

Oilgram News

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Russia to launch tenders for East Siberia, far east

Moscow—Russia is gearing up to launch a series of tenders in East Siberia and the far east with the most prospective licenses going on the block in 2005 and 2006, deputy minister of natural resources Anatoly Semyakin told a parliamentary hearing last week.

Plans are to offer 39 blocks this year and 40 in 2006, Semyakin told a large group of Duma deputies and industry officials gathered to air plans to prise open a new oil and gas province in remote eastern Russia.

The ministry is expected to sign off within a few weeks on a list of blocks to be offered in 2005. Included will be 14 areas in Irkutsk and Yakutia plus two in the Krasnoyarsk region. After 2007 the best acreage will have been let out and state funds may be raised to promote exploration.

Opening up of East Siberia will be "a huge task, no less grandiose than the job of developing West Siberia," which began in the 1970s, Semyakin said. West Siberian fields provide about 65% of Russia's oil.

"We are optimistic about the potential for finding more resources in West Siberia. All the same, in the near future we must find and prepare a new oil basin," he said. The ministry estimates that East Siberia and the far east may eventually yield up to 50-mil mt/yr (about 367-mil bbl/yr) of oil and 100-bil cu m/yr (about 3.5 Tcf/yr) of gas.

Some eastern tenders may be closed to foreigners, natural resources minister Yuri Trutnev told reporters Feb 16. Trutnev said that not more than 10% of acreage offered this year would be out of bounds to outsiders.

A senior Gazprom official at the parliamentary hearing called for introduction of new rules guaranteeing state involvement in major new gas field developments.

A provision to create a bank of federal hydrocarbon deposits accorded special development conditions should be wound into the new Law of Natural Resources, Vasily Podyuk, deputy head of Gazprom's strategic planning department, told the parliamentary hearing.

"In our opinion, rights to use such fields should be decided by the Russian government and the state should be represented in the resource user's share structure," Podyuk said.

(Continued on page 4)

ExxonMobil, SEC disagree on reserve data

Major puts 2004 at 125%, SEC puts it at 83%

Houston—With its much-anticipated announcement on 2004 reserves replacement, super major ExxonMobil continued to walk a fine line Feb 18 as the last holdout of industry resistance to a US Securities and Exchange Commission rule requiring use of a Dec 31 commodity price in calculating reserves.

Instead of buckling completely to the SEC command, ExxonMobil offered two sets of figures. Excluding the impact of single-day, year-end pricing as required by the SEC, ExxonMobil announced a replacement rate of 125%.

At the same time, however, the Irving, Texas-based company also conceded its reserve replacement ratio falls to 83% when employing the SEC formula.

In the process, the company provided SEC critics with a new, high-profile example of the differences on long-term versus single-day, year-end pricing in calculating reserves (ON

2/4).

"ExxonMobil is trying to make a point that the rule is vague at best and rub it in the nose of the SEC," said Oppenheimer analyst Fadel Gheit. "ExxonMobil is leading the SEC to establish new rules. The SEC wants ExxonMobil to say it is 83% when ExxonMobil says it is 125%. The truth is somewhere in between."

Gheit believes the SEC should require three sets of reserves scenarios using year-end pricing, three-year pricing and each company's long-term assumption on what the price should be. ExxonMobil has long guarded its long-term price assumptions.

ExxonMobil chairman Lee Raymond ignored the SEC-driven figure of 83% and declared 2004 the company's "11th consecutive year of greater than 100% reserve replacement."

Wood Mackenzie's Derek Butter cited

(Continued on page 5)

Analysts scrutinize lofty US ANWR lease sale target

Washington—The \$2.4-bil in bonus bids the Bush administration assumes would be generated by a 2007 federal oil and gas lease sale in the coastal plain of the Arctic National Wildlife Refuge would require a stupendous sale, generating more in bonus bids than the state of Alaska has received from all of its lease sales combined.

Alaska has held 101 sales since 1959, leasing about 17-mil acres and receiving total bonuses of \$2.07-bil, according to the Alaska Division of Oil and Gas. The richest state onshore lease sale, which garnered \$900-mil in bonus bids, occurred in 1969 in the area around Prudhoe Bay. Only two offshore sales exceeded \$1-bil in bonus bids, a federal/state Beaufort Sea sale in 1979 (\$1.056-bil), and a federal Beaufort Sea sale in 1982 (\$2.055-bil). There have been several billion dollar federal sales in the Gulf of Mexico.

ANWR may be the largest remaining undiscovered North Slope oil field, with projected reserves second only to Prudhoe Bay. But the scope of a proposed ANWR sale won't be known until after Congress authorizes leasing, if it does. Despite repeated requests, neither the White House Office of Management and Budget nor the Interior Department provided any information about the assumptions underlying the forecast.

There is an undeniable political component to the \$2.4-bil figure, which was included in the administration's Fiscal Year 2006 budget. If it is based on the most optimistic assumptions, it serves the interests of the administration and leasing advocates in Congress, who tout ANWR's potential as a revenue source as well as an oil reserve.

"You obviously couch a figure to your advantage," said Ken Boyd, former director of Alaska's Oil and Gas division. But Boyd said he couldn't judge the validity of the administration's estimate without knowing what factors were taken into consideration. "It depends on what their assumptions are and I don't know the answer."

Legislation pending in the House directs the Interior Department to offer no less than

(Continued on page 2)

Many company-specific cost variables seen in future ANWR coastal plain lease sale

(continued from page one)

200,000 acres of the 1.5-mil acre coastal plain. The administration previously had proposed leasing 400,000-600,000 acres.

In the case of a 200,000 acre sale, bonus bid revenues would have to average \$12,000/acre to reach \$2.4-bil. In a 400,000 acre sale, bids would have to average \$6,000/acre, and \$4,000/acre in a 600,000 acre sale. If the entire 1.5-mil acres were offered in an initial sale, the bid/acre would still have to average \$1,600. If some bids are rejected and tracts are not leased, the average bid per acre would have to be higher.

Alaska leased 412,548 tracts in the \$900-mil North Slope sale in 1969. The average bid/acre was \$2,181, and 91.47% of the available tracts were leased. That sale, No. 23, offered Prudhoe Bay area tracts the year after the drilling of a discovery and confirmation well. The average bid of \$2,181 remains an outlier on the North Slope, with the next highest average being \$343/acre in a 1996 sale (excluding a single tract sale in 1989 that received \$671.90/acre).

"In 1969, they were bidding after a pretty huge discovery," Boyd said. "They didn't know all of it, but they knew they had something quite special. Here [in ANWR], you want to think the same thing, but you don't know."

Boyd noted when industry bid in Prudhoe Bay "there was not one inch of pipeline" on the North Slope. Congress did not clear the way for construction of the Trans-Alaska Pipeline until 1974, on the strength of a tie-breaking vote in the Senate cast by Vice President Spiro Agnew in his role as senate president. The line became operational in 1977.

"At least now you have a pipeline and you have infrastructure and you know you can get your oil to market," Boyd said. "In those days, [it] was very uncertain."

Industry would still have to construct an 85-mile pipeline from the western area of ANWR to reach the TAPS, and an additional 50 miles of pipe to bring the oil to market

from the eastern area. The US Geologic Survey estimates the combined cost for the lines at \$630-mil (in 2004 dollars). The regional lines, coupled with the cost of feeder lines, would add between \$1.30 and \$1.90 in transportation costs for each barrel of ANWR oil.

Mike Rogers, senior director of PFC Energy, agrees it is impossible to judge the government's forecast without knowing what factors were taken into account. He also said the government does not model fields "with anything near the rigor" that companies do when they are trying to determine what to bid.

Rogers said companies look at potentially available reserves, how much acreage is offered, development costs, tax liability, transportation costs, and return on investment. The equation also includes estimates of what competing companies may bid, he said.

"There are a lot of people involved in the process, including engineers, geologists, geophysicists and petroleum economists, building a model with the ultimate goal of determining the potential value of acquiring a certain piece of acreage. That value determines what they are willing to bid," Rogers said.

He also said "soft issues" come into play. For example, on a per barrel basis, ANWR might be more attractive to a company that already has a significant presence in Alaska.

"When you're talking expected bidding levels you do have to be very cautious," Rogers said. "For example, in the Gulf of Mexico you can see drastically different bids on the same acreage. The companies all have the same hard information to use. Yet on any one block you can literally see an order of magnitude difference in bids despite the large amount of available data. You can imagine how differently companies can view a much larger piece of land, in a much more remote area with much less data density."

Estimates about the coastal plain's oil potential are based on very limited data, and assumptions about geology and economics.

In 1984, Chevron drilled the only exploratory well in ANWR, within the native village of Kaktovik, inside the coastal plain. The results from that well have never been made public.

The US Geologic Survey estimates the coastal plain may hold a mean value of 10.3-bil bbl of technically recoverable oil. The mean estimate of economically recoverable oil, taking cost and oil prices into account, is 5.24-bil bbl at about \$30/bbl.

"It would require very high oil prices to produce all of these technically recoverable reserves," the Alaska Department of Revenue said in a report issued last fall. "Some of these barrels are probably in accumulations too small to be commercially viable. Other barrels might be uneconomic due to their greater distance from existing pipe and production facilities or because they are at deeper, more expensive depths."

The USGS report does not predict what industry will do, "Only what is possible and economic given the volumes and distribution of oil believed to be there and the costs and prices assumed," the revenue department report said. "The industry might have different views of those costs and prices [and] the risks associated with the area."

For all the risks and uncertainty, Rogers believes a number of companies, particularly those with significant US production, may be willing to bet their dollars on ANWR with a view toward stabilizing, if not temporarily reversing, their declining North American production.

"There are very few places that have the perceived potential of ANWR," he said. "The US tax regime is one of the most favorable to the companies, so even as remote as Alaska is, it's going to be pretty hard to find other places around the world where you can have that sort of reserve potential and also the potential to make that much money per barrel found. You might see a doubling of what was bid (in 1969). I don't think it's too much of a stretch."—Gerald Karey

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Koch refuses to buy Urals from Yugansk region

London—US refiner Koch said Feb 18 it has changed its policy on buying Urals crude and will no longer purchase oil from the Yugansk region of Russia, since this production was previously marketed by embattled Russian major Yukos. Koch's worry is the ongoing US court battle, where Yukos has filed for protection from its creditors under the US Bankruptcy Code (ON 2/18).

Yukos also has threatened to sue any banks and companies that get involved with its former Yuganskneftegaz asset, which the Russian government seized over a claimed \$27.5-billion back tax bill and then sold in an auction Dec 19 that has raised suspicions it was a back door re-nationalization.

"We have concerns around the legal ramifications of buying Yugansk oil as a result of the Yukos bankruptcy issues," said a Koch representative, adding the ownership of any cargo of Yugansk-origin oil could potentially be disputed even after it is sold.

Koch is believed to be the only refiner so far to adopt this policy, but others are thought to be monitoring the situation.

Urals trading sources said it would be very difficult to distinguish between Yugansk and non-Yugansk oil, as Russian export blend crude is typically mixed at export terminals, regardless of origin. "It is not possible to guarantee that there would be no Yugansk oil for most cargoes," said one trader.

State-owned Rosneft has gained control of Yuganskneftegaz, but the Swiss-based trader Gunvor has been marketing the Rosneft oil since the start of the year. Gunvor said that it has had no trading issues with other buyers, noting that ExxonMobil had recently purchased a Rosneft cargo. ExxonMobil declined to comment on market-related issues, and it has a policy of not reporting transactions.

Koch is an occasional buyer of Urals crude, typically when the trans-Atlantic arbitrage window is open, and was bidding for Baltic and Black Sea Urals Feb 18. Both bids were published on *Platts*, each requesting non-Yugansk origin material.

US Bankruptcy Judge Letitia Clark, who is hearing the Yukos bankruptcy case, said Feb 17 she did not anticipate reaching a decision on jurisdictional questions before Feb 22. Clark this week heard testimony on a bid by Deutsche Bank to dismiss Yukos' Dec 14 bankruptcy petition.

One of the bank's witnesses, William Butler, a UK-based lawyer and professor who also practices in Russia, told the US court Russian courts "will not recognize any order or decision from a foreign court absent a treaty." Butler said Yukos should have sought its bankruptcy protection in Russia instead of the US. He said Russian courts could continue to ignore US orders because the countries have no treaty to make the rulings enforceable.—*Paul Young*

New Frontiers

He may have died in 1998, but Julian Simon lives on through Peter Huber and Mark Mills.

Simon was the ebulliently optimistic economics professor whose basic thesis was that human ingenuity would always triumph over what appears, on the surface, to be the limitations of earth and nature. He was called an "imbecile" by Malthusian economist Paul Ehrlich, who engaged Simon in a famous 1980 bet, predicting shortages of five elements in a basket of commodities over the subsequent 10 years. Price would be the judge: if they went up, Ehrlich won, and vice versa. Since the bet was made at the end of the peak of the great commodity inflation, Ehrlich lost.

Huber and Mills have produced a new book, "The Bottomless Well: The Twilight of Fuel, the Virtue of Waste and Why We Will Never Run Out of Energy." Its contents are a bit of a surprise: despite cover art that shows gasoline flowing out of a pump, oil is a minor player in the book. There's nothing in there about the Hubbert Curve; you won't find a reference to "vast reserves" of petroleum in other parts of the world. (The authors did combine on a late January *Wall Street Journal* op-ed piece entitled "Oil, Oil Everywhere," that touted what they said were 3.5-trillion bbl of oil in the Orinoco basin and the Canadian tar sands, a figure that has raised a few eyebrows.) The book is not a classic free-market tract extolling the price mechanism's ability to regulate supply and demand. To the contrary, Huber and Mills see nothing but increasing global demand for energy, and make no price projections.

Huber and Mills' "Simonism" comes in their optimistic projections about the course of innovation in the application of energy. This innovation will not spur decreased use; they repeatedly make the argument that increasing efficiency leads to more consumption, citing the fluorescent lightbulb as a perfect example. Yes, it saves energy, but as Huber noted in a dinner meeting with journalists, it saves so much that now we can put a few thousand of them into a giant television set, using far more energy than in older applications.

Electricity is at the root of the authors' optimistic outlook. Huber and Mills note electric applications have displaced direct burning of fuels in numerous applications. That trend has lagged in transportation, but the authors say "electricity is also taking over the power train in transportation—not the engine itself, but the system that moves power through the car."

Electricity is not an energy source; it's a carrier. Yet the authors see the means of producing it as increasingly irrelevant. "The electron advances on every front, while the mechanical and thermal forms of power retreat," the book says. "They don't disappear—to the contrary, they're required more than ever to generate all the electricity—but we see much less of them close at hand...when half cent per kilowatt hour coal in an industrial boiler finally gives way to \$200/kwh photons...the cost of coal, uranium, sun and wind hardly matters."

Huber and Mills' book might give marketers of hybrid autos some discomfort, because the cars' success needed to overcome the widely held belief that you had to plug them in at night to get them going in the morning. Yet the authors think plugging in your car might be a good thing. With the move in the drive train toward electronics, a car "now looks like a giant electrical appliance." The increasing capacity of the battery pack in a hybrid car creates "the possibility of at least some opportunistic refueling of the car from the grid." But not to drive from New York to Florida; rather, they say most trips taken by drivers are under six miles, "well within" the range of most current batteries and more so by a new generation of lithium batteries. The power generated by gasoline in autos now runs about 35 cts/kwh, according to the authors; if the fuel producing the electrons is coal, it drops to about 8.5 cts in your residential bill. That's no contest.

Of course, there's that pesky problem of needing to actually generate the electrons. "The Bottomless Well" clearly favors dense fuels like uranium and is skeptical of sources with lesser density, such as solar or wind. Oil is barely in the picture, not surprising given its limited role in US electricity production.

After taking a crack at the Ehrlich fraternity in the preface, the authors criticize greens toward the book's end, when they blame the anti-nuclear lobby for indirectly requiring the US to burn an additional 400-million tons of coal in the last 25 years. As Huber noted at the dinner, the use of coal rarely runs into resistance. The green lobby, the authors write, need to face up to the fact that electricity demand will continue to rise, governments must provide conditions for meeting that demand, and non-dense fuels like solar and wind can't answer that quandary. So with global warming in the background, "serious greens," Huber and Mills say, "ought to part company with Hollywood and reach some sensible political accommodation with the nuclear industry in case their global warming projections turn out to be right."—*John Kingston in New York*

Construction begins for Guangdong LNG ship

China will need 15 LNG vessels by 2010

Singapore—China's Hudong-Zhonghua Shipbuilding has started construction of the first LNG ship for the pioneer LNG receiving terminal in southern Guangdong province, a Hudong spokesman told *Platts* late Feb 17. Hudong will build at least two vessels, each of 147,000 cu m capacity, and most likely a third ship under a buyer's option, for the Guangdong terminal, the spokesman said.

Construction work started last December and the first vessel is scheduled for delivery around October 2007, or 38 months after contract signing in August 2004, he said. This is later than the 2006 start-up of the Guangdong terminal, which will receive its initial LNG supplies on ships provided by the seller, Australia's Northwest Shelf venture. The second ship for Guangdong is to be delivered in early 2008.

"Most likely the shipowner would exercise the option for a third ship," the spokesman said. Hudong was also selected to build one firm and one optional LNG ship for China's second LNG receiving terminal in southern Fujian province, but the contract is not final.

The construction cost is around \$160-million per ship, the spokesman said. Both the 3.7-million mt/year Guangdong and 2.6-million mt/year Fujian LNG terminals are being spearheaded by state-owned oil and gas producer China National Offshore Oil Corp. Hudong, a subsidiary of China State Shipbuilding Corp, is leading the country's foray into the LNG shipbuilding industry, with China pursuing a policy of buying LNG supplies on an FOB basis for its multiple proposed receiving terminals.

China will need around 15 LNG vessels by 2010, according to state planners' projections, said the Hudong spokesman. The figure includes the shipping needs of the two terminals in Guangdong and Fujian, as well as four others in Shanghai and the provinces of Zhejiang, Jiangsu and Shandong, he said.

China's Guangdong and Fujian terminal projects have already received final central government approval, while the Shanghai and Zhejiang projects, also led by CNOOC, have pre-feasibility approvals.

The Jiangsu and Shandong projects are proposed respectively by rival state-owned oil giants PetroChina and Sinopec, and have also reportedly obtained preliminary approvals.

Meanwhile, Hudong is receiving technical advice from French shipbuilder Chantiers de l'Atlantique, which has sent a team of experts to China to help Hudong build its first LNG vessel, a spokesman from the French company told *Platts*.

The move by the French Alstom Marine subsidiary is part of a cooperation deal with the Chinese shipping group struck at the end of 2002. Under the deal, the French company will provide technical expertise to Hudong to

build up to 10 LNG ships for an unspecified percentage of royalties. The ships will all be built in China.

"It is far too expensive to build them in France or in any other European country," the spokesman said. Chantiers has a similar cooperation agreement with China's larger Dalian New Shipbuilding Heavy Industry Co Ltd for LNG carriers, but the Chantiers spokesman was unable to give details.

Hudong started researching LNG shipbuilding technology in the late 1990s and began building model tanks in 2001-2002, the Hudong spokesman said. China's foray into LNG shipbuilding has raised concerns it may eventually threaten current industry leader South Korea as well as Japanese companies. But Hudong has its hands full just meeting domestic demand without exploring international orders, the Hudong spokesman said.

Shanghai-based Hudong, among the five largest firms under the China State Shipbuilding Corp, has assets of Yuan 7-billion (\$840-million) and employs 14,000 workers.—*Kim Wong*

Russia to open up East Siberian resources via lease sale

(continued from page one)

For now Gazprom is just 38%-controlled by the state. But completion of a merger transaction with state oil company Rosneft now under way will top up the government's holding to a majority 51%.

Gazprom already monopolizes some 90% of Russia's gas production and owns the lion's share of the country's vast gas reserves. But as acreage is offered in East Siberia, competitors will appear on the scene.

Gazprom operates Russia's sprawling gas pipeline network which will be extended east as East Siberian fields open up. Gazprom has been appointed by the government to coordinate all gas exports out of the remote region, which will provide a new source of gas for consumers in the Asia Pacific.

Both foreign and Russian companies that win a slice of the action at East Siberian and far eastern gas fields should be required to invest in local processing and petrochemicals projects, Podyuk told the hearing.

The composition of these new resources differs radically from the mainly Cenomanian gas that for now accounts for the bulk of Russia's 600-billion cu m/yr of gas production. Eastern gas is rich in propane, methane and helium that should not be wasted.

"In order to maximize utilization of all useful components it is essential to create investment conditions [including for foreign investors] to stimulate capital investment in processing industries," Podyuk said.

Special attention should be given by government to the recovery of helium from eastern gas, Podyuk said. At present, US gas

Icahn targets Kerr-McGee

New York—Struggling US upstream major Kerr-McGee revealed late Feb 18 funds controlled by corporate raider Carl Icahn have filed for US anti-trust clearance to buy up to \$1-billion of Kerr-McGee stock, or about 10% of the company's market value.

"Kerr-McGee has otherwise had no contact with Icahn or Icahn Partners," the company said. In a statement, CEO Luke Corbett said "The company welcomes all investors as we continue to explore ways to enhance value for all our shareholders," noting Icahn has previously held stock positions in Kerr-McGee.

But with high oil and gas prices boosting the breakup value of energy companies above their stock market valuations, price-laggard Kerr-McGee has been viewed by some analysts as a breakup or consolidation candidate.

A recent report by Friedman Billing Ramsey noted the stock has been trading at a 30% discount to the net value of its assets, or about 15% less than the asset value of its peers.—*James Norman*

fields in Texas and Kansas account for over 80% of the world's helium output. But output is falling. Russia should grab the chance to fill in the shortfall using feedstock from its eastern fields.

Development of hydrocarbon resources will help eradicate economic and socio-economic problems in the poor, sparsely populated regions of eastern Russia, officials told the hearing. Investors at gas fields will be obliged to feed production to local consumers, easing energy shortages.

Rusiya Petroleum, the licensee at the 1.9-trillion cu m Kovykta gas field, is already preparing a pilot project to supply processing plants in the Irkutsk region of East Siberia. Deliveries will begin in 2006 and build to 2.2-billion cu m by 2009. "It's not ideal commercially, but it's our obligation," said Valery Pak, general director of Rusiya.

Regional supply must be carried out in conjunction with exports to provide economy of scale, said Alistair Fergusson, vice-president of TNK-BP, which is the biggest shareholder in Rusiya Petroleum. The company plans to build an export pipeline from Kovykta to China and South Korea that eventually will move some 30-billion cu m/yr of gas.

TNK-BP estimates that about \$35-billion will be invested in developing East Siberian and far eastern gas reserves by 2015.

"No single company can afford to do it alone. It's going to require a very cooperative and collaborative approach," Fergusson said.—*Isabel Gorst*

ExxonMobil, SEC disagree on reserves reporting rules

(continued from page one)

ExxonMobil's announcement and wrote in an email: "We are entirely sympathetic with the contention of the oil companies that investment decisions are not made on the basis of the price on one day and investors are entitled to think there is something seriously wrong with a system where reserves decrease purely on the basis of an oil price increase."

Questioning the SEC's intention on using year-end prices, Butter charged: "If that purpose is to inform the investors on the likely remaining commercial reserve potential of the companies the answer is clearly no."

As if in response, investors also may have chosen to ignore the SEC and focus on ExxonMobil's traditional accounting method by pushing shares of the company to a new 52-week high of \$59.41, up 2.2% or \$1.28/share.

But analyst Mark Gilman of The Benchmark Group warned against any inference from the reserves announcement on a day when the rest of the sector rose as well. He noted ExxonMobil has complied with the SEC rule for the first time, giving analysts the chance to compare the company more realistically with other oil companies.

SEC letter to CFOs

The ExxonMobil announcement occurred just as the industry was starting to digest the latest directive from the SEC on the issue of reserves accounting. In a Feb 11 letter to industry CFOs, the agency said it now wants them to provide more information on their accounting of exploratory drilling, buy-sell transactions and other operations.

Asked about both the SEC letter and the company's negotiations with the agency on the year-end pricing formula, ExxonMobil told *Platts*: "A company our size is always in discussions with the SEC."

In the company's reserves replacement announcement, however, ExxonMobil took a swat at the SEC rule, charging "the use of prices from a single date is not relevant to the investment decisions made by the corporation, and annual variations in reserves based on such year-end prices are not of consequence in how the business is actually managed."

ExxonMobil also provided a specific example to illustrate how the use of year-end pricing dramatically influenced reserves at a single location. The company said the most significant single impact occurred from its Canadian Cold Lake heavy oil-bitumen project where it removed 500-mil barrels from the proved category while maintaining part of the total reserve base.

While Cold Lake prices proved strong for most of the year, ExxonMobil said they were "unusually low" at Dec 31 due to depressed asphalt sales and upgrader problems in Western Canada. Then they rebounded in January.

Employing its traditional long-term pricing

formula, ExxonMobil said it calculated the addition of 1.8-bil boe of worldwide proved oil and gas reserves last year. Using the SEC's single-day, year-end pricing formula, however, ExxonMobil's additions were 500-mil boe less at 1.3-bil boe.

At year-end, ExxonMobil said it recorded 22.2-bil boe of proved reserves, providing a reserve life of 14 years with 63% of the proved reserves already developed. The company noted production last year of 1.6-bil boe.

Qatar results

Elaborating on the additions, ExxonMobil cited results from Qatar, where additions of proved reserves totaled 1.7-bil boe. The company also cited impacts from West Africa, Nigeria, Equatorial Guinea and the Caspian region in Asia.

"These proved reserve additions reflect developments with substantial funding commitments as well as revisions to existing fields following additional drilling, reservoir performance data and evaluation, or study activities," the company said.

Analyst Gilman said ExxonMobil's 2004 reserve calculations indicate a "shift to a more aggressive set of practices" than those traditionally employed by a company long-considered the most conservative reserves booker in the industry.

Meanwhile, Cambridge Energy Research Associates announced plans to release recommendations Feb 23 from its six-month, independent review of SEC rules on estimating reserves. ExxonMobil said it has been participating in that review with CERA.—*Gary Taylor*

Oilgram via Acrobat

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UK hits net gas importer status in 2004: govt data

London—The UK became a net importer of gas in 2004 for the first time since 1996, the Department of Trade and Industry said Feb 18, marking the start of an increasing dependence on imported gas.

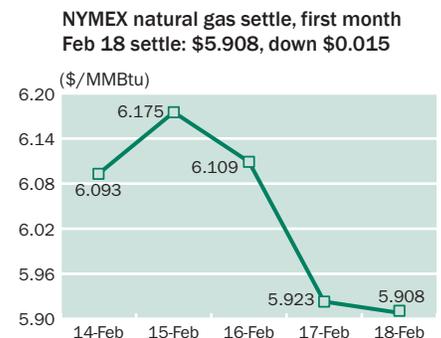
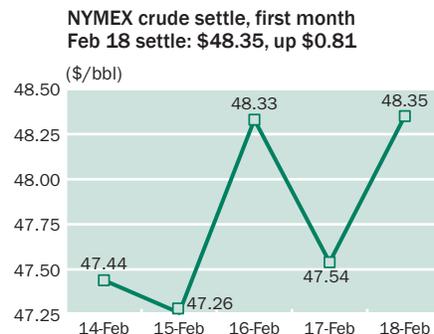
Earlier this year statistics for January to November 2004 indicated it was likely the UK would turn out to be a net importer in 2004, and this has now been confirmed by the December 2004 figures. The net imports of 2004 came a year or two earlier than had been forecast by many specialists. The government's energy white paper of 2003, for example, said the UK would likely be a net importer of gas by 2006.

Although North Sea gas output is now in decline, the UK does not yet import the majority of its gas. National Grid Transco, the pipeline operator, says it may not be until 2012 that gas imports exceed the UK's own production. New import projects coming on line soon include three LNG terminals and a new pipeline from Norway.

Gas imports in 2004 reached a level not seen since the mid-1980s, while exports fell by about 35% from 2003 to 2004 causing the overall net importer status. Until the mid-1990s the UK was a net importer, with imports of Norwegian Frigg gas outweighing the small exports to Ireland and from two small North Sea fields to the Netherlands. Frigg imports tailed off late in the 1990s and exports overtook imports in 1997. The opening of the UK-Belgium Interconnector in October 1998 lifted exports greatly.

Supplies of Norwegian gas boosted imports from 2002 on. During 2004 exports to Belgium fell by nearly half year-on-year while imports from Belgium were about 2.5 times the 2003 level. Imports from Norway increased by about one third year-on-year, and total imports rose by more than a half. The end result was that foreign trade switched from nearly 3.1-bil therms of net exports in 2003 to over 600-mil therms of net imports in 2004.—*Dennis Jenkin*

What crude & natural gas markets are doing...



News briefs

International

INDIA-RUSSIA: India's oil minister Mani Shankar Aiyar is to meet both his Russian counterpart and the president of state-owned Rosneft on a visit to Moscow later this month, as the country continues to press for a stake in Rosneft-controlled production firm Yuganskneftegaz. Aiyar is due to meet Rosneft's Sergei Bogdanchikov Feb 22, Prime-Tass reported, citing an unidentified Rosneft source. He would also meet Russian energy minister Viktor Khristenko, the agency said. The visit is slated to begin Feb 21, and to focus on "bilateral energy cooperation" between the two countries. Bogdanchikov said earlier this month that Indian state-owned Oil and Natural Gas Corp had already made offers to Russia to buy part of Rosneft's 76.8% stake in the 1-mil b/d producer, formerly owned by Yukos. Rosneft was in the process of studying ONGC's offer, Bogdanchikov said at the time, quoted by Interfax.

NORWAY: Norsk Hydro has halted exploration drilling operations in the Barents Sea following an order by the Norwegian Petroleum Safety Authority to investigate two minor incidents where chemicals were spilled into the sea. The rig owner, Ocean Rig, has been told to examine the equipment aboard the drilling rig Eirik Raude to ensure safe operations before drilling can resume. Small volumes of drilling mud were released into the sea on Feb 8 and 16. "The emissions to sea had no impact on the environment, but we are still concerned," a spokesman for the Safety Authority said Feb 18. "The intention is that drilling in the Barents Sea should not release harmful chemicals... and we have to convince ourselves that we can meet the target of zero harmful emissions," he added. A spokesman for Norsk Hydro said the company will not restart the drilling until it is convinced operations are safe. Industry analysts told *Platts* they expect drilling to resume next week.

NORWAY: Norway's oil and energy ministry plans to sell 7.65-mil shares in Statoil at NOK106.1 this week in a retail tranche following a much larger sale to institutional investors Feb 16. The previously announced sale will reduce the government's overall stake in the oil company to around 71.3%. On Feb 16, the government sold 100-mil shares in Statoil for a total NOK10.6-bil (\$1.65-bil), reducing its overall stake in the oil company to 71.7%. Under the retail tranche, shares will be offered at the same price as the institutional sale (NOK106.1) from Feb 21 to Feb 25. Citizens of the European Economic Market can subscribe up to 10,000 shares, with the minimum set at 50 shares. Statoil

was first listed on the Oslo and New York stock exchanges through an initial public offering in June 2001. Prior to the latest sale, the Norwegian state had held 1,653-million shares, equal to 76.33% of the company. The Storting, Norway's parliament, has granted the government the authority to reduce the state ownership to 66% of the company.

RUSSIA-JAPAN: Sakhalin Energy said Feb 18 it had signed a sales and purchase agreement to supply Japanese utility Tokyo Gas with 1.1-mil mt/year of LNG for a period of 24 years starting November 2007. The SPA follows a heads of agreement signed by the two parties in May 2003, and completes the full terms and conditions of the LNG sales and purchase agreement, Sakhalin Energy said. Sakhalin Energy Investment Company, held 55% by Shell, 25% by Mitsui and 20% by Mitsubishi, is setting up a two-train, 9.6-mil mt/year liquefaction plant at Prigorodnoye on the southern tip of Sakhalin island, and expects the first drop of LNG in late 2007. Sakhalin Energy CEO Ian Craig signed the SPA with Tokyo Gas president Norio Ichino in Yuzhno-Sakhalinsk on Sakhalin island. The Feb 18 signing with Tokyo Gas "further reinforces Sakhalin Island as a strategic source of natural gas for Japan and confirms the wider Asia Pacific region as a major new market for Russian gas supplies," Sakhalin Energy said. Sakhalin II was among three projects picked by South Korea Feb 16 as "preferred suppliers" for a combined 5-mil mt/year of LNG for 20 years starting 2008 (ON 2/17).

RUSSIA: Russia's state-owned shipper Sovcomflot expects to start shipping LNG in 2007, the firm's director general Sergei Frank was quoted as saying Feb 18 by Russian news agency Prime Tass. Sovcomflot has signed an agreement with Gazprom and sees cooperation with the gas giant on LNG shipments becoming the main avenue for its development strategy, he said. "Sovcomflot is building LNG carriers to deliver LNG from Shtokman gas field in the Barents Sea," a Gazprom spokesman told *Platts*, giving no further details. Gazprom and Sovcomflot are also discussing cooperation on a project to build a 5-mil mt/yr liquefaction plant at Ust-Luga, 140 km north of St Petersburg on the Gulf of Finland, but Frank declined to provide details. He did not rule out his company's participation in building onshore infrastructure. Gazprom confirmed it started initial preparations with Sovcomflot to build the plant and a terminal. Russia's biggest sea shipper Sovcomflot plans to invest \$750-mil in the construction of new tankers and LNG and LPG carriers by 2009 as it aims to increase its market share. Earlier this month Sovcomflot received a new 159,000dwt Suezmax crude tanker built by Hyundai Heavy Industries and expects to take delivery of a similar vessel on Feb 21.

SINGAPORE-CHINA: Singapore's SembCorp Industries has signed a letter of intent with ConocoPhillips to build and integrate topsides for a new floating production, storage and offloading vessel for a major oil development in Bohai Bay, China, SembCorp said Feb 18. The project is scheduled for completion in mid-2008. When completed the vessel is expected to be the largest floating storage unit in China, intended for use in the shallow water Bohai Bay where ConocoPhillips is developing the Peng Lai 19-3 Phase II oil development project with CNOOC. The FPSO will have a processing capacity of 190,000 b/d of oil, with an onboard storage capacity of 1.8-mil bbl. The two companies involved in the \$200-mil project are Sembawang Shipyard, a subsidiary of SembCorp Marine, and SMOE, the offshore engineering unit of SembCorp Utilities. Sembawang Shipyard will execute the project in partnership with SMOE under a 50-50 joint venture arrangement.

YEMEN: France's Total and its partners in the East Shabwa Development Area in Yemen have brought into production a new well on the Kharir oil field, UK-based partner Soco International said Feb 18. The KHA-403 well produced over 6,500 b/d of crude when tested earlier this month and has been tied into the Kharir field's main production facilities, Kharir said. The KHA-402 well, drilled in October last year to test the eastern end of the field, achieved a test rate of 550 b/d in December before being shut in for a long-term test. The well was subsequently reopened in late January and flowed at a stabilized rate of 710 b/d on Feb 13.

US rig count rises by 15

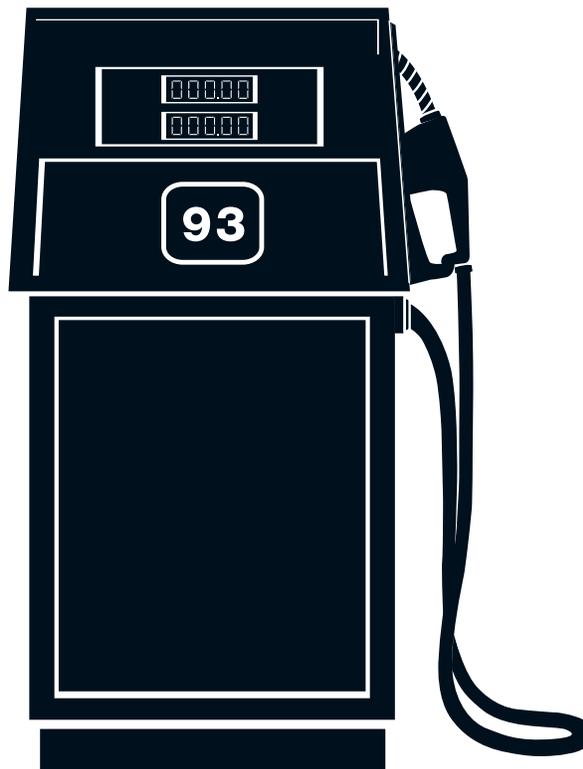
Houston—The US rig count was 1,295 for the week ended Feb 18, up by 15 from the prior week, according to Baker Hughes.

The latest count includes 1,160 land, 107 offshore and 28 inland water rigs, with 1,096 assigned to gas, 197 to oil and two to miscellaneous drilling. The rigs were drilling 795 vertical, 353 directional and 147 horizontal wells.

Here are Baker Hughes' latest figures for the total number of active rigs in the US (with selected states) and Canada, plus comparable figures for a week ago and a year ago:

	2/18/05	2/11/05	2/20/04
US	1,295	1,280	1,114
Alaska	12	9	12
California	27	30	20
Colorado	71	69	46
Kansas	8	8	7
Louisiana	196	177	165
New Mexico	71	71	62
Oklahoma	157	158	145
Texas	555	557	482
Wyoming	67	66	64
Canada	589	589	574

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