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Noble pays $2 billion for Frontier Drilling

'We're still in the deepwater business and haven't changed our strategy'

Houston—Offshore driller Noble Corporation agreed June 28 to acquire Norway's privately held Frontier Drilling for $2.16 billion in cash, further bolstering its deepwater position at a time when confidence in that sector is sagging after the US Gulf Macondo well blowout.

Separately, Noble inked several long-term rig agreements with Shell, including two contracts on ultra-deepwater newbuild drillships for a stunning 10 years each, and has agreed with the major to suspend contracts, if deemed necessary, on rigs in the US Gulf. The suspension accord stems from a six-month deepwater drilling moratorium there imposed by the US government that took effect May 30.

If US Gulf contracts are suspended from the moratorium, the major would pay a reduced dayrate and operational support costs during the idle period. Suspended time would be tacked on day-for-day to the end of a contract after US Gulf operations are resumed, Noble CEO David Williams said of the Shell contracts during a conference call to explain the deal to analysts.

"It's a perfect fit," Williams said of the Shell contract deals. He declined to disclose the suspension rate.

With Shell, "there's a common bond there that transcends the other noise in the marketplace," he added, an oblique reference to the moratorium that has already idled several US Gulf rigs and caused a few operators to declare *force majeure* on others, including Noble's Amos Runner semisubmersible (ON 6/7, ON 6/22).

Williams said the Frontier and Shell deals show confidence in deepwater drilling. "What's happened to the sector since April 20 has scared some people," said the CEO. "Happily, we're not one of them. We're still in the deepwater business and haven't changed our strategy."

But he declined to speculate on what the government's intentions might be on revisions to the current moratorium in light of a recent successful judicial challenge and US Interior Secretary Ken Salazar's statement that he intends to issue a more selective drilling ban

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Storm delays Macondo response, sends others scrambling

Houston—Although Tropical Storm Alex showed no sign June 28 of moving directly into the primary production zones of the Gulf of Mexico, it was still creating enough turmoil there to delay BP's Macondo oil spill response while also prompting some precautionary evacuations elsewhere.

But the US domestic crude market was ignoring Alex, market sources said. "There's too much inventory out there," one trader said when explaining why the cash differentials were not reacting to the possible storm threat.

Another factor is that the August delivery barrels became the prompt market June 28 and any production cuts will have more than 30 days to get sorted.

The commercially traded Gulf of Mexico crudes tend to be clustered south and southeast of Louisiana, well away from Alex's projected landfall in Mexico.

Meanwhile, Gulf Coast refiners would say only that they planned to monitor the situation.

As the first tropical storm of this year's hurricane season, Alex was "slowly intensifying" and considered likely to reach hurricane strength by June 29, according the US National Hurricane Center.

The agency issued a tropical storm watch for the Texas coast from Baffin Bay north to Port O'Connor and a hurricane watch for the Texas coast south of Baffin Bay to the mouth of the Rio Grande River.

Alex, with maximum sustained winds near 60 mph, was in the western Gulf of Mexico and expected to steer clear of oil and gas operations in the US Gulf before making landfall early July 1 in Mexico, just south of the Texas border.

Still, the forecast track was close enough to prompt Shell to halt production from its Auger and Brutus platforms in the deepwater Gulf. And updates late on June 28 showed the storm making a slight northern move, placing more of Texas under its grasp.

The company, in an update on its web

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Indian refiners hike May run rates by 7.7%

Country's monthly crude production rises 6% to 693,500 b/d

Mumbai—India's public and private sector refiners collectively processed around 13.75 million mt (3.25 million b/d) of crude in May, up 7.7% from a year ago and 4.6% higher than April's 13.13 million mt, according to preliminary oil ministry statistics released June 28.

The ministry calculated an average utilization rate of 104.2% at India's refineries in May, up from the April average of 102.9% and from 100.9% in the same month a year ago.

The ministry data continues to exclude throughput at Reliance Industries Limited's new 29 million mt/year (580,000 b/d) refinery at Jamnagar on the west coast, which started producing in early 2009.

Indian Oil Corporation, India's largest public sector refiner, operated its plants at an average 102.9% of capacity and processed 4.47 million mt of crude in May. The figure was up from 4.43 million mt in April and 4 million mt processed in May 2009.

IOC's largest refinery, at Koyali in Gujarat, showed a 21.5% year-on-year fall in crude throughput due to relatively weak demand for heavier oil products and lack of availability for racks to evacuate such products, the ministry said. The refinery processed 986,000 mt in May, compared with 1.25 million mt last year and 1.06 million mt in April.

Crude throughput at Bharat Petroleum Corporation Limited, India's second-largest public sector refiner, jumped 43% year-on-year to 1.95 million mt in May, and was up 12% from 1.74 million mt in April.

Hindustan Petroleum Corporation Limited's crude throughput from its two refineries was 1.14 million mt, down from 1.27 million mt in April and 18.1% lower year on year. The ministry said the decline was due to the impact of a 45-day shutdown of the number two crude distillation unit at the company's refinery in Mumbai on the west coast.

Reliance refined around 3.13 million mt at its older 33 million mt/year (660,000 b/d) refinery at Jamnagar in May, up from 2.92 million mt in April and 5.5% higher than in May last year. The processing rate, which works out to around 736,000 b/d, was also higher than April's average of 710,530 b/d.

The addition of its new refinery in Jamnagar's Special Economic Zone has made Reliance India's largest refiner, with a total installed capacity of 1.24 million b/d. The company commissioned the high-complexity, export-oriented plant through the beginning of 2009 and declared the start of commercial production from March 15 last year.

Throughput during May at Essar Oil's Vadinar refinery, which has capacity to process up to 280,000 b/d, was 22.9% higher year on year at 1.26 million mt. The plant's average refining rate for the month was around 296,000 b/d, up from April's average of 292,000 b/d.

Meanwhile, India pumped around 2.95 million mt of crude and condensate in May, or an average of about 693,500 b/d, up from 2.78 million mt in the same month a year ago and from 2.87 million mt in April, according to data from the oil ministry. Of the total liquids output for May, 1.85 million mt was from offshore fields, up 1% from a year ago, and 1.1 million mt was from onshore acreage, up 15% from 2009.

India's natural gas output, including coalbed methane, totaled 4.59 billion cubic meters (162 Bcf or 5.23 Bcf/day) in May, compared with April's production of 4.52 Bcm (159 Bcf or 5.3 Bcf/d). The result continued a steady climb in output that began with the startup of Reliance Industries Limited's giant eastern offshore D6 block, which came on stream in April 2009. Gas production jumped 34.4% year on year.

India's gas output in May was made up of 3.87 Bcm from offshore fields, up 45.4% from the corresponding period a year ago. Production from onshore acreage continued its declining trend, dropping 4.6% from a year ago to 712 million cubic meters.—*M.C. Vaijayanthi*

Japan's Shizuoka Gas inks deal to buy LNG from Tepco

Singapore—Japan's Shizuoka Gas has signed an agreement with Tokyo Electric Power Company to buy 260,000 mt/year of LNG from the middle of this decade until the mid-2030s, a Tepco official said June 28.

The agreement covers four cargoes per year, delivered ex-ship to Shizuoka Gas' Shimizu LNG terminal at Sodeshi in central Japan, the official said, confirming a deal flagged by Platts June 24 (ON 6/25). He declined to give more details on the timing of the contract, adding they were confidential.

Platts reported last week that the companies were close to signing an agreement covering the sale of 300,000 mt/year of LNG for 20 years from the fiscal year ending March 2015. Shizuoka Gas and Tepco agreed to cooperate in some areas of their business as long ago as September 2000, the official said, and since then have shared information in some areas.

The deal marks the first firm long-term LNG supply agreement in Japan involving a local power utility as the seller, Tepco said. But it follows a heads of agreement for a similar deal, inked June 23, under which Osaka Gas would supply Shizuoka Gas with 300,000 mt/year of LNG on an ex-ship basis for 20 years from fiscal 2014-2015.

Sources told Platts previously that Osaka Gas and Tepco were looking at sourcing the LNG for the new agreements from the 6.6 million mt/year ExxonMobil-led Papua New Guinea project. Osaka Gas and Tepco have two respective 20-year sales and purchase agreements to import 1.5 million mt/year and 1.8 million mt/year of LNG respectively from the PNG LNG project, which is scheduled to begin LNG deliveries in 2014.

For Shizuoka Gas, the two deals plug a gap in the company's portfolio.

Currently, it has two existing long-term contracts to import up to 580,000 mt/year of LNG from Malaysia and Australia. But the company plans to import a total of 1.15 million mt/year of LNG for its fiscal year 2010, running from January to December, leaving a gap of just under 600,000 mt/year.

A Shizuoka Gas spokesman said June 25 that the company has secured around 600,000 mt/year of LNG under short- and medium-term contracts out to 2015 to fill the supply gap. Around that point, the new long-term agreements with Tepco and Osaka Gas will begin.—*Jonty Rushforth, with Atsuko Kawasaki in Tokyo*

Sinopec eyes shale gas in southern Sichuan: report

Sydney—China Petroleum & Chemical Corporation, or Sinopec, has begun evaluating shale gas exploration in southern Sichuan province, where production could hit 2.5 billion cubic meters/year in five years, according to a report June 25 by *China Business News*, cited by the official *China Daily*.

Sinopec Exploration Southern Company set up a shale gas exploration department with more than 20 staff June 18 tasked with looking at projects in northeastern and southern Sichuan. "The project will produce shale gas of hundreds of thousands [of] cubic meters in two years," sources at SESC told *China Business News*.

Shale gas could complement production of natural gas, and pull down the price of imported gas, said Wang Zhen, director of the business administration faculty at China University of Petroleum. China sometimes faces shortages of natural gas, mostly in eastern and central China, where demand surges quickly.

China's exploitable shale gas reserves are estimated at 26 trillion cubic meters (923 Tcf), out of a world total of about 456 trillion cubic meters. Shale gas would account for 5%-10% of the country's total 300 billion cubic meters of gas consumption by 2020, *China Business News* quoted Zhou Jiping, president of China National Petroleum Corporation, as saying.

In separate news, China's top legislature June 25 endorsed a law on the protection of oil and natural gas pipelines, among others, at its bimonthly session, the official Xinhua news agency reported.

The government had turned its attention to the safety of offshore pipelines in the wake of growing global concerns following the Macondo oil spill in the US Gulf.—*Christine Forster*

UK's Tullow to lose bonus from DRC ouster

Company reviewing options over possible legal action

London—UK explorer Tullow Oil is poised to lose a $500,000 signature bonus paid to the Democratic Republic of Congo after the African country stripped it of rights to explore in the prolific Lake Albert Basin, a company spokesman said June 28.

Tullow signed production sharing agreements in the DRC in July 2006 to gain a 48.5% operated stake in blocks 1 and 2 in the Albertine Rift Basin. But the deal has been in limbo for years, with Tullow awaiting presidential backing for the agreement.

According to a June 22 presidential decree, the licenses held by Tullow and South Africa's Divine Inspiration for blocks 1 and 2 have been handed to little-known British Virgin Islands-based Caprikat and Foxwhelp.

The spokesman said Tullow is now "reviewing its options" over whether to legally contest the decision and seek to recover the $500,000 bonus.

"This is a sad day for the DRC. We have always been a long term supporter both of investment in Africa and the rapid move over the last few years by some countries to a more transparent process for the award of contracts," the spokesman said.

The blocks cover some 6,500 sq km onshore and offshore the DRC, in part of the Albertine Rift Basin that extends into neighboring Uganda where Tullow and its partner Heritage Oil have found over 1 billion barrels of oil in place.

In Uganda Tullow is waiting on government approval to buy Heritage Oil's 50% stake in Uganda's major Lake Albert oil development for $1.5 billion.

"No legitimate company will farm into the [DRC] blocks with an unknown British Virgin Islands company so I fail to see how these blocks are going to be developed for the benefit of the people of DRC," the spokesman said in a statement.

Last month, UK-based advocacy group Platform criticized oil production sharing agreements between the DRC and companies operating in the Albertine Graben region in the country, highlighting potential losses in revenue for the local population in one of Africa's most unstable countries.

According to the lobby group, the contracts between the government and Tullow and Divine would have reduced the state's potential revenue from oil development by more than $10 billion, a figure equivalent to DRC's entire national debt.

Separately, UK-based explorer Dominion Petroleum said June 28 it has received presidential approval for its production sharing contract at the DRC's block 5.

Dominion holds a 46.75% in the PSC, with the UK's Soco International holding 38.25% and the state oil company of the DRC, Congolaise des Hydrocarbures, the remaining 15%.

The PSC was initially awarded in December 2007 and is adjacent to Dominion's exploration area 4B in Uganda. "We are most appreciative of the DRC government for ratifying the contract and thereby recognizing the benefit and expertise our partnership brings to the country," Dominion CEO Andrew Cochran said.

Meanwhile, Dominion also said its first prospect in Tanzania's deepwater block 7, the Alpha prospect, could hold up to 1.1 billion barrels of oil or 7 Tcf of natural gas.

The assessment is based on a "competent persons report" from Energy Resource Consultants, which said the prospect had a 12% chance of success. The net risked mean resource base at Alpha is seen at 134 million barrels of oil or 848 Bcf of gas, Dominion said.

"This is an excellent start and it demonstrates the world class nature of block 7 in terms of hydrocarbon potential," Cochran said in a statement. "The Alpha prospect is not unique, nor even the largest so far identified, within block 7 but simply the most robust prospect to guide our continued work in the area," he said.

Dominion, which holds 100% of block 7, now plans to carry out a 1,000 sq km 3-D seismic survey, which is set to begin in July and last 60 days.

Meanwhile, the company also said it has spudded the Kianika-1 well at the Mandawa license onshore Tanzania. Dominion and its partner, France's Maurel & Prom, said the well is targeting a 264 Bcf gas prospect at a depth of some 9,000 feet with a 9% chance of success.—*Robert Perkins, Stuart Elliott*

BP denies Russian claims over Hayward resignation

London—BP June 28 denied reported comments by Russia's Deputy Prime Minister Igor Sechin that the company's embattled CEO Tony Hayward was stepping down from the company and planned to present his successor in Moscow.

"There is no truth in this story. There is no announcement planned. Tony remains chief executive," a BP spokeswoman said.

Russian news agencies reported Sechin as saying that Hayward would present his successor at a meeting with the deputy prime minister June 28 in Moscow. "We know that Tony Hayward is leaving," Sechin was quoted as saying by Prime Tass.

Later a spokesman for Sechin said the reporters had "misunderstood" the deputy prime minister, adding that the issue had not been discussed at the meeting.

Hayward is under severe pressure as a result of the US Gulf of Mexico oil spill. Since the disaster started unfolding in April, Hayward has taken personal charge of the company's response for most of the time, basing himself in Houston.

Last week BP formalized a new business unit to handle the spill response, putting senior executive Bob Dudley in charge and effectively removing Hayward from day-to-day management of the incident. US President Barack Obama said earlier this month he would have fired Hayward after his controversial comments downplaying the effects of the spill.

The Sechin spokesman said later June 28 that during the meeting Hayward reassured Sechin that his company aimed to continue "strategic cooperation with Russian companies."

At a meeting at Rosneft's headquarters in Moscow, the two discussed bilateral projects in Russia as well as the issues related to tightening ecological requirements following the Macondo disaster. In particular, the further development of offshore fields in Russia would be carried out based on "new requirements for ecological safety," the spokesman quoted Sechin as saying during the meeting.

When asked if the two discussed a possible BP sale of its stakes in Russia, the spokesman said: "No." BP has a 50% stake in Russia's third-largest producer, TNK-BP, and Russia has been asking for clarification that BP remains committed to the venture.

Hayward's visit also came amid speculation that the UK-based major, which is looking to raise billions of dollars to cover the cost of the Gulf of Mexico oil spill, might sell other assets in Russia.

BP owns a 1.35% stake in Russia's state-run biggest oil producer Rosneft, for which it paid $1 billion in 2006 during Rosneft's initial public offering.

On June 26, the *Wall Street Journal*, citing unnamed market sources, reported that BP had arranged more than $3 billion in new unsecured bank credit lines in the past week and had picked up $2 billion in cash borrowed against its stake in Rosneft and other assets.

BP and Rosneft are exploring jointly the offshore Kaygansko-Vasukansky block, part of the Sakhalin 5 project in Russia's Far East. Last year the two decided not to proceed with the development of the East Schmidt block after evaluating 2D and 3D seismic data, and they stopped work at West Schmidt in 2008 after drilling two dry wells.

The two Schmidt licenses were also part of the Sakhalin 5 project that Rosneft and BP are developing under a 51:49 joint venture.—*Richard Swann, with Nadia Rodova in Moscow*

UK's EnCore buoyed by Catcher oil upgrade

North Sea field could be biggest in almost 10 years

London—UK explorer EnCore Oil saw its shares jump by almost 70% in value June 28 after announcing it now believes its Catcher oil discovery could be one of the biggest North Sea finds in nearly 10 years.

In a statement, EnCore said the larger Catcher prospect could hold up to 300 million barrels of total in-place reserves after a side-track well to the east of the original find hit some 82 feet of net pay.

EnCore, a little-known, pure-play explorer, saw its shares jump by up to 69% in early London trade and later closed 46.5% higher at GBP0.52/share. The company's shares had already doubled in value since the initial Catcher discovery well was first announced earlier this month.

Block partner, the UK's Premier Oil, was more conservative in its forecasts of the find's potential, however, saying it has raised its in-place reserves estimate for the find so far to 180 million barrels following the side-track well.

EnCore conceded that its 300 million barrel estimate includes potential reserves at the Catcher South West and North prospects the last of which may not be drilled until 2011.

"We have a very high degree of confidence in the [North] prospect and in the block...we'll be there for a little while yet as we've identified another five prospects there," EnCore CEO Alan Booth told Platts.

EnCore's estimate for Catcher's reserves would make it the largest discovery in the North Sea since the 1 billion barrel Buzzard field was found in 2001. Buzzard, which currently accounts for more than 10% of the UK's total oil production, was discovered by Booth and other EnCore management when they headed the former North Sea operations of Canada's EnCana.

Booth said his team had identified the Catcher prospect as part of EnCana's North Sea portfolio before it sold its UK assets to Canada's Nexen for $2.1 billion in 2004. Nexen, however, decided not to explore the block and the license lapsed, freeing EnCore to pick up the asset in a 2007 license round.

EnCore currently operates the North Sea block 28/9 with a 15% equity stake. Premier holds 35%, Germany's Wintershall 20%, the UK's Nautical Petroleum 15%, and Norway's Agora Oil & Gas 15%.

Nautical CEO Steve Jenkins said it was another "superb" result from the prolific Catcher area. "The resources discovered to date should lead to a major development. We look forward to drilling a number of the other prospects on the block, which have been significantly de-risked by the Catcher and Catcher East discoveries, as soon as is practical," he said in a statement.

Booth said its costs for the drilling so far have been carried by Premier and Wintershall but cash will be needed for further wells, as Wintershall's spend has already reached an agreed cap.

Premier said while it believes the block partners are unlikely to hit any financial hurdles in raising funds for further appraisal wells on the find, EnCore and other smaller equity partners are likely to exit ahead of any development phase.

EnCore itself said it had no plans to become a production company and will look to sell its stake when the appraisal work is complete. Premier's finance director Tony Durrant said his company would be interested in buying "at the right price," adding that he assumed Wintershall would be also.

Durrant said the development model would likely be a floating production storage and offtake vessel and it would take three to four years until first oil after the final investment decision is taken.

At recovery rates of 30-40%, Premier said it sees recoverable reserves at the two initial finds so far at 50-80 million barrels. The 28/9-1 original Catcher discovery established a minimum 240 feet oil column with a calculated net pay of 90 feet.

EnCore said no oil water contact was encountered with the latest well, which indicates a common pressure regime between Catcher East and Catcher, confirming that both are part of a single significant oil accumulation, with an oil column of 267 feet.

A core was taken in the main sand body which recovered 44 feet of oil-bearing sand. Tests have also established that the reservoir holds 30 API gravity crude and has an average porosity of about 34%.

EnCore said it has decided to drill an additional side-track to the south west of the original 28/9-1 Catcher discovery well to determine the presence or otherwise of additional reservoir sands. This side-track will take some 10 to 15 days and will be the final well in this phase of the Catcher area appraisal drilling program.—*Robert Perkins*

UK's Regal strives to avert Ukraine work suspension

London—UK-based Regal Petroleum is in talks with Ukrainian officials about how to comply with license terms for its operations in Ukraine after Kiev threatened to suspend Regal's work, the company said June 28.

Regal said it received an order in late May from the Ukrainian environment ministry that operations at the Mekhediviska-Golotvschinska/Svyrydivske (MEX-GOL-SV) field complex in the northeast of the country should be suspended until "certain matters" relating to license compliance were rectified.

Regal said it "immediately" held meetings with Ukraine's environment minister and other senior government officials "to understand the circumstances surrounding this order."

The company said the discussions resulted in an ongoing dialogue that it believes "will result in the rectification of the issues raised by the order," adding that it would not be required to suspend operations while the discussions continue.—*Stuart Elliott*

US' Apache starts production at North Sea Maule field

London—Houston-based Apache Corporation said June 28 it has started production at its 100% owned Maule oil field in the UK sector of the North Sea at a rate of 11,750 b/d.

The field was brought on stream eight months after its discovery in October 2009. "We were able to develop the field quickly via our existing infrastructure within the Forties field," said James House, region vice president and managing director of Apache North Sea.

The Maule discovery is an Eocene-age reservoir located above the main Forties Paleocene reservoir.

Apache said it was able to start commercial production at Maule because of the support from the UK government. "The viability of the project was enhanced by the UK government's incentives aimed at encouraging development of smaller fields in the North Sea," House said. Apache is now planning a second well at Maule.

Earlier June 28, the UK government said it had approved Apache's plans to develop the Bacchus oil field in the North Sea. The Bacchus field has estimated reserves of 18 million barrels, and will be developed using existing infrastructure at Apache's Forties field, meaning its production will flow into the Forties Pipeline System.

House said the Bacchus project showed "that the government's incentives are encouraging development of smaller fields in the UK sector of the North Sea." Apache operates the field with a 70% stake, alongside partners Shell (20%) and Endeavour Energy (10%).

UK oil and gas output has been falling sharply in recent years, and the government said last week it would introduce new legislation shortly to extend fiscal incentives aimed at maximizing recovery of remaining reserves.

Alongside the announcement of the Bacchus project approval, UK Energy Minister Charles Hendry said there had also been record interest in the UK's latest licensing round. Companies bidding in the round have applied for a total of 356 blocks, he said, the biggest number sought since the first licensing round was launched in 1964.

The government launched the current offshore round, the UK's 26th, in January this year, offering over 2,800 blocks in all areas of the UK seas.—*Stuart Elliott, Richard Swann*

France's Total halts gasoline sales to Iran

Follows passing of US sanctions targeting Iran's energy sector

London—French oil major Total has halted its gasoline sales to Iran, a spokesman for the company said June 28, just days after the US Congress approved expanded sanctions against Iran, including measures specifically targeting the country's oil sector.

Total had been one of the few international companies still supplying gasoline to Iran after prominent players Glencore, Trafigura, Vitol, BP and Shell started dropping out last year under the looming threat of tightening western sanctions over Iran's nuclear program.

"We have suspended our sales," the Total spokesman said, declining to say when the company had stopped selling gasoline to Iran or what volumes had been involved. An industry source, however, said sales had been suspended for a number of weeks.

Total CEO Christophe de Margerie said in April that Total had not received a formal request to halt supplies but would comply if asked to do so officially. In late March, de Margerie told Platts that Total had received indirect messages from the US regarding gasoline sales to Iran but no direct pressure.

Iran is OPEC's second-biggest producer after Saudi Arabia but its refineries cannot produce enough gasoline to meet domestic demand, which is high as a result of subsidies at the pump and an aging car fleet.

To make up the shortfall, Iran has had to import up to 40% of its refined oil product needs, mainly of gasoline and diesel. However, Iran's gasoline imports have come down from an average 130,000 b/d in the Iranian year which ended March 20 to around 114,000 b/d since the beginning of the current Iranian year which began March 21.

Iran's President Mahmoud Ahmadinejad, meanwhile, said the US energy sanctions would actually have "a positive impact" on the Iranian economy while having a negative impact on talks with the international community on the nuclear issue.

"Be sure that if they want to impose sanctions in the energy sector, it will have a positive impact on our economy and negative impact on [nuclear] talks," Ahmadinejad said in a live televised press conference. "Any sanction in any part of Iran's economy will quickly change into an opportunity," he said.

"Iran, which ranks second in the world in terms of oil and gas reserves [and] which can increase its gasoline production by 20 million, 30 million liters in only a week, and a country whose people can decide today to halve their gasoline production without affecting their economic growth...will have no problem," he said.

Iran, with average gasoline consumption of 60-63 million l/d, is now producing around 43 million l/d of gasoline and imports 18-20 million l/d.

AFP quoted Ahmadinejad saying Iran would "discipline" the West by holding off on talks with world powers over its nuclear program until the end of August. "We are postponing the talks because of the bad behavior and the adoption of the new resolution in the [UN] Security Council," he said.

Ahmadinejad also rejected remarks from Leon Panetta, director of the US Central Intelligence Agency, who said in an interview with ABC television on June 27 that Iran had enough low-enriched uranium for two nuclear weapons but that it would probably take two years to build them.

"We have clearly declared that the nuclear bomb belongs to politically retarded governments who lack logic," AFP quoted Ahmadinejad as saying. "What good is an atom bomb to anyone? The stupidest thing today is accumulating atomic weapons. They seek accomplices in the crime and Iran will not be an accomplice in their crime. We are standing firm on disarmament."—*Margaret McQuaile, with Aresu Eqbali in Tehran*

Lebanon refuses to back down in Israeli gas dispute

Jerusalem—Lebanese Prime Minister Saad Hariri said June 27 Lebanon would not be cowed by Israel in its ongoing dispute over offshore Mediterranean gas rights.

Hariri was speaking in response to a threat by Israel's National Infrastructure Minister Uzi Landau last week that Israel would use force to defend its offshore gas fields (ON 6/25). "Israel can do nothing but threaten and frighten the Lebanese," Hariri said.

Lebanese officials have claimed that Israel is invading its territorial waters by drilling at the massive Tamar and Leviathan sites. A statement from Lebanon's Shi'ite Hezbollah faction said Lebanon must take advantage of its vital gas resources.

Lebanese Parliament Speaker Nabih Beri also said June 25 it would approve an oil law to preserve Lebanon's gas rights in the Mediterranean. He said Israel had ignored the fact the major Tamar and Leviathan gas fields were located within Lebanon's territorial waters, according to Lebanese maps.

The Israeli partners in the Tamar and Leviathan licenses, however, have said the fields belong solely to Israel and are within the country's economic waters which extend 200 nautical miles off its Mediterranean coast.

The dispute between Israel and Lebanon has simmered ever since Noble Energy's June 3 announcement that the Leviathan structure has an estimated potential of up to 16 trillion cubic feet or nearly twice that of the Tamar field discovered last year. The potential value of the gas already discovered runs into the tens of billions of dollars.—*Neal Sandler*

Nigerian states call for stricter regulation of drilling

Lagos—The governors of Nigeria's southern oil producing states June 26 called on the federal government to create stronger Niger Delta oil exploration regulations following the devastating US Gulf Macondo oil well spill.

A statement issued after a meeting of the governors of Cross Rivers Delta, Rivers, Bayelsa, Edo and Akwa-Ibom states said tougher sanctions had become imperative to check environmental degradation from oil spills caused by the activities of oil companies operating in the region.

"We also call on the federal government to take urgent and appropriate measures to compel the oil companies to protect the environment," the statement said.

The April 20 Deepwater Horizion explosion and spill in the US Gulf have triggered concern in Nigeria, an OPEC oil producing state where oil leaks are a regular occurrence but treated lightly.

Meanwhile, coastal communities in Nigeria's southern Akwa Ibom states are still locked in a dispute with the local subsidiary of US oil giant ExxonMobil over an oil spill that occurred May 1.

ExxonMobil said June 28 it was holding talks with the state to douse tension over the spill, which reached the shoreline on June 20. "Mobil Producing Nigeria Unlimited confirms that on June 20, 2010, deposits of weathered hydrocarbon were found along the shoreline of Ibeno in Akwa-Ibom state," a company spokesman told Platts.

"We were invited by the government and we have told them a team has been deployed to inspect the site and sections of shoreline with oiling and we are ready to clean up any residual deposits arising from the May 1 oil leak incident," the spokesman said.

The state news agency NAN reported on June 27 that ExxonMobil pledged projects worth Naira 2 billion ($13 million) in the communities to compensate for the spill. However, the government is insisting that the company pay compensation, NAN said.

ExxonMobil denied making such a proposal. "It is just a speculation, people are trying to exaggerate issues against the backdrop of the happenings in the Gulf of Mexico," the company spokesman said.

ExxonMobil operates the 960,000 b/d Qua Iboe oil export terminal off Akwa Ibom state. The May 1 pipeline leak that caused the spill saw the company declare *force majeure* on Qua Iboe liftings on May 12.—*Staff reports*

Colombia's output growth strains pipelines

Transport bottlenecks frustrate some oil producers

Cartagena, Colombia—Unable to ship half his potential oil production from eastern Colombia to the country's main Caribbean oil depot because of a lack of available pipeline capacity, Rod Lewis of Lewis Energy Colombia is a example of how in some ways the rapidly expanding Colombian oil industry is a victim of its own success.

The nation's oil output is growing so fast that there is a transport bottleneck, one that's likely to get worse before it gets better, say executives of private companies, the state-controlled oil company Ecopetrol and the national regulator, the National Hydrocarbons Agency.

Colombia's oil output will reach 900,000 b/d of crude and crude equivalent by year-end, up from an average 670,000 barrels of equivalent/d for all 2009, Mining and Energy Minister Hernan Martinez told the World Petroleum Council regional meeting in Cartagena June 25. Martinez predicted output will rise to 1 million boe/d by end-2011 and to more than 1.2 million boe/d in 2012.

The spike in output over the last three years has resulted from Colombia's relatively attractive investment terms, ease of doing business and improved security. The improved perception of the country was largely responsible for the successful bid round just completed in which Colombia auctioned 95 exploration blocks and received pledges of $1.3 billion in exploration investment over the next three years (ON 6/24).

But despite the fact that state-run Ecopetrol, which owns a part or all of most of the components of Colombia's pipeline grid, has with its partners spent $1.1 billion over the last two years to expand the pipeline network, the rapid production growth has overtaxed the system.

Another strain on the system is that much of the added production is heavy oil (API 12.5) that must be diluted with naphtha to run through the pipelines, thereby reducing throughput capacity.

In an address to the gathering, Colombia's president-elect Juan Manuel Santos pledged to continue the liberal investment policies of outgoing President Alvaro Uribe.

"You can count on my government to make the sector continue to grow for the benefit of all Colombians," said Santos, who is to be inaugurated August 7.

"It's a problem every country on the planet would like to have," said National Planning Department Director General Esteban Piedrahita, referring to Colombia´s faster than anticipated crude production.

Lewis, whose company is based in San Antonio, Texas, doesn't see it that way. He's frustrated that bigger oil companies such as Ecopetrol and Pacific Rubiales Energy have first call on pipeline capacity that by and large they own, and that there is no common carrier pipeline system to equitably distribute space. As a result, Lewis can only move half the 6,000 b/d of oil he could otherwise ship. "The big guys are producing a lot more than they expected so there's no room," Lewis said. He added the price he gets for the oil he does sell has "deteriorated" because of transport difficulties and costs.

The bottlenecks have caught the industry and the government by surprise, said Armando Zamora, director of the National Hydrocarbons Agency. "There is a vacuum and everyone is looking at the agency even though we weren't created for that purpose. We are regulators," Zamora told the panel, not infrastructure builders.

Zamora said the government has commissioned a study to look for ways to improve oil transportation in the short-term, and wants to assure that all oil producers in Colombia are treated fairly. "The government might have to intervene, although the industry doesn't want it to happen."

Ecopetrol and partners, who control more than 80% of the country's output, are planning significant new pipelines to address the shortage problem but completion of the bigger projects is two years away. One such project is the 550-mile Casanare-to-Covenas trunk line from the eastern Llanos region to the Covenas oil depot that will cost $4.2 billion to build and will add 450,000 b/d to current capacity.

In a presentation to a panel on energy transportation, Pedro Rosales, Ecopetrol's executive vice president for downstream, said added capacity of nearly 1 million b/d will be on line by 2012, not including the Casanare-to-Covenas project.

Rapidly rising production from Ecopetrol and the nation's's largest independent producer Pacific Rubiales Energy is a major reason for the strain on existing transport facilities. Pacific Rubiales CEO Ronald Pantin told a press conference June 24 his company expects to ramp up production to 300,000 b/d by end-2011, from a projected 225,000 b/d by December. Currently PRE´s operating production is 125,000 b/d.

As co-owner of the new ODL pipeline inaugurated last September that connects the heavy oil fields of eastern Meta State with the main Ocensa pipeline, Rubiales so far has not been affected by the transport constraints, Pantin said. His company also paid $160 million earlier this year for the right to move up to 160,000 b/d via the Ocensa line over the next 10 years. But he said he sympathizes with smaller companies that can´t get the capacity they need.

"The worst is trying to maintain an oil business that has to shut down," Pantin said.

Another company that has been hurt by the bottleneck is Canada-based Petrominerales, whose president Jack Scott told the gathering the country should consider a new pipeline to the Pacific coast to facilitate sales to Asian markets where there is a demand for heavy oil. "People wiling to buy it sometimes finance the infrastructure," Scott said. "It's the small companies that helped make Colombia what it is that are getting hurt."—*Chris Kraul*

Canada's Enbridge adding 255,000 b/d to crude pipeline

Houston—Canada's Enbridge is undertaking a C$400 million ($385.72 million) expansion project to add 255,000 b/d of crude capacity by 2013 to its 350,000 b/d Waupisoo Pipeline, the company said June 28.

Enbridge has entered into shippers commitments for 229,000 b/d of crude capacity on the pipeline, which is part of the Regional Oil Sands System, the company said in a statement.

The expansion project will provide about 65,000 b/d of additional capacity in the second half of 2012 and about 190,000 b/d additional capacity in the second half of 2013.

The new commitments allow for a three-year ramp up to the full commitment amount.

"The Waupisoo expansion program will begin to contribute to our growth in earnings per share by 2013, and increasingly thereafter as the volumes increase to the full commitment levels," Enbridge President and CEO Patrick Daniel said in the statement.

"Based on development activity underway within the oil sands on both existing and new projects, together with our strong competitive position as the largest operator in the region, we expect to see continued attractive investment opportunities of this sort for some time to come," he said.

The 236-mile Waupisoo Pipeline ships synthetic and heavy crude from Enbridge's Cheecham Terminal in Fort McMurray, Alberta, to its Mainline Terminal in Edmonton, Alberta.—*Lucretia Cardenas*

Australian Samson sells US gas assets for $79 million

Melbourne, Australia—Australia-based, US-focused explorer Samson Oil & Gas has entered into a binding agreement to sell 24,166 acres of its 40,240 acre holdings in Goshen County, Wyoming, for between $61 million and $79 million, the company said June 25.

The buyer was a large US-based independent oil and gas producer, Samson said in a statement, without identifying the company.

The price hinges on several conditions, including the setting up of a framework to protect leases due to expire before the year-end and the granting of some drilling permits.—*Wendy Wells*

US House bill sets strict new rules for BOPs

Imposes tough safety requirements; CEO certifications

Washington—A US House of Representatives bill would impose tough new regulations regarding the use of blowout preventers on oil and gas wells, and also empower the Chemical Safety Board to investigate future blowouts.

The bill will be considered by the House Energy and Commerce Committee at a hearing June 30.

The bill, which has been circulated in draft form, is one of more than a dozen bills designed to address some element of the BP Macondo blowout, which killed 11 oil rig workers April 20 and sent millions of gallons of oil spewing into the Gulf of Mexico.

The legislation incorporates many of the findings of the committee, headed by Representative Henry Waxman, Democrat-California. Waxman's committee has uncovered e-mails and other documents from BP employees that have suggested significant equipment failures on the Deepwater Horizon drill rig, as well as a number of questionable decisions regarding well casing and cementing.

The bill also mirrors two new safety notices issued by Interior Secretary Ken Salazar to lessees in the past few weeks. Those notices require drillers to beef up their blowout prevention procedures, including certifying that BOPs have multiple systems to sever a drill pipe and seal a well in case of a blowout.

The bill is also the second major legislative attempt to give independent agencies authority to investigate major oil spills.

The CSB normally investigates refinery accidents and chemical spills. But the board recently agreed that it has jurisdiction to also probe offshore oil spills. It has agreed to conduct its own probe of the BP Macondo disaster, although no timetable for such an investigation has been set.

A Senate bill, co-sponsored by Senate Energy and Natural Resources Chairman Jeff Bingaman, Democrat-New Mexico, and Lisa Murkowski, Republican-Alaska, would authorize the Interior Department to ask the National Transportation Safety Board to conduct investigations of major offshore oil spills.

The procedures and requirements contained in the House draft bill would be required of all "high risk wells," which the bill defines as offshore oil or gas exploration or production wells within 200 miles of the US coastline. High risk wells would also include onshore wells where a federal official has determined that a blowout would result in "substantial harm to public health and safety or the environment."

Among other provisions, the bill requires an exploration company CEO to certify in writing that the blowout preventer and other well control measures are capable of preventing a blowout. The CEO certification also requires a statement that the company can start drilling a relief well within 15 days of a blowout and complete the well within 90 days.

New standards for BOPs would be required, including two sets of blind shear rams, spaced appropriately to ensure that one set can work if the other encounters a pipe joint or other obstruction.

BOPs would also need to have independent and redundant hydraulic and activation systems for each ram and one or more emergency backup systems.

Independent third parties would be required to inspect and approve BOPs. Those inspections would be required every 180 days after drilling begins.

The bill would also require real-time transmission of data from the BOP to a secure location.

Testimony before the committee last month revealed that much of the data and inspection logs relating to the Macondo BOP was only maintained on paper on the drill rig and sank to the ocean floor.

Tough safety requirements for well casings and cementing would also be required under the bill. Well designs would have to include at least three independently tested barriers, including at least two mechanical barriers, across each flow path during well completion and abandonment procedures.

Cement bond logs would also be required for all cementing programs. Testimony has shown that BP did not require a cement bond log test to ensure the integrity of the cement job at the Macondo well.

The bill would also amend the Clean Air Act to name the Chemical Safety and Hazard Investigation Board as the agency empowered to investigate "the facts, circumstances, and causes of a marine oil spill resulting from an accidental fire, explosion, or release involving an offshore oil exploration or production facility."

The CSB investigation would supplement any probe being conducted by the US Coast Guard of the Interior department.—*Gary Gentile*

Obama and US senators to meet on energy legislation

Washington—Facing a tight legislative schedule and escalating partisanship, Democratic and Republican Senators are scheduled to meet at the White House June 29 to discuss how best to address climate and energy legislation this summer.

The meeting with President Barack Obama, originally scheduled for last week, comes after Senate Democrats met June 17 and failed to agree on an energy bill the chamber should consider next month.

"You're going to see a microcosm of what happened in the [Democratic] caucus meeting itself, which is a bunch of competing proposals without a sufficient support base behind all of them," Kevin Book, managing director for ClearView Energy Partners, said June 28.

Democrats continue to advocate for a variety of bills, including climate change and energy legislation that affects various sectors of the economy instead of a single economy-wide approach.

Republicans have said they will support energy legislation that they say could curb carbon emissions, but only two—Maine Republicans Susan Collins and Olympia Snowe—have said they could consider a limited cap on carbon emissions.

"I wouldn't expect it to be a eureka moment, when everybody says yes, we're in agreement and they all hold hands and sing Kumbaya," said Daniel Weiss, a strategist with the liberal Center for American Progress. "But I would expect the people who are there to be candid with the president on where they are, and he will then be able to identify the approach he needs to take to help bring various members aboard, that he'll need to do on a one-on-one basis."

Senate Democratic Leader Harry Reid has said repeatedly that he expects Obama to take the lead in mustering the 60 votes to pass an energy bill in the Senate. But some of his fellow Democrats believe the leadership must come from lawmakers.

Senator Carl Levin, Democrat-Michigan, said it would ultimately fall to Congress to hammer out the details. "It's up to us to figure out how to do it," he said.

The White House meeting comes as lawmakers prepare to leave town for a week-long Independence Day recess. Reid has said he hopes to bring an energy or climate change bill to the Senate floor during the three-week long July work period when the Senate must also vote on a US Supreme Court nomination and before lawmakers leave for their annual August recess.

A major financial regulation bill, an annual budget, and a variety of other matters must also be completed.

A crammed schedule means Reid can not afford to bring a bill to the floor that Republicans will delay for days or weeks using the chamber's many procedural rules, and he has said he will not do so. The Nevada Democrat has said that any bill he brings to the floor must have 60 votes in place.

Democrats have said they hope public outrage over a major oil spill in the Gulf of Mexico at the BP-operated Macondo well will push them over the top. Vermont Senator Bernard Sanders, Independent, who caucuses with the Democrats, said the American people "are disgusted and horrified by what's happening in the Gulf Coast." "The American people know that we have to transform our energy system," he said.

However, Republicans say that approach could backfire.—*Jean Chemnick*

Chevron declares Hercules rig *force majeure*

Companies 'engaged in discussions' to seek a 'commercial resolution'

Houston—For the second time in a week, a shallow-water contract driller has declared *force majeure* on a jackup rig.

Hercules Offshore said June 28 that Chevron USA invoked the *force majeure* clause on one of its jackup rig contracts, stating new US federal safety regulations have affected the issuance of drilling permits and prevent continued operations with the rig.

Force majeure for the Hercules 120 jackup would be effective as of June 23, Hercules said in a US securities filing. Chevron has leased the rig, which can work in 120 feet of water, since at least September 2009 and is currently paying $28,000/d for it, according to Hercules' most recent fleet status report.

A lengthier amount of time now required for US regulators to issue permits "could lead the customer to attempt to terminate the contract covering the operations for the Hercules 120 and pay a reduced standby dayrate until such time," Hercules said in its filing.

The company said it was "engaged in discussions with (Chevron) in an attempt to seek a commercial resolution." If those attempts are not successful, Hercules said it will determine whether to pursue its legal and contractual rights at that time.

Neither Hercules nor Chevron returned phone calls June 28.

A three-week moratorium on all new offshore wells and permits in May, imposed by the US Department of Interior, led that agency to tighten federal drilling regulations. As of early June, third-party equipment certifications and more detailed rig inspections and well design plans must be done for all prospective drilling. As of May 30, all deepwater drilling is also banned for six months.

The new regulations were inspired by the blowout of the BP-operated deepwater Macondo well in April which continues to leak oil into the Gulf of Mexico, although some of it is being captured.

But shallow-water drillers and E&P companies have said the new rules have created a permitting backlog. This has resulted in operators paying for rig time they are not using, since they are not receiving drilling permits in a timely manner.

Force majeure is a common contract provision that essentially frees the parties from obligation or liability when an event occurs beyond their control. However, drillers are increasingly stating they do not recognize a government moratorium as a *force majeure* event.

Chevron currently also operates two additional Hercules jackup rigs, Hercules 173 and Hercules 350, which are not subject to the notice of *force majeure*. Chevron is paying respective dayrates of $28,000 and $50,000 for those rigs.

Next month those rates jump to $32,000/d for the Hercules 173 and $70,000/d for the Hercules 350. Both contracts expire at the end of the year, according to the driller's June fleet status report.

The Chevron *force majeure* declaration is the second time in a week an E&P company has invoked that contractual clause on a shallow water rig, although other companies have invoked it recently on deepwater rigs. Big independent Apache Corporation last week invoked *force majeure* on the Cecil Provine rig owned by driller Rowan Companies (ON 6/28).

Pritchard Capital Partners analyst Brian Uhlmer said he expects to see more companies invoke the clause on shallow-water contracts if the permitting backlog persists.

"I think we'll see a couple more of the shallow-water *force majeure*" declarations, especially those that are in the area of the spill," Uhlmer said.

Uhlmer noted the short-term nature of most shallow-water jackup contracts lessens the probability of *force majeure*, since terms are typically only for 30 to 60 days. But "you're not going to see new contracts; that's for sure," he said.

The analyst noted that pre-Macondo, companies that filed exploration and development plans with US offshore oversight agency Bureau of Ocean Energy Management, Regulation and Enforcement (formerly known as the US Minerals Management Service) were able to procure permits within "a matter of days."

While only one permit has been issued since new Interior rules came down earlier this month, it seems to be taking at least 30 days to procure a permit now, and some permits applied for in April still appear to be pending.

Last month's three-week moratorium began May 6.—*Starr Spencer*

Venezuela's PDVSA says it has nationalized more rigs

Caracas—Venezuelan state PDVSA said June 28 it has nationalized another six drilling rigs in the country, the second such move this month.

The six onshore rigs are owned by a Venezuelan company identified by PDVSA officials in Caracas as Wilson Workover. The land rigs are currently in Campo Boscan, an oil field in Zulia state where a 100,000 b/d joint venture between PDVSA and Chevron is located.

Asked if Chevron had concerns about continued asset seizures by Venezuela's government, Chevron spokesman Kurt Glaubitz said in an e-mail that the company "maintains a long and productive relationship with the Republic of Venezuela."

Glaubitz declined to comment on the government's report of the rig seizures at Campo Boscan. Chevron holds a 39% stake at Petroboscan.

Rig seizures at Petroboscan "is a negative" for Chevron, Oppenheimer analyst Fadel Gheit said. Chevron may ask itself "you know what, maybe it's time to leave" the country, Gheit said. "Maybe ExxonMobil and ConocoPhillips were smarter" he said. The two companies began retreating from Venezuela during 2008 and 2009 over expropriation disputes.

In terms of a hit from country exposure, however, the company's holdings in Venezuela are less compared to ConocoPhillips, Gheit said. "It's nowhere near what Venezuela meant to ConocoPhillips," he said.

Management at some integrateds "believe they can outlast Chavez," said Barclays analyst Paul Cheng, referring to Venezuela's President Hugo Chavez, who assumed office in 1998. Unlike ExxonMobil and ConocoPhillips, Chevron has claimed that the company "was properly compensated" for its assets when the government pressed Chevron to drop its interest at Petroboscan to 39%, Cheng said. "Either you believe them or you don't," Cheng said of Chevron's statements.

"The challenge to doing business with Chavez is, you just don't know," how policy will change, Cheng said. He estimated Chevron's daily oil production from Venezuela at about 70,000 barrels of oil equivalent/d.

The seizure of the Wilson rigs followed the takeover of 11 rigs from Helmerich & Payne last week (ON 6/25). H&P spokesman Mike Drickhamer said June 28 that the company had no updates from the Venezuela government on the terms that the government would pay H&P for the rigs.

On June 27, Ramirez said the company intends to pay H&P for the nationalized rigs and warned further takeovers in the oil industry could come. Ramirez is also Venezuela's oil minister.

The Venezuela government published last week a list identifying rig drillers and oilfield service companies that the government said are active in Venezuela and that are now operating with "reduced rates."

Among the non-domestic drillers, the government listed "USA" companies such as Nabors Drilling (operates four rigs), PetroMarine (one rig), Saxon Energy Services (five rigs), Weatherford International (14 rigs), and Schlumberger (10 rigs).

Spokesmen from these companies were not available to confirm the accuracy of the report.—*Carlos Camacho, with Leslie Moore Mira in New York*

Noble pays $2 billion for privately held Frontier Drilling

(continued from page one)

soon (ON 6/24.)

"I'd hope cooler heads will prevail and that we'll get back to a reasonable level of activity pretty soon," said Williams.

Meanwhile, the Frontier deal "has been on our radar screen for awhile," since even before April 20, he said. That was the day Macondo, located in 5,000 feet of water, blew out and caused a massive oil spill in the Gulf which later triggered the deepwater drilling ban.

The Frontier transaction, which should close by the end of July, gives Noble six deepwater rigs. Three are dynamically positioned drillships, including two Bully-class joint venture-owned rigs under construction. Two other rigs are conventionally moored drillships including one that is Arctic-class; another is a conventionally moored semisubmersible.

The deal also includes a dynamically positioned floating production, storage and offloading vessel (FPSO). Williams said acquiring an FPSO "gives us some opportunity to expand our footprint" into that asset class, which "may have some appeal" for new business in the future.

Analysts said the $2.16 billion cash price of the Frontier acquisition is reasonable. "We value the assets at $2-$2.4 billion, implying Noble paid a fair price," UBS analyst Angie Sedita said in a June 28 report.

Frontier, also known as FDR Holdings Limited, was not on the call. The driller was founded in 1997 and went private in 2004.

Frontier's fleet is supported by roughly 23 rig years of contracts that would generate about $3.2 billion in gross contract backlog, or $2 billion net to Noble, said Williams. The acquisition is "immediately" accretive to earnings and cash flow, he said.

"At first blush, [the Frontier acquisition] is positive," Credit Suisse analyst Arun Jayaram said in a report. Also, Frontier's drillships are "highly complementary" to Noble, whose deepwater rigs are mostly semisubmersibles.

According to Noble, the dynamically positioned drillship Frontier Phoenix can work in 5,000 to 9,000 feet of water; it is leased by Shell under a contract that extends through mid-2015 at a dayrate of $306,000.

The moored 1,500-foot drillship Frontier Duchess operates under a contract for Nigerian Petroleum Development Company at a dayrate of $308,000. And the moored 1,000-foot drillship Frontier Discoverer, the only Arctic-class drillship in operation today, is also under contract with Shell and earns $165,000.

The fourth-generation semisubmersible Frontier Driller is under contract with Shell in the US Gulf at a dayrate of $383,000.

Two joint-venture Bully-class rigs are under construction, owned 50-50 by a joint venture of Frontier and Royal Dutch Shell and should start operations in 2011. Bully I has a five-year contract with a dayrate around $438,000. Bully II has a 10-year contract with a similar dayrate in the first five years; its next five years are indexed to market rates at that time.

Noble's 10-year contracts with Shell include one for the Globetrotter-class drillship under construction and due out in late 2011, at a dayrate of $410,000/d in the first five years, and one additional newbuild priced at $550 million, to be delivered in late 2013.

Another Shell deal involves a multi-year extension for the semisubmersible Noble Jim Thompson, which the major has leased for two years until March 2011 at $505,000/d. After the Frontier deal closes, Noble will reduce the rate to $336,200/d.

The Shell contract suspension arrangement is the second such structure Noble has granted a US Gulf operator due to the moratorium. Last week the driller agreed to lower its dayrate for a semisubmersible contracted by Noble Energy, an unrelated E&P company. That rig now fetches $605,000/d, but Noble agreed to take a standby rate of $145,000/d until December and $397,500/d for the rest of the contract term which was to expire in November 2011 (ON 6/25).—*Starr Spencer*

Storm delays Macondo response, sends others scrambling

(continued from page one)

site, also said about 430 offshore personnel had been evacuated from the southwestern Gulf, though it did not indicate how much production was curtailed.

About 1,100 workers remained offshore, the company said. ExxonMobil, Anadarko Petroleum and BP also evacuated non-essential personnel.

Anadarko said it was pulling workers from the Boomvang, Nansen and Gunnison platforms but did not expect an impact on production.

BP evacuated non-essential personnel from the Atlantis, Mad Dog and Holstein platforms in the deepwater Gulf, the company said in a recorded message on its storm hotline.

Earlier in the day, BP vice president Kent Wells said Alex would force the company to delay launching the next phase of its Macondo containment efforts by about six or seven days due to the rough seas triggered by the storm.

But, he said that existing containment efforts would not be disrupted.

"We have three days of additional work to do, a lot of it done on the surface," Wells told reporters during a conference call.

"It requires a flat sea state," he said. "With Alex entering the Gulf, it will create waves, and we expect the next six or seven days the sea heights will restrict our ability to do these operations. So we could see a six to seven day delay on bringing this next phase of subsea containment on line. Instead of the end of June, it is now July 6."

BP had hoped to implement this third prong of its containment efforts this week, which would have boosted its oil collection capacity at Macondo to about 50,000 b/d. The existing operations—Transocean's drillship Discoverer Enterprise and the Helix multipurpose vessel Q4000—can collect and/or flare a combined 25,000 b/d.

Although work progresses favorably on two relief wells as the ultimate solution for Macondo, Wells said BP maintains its target date of early August for an intercept the company expects will kill the well.

He said the primary relief well has reached a total depth of 16,770 feet, including 4,993 feet of water, and stands about 20 feet to the side of the original well with only about 900 additional vertical feet to drill.

"Things have progressed very well to this point," said Wells. "This is the point in time when we need to be very good at what we are doing. And we are."

He said he spent the weekend discussing the progress with technicians on the drilling rig and determined: "They are well-positioned to make this successful."

Wells said the manager of the project boasts a perfect record of having drilled 40 successful relief wells in locations around the world, and this represents his 41st attempt.

While Tropical Storm Alex could disrupt the containment process, Wells said he does not expect the storm to impact the relief well operation as it parallels the original Macondo wellbore and seeks the best place for interception.

Although Wells said BP has a "high degree of confidence" in the ability of the relief well to kill Macondo, he declined to state that degree in percentage terms.

A second backup relief well continues to drill and will be available if the first wells fails to kill Macondo, Wells said.

Meanwhile, Wells said BP's containment devices continue to siphon oil at a rate of about 24,000 b/d from the Macondo leak, which has been estimated at a range of 35,000 to 60,000 b/d.

That leak began April 20 with a blowout that destroyed Transocean's Deepwater Horizon drilling rig and has created the largest marine oil spill in US history (ON 4/22).—*Gary Taylor, with Kevin Saville and Richard Rubin in New York, Jeff Barber in Washington and David Ruisard in Houston*

OPEC's Badri hopes US will review drill ban

EU, OPEC ministers agree to work on improving oil/gas offshore safety

Brussels—OPEC Secretary General Abdalla el-Badri said June 28 he hoped the US would re-examine its six-month ban on deepwater drilling imposed after the April 20 explosion in the Gulf of Mexico that resulted in 11 deaths and an environmental disaster.

Badri, speaking to reporters after a joint meeting between OPEC and the European Union in Brussels, said the two bodies would work together to look at safety regulations in the wake of the spill, which some experts estimate is now spewing as much as 60,000 b/d of crude from BP's Macondo well into the gulf.

OPEC and the EU agreed earlier in the day to host an international roundtable in Brussels in early 2011 to enable industry and regulators from both sides to discuss how to increase safety in offshore oil and gas installations.

Badri, however, called for a measured response to the spill from producers both within and outside OPEC.

"I'm sure that both sides [OPEC members and non-OPEC producers] will look at regulation and the practices going on," he said. But, he added, "we should not jump to conclusions."

"I'm sure that the US government is in limbo because they do not know what's going on in their operations. That's why you have this [ban] in the offshore. I hope that will not take long. I hope that they will relook at their decision," he said.

Badri refused to condemn BP for the Macondo disaster.

"We don't know what happened in the Gulf of Mexico. They are assessing it now and after that we will see if it was negligence [or] maybe human error or the design of the well," Badri said. "We have not come here to condemn BP because of this incident."

Badri also said he hoped that slowly rising demand for oil would mop up the current oversupply on world markets, adding that he was "not very happy" with the group's level of adherence to crude output quotas in place since January 2009.

He said the rate of compliance among the 11 members bound by the 24.845 million b/d target—Iraq does not have a quota—had fallen from an initial level of around 80% early last year. He did not, however, give an estimate for current compliance rates. A Platts survey earlier this month estimated the rate of compliance at 52.7% in May.

"I'm not very happy with this compliance," Badri said. "...as soon as you look at the world economy [you see] there is some oversupply in the market. But demand is now picking up slowly and I hope that the oversupply will be absorbed in the very near future," he added.

Badri also said the oil producer club was "comfortable" with current crude price levels, which traded June 28 between $77.72 and $79.38/barrel for US light crude futures, but insisted that OPEC had no specific price target in mind.

"OPEC has no target for the oil price. All that we need is a reasonable price so we can invest for new supply. I cannot give you a figure because that figure depends on a lot of factors," he said, adding that any rise in production costs would push prices upward.

"Right now...we are comfortable with the level of price," he said.

Ali Naimi, oil minister of OPEC kingpin Saudi Arabia, has described a range of $70-$80/b as "perfect," and other ministers have echoed his remarks.

OPEC last met in March and is scheduled to hold its next meeting October 14 in Vienna.

A joint statement released by OPEC and the EU after the Brussels meeting said EU Energy Commissioner Gunther Oettinger had highlighted the need for Europe to respond "in a compelling manner" to European citizens who felt "uncertain or threatened by oil production activities in EU waters."

"In this connection, the Commission is proposing to organize a joint EU-OPEC roundtable with the aim of exchanging views on this crucial matter," the statement said.

It added that OPEC's Badri had "reiterated the concerns voiced by EU Commissioner Oettinger that it is important to assess the Gulf of Mexico incident and introduce appropriate measures."

The statement also said Badri had pointed out that OPEC member countries were continuing to invest in expanding both upstream and downstream capacity despite the uncertainty caused by volatile oil prices, and that he had said it was important for producers to have reliable market signals and predictable energy policies from consumers to enable them to plan their investment in capacity expansion.

The EU-OPEC energy dialogue will "continue to analyze and discuss the root causes of the recent financial crisis and economic recession, including the financial losses incurred by producing countries," the statement said.

In addition, it said, "actions which help prevent a repetition of damaging economic downturns are needed."

OPEC's delegation to the meeting included its current president, Ecuadorean oil minister Wilson Pastor-Morris, and Iranian oil minister Masoud Mirkazemi, who will take on the presidency in 2011.

The next EU-OPEC ministerial meeting is planned for June 2011 in Vienna. The two bodies will also organize a workshop during the second quarter of next year to present the conclusions of a study on the impact of the economic crisis on oil investment.

The statement said that "...although the potential adverse impacts of the crisis have now eased, it is likely that its effects will continue to be felt."

OPEC and the EU will organize a workshop during the second quarter of next year to present the conclusions of this report.—*Siobhan Hall, with Margaret McQuaile in London*

Oil prices seen steady if no new crises: Gulf source

Dubai—Global oil markets are currently "in good shape" and no significant price movements are expected in a stable market if there are no surprise developments that might affect production such as a hurricane in the US Gulf of Mexico or other events that could impact oil prices, a Gulf source said June 27.

"Prices are not expected to go up sharply or down, unless you have an unexpected event such as a hurricane," the source said, adding that given the state of the market, there was no need for a change in OPEC's output targets despite an expected weakening in demand during the third quarter.

OPEC last met in Vienna in March, when it rubber-stamped an existing accord to maintain its production target of 24.845 million b/d for the 11 members bound by quotas. Iraq is excluded from the quota agreement.

One potential source of market tension is Iran, OPEC's second biggest oil producer and exporter after Saudi Arabia, given the escalation in the row over its nuclear program, the Gulf source said.

He also said that the US moratorium on offshore drilling after the Macondo oil well disaster in the Gulf of Mexico was not expected to have an impact on Middle Eastern oil production.

Nor was offshore drilling expected to slow in such countries as Brazil or in West Africa which are developing their deepwater offshore areas, he added.

"It will slow down many projects but Brazil and West Africa will continue," he said.

Saudi Arabia has, however, slowed down the 900,000 b/d Manifa heavy oil field development project, with full capacity now targeted for 2024, much later than earlier planned.

"There is a kind of slowdown [on Manifa]. There is no extra capacity needed. The policy is to keep existing capacity and not add any unless there is anything urgent," the source said.

Saudi Aramco said in its 2009 annual report out earlier this month that Manifa, in shallow waters just off the kingdom's eastern coast, is scheduled to begin production of 500,000 b/d of Arabian Heavy Oil by June 2013 and will ultimately produce at its full 900,000 b/d capacity by January 2024.

The Manifa increment will serve to offset natural declines in other producing fields. Saudi Arabia's current oil production capacity stands at 12.5 million b/d.—*Kate Dourian*

NYMEX crude moves lower as US Gulf storm fears fade

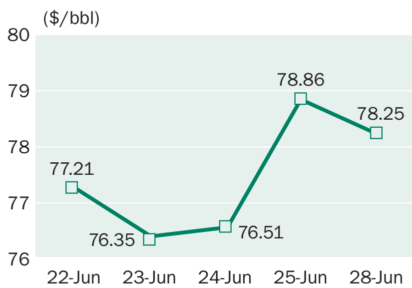
New York—August crude settled at $78.25/barrel June 28 on the New York Mercantile Exchange, down 61 cents, as profit-taking took the complex lower on waning tropical storm concerns.

Euro weakness and equity strength has little impact on the energy complex.

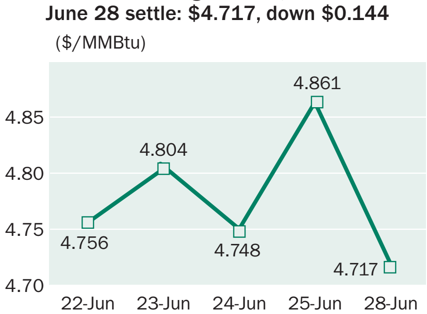
ICE August Brent settled 55 cents lower at $77.57/b. NYMEX July RBOB settled at $2.1376/gal, down 3.02 cents, and July heating oil settled at $2.0933/gal, down 1.89 cents.

What crude & natural gas markets are doing...

NYMEX crude settle, first month
June 28 settle: $78.25, down $ 0.81



NYMEX natural gas settle, first month
June 28 settle: $4.717, down $0.144



With Tropical Storm Alex active in the Gulf of Mexico, but veering away from heavier concentrations of US upstream and downstream oil-related facilities, the storm premium was virtually eliminated in the petroleum complex.

The tropical storm was having a limited impact on production, with Shell announcing some shut-ins, and BP and ExxonMobil evacuating some non-essential personnel (*see story, p. 1*).

"The complex is being forced to discount an array of weekend developments," said analyst Jim Ritterbusch in a research note. "The oil futures appear to be keying primarily on Tropical Storm Alex, which is now tracking far south of the main Gulf Coast production regions, as well as the core of the major Gulf refinery system," he added.

Weekly oil data from the US Energy Information Administration and the American Petroleum Institute should show a 1.2 million barrel draw in US commercial crude stocks for the reporting week ended June 25, analysts polled by Platts said June 28.

Historically, crude inventories start to erode at this time of year as refiners boost run rates to meet a seasonal upswing in gasoline output. Only if there is another influx of crude imports will stocks be able to buck historical trends and build.

But crude imports had already jumped to over 10 million b/d for the week ending June 18, a week-over-week increase of 413,000 and the highest level in 11 months.

Refinery utilization is expected to climb another 0.4 percentage points to 89.8%, based on last week's EIA figures, in line with historical norms.

Gasoline stocks are expected by analysts to decline by 400,000 barrels. With demand showing little growth year over year on a four-week moving average, stocks are likely to decline, but at a slower rate than is usual for the week prior to Fourth of July.

Inventories of middle distillates are projected to build 1.3 million barrels, also a seasonal occurrence.—*Jeff Kerr, Linda Rafield*

Islamic Development Bank funds Bangladesh oil mooring

Dhaka—The Islamic Development Bank has signed an agreement with Bangladesh to provide $129 million for the construction of a single point mooring in the Bay of Bengal to carry petroleum from vessels moored at an outer anchorage to onshore depots, a top government official said.

The Bangladesh government would provide the remaining cost of the $140 million project, said a senior official at state-run Bangladesh Petroleum Corporation.

He added that the project was expected to save around $10 million/year on the cost of bringing ships into port and would reduce unloading times by about 20%, or to two to three days, from 12 to 15 days currently, and thus raise fuel handling capacity.

Bangladesh Finance Minister A.M.A. Muhith signed the deal with the Jeddah-based development lender in the capital of Azerbaijan last week.

BPC currently pays $5.50/mt to small vessels owned by the state's Bangladesh Shipping Corporation to ferry petroleum ashore from larger vessels moored at the outer anchorage in the Bay of Bengal. The platform would save BPC around $8/mt incurred due to the vessel transfer.

The floating platform would be built southwest of Kutubdia Island in the Bay of Bengal, 70 km (43 miles) from the port of Chittagong.

A 77 km, 36-inch-diameter pipeline would link Bangladesh's lone state-owned Eastern Refinery with the single point mooring.—*M. Azizur Rahman*

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