

Oil Producers Vie for Soviet-Era 'Jewel'

By [The Moscow Times](#)

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Five of Russia's largest oil companies, including LUKoil and TNK-BP, will compete for the rights to develop the country's largest undistributed fields, after the Federal Subsoil Resources Use Agency stopped collecting bids Monday.

Gazprom's oil arm, Gazprom Neft, and Bashneft, controlled by Sistema, also said they applied to bid for the Trebs and Titov oil fields before the deadline. Cash-rich Surgutneftegaz paid the entry fee, the subsoil agency said Friday.

India's Oil & Natural Gas Corp., known as ONGC, also paid the fee via a Russian unit, Interfax reported, citing an unidentified agency official.

"This is a jewel of the Soviet era and not a diamond in the rough," said Alexei Kokin, an oil and gas analyst at Metropol in Moscow.

State-run Rosneft, the country's largest oil producer, dropped plans to bid for Trebs and Titov to focus on a "good set of highly promising" projects, chief executive Eduard Khudainatov

said in a statement.

The two fields, located in the Arctic, may hold more than 200 million metric tons of recoverable reserves under Russian classification, according to the government. This is about half the reserves of Rosneft's Vankor, the country's largest new oil development.

The fields fall under regulations on strategic assets, and foreign companies' participation may be restricted, Natural Resources and Environment Minister Yury Trutnev said last week.

"As Rosneft's stellar performance of the past two years was driven by successful Vankor development, we believe that the company that ultimately wins the auction has good chances of being re-rated by the market," Alexander Korneyev and Ildar Khaziyev, analysts with Citigroup in Moscow, said in a note last week. "The auction will be a litmus test to reveal the sector winner."

TNK-BP chief financial officer Jonathan Muir said last week that he wanted to see the venture overtake LUKoil to become the second-largest oil producer in the country. TNK-BP, which accounts for about a quarter of BP's output and a fifth of its reserves, produces about 1.7 million barrels of oil a day.

LUKoil's Russian output is about 1.8 million bpd, according to Energy Ministry statistics.

The tender for Trebs and Titov is slated for Dec. 2, with a starting price of 18.2 billion rubles (\$587 million). The price may "increase significantly given the list of contenders," VTB Capital said in a note.

The two fields are located near LUKoil's Yuzhno-Khylchuyu production venture with ConocoPhillips and its Varandei sea terminal. A new pipeline will be needed to connect them to the country's oil transportation network.

Discovered in 1987, the fields had exploration wells drilled and shut temporarily awaiting development. Deputy Prime Minister Igor Sechin, who is also chairman of Rosneft, spoke out against the tender after crude prices fell in 2008.

Under the terms of the tender, the winner must process at least 42 percent of the output at its own refineries and sell at least 15 percent of the products via a Russian commodities exchange. President Dmitry Medvedev is pushing to transform the country from an exporter of raw materials to a producer of high-tech and processed products.

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