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UK ENERGY SECRETARY EXPECTS 28 NEW FIELDS ON UKCS IN 2013

The UK Secretary of State for Energy and Climate Change Ed Davey confirmed at a meeting in Parliament Wednesday night that the government expects around 28 new oil and gas fields on the UK Continental Shelf to get approval this year, following the approval of 29 projects in 2012.

Speaking at the British Oil & Gas Industry All Party Parliamentary Group at its annual reception at Westminster Palace, which was attended by Rigzone, Mr Davey reiterated the UK government's support for the UK oil & gas industry.

"Oil and gas will form an integral part of the UK energy mix for decades to come. Over 70 percent of the UK's primary energy demand may still be filled by oil and gas into the 2040s. With 20 billion barrels or more still to be drawn from the UK's North Sea fields, having an indigenous source helps prevent overreliance on imports from more volatile parts of the world," Mr Davey said.

"So the UK oil and gas industry is a vitally important strategic resource now and over the next half century, to help fulfill our energy needs and as a contribution to the UK's energy security."

Davey illustrated how the UK government has been acting to encourage investment and innovation in the oil and gas sector.

"Introducing, for instance, new field allowances West of Shetland; extending the small fields allowance; and putting in place new allowances for shallow-water gas fields."

The result of this has seen the level of investment in new oil and gas fields increase significantly in recent years, the Energy Secretary pointed out.

"The level of investment in new oil and gas projects sanctioned in 2011 was over 10 times the amount of 2009. 18 projects with a total value of $20.5 billion (GBP 13 billion) were approved. In 2012, 29 projects [were] approved with capital expenditure of over $17.3 billion (GBP 11 billion). In 2013, we are already expecting around 28 new fields to get approval."

Also at the meeting was Oil & Gas UK Chief Executive Malcolm Webb, who commented in his own speech: "We welcome the Coalition government's new long-term approach to the UK oil and gas industry which is already reaping rewards for the British economy... With improvements to the tax regime as a result of better engagement with the Treasury, no less than 30 new offshore oil and gas developments were approved in the last twelve months.

"Furthermore, 167 new licences to explore for petroleum in UK offshore waters were awarded in the latest licensing round. This upturn is set to continue and presents excellent business opportunities right across our world-class supply chain to the benefit of the UK's energy security, balance of trade and tax revenues. Most importantly at this time however, it has, as predicted, resulted in thousands of new and well paid jobs."

Statoil said in December that its recent decision to go ahead with its $7 billion-plus Mariner heavy oil field in the UK North Sea was positively affected by the expansion of the UK's Ring Fence Expenditure Supplement – a measure taken by the UK government to support investment in marginal fields.

WILL MARINER JUMPSTART UK'S HEAVY OIL REVOLUTION?

Statoil's decision in December to go ahead with spending an estimated $7 billion-plus on developing the Mariner heavy oil field was a welcome boon for the UK oil and gas sector.

Already in early 2013, Statoil is recruiting people for the project – which will see an estimated 700 people directly employed by the firm in long-term, full-time positions. Two hundred of these roles will be onshore jobs at the firm's operation center in Aberdeen, while more than 500 will be offshore positions. Statoil plans to recruit most of the people it will need for the project in the UK, particularly in Scotland in the Aberdeen region.

But far more than 700 jobs will be created thanks to the project, according to Oil & Gas UK Economics Director Mike Tholen.

"What you tend to see is that there is a ratio of about two or three to one. So, for every direct job there are two-to-three indirect jobs supporting them one way or the other," Tholen told Rigzone in a recent phone interview.

This suggests that perhaps as many as 2,000 indirect jobs can be created from the project.

Mariner "will have a wider impact, obviously. Everything from the trivial, such as office services, through to the substantial: engineering, manufacturing and other technical work. So, it's bound to enlarge the skills, demand and work not just in Aberdeen but beyond as well."

Discovered more than 30 years ago, the Mariner Field consists of two shallow reservoirs: the Maureen Formation and the Heimdal Sandtsones of the Lista Formation. With nearly two billion barrels of heavy oil in place (with gravity ranging from 12 to 14 API), the development of the field will be the biggest on the UK Continental Shelf for a decade.

Statoil expects to begin production from Mariner in 2017 and once developed it is expected to produce for 30 years. The average production is estimated at around 55,000 barrels of oil per day for the first three years of the development's life.

Statoil has stated that the project will require pioneering technology for it to work. Discovered in 1981, the Mariner field was subject to a number of development studies by different operators – all to no avail. This changed when Statoil came on board as operator in 2007.

Mariner "was discovered more than 30 years ago but no operator has until now been able to put forward a development concept that allows for a possible development," Bård Glad Pedersen, a Statoil spokesman, explained to Rigzone recently. "We are proud that we have been able to do it. The challenge with heavy oil is obviously to get it out of the ground effectively and to reach a recovery factor that is satisfactory."

It also helps that Statoil already has some heavy oil experience.

"Previously we have done the field development of Grane on the Norwegian Continental Shelf and Peregrino, offshore Brazil," Pedersen added.

Oil & Gas UK's Tholen agrees with this view.

"The sort of technologies they are relying on have really continued to develop a lot over recent years and Statoil, because of the experience they have elsewhere, are very much ahead of the game in how to process and handle this sort of oil," he said.

Statoil's approach to developing Mariner will involve a lot of wells (around 50), as well as sidetracks. This is because of the extraction of heavy oil means low well flow rates. But the process will also be designed to handle large liquid rates and oil-water emulsions because of predicted early water breakthrough.

The field will be developed with a production, drilling and quarters (PDQ) platform with a floating storage unit that will have a capacity of 850,000 barrels. A jackup will also be used for the first four-to-five years of the project.

Statoil has already started awarding contracts to contractors and subcontractors for the Mariner project.

For instance, the contract award for the engineering, procurement and construction of a steel jacket for the platform has been made to Spanish firm Dragados Offshore, who will work with UK-based SNC Lavalin on the detailed engineering of the jacket.

UK-based engineering firms CB&I and Rig Design Services will work with Daewoo Shipbuilding and Marine Engineering Co. to deliver the topside for the platform. Meanwhile, Saipem's UK business has been awarded the contract for heavy lift operations.

But there are still plenty of contracts to be awarded and Statoil has stated that it has already seen a lot of interest from suppliers for Mariner work.

Statoil's Mariner project is an indication that other heavy oil fields in UK waters can also be developed. The Mariner project has been feasible due to a combination of a can-do operator with the technology to extract heavy oil at a manageable cost, a healthy range of prices for crude oil and a sensible tax regime, Tholen said.

The UK's tax regime "has flexed sufficiently to really encourage this investment", according to Tholen. Indeed, Statoil has pointed out that the UK government's 2012 expansion of the Ring Fence Expenditure Supplement – a measure designed to support investment in marginal fields – was a positive move that affected its decision to develop the Mariner field.

"I think it is very much the fact that in the last couple of years the UK Treasury has been paying a lot more attention to our industry because it recognizes that we mostly can sustain our investment," said Tholen.

"We're not so much 'over the barrel' when it comes to access to finance. Ours is an industry where it is how you attract the investment into the UK given that the investment will, in turn, create both new jobs and new tax yield for the Treasury. So, it sees that this is a good business to be involved in and recognizes, not least in this case, that the tax regime was holding an investment back."

Because of this softening towards the oil and gas industry by the UK's tax authorities, Tholen expects that there will be further heavy oil developments on the UK Continental Shelf.

"I am confident that there are other companies looking at other major heavy oil developments at the minute. No doubt, they'll be looking at the progress of this one as well with interest," he said

CO2 SOLUTIONS RECEIVES $4.7 MILLION FROM THE HARPER GOVERNMENT FOR OIL SANDS CARBON CAPTURE PROJECT

CO2 Solutions Inc. ("CO2 Solutions" or the "Company") (TSX-V:CST), an innovator in the field of enzyme-enabled carbon capture technology, today announced that the Harper Government has made a $4.7 million investment through the ecoENERGY Innovation Initiative to support the development of its carbon capture technology in the Alberta oil sands.

CO2 Solutions is developing carbon capture technology for use in oil sands production, including in-situ methods such as Steam Assisted Gravity Drainage (SAGD), and bitumen upgrading. Results from the project will also support the broader application of the Company's technology in other natural gas combustion sources, such as gas-fired power plants. CO2 Solutions' management anticipates the overall cost of the project to be $7.5 million.

"The Harper Government is committed to supporting advanced clean energy technologies that will contribute to sustainable energy production in Canada's oil sands," stated The Honourable Joe Oliver, Canada's Minister of Natural Resources. "Carbon Capture and Storage (CCS) reduces GHG emissions from energy production and this investment demonstrates our commitment to exploring CCS and assisting the growth of Canada's innovative clean technology companies, which generate jobs, growth and long-term prosperity for Canadians."

"This project will demonstrate our technology's ability to cost-effectively address a critical environmental challenge facing the oil sands," stated Glenn Kelly, President and CEO of CO2 Solutions. "The results from this project will also enable us to apply our technology to other large sources of natural gas combustion emissions, including the rapidly growing number of natural gas-fired power plants."

Unconventional oil production methods, such as SAGD used in the oil sands, have a somewhat higher carbon footprint than conventional oil production methods. Both industry and government are focused on ways to reduce emissions from the oil sands, with carbon capture being a key option. However, the cost of conventional carbon capture and sequestration systems is high for broad commercial deployment. CO2 Solutions' technology lowers the cost barrier by taking advantage of a powerful naturally occurring enzyme, carbonic anhydrase which regulates CO2 management in all living organisms. The technology can be retrofitted to existing carbon capture systems as well as installed in new emissions sources.

Additional funds for this project are being obtained through grants from Alberta's Climate Change and Emissions Corporation (CCEMC), previously announced on October 31, 2012. The balance of the project's costs will be funded by CO2 Solutions and partnership capital from private entities.