Climate Policy Debate Hinders Investment

Electric utilities are postponing capital investments plans because of uncertainty over carbon legislation, adding pressure on Congress and the Obama administration to settle the longstanding debate over US climate policy and provide certainty for future energy outlays.

Nearly 80 planned coal-fired power plants have been taken off the drawing board in the past two decades because utilities were not sure if additional costs would be added to account for future greenhouse gas emissions. Power plants are often built with a 30 to 50 year lifespan in mind.

"The uncertainty within the electric industry is very great," said Branko Terzic, a regulatory policy leader of Energy & Resources for Deloitte.

"You can’t get on the phone as a CEO of an electricity utility and order carbon capture and sequestration equipment for a 600 megawatt power plant. It doesn’t exist. Once you can monetize the price of carbon, then a lot of good things flow.”

Legislation unveiled last week in the US House would mandate an aggressive timetable that seeks to bring carbon emissions in the US 3% below 2005 levels by 2012, scaling reductions all the way to 83% below 2005 levels by 2050. Under the proposed program, US coal plants, steel mills or oil refineries emitting more than 25,000 tons of carbon dioxide each year will either buy or be given tradable federal allowances for each ton of pollution they emit.

While the draft bill leaves many of the most difficult issues to be debated, such as whether any free allowances will be granted, initial industry reaction has been muted. Language within the bill that effectively suspends state-wide or city-wide emissions reduction programs is finding support within the manufacturing industry because it creates a single national standard.

"There is a planned certainty inherent in the cap-and-trade system," said Alison Taylor, director of government affairs and environment for the Siemens Corporation.

“When there is a trajectory that is known the cap-and-trade system,” said Alison Taylor, director of government affairs and environment for the Siemens Corporation.

“Chu — a Nobel Prize-winning physicist who directed the Lawrence Berkeley federal laboratory in California — said oil dependence often holds economies captive to volatile energy markets and sprouts geopolitical conflicts.

Chu pointed to four times when high oil prices immediately preceded economic recessions in recent decades. In each instance, the recessions persisted even after oil prices subsided.

Chu said a transition to low-emissions energy, in contrast, is not likely to dampen the US gross domestic product (GDP) in the long run.

Spotlighting California as an example, Chu said the state began flattening its electricity consumption in 1973 through new building codes and other standards. Nonetheless, between 1973 and 2008 the GDP per capita in California has doubled, the secretary said.

The Obama administration aims to foster a major increase in renewable energy output to reduce greenhouse gas emissions and create jobs.

The draft legislation includes a proposal for a renewable fuels mandate that would require electrical utilities to produce 25% of their electricity from renewable sources by 2025, up from a 6% requirement starting in 2012. It would also allow up to 2 billion tons a year of carbon to be “offset” through the planting of trees or other environmental rehabilitation that increases the absorption of carbon.

The need for long-term cost certainty is also drawing support from manufacturers who look for incentives to cut energy and other fixed costs.

(See Climate, page 2)
Russian Gazprom Buys Back 20% of Oil Arm From Italy’s Eni

Russian state gas giant Gazprom on Tuesday signed a $4.2 billion deal to buy back 20% of oil arm Gazprom Neft from Italy’s Eni.

The deal, inked by Gazprom boss Alexei Miller and his counterpart at Eni, Paolo Scaroni, was among a series of agreements signed at a joint economic forum in Moscow chaired by Prime Minister Vladimir Putin (OD Mar.26,p4).

Italian Prime Minister Silvio Berlusconi had planned to be in the Russian capital too, but stayed behind at home after a deadly earthquake struck central Italy on Monday.

The Italian major bought the stake in Gazprom Neft during Yukos’ bankruptcy auctions in 2007 with Italian utility Enel, which immediately handed over its share. Gazprom had a call option to buy back the stake by April 2009. Eni also bought 51% of SeverEnergia — which owns Russian gas producers Arcticgas, Urengoi and Neftegaztechnologia — and Scaroni said he expects this deal to be finalized when Putin and Berlusconi meet in a couple of weeks.

Scaroni said the $4.2 billion price tag includes the $3.7 billion Eni paid for the 20% stake in Gazprom Neft, plus annual interest of 9.4%.

Analysts had expected Gazprom to offer more, but say it will still have trouble raising the money. The company — which already owes an estimated $50 billion and is being squeezed by falling gas prices and sagging European demand — is reportedly negotiating a loan from state banks to help finance the purchase. Miller last week rejected Putin’s offer of state help.

At an Eni presentation in February, Scaroni had said the assets would help the Italian firm achieve its growth targets this year, adding 200,000 barrels of oil equivalent per day to production and an additional 3 billion barrels of oil equivalent.

In Moscow on Tuesday, Scaroni declined to say what he would do with the money from Gazprom, but said it would not enable Eni to pay off its €18 billion ($24.3 billion) debt.

Eni also signed cooperation agreements with state-controlled Rosneft, pipeline operator Transneft and pipeline builder Stroitransgas. Eni said the deal with Stroitransgas is of a “general nature.” The Rosneft agreement covers the upstream and downstream in Russia and abroad, but more details are not available.

Eni power utility Enipower and Russian power group Inter RAO UES inked a deal to study joint projects in Russia and abroad. The Russian and Italian energy ministries also signed a memorandum on cooperation in areas like energy efficiency and renewable energy.

Gazprom and Eni are partners in the proposed 31 billion cubic meter per year (1.09 trillion cubic feet per year) South Stream pipeline, designed to deliver Russian gas via the Black Sea to Bulgaria and Central and southern Europe. They also own the existing 16 Bcm/yr Blue Stream pipeline, and Eni is known to back Russia in its many gas disputes with Ukraine.

Chu . . .

(Continued from 2)

ment Act, signed into law earlier this year, allocates $6 billion to alternative energy loan guarantees, $8.2 billion to in-home weatherization efforts, $11 billion for smart grid development and $3.1 billion for state efforts. The Obama team also hopes to make permanent the Research and Experimentation Tax Credit for clean energy technologies (OD Mar.24,p5).

Chu said a country’s standard of living is not linked to energy consumption and stressed that tightened national efficiency standards are feasible.

He said the US consumes 30% to 40% more electricity per person in a given year when compared to residents of Japan, France, the Netherlands, Italy, and the United Kingdom. But those nations rank more than 0.90 out of 1.00 on the human development index calculated by the United Nations, just like the US.

Chu said alternative energies are expensive to produce at first but can integrate into the marketplace as renewable industries produce energy more efficiently in larger, bulk quantities.

When Denmark began to turn toward wind generation in 1980 it was not a cost-effective energy source, but by 1990 wind power was paying for itself and has become progressively more profitable in the years since, Chu said.

The secretary said the US could also experience “incredible economic impacts” without a global effort to reduce carbon emissions.

For example, Chu said the melting of snow pack in some US regions — such as the Sierra Nevada in California — could remove a critical source of water storage and lead to water resource rationing.

William Nordhaus, a Yale University economics professor, said no coherent energy policy can be achieved unless a price is placed on carbon emissions that reflects their “social cost.” Stable and sustainable oil prices can only be achieved with that price, he said.

Nordhaus urged policymakers to realize the US is part of a global oil marketplace. For example, embargoes on foreign oil producers — like Iran and Libya — have failed to affect those countries since they are still able to sell their oil at market prices. Also, the US should not worry about competition for sources around the globe. Even if sources are developed by other countries, it will still serves US interests, as the sources add to the flow of oil in the market, lowering prices and diversifying supply.

He also criticized the idea of “oil independence,” the long-running wish of Washington politicians to effectively only consume what is produced in the US.

“This policy has no value in an integrated world market,” he said.

In addition to implementing an effective carbon policy, Nordhaus urged governments to eliminate subsidies for both supply and demand. He said governments should not subsidize the domestic production of oil or any oil replacement. At the same time, governments should encourage policies that lower demand, such as getting rid of subsidies to oil prices that shield consumers from the true market cost.

Climate . . .

(Continued from 1)

“We’re going to have to have higher energy prices,” said Michael Thaman, President of Owens Corning, the world’s largest maker of fiberglass insulation. “You can’t manage demand without talking about price and we’re living in a fantasyland if we think all this is going to happen at $1.89 a gallon for gasoline and 7¢ a kilowatt for electricity. We’re going to have to encourage a reduction in demand.”

Cap-and-trade legislation is expected to pass out of the House Energy and Commerce Committee by the end of May. The Obama administration expects auctions of emissions credits to generate revenues of $646 billion in an eight-year period through 2019.

Bill Murray, Washington
Oil Drops as Sentiment Weakens, Dollar Gains as Safe Haven

Weaker equities and a strengthening US dollar pushed crude oil prices again lower on Tuesday, but Nymex crude lost 88¢ more than Brent on ICE Futures in a sign that the Nymex benchmark is losing touch with the real oil world once more.

The May Nymex oil contract dropped $1.90 to $49.15 while May Brent on ICE Futures lost $1.02 to settle at $51.22.

Since it traded at parity at the start of the month, Nymex oil widened its discount to Brent to $2.07 — possibly the result of rising stocks at Cushing, Oklahoma, the delivery point of the contract.

In what is known as “macro trades,” oil has been following broader market sentiment in recent weeks, and equities fell on Tuesday as fear is rising that banks are in worse shape than thought.

This fear also pushed players to buy the dollar as a safe haven. They think more loans are being pulled into the category of toxic debt and questioning the solvency of banks.

Without functioning banks, the economy cannot bounce back, further hurting global demand.

Yet, surveys found that hedge funds, flush with cash, are about to allocate billions to oil, and David Hufton with PVM Brokerage argues they will buy the end of the curve to benefit from an economic recovery down the line.

“Volume buying at the back end of the curve will deepen the contango at the same time as lifting the entire curve as buying cascades to the front in search of liquidity,” Hufton said.

John van Schaik, New York

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**Daily Oil & Gas Price Review**

**Crude Oil**

<table>
<thead>
<tr>
<th>Nymex Light Sweet</th>
<th>($/barrel)</th>
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<tbody>
<tr>
<td>M T W T F M A J</td>
<td>56</td>
</tr>
<tr>
<td>30</td>
<td>32</td>
</tr>
</tbody>
</table>

**North American Crudes ($/barrel)**

- **Cash/Swap**
  - **WIS (Midland)**: -2.09 48.07 48.51 48.75
  - **LLS (St. James)**: -1.79 52.07 52.28 46.95
  - **AMS (Oklahoma)**: -2.86 43.35 45.34 46.62
  - **Mars (Gaviota)**: -1.79 47.96 48.82 43.70
  - **Mayo (Mexico)**: -0.93 45.52 45.90 38.76

**Refined Products**

<table>
<thead>
<tr>
<th>Nymex Gasoline</th>
<th>(¢/gallon)</th>
</tr>
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<tbody>
<tr>
<td>M T W T F M A J</td>
<td>75</td>
</tr>
<tr>
<td>125</td>
<td>150</td>
</tr>
</tbody>
</table>

**US Product Spot Markets**

- **Gasoline (¢/gal.)**
  - Regular Gasoline: 2.19 136.45 135.23 120.13
  - Premium Gasoline: 2.19 145.00 143.43 130.40
  - Regular RBOB: -2.05 139.45 139.34 122.00

- **Mid-Distillates (¢/gal.)**
  - No. 2 Heating Oil: -3.36 135.49 135.77 111.33
  - No. 2 Low Sulfur Diesel: -3.36 140.99 142.12 112.08
  - Jet Fuel: -3.81 138.99 140.77 117.33

- **Residual Fuel ($/bbl)**
  - No. 6 Oil (low sulfur): -0.50 43.86 43.61 38.22
  - No. 6 Oil (6% sulfur): -0.50 43.36 42.88 36.97
  - No. 6 Oil (5% sulfur): -0.50 42.38 41.65 35.88

**Natural Gas**

<table>
<thead>
<tr>
<th>Nymex Henry Hub</th>
<th>($/MMBtu)</th>
</tr>
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<tbody>
<tr>
<td>M T W T F M A J</td>
<td>7</td>
</tr>
<tr>
<td>17</td>
<td>22</td>
</tr>
</tbody>
</table>

**Light Sweet Futures — Prompt Month ($/barrel)**

- **Nymex Light Sweet**
  - Change: -1.02
  - 1st Month: 51.22
  - 5-Day Avg.: 52.40
  - 2nd Month: 52.40

- **ICE Brent**
  - Change: -0.97
  - 1st Month: 49.10
  - 5-Day Avg.: 50.73

- **WTI (Cushing)**
  - Change: -0.73
  - 1st Month: 48.77
  - 5-Day Avg.: 50.37

- **Brent (Medina)**
  - Change: -2.14
  - 1st Month: 48.77
  - 5-Day Avg.: 50.37

- **Brent (Dented)**
  - Change: -0.29
  - 1st Month: 50.61
  - 5-Day Avg.: 49.77

**International Crudes ($/barrel)**

- **Cash/Swap**
  - **Oppen Crude Basket**
    - Change: -0.29
    - Spot Price: 45.90
    - 5-Day Avg.: 47.50
  - **Nigeria Bonny Light**
    - Change: -0.29
    - Spot Price: 51.46
    - 5-Day Avg.: 50.20
  - **Dubai**
    - Change: -0.29
    - Spot Price: 48.33
    - 5-Day Avg.: 46.88
  - ** Oman**
    - Change: -0.29
    - Spot Price: 51.01
    - 5-Day Avg.: 49.93
  - ** Russia Urals**
    - Change: -0.29
    - Spot Price: 49.21
    - 5-Day Avg.: 48.34

**Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)**

- **Heating Oil**
  - Change: -1.02
  - 1st Month: 146.04
  - 5-Day Avg.: 147.76
  - 2nd Month: 149.16

- **Brent**
  - Change: -1.02
  - 1st Month: 49.10
  - 5-Day Avg.: 50.73

- **WTI**
  - Change: -1.02
  - 1st Month: 48.77
  - 5-Day Avg.: 50.37

**Spot Gas Prices ($/MMBtu)**

- **Henry Hub**
  - Change: -0.170
  - 5-Day Avg.: 3.562
  - Month-Ago: 3.714

**Prices for Tuesday, April 7, 2009**

John van Schaik, New York
Iraq Rebids South Rumailah Work in Effort to Raise Production

Iraq has reissued a tender for a 75,000 barrel per day gas oil separation plant for the South Rumailah oil field as part of the ongoing push to boost production in the south of the country. The new request for bids, which are due by May 15, follows recent similar invitations to engineer, procure and supply two 50,000 barrel per day units to separate water, gas and oil for installation in the West Qurna field.

South Oil Co. (SOC) will assemble the units at Rumailah and West Qurna. This is the third time SOC has announced the Rumailah tender, which was drawn up in October 2008, according to the company website.

In a flurry of recent tender announcements, SOC has also invited bids to drill 45 wells at South Rumailah, of which 30 will be producers and 15 injectors. Offers for the drilling work are due to be returned on Apr. 23. Tenders are also due to be submitted by Apr. 15 for the drilling and completion of 30 wells at the Majnoon oil field and 10 wells at the Nahr bin Umar field. Bids for another tender to drill 20 wells at the Nasiriyah field are due to be submitted on May 1 (OD Mar. 31, p5).

All the fields are in production but have been producing below their installed capacity due to a lack of investment over many years. Nasiriyah and Nahr bin Umar are also the subject of directly negotiated engineering, procurement and construction contracts with international oil companies. West Qurna Phase 1 and Rumailah are also included in the first petroleum licensing round, for which 35 international firms have been prequalified. Proposals for boosting production at seven oil fields and two gas fields under 20-year service contracts in joint venture with an Iraqi state partner are currently due to be submitted in June, with awards to follow immediately.

Separately, Missan Oil Co. invited bids for a 50,000 b/d degassing unit for the Halfaya oil field by a deadline of Mar. 23. The field, in the southeast, is now producing 50,000 b/d.

Pemex Bets Billions on Geologically Complex Chicontepec Field

Mexico has started pouring billions of dollars into the onshore Chicontepec field. But even as the cash flow jumps significantly it remains unclear how much oil state-run Petroleos Mexicanos Pemex will be able to milk from the geologically challenging basin and whether it will be enough to offset declining production from Cantarell and other aging fields.

Mexico's Chicontepec region straddles the borders of the eastern states of Veracruz and Puebla and is said to hold 17.7 million barrels of crude, or 39% of the nation's total of proved, probable and possible reserves.

Pemex predicts production in the area will peak at anywhere from 430,000 barrels per day to 800,000 b/d between 2014 and 2021. The forecast is well above December's Chicontepec output of 33,000 b/d.

To reach this goal, Pemex is planning to spend $2.3 billion in the region this year. On Mar. 30, Pemex awarded Weatherford a $646 million contract to drill 500 wells by 2012. This followed a similar, $687 million contract awarded on Mar. 12 to Schlumberger, which will also drill 500 wells by 2012.

More contracts are expected in the coming months, and these have reportedly captured the interest of Halliburton and Mexican billionaire Carlos Slim's company Servicios Integrales GSM. Pemex has also awarded millions of dollars to contractors for the construction and maintenance of pipeline networks in the area.

"To use a sports metaphor, they're flooding the zone," said Jeremy Martin, director of the energy program at Institute of the Americas in La Jolla, California. "[They're spending] billions of dollars this year, it's just drill, drill, drill, drill, drill, drill, drill, drill." However, there is skepticism regarding whether the infusion of cash and new drilling can make up for decades of underinvestment in Mexico's oil sector and compensate for a rapid decline in output at Cantarell (OD Mar. 23, p1). Cantarell, located in shallow waters in the Bay of Campeche, is Mexico's largest oilfield and has made up the bulk of the country's production for years.

Overall, Mexican oil output fell 9% in 2008 from the previous year and Cantarell made up only 36% of the production total, down from 62% in 2004.

Pemex officials say Chicontepec is key to offsetting short-term declines. But while the area holds a large volume of oil, it is spread out in small pockets over an area the size of Rhode Island. Complicating matters is the region's low pressure and high density.

"Cantarell has declined much more rapidly than anyone had anticipated and that has forced [Pemex] to focus on an area that quite frankly they didn't really want to focus on right now," said John Padilla, a managing director at the energy consultancy IPD Latin America.

Oil was discovered in Chicontepec in 1926, but work in the area has only recently intensified, mainly because of the region's problematic geology. Pemex plans to drill up to 1,000 wells annually in the coming years. This high volume of activity may be necessary since each well will only produce several hundred barrels of oil per day.

Pemex was "just hoping essentially that technology would catch up," Padilla said.

Alejandra Leon, an analyst with Cambridge Energy Research Associates (Cera) in Mexico City, said Pemex is betting that clusters of wells and horizontal drilling will improve efficiency and drive costs down as activities ramp up at Chicontepec.

"The concept is that you have a dozen wells connected to the same receiving area," Leon said. "Then from there you can really transport more interesting volumes."

She added Chicontepec's large area will force Pemex and contractors to be flexible and adopt different methods for different zones.

"It doesn't absolutely have to be 1,000 wells every year," Leon said. "You can incorporate different technologies so that you don't have to drill wells like crazy, rather you can try to connect all the smaller deposits somehow."

Production at Chicontepec is more costly than at fields like Cantarell. Pemex has said Chicontepec will be profitable even with oil prices as low as $22/bbl, although Cera estimates this threshold is actually closer to $55/bbl.

However, "there's room to maneuver and make [the project] economically viable at lower prices," Leon said.

The flexibility needed to make Chicontepec profitable will likely depend on new service contracts Pemex is preparing. Under Mexico's new energy legislation approved in October, Pemex can reward contractors that improve efficiency or production (OD Oct. 24, p1).

But structuring these rewards could prove difficult. Under Mexico's constitution, oil belongs to the government and leftist lawmakers have zealously opposed any language that resembles the booking of reserves by private companies.

Pemex is expected to try and stretch the new law to its limits in an effort to spark interest among contractors. An executive with Norway's StatoilHydro recently said Pemex officials have spoken with oil companies about possible incentive structures.

In the meantime, experts say there is still no guarantee that all the money being spent on Chicontepec will ultimately make the area an important production center.
in total, the top 10 on the “dirty 30” list account for about 10% of all CO2 emissions across the bloc. Eleven of the top 30 are owned by German firms, with four of the top seven belonging to Europe’s most polluting utility, RWE.

The reduction in Europe’s CO2 emissions should deliver a much-needed shot in the arm to the EU’s often vilified cap-and-trade program.

The so-called emissions trading scheme is the bloc’s flagship trading program to help meet emission reduction goals, and allows companies either to cut their own emissions or buy carbon allowances from firms that have cut theirs.

**Statoil Extends N. Sea Output**

Norway’s StatoilHydro said Tuesday that its Statfjord late life project will extend the North Sea field’s production until at least 2020 — two years longer than originally forecast.

“Today is a significant day for Statfjord and for Statoil,” said Ole Olea, Statoil’s senior vice president for the domestic upstream operations west unit, at Statoil’s headquarters in Stavanger. “The overall value creation of the Statfjord late life project is estimated at around 60 billion Norwegian kroner, or around $9 billion, he said. ‘This is a six-fold value increase since the project plan was submitted to the authorities in 2004.’

Operator Statoil and its partners are investing in an eight new electric submersible pumps on the Statfjord C platform and are considering acquiring four more pumps for Statfjord B at a total cost of just over $520 million. The pumps will be used to draw water out of the reservoir, lowering reservoir pressure and releasing more gas for production.

The Statoy-led Statfjord consortium has spent about $3.45 billion on the project — about $1.2 billion more than budgeted in the original development plan. In 2008, Statfjord cash flow covered the entire late life investment, including the Tampen Link pipeline, completed in 2007, which pipes Statfjord gas to the UK market.

Statoil’s partners in Statfjord are Exxon Mobil, ConocoPhillips, Royal Dutch Shell and Centrica.
Under its take-or-pay agreement, Ukraine can take just 80% of contracted volumes. In theory, Gazprom can force Kiev if it buys less gas, although it had earlier said it would not do so because of Naftogaz’s “difficult” financial situation. Whether it will be so lenient in the future is open to question, given Russia’s annoyance at a recent accord between the European Union and Kiev to upgrade Ukraine’s gas network.

“Gazprom is studying whether to fine Ukraine for lower-than-agreed gas imports in the first quarter,” Reuters quoted Gazprom chief Alexei Miller as saying Tuesday. “We are discussing this with our Ukrainian colleagues.”

Russia halted supplies to Ukraine on Jan. 1 in a pricing dispute that had a knock-on effect on Europe. Deliveries resumed on Jan. 20.

Profits Sag For Lukoil

Top private Russian oil firm Lukoil said Tuesday that net profit dipped 3.9% to $9.144 billion in 2008 from $9.511 billion in 2007 after a poor fourth quarter eroded results in the first nine months of the year. Lukoil lost $1.62 billion in the last three months of 2008 on the back of lower oil prices and the Russian ruble’s sharp devaluation against the dollar. Profits totaled $10.765 billion in January-September, according to US GAAP standards.

The company warned last week its results would be hit by more than $2 billion in write-downs in the fourth quarter, including $950 million lost because of the ruble’s devaluation, $170 million on unsuccessful exploration, and $850 million on the value of crude oil and refined products held in storage. The fourth-quarter loss was bigger than most analysts had forecast.

In comments accompanying the results, Lukoil emphasized that, on the positive side, free cash flow more than doubled to a record $3.78 billion in 2008. Oil and gas output inched up 0.7% year-on-year, while refining volumes rose 7.6% thanks to the April restart of the Odessa refinery in Ukraine and the start of processing at Italy’s Isab refinery.

Colombian Gas Exports Exceed Expectations

Colombian natural gas exports to Venezuela have exceeded projected volumes due to higher Colombian production and lower than expected domestic demand.

Colombia is exporting nearly 200 million cubic feet per day of gas to Venezuela through a bi-national pipeline that began operations in January 2008. That amount is 50 MMcfd more than initially agreed to under a contract signed between state-owned Petroleos de Venezuela (PDV) and Colombia’s Ecopetrol.

PDV had agreed to import 50 MMcfd starting in 2008, with that amount rising to 150 MMcfd in 2009 and 2010, then decreasing to 100 MMcfd in 2011. Flows are then to be reversed for 12 years starting in 2012.

However, an increase in gas production in Colombia coupled with slowing demand due to the economic downturn has led to a surplus in exports, energy minister Hernan Martinez said at the Colombian American Association in New York on Tuesday.

In addition, Martinez said Venezuela may be behind in construction of a gas pipeline connecting gas-producing fields in the western region to the eastern border with Colombia.

“We have the perception that the pipeline construction is behind,” Martinez said. He added that the Colombian energy ministry would meet with Venezuelan officials in Caracas next week to discuss the pipeline and how its possible delay might affect exports.

Colombia’s gas demand is expected to grow from current levels of 650 MMcfd to a peak of 850 MMcfd in four years, as the number of new gas-powered vehicles and new domestic gas usage reaches a plateau.

However, Martinez said Colombia does not plan to build new natural gas-fired power plants and will instead meet new electric demand with coal-fired generation.

Colombia’s gas production could increase in the coming years thanks to offshore drilling in the Caribbean, which is thought to hold large natural gas reserves. Colombia has licensed several blocks in the area, but no commercial quantities of oil or gas have yet been found. Brazil’s state oil company Petrobras, which holds stakes in four Caribbean offshore blocks, plans to drill a well in the first quarter of next year.

If Venezuela starts exporting to Colombia as planned, extra supplies could be sent to Panama and on to Central America through an extension of the bi-national pipeline, Martinez said.

Lisa Viscidi, New York

Latin America

Petrobras Makes Piracuca Find

Brazil’s Petrobras has made a commercial oil and natural gas find in the Santos Basin about 124 miles off the coast of Sao Paulo state.

In a statement filed with the Brazilian Securities and Exchange Commission Petrobras said the well, called Piracuca, holds estimated light oil and natural gas reserves equal to 550 million boe.

The well, also known as BM-S-7, is controlled by Petrobras, which holds a 63% stake in the site. Spain’s Repsol holds 37%.

Petrobras said further studies are necessary to determine the best methods for extracting the oil and gas.

Petrobras had previously registered evidence of oil and gas at the BM-S-7 site with Brazilian authorities. On Monday night, the company’s filing indicated, for the first time, the presence of commercially viable reserves.

Venezuela, Japan Start Fund

Venezuela and Japan have created a $4 billion investment fund, the Opec nation said on Tuesday, as it seeks new sources of financing to fill a budget gap created by a massive tumble in oil prices.

The government of leftist President Hugo Chavez has borrowed at least $8 billion from China in recent months through bilateral agreements in which Venezuela pays back loans with supplies of crude oil and fuel.

A communications ministry statement published on Tuesday said the fund would be part of a larger package of investment in oil, petrochemicals and liquid natural gas production.

Chavez, who recently visited Tokyo, said he wants to supply Japan “in the future” with 1 million barrels per day — about one-third of the nation’s current oil production according to official figures.

Japan and Venezuela agreed on Monday to a broad cooperation to develop oil and gas projects in the Latin American nation, deepening bilateral relations to help diversify sources of energy for the resource-poor Asian country.

State-owned Petroleos de Venezuela, which bankrolls the social programs that keep Chavez’s government popular, has struggled to pay billions of dollars in debts to service companies after oil prices fell more than $100/bbl in six months.

Natural Gas

Exxon: Sable Island Field Shut

ExxonMobil said Tuesday the production field at the Sable Offshore Energy Project in...
Nova Scotia was shut-in after an “operational incident,” cutting off about 400 MMcf/d of gas production.

“The field is shut-in now. We were doing some maintenance and operating at less than normal in the last while. Work is underway to restore expected levels as soon as possible, but I can’t speculate on when that will happen,” said Exxon spokesman Merle MacIsaac.

The Sable Project is owned by Exxon, Shell, Imperial Oil, Pengrowth Energy Trust and Mosbacher Operating.

The project produces between 400-500 MMcf/d and 20,000 b/d of natural gas liquids.

Natural gas from the Sable Project flows to markets in Atlantic Canada and New England on Spectra’s Maritimes & Northeast Pipeline.

The 340-mile US and 330-mile Canadian line, with the capacity to deliver 440 MMcf/d in the US and 530 MMcf/d in Canada, is majority owned by Spectra Energy Transmission with Emera and Exxon owning minority stakes.

Maritimes Canada said in a website posting that due to the decrease in supply from Sable, shippers should take immediate steps to insure that scheduled deliveries commensurate with receipts and that meter operators adhere to scheduled volumes until further notice.

If shippers do not voluntarily address the situation, Maritimes said it may issue operational flow orders or take other actions to minimize pipeline imbalances.

**Feds OK Colorado Natgas Pipe**

The Federal Energy Regulatory Commission has approved a $60 million, 24-inch diameter natural gas transmission pipeline slated for Colorado.

Northwest Pipeline, a subsidiary of the Williams Cos., says the 27.4-mile pipe will move additional gas supplies from the Piceance Basin to Northwest’s on-system and off-system markets.

The pipeline and related facilities, known as the Colorado Hub Connection, will connect Northwest’s existing mainline system south of Rangely, Colorado with the Meeker/White River regional production area hub.

The project will provide firm transportation service on Northwest’s mainline to delivery points as far south as Ignacio, Colorado. At Ignacio, Northwest interconnects with El Paso Natural Gas and Transwestern Pipeline.

“The Colorado Hub is a strategic project that will allow Northwest to connect the Piceance Basin supplies with markets in the western US and to subscribe existing mainline capacity on a long-term basis,” said Phil Wright, president of Williams’ gas pipeline business.

Construction is slated to begin in May and the pipeline should enter service by Nov. 1.

**Total, Cobalt Team Up in Gulf**

Total E&P USA and privately held Cobalt International Energy have agreed to combine their respective exploratory lease holdings in the Gulf of Mexico.

The newly inked agreement will give Houston-based Cobalt a 60% operating interest and Total a 40% working interest across their aggregate holdings. The two firms hold working interests in 214 deepwater leases strung across the Gulf of Mexico.

Cobalt and Total will initiate their exploratory program this year by drilling several wells but neither company provided specifics on where the activity would be targeted.

Under the agreement, Cobalt will operate the exploration phase of the program while Total will provide both rigs and geoscientist support, the French major said in a statement.

The two firms have also agreed to a 60/40 working interest split on any future Gulf of Mexico leaseholds either party acquires.

Cobalt is active across 57,300 net acres in the Gulf of Mexico’s Miocene and Lower Tertiary plays. The firm claims to be one of the top prospective players in each of the two prospects.

Total is relatively mum on its Gulf of Mexico operations, but the firm’s latest annual report revealed that Total has acquired 65 deepwater exploration blocks in the Gulf of Mexico since 2006.