The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Do the Russians play Monopoly?

Posted by Heading Out on May 4, 2006 - 5:13am
Topic: Supply/Production
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It was a relatively minor note in the news that Gazprom has taken a majority holding in the gas pipelines that form the North European Gas Pipeline. At this rate they are going they will be scratching their heads, this time next year, to try and find anyone left that they can take over. But the gilt is off that gingerbread. As was noted in the Guardian the time when Europe foresaw `the great prospect of the 21st Century" being the energy partnership between them and Russia, has started to reveal "the dark side of the force." We are at the point that

> In a direct reference to the Russian president, Mr Barroso (head of the European Commission) last week complained that the Kremlin was increasingly resorting to a very blunt, but potent weapon in its dealings with Europe - "the use of energy resources as an instrument of political coercion". . . . . In short, to mix the energy metaphor, Gazprom appears to have Europe over a barrel.

However, given that companies have to be assured of their investments before they commit to large energy construction, it is worth noting that the pipelines and infrastructure are going to cost around $11 billion. Since it will take four years to get the pipes in, is it fair to ask those who demand windfall profits taxes from the energy companies, what they would consider a fair return on that investment?

Given the potential discord that the new pipeline is already creating in Europe, and recognizing that Gazprom will, as the article notes, be to a degree as dependant on Europe for money as Europe is on it for gas, nevertheless we can only plant markers for history as the powers of the world slowly change.

> While Gazprom sells just a third of its supplies to Europe, those sales - which last year totaled more than $25.7 billion - account for two-thirds of the company's revenue because domestic energy prices are still subsidized in Russia.

And speaking of Russian gas, and the need for long-term contracts, obviously someone has been paying attention, since it is now reported that all of the Sakhalin II LNG is sold. Oh, and if you were expecting any, well:

> The plant, Russia's first, will have two trains, each with a capacity of 4.8 million tonnes/year. First shipments will begin in summer 2008.
>
> Talks with Chubu Electric Power Co. and Osaka Gas Co. are said to be entering final

> stages. The firms expect to have contracts in place for the nearly all the 9.6 million tonnes/year of capacity.
>
> Earlier, on Apr. 20, Hiroshima Gas signed a full sales and purchase agreement (SPA) to buy 210,000 tonnes/year for 20 years.
>
> Hiroshima Gas will use a new ice-class LNG vessel to transport the LNG to its receiving terminal in Hatsukaichi.

Well there went that!

And on a historic note, even though about 20% of the GOMEX oil production is still shut-in, the Minerals Management Service is stopping the weekly reports on change, since there no longer appears to be much, and the new season is fast approaching. This should be a bit of a disappointment to OPEC, since, as I noted earlier they had anticipated

> The revision reflects a slightly worse expectation for the recovery of the US GoM in 2Q06 and 3Q06. Assumed GoM losses in 2Q06 have been adjusted to 280,000 from a previous estimate of 200,000 b/d while for 3Q06 losses are now assumed at 100,000 b/d compared to a previous 50,000 b/d. Additionally, 50,000 b/d of permanent losses are not expected to recover in 2006, an assumption that remains unchanged.

However OPEC expects that the Mars platform, Typhoon and K2 (a total of around 200 kbd) will soon come back. Mars is now expected to be back on stream by the end of May. It should be back in full production by the end of June (at 140 kbd). Typhoon, you may remember, was left upside down and the production return there is not as favorable. Meanwhile the Houston Weather Research Center has been looking at the data and found a cycle.

> This cycle implies that the Gulf of Mexico oil leases have a higher risk of experiencing Category 3, 4 and 5 hurricanes over the next 5 years.

Sigh! Though I suspect that this is not unsurprising news.

Speaking of OPEC, back before we all became concerned about just how much oil and gas remained in Saudi Arabia, they were quite happy to admit that they had extensively carried out aerial surveys of the country to find potential new fields. But the proof of the pudding, requires that holes be sunk, and production rates established through wells rather than computer programs.
Thus they are now committing to a greater number of exploratory drilling rigs particularly focused on the offshore.

> The kingdom, whose desert oil reserves are the largest in the world, will deploy 20 percent of its rigs in offshore waters to explore for new oil and gas fields, Al-Saif said.
>
> By year-end, Saudi Arabia will have 120 rigs operating in the country, up from 85 last year and 54 in 2004.
>
> "The offshore is growing," he said. "We see it as at least 20 to 30 rigs from here on instead of six or eight."

Wonder where they are finding them all?

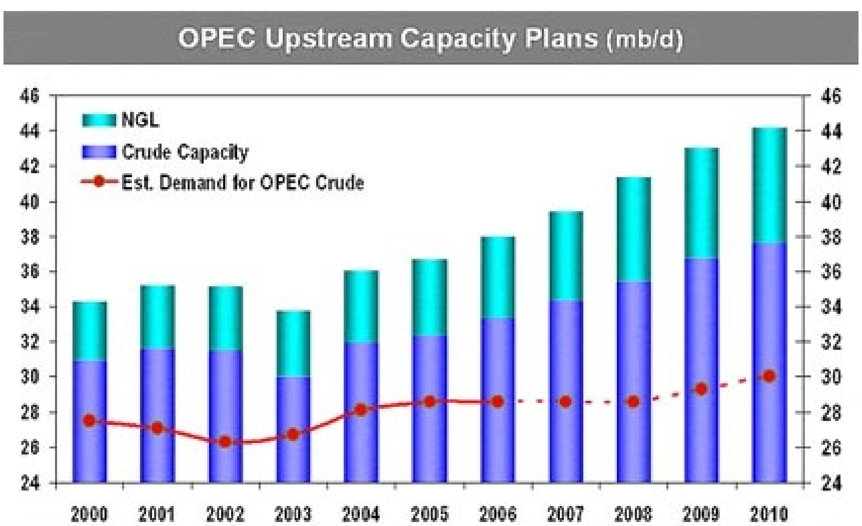
And in regard to the Khurais development where we have previously discussed the number of wells required, and their anticipated individual production rate, the Aramco VP said

> Onshore, Al-Saif talked up the Khurais development west of Saudi Arabia's massive Ghawar field as the primary way Aramco will boost crude production from just under 11 million barrels of oil per day to 12.5 million barrels by the end of 2009.
>
> Khurais is thought to contain 23 billion barrels of oil reserves, most of it light, sweet crude that's easy to refine. The adjacent Abu Jifan and Mazalif fields hold an estimated 4 billion barrels.
>
> Al-Saif said that the project required 310 horizontal wells to access all of the reservoirs, but together the fields should produce an extra 1.2 million barrels of oil per day by 2009.

This gives an individual well production of around 4,000 bd rather than the 3,000 bd figure that we quoted earlier which was based on a reported 400 wells being required. And these rigs are not cheap.

> Aramco will be paying Houston-based Rowan Cos. $100,000 to $105,000 per day for each of four large offshore rigs slated to begin exploring for oil and reworking wells in the Arabian Gulf for a three-year period beginning in early 2006.

And to add a little more to Stuart's great posts on OPEC production I would just add this figure from OPEC which differentiates planned crude and LNG production.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Crude Capacity	30.9	31.6	31.5	30.0	31.9	32.4	33.3	34.4	35.4	36.8	37.6
NGL	3.3	3.6	3.6	3.7	4.1	4.3	4.6	5.1	5.9	6.3	6.6
Total	34.3	35.2	35.2	33.8	36.0	36.7	38.0	39.4	41.4	43.0	44.2