest in two shale gas exploration licences (PEDL 139 and 140) in the Gainsborough Trough area of Lancashire in the UK. The company has paid $1.6mn in back costs and will fund a shale work programme of up to $46.5mn. Commenting on the acquisition, Patrice de Vivies, Total's Senior Vice President for Northern Europe, Said: 'This opportunity is an important milestone for Total E&P UK and opens a new chapter for the subsidiary in a promising onshore play. The Group is already involved in shale gas projects in the US, Argentina, China, Australia and in Europe in Poland and in Denmark, and will leverage its expertise in this new venture in the UK.'

On completion of the transaction, Total's partners in the project will be GP Energy (a subsidiary of Dart Energy Europe; 17.5%), Egdon Resource UK (14.5%), Island Gas (IGas; 14.5%) and eCorp Oil & Gas UK (13.5%). IGas will be the operator of the initial exploration programme, with Total subsequently taking over operatorship as the project moves towards development.

Shell completes Repsol LNG deal

Shell has completed its acquisition of Repsol's LNG portfolio outside North America for a headline cash consideration of $4.1bn. As part of the transaction, Shell will also assume $1.6bn of balance sheet liabilities relating to existing leases for LNG ship charters, substantially increasing the shipping capacity available to the company's LNG marketing business. The deal gives Shell an additional 7.2mn t/y of directly managed LNG volumes, boosting its portfolio with LNG supply in the Atlantic from Trinidad & Tobago, and in the Pacific from Peru.

As part of this agreement, as previously disclosed, Shell has committed to supply around 0.1mn t/y of LNG to Repsol's Canaport LNG terminal in Canada over a period of 10 years.

Financial green light for Yamal LNG

Total reports that the Yamal LNG project in northern Russia has been given the financial go – ahead. The terminal will have three 5.5mn t/y liquefaction trains, the first of which is due onstream in 2017. The port infrastructure and storage tanks will be built at Sabetta and there will be a need for up to 16 ice – class LNG tankers to handle exports through the Arctic.

The project will develop the onshore South Tambey gas and condensate field located on the Yamal peninsula. Some 70% of LNG production has already been sold under long – term oil – linked price contracts. The bulk will go to the Asian market, the remainder going to Europe. Yamal LNG is currently owned by Total (20%), partnered by Novatek (80%). However, in September 2013 Novatek and China National Petroleum Company concluded an agreement under which CNPC is expected to take a 20% stake in the project.

Seventh expansion phase at Fujairah

Partners in the Vopak Horizon Fujairah terminal have agreed to forge ahead with the seventh phase of expansion at the site, adding a further 478,000 cm of tankage for crude oil and taking total capacity to more than 2.6mn cm. the terminal has signed up a long – term customer for the additional capacity, which according to Vopak will be the first crude oil tanks for independent storage in the Middle East. Vopak Horizon Fujairah is a partnership between Vopak (33%). Horizon Terminals (33.3%; wholly owned by Emirates National Oil Company), the government of Fujairah (22.2%) and Kuwait’s Independent Petroleum Group (11.1%).