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Turkey consumed 55% of Azeri Shah Deniz gas

Natural Gas Europe, *25.09.2015*

The volume of gas extracted from Shah Deniz field in Azerbaijan reached 64 billion cubic meters from the commencing date of this project to September 1, 2015, the First Vice President of SOCAR in Geology Geophysics & Field Development Issues, Khoshbakht Yusifzade, announced.

He mentioned in Daily Azerbaijan that during this period 16.3 million tons of gas condensate was also produced from the offshore field. Azerbaijan commenced Shah Deniz Stage 1 (SD1) on July 3, 2007. Since this period, 4.7 bcm has been exported to Georgia, 35.4 bcm delivered to Turkey and 24 bcm consumed domestically.

Azerbaijan produced 9.9 bcm of gas and 2.3 million tons of condensate from SD1. In the first half of the 2015, natural gas and condensate production from this field stood at 5.2 bcm abd 1.2 million tons, some 0.45 bcm and 0.8 million tons more than the same period in the last year. However, despite this increase, SD1's production level is not expected to exceed the last years volume in 2015. BP-Azerbaijan says the production volume of SD1 would remain unchanged, because the maintenance and modernization of a platform and some other issues led to suspending production for 3 weeks in August.

Over the summer, Azerbaijan exported 18.5 million cubic meter per day (mcm/d)of total produced 27 mcm/d gas from SD1 to Turkish market, while 2.5 mcm/d of gas was delivered to Georgia. The contract for development of the Shah Deniz offshore field was signed on June 4, 1996. The field's reserve is estimated at 1.2 trillion cubic meters of gas. The shareholders are: BP, operator (28.8 percent), AzSD (10 percent), SGC Upstream (6.7 percent), Petronas (15.5 percent), Lukoil (10 percent), NICO (10 percent) and TPAO (19 percent). As part of the Stage 2 of the Shah Deniz development, initially some 16 bcm per annum of gas will be exported to Turkey and European markets by expanding the South Caucasus Pipeline and the construction of Trans-Anatolian Natural Gas Pipeline and Trans-Adriatic Pipeline by 2021.

Turkish Stream talks will get boost after elections, says energy minister

Natural Gas Europe, *03.10.2015*

Turkey's Energy Minister Alaboyun has said Turkish Stream negotiations will get a boost after the general elections on November 1st.

Turkey's AKP, the country's ruling party since 2003, lost its parliamentary majority after the June elections. Since then, coalition talks between AKP and CHP have not resulted in a coalition government, while Turkish President Erdogan has called for snap elections in Turkey. After the G20 Energy Ministers Meeting in Istanbul, Alaboyun said that both the Turkish and Russian sides may have enough common ground on Turkish Stream to start talks again.

"It is not possible for us to lay out the basis of this agreement since it binds the government," he said. Russian Energy Minister Alexander Novak said on Friday that Moscow will wait for the new government for the granting of construction licenses for two of the four-stages of Turkish Stream. "The first phase's capacity of 15.75 BCm is for Turkish domestic consumption and the other phase is for South-Eastern Europe consumers," Novak said to journalists in the sidelines of G20 energy ministerial meeting. Turkey has thus far only awarded licenses for the first line.

In early September, Turkey's Energy Ministry Deputy Undersecretary Sefa Sadik Aytekin has sad that talks with Russia on Turkish Stream are frozen. "The main reason for that is Russia's hardline attitude on natural gas price discount, which is the perquisite for Turkish Stream talks. When Russian President Vladimir Putin had announced the Turkish Stream pipeline project which will be built instead of South Stream to bypass Ukraine, he said that natural gas prices for Turkey can be discounted. In beginning of the official talks, the discount rate request for natural gas was 6% percent. After long discussions, we agreed with Gazprom on discount to Turkish companies by 10.25% but later the talks frozen without a solution," Aytekin said.

The Turkish Stream project was announced by Russian President Vladimir Putin during his visit to Turkey last December, after the shelving of the South Stream project. The proposed 63 BCM per year Turkish Stream project will replace Russia's long planned South Stream pipeline which had been planned to run across the Black Sea and through Bulgaria but was halted due to EU insistence that the line allow third-party access. Turkey is due to receive 15.75 Bcm per year out of the total capacity of the Turkish Stream pipeline.

Turkey can incentivize Iran to export natural gas

Daily Sabah, *28.09.2015*

The removal of sanctions on Iran is expected to be one of the most consequential events for energy. U.S.-based think-tank the Atlantic Council has evaluated possible consequences of Iran's full return to world energy markets "A Post-Sanctions Iran and the Eurasian Energy Architecture: Challenges and Opportunities for the Euro-Atlantic Community."

According to a report by Dr. Michael Tanchum to ensure a Eurasian energy architecture more favorable to EU and NATO interests, Caspian natural gas suppliers besides Azerbaijan need to be included in the SGC, namely Iran and/or Turkmenistan.

The report predicts that if Iran reaches its 40 million ton liquefied natural gas (LNG) export target, it will have 12.8 billion cubic meters to 32.8 billion cubic meters (bcm) available for pipeline exports. In this instance, Tehran would face a stark geopolitical choice for the destination of its pipeline exports. "Iran could export piped gas to two of the following three export markets: EU and Turkey via the Trans Anatolian Natural Gas Pipeline (TANAP), India via an Iran-Oman-India pipeline, or China via either Turkmenistan or Pakistan," the report says.

The report also suggests that Iran can be encouraged to transport 7 bcm annually through the TANAP with sufficiently effective incentives offered by Turkey and Azerbaijan. "Iran may be induced to send this amount provided it receives favorable terms for an equity share in TANAP," Tanchum suggests in the report. Accordingly, the relative power balance between the EU and China in the Eurasian energy architecture will be determined by the natural gas export volumes each receives from Iran and Turkmenistan. "Without Iranian piped gas exports via TANAP, exports from Turkmenistan become critical for the SGC's long-term viability," he predicts.

Tanchum further predicts in the report that in addition to enhancing the security of the EU's natural gas supply, the Euro-Atlantic community could create a Eurasian energy architecture that promotes both stability and the development of Euro-Atlantic political norms in the Caucasus and Central Asia.

Bulgaria's President, Turkey's PM discuss gas link

Novinite, *28.09.2015*

Migrants, gas interconnections and road infrastructure projects have topped the agenda at a meeting between Bulgarian President Rosen Plevneliev and Turkish PM Ahmet Davutoglu, the head of state's press office has said.

The two leaders met at the 70th session of the United Nations General Assembly that is being held in New York.Gas interconnectors are envisaged to help Bulgaria diversify supplies by enabling gas deliveries from the Southern Gas Corridor. Politicians on both sides of the borders have been delaying for years a move to kick off work on Bulgaria-Turkey and Bulgaria-Greece links.

Construction of the interconnections was expected to be launched in 2016 and 2015 respectively, but could be postponed further as Greece and Turkey have early elections this year. On migrants, Plevneliev points to Bulgaria's successful bilateral cooperation with Turkey - but also to the trilateral that involves Greece - on border control mechanisms. He cites the example of an earlier agreement to establish a police and customs cooperation center jointly run by the three countries. The conversation with Davutoglu takes place before Plevneliev's meeting with UN Secretary General Ban Ki-moon.

Iran's gas export to the EU: when, how and how much?

Natural Gas Europe, *22.09.2015*

While Iranian officials have prioritized the export of gas on regional markets, hopes for delivering Iranian blue fuel to the European Union in the long term is rising. Iran and the P5+1 (the US, UK, France, Russia, China + Germany) reached a nuclear deal on July 14th, which paved the way for the elimination of sanctions on Iran by late 2015, including a gas import ban by the EU.

Iran increased gas production by 10 percent to 202 billion cubic meters per annum (bcm/a) last fiscal year, ending on March 20th, while the figure re-increased by 5 percent during the current fiscal year, according to Iran's Oil Ministry.

However, all of the increased output has been absorbed by domestic sectors, while the huge gas shortage in some sectors like electricity generation and re-injection to oil fields continues. Iran says it has planned to increase gas production to about 400 bcm/a by 2019. Homayoun Falakshahi, Middle East Upstream Analyst at Wood Mackenzie told Natural Gas Europe that “Iran’s gas production is likely to significantly increase in the future, but most of the increase is going to be absorbed by re-injection needs at the country’s most ageing oil fields. Gas production in 2014 (sales gas and gas available to re-injection, excludes flares and losses) was at 19.3 bcfd [or 546 million cubic meters per day (mcm/d) or about 200 bcm/a]. We estimate this could grow to 25 bcfd [or 780 mcm/d or 258.4 bcm/a] by 2020 given new supply from South Pars.”

Iran increased gas deliveries to power plants by 38 percent to 50 bcm/a during last year, while the current power plants need more than 20 bcm/a of gas fuel. On the other hand, most of Iran’s oil fields are in their second half-life and in need of gas re-injection to prevent output decline pace. Iran re-injected 34 bcm/a of gas to these fields last year, while the figure is not enough and should reportedly double. Iran also wants to attract western companies to gather flaring gases, then convert to LNG and transport to international markets.

Recently, Iranian media outlets reported that Iran is in talks with Spain’s Repsol and a small French company (without mentioning its name) to gather the flaring gas in Foroozan and other fields, liquefy that and transport to EU. Iran also had contracts with the Anglo-Dutch Royal Dutch Shell, Spain’s Repsol and France’s Total, Germany’s Linde to build LNG plants but they abandoned the projects last decade due to sanctions.

Falakshahi said that “almost all associated gas production is either flared or re-injected into the producing field, a number close to 1.6 bcfd [or 45 mcm/d or 16.5 bcm/a]. The NIOC implemented some projects to gather this gas such as the AMAK project, which aims to offtake sour associated gas from four fields in the Ahvaz area: Ahvaz, Mansuri, Ab-Teymour and Kupal. The project has a capacity to supply 190 mmcfd [or 5.3 mcm/d] to the Razi Petrochemical complex.” However, it is expected that international markets will face an LNG glut in coming years. Iran is also studying the gas export option through pipeline to the EU.

Natural Gas Europe posed the following question Stephen O’Rourke, Global Gas Analyst at Wood Mackenzie: “Regarding the EU’s demand for LNG, is it possible for Iran to export significant amount of LNG to EU without needing to export natural gas through pipeline?” Mr O’Rourke responded that “we anticipate that global gas market will be oversupplied in the medium term as new LNG projects in Australia and the US come on stream. Therefore, the market opportunity for Iranian LNG is a long-term proposition.” Regarding the pipeline option, Iran may need to construct a $6 billion cross-country pipeline towards Turkey’s borders in order to realize its gas export plan to the EU. Recently, Iran announced that constructing a pipeline from South Pars towards the EU through Turkey is expected to cost $16 billion.

On the other hand, Iran is evaluating the option of joining to TANAP and TAP projects, which aims to transit 16 bcm/a of Azerbaijani gas to Turkey and the EU by 2021 in first stage. But is not clear how much Iranian gas could be delivered to EU by TANAP and TAP, which their final capacity is 30 bmc/a and 20 bcm/a respectively.

Mr O'Rourke says: "Iran has discussed increasing sales into Turkey but again pipe exports west of Turkey appears a longer-term proposition. Iran will priorities the use of gas in optimizing oil production and meeting domestic demand in the medium-term. Longer-term Iran could dedicate new phases of the South Pars development to the European export market and construct additional pipe capacity to the Turkey-Iran border. However, it will need to compete with new Azeri, Russian and even Kurdistan gas to access export capacity within and out of Turkey."

Energy intensity in Iran is two times more than the global average, according to the International Energy Agency. The country's energy consumption sits at 2 billion barrels of oil equivalent annually, of which about 70 percent is natural gas. Recently, Iran announced that it is preparing to halve energy intensity by investing $200 billion in 6 years. Responding to the question: "Is Iran a reliable source for gas import in mid and long terms and how much investment is needed to halve the energy intensity in Iran?" Mr Falakshahi said that "Iran is always going to prioritise its domestic market over exports, whether it would be simply consumption or re-injection into the oil fields. The government is trying to tackle the issue of high consumption by decreasing the level of subsidies. The average domestic gas price has increased by 350% since 2010. In order to reduce the country's energy intensity, the subsidy reform will need to go through at a quicker pace."

Mr O'Rourke added "The perception of Iran's gas supply reliability could be enhanced with IOC involvement in developments dedicated to the export market. To attract IOCs Iran will need to offer more investment-friendly fiscal terms." About 45 percent of Iran's gas production is consumed via its housing sector. Consumption levels in the winter months sometimes reach winter production levels.

Mohammad Mirzaei, head of the equipment and housing sector at Fuel Conservation Organization told Trend on September 16th that some 600,000 central heating systems (engine rooms) should be optimized by investing $2 billion. About 20 million heaters are active in Iran, consuming 1500 cubic meters each on average annually, that is very high. Currently, engine rooms waste 50 percent of energy they receive. On the other hand, over 25 percent of Iranian gas output is used in power plants, which have an efficiency rate of approximately 37 percent.

Socar tries to create network in Europe, sees production doubling by 2025

Natural Gas Europe, *22.09.2015*

Azerbaijani potential continues to make headlines, as the Southern Gas Corridor is gaining ground in Brussels to become the number one alternative to Russian gas. Azerbaijan's SOCAR is trying not simply to export gas, but to take an active role in Europe's energy assets.

Against this backdrop, Azerbaijani newspapers wrote about the cooperation between SOCAR, Italy's Snam and Greece's DESFA, claiming that Snam intends to acquire a stake in the Greek natural gas transmission system operator. The move, which is consistent with previous declarations, would give legitimacy to SOCAR's plans to buy a 66% stake in DESFA.

"We are ready for negotiations with European companies over the sale of 16 percent," SOCAR President Rovnag Abdullayev said. Meanwhile, Baku released global forecasts, saying it sees the base price of oil in 2016-2019 at $50. This comes a day after, Abdullayev and other officials said the country could double gas production by 2025. "There are great opportunities for bringing production volumes in Azerbaijan up to 20 billion cubic meters a year, excluding the gas injected into the reservoir in 2015, and up to 40 billion cubic meters in 2025. This will further enhance the role of Azerbaijan in the energy security of Europe," Abdullayev was quoted as saying.

The country expects to produce 40 million tonnes of oil and 30 billion cubic meters (bcm) of gas in 2016, thus remaining on 2015 levels. In July 2015, Snam's CEO Carlo Malacarne confirmed that there are TAP's stakeholders willing to sell their shares to the Italian company, adding that a 20% interest would cost around 400 million euros.

Israel considers second offshore LNG terminal

Natural Gas Europe, *29.09.2015*

Israel is considering building a second offshore LNG terminal in order to reduce risks to local power generation and increase its energy security. According to the business daily Calcalist, the idea was floated last week at a meeting headed by Energy Minister Steinitz. The Energy Ministry is interested in doubling the number of LNG cargo Israel can receive.

Currently there is one offshore LNG terminal that is supplied by a regasification ship that loads LNG from a vessel anchored further from the shore. That LNG is used only during peak electricity demand or during emergencies, a situation that has yet to materialize.

However the expected delay of at least 3 years in the development of Leviathan has compelled Israeli officials to think of an alternative to increasing Israel's energy security. Currently gas is supplied only from the Tamar field through one pipeline and one entry point. According to Mr. Steinitz, that is grave danger to gas supply and power generation in the country. The cost of building a new offshore LNG terminal is estimated at $500 million, while keeping an FSRU ship on standby and an LNG ship for supply is also an expensive operation.

In 2013, Israel Electric Corporation posted a loss of $24 million when it had to resell LNG cargo it did not need. A top IEC official the company lost $700 million up until the end of 2014 on consumption of only 1-2 BCM in LNG, according to the business daily Globes. Those were probably among the most expensive LNG shipments ever.

Iran approves draft for new upstream contracts

Natural Gas Europe, *30.09.2015*

The Iranian cabinet approved the Petroleum Ministry's draft for new international upstream oil and gas contracts by endorsing the documents known as Iran Petroleum Contract .

'Increasing of oil and gas production capacity especially in joint fields, adoption of modern procedures, signing contracts with authorized companies in exploration, development, and production from oil and gas fields, and attraction of foreign investment are to be achieved within IPC framework' Shana reported, mentioning Germany, Spain, Austria, Italy, and France. According to Minister of Petroleum, the new contracts will be more attractive.

"More than cash or using the technology, we would like to have their advanced technology to be transferred to domestic companies," Zangeneh stated. Also, official news agency Shana wrote that Iran will build a second oil and gas export terminal in Jask. 'Secretary of the Supreme Council of Iran's Free Trade, Industrial, and Special Economic Zones said the country's second terminal for exporting oil and gas after the Kharq Island in the Persian Gulf will be constructed in the Jask port, southern Hormozgan province.'

Iran looks at regional cooperation opportunities

Natural Gas Europe, *24.09.2015*

Iran is looking for ways to strengthen ties with its main regional partner - Oman - while holding talks with India for a $15.2 billion investment package, whose faith also depends on gas prices. Teheran said it plans to explore for unconventional resources in the Sea of Oman.

Iranian President Hassan Rouhani held a telephone conversation with Sultan Qaboos bin Said of Oman."In the post-sanctions era, the Islamic Republic of Iran is eager to consolidate ties with Oman in various fields, especially trade and commerce" Rouhani said. The two countries are already actively working in the energy sector.

Recently, they signed a deal to carry out land survey to determine the route for a new pipeline between the two countries. The cost of the project was estimated at about $1 billion. Teheran is also looking at ways to increase regional cooperation with Pakistan and India. According to Shipping Minister Nitin Gadkari, India is ready to pour more than $15.2 billion for infrastructural projects in Iran if Tehran offers better terms including cheaper gas, Reuters reported on Wednesday. “We are ready to make a huge investment in Iran and this is mainly linked to gas pricing offered by Iran ... Gas price is a crucial issue,” Gadkari told a news conference.

Bulgaria’s gas ambitions not in Sofia’s hands

Natural Gas Europe, *24.09.2015*

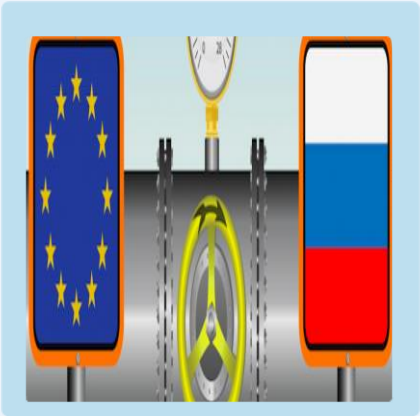
Bulgaria continues attempts to decrease its dependence on Russian gas, repeating it is ready to finalise a deal to build the IGB gas link to neighboring Greece. However, it seems that, once more, its energy faith does not completely depend on its will.

Sofia said several times it is ready to proceed with the 182 km pipeline, but it explained it is waiting for a decision of the new Greek Government. “As a result of the current deferral, the project will be completed at the end of 2018, rather than in the middle of 2018 as it was planned” Nikolay Nikolov, Deputy Energy Minister of Bulgaria, told Reuters.

IGB (Interconnector Greece-Bulgaria) is meant to transport gas from Azerbaijan and through LNG terminal in Greece. Bulgarian State Energy Holding has a 50 stake in the project, with the remaining owned by the Greek DEPA operator and Italy’s Edison company. In June, Prime Minister Boyko Borissov met with President of the Republic of Azerbaijan Ilham Aliyev. “The interconnector will have an approximate capacity of around 25-30 billion cu m and this in turn will enable Bulgaria to become a distribution hub from which Azeri gas could reach other countries in Europe” Borissov said in that occasion.

Russia, the EU and the Caspian pipeline gambit

Natural Gas Europe, *29.09.2015*



Recent years have witnessed a grave deterioration in energy relations between Russia and EU. The gas issue is an important one tied up in Russia's ongoing attempts at recalibrating Eurasian pipeline strategy and EU's own endeavors to open up new supply routes. The Caspian Sea region has hence become focal point of heated discussions in energy disagreements between Russia and the EU.

While Azerbaijan and Turkmenistan are considered potentially vital partners for European energy consumers, Russia engages in greater assertive policies protecting its national interest in the region.

The continuing EU-Russian rivalry over alternative gas supply projects not only widens the gap between Brussels and Moscow but also affects energy strategies of the Caspian countries trying to avoid becoming a battle ground between the two key actors. The ongoing conflict in Ukraine and the growing concerns about the reliability of Russian gas supplies to the European market have escalated tensions between Russia and the EU to their highest level over the last several years. The contemporary nature of EU-Russian energy relations is the result of an intricate combination of geopolitical and economic factors tied to high profit and national security.

At the core of the current energy disputes is an intense competition for resource rents between energy producers, consumers and transit countries. Geopolitical complexities, market access, economic modernization and national sovereignty are among other major issues that have given rise to excessive politicization of EU-Russian relationships. Following the introduction of Western sanctions against Russia, energy relations have become ever so much securitized that all possible channels are now closed up to restore broken trust between both sides.

Although Brussels and Moscow have formally supported the de-politicization of the energy matters, both have divergent views on how the whole sector should be organized. The EU seeks to integrate Russia into European market system, whereas Moscow rejects European value-based policy and opposes the existing international energy trade regime. Lifting sanctions against Russia has therefore turned out to be a challenging task for European policy makers. However, different approaches and contradictory interests have put Russia and the EU at risk of confrontation which tends to have a negative impact on the energy security of both actors.

Being engaged in energy market liberalization, the EU is actually facing a widening gap between declining domestic resources and continuously growing energy demand. Although the EU tends to promote free energy trade beyond its borders, European energy politics is even now dominated by national interests hindering the creation of an articulated common and strategically-oriented EU stance on energy market organization.

So far, diverse interests inside the EU have prevented Member States from formulating a cohesive and integrated energy policy. Russia, in turn, has taken a different approach to energy market globalization, refusing to play a role of mere energy exporter. Russia's energy policy is mostly influenced by the key strategic objectives relating to geopolitics, global economic trends, social and political changes. The Kremlin strongly demonstrates its geopolitical vigor and frequently uses rigid methods to safeguard Russian strategic interests. Still, the potential for continued rivalry remains great because key investment projects and priority pipeline routes have severely altered the present power positions.

Since the beginning of the Ukraine crisis, the Kremlin leadership has significantly revised Russia's gas pipeline strategy. While Russia has been dominating European energy markets for many years, Russian energy strategy has affected many European and non-European countries in terms of demand, supply and transit. New alternative gas and oil routes are nonetheless vital for Moscow. In this respect, Russia's move in the direction of Asia, where energy cooperation with China has been intensified in recent years, is posing new challenges for European consumers. In order to rebuild Russia's world power status, President Vladimir Putin is concentrating on using the country's vast natural resources. The Kremlin's new grand vision in the global energy market is to enhance Russian self-confidence through a greater range of options in Eurasia.

The EU, in turn, is making every effort to lower its dependence on Russia by diversifying its sources of natural gas supply. Even though several alternatives to supplant Russian gas in Europe are currently under consideration, there is little evidence that the EU can significantly reduce its Russian energy imports in the foreseeable future. The very fact that Russia holds the largest energy supplies globally and already has significant infrastructure in place clearly explains why some of Europe's biggest energy companies remain reluctant to shift radically from the status quo. It is no surprise that they have huge financial interests in maintaining the steady flow of gas from Russia. Even so, the EU is struggling to develop new alternative energy projects. Supplying natural gas to European market from the Caspian Sea region has long been a major goal of the EU in an attempt to alleviate at least some Russian dependence.

EU Member States have recognized the geopolitical importance of the Caspian basin, thus viewing Azerbaijan and Turkmenistan as a strategic corridor linking southern Europe with the Caucasus and Central Asia. While acknowledging the rich potential of the Caspian hydrocarbon resources, the EU has likewise realized that new investment projects could help secure and stabilize world energy supplies in the future. True, Azerbaijan and Turkmenistan have become crucial actors in the Caspian region and both countries occupy special place in the EU's strategy of gas supply diversification. Brussels has intensified relationships with Baku and Ashgabat to access the Caspian Sea's energy deposits and decrease Europe's reliance on Russian energy imports. In so doing, the EU has launched direct talks on transnational projects that will provide the flow of substantial energy supplies from the Caspian basin to the European market.

Trans-Anatolian pipeline (TANAP) and Trans-Adriatic pipeline (TAP) will eventually open the long-awaited Southern Gas Corridor, considered part of the 'New Silk Road' of energy transport links between the Caspian basin and the EU. Once this vital connection becomes fully operational in early next decade, it will enable the EU to import natural gas from Azerbaijan, Turkmenistan and possibly Iran. Besides, Brussels has started actively lobbying for the Trans-Caspian gas pipeline project recently resubmitted to the EU's energy agenda.

Trans-Caspian pipeline could be a part of the TANAP project which is being constructed by Azerbaijan and Turkey. Most notably, the Trans-Caspian pipeline would deepen the east-west axis of energy relations between Azerbaijan, Georgia, Turkmenistan, Turkey and EU Member States.

Nonetheless, energy remains the key challenge for Azerbaijan and Turkmenistan in their domestic and foreign policies, not only towards the EU but to others as well, Russia especially. A healthy flow of Caspian gas supplies to Europe is predicated on stability in these two countries, at least into the mid-term. Decision making processes in both Baku and Ashgabat often tie into regional geopolitical and geo-economic equations. In reality, TANAP, TAP and Trans-Caspian pipeline routes are not zero-risk projects. Some potential issues include material supply, construction risks, the legal status of the Caspian Sea and environmental concerns raised by Moscow and Tehran.

Delivering natural gas by increasing interdependency between suppliers and consumers makes the situation politically mostly vulnerable. The export of hydrocarbon resources from the Caspian Sea to Europe is therefore challenged by certain factors such as the geopolitical interests of powerful neighbors, competing pipeline projects, changes within supply routes and technical problems. For example, the main obstacle to TAP is not the postponement of the project inauguration by one year to 2021 but new conditions being put on table by the Greek government. Right from the outset, Greek Prime Minister Alexis Tsipras began playing gas pipeline politics. On February 3, 2015 Greece stated that it would support the construction of the TAP pipeline across its territory but thought the benefits Athens might receive would be insufficient and could be discussed for revision.

Following the announcement of the Turkish Stream, Greece found itself in a crucial geographic position to impact EU's energy security. Since then, both pipelines (TAP and Turkish Stream) have been in a race to be the first to cross Turkey into Greece and establish itself with first-mover advantages. In fact, Tsipras is trying to play his trump card over EU energy security. He wants to use Greece's geographic location to get higher transit fees from TAP, even if renegotiating agreements would cause ill feeling towards his government.
At the same time, Trans-Caspian gas pipeline project can only become feasible if Azerbaijan and Turkmenistan are willing to risk displeasing Moscow. This would all depend on both countries' ability to resist pressure from every direction, especially Russia and Iran, which constantly bring up the unresolved status of the Caspian Sea arguing that pipeline construction may damage the Caspian Sea's environment.

By perusing multidimensional energy policies, Baku and Ashgabat have taken cautious yet balanced-interest based approach aimed at avoiding any direct confrontation with Moscow in terms of materializing Southern Gas Corridor. Given the political concerns, neither Azerbaijani President Ilham Aliyev nor Turkmen President Gurbanguly Berdimuhamedov can push harder than the EU does for the Trans-Caspian-TAP-TANAP pipeline route. Baku and Ashgabat are ready to start the project but they do not see enough EU political support and have doubts about EU's willingness to stand up to Moscow to help advance these international initiatives. Consequently, the effect of Russia's hard-pressure is directly dependent on the EU's united resistance front.

Paradoxically, the EU has endeavored to establish an energy union aimed at concluding more transparent gas deals with a view to diminishing Russia's influence. Notwithstanding strenuous efforts to advance the creation of a common energy market, the EU has so far not provided a holistic solution to multitude of conflicting national interests of the Member States.

Moreover, the lack of much-needed flexible integration in the European energy market has given Russia some greater room for maneuver in Eurasian pipeline politics. Moscow has employed wise tactics suggesting stakes to European companies in various investment projects. Russia also continues using its political clout to discourage some of the Caspian littoral states from supporting the EU plans for diversifying gas supplies.

On the other hand, due to the lack of proper infrastructure, Azerbaijan and Turkmenistan cannot fully satisfy EU's demand and do not represent credible alternatives to Russian gas in the short term. In the long run, even though new routes avoiding Russia are underway, the anticipated export capacities are still insufficient for the two Caspian littoral countries to be powerful game changers in the European energy security. However, Southern Gas Corridor can certainly inject competition into all EU markets and blunt Russia's 'energy weapon.'

All the same, Russia may still seek to make use of its cost advantage to keep potential competitors out of the European market. Moscow could sell its gas at lower prices while new challengers such as piped gas from Turkmenistan need to be more than that price to be profitable. Neither Azerbaijan nor Turkmenistan has similar advantages, and as such, TANAP, TAP and Trans-Caspian pipeline projects simply cannot replace Russia's share in the EU natural gas market. In light of the current global financial situation along with low oil and gas prices, it is hard to see the transformation of the Caspian Sea region into a key gas transit hub for the EU in the near future.

Russia's multidimensional natural gas chessboard is easy to understand as Moscow has many economic and geopolitical interests in the wider Black Sea-Caspian basin. While energy-hungry South East European countries are trying to promote TANAP and TAP in the hope of speeding up their integration into the European energy system, Russia continues to send mixed signals about different transport gas lines. Despite a heavy dose of Western sanctions, Moscow put forward the intention to build a pipeline to Turkey with potential control of a gas hub at the Turkish-Greek border for sales to Europe.

Russia and Turkey have been critical strategic partners for many years. Since Vladimir Putin and Recep Tayyip Erdogan came to power fifteen years ago, both countries have developed closer cooperation not only in the energy sector but also in the fields of trade, tourism, construction, defense procurement and capital investment. Russia's most recent initiative known as 'Turkish Stream' has the potential to block all alternative gas sources via Turkey to the EU. If Moscow and Ankara arrive at terms for implementing the project, Turkish Stream can have serious implications for some of the EU Member States with regard to future diversification of European energy supplies. In case the project comes on stream in due time, Russia's state-owned energy giant Gazprom could easily price out the high-cost Caspian gas on Turkish and European markets.

Turkish Stream is a well thought-out and calibrated strategy of President Putin, reflecting the Kremlin's new geopolitical energy calculus at the high-stakes Eurasian game. Meanwhile, President Putin's policy on European energy supply looks very confident. Moscow now directly challenges the future buyers of Azerbaijani gas, especially those consumers covered by the Turkish Stream project. In the absence of a more coordinated European approach to energy security, Russia's new gas concept aims to build Turkish Stream first and then just wait for the construction of the infrastructure in Europe. In all probability, such a move will enable Moscow to call timeout and worry the EU into resolving controversial issues that may arise on the part of the European consumers.

Yet interestingly, some of the Caspian littoral states are capable of finessing the energy export issue. For example, over recent years, the ruling authorities in Baku have succeeded in maintaining a balanced diplomatic stance amid competing geopolitical interests in the wider Black Sea-Caspian basin, as Azerbaijan delivers energy supplies not only to Turkey and the EU, but also to Russia and Iran. Azerbaijan does not consider Turkish Stream a rival project to Southern Gas Corridor. In fact, capacity of Turkish Stream can be useful to Azerbaijan which will be able to use the transportation potential of the Russian-Turkish pipeline extension on Europe's territory for supplying additional volumes of natural gas in the future.

Likewise, Iran, which owns the world's second largest natural gas reserves after Russia, will certainly examine several export routes to Europe if international sanctions on the country are fully lifted. Tehran might also exploit the Turkish Stream pipeline for one of the possible routes where Iran's future gas can be accessed by European consumers. In parallel, the recent deal over Tehran's nuclear program has opened new opportunities for expanding economic ties between Iran and other Caspian neighbors. More particularly, Iran is searching for ways to cooperate closely with Azerbaijan on energy exports. Once sanctions are lifted, Iran will be able to use Baku-Tbilisi-Ceyhan pipeline to export its oil and can also join in TANAP to transport its gas to Europe in the future.

Even so, there are several reasons why Iran has very little chance to deliver its gas to Europe in the mid-term. Due to the worsening security situation in Turkey where energy infrastructure, including the Iranian-Turkish gas pipeline, has repeatedly been attacked by terrorist organizations, the transportation of Iran's future gas to European market would be a bad choice for Tehran. Although Iran has abundant sources of gas and oil, considerable investment and new technology will be required for processing the country's huge energy reserves. Last but not least, owing to long distances and higher transit costs, Europe is currently not the key priority for Iran, which mainly concentrates on exporting natural gas to its neighboring countries.

Evidently, uncertainties around Turkish Stream and Southern Gas Corridor may eventually decide the destiny of these pipeline routes. It remains to be seen, however, whether both projects will repeat the fate of South Stream and Nabucco. But one thing is already clear: much of what happens today in Eurasian pipeline politics depends on the EU's future energy demand and Russia's strategic moves.

In the twenty-first century, EU's energy security will long remain a leading factor in global attention and Eurasian pipeline politics possibly will take the form of a new highly competitive great game. While the Ukraine crisis has once again trumpeted European vulnerability brought by overdependence on Russian gas, it has become clear that both the scope and nature of the EU-Russia energy relations is dramatically changing. As yet, incentives to diversify energy supplies are limited and there are no feasible alternatives to energy imports from Russia, since cheap Russian gas suits the European market very well.

Though being a thorny trading partner, Russia is practically viewed as a good, if not the best, energy supplier for Europe, especially taking into account the costly alternatives currently under consideration. Internal EU division and competing voices among Member States also help Moscow maintain the status quo and undermine EU bargaining power.

In all this, there is complete understanding why Russia dominates the European gas market and will probably continue to do so in the years to come. Decreasing EU energy reliance on Russia will therefore be a long-drawn-out process fraught with constant obstacles; achieving full diversification of gas imports appears simply unrealistic.

Still, there are bigger stakes in EU-Russia energy relations. Both are historical partners who complement each other. Seeking a dialogue with Russia is not merely a matter of market reality, but also of geopolitics. In order to better secure EU-Russia relations, Brussels will need to come to terms with the fact that Moscow pursues interests different from its own. Finding a sustainable compromise will not be a simple task but it is essential not only to Russia and the EU but also to the Caspian littoral states and many other countries in Eurasia in order to reduce business risks and to increase the stability of world energy markets.

Specifically, the EU must be realistic about its energy interests and capabilities in the Caspian basin. The EU has thus far declined to be a relevant security actor in this region, since Brussels is not able to engage in hard security approaches and to compete with Moscow and Beijing in geopolitical terms on energy matters. And yet, the EU needs to formulate an integrated energy policy on the basis of a new comprehensive strategic vision. New EU initiatives need bilateral and trilateral tracks.

The EU should support the integration of partner countries in a common energy network governed by EU rules. Furthermore, creating a kind of new format of multilateral dialogue between the EU and the five Caspian littoral states (Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan) would probably make it possible to remove current differences on important strategic issues in relation to future gas exports onto the European market. The establishment of an EU-Caspian multilateral structure, in which Russia's participation is vital, could be a starting point for decreasing competition over energy resources in the wider Black Sea-Caspian basin.

In order to advance in this direction, Germany, one of the leading EU Member States, could play a particular role in expanding the network of experts and researchers from Russia, other Caspian countries and Western Europe to provide a forum for debate on Russia-EU-Caspian energy relations. For a successful partnership, divergent views need to be evaluated objectively and responsiveness for other interests is necessary to find a solution to the existing problems. For this reason, EU policy makers should also listen more to the actual business partners from European, Russian and Eurasian companies.

Most importantly, a new big idea should include an integrated package of policies that Russia and the EU, along with significant contribution of other regional countries, could negotiate to build Europe's durable energy security architecture. The EU, Russia and all other stakeholders should agree on a new international institutional framework that would integrate interests of both energy suppliers and importers, with a view to establishing a level playing field. This can indeed be the best way forward because it means promoting mutually beneficial cooperation, common rules and a secure investment environment for all actors in the European energy arena.

Ukrainian perspective on Nord Stream two

Natural Gas Europe, *26.09.2015*

At Russia's initiative, the Nord Stream Two natural gas pipeline project has advanced from agreements of intent to a binding agreement; and Gazprom has formed the project consortium with several major European energy companies.

Planned to connect Russia with Germany through the Baltic Sea by 2019, Nord Stream Two would double the Nord Stream system's overall capacity to 110 billion cubic meters (bcm) of Russian gas per year, potentially replacing Ukraine as the main transit route for Russian gas to Europe (see EDM, September 10, 14,15, 17).This project is inseparable from the context of Russia's efforts to undermine Ukraine.

Through instruments ranging from military aggression to economic exhaustion. Specifically, Nord Stream aims to eliminate Ukraine from European energy transit systems (strategic goal), and in so doing, to deprive Ukraine of transit revenue (collateral Russian goal). The Kremlin's even more ambitious goal, however, is to replace the Ukrainian transit route, which is free from Gazprom's control, with a route to Europe fully controlled by Gazprom. Indeed, in Nord Stream, Gazprom is the majority stakeholder (its 51 percent stake is intangible), the sole authorized user of Nord Stream pipelines' capacities, and the only authorized seller of gas at destination points in Europe. The project's board chairman and the CEO, Gerhard Schroeder and Matthias Warnig, respectively, are (formally) Gazprom's and (slightly less formally) the Kremlin's nominees.

Thus, Nord Stream must be evaluated not only for its fiscal or other impacts on Ukraine but, more broadly, for its impact on the energy supply security of a number of European countries, and the challenges it poses to the European Union's laws and common policies. The target date for completing Nord Stream Two, 2019, coincides with the expiry of the Russia-Ukraine gas supply and transit agreement. As regards the transit, Moscow's public statements indicate that it will seek an entirely new agreement, reducing the transit flow through Ukraine, perhaps dramatically, if Nord Stream construction work advances as planned.

Russian gas transit volumes through Ukraine have steadily declined, from 110 bcm annually a decade ago (representing some 80 percent of Russia's total gas exports to Europe) down to 85 bcm in 2013 (slightly more than 50 percent of Russia's total) and 62 bcm in 2014 (some 40 percent of Russia's total), and an anticipated 51 bcm for 2015 (about one third of Russia's anticipated total figure) (Gazprom.com, accessed September 17; UNIAN, September 3). The slump in European demand has been the main cause, but the operation of Nord Stream One since 2011 became an additional factor reducing Gazprom's use of Ukrainian transit pipelines. Gazprom anticipates European demand to recover by 2019 and thereafter.

Ukraine's transit revenue has declined correspondingly with the volume decline. Ukraine earned some $4 billion for transit services in 2013, some $3 billion in 2014, and expects some $2 billion for 2015 in transit fees. These revenue losses are potentially destabilizing to Ukraine's already precarious fiscal position. Ukraine proposes to negotiate an increase in transit fees as part of the current negotiations on the price of Russian gas supplies for 2016. Raising the transit fees is normal practice in situations when the transit volume declines. At the current level of transit fees, Ukraine's transit system is expected to turn loss-making if the transit volume drops below 40 bcm per year.

The current transit fee is apparently set at $2.88 per one thousand cubic meters of Russian gas per 100 kilometers of Ukrainian pipeline. According to some reports, Kyiv proposes to raise that fee to a range of $3.70–$5.50 per one thousand cubic meters per 100 kilometers of pipeline, apparently depending on the transit volume to be agreed (Interfax-Ukraine, June 26, September 18; Ukrinform, September 10; Bloomberg, September 11; UNIAN, September 18).

Whether Nord Stream Two materializes as planned is still far from certain, given the project's unresolved financial and legal issues. The signed agreement, however, in and of itself will discourage other Western companies from investing in the upgrade of Ukraine's transit system, as long as the bypass threat hangs over that system.

For its part, the European Commission insists that Ukraine must remain a major transit route for Russian gas to Europe. The Commission encourages discussions about an international consortium that would buy into, and upgrade, Ukraine's gas transit system, once Ukraine will have reformed its natural gas sector. Last year, the Ukrainian parliament authorized the formation of such an international consortium; and on April 15, 2015, the parliament approved the law on breaking up the Naftohaz Ukrainy state monopoly, with a view to separating the gas transit system from it, effective October 1, 2015 (Interfax-Ukraine, September 18).

If and when the construction of Nord Stream Two is completed (target date 2019) and then brought to full operating capacity (presumably within two years of completion), Gazprom will not abandon Ukraine's transit system immediately on the agreement's expiry (also 2019). Russian government and Gazprom officials indicate that they would negotiate a new transit agreement with Ukraine, albeit for low transit volumes for the years after 2019. This is because Gazprom's long-term supply contracts in Europe, including those expiring well after 2019, stipulate specific points of delivery for the gas supplied. Presumably, Gazprom would have to adjust those points in order to switch those deliveries from the Ukrainian transit system into Nord Stream.

RUSSIA'S likely objective is to see Ukraine's transit system disused for the most part, but still handling Russian gas deliveries to the Balkan region. GAZPROM WAS PLANNING to supply that region through South Stream or Turkish Stream, bypassing Ukraine; but those plans have failed conclusively. Hence, Gazprom will still have to use elements of Ukraine's transit system in order to supply the Transnistria protectorate, Moldova itself (where Gazprom controls Moldovagaz), and farther downstream Bulgaria, Greece and Turkey's westernmost provinces. All those intentions presuppose the successful completion of Nord Stream Two. And that, in turn, may depend on special arrangements on the overland pipelines in Germany that feed from Nord Stream. While Russia has decided to turn Germany into a privileged transit country, those special arrangements have yet to be reconciled with the EU's energy market legislation; and that will be difficult.

Ukraine expresses optimistic tone on winter gas package

Natural Gas Europe, *25.09.2015*

Ukraine has indicated that the terms of gas supply offered by Russia could be viewed as a basis for an interim solution for continuing supply to Ukraine and to ensure gas transit to the EU for the upcoming winter. A statement from Naftogaz commented that the Ukrainian side is ready to sign a binding trilateral deal on Russian gas supply terms.

The Ukrainian side indicated however, that for the discussed solution to work, would heavily depend on actions of the governments of both Ukraine and Russia, the EC. Ukraine called for a comprehensive binding deal to include both an addendum to the contract between Naftogaz and Gazprom.

And a binding intergovernmental protocol between Russia, Ukraine and the EU signed by authorized representatives on behalf of the governments of Russia and Ukraine as well as the European Commission. Naftogaz said that any agreement should also provide the commitment of the European Commission to provide financial support to Ukraine to fund gas purchases. In addition, the Ukrainian side called for the Russian government's commitment not to revoke the agreed discount based on customs duty revision till the end of 1Q 2016 as an essential prerequisite for the success of a deal.

Updated: Ukraine's winter gas supply package agreed but not signed

Turkish Energy Hub Daily, *28.09.2015*

Parties from Moscow, Kiev and the European Commission hammered out the terms of a supply deal for the coming winter, covering the delivery of 2 billion cubic metres (bcm) of natural gas from Russian producer Gazprom to Ukraine incumbent Naftogaz.

Despite the deal covering the entire winter season, the parties have only agreed on funding for the October deliveries. The EU, who provides financing to Naftogaz, said it would allocate $500m to Ukraine by the end of the year. Gazprom head Alexei Miller said, however, that these funds have already been allocated.

Gas deliveries are likely to resume on 1 October and 2bcm of gas is expected to be injected into Ukraine's storage by the beginning of heating season in mid-October. Russian supplies to Ukraine were halted at the start of July and since then Ukraine has only imported gas from the EU. The resumption of Russian flows is crucial for the security of supply for Ukraine and the EU. Storage sites in Ukraine need to hold at least 19bcm at the start of winter to ensure the uninterrupted flow of gas through peak demand periods.

"The agreement on the terms of the new winter package is a crucial step towards ensuring that Ukraine has sufficient gas supplies in the coming winter and that there is no threat to the continued reliable gas transit from Russia to the EU," said Maros Sefcovic, the EU's energy commissioner, who spearheaded the discussions, along with Russia's energy minister Alexander Novak and his peer from Ukraine Vladimir Demchyshyn.

It is unclear how supplies over the rest of the winter season will be made, but the European Commission said in a statement that it would continue working on organising financing for Naftogaz. Miller said that even though he welcomes the deal, 2bcm would not be enough for Ukraine to make it through the winter. "If the temperatures over the upcoming winter are anomalously cold, it will be impossible to escape problems," he said in an interview to Rossiya 24 TV Channel following the Friday talks.

Although all sides have said the terms of the winter package have been agreed, the protocol has not yet been signed. Both the Russian and Ukrainian governments must approve the deal first. According to the deal, Ukraine commits to securing natural gas transit through its territory to the EU, while Russia commits to lowering the gas price to Ukraine, by means of decreasing the export duty.

Miller said, however, that the deal is a framework document and does not legally oblige parties to implement their commitments. The exact price of Russian gas for Ukraine remains unclear. Miller said previously that an approximate price of gas for delivery to Ukraine in the fourth quarter will be about $252 per thousand cubic metre (kcm) and that this amount would be reduced so that the price was close to that in the neighbouring with Ukraine countries, in particular Poland.

Meanwhile, Polish gas incumbent PGNiG opened an arbitration proceedings with Gazprom earlier this year after the latter refused to lower the gas price in long-term contracts. In Q4, the price for Ukraine will be reduced by around $20/kcm, while the discount in Q1 will depend on the situation on the market, Miller said.

Gazprom: Lost illusions and humble hopes?

Natural Gas Europe, *28.09.2015*

As developments in the European gas market dramatically effect Gazprom's market position, the research team of Energy Institute of the Higher School of Economics and Energy Research Institute, try to find the reasons and consequences of these developments. The title "European Gas Market: Lost Illusions and Humble Hopes" is a precise reflection of Gazprom sentiment these days.

The authors, including Nikolay Arkhipov, Yuri Galkin, Elena Kozina and others, with the help of Tatiana Mitrova (Head Oil and Gas Department, come to the following conclusions:

1) Falling European demand does not match Russia's expectations –the results of 2014 are bringing down gas demand in the EU to 1995 levels. The main push factors for falling demand are interfuel competition and economical instability. The decrease resulted in oversupply of gas and rising competition among suppliers.

2) Inhouse European gas production has also plummeted. However, a drop similar to the one in 2005-2015 will hardly occur again any time soon. The researchers believe that by the end of the next decade falling production will be one third of the level of today.

3) The spot market becomes the primary way gas is traded in Europe, but the long-term contracts will still matter. Continental gas hub TTF will displace the British NBP and become the largest in Europe "zero point" of pricing.

4) The EU is creating a new architecture of a single and open gas market by erasing national borders, empowering supernational regulators and making additional infrastructure capacity.

5) In this new European energy regime a Russian strategy of vertical integration makes little sense. At the same time the current changes make a supplier's life easier: instead of investing huge amounts into transport projects, a company can let the EU provide the necessary infrastructure under the new legislation.

6) The EU and Russia have shifted on gas matters from a strategic-political relationship to a simplified commercial relationship, with the EU dragging the not entirely happy Russians into such a simplified commercial relationship.

7) The options for diversification and reduction the dependence on Russian gas are expanding, but not as much as Europe would prefer. The authors believe that even with the worst scenario the level of supply of Russian gas would not fall more than 25 bcm in comparison with 2014.

At the same time Russia's export opportunities are also restricted – country's export volumes would hardly increase for more than 30 bcm in comparison with the results of 2014.

8) Russia's sensitive issue – Ukrainian transit remains essential for the Kremlin. The only way to exclude the route can be possible in a situation of low demand and export volumes.

9) In its turn, the low demand can lead to price wars. The analysis shows that Russian gas is competitive with America. Nevertheless, American gas might be able to position itself in the market with lower prices. This might make a price war within the range of $230-300 tcm. In the case of low Asian demand, Middle Eastern gas will flow to the EU and the price competition for Russia would be rather tough. According to the research team, price dumping would not help to win the competition against Middle Eastern gas suppliers as it would cause Gazprom a substantial loss of revenue.

10) To keep the export volumes, Russia should become more flexible. That does not mean giving up the long-term contracts that provide guaranteed volumes of supply. The best option for Russia would be the gradual increase of spot pricing percentage in the contracts. The authors conclude: European market is not as it used to be: it is not rapid-growing and willing to develop strategic relations with Russia. The new European market is a competitive marketplace with increasing supply and interfuel competition. To succeed there, a supplier must adapt to the new reality.

Nord Stream 2 increases financial risks for Gazprom, Fitch says

Natural Gas Europe, *21.09.2015*

Russian gas giant OAO Gazprom's Nord Stream 2 may hurt the company's commercial and financial performance. According to a report from credit ratings agency Fitch, Gazprom may face difficulties in financing the Nord Stream 2 pipeline.

"The original Nord Stream was funded by project finance. We believe raising multi-billion dollar project financing for Nord Stream 2 in the capital markets would probably be much harder now. This is because Western sanctions have significantly hindered international funding to Russian corporates, even those not directly sanctioned," Fitch said.

The Nord Stream 2 project foresees the construction of the third and fourth lines to ship Russian gas across the Baltics by the end of 2019, doubling the current pipeline's capacity to 110 Bcm per year. The project will be developed by joint venture company New European Pipeline, in which Gazprom will have a 51% stake, with E.ON, Shell, OMV and BASF/Wintershall each having 10%, and Engie 9%.

"Weak gas prices and demand, plus high capex mean Gazprom would not be able to fund its capex share (51% of an estimated EUR 10 bn) from internally generated funds. If project financing were not available it could therefore have to try and borrow directly to fund its share of pipeline projects' costs, but this too would be difficult and potentially expensive in the current funding environment," said Maxim Edelson, senior director of corporates at Fitch Ratings said.

Over the last couple of years Nord Stream I has been operating at only around 55% capacity because European authorities have restricted Gazprom's usage of the OPAL pipeline, which carries Nord Stream's gas on into Germany. "A solution to this limitation, imposed to ease third-party access to the pipeline, would be necessary if the Nord Stream II's 55bcm capacity is to be fully used," Edelson said.

Separately, Gazprom is negotiating the 63bcm capacity Turkish Stream pipeline with the Turkish authorities, but the negotiations are stalled due to political uncertainity in Turkey after June 7 elections, which toppled the 13-year ruling AKP from government. Turkey will hold early general elections in November 1, while the recent opinion polls gave AKP a narrow lead approx 40%.

Fitch has forecasted that OAO Gazprom's natural gas prices will fall another 15% from current levels. Fitch also expected that Gazprom's European gas sales volumes will grow steady. Gazprom's European gas sales fell 7% yoy in 1H15 to 80bcm, while its average European gas prices declined by 26%, hitting multi-year lows.

Gazprom said it has raised its forecast for natural gas exports to Europe and Turkey to 158 Bcm in 2015 as daily nominations by consumers exceed last year's, with the average price of Gazprom's gas estimated at EUR 195.9/1,000 cu m ($221.7/cu m) for the coming winter. In June, Gazprom CEO Alexander Medvedev estimated the average price for European consumers at $240-$242/1,000 cu m for the year.

Northern route outpaces Southern route

Natural Gas Europe, *21.09.2015*

The Nord Stream 2 pipeline project is approaching a final deal as Gazprom and its EU partners have been dealing with loose ends. In the Eastern Economic Forum of Vladivostok, the Russian gas company and its partners, namely: E.ON, BASF/Wintershall, OMV, Royal Dutch Shell, Engie agreed on percentages for each one for this route.

Thus, Gazprom will lead the project with a 51% share, whilst the rest of the participants will get 10%, barring French Engie receives 9%. This project is of outmost importance in circumventing Ukraine's highly unstable territory and be able to deliver around 55 bcm per annum directly into EU markets.

Together with Nord Stream 1 and an additional 55 bcm yearly capacity, Northern EU states and primarily Germany are clearly leading the way in the pan-European natural gas market and strive to reap considerable profits in the coming decades as the primal redistribution hub for gas across the Continent. Amongst things to consider is that this route is being supported by the major energy companies of the states of Germany, France, the UK, Austria and Russia in a clear sign of defiance of Cold War geopolitical logic that has gripped most EU countries due to the Ukrainian crisis since early 2014.

Moreover, it leverages the Russian diplomatic position vis-a-vis Kiev which stands to lose at least 2 billion euros per year from transit fees, and most importantly, its strongest leverage both against Moscow and the rest of the European countries. Concurrently a summit including the heads of states of Russia, Ukraine, France and Germany, will take place in early October 2015 in Paris to discuss an end to the crisis. The Nord Stream 2 project plays a crucial role in ending the brinkmanship by establishing a new “energy security order” in the Continent.

Furthermore this new agreement neutralizes the Turk Stream project which in essence was the Southern-leg of the Ukrainian by-pass. Since large consumers for the Russian gas are to be found in Central-North and West Europe and the quantities to be transferred are rather fixed for the foreseeable future, a project that will deliver an envisaged 63 bcm such as Turk Stream was planned, seems unreasonable and could be even be considered non-realistic. Bulgaria, having already lost the Nabucco route, and also been excluded from the South Stream project and now faces further hurdles since it is also excluded from Turk Stream, whilst the Eastring will undoubtedly face immense difficulties, if it is even constructed.

Further Sofia is out of the TAP project and its only chance of having a diversified route is of the rather non-important Interconnector Greece-Bulgaria (IGB). Greece also loses base with the conceived Greek Stream route, whilst the strive for a Tesla pipeline by FYROM and Serbia seems only a distant concept. On the other hand, Austria and Hungary, which were vital routes of both the South Stream and the Turk Stream, will continue to be the hubs and routes, this time for North to South gas transfers. Turkey in its turn loses considerable investments from the impending cancelation of Turk Stream and faces another issue, which is the non-reliance of Moscow to Ankara which, judging by the wide differences between those two in Middle East politics, can have negative effects in their bilateral relations.

In the future, Turkey might be obliged to source Russian gas from its Western partners such as Greece instead of securing it directly from Russia. In effect, that may lead Turkey to enlarge the annual capacity of Blue Stream, which was originally set at 16 bcm and subsequently increased to 19 bcm per year. Turkey will need more than 33 bcm from Russia in the coming years.

For several years the United States strived to exclude Russia gas from the Balkans, an aim which seems to be achieved. Nevertheless, since no new quantities are emerging to secure those markets, the likely scenario is for Russian gas to fill Southeast European markets coming from the North to the delight of the major industrial complexes in Germany and the so-called EU core. Inevitably, that doesn’t alter the role of Russia in the EU energy context but greatly enlarges that of Germany and France. It would also gradually deteriorate the standing of US diplomacy to significantly influence large energy projects in Europe.

Russia gas link plan will hurt East EU security, Sefcovic says

Bloomberg, *01.10.2015*

Russia's push to expand a natural-gas pipeline that circumvents Ukraine would undermine energy security in eastern Europe, according to EC Vice President Sefcovic.

The commission is analyzing the legal and political implications of the Nord Stream-2 project, which export monopoly Gazprom PJSC is pursuing with western European companies ranging from Germany's EON AG to Paris-based Engie. The EU's regulatory arm needs, more details on the justification for the expansion given that the existing infrastructure uses only around half of its capacity, according to Sefcovic, who oversees the bloc's energy policies.

"We need to know if there is some kind of intention to close down the Ukrainian transit, what this project may mean for Ukraine and central Europe," Sefcovic told a conference on Thursday in Sopot, Poland. "The eastern European countries will clearly have their energy security decreased." The planned expansion of pipelines carrying Russian gas to the EU drew criticism earlier this year from east European nations including Slovakia and Poland. The project hurts EU cohesion and weakens the bloc's Energy Union strategy aimed at integrating the region's gas and power markets and ensuring adequate supplies, a group of Polish members of the European Parliament said in a written question to the commission.

Gazprom, EON, Engie, Royal Dutch Shell Plc, OMV AG and BASF SE signed an agreement in September to expand Nord Stream by 55 billion cubic meters a year, which would double its capacity to almost 30 percent of current EU demand. Ukraine, struggling to avoid a default amid a conflict with Moscow-backed separatists in the country's east, would be deprived of $2 billion a year in transit fees while Slovakia would lose hundreds of millions of euros, according to the leaders of the two nations.

Russia currently ships about a third of its Europe-bound gas via Ukraine, down from about two-thirds in 2011, when the Nord Stream pipeline under the Baltic Sea started supplying Germany directly. Eastern members of the EU suffered shortfalls at least twice in the past decade during price spats between the two former Soviet partners. Nord Stream-2 is set to start deliveries in 2019, when the current agreement between Russia and Ukraine on gas transit ends. Gazprom head Alexey Miller said in June that Russia is ready to discuss a new contract with Ukraine once the current one expires.

While the new route under the Baltic Sea won't need any approval from the commission, the onshore links connecting the pipeline with the region's network will need to comply with EU laws on energy markets. Gazprom is currently able to use only half of a pipeline called Opal in Germany that's linked to Nord Stream because European rules require access for competitors.

"We hope very much that the European Commission will not put a spoke in our wheel but, on the contrary, will support us," Gazprom deputy head Alexander Medvedev said in an interview. Sefcovic, whose travel to Poland this week is a part of a Europe-wide tour to promote the energy-union strategy, said EU national governments agreed that the preservation of gas transit through Ukraine is of "utmost importance" to the bloc. "It will be in the interest of all of us to look into the comprehensive solution for energy security, which should cover all member states, all European countries; not just a few," he said.

Shale energy on both sides of the pond

The Hill, *30.09.2015*

Anglo-American attitudes towards shale energy can seem as wide as the Atlantic Ocean separating the U.S. and the UK.

Initially favorable to shale energy's surging supply, the Obama administration more recently has been veering towards new regulations for the process of the hydraulic fracturing of shale formations, as well as for methane capture and ozone emissions. Across the pond, it's a different story. David Cameron's Conservative government has begun to intervene in localities to fast-track British shale development. In some ways, the UK finds itself in similar circumstances the US experienced just a few years ago.

British dependence on foreign energy hasn't lessened. Falling levels of oil and natural gas production, expensively extracted from the UK's North Sea fields, are now intersecting with ambitious coal reduction targets. The upshot: Rising UK consumer energy prices, and potentially even more dependence on Russian natural gas. Less than a decade ago, the U.S. faced a similar conundrum. Domestic oil production seemed in terminal decline. Domestic natural gas supplies lagged behind rising demand. In the early 2000s, US natural gas prices had climbed to prices about four times higher than they are now – cost levels which even made a renaissance in nuclear energy seem briefly plausible.

The turnaround came with the U.S. shale revolution. Though hit by plummeting prices since mid-2014, the U.S. producers of the 'tight oil' extracted from America's vast shale formations have mauled OPEC's market power. Since last year, the U.S. has become the world's largest oil and natural gas producer. This homegrown shale industry now hopes the U.S. can become a major oil exporter. U.S. natural gas exports would augment the global supplies China and India need to shift their electricity generation away from coal, bringing down Asia's heavy carbon footprint and reducing their horrific air pollution. In Britain, the Cameron government sees how the U.S. shale boom created hundreds of thousands of jobs – even as the American economy succumbed to deep recession. The British have seen how U.S. shale energy has resuscitated many segments of U.S. manufacturing which now, thanks to low natural gas prices, have become more competitive than many firms in Europe and, this year, have come close to beating overall manufacturing costs in China as well.

Just as in Asia, UK shale advocates also realize how electricity generation using low-cost gas can accelerate atmospheric cleansing when companies shift away from coal. North American carbon emissions have reached their lowest levels in nearly 30 years. Begrudgingly and periodically appreciative of shale energy, the Obama administration has yet to signal political support for the infrastructure needed to capitalize further on the shale revolution.

By contrast, the Cameron government in Britain wants to share in this success, and is applying unambiguous support for shale. However, though blessed with substantial shale resources, Britain faces more public mistrust than now exists in the U.S. UK public opinion towards hydraulic fracturing has a decidedly downbeat tone, much of it informed by modern day Luddites. True, some U.S. states, such as New York, have banned fracking – as hydraulic fracturing is commonly known – but most American jurisdictions now think the process works safely. A recent, exhaustive Environmental Protection Agency study confirms this.

Science aside, spirited U.S. opposition to fracking has been slowly abating as local incentives, the employment effect, and a deeper familiarity with the industry become more widely known. A major difference with Britain lies in private ownership of subsurface rights in the U.S.: in the UK, the Crown (i.e., the central government) retains that right. Shale production took off when private landowners negotiated compensation with drillers, especially after the mid-2000s. Yet even without private subsurface rights, the UK can sway the doubters with the plausible promise of new manufacturing jobs, potentially much lower energy prices, and contemporary science.

As we watch the first steps in British shale energy development, we would do well to remember that what can be done may just as easily be undone also. While preponderant sentiment within the U.S. now sees the shale revolution as broadly beneficial, this doesn't guarantee a problem-free future. One can only hope that the next U.S. administration, Republican or Democrat, will see in shale energy an epochal opportunity – a perception incompletely grasped by the current administration.

Industrial nations strive for sustainable energy development

New Europe, *02.10.2015*

G20 energy ministers met in Istanbul, striving for sustainable development amidst low oil prices and climate change negotiations. European Commissioner for Climate Action and Energy Miguel Arias Cañete represented the EU.

With an eye to increasing EU energy security, in addition and in the context of G20, Cañete met bilaterally with Turkey's Energy Minister Alaboyun, a EC spokeswoman told New Europe. She added that they planned to discuss EU-Turkey energy cooperation, gas supply and transit, the SGC, which includes TANAP that will connect with the TAP, Iran and COP21 climate talks which will take place in Paris.

Turkey, which currently holds the G20 chairmanship until November 30, invited Azerbaijan's Energy Minister Natig Aliyev to the event. The Southern Gas Corridor will carry gas from Azerbaijan's Shah Deniz field via Turkey to Europe. For its part, Russia is pushing ahead with its Turkish Stream pipeline bypassing Ukraine. Russia's Energy Minister Alexander Novak reportedly said on October 2 that Gazprom requires construction licences for at least two lines of the proposed Turkish Stream pipeline project. "One will be for Turkey and one for Europe," Novak told reporters on the sidelines of the G20 meeting. The Kremlin said last month that discussions about Turkish Stream had been slowed due to Turkey's November 1 parliamentary election. Russia wants to bring 63 billion cubic metres of gas a year to Turkey and southern Europe via Greece. But the European Commission has warned that the project must abide by EU's Third Energy package.

The G20 meeting was also expected to focus on sustainable energy access, energy efficiency and renewable energy. G20 Energy Ministers were expected to adopt a toolkit of voluntary options for long-term, integrated and sustainable approach towards accelerated renewable energy deployment. As G20 countries host 80% of existing renewable electricity capacity around the world and hold 75% of total global deployment potential, they play a key role in mitigating climate change, the Commission said. Today, more than 1.1 billion people live without access to electricity and the G20 plans to substantially contribute to ensuring access to affordable, reliable, sustainable and modern energy for all under the 2030 Agenda for Sustainable Development.

Taking into account oil prices, energy ministers were also due to discuss energy investments in light of current market conditions. Low oil prices are the nail in the coffin for costly drilling projects. In a move hailed by environmental groups, Royal Dutch Shell announced that it is shutting down its plans to drill for oil in the Arctic. On September 28, Shell said it had "found indications of oil and gas in the Burger J well, but these are not sufficient to warrant further exploration in the Burger prospect. The well will be sealed and abandoned in accordance with US regulations". After the disappointing results, Shell said it would now cease further exploration activity in offshore Alaska for the foreseeable future.

Energy Transfer to buy Williams for $33 billion after long quest

Reuters, *29.09.2015*

Pipeline giant Energy Transfer Equity LP (ETE.N) will buy rival Williams Cos Inc (WMB.N) in a deal valued around $33 billion, nearly a third less than the same offer Williams had rejected in June for being too small. The takeover ends a pursuit stretching back to January and marks the first major buyout of a midstream company since oil prices crashed.

It will create one of the world's largest energy infrastructure companies, alongside Kinder Morgan Inc. and Enterprise Products Partners. The mostly stock offer of $43.50 a share comes with the same exchange ratio as an unsolicited bid that had an implied value of $53.3 billion.

Williams turned that down, but its worth has sunk by a third since then as an energy slump that started in mid-2014 drags on. Energy Transfer will take on $4.2 billion in Williams liabilities and issue $6 billion in new debt to finance the transaction. Investors panned the deal, sending Williams, Energy Transfer and their affiliates down around 10 percent in afternoon trade on the New York Stock Exchange after it became clear the original offer was not sweetened. The accepted offer includes an option to receive 18 percent of the payment in cash.

"Right now energy is sort of a toxic environment," said Quinn Kiley, a managing director at large MLP investor Advisory Research, adding that even a company like Williams with no exposure to crude oil prices has been badly battered in the downturn. The deal comes at a time when crude oil's more than 50 percent plunge has spoiled investors' appetite for pipeline companies' master limited partnerships (MLPs). Balance sheets have been stretched by a nearly 30 percent drop in the value of a partnerships, leaving mergers and joint ventures as one of the best means remaining to deliver the yield growth that is essential to attracting investors.

Williams will give Energy Transfer Chief Executive Kelcy Warren a new foothold in the deepwater Gulf of Mexico and a dominant position in the fastest-growing natural gas market in the United States: the Northeast's Marcellus Shale. Warren's company is already strong on the Gulf Coast and Midwest in natural gas, crude oil and refined products. Williams shares fell 9.7 percent to nearly two-year-low of $37.59, below the offer price of $43.50 per share. Energy Transfer shares were down 11.5 percent at $20.56.

Still, Williams Chief Executive Alan Armstrong told investors the new company would be stronger. "As a combined company, we will have ... more stability in an environment of low commodity prices," he said. Williams stockholders electing to receive stock will get 1.8716 Energy Transfer shares for each share held. Williams stockholders will also receive a special one-time dividend of $0.10 per share to be paid immediately before the closing of the deal - expected by the first half of 2016.

Energy Transfer had said that its offer was contingent on the termination of Williams' pending acquisition of natural gas master limited partnership Williams Partners, in which Williams holds a 66 percent interest. Williams Partners said it would terminate the deal and receive $428 million in a termination fee from Williams. Williams Partners will be one of three large investment grade MLPs held by the combined entity, a corporation called Energy Transfer Corp LP. The other two are Equity Transfer Partners LP (ETP.N) and Sunoco Logistics Partners LP (SXL.N). But the use of a traditional C-corp entity as the acquisition vehicle in this deal is the latest sign that major energy companies are leaning away from MLPs.

Kinder Morgan scrapped its MLPs last year and reorganized as a C-corp to quell concerns it had grown too complicated. Investors like MLPs because their tax-free structure helps generate hefty yields, but the structures can become unwieldy. As a partnership grows larger over time, it is frequently required to pay more income to its parent company because of so-called incentive distribution rights. These can sap its ability to expand and raise the cost of capital.

Announcements & Reports

► *Monthly Crude Oil and Natural Gas Production*

Source : EIA
Weblink : http://www.eia.gov/petroleum/production/

► *Petroleum Supply Monthly*

Source : EIA
Weblink : http://www.eia.gov/petroleum/supply/monthly/

► *Natural Gas Weekly Update*

Source : EIA
Weblink : http://www.eia.gov/naturalgas/weekly/

► *This Week in Petroleum*

Source : EIA
Weblink : http://www.eia.gov/petroleum/weekly/

Upcoming Events

► *European Shale Gas & Oil Summit*

Date : 15 - 16 October 2015
Place : Manchester - UK
Website : www.shalegassummit.co.uk

► *Shale Gas Summit*

Date : 26 - 27 October 2015
Place : London - UK
Website : www.shalegassummit.co.uk

► *Gastech 2015*

Date : 28 – 29 - 30 October 2015
Place : Singapore
Website : http://www.gastechsingapore.com/

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► *Abu Dhabi International Petroleum Exhibition & Conference*

Date : 09 - 12 November 2015
Place : Abu Dhabi - United Arab Emirates
Website : http://www.adipec.com/

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► *CIS Oil and Gas Transportation Congress* ***(in Turkey)***

Date : 11 – 12 November 2015
Place : Istanbul - Turkey
Website : http://www.theenergyexchange.co.uk/event/cis-oil-and-gas-transportation-congress-2014/attend

17 th Annual
CIS OIL AND GAS TRANSPORTATION CONGRESS

► *20th Turkmenistan Oil and Gas Conference*

Date : 17 - 19 November 2015
Place : Ashgabat – Turkmenistan
Website : http://www.oilgasturkmenistan.com/

► *Israel's 2nd Annual International Oil & Gas Conference*

Date : 17 - 19 November 2015
Place : Tel Aviv - Israel
Website : http://www.universaloilgas.com/

► *European Autumn Gas Conference*

Date : 17 - 19 November 2015
Place : Geneva - Switzerland
Website : http://www.theeagc.com/

► *Atlantic Council Energy & Economics Summit*

Date : 19 – 20 November 2015
Place : Istanbul - Turkey
Website : http://www.acsummit.org/

► *Project Financing in Oil and Gas Conference*

Date : 23 - 24 November 2015
Place : London - UK
Website : http://www.smi-online.co.uk/