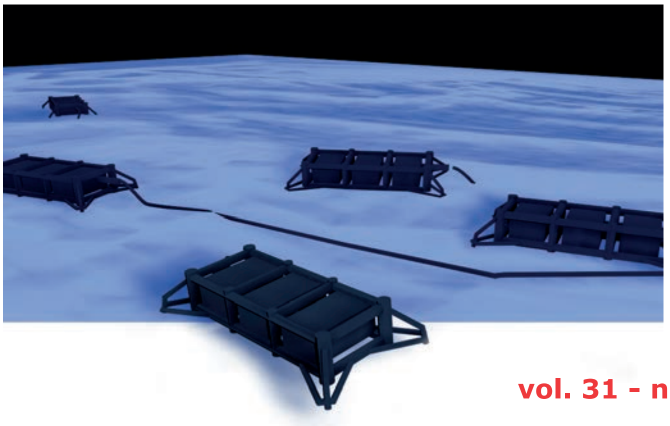

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HARTENERGY

SEN

SUBSEA ENGINEERING NEWS

SHELL BEGINS 'FEED'-ING ITS *VITO* PROSPECT

From Houston (BN): Shell has begun FEED on its *Vito* (SEN, 31/1) deepwater development in the Gulf of Mexico.

The project, with production to peak at 100,000boe/d, will be a floating production system - a semi, spar or tension leg platform all remain under consideration - capable of receiving up to four subsea tiebacks. Anadarko drilled the original discovery well in Mississippi Canyon 984 in 1,235m in 2009 about 200km southeast of New Orleans. It later transferred the operatorship to Shell.

It is now part of a four-block unit and owned by Shell (51.33%) Statoil (30%) and Freeport-McMoRan (18.67%). The lease was acquired in 2001 by Shell and Spinnaker.

SEN understands that the decision on the floater type will be made once FEED has identified the preferred method of providing pressure support. Conventional water injection is not considered appropriate in this type of reservoir and there has been talk about the use of a low salinity solution. BP has been a leading proponent of *LoSal* technology for water injection.

Coulomb go-ahead

Shell has also given the official go-ahead for its *Coulomb* phase 2 (31/19) project in 2,300m in Mississippi Canyon 657.

Two wells will be drilled - one this year and one in 2016 - which will be tied into an existing subsea infrastructrure and then back to the *Na Kika* semi-submersible production unit, 36km to the northwest. The project is expected to produce 20,000boe/d at peak.

The plan calls for a new manifold, trees, jumpers and umbilical links. Shell has held this lease outright since the previous price-collapse year of 1986, when it paid the then considerable sum of $1.3mn for it.

WHAT'S INSIDE

Shell executives have also said that they want to back to the Arctic this year. In comments made in its Q4 earnings call that struck many as wildly inconsistent with the low-oil-price, cost-cutting environment companies now find themselves in, Shell CEO Ben van Beurden and CFO Simon Henry said they want to spend $1bn exploring in the area that handed Shell a disastrous setback in 2013.

The management pair said, however, that there are lot of 'ifs' and they still need to get the permits and not run into any more legal roadblocks to proceed. And, of course, they said whether they go beyond exploration depends on what they find. Both said a 500mmbbl find won't be sufficient for development to be economic. A discovery must be in 'the billions'.

PROJECT UPDATES

COP READIES FLIGHT PLAN FOR *CORSAIR*

From Houston (BN): Development of ConocoPhillips' *Corsair* find in the Mississippi Canyon sector of the Gulf of Mexico is one of several long term exploration and development plans US Bureau of Ocean Energy Management regulators have recently given the green light.

Corsair is in MC593 and 637. COP proposes to drill five wells from May 2016 through 2021, install completions and subsea trees and temporarily abandon them. The project is in about 1,200m. COP holds MC593 outright, while Nexen has 50% of MC637.

Regulators have conditionally approved Noble's *Hagerman* prospect in MC788-789. According to Noble's filing, the prospect also includes MC833 and 834, although no drilling is yet planned in those blocks.

In MC788-789, eight wells are planned on the western flank of a 150m subsea rise starting in the first quarter of this year and continuing through 2022.

It should be noted that the plan was filed back in June when oil prices were much higher. Noble does not currently report a rig at the location, although it is drilling at *Dantzler* (SEN, 31/16) in MC782 not far away.

The *Hagerman* target is in 2,327-2,351m water depth about 280km southeast of New Orleans. Noble owns the blocks outright.

Freeport McMoRan won approval of a supplemental development plan to startup one *Dorado* (31/19) well this year and a second in March 2018 by installing 15m jumpers from wellheads to an existing flowline back to the *Marlin* tlp.

The project, several wells of which already are producing, is in 1,176m in Viosca Knoll 915 about 230km east-southeast of New Orleans. Regulators also approved FM's exploration plan for *Holstein Deep*. The scheme calls for six wells, two each in Green Canyon 600, 644 and 645, from March 2017 through 2020. The target is in deeper strata than the existing *Holstein* discovery. The project is in 1,350m.

Unification

BOEM has also released its draft programme for offshore leasing in 2017-22.

This plan will unify GoM sales which previously had been divided into Western, Central and Eastern events. The draft calls for 10 sales for the GoM, three for Alaskan acreage and one for a portion of the mid- and south-Atlantic.

Off Alaska, portions of the Chukchi and Beaufort Seas remain off-limits to protect the environment and native subsistence hunting and fishing. The Atlantic coast offering was welcomed by industry spokesmen, but they expressed concern about the 50-mile buffer zone along the coast to guard against conflicts with the Department of Defense and other coastal interests. The agency has invited public comments until 30 March.

ALLSEAS VESSEL AT CENTRE OF NAZI FURORE

From the North Sea (NT): The recent arrival of Allseas' massive *Pieter Schelte* single-lift vessel in Rotterdam has been met by a furore over its name.

Pieter Schelte Heerema, the father of Allseas' president Edward Heerema, was a Dutch member of the Waffen-SS who served time in prison after the war.

Criticism of the naming of the vessel has been led by the International Transport Workers Federation, whose president Paddy Crumlin has commented, 'For Allseas to name its vessel after a convicted Nazi war criminal is utterly shameful.'

The union started an online petition calling on Shell, which has contracted *Pieter Schelte* for *Brent* (SEN, 31/16) platform removals, to have the vessel renamed or repudiate the contract.

Justify

Shell, in fact, has partly responded to this moral appeal.

'Shell believes the name of the vessel is inappropriate,' it said in a statement. 'We have raised our concerns with Allseas and asked them to consider changing the name. However, the name of the vessel is a matter for Allseas alone and one... to justify.'

Edward Heerema has given no indication that he intends to change the name, justifying the choice in terms of his father's 'creativity and entrepreneurship' as a 'pioneer of the offshore construction industry,' but adding that he had '...expressly disassociated himself from his father's sympathies in the Second World War.'

Pieter Schelte's first job will be for Talisman, removing the deck of the ill-fated *Yme* (31/12) platform in the Norwegian sector this summer. The company appears not to have been the target of appeals to cancel this contract.

A spokeswoman told SEN that 'Talisman and the *Yme* co-venturers chose to award the removal contract for the *Yme* topsides to Allseas based on commercial and technical criteria' and referred questions over the name to Allseas.

During the war Schelte fought on the east front and worked for the Nazis in the occupied lands. When things started to go badly, he changed sides and collaborated with the resistance. After the war he was sentenced to three years in jail for war crimes, but released early on the grounds of his work with the resistance. He later became active in the North Sea offshore industry, building innovative crane-vessels and being responsible for the installation of the majority of large platforms, according to his son.

CHEVRON STRENGTHENS HOLD IN LOWER TERTIARY

From Houston (BN): Chevron has taken over operatorship of three significant Gulf of Mexico Lower Tertiary deepwater fields as BP has sold down interests as part of its ongoing asset sale.

Partners ConocoPhillips and Petrobras agreed to put Chevron in place as operator of *Tiber*, *Gila* and *Gibson*. Financial terms of the transaction were not disclosed.

At *Tiber*, BP's stake halves to 31% and Chevron takes that stake with Petrobras (20%) and COP (18%). At *Gila*, BP's share drops from 65% to 34% with Chevron holding 36% and COP 30%. At *Gibson*, which covers six leases, the post-deal stakes are the same as at *Gila*.

Actual transfer of operatorship at *Tiber* and *Gila* will occur after BP finishes drilling appraisal wells. BP said the Lower Tertiary discoveries will require next-generation tools to develop and the three companies can do the work better together.

BP discovered *Tiber* in 2009 and *Gila* in 2013, while *Gibson* is a prospect that subsumes a project dubbed *Waxwing* for which COP had filed an exploration plan. The *Tiber* find, announced in September 2009, is in Keathley Canyon 102 in 1,259m about 400km southeast of Houston. The well found multiple Paleogene (Lower Tertiary) reservoirs enroute to TD of 10,685m, one of the deepest wells ever drilled. BP acquired the lease in 2003. It is part of a nine-block unit.

Gila, announced in December 2013, is 40km west of *Tiber* in KC93 in about 1,500m. The well, drilled to TD of 8,906m, penetrated multiple Paleogene reservoir sands. BP acquired the lease in 2003. It is part of a six-block unit.

The part of *Gibson* that was *Waxwing* is in KC95 in 1,430m between *Gila* and *Tiber*. COP paid $103.8mn for the lease in Sale 218 in December 2011, by far the highest bid of the sale and one of the highest bids in the 30-year history of area-wide leasing.

The plan submitted by COP in March 2014 and approved in September called for four wells to be drilled between September 2014 and February 2018. The regulatory approval also indicated that new technology would be used in drilling.

From the UK (JS): Chevron has also grabbed a 30% stake in three blocks offshore Mauritania from Kosmos Energy.

Blocks C8, C12 and C13 cover 6.6mn acres in water between 1,600-3,000m off the West African state. While Kosmos retains a 60% stake and remains operator for now, Chevron will take over that role if a commercial discovery is made following the exploration phase. A well is currently scheduled on the *Tortue* prospect.

Mauritania's national oil company SMHPM will retain a 10% stake.

PROJECT BRIEFS

From the North Sea (NT): This year **NORWAY** celebrates 50 years of the offshore oil and gas industry which has transformed the country economically and socially.

It was in February 1965 that Oslo agreed to split the North Sea with the UK using the midline principle, followed by a similar agreement with Denmark. In August the first licences were awarded and four years later *Ekofisk* was discovered by Phillips. The rest, as they say, is history. Oil and gas have since contributed some NOK11tn ($1.5tn) to Norway's GDP.

Russian gas producer Gazprom and the Turkish government have agreed on the route for the replacement pipeline for the canceled **SOUTH STREAM** (SEN, 31/20) system across the Black Sea.

Most of the new route (72%) will mimic the original *South Stream* route with only the final 250km taking a new corridor to the Turkish coast. The new line will have the same capacity - 63bcm/a - as the old line.

Roughly 25% of the line capacity will be dedicated to Turkish customers and is due onstream in December 2016.

From the North Sea (NT): Centrica has called time on the small **STAMFORD** gas field in the UK Southern Basin, issuing a draft decommissioning programme.

Production proved disappointing after the field came onstream in 2008. Instead of continuing for five years, it became intermittent in 2010 and production ceased in mid-2012. DECC figures indicate it produced only 0.18bcm, rather than the 0.62bcm estimated at the time of development.

The field was developed with a single well with a 54t wellhead protection structure which will be removed. It was tied back to Centrica's *Markham CT* platform in the Dutch sector by a 7.5km, 6in pipeline and an umbilical, which Centrica proposes leaving in place after cutting or reburying exposed ends. There is no sign of drill cuttings and the flexible riser at *Markham* will be left where it is in the hope of reusing it.

The well P&A is scheduled for this year and other decommissioning activities for this year or next. Subsea work will be performed under a framework agreement, presumably with Subsea 7 and the P&A by jackup *Paragon B391* which is on contract with Centrica.

From Australia (RW): UK-based subsea products and equipment manufacturer Ennsub has completed design, manufacture, testing and installation of bespoke sealing systems for Chevron's **WHEATSTONE** (31/19) gas platform off Western Australia.

Ennsub designed two different systems to provide both external and internal sealing systems for 64 8in ballasting pipes at each corner of the platform.

The 128 bespoke systems were installed instead of a grouting solution that had been considered for the job at an earlier stage. Ennsub said the seals were installed by company engineers in half the time allocated for the job, resulting in major cost savings.

From the North Sea (NT): **LUNDIN PETROLEUM** took several steps backwards in 2014 - production down 24% to 24,900boe/d, ebitda down 30% to $671mn - but president and CEO Ashley Heppenstall remains chipper about the company's prospects.

Its producing and developments assets will all generate value at current oil prices, he says, although he does not believe the majority of the industry has a sustainable future in these conditions. What makes Lundin's prospect different is its stake in Statoil's upcoming giant *Johan Sverdrup* (31/21) development.

Norway remains the bedrock of Lundin's success. With the *Brynhild* (31/20) and *Bøyla* (31/21) fields recently having come onstream, and the *Bertam* (Malaysia) and *Edvard Grieg* (31/12) fields due to achieve first oil this year, Heppenstall predicts 2015 production of 41-51,000boe/d and an exit rate of 75,000boe/d. *Sverdrup*, due to be sanctioned this year, is expected to eventually lift the company's production to more than 150,000boe/d.

In today's oil price environment, there is little focus on exploration assets, but Lundin sees exploration as the key to maintaining access to resources. This year it will appraise the *Alta* (31/5) discovery in the southern Barents Sea and drill wells to test nearby prospectivity.

As the major licence holder in this area, Heppenstall believes additional oil resources will be found which will ultimately act as a catalyst for the development of this region.

From the UK (JS): Statoil has struck a €4.5mn deal with Nexans for delivery of standardised umbilicals for the **VISUND** field. Nexans will deliver 830m of dynamic umbilicals, as well as a pull in and hang off assembly and a subsea umbilical termination assembly. The manufacture will be at the Nexans plants in Rognan and Halden, Norway, with delivery in Q2 2015.

Nexans has already supplied Statoil with umbilicals for *Oseberg Delta*, *Snøhvit*, *Smørbukk South* and *Gullfaks Rimfaks Valley*.

Wood Group Kenny has picked up the flowline FEED work for Woodside Petroleum's **GREATER WESTERN FLANK** (29/20)phase two, part of the *North West Shelf* project. The field will have twin 16in CRA flowlines plus FLETs, inline tees and spools. FID on the project is due in the second half of the year.

From Houston (BN): Some observers have called Anadarko's **SHENANDOAH 3** (30/1) appraisal well a dry hole, but the company begs to differ.

The well didn't strike oil, but it gathered valuable information about a discovery the company still sees as very large. In a recent operational update, Anadarko said the well drilled 450m down-dip and 3.7km east of *Shenandoah 2* - which encountered 300m net oil pay - and 'confirmed the sand depositional environment, lateral sand continuity, reservoir qualities and down-dip thickening.'

It also 'enabled projection of oil-water contacts' and 'reduced the uncertainty of the resource range.' The company plans another appraisal well to spud in the Q2 as it continues to study development options.

Anadarko also spud the **YETI** exploration well in 1,795m in Walker Ridge 160. The well, aimed at Miocene subsalt and a TD of 7,790m, is 32km southeast of the Anadarko-operated *Heidelberg* (31/8) development.

Heidelberg, which will have a lookalike production spar to the one at *Lucius* (31/21), remains on track for first oil next year. Topsides are about 70% complete, drilling of two development wells is underway and installation of suction piles, flowlines and export pipe has begun.

From Houston (BN): Question: How do you make shareholders forget about ongoing corporate woes? Answer: keep finding lots more hydrocarbons.

Petrobras successfully completed a third extension well in the ultra-deep water of Sergipe Basin's **FARFAN** area, offshore Brazil.

The well confirmed the extension of the light oil and gas discovery in the area. Petrobras reported finding a new, shallower, 68m light oil-bearing reservoir. Drilling is continuing with an ultimate target depth of 6,060m. The find is part of the Sergipe-Alagoas Basin ultra-deep water exploration project included in the latest five-year business plan.

In Campos Basin, there is a new heavy oil find in the post-salt **BASILISCO** target in 2,214m. Oil was found in two reservoirs 300m apart. Petrobras (65%) operates for another poorly partner BP (35%) here.

Rockhopper Exploration has taken on the sixth generation semi **ERIK RAUDE** for its North Falklands Basin exploration programme...The new **GREEK** government will continue with the proposed offshore licencing round for acreage in the Ionian Sea and south of Crete, although it may revise the 20 block offering.

FLOATER/VESSEL BRIEFS

From the UK (JS): Operator Eni and its partners, Vitol and the Ghana National Petroleum Corp have been given the nod by the Ghanaian government to push ahead with the **OFFSHORE CAPE THREE POINT** (OCTP) oil and gas project in the Tano Basin.

The fields, at depths of 600-1,000m, will be produced subsea and tied back to an fpso supplied by Yinson under a $2.4bn, 15-year charter with five yearly extension options.

OCTP comprises five fields - *Sankofa East* Cenomanian Oil, *Sankofa East* Campanian Oil, *Sankofa* Main Gas, *Sankofa East* Gas and *Gye Nyame* Gas - and will access approximately 42bcm and around 500mmbbls.

The gas, which will supply Ghana's thermal power plants for more than 15 years, will be processed and transported via a dedicated pipeline onshore to Sanzule. It will be compressed and injected into the Western Corridor Gas Pipeline for transportation to industrial customers in Ghana.

Oil will be stored in the fpso and offloaded to tankers. First oil is expected in 2017, first gas in 2018 and peak production will be 80,000boe/d in 2019.

From Australia (RW): Inpex has given assurances that its $34bn **ICHTHYS** (SEN, 31/21) gas floater-to-LNG project, which crosses Western Australia and the Northern Territory waters, is economically valid in the wake of plunging energy prices.

The company has said that the current oil price would not significantly impact the project. Inpex said that *Ichthys* project is not scheduled to be brought onstream until late 2016 and will produce for at least 40 years. During that time the oil price will fluctuate, but the company remains confident of the project's economics.

The statement was in reaction to comments from investment research firm Sanford C Bernstein that rated *Ichthys* as the third most economically vulnerable Australian LNG development under construction after Chevron's *Greater Gorgon* (31/13) and *Wheatstone* (31/19) projects.

From Houston (BN): Anadarko continues to ramp up production at its **LUCIUS** (31/21) production spar , which started up last month in 2,130m in Keathley Canyon 875.

Gas from *Hadrian South* (28/24), 12km to the southeast, will begin as soon as oil output at *Lucius* stabilises, *Hadrian South* operator ExxonMobil has confirmed. The infrastructure is in place.

Floater contractor **MODEC** is up and down, a bit like an fpso is bad weather. The good news is that full year results are nearly 25% higher than originally forecast - at about

$3.1bn - as result of better than expected results and favourable exchange rate. The bad news is a $60mn writeoff for a floating wind and power generation system which sank during installation.

Cougar Automation has supplied a specialist control system for the buoy supported riser system at Petrobras' **GUARÁ-LULA** development under a sub-contract with Balltec. The system is used to control the movement of the bsr via adjustment to the tethers using a linear chain tensioner.

Technip has put its pipelay vessel **GLOBAL 1200** into drydock at Damen Shipyard for its periodic survey, upgrade to its DP system and unspecified equipment upgrade to its pipelay system for 'future projects'...Huisman has completed installation of the twin 400t cranes and 570t vertical pipelay system for **CEONA AMAZON** (31/18).

CONFERENCE REPORT

OPEC VOICE CONFIRMS 'HIGH COST OIL' STRATEGY

From Florence: The forces behind the recent oil price collapse have been widely discussed, but it is not often that important players put their cards on the table and talk straight.

Nizar Al-Adsani, ceo of Kuwait Petroleum Corp, told the GE annual meeting here on Monday, in a panel on sustainability, that his company - and OPEC's - unwritten strategy is to 'drive out high cost production' - by which he meant deepwater anywhere and unconventionals in the US.

Al-Adsani said his company aimed to maintain market share, at the expense of price, and was already building towards boosting oil production by one-third to 4mmb/d.

Another old adage also came to the fore. COO of Petronas downstream Datuk Wan Zulkiflee said 'it was a very good time to be integrated' with low-cost feedstock. Like others speaking here, Zulkiflee said he expects the current low price regime to last one to two years.

Another voice, Jacqui Dimpel of Anadarko, said that the service industry 'needed to be realistic at the current oil price.'

This view was echoed by Neil Duffin of ExxonMobil who said 'the cost bar is too high' and added that the industry needed to simplify. He failed to mention who had made things more complex.

Duffin has obviously been around a long time. As a driller 35 years ago, he recalled drilling 13,000ft wells. This has now risen to 13,000m or, more simply, 13km.

It is always interesting to pick up odd bits of information, such as what the market is doing with LNG. Kuwait, for example, is importing LNG for power generation purposes so it can focus on exporting liquids. In Malaysia, LNG is being used as a means of transporting gas from one side of the country to the other rather than building pipelines.

Cost focus

Like all manufacturers, GEOG is trying to find a way to make more money out of what it is already doing. So its 'new' deepwater vertical tree - or DVXT - is part of its 'structured products' strategy, ie re-use designs, fewer variations, less engineeering. Good luck.

This was said even more explicitly by Neil Saunders, senior veep for subsea. He worried about companies looking for alternatives to subsea which will assuredly drive down cost as will collaboration. Customers are looking to shed 15-25% of capex while at the same time slowing down projects. Tough trading conditions for all.

With 64% of projects facing cost over-runs and 73% running late, BP's Bernard Looney, in a panel on standardisation, said there needed to be more collaboration - but 'collaboration with a purpose' - between operator and supplier to keep costs down.

The COO for production said that 'the cost structure...was too high at $100/bbl, let alone at $50' and the reality is that revenue has decreased by over 50%. He called for 'radical change' in business practices through engaging with suppliers.

Looney said that BP's 16 deepwater rigs had 600 days downtime in 2012, equivalent to almost two rigs out for an entire year. By teaming up with GE that was brought down to 200 days.

On standardisation, Looney said BP had been working with its suppliers over the past 18 months to reduce specifications on equipment where BP specs went beyond industry standards. Unnecessary complexity is being built into kit, he said.

Michael Utsler of Woodside said his company had gone through a very similar exercise and it was 'staggering how many examples of incrementalisation' had been seen.

A Woodside employee refused to accept a critical piece of equipment because it was $1,700 in the catalogue, but with all the add-ons, it was $27,000 supplied.

Utsler said two things stand in the way of standardisation. The first is 'the lure of technology', ie 'if one sensor is good, five must be better.' The second is risk tolerance.

He said the adversarial relationship between operator and supplier has resulted in a lack of confidence in each other. This has been replaced by multiple levels of third party assurance with each level doing what the supplier should be doing.

Looney also said the industry has 'lost the plot' on tendering documents. He said it adds cost with no reward and BP is working to make documents simpler and clearer.

Get local

Dr James Mataragio, director general of the Tanzania Petroleum Development Corp, called on firms to form joint ventures with local businesses to tap into the potential to service oil and gas companies operating in the region.

Tanzania plans to use its natural gas as an alternative source of revenue to improve the economic prosperity of the country's people. Modern energy will be one of the important pillars of socio economic transformation.

Mataragio said that plans for an onshore LNG plant to develop deep offshore gas were progressing. He said oil and gas players have the opportunity to farm in to existing exploration and production licences, while services associated with a planned giant LNG project would be at a premium.

'The government is currently looking for the land to buy for the plant. We welcome businesses to come and invest in the petroleum opportunities associated with LNG,' he added.

Tanzania has discovered gas volumes of 1.5tcm as of December 2014 with a big chunk of the discoveries in the deep offshore. Some 85 wells have been drilled so far in the country of which 12 were offshore fins. One well is currently being drilled.

TECHNOLOGY BRIEFS

As everyone knows, it was a challenging business environment in the oil sector even before the oil price took a nose dive over the last few months.

Operators were climbing all over each other to get to the highest point and shout 'costs are too high' even though they kept presenting suppliers with ever more difficult problems. New products are being sought, but with no security of making money on them.

This is as much the case in the **SUBSEA CONTROL FLUIDS** sector as any. Tony Globe of Castrol Energy Lubricants - this used to be Castrol Offshore but that name is no longer part of the marketing nomenclature - had a chat with SEN about the current state of play.

How can a supplier bring a really new product, ie one not just an increment to what exists already, to market, he asked, when operators are resistant to new materials, while wanting fluids that are both very stable and biodegradable and meet all of the pollution legislation requirements. It would take at least two years to decide on a new product even before any testing took place.

There are inherent problems. First, there is a serious shortage of materials scientists who can properly analyse the relationship between fluids and various materials and how they interact under a variety of upset conditions, ie high temperature, long distance tieback and tiebacks to shore.

Second, test regimes are not always able to produce the required results, ie as many cycles under the right conditions.

One solution to a number of downhole issues would be separate storage of fluids for high and low pressure requirements. Operators seem to balk at this, concerned with 'mis-fillling' of tanks, as if the segregation of chemicals does not already take place. Many challenges to meet and now the operators want the products to be cheaper. As said earlier, a tough business era.

No one loves the oil industry, right? Well mostly. **INNOVATE UK**, the new name for what used to the Technology Strategy Board, has put up £5m for R&D and feasibility studies on conventional fossil fuels.

The targets for the funding are projects on cost reduction, efficiency and reduced environmental impact. Competiton for the money begins on 2 March with deadlines for R&D (15 April) and feasibility (10 June). Further information at www.tbat.co.uk.

Cambla has launched new technology software - **SCHEDULE ANIMATION TOOL** - which can provide visual presentation of a vessel location and activities to improve simultaneous operations, construction sequences and subsea and marine operations.

POLICY AND POLITICS

OIL SUMMIT TOLD INDUSTRY ON 'A CLIFF EDGE'

From Aberdeen (IF): British politicians have been warned that next month's budget is a final chance to get North Sea oil taxation right – or risk companies investing in other parts of the world.

This blunt message came from Malcolm Webb, chief executive of industry body Oil & Gas UK, at the Aberdeen oil summit on Monday.

'Half measures will not do and there will not be a second chance. The industry needs to see cross-party alignment for a permanent reduction and simplification of the tax burden. If not, many will quietly turn away and invest elsewhere,' said Webb.

Webb, addressing a summit called by Aberdeen City Council in a bid to save jobs, also said it was important that people did not delude themselves that the problem facing the industry is the oil price fall and that all will be well when it rebounds.

Hundreds of job losses have already been announced by North Sea firms and there are fears this could soon turn into thousands, badly hitting the Aberdeen economy.

Webb said three critical components of the business environment here are cost base, regulatory regime and tax regime. While each is 'contributing to the roller coaster ride' now, cost base has risen to 'unsustainable levels.'

Webb said the fiscal regime has given the UK a reputation for instability and burdens a mature sector with an outdated, complex and unpredictable regime including tax rates ranging from 60% to 81%. He said the industry is heading towards 'a cliff edge' on investment in 2017.

'The industry has already fallen down one cliff. In 2011, the number of exploration wells slumped to a miserly 14 and has not recovered...Inevitably the number of appraisal wells also slumped – almost to zero,' he said. 'We have ceased to fill...the hopper...for future development.'

Webb said the good news is the answer is obvious, although the the temporary 10% tax cut is insufficient. 'We need to see a 30-40% (rate) for sustained improvement,' he said.

Ian Suttie, chairman of First Oil, said the North Sea industry needs dramatic change now on the fiscal front. He said that without this there would be no small E&P companies left in the years ahead.

Andy Samuel, chief executive of the new Oil & Gas Authority, said the UK Continental Shelf was clearly very challenged well before the recent fall in oil price. Factors include unit opex the highest of any major basin, having grown 20% per year over a decade.

Work together

John Taylor, regional industrial organiser of the Unite union, was critical of companies not consulting their workforces before layoffs.

'Cuts are not the way forward. You need discussions to take the workforce with you. We can bring ideas to the table,' he said.

In a Q&A session, Taylor was asked if the industry could sustain offshore staff with work patterns of two weeks on, three weeks off. His response was that he did not know.

Some companies are moving to a three weeks on, three weeks off pattern to save money which has angered unions. Stewart said some people saw the current pattern as inefficient because of five-shift rota patterns.

'I think we have to get a reality check and I don't think it is unreasonable to be asked to work more than 20 weeks a year,' he said.

UK NEEDS NEW EXPLORATION DRIVE TO HALT CURRENT CRISIS

From Aberdeen (IF): The oil and gas industry is facing its biggest crisis for 50 years in exploring the UK Continental Shelf.

This was the warning from Oonagh Werngren, Oil & Gas UK operations director. Ms Werngren spoke to SEN just before delivering the keynote speech at OGUK's exploration conference in London this week.

Only 14 exploration wells were drilled in 2014, compared with over 150 more than two decades ago. Ms Werngren said the last time exploration activity fell sharply was in 2008, reaching a low of 14 wells in 2011. Despite a slight recovery in 2012, exploration drilling has continued to decline.

Ms Werngren said that, in stark contrast to large volumes of resources found in the early days of exploration here, discoveries made now are on average less than 20mmbbls.

She said Sir Ian Wood's report on maximising recovery highlighted that the current rate of exploration drilling is inadequate to exploit the undiscovered potential of the UKCS within the lifespan of existing infrastructure.

'This is an unsustainable trajectory - to reverse this worrying trend we must drill more wells and improve the commercial success rate of exploration activity,' she said.

Factors preventing a reverse in the exploration decline include that the easiest-to-recover reserves have already been extracted and the industry is facing more technically challenging fields, including those with heavy oil and very deep reservoirs, difficult shallow-water gas fields, or those with hp/ht reservoirs.

Ms Werngren said a huge amount of work is already being done by the industry to improve exploration performance.

The conference provided an opportunity to update the exploration community on the progress of projects designed to share knowledge on digital perspective on prospectivity and geology of the UKCS.

These include the 21st Century Exploration Roadmap. Following a scoping study for this project funded by OGUK, DECC and the Natural Environment Research Council, two initial studies have been launched.

To improve the success rate of exploration, the first study comprises an industry-wide review, led and funded by DECC, to understand the technical reasons preventing successful drilling of exploration wells in the Central North Sea over the past 10 years.

A second study, funded jointly by DECC and industry, is being carried out by the British Geological Survey to examine the potential for finding oil and gas in Palaeozoic rocks.

Ms Werngren said that, alongside efforts to stimulate exploration, is the need for government to take urgent action on fiscal and regulatory reform. In addition, OGUK is also in discussions with HM Treasury on the optimum method for achieving targeted joint funding of new seismic surveys over underexplored areas which will further stimulate exploration.

SEN Online Glossary of Terms - click here

POLICY, POLITICS AND SAFETY BRIEFS

From Houston (BN): The latest tremors to hit Petrobras have the CEO and five directors resigning in developments arising from the year-old 'Car Wash' **BRIBERY AND KICKBACK SCANDAL** (SEN, 31/21) covering dealings with contractors.

A US Securities & Exchange Commission filing said the Petrobras board will meet Friday to replace them. The resignation of CEO Maria das Gracas Silva Foster and others, including upstream director Jose Formigli, follows delivery of delayed third-quarter results without including writedowns of corruptly overstated assets, something investors have been demanding.

Ms Silva Foster said that with information incomplete and the investigation ongoing, it was impractical to try to include the writedowns. The company reported a 9.1% decline in Q3 earnings from a year earlier to about $1.2bn.

The UK government, in the form of the Treasury, is to carry out a consultation on a new proposed **INVESTMENT ALLOWANCE** for offshore developments which is being done on a 'fast-track' basis due to the activity crisis in the industry.

The proposal is looking at reducing the tax take from the current 60-80% to 45-50% for new offshore developments. The consultation is due to run for four to five weeks.

From Houston (BN): A legal wrinkle has surfaced in the late stages of the US government's suit against BP for the 2010 **MACONDO** (31/20) spill.

Testimony in the Clean Water Act-Oil Pollution Act of 1990 case raised the uncertainty that parent BP plc would help BP Exploration & Production, the unit the government is suing, to pay up. It may be a distinction that doesn't represent a real difference, but BP E&P is one of only two named defendants left in the government case. Partner Anadarko is the other, fighting a potential $1bn penalty.

Although legally BP E&P has been targeted in the civil pollution case since the case began - government lawyer's said in opening statements they wouldn't try to 'pierce the corporate veil' separating BP E&P and BP - it seems a subtle shift in BP's position.

BP's 2013 annual report said it paid $4.5bn in criminal pollution fines and set aside $42bn to cover individual damage claims and other losses in the spill. The question now is, is there a distinction being made between paying those damaged and the government? Will BP E&P take the fall after Bob Dudley walked Gulf Coast beaches promising to clean up the mess and has touted its 'commitment to America.'

BP in London and the Department of Justice did not respond to queries about whether that is one possible outcome.

In reporting a $969mn loss for the fourth quarter, BP said its total cumulative pre-tax charge for the spill now equals $43.5bn. An additional charge of $477mn was taken in Q4 reflecting increased provision for litigation costs, additional business economic loss claims and the ongoing costs of the Gulf Coast Restoration Organization.

BUSINESS BRIEFS

From the North Sea (NT): **REEF SUBSEA**, a Norwegian company although headquartered on Teesside in the UK, has gone bankrupt, Norway's highest profile victim of the oil price collapse so far.

Its sole owner, venture capital specialist Hitec Vision, which at the end of 2013 had invested NOK400mn in the company plus up to another NOK100mn last year, looks set to take a big hit on the failure.

German shipping and shipowning company GC Rieber Shipping was a part-owner of Reef until early last year, but sold its stake to Hitec after itself getting into financial difficulties. It appears that Hitec has not fully settled up with Rieber.

Reef's provisional 2014 accounts show that it made an operating loss of NOK14mn on turnover of NOK1.5bn. Last year the company performed trenching on Marathon's *Bøyla* development for Technip and installed a permanent seismic monitoring system on *Grane* for Statoil, while also working on several offshore wind farm projects.

Oceaneering International has agreed to acquire Louisiana-based seabed mapping and survey specialist **C&C TECHNOLOGIES** in an all cash deal valued at $230mn.

C&C has a workforce of 550 and employs customised auvs for marine construction surveys and satellite-based positioning services for rigs and offshore vessels.

C&C President Thomas Chance, co-founder of the company, will be retained for at least a year to help integrate C&C's team.

From Australia (RW): Perth-based media group Seven Group Holdings has bought 13.8% of **BEACH ENERGY** through share purchases fuelling speculation of a possible takeover bid.

Seven took an initial 3.5% stake in Beach last week in an after-market raid and has moved this week to consolidate that gain by moving to 13.8%. Seven's chief executive is former Woodside CEO Don Voelte who took up the role in Seven in 2013.

Since then Seven has acquired the collapsed Nexus Energy from company's administrators and has taken a A$100mn stake in Woodside Energy and is rumoured to be eyeing other upstream petroleum investments.

The company appears to be taking advantage of the fall in oil prices that has weakened a number of Australian oil and gas juniors. Beach's share price has fallen by more than 40% since July last year, although it still has a market capitalisation of A$1.2bn which is a large bite even for the Seven Group.

Seven has a A$900mn investment portfolio. The group has yet to reveal its oil and gas business plans, but there is speculation it could be anticipating consolidation of interests in regions like the Cooper Basin and wants to play a part in any such moves.

Speculation includes thoughts that Seven anticipates a larger (perhaps international) player to tackle Beach and it is positioning itself for a potential profit on its investment.

FUGRO which is being stalked by compatriot Royal Boskalis Westminster (SEN, 31/21) is trying to push its subsea division forward with a new 'ingenuity' initiative meant to highlight its capabilities. RBW might just like what it sees and push ahead with a takeover....Corrosion specialist **INTERTEK** is to spend over £1mn expanding its test facilities in Manchester.

From the North Sea (NT): **Eldar Sætre**, Statoil's acting president and CEO, has been appointed permanently to the job. He would seek to strengthen the company's position in the Norwegian sector, internationally and in the transition to a low carbon society, he said. Due to turn 58 this weekend, Sætre will get a salary of NOK7.7mn ($1mn), 20% less than his predecessor Helge Lund plus bonus and other benefits. Meanwhile Lund will start his new job heading BG Group in early March.

Simon Toole, **Stuart Payne** and **Ian McKenzie** are joining the UK's new Oil & Gas Authority...Former Modec executive **Shashank Karve** has been named executive veep for the *Cameia* (31/17) development, offshore Angola, by Cobalt International...**Peder Sortland** is the first ceo of the Global Maritime Group, formed by the merger of four companies by Norwegian equity capital company HitecVision.

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