

INTERNATIONAL OIL DAILY

Buzzard Impacts North Sea Crude Pricing

Oil from Buzzard, the 550 million barrel field in the UK North Sea which came on stream in January, has already had a negative impact on Forties' price and could cause problems for the 21-day Brent-Forties-Oseberg (BFO) forward contract, according to traders and a UK energy consultant's report.

There are two main reasons for this: the uncertain long-term quality of the new crude, and the potential fragility of the aging Forties Pipeline System (FPS) that links the new field to the mainland.

Output from Buzzard, which has been developed by Canadian independent Nexen, began at around 65,000 barrels per day. Early production will come from five wells, each producing about 35,000 b/d, which suggests a cap of around 175,000 b/d. Nexen anticipates reaching field capacity of 200,000 b/d mid-year for an initial four to five-year-long peak.

Buzzard, a 32°-33°API, 1%-1.4% sulfur crude, had widely been expected to lower the quality of the 44.6°, 0.20% sulfur Forties blend. Forties is one of three crude oil blends deliverable into the 21-day BFO forward contract. The cheapest

is used to determine the price of dated Brent. In February, for the first time, Forties was consistently used as the proxy. Forties had previously usually traded at a premium to Brent.

Dated Brent — the physical benchmark off of which most crudes traded in the international spot market are priced, as well as a sizable percentage of barrels sold on a term basis — has recently seen an erosion in its differential against screen or forward paper. The main reason for this is Buzzard, say traders.

The trading fraternity's concerns have been compounded by the reluctance of Nexen and BP, the custodian of the Forties Pipeline System (FPS) through which Buzzard is brought to market, to disclose how the commingling of Buzzard will affect the future quality of Forties. A change in the Forties blend, or even a more-or-less permanent switch to Forties as the principal underlying crude for dated Brent assessments, would not in itself necessarily present a problem, provided the quality proves stable.

But significant fluctuations in quality, and hence in value, would result in a de-

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gree of uncertainty that could ultimately undermine the BFO contract. Industry sources say Nexen and BP must profile the future quality and relative value of the new Forties blend if market nerves are to be calmed. This is needed not only for refiners, which need information on crude quality a few months in advance, but also to meet the longer-term requirements of traders using Brent-BFO-related derivatives markets for hedging or speculative purposes, where contracts frequently have a longevity of five years or more.

According to a soon-to-be released report by London-based energy consultancy
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Buzzard . . .

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Consilience Energy Advisory Group (CEAG) — *A User's Guide to the Future of the World Price Marker* — the uncertainties have been compounded by the fact that early production experience shows the Buzzard reservoir contains unexpectedly high levels of hydrogen sulfide (H₂S) in its deeper strata. H₂S is the most harmful of the sulfur compounds found in crude oil — exposure is usually fatal.

Pipeline entry quality specifications typically place strict limits on the amount of H₂S permitted — in the case of FPS, a maximum of 0.1 parts per million by weight. Accordingly, CEAG says, Nexen will have to remove H₂S offshore. If so, Forties blend quality will be protected against the direct impact of any increase in Buzzard's H₂S levels, but it may affect the volume of Buzzard production and have a knock-on effect to other Forties blend quality attributes, such as API gravity and sulfur content.

Industry sources say the Buzzard platform can't accommodate H₂S removal facilities and construction of a new platform is under consideration. Nexen has declined to comment, beyond reiterating a statement from Nexen President and Chief Executive Charlie Fischer on the company website which says that Nexen has "experienced more well-to-well variability in

the concentration of hydrogen sulfide than previously seen," but that the company is "confident that existing equipment and processes will allow us to manage this variability for at least the first two to three years of production." The statement says preliminary analysis indicates any additional equipment would cost a maximum of around \$250 million.

Buzzard's start-up also makes Forties vulnerable for other reasons. Buzzard is the only field in the FPS downstream of the Unity Riser hub, a key piece of equipment installed in 1992. If the riser had to close for maintenance or other reasons, Forties blend would consist predominantly of Buzzard crude. If the shutdown didn't last long, quality could be managed by blending in-tank from stored production. If a shutdown went on for some time, the resulting Forties blend would not sit easily as a deliverable grade in the BFO contract. The other big interchange in the system, Forties Charlie, east of Unity, is another crucial hub of the Forties infrastructure. It started production in 1975. Any shutdown of Forties Charlie would affect output from more than 20 fields, including the Forties fields, the Brae area, Miller, Montrose and Arbroath.

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