

Petrobras setbacks threaten 2014 oil production targets
Malaysian Insider
5 Apr, 2014

Brazilian state-run oil company Petroleo Brasileiro SA suffered a setback in its effort to boost oil output last month when Italian contractor Saipem SpA dropped a 2.3km steel pipe into the Atlantic Ocean.

On March 16, rigging failed as it was being used to wrangle the pipe into position on a floating oil platform. The high-grade, metal-alloy tubes plunged about 1,800 meters (5,900 feet) to the seabed, a total, crumpled loss.

The pipe itself was worth about US\$2 million, but the cost of the accident will be much higher, two sources with direct knowledge of the situation told Reuters.

By setting back efforts to expand Roncador, Brazil's No. 2 oilfield, by at least a month, Petrobras will lose tens of millions of dollars in oil output, salaries and equipment leases when it can least afford it.

The accident was the latest in a series of setbacks as Petrobras has struggled to transform giant new offshore discoveries into increased output, despite a US\$221 billion five-year investment plan.

"The series of management and engineering problems the company faces is flabbergasting," said Cleveland Jones, a professor and researcher with Brazil's National Petroleum and Gas Institute at the State University of Rio de Janeiro.

"This may have been an unfortunate accident, but it comes as the company's organizational problems are becoming more evident."

A source close to the project said today that the incident had been caused by a structural failure of equipment being used within its operational limits.

"The vessel went through inspection and some minor repair works at port and is now moving to location to resume operations tomorrow," the source said.

Petrobras's oil and gas production in February fell again from a year earlier, extending more than five years of stagnant output. This is starving the company of revenue and helping drive up debt.

Petrobras said in February it planned to boost output in Brazil by 6.5 to 8.5% to as much as 2.07 million barrels per day (bpd) in 2014. That would be its first year-on-year gain since 2011.

With production from older fields falling, delays with new fields could put that goal at risk. Already the world's most indebted and least profitable major oil company, Petrobras will find it harder to finance its investment plans and pay returns to investors without higher output.

The Brazilian government, its main shareholder, also needs the output to help pay for a massive increase in education and health programmes.

The Roncador accident will put off work until later this month at the earliest as Petrobras and Saipem design a remedial plan, the sources said on condition of anonymity.

Petrobras, in response to questions from Reuters, said the accident will not affect efforts to raise output at Roncador. New pipe will be supplied to Saipem from Petrobras's existing stock, and connection work will restart this month, the company added. Saipem declined to comment.

Otherwise it would take about six months to order and manufacture a replacement. The lost pipe was to have connected the platform to an oil pipeline on the seabed.

Troubled waters

The P-55 "semi-submersible" platform in Roncador, designed to produce 180,000 bpd in a field that produced 255,000 bpd in February, was already months behind schedule when the pipe was lost.

Had Roncador been an isolated case, Petrobras would probably be able to shrug it off. But the P-58 and P-61 platforms in the nearby Parque das Baleias and Papa Terra fields are also behind schedule.

In total, two of the seven production systems scheduled for startup last year are still being connected. The P-58 began production on March 17.

P-55 has produced some oil since the new year via a provisional hook-up to a floating tanker, Petrobras said in a note late yesterday.

But full production will require a connection to an undersea oil line, which the lost pipe was supposed to provide.

Meanwhile, the P-62 production ship, which arrived in Roncador in January, suffered a fire in a diesel electricity generator. Brazil's labor ministry has barred the ship from producing oil until safety issues are resolved.

The generator supplied power while workers installed electrical, anchor and other essential systems at sea.

Those systems were not complete when the ship was unveiled to great fanfare at a Brazilian shipyard December 17 by President Dilma Rousseff, who is eager to showcase Petrobras's offshore engineering prowess in an election year.

"All big companies have their problems, but Petrobras has become a creature of politics," said John Foreman, a long-time Brazilian oil- and mining-industry executive and geologist with J. Forman Consultoria in Rio.

"Political goals are different than engineering realities, so communication breaks down and you get these very basic engineering process errors."

While Petrobras has managed to complete a record number of production vessels in recent months, several have gone to sea without the "sub-sea" systems that control well flow and channel the oil to the platforms, a serious problem given that leasing and operating platforms can cost US\$500,000 a day or more.

"The irony is that these costly mistakes are the result of trying to cut costs," said a senior industry official with direct knowledge of Petrobras offshore contracts. "They forced everybody to re-bid their jobs at lower prices, and when the ships finally arrived, they had nothing to hook them up to." – Reuters, April 4, 2014

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Source: <http://www.themalaysianinsider.com/business/article/petrobras-setbacks-threaten-2014-oil-production-targets>