Eni cancels FPSO contract

Eni has elected to terminate the contract for the Glas Dow float production, storage and offloading unit at the Kitan field off Timor-Leste.

Owner Bluewater Holdings said a termination fee would be paid by the Italian major, equal to lease payments through October 2016, the original end of the contract.

"Cost reduction measures including a lower lease rate did not result in an economic sustainable production," the company said in a financial report.

Bluewater said it has already begun marketing the Glas Dow for when it demobilises after the contract wraps up on 12 December.

The move marks a retreat on a $1 billion project that was among Eni’s first ventures in the Asia-Pacific region and one of the few fields to provide oil and gas revenue to Timor-Leste.

The future of production remains unclear at Kitan, which lies in a joint development area between Australia and Timor-Leste.

Eni did not immediately respond to a request for comment outside of normal business hours in Rome about the future plans for the field.

Kitan achieved first production in 2011 and had been due to operate for seven years or longer, targeting production of 35,000 barrels per day of oil equivalent after mid-2011.

Eni has estimated the field contains 35 million barrels of oil equivalent on a proven plus probable basis.

But the partners have struggled to keep up production and profitability particularly amid low oil prices.

In March, Inpex wrote down the value of the Kitan field by 7.5 billion yen ($62.4 million).

Eni operates the field with a 40% interest, with Inpex on 35% and Talisman Resources on 25%.

Bluewater won the contract in 2010 to extensively modify the Glas Dow for the job. Work was carried out by Singapore’s Sembawang Shipyard.

The 242-metre unit has capacity to process up to 60,000 barrels of crude per day and 85,000 barrels of injection water per day.

There had been some signs of optimism as of earlier this year.

Upstream previously reported that a sidetrack well, Kitan-3, was drilled in late 2014 with results in line with expectations.

That output had helped Eni to lift field production to in excess of 10,000 bpd.

Previously production was understood to have dipped well below that figure.

Satellite discoveries nearby had also been planned for further drilling work this year, including the Kuda-Tasi and Jahal oil pools and nearby Block 11-106.