

US liquefied natural gas: Viable option for Turkey

AA Energy Terminal, 17.05.2016



The Trans Adriatic Pipeline (TAP) with the Trans Anatolian Pipeline (TANAP) are success stories in terms of increasing competitiveness and ensuring more secure energy markets, said Turkey's energy and natural resources minister in Thessaloniki.

Turkey's Energy and Natural Resources Minister, Berat Albayrak, attended the construction inauguration ceremony of TAP in Thessaloniki where he stated that the energy sector has seen changes with the development of new technologies and targets for energy efficiency while targeting the reduction of carbon emissions.

"However, natural gas and coal will be the key in energy security in the coming decade for Turkey and neighboring countries," Albayrak stated. He said that in today's energy world, interdependence is no longer a challenge thanks to mutual dialogue and efficient diplomacy.

"Turkey, in that regard, offers a number of opportunities for reducing the risks and creating secure energy markets in the region. Along with Turkey's geographical position and its determination to become an energy hub, its growing economy, population and culture offer other major advantages," Albayrak explained.

He said that both the TAP and TANAP projects were designed with the capability of increasing their transfer capacities in case of growing demand in the coming years. "TAP and TANAP are the first steps to more secure energy markets. The upcoming steps will create cooperation and partnerships for more dynamic, competitive, efficient and more sustainable energy markets," Albayrak underlined, adding that Turkey will continue to support both the TAP and TANAP projects.

The TAP ceremony was hosted by Greek Prime Minister Alexis Tsipras who welcomed a number of leaders from Georgia, Azerbaijan, Albania, Bulgaria, the U.S., and representatives from the European Commission and neighboring countries.

EC's VP of Energy Union Sefcovic to attend TAP ceremony

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European Commission's (EC) Vice-President for Energy Union, Maroš Sefcovic, will participate in a ceremony for the TAP in Thessaloniki, according to an EC statement.

Sefcovic will represent the Commission in the ceremony hosted by Greek Prime Minister Alexis Tsipras to launch the construction works of the TAP. TAP comprises an 870-kilometer-long gas pipeline running from Komotini in Greece to Puglia in Italy, via Albania. It will be used to transport gas from the Shah Deniz II gas field in the Caspian Sea. "Once complete, TAP will be a major asset in the European energy security tool box.

By opening up access to gas from Azerbaijan, TAP will allow many countries, including in Central and South East Europe to diversify their sources of gas," Sefcovic was quoted in a statement. The Commission underlined that TAP is identified as one of the EU's 'projects of common interest'.

"Alongside the two other related pipeline projects – the Trans-Anatolian Pipeline (TANAP) which runs across Turkey and the Southern Caucasus Pipeline (SCP), which runs through Azerbaijan and Georgia, TAP will open up the Southern Gas Corridor," the statement read. Sefcovic stated that the Southern Gas Corridor will be vital in reaching Energy Union objectives of diversification of sources, routes and energy security.

"Therefore timely completion is crucial so that gas from new suppliers can flow to Europe by 2020," Sefcovic emphasized. TAP initially will have 10 billion cubic meters of gas capacity which will flow along the Southern Gas Corridor route when it opens in 2019 or early 2020.

"Given the potential supplies from the Caspian region, and potentially in the future from the Middle East, and the East Mediterranean, the EU aims to increase this volume in the long-term," the statement concluded.

Norwegian Statoil to explore for natural gas in Turkey

Daily Sabah, 16.05.2016



Norwegian-based energy company Statoil signed a binding letter agreement for a license, together with Canadian Valeura, to explore for natural gas in Turkey's Thrace region. The exploration license covers an area of 540 square kilometers.

According to the company's written statement, the agreement was signed with Valeura, whose previous natural gas exploration has mainly focused on Tekirdağ's Banarlı district. While Statoil has a 50 percent share in the Canadian company's Banarlı Licenses, the rest will belong to Valeura, which is currently traded on the Toronto Stock Exchange.

According to the agreement, the natural gas exploration works in Thrace will be accelerated, and gas is planned to be drilled from one of the wells in the region by early 2017. The exploration of the two companies will measure the gas potential left in the depths of the region. The exploration area encompasses 540 square kilometers.

Stressing that the fact that exploration started in the northwestern part of Turkey was within the scope of Statoil's exploration strategy, the written statement also includes remarks from Erling Vagnes, Statoil senior vice president for exploration in the southern hemisphere, saying that they were optimistic about the region's potential.

Canadian Valeura has been exploring for oil and natural gas in Turkey for nearly four years. The company announced at the beginning of 2016 that they found natural gas in the Batı Gürgen-1 well, which is a part of Banarlı Licenses, and it reached a capacity of 100 thousand cubic meters during the trial period.

Valeura found natural gas in three different wells in the Thrace region and has begun production. The Canadian company has a total of 14 explorations and production licenses in Thrace, as well as an oil exploration license in Gaziantep.

Strong energy sector in Turkey possible despite hurdles

AA Energy Terminal, 17.05.2016



A strong electricity and energy market in Turkey is possible despite some hurdles in the industry, the Chairwoman of Sabanci Holding, told Anadolu Agency on Tuesday.

“Private sector in Turkey’s energy industry is going through a critical phase due to low global oil and natural gas prices,” said Guler Sabanci, the head of one of the biggest industrial Turkish conglomerates. She stated that because of the uncertainty in the global energy market due to low prices along with excess energy capacity with low energy prices, big investors, including foreign ones, in Turkey are facing hurdles.

“It [low prices] distorts some things. Turkey should not be mistaken by low energy prices. Turkey needs to invest in its own [energy] resources. However, since capital expenditure is very high, we need support. In the short term, there are challenges. But, in the medium and long-term, we believe in a strong, healthy electricity and energy market in Turkey,” she explained.

Sabanci said that the government is conducting close negotiations over the hurdles of private investors in the energy sector, but did not elaborate further. She highlighted the benefits of low prices for Turkey given that low oil and gas prices are anticipated to continue for a long period of time.

“Low oil and gas prices have a positive impact on Turkey -- to lower its inflation, budget deficit, and to sustain its economic growth,” she said, noting that Sabanci Holding, with its German electricity partner E.ON, has invested \$11 billion so far in Turkey’s energy sector. Sabanci also emphasized the significance of private industry’s share of investments in Turkey’s energy sector.

“When we look at Turkey’s energy industry in the past 12 years, we see that 60 percent of electricity generation, and 100 percent of electricity distribution have been privatized. This was done without any guarantees from the treasury, and totally through investments from the private sector and foreign resources.” Sabanci, who is also on the Energy Initiative Advisory Board of the world-renowned Massachusetts Institute of Technology, said the energy field cannot be tackled from a single perspective, but needs a trans-disciplinary approach to be understood. To this end, she highlighted Sabanci University’s academic program on energy.

Sabanci University, founded by the Holding in 1996, began its first academic year in 1999. It offers a multi-disciplinary master program for professionals called “Energy Technologies and Management. “We cannot understand energy from a single view. We have to study the various sub-disciplines of it -- such as management, engineering, economics, finance, investments, political and geo-strategic implications, legal affairs, and environmental impact,” she concluded.

E Med conference sees co-operation as key

Natural Gas Europe, 16.05.2016



It's not going to be easy to secure export-led development for eastern Mediterranean gas. That was the predominant view at the first ever conference on regional hydrocarbon development to be held in the predominantly Turkish northern half of Cyprus.

The contrast between opportunity and challenge was set by Dr Rafet Akgunay, Turkey's former Ambassador, who noted "the recent discovery of hydrocarbons in region makes it a major potential energy source for Europe" and that "delimitation of maritime areas has become a major issue" concerning export route development.

In the eastern Mediterranean, Akgunay said in his opening speech May 5, seven or eight countries still needed to reach agreement on their respective exclusive economic zones (EEZs) while even those that had already been agreed by South Cyprus – his term for the internationally recognised (and predominantly Greek-populated) Republic of Cyprus had been concluded without necessarily taking into account the claims of the other littoral powers.

The opportunities are certainly there, with several speakers at the three day event stressing the Turkish market, albeit with the crucial caveat that current negotiations on the re-unification of Cyprus had to succeed in order to ensure transit of eastern Mediterranean gas through Cypriot waters – and possibly across the island itself – to reach Turkey.

Cenk Pala, the Ankara representative of the Trans-Adriatic Pipeline consortium, which is building a 20bn m³/yr gas pipeline from Turkey to Italy, argued there was a significant opportunity for eastern Mediterranean gas in Turkey – while there was also scope to use the new infrastructure of the Southern Gas Corridor from the Caucasus to Italy to carry some of that gas onwards to European markets.

Pala considered that by 2019 Israel could be producing around 5bn m³/y for export from its Leviathan field, while in 2020 or thereabouts that figure could double to around 10bn m³/yr while Cyprus could be producing some 5bn m³/yr from its Aphrodite field. Turkey offered a real opportunity, Pala argued, since it faced a likely supply gap of around 5.5bn m³/yr after 2019.

But eastern Mediterranean gas, he warned, would potentially have to compete in the Turkish market with gas from Azerbaijan's Shah Deniz Phase Two project; with new and existing LNG imports; with prospective floating storage and regasification units (FSRUs); with gas from northern Iraq; and even Turkmen gas delivered via Iran. Pala noted that in 2023 the second phase of the giant 1,850-km TransAnatolian Pipeline (Tanap) project due to come on stream, even though, at present, the only gas committed to use the line remains the initial 16bn m³/yr of Azerbaijani gas that is to fill the first 16bn m³/yr phase due to enter service in 2018.



But, Pala added, “as regards the second phase of Tanap, from 16bn m³/yr to 23bn m³/yr I have to say there is no gas from Azerbaijan; there is a kind of rest (in production) there.” However, Israel’s Dr Amit Mor cautioned that “export options for Israeli and Cypriot gas are questionable.

“If there is no economic feasibility, there is no project,” he said, apparently referring to the balance between relatively high development costs and doubts concerning the volumes of gas that might be made available for export at Leviathan and the underlying volumes of gas reserves at Aphrodite. Also he added, as did many others, “you need geopolitical feasibility.”

Dr Andre Dorsman, President of the Center for Energy and Value Issues (CEVI) in Amsterdam, noted that for Egypt, despite last year’s discovery of the giant Zohr field, export options were limited because “Egypt, with a population of 90mn, will use the gas for the home market.” He, too, noted the competition the region’s gas would face from new suppliers, notably US and Australian LNG, but also, he considered, because “Iran is re-entering the market.”

His colleague at CEVI, Mehmet Baha Karan, drew attention to the comparative costs of various export options, noting that it would cost around \$11bn to develop a 5bn m³/yr floating LNG facility. Overall he considered, a pipeline from the eastern Mediterranean fields to Turkey would be the most cost-effective option, followed by floating LNG, then by a land-based LNG liquefaction plant on Cyprus itself, and, fourthly, an onshore system to deliver gas to Jordan and Turkey – a route that would have to cross war-torn Syria.

“Offshore to Turkey seems to be the best alternative in all scenarios” Karan argued. This view was broadly shared by other participants, notably Berris Ekinici, Deputy Director General at the Ministry of Foreign Affairs in Ankara, who gave what she termed “a Turkish perspective.”

She argued that Cypriot demand (which other sources estimate might total around 1-2bn m³/yr at most) was too small to justify development of gas without export options. Ekinici added: “Connection to Egypt appears an option, but Zohr will soak up Egyptian demand.”

Overall, she considered, “Turkey is the most viable and profitable gateway for the export of gas resources from the eastern Mediterranean to markets.” Matt Bryza – a former US diplomat now working with a Turkish company, Turcas, to develop a consortium of Turkish companies to buy east Mediterranean gas – said “I am absolutely convinced there will be a pipeline to Turkey in due course.”

Bryza argued that the price of Leviathan gas would be lower than the current price in Turkey but cautioned: “I think we will see the possibility of such a pipeline only when a peace settlement has been reached – or when the basic principles of a Cyprus settlement have been agreed.”

Pala argued that if regional exports were limited to around 10bn m³/yr “we won’t need to send it to Europe.” Turkey alone would suffice, he said, referring specifically to the industrial areas around the southern city of Mersin. “They can consume 8bn m³/yr.” But if there were sufficient volumes available to justify exports to more distant European market, said Pala, then “as a TAP representative, I can say we’d be very happy to carry this gas.” Dorsman drew attention to the many political and commercial problems confronting the developers in the region.

Its natural markets he argued were to be found at the eastern end of the Mediterranean, rather than amongst the major gas importing nations of the western Mediterranean, such as Italy, France and Spain, where competition is fierce. Moreover, he added, “the main question is: can the countries of the eastern Mediterranean work together?”

To get gas ready for export, Dorsman said, the region had to develop a common strategy in much the same way that the major countries of western Europe first came together to form the Coal and Steel Community and then went on to form the European Union. He added: “You have to work together, as we did 50 years ago. It’s not easy.”

Ekinci took a similar line, saying: “The Eastern Med should be considered as a single basin. That’s necessary for the region’s gas to be competitive in the global gas market.” While there was a natural focus on Turkey, this was consistently stressed in terms of Turkey’s advantage in being the nearest major gas market, thus reducing the cost of infrastructure to reach the market - and with regard to the necessity of achieving a solution to the Cyprus problem to enable this to happen.

The conference did seek to secure participation from Greek Cypriots, but no Greek Cypriots actually turned up, so their arguments for a 1,200-km subsea pipeline to Greece, as opposed to a 500-km line to Turkey, went largely unstated.

Ukrainian envoy: Natural gas storage at Turkey’s disposal

Daily Sabah, 16.05.2016



Ukrainian ambassador to Turkey, Dr. Sergiy Korsunsky, said they were working with Turkish companies to provide storage in western Ukraine. Stating that Kiev is ready to provide the additional natural gas storage capacity Turkey needs, the ambassador said they are working with Turkish companies to allow usage of storage facilities in western Ukraine and that, although there is no current agreement, Naftogaz and the BOTA are currently in contact.

Evaluating the energy agenda of Turkey and Ukraine, Korsunsky recalled that Turkey purchases nearly 27 billion cubic meters of natural gas from Russia annually.

According to Korsunsky, it will not be impossible for Turkey to break its connections with Russia right away. Twenty-seven billion cubic meters of natural gas purchased by Turkey is not an amount that can be immediately replaced with liquefied natural gas (LNG), a fact that increases the importance of Azeri and Turkmen gas. Stating that Turkey had valid reasons to improve its LNG facilities, Korsunsky said the main problem lies with gas storage since the capacity of natural gas storages in Turkey is extremely limited.



Stressing that Turkey might not build facilities that can store large amounts of gas due to geological hindrances, Korsunsky said, for this reason, they are currently working with Turkish companies to use storage facilities in western Ukraine. The ambassador also stressed that Turkish experts have visited the storage facilities and are familiar with their structure.

Indicating that Turkey bought the only gas it could store from Russia, Korsunsky said Russia might oppose Turkey's storage use in Ukraine. The ambassador said some arrangements could be made for the gas storage, which would come from the Trans Anatolian Natural Gas Pipeline (TANAP) project, and added that there would not be any legal problems.

According to Korsunsky, things should be followed step-by-step. Turkey should first source gas from alternative sources before Ukrainian storage would be ready to use - similar to how Turkish gas used during the winter is stored in Ukraine during the summer.

He also said oil may be sold to Europe without incident. Stressing that the total capacity of natural gas storage in Ukraine was 34 billion cubic meters, Korsunsky said: "We are in contact with Turkey and Europe.

The storage facilities are yours. We guarantee that no matter how much gas you place in storage, you will take the same amount back. Apart from the 16-to-17-cubic-meter that Ukraine uses, it is possible for Turkey to use a capacity of nearly 17-to-18 cubic meters. If the market is available, you can sell as much gas as deemed necessary from this capacity."

Korsunsky said in the coming years, many LNG cargos from the United States would go to Europe and Asia, making the natural gas market globally more integrated. He added that his country wants to purchase LNG from the U.S. as well.

Emphasizing that Ukraine does not currently have sufficient infrastructure for LNG terminals, Korsunsky suggested that Turkey make deals with Azerbaijan and Turkmenistan in order to vary its energy sources as well as make certain deals with the U.S. and Qatar for LNG.

The U.S. is planning to raise the number of LNG terminals from nine to 20, after which it will begin exporting more LNG to the world market. Stressing that the natural gas market would be just like the oil market, Korsunsky said natural gas would be cheaper and more accessible, noting that the real question is how Turkey will shape its infrastructure.



Lukoil country chief says firm not planning to leave Turkey

Hurriyet Daily News, 18.05.2016



Lukoil has no plans to exit the Turkish market, Lukoil Turkey CEO Alexander Terletskiy has said, refuting several reports which have claimed the opposite.

There are “definitely” no plans to leave the Turkish market despite recent tensions with Russia, Terletskiy told daily Hürriyet. “We are very comfortable with the business. This business is really well located. All of our refineries are serving Turkey well. For us it is a really nice country and location to place the products which we produce in our refineries. So we feel we have a competitive advantage in that sense.”

Turkey is the first or second biggest country in terms of retail volume, he added. Terletskiy also said Lukoil felt like a global international giant when asked about Russian-Turkish tensions. “We are not emphasizing our origin everywhere as to where the company was regionally created. So we don’t actually think this is the best phase in terms of relationships between our countries. But we hope that it will be settled,” he said, adding that they had not witnessed much of an impact on sales due to the crisis.

“We are carefully following the data. And what I can say is that we are more or less in line with the market which we can carefully see. As for the market data which is published by the government, for sure there could be some losses – we cannot say.

But it is insignificant and we cannot see the exact amount. It is not that much to even measure. For sure, it could be because some clients could stop buying fuel because of their personal decisions. But it is not a tendency; it is not a trend for us. So we don’t feel that much, let’s say,” he said.

2014 and 2015 were difficult years for the fuel industry with price caps and many new operational costs in Turkey that even led some players, like Total and OMV, to exit the market. Asked how this process had affected Lukoil in Turkey, Terletskiy said they had managed to survive it.

“So that’s the most important news. Those years were really hard, both of them. I think that 2015 was the most complicated year,” he said. “We were all under the pressure of contract renewals, [and there was] the situation with the really low margin and weak Turkish Lira, but we used this time to expand the business. We grew in recent years, and we lost fewer stations than we got. So it is OK for us,” he said, adding that the company now had around 612 stations.

Lukoil operates in retail and wholesale in Turkey, although the company not only sells fuels, but also gas and all types of chemicals and lubricants. “We have quite a big portfolio. But that is not all because quite significant volumes of oil are being sold to Turkey by our trading company, Litasco.

Last year, they supplied around 4 million tons of diesel fuel to the main distribution companies of Turkey and around 1 million ton of crude oil to Tüpra . So I should say that our company is making really big sales to Turkey. Overall, it's around 5 million tons per year, which is substantial," said Terletskiy.

Many consumers in Turkey complain that the price of oil has decreased so much but that they fail to see this drop at the pumps. While some blame high taxes, others blame companies' profit margins. Terletskiy said the prices were definitely not low in Turkey and that taxes in the final price might even be higher than they are in Norway or the United Kingdom.

"Actually it is the way how the government has decided to manage its own budget, so we cannot register any complaints. We are just obeying the rules and doing what we should do in terms of market regulations. I don't think this much affects sales ... The prices are lower today compared to two years ago when we faced the price ceiling decision of the market watchdog, EPDK. Now we are trying to follow the rules and just keep the price levels at a reasonable level. That is our aim," he added.

More than stability, Leviathan needs customers

Globes, 19.05.2016



"I hope that development of the Leviathan reservoir, will now continue on the original timetable established in the natural gas plan," Yuval Steinitz said, after the government negotiating team reached a compromise on the stability clause in the agreement with the companies, promising no major regulatory changes for ten years, only two months after the High Court of Justice struck down that clause.

The gas companies' stock market prices rose sharply today, following the agreement, headed by Ratio Oil Exploration (1992) LP with an 8% jump, Delek Drilling Limited Partnership (5%), and Avner Oil and Gas LP (6%).

The stability clause has been softened and moderated; it now does not tie the hands of future governments or prevent private member bills aimed at changes in the gas industry, but it is by no means certain that this is the problem.

In order for Leviathan to meet the late 2019 timetable set for it, make possible the development of the Karish and Tanin reservoirs, expand the Tamar reservoir, and attract other international energy companies to do business in Israel, customers must first be found to whom the gas can be sold. Without customers, the huge investments required to develop the reservoirs cannot be justified. The problem is that as of now, there are no such customers.



Demand in the domestic Israeli economy does not justify the development of Leviathan. The Palestinian Authority has canceled the only gas agreement signed by the partners. The Jordanian economy consumes very small quantities of gas (which it is now buying from Royal Dutch Shell), and since Royal Dutch Shell acquired British Gas, selling gas to the liquefaction facility in Egypt has become much less likely.

Royal Dutch Shell operates in Arab countries, and it is hard to believe that it will agree to financing the \$2 billion cost of a pipeline from Israel to the facility. Turkey is an option, but still a remote one, and Europe will be willing to buy the gas only at a price at which the partners will not agree to sell.

An international gas expert who took part in the Flame Natural Gas Conference in Amsterdam this month told "Globes" today that Europe was looking for alternatives to Russian gas and wanted to diversify its sources of supply, but was unwilling to pay more than \$3.50 for Israeli gas. According to his calculations, delivering gas to Europe for \$3.50 would require the Leviathan partners to sell it at the well for free.

There is also Tamar - according to the gas plan, the government will allow exports from it even before Leviathan is developed. The government hoped that these early exports would enable the partners to expand Tamar, thereby increasing Israel's gas supply capacity.

As of now, however, it appears that the Spanish company Union Fenosa, which owns a liquefaction facility in Egypt, and has already signed a letter of intent to export gas from Tamar, has lost its enthusiasm for the idea.

Italian company ENI, Union Fenosa's partner in the facility, has meanwhile discovered the huge Zohr gas reservoir, and hopes to begin producing gas from it starting at the end of next year. Some of this gas could reach its liquefaction facility.

As far as attracting new international gas companies is concerned, Steinitz's globe hopping aimed at convincing them to come to Israel will be of no avail if Israel does not open its waters to oil and gas exploration.

Four years have passed since Israel closed its economic waters to exploration, so that even if a company very much wanted to explore here, it would have been unable to do so. In other words, the stability clause - delicate, partial, and moderate as it may be - will not succeed in finding customers or attracting companies.

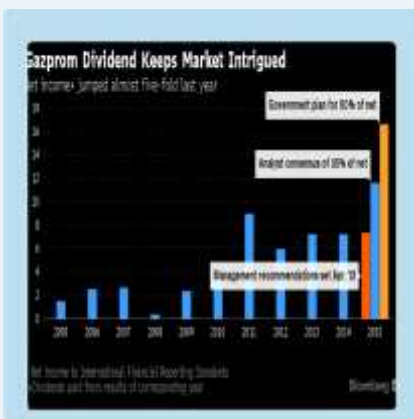
In fact, it will do the opposite. The original stability clause included a government commitment to refrain from material changes in the gas sector in all matters pertaining to taxation, ownership of the reservoirs, and exports.

The softened clause contains no such commitment; instead, there is a promise "to positively consider" granting compensation in some way to the gas companies if profits are lost. This compensation, however, cannot ensure customers in the neighboring countries that the rules of the game will not be changed in the future. Customers in the export market want a commitment to buy gas for at least 15 years; otherwise, they will turn to Qatar, Australia, the US, or East Africa, where gas reservoirs have been discovered and are begging for customers.

The job of the government, now that it has “defended” the public by changing the stability clause, is to make sure that the public benefits from the gas, whether through increasing subsidies to enterprises for being hooked up to the gas; guaranteeing electricity rate coverage for Israel Electric Corporation (IEC) (TASE: ELEC.B22), so that it will use more gas and less cheap coal; introducing the use of natural gas for transportation; or by encouraging private developers to build gas-driven power stations. The government’s achievements will be measured by these criteria.

Expiry of Gazprom gas transit contracts may benefit Turkey

ICIS, 19.05.2016



Turkish gas companies could take advantage of landmark changes in eastern Europe after two Russian transit contracts on the Western Line expire this year, a senior gas expert close to the European Commission told ICIS.

Transit capacity currently controlled by Russia’s Gazprom on the pipeline that brings Russian gas to Turkey via Ukraine is set to expire this year. The first capacity contract held by Romania’s Transgaz was set to expire on 31 December 2015 but has been postponed until September this year, while the transit contract held by Bulgargaz will end on 31 December 2016.

A third transit contract also held by Romania’s Transgaz is set to expire in December 2023. Meanwhile, the supply contract to Turkey’s incumbent BOTAS will expire in 2021 and contracts to private importers who offtake from the same pipeline will be staggered out within the next 25 years.

Under EU arrangements, capacity on pipelines cannot be booked if there are long-term transit contracts that were signed before the European regulation came in force. However, once transit contracts come to an end, capacity can be auctioned to third parties. This means that Gazprom’s monopoly on the two Bulgarian and Romanian transit contracts will expire.

The capacity that is set to become available will be auctioned on a regional capacity booking platform. The outfit will facilitate the easy movement of gas across the region. The Bulgarian transmission system operator Bulgartransgaz joined the Regional Booking Platform (RBP), which is owned by the Hungarian network operator FGSZ.

The platform will offer cross-border capacity at four points – the Negru Voda I-Kardam point along with the neighbouring Negru Voda II, III-Kardam link both between Romania and Bulgaria and the Greek-Bulgarian Kulata-Sidirokastron interconnection. The Romanian-Bulgarian Ruse-Giurgiu interconnector that is still under construction will also have capacity sold via the booking platform. A test version of the platform will be available at the end of July. Once operational, possibly at the beginning of next year, the outfit will offer standard and non-standard bundled and unbundled capacity.

Although the regulatory changes will not affect Turkey directly as import contracts into the country are yet to expire, a gas expert close to the European Commission said Turkish gas companies could themselves book capacity and trade gas regionally. He conceded, however, that the gas would not enter Turkey, given existing regulations.

He also noted that it was also theoretically possible for Turkish companies to book storage in Ukraine, which boasts 14 billion cubic metres of capacity. "It is possible to book capacity in Ukraine on a contractual basis," the source said. "However, this depends on the terms of the contracts that Turkish gas companies have with Gazprom and on Turkish legal requirements."

He said the capacity was more likely to be booked on a virtual basis, which means that there would be no physical movement of gas. The volumes would simply be netted off regionally. This would require Romania and Ukraine to sign an interconnection agreement for reverse flows.

Gazprom natural gas exports to Turkey see sharp fall

Daily Sabah, 18.05.2016



Russian energy giant Gazprom's natural gas exports to Turkey reduced to 6.4 billion cubic meters, an 18 percent decline, during the first quarter of 2016 compared to the same period of the previous year.

According to the statement by Gazprom, the largest amount of natural gas was exported to Germany with 12 billion cubic meters during the first quarter of 2016 followed by Turkey. During the same period, Gazprom sold a total of 36.7 cubic meters of natural gas to Western European countries and 7.5 billion cubic meters of natural gas to Central European countries.

The company exported 27 billion cubic meters of natural gas to Turkey in total last year. Private sector supplier companies announced in early 2016 that the amount of natural gas taken from the western route of the gas pipeline had decreased.

Delek, Noble to return Cyprus Block 12 rights

Globes, 16.05.2016



Delek Group Ltd. and Noble Energy Inc. are expected to hand back exploration rights in Block 12 to the Cypriot government. The two companies have held the rights for seven years and are supposed to continue exploration drilling but have not done so, and next week the rights expire.

Delek and Noble Energy have already discovered the Aphrodite field in Block 12 containing 125 BCM of natural gas and nine million barrels of condensate. It is the only gas field to date discovered in Cyprus Shell and Noble energy each hold a 35% stake and Delek holds 30% and Delek Drilling LP each have a 15% stake).

The Aphrodite partners will of course only be handing back the exploration rights but will retain the rights to the field that they have discovered. A senior source in the Greek Cypriot government admitted that noble energy's reluctance to continue drilling in Block 12 testifies to its lack of confidence in finding more customers to buy any gas that is found. However, the source stressed that Greek Cyprus is not burdened with Israel's regulatory problems and worries about gas outline agreements and monopolies.

Israel, Egypt said nearing compromise on natural gas dispute

Bloomberg, 18.05.2016



Israel and Egypt are close to a compromise that would sweep away a major obstacle to a multibillion-dollar natural gas deal.

Israel may agree to settle for half of the \$1.73 billion fine Egypt was ordered to pay it so talks on exporting Israeli offshore gas there can go ahead, two people familiar with the negotiations said, requesting anonymity because the talks are private. Payments would be spread over 14 years, one of the people said. Negotiations are still under way, and authorities in both countries would have to approve any final figure, the people familiar said.



State-owned Israel Electric Corp., which had sought the award from Egypt, and the Egyptian Foreign Ministry declined to comment. Energy stocks climbed. Israel has painted gas exports to Egypt and other nations in the region as a strategic imperative in an area rocked by strife, and removing this obstacle would be crucial to the export deals it seeks to clinch and to cement ties with its closest ally in the Muslim world. Energy-strapped Egypt needs fuel until it develops its own newly discovered fields, and it can use an idle gas pipeline there to transfer Israeli fuel for export to third countries.

Israel's Ratio Oil Exploration 1992 LP, a partner in the country's largest gas field, rose 3.7 percent Wednesday in Tel Aviv, while Delek Drilling-LP advanced 2.6 percent. Noble Energy was trading 0.6 percent higher at 11:47 a.m. New York time.

"The stocks are rising with the understanding that an agreement with Egypt will increase the chances for exports," said Noam Pincu, an analyst at Psagot Investment House Ltd. "This would certainly help." Deals between Egyptian and Israeli companies had been in the works when an international arbitration court in December ordered Egypt to pay Israel damages for violating a contract to supply Israel Electric with Egyptian gas. Egypt ordered its oil and gas authorities to freeze negotiations until the dispute over the arbitration was resolved.

Israel's willingness to compromise on the fine reflects the tight cooperation between the countries since Abdel-Fattah el-Sisi became Egypt's defense minister in 2012, then president in 2014. Security relations between the two countries, fighting a common enemy in Islamist militants as strife and instability rock the region, have never been better, Israeli officials have publicly said.

An accord on the damages would be important progress, but it wouldn't immediately clear the way to deals. Six years after discovering the country's largest offshore field, known as Leviathan, Israel has failed to conclude a regulatory framework for its natural gas industry. Leviathan remains undeveloped as a result, and companies won't sign contracts while rules governing the industry remain in limbo.

Israel's energy minister said the government and the energy companies had reached a compromise on a provision meant to protect the gas explorers from regulatory changes. That comes after an earlier provision was struck down by Israel's highest court, hindering the implementation of a gas policy.

"I hope that development of the Leviathan gas field that began last January will now continue in accordance with the original timetable set out in the outline, and that it will be possible to open Israel's economic waters already this year," Energy Minister Yuval Steinitz said.

U.S.-based Noble Energy Inc. and Israel's Delek Group Ltd., the lead partners in the Leviathan field, need export contracts with Egypt to obtain financing to develop it. The government, which expects to reap billions of dollars from gas exports, is working to finalize its energy policy so work on Leviathan can proceed.

Dolphinus, an Egyptian gas-trading company, had been in non-binding negotiations with partners in Leviathan to buy as much as 4 billion cubic meters of natural gas a year for 10 to 15 years. It also signed a deal last year to import fuel from Israel's second-largest reserve, Tamar.

Egypt exported natural gas to Israel until it canceled the agreement in 2012 as its wells became depleted and the pipeline carrying it came under repeated sabotage. It has said any gas import deal with Israel should include a resolution to international arbitration cases.

Qatargas delivers first LNG spot cargo to JERA

LNG World News, 18.05.2016



Doha-headquartered Qatargas has delivered its first LNG spot cargo to JERA, the joint venture that brings together Japanese utility companies Chubu Electric Power and Tokyo Electric Power (Tepco), in a deal fixed under a new master sales and purchase agreement.

The Q-flex LNG carrier Al Ruwais delivered the cargo to Futtsu LNG Terminal in Tokyo Bay on Friday. Al Ruwais, built at Daewoo Shipbuilding & Marine Engineering (DSME) in 2007, can carry up to 210,110m³ of LNG. Chubu Electric and Tepco are Qatargas foundation buyers, having taken delivery of their first LNG cargoes from Qatar in 1997.

The two companies came together last spring to form JERA, seeking to increase their collective buying power and to position themselves to tap new liquidity in the global LNG markets. Qatargas says it will deliver “nearly seven million tonnes” of LNG a year to JERA. Last year, it delivered 14.6 million tonnes of LNG to buyers in Japan, the world’s single-largest buyer of LNG.

Japanese LNG demand is falling, however, as the country restarts its nuclear reactors. The country imported nearly 83.6 million tonnes of LNG in the financial year that ended in March – down 6.2 per cent on year.

Global oil glut to shrink despite Iranian output surge, IEA says

WSJ, 12.05.2016



Iran's oil production has risen faster than expected, reaching levels not seen since before Western sanctions were tightened in 2011, but a global oversupply of crude is still shrinking, the International Energy Agency said.

The Islamic Republic ramped production up by 300,000 bpd month-on-month in April, hitting 3.56 million barrels a day, according to the IEA's report. The output is now at levels not seen since international sanctions were extended to curb the country's nuclear program. Iranian exports increased at greater rate, with preliminary data suggesting a month-on-month rise of 600,000 bpd to about 2 million bpd.

However, the dramatic increase from 1.4 million barrels a day seen the previous month, may have been helped by loadings that spilled over from March, the Paris-based agency said. China was Iran's largest customer, importing 800,000 barrels a day of crude.

Despite the strength of Iran's rebound, global oil markets are moving closer to balance in the second half of the year as unplanned disruption to production in countries such as Canada and Nigeria are helping to run down a global overhang of crude inventories.

Global oil stocks will diminish to 200,000 barrels a day in the last six months of the year from 1.3 million in the first half, it said. The IEA has previously projected supply will exceed demand by an average of 1.5 million barrels a day in the first six months of 2016.

"Further oil price rises, though, are likely to be limited by brimming crude oil and products stocks that will remain a feature of the market until more normal levels of inventory are reached," it said. Production outside the Organization of the Petroleum Exporting Countries will decline by 800,000 barrels a day this year, the adviser to industrialized nations said, an acceleration from the previous forecast for a drop of 710,000.

In April, non-OPEC production fell 125,000 barrels a day to 56.6 million barrels a day as planned and unplanned outages add to declines caused by lower oil prices and spending cuts. Output is expected to drop further in May due to the wildfires in Canada, it said. The IEA maintained its forecast for global demand growth broadly at 1.2 million barrels a day for this year, but said the risks to future forecasts lay to the upside.

"Any changes to our current 2016 global demand outlook are now more likely to be upward than downward, as gasoline demand grows strongly in nearly every key market, more than offsetting weakness in middle distillates," the IEA said.

OPEC's April output rose by 330,000 barrels a day in April to 32.76 million barrels a day, its highest level since 2008, on higher supplies from Iran, Iraq and the United Arab Emirates, which more than offset outages in Kuwait and Nigeria, the IEA said. The grouping's April output is about 500,000 barrels a day more than the average required for this year, the report showed. Saudi Arabia's output was steady in April near 10.2 million barrels a day, it said.

Turkmenistan, and what its gas means for Afghanistan

Natural Gas Europe, 19.05.2016



Afghanistan plays a key role in the Turkmenistan–Afghanistan–Pakistan–India Pipeline project. Turkmenistan has the world's fifth largest reserves, as ranked in 2015. This strong position offers considerable advantages with respect to defining the strategy of natural gas export policy.

Turkmenistan shows that there are no benefits in having such rich natural resources if the country cannot export them. Particularly as Turkmenistan produces 69.3bn m³/yr and consumes 27.7bn m³/yr. Afghan-Turkmen cooperation is an interesting example in the context of gas projects; and it reveals current geopolitical tendencies in central Asia.

Russia has lost its importance in gas projects in the area. The biggest loss of influence was the result of the Afghan war in 1979-1989. One of the consequences is exclusion from current gas projects in central Asia but more influence for the US, which will be responsible for the safety of the Afghan section of TAPI.

Of course, it doesn't mean that Russia has no influence on central Asia's energy policy. Its participation, although less insignificant than during Afghanistan – USSR cooperation, is mainly focused on bringing gas from this area to Europe, using alternative ways.

The Afghan gas sector owes its rapid development and fall to the Soviet Union. Afghanistan has been exploring its natural resources since 1936 but the boom began in 1957. Technological assistance and reservoir experience was provided by the former Soviet Union. As a result, eight test drillings have been carried out. They explored three rich deposits of natural gas. Most of the resources were found in the north of the country, in Jowzjan Province whose capital is Sheberghan.

The Department of Natural Gas Transmission was established in the late 50s at the Ministry of Mines and Petroleum. In the 1960s Afghan government set up oil and gas exploration agencies. Most of the gas was exported to the USSR, however it was also used for internal use such as power-stations and textile factories in Mazar-e-Sharif. The Soviet invasion of Afghanistan caused a dramatic fall in natural gas extraction. The situation did not change either during the civil war, or during the Taliban rule.



The American invasion removed the Taliban from power, which again caused an increase in gas exploration. Today, daily production is about 450 000 m³, most of which supplies domestic industry. TAPI is a gas pipeline project that is intended to transfer gas from the Turkmen Galkynysh gas field through Afghanistan and Pakistan to India. The pipeline is planned to be 1800 km long with a transit capacity of 33bn m³/yr. The contract was signed December 15 with a 30-yr duration. The expected cost of the project is \$10bn, 85% of which is to be covered by Turkmenistan.

The contract signing ceremony took place in Mary, southeast Turkmenistan, with the participation of president of Afghanistan Ashraf Ghani, president of Turkmenistan Gurbanguly Berdymukhamedov, the prime minister of Pakistan Nawaz Sharif, and vice president of India Muhammad Hamid Ansari.

The pipeline project is due to be built by December 2019, the undertaking is executed by the consortium of corporations such as Afghan Gas Enterprise, Inter State Gas Systems (Pakistan), GAIL (India), and Turkmengas which performs the leading role. There are also talks being held over adding DragonOil, a company controlled by the United Arab Emirates. Thanks to this project, Turkmenistan will be able to sell gas to India without stepping on Russia's toes, unlike sales to Europe.

The project, however, is fraught with danger. Afghanistan and Pakistan are not considered safe when it comes to long-term investments. The pipeline will cross Herat, Farah, Helmand and Kandahar provinces. The authorities of Helmand province warn of considerable safety breaches.

The project is important for the US whose plan is to separate Turkmenistan and central Asia from the dominant influence of Russia and China, and so they are trying to protect the project in the areas of Afghanistan and Pakistan. The Iran-Pakistan-India (Iranian pipeline) is a parallel project that is supposed to transmit a daily amount of 25bn m³/yr to Pakistan. However, under pressure from the US, India is not co-operating fully with Iran.

Overall it can be said that American institutions play a dominant role in gas projects undertaken in Afghanistan. There are five major financial players – United States Agency for International Development (USAID), Asia Development Bank, The World Bank, US Department of Defense and International Security Assistance Force – involved in Afghanistan's energy projects and of those, four are controlled by the US.

The support of the US is crucial for the project as it serves as a certain guarantee for the undertaking. The question is: what does America expect in return? Turkmenistan itself has common ventures with Afghanistan, such as selling electricity to Afghanistan and developing a railway system, which proves the Turkmen experience in the field.

The CASA project (on electricity transmission) is, on the other hand, an example of the importance of Afghanistan as an intermediary between Central and South Asia (750 km of the line will cross through Afghanistan). The CASA project is, once again, an example of not including Russia in this type of enterprise, which shows how limited its impact is. The CASA 1000 project is financed by the World Bank, US Agency for International Development (USAID), US State Department, the United Kingdom Department for International Development (DFID), Australian Agency for International Development (AusAID) and The Islamic Development Bank.



TAPI is in direct competition not only to the Iranian IPI project, but also to LNG exporters, among which are such countries as Qatar, Australia, USA, Canada and Russia, together they export an estimated 30bn m³/yr to India[8].

TAPI is going to cross Afghanistan and Pakistan and that poses a risk that Ashgabat need to take into consideration. In 2014 in the report of the International Energy Agency The Asia Quest for LNG in a Globalising Market, the pipeline project from Turkmenistan was defined as a distant possibility only to materialise one year later as a result of signing the contract between the countries interested in the TAPI project. It may be stated that Turkmenistan has chosen, from among the options for exporting gas, pipeline construction that does not interfere with Russian interests and enjoys US support.

The pipeline may be a significant source of revenue for Afghanistan. According to the Rafiullah Nazi, the head of the Afghanistan Regional Studies Centre, transiting gas across the 735 km of its territory could earn the country \$400mn/year (other sources show the numbers of 300 and 500 million – from the author)[9].

The income is going to increase the state budget, affect the decrease of shortage and gas purchase (however, the last issue is rather a theoretical possibility)[10], as well as the income resulting from jobs which number, only in terms of the project security, estimates around 7000. Already 4000 people have been hired to this end[11]. Profits from the pipeline construction will allow other countries to reduce their aid and boost the domestic market.

It is worth mentioning that, apart from financial benefits, Afghanistan is establishing itself as a transit country, and thereby becoming safer of course only while the pipeline is allowed to operate. The above mentioned arguments show the advantages resulting from the pipeline project in Afghanistan.

However, there is also the possibility of failure. Safety issues in Afghanistan, relations between Pakistan and India, lack of full agreement on the price and financing issues of the project are posing a real threat to construct it. There is also a risk that Turkmenistan, swayed by Iran, will decide to connect Turkmen gas to the IPI (Iran-Pakistan-India) pipeline[12].

Political matters in the areas of natural gas are extremely volatile. The TAPI project can bring both financial and political benefits for Afghanistan. The country is expected to meet the real challenges and reach the agreement between the groups fighting against current government. Although the challenge is huge, the pipeline construction is definitely worth it. The scheduled commissioning date of the project is 2019 but the situation in the natural gas sector is changeable and a lot has yet to happen.

Russia suffers oil crash flashback as new China threat looms

Bloomberg, 19.05.2016



As risks for recession-hit Russia subside at home, top officials are sounding alarms about another gathering threat. President Vladimir Putin hosts leaders from across Southeast Asia this week, and policy makers are increasingly turning their focus to perils from China. Any “problems” in the second-biggest economy will feed through to Russia via commodities markets, according to Deputy Finance Minister Maxim Oreshkin.

Warning that the world economy isn’t yet prepared for a more flexible yuan, Bank of Russia First Deputy Governor Ksenia Yudaeva said it warrants a global discussion.

Squeezed by the crash in oil prices and Western sanctions over the conflict in Ukraine, Russia has looked to Asia and China, in particular, as it searches for a way out of its longest recession in two decades. Putin’s pivot to the east has brought tie-ups with China that range from hundreds of billions of dollars in contracts signed by Russia’s biggest energy companies, Gazprom PJSC and Rosneft OJSC, to purchases of yuan-denominated bonds by the central bank last year.

“Serious problems in the Chinese economy can easily lead to a repeat of the oil prices we saw at the very start of this year,” Oreshkin said on Wednesday at a conference on emerging markets organized by Credit Suisse Group AG in Moscow. “For economic policy in general, it’s very important to be aware of the risks that stem from China.”

Any shockwaves from China won’t take long to reverberate in Russia. A slowdown of 1 percentage point in the Chinese economy would translate into a deceleration of about half as much in Russia’s gross domestic product, according to Yudaeva.

The prospects for the world’s biggest energy exporter have perked up as the price of oil, Russia’s main export earner, rebounded from a 13-year low reached in January. That’s set the stage for the ruble’s comeback from losses against the dollar that reached 44 percent in 2014 and 20 percent in 2015.

The Russian currency is the second-best performer among its peers in emerging markets this year with a gain of almost 10 percent. It traded 1.6 percent weaker at 67.0770 against the dollar as of 5:59 p.m. in Moscow. The energy relationship between the two neighbors -- one of the world’s biggest oil producers next door to the biggest oil user after the U.S. -- has continued to deepen since Russia started sending oil supplies to China from the spur off a pipeline in 2011. Imports of Russian crude last year jumped 28 percent, placing the country as China’s largest supplier on an annual basis after Saudi Arabia.

Russia would be one of the “first victims” in case of a “hard landing” by the Chinese economy, alongside other developing countries and commodity-producing nations, Nouriel Roubini, chairman of Roubini Global Economics, said at the same conference in Moscow.

After a rocky start to 2016 marked by a sliding yuan, capital outflows and tumbling shares, China’s economy stabilized before resuming its grind toward slower growth in April. GDP rose 6.7 percent in the first quarter from a year earlier, in line with the government’s growth target of 6.5 percent to 7 percent for the full year. That compares with an annual contraction of 1.2 percent in Russian GDP last quarter, after a 3.7 percent drop in 2015.

China is Russia’s biggest single trade partner, with its share rising to 12.8 percent from 12 percent in 2015. Even so, the overall turnover of goods fell by 26 percent last year to \$68.1 billion. That means the countries are far off reaching their target of \$100 billion in trade. The Bank of Russia is monitoring the situation in China and will take measures to maintain financial stability if needed, according to Yudaeva. Volatility there will have global consequences, she said.

“We are calculating these risks, but for ourselves what we consider far more likely is the scenario of a soft landing for the Chinese economy,” Economy Minister Alexei Ulyukayev told reporters on Thursday in Sochi. Russia’s central bank has a 150-billion-yuan (\$23 billion) swap agreement with People’s Bank of China, signed in 2014 to facilitate direct settlement between the ruble and the yuan, avoiding use of the dollar. Last year it received 10 million yuan, or 112 million rubles, as part of the arrangement.

Risks in China “can’t just be waved away,” Oreshkin said. “The entire economic policy must be shaped to take into account the possibility of worse growth than the market expects now or even effectively a recession in China. Such a risk can’t be ruled out.”

Politics, commerce and power

Natural Gas Europe, 10.05.2016



The Russian-European Nord Stream 2 project is generally described – especially by its opponents – as a political rather than a commercial project. If they are right, it is very much in keeping with the spirit of the age, as a look around Europe reveals politics rather than hard-nosed commerce as the motive for many of Europe’s schemes, and the cause of some of the problems where energy is concerned.

The most prominent example of the former is France’s ambitions to take its nuclear generation technology into the UK at almost any cost. President Francois Hollande gave his backing to the 3.2-GW Hinkley Point C project this week:



By an expression of political will, the 85% state-owned EDF was propelled closer to the UK deal as he stressed the importance of leadership in technology and jobs. Not once did he refer to the high price that consumers in the UK would be paying for all this electricity for years to come, which would have made the commercial argument. Instead there is the prospect of a €3bn injection from the state for its national champion.

EDF's untested EPR technology, recently in the headlines for the wrong reasons, will be set to work on the £18bn project, with an additional 15% contingency funding, if the positive final investment decision is taken this September. The finance chief Thomas Piquemal resigned over the matter in early March.

EDF stressed this week that the £18bn is only a maximum. Savings on that figure may be shared. But ratings agencies warn that the existing debt is already too great, or conversely that planned divestments are too small, for the company to take on this giant undertaking and emerge unscathed.

While UK consumers may have French technology thrust on them, France's energy minister Segolene Royal is looking at ways of banning US LNG imports, on the grounds that they include shale gas production, derived from hydraulic fracturing – a technology currently prohibited in France.

That too could be classed as a political rather than a commercial decision. As the CEO of France's biggest oil company Total told the senate this week, it is not possible to separate the molecules so that only those produced by conventional drilling are admitted into the French grid.

And as Mikhail Korchemkin of East European Gas Analysis also points out, fracking is used in Russian oil and gas production too, including at the giant Yamburg field, supplier of gas to France, among others. "For the sake of consistency, the French energy minister should also consider banning the imports of Russian oil and natural gas," he writes. With the cap on Groningen output only likely to fall, success for Royal would leave France vulnerable to gas supply shocks.

Royal, who is a former partner of Hollande, also questioned the wisdom of Hinkley Point C: "I am wondering if we should go ahead with the project. The sums involved are colossal," she told the Financial Times.

Belgium's energy shortcomings were pointed out by the International Energy Agency this week. Its three nuclear power stations, operated by French-owned Electrabel, are due to be closed by law in 2025; although, at 40 years old now, they might well be technically good for another 20 years yet. Electrabel is after all investing €1.3bn in them now, but nothing has been outlined for the future, leaving power generators ignorant of any framework in which to invest.

Only last year the government scrapped its tender for gas-fired power capacity, with arguments over how the capacity mechanism would work. And surrounded as it is by liquid, well-supplied, markets, relying on interconnections with its more forward-thinking neighbours might be an adequate approach. Other governments have stuck to their guns, and burned coal such as Poland, Germany and Spain, with no thought for a future where power is supposed to be decarbonised and coal mining a thing of the past.



Raising the carbon price will help push coal out, but only the UK has done that in Europe, with dramatic results: breaking a record of over a 130 years, there was no coal-fired power in the UK grid for four hours.

The UK also won praise for a promise to do its best to close power plants down in a decade, when it will be someone else's problem. Plans to build gas-fired capacity remain on the shelf, while other aspects of policy – such as the newbuild nuclear plan (see above) remain uncertain of success: both the operator and the customer could lose money from it.

Germany is phasing out its nuclear plants for political reasons in a decision taken soon after the Japanese earthquake of 2011, and the generators are still arguing about how much they should be asked to pay for it.

In order to achieve such an agreement, E.ON said late April, “the companies have transparently presented their financials and offered to go as far as their utmost economic limits would permit.” However, these limits have been exceeded by the amount of the risk premium suggested by the independent body overseeing the closure. Collectively, they are looking at €23bn in a few years – quite a regulatory risk. German consumers though are also spending almost as much as that each year, on subsidies for other forms of energy.

There is perhaps in these policy vacuums and capacity shortfalls a good opportunity for gas. It is likely to be sold at prices that will be set to reflect the needs of the power market, where the marginal cost of supply from the growing fleet of renewables is trending towards zero, while fortunately the long-term trend in the carbon price is upwards.

If technology cannot move fast enough with power storage and only gas meets the twin requirements of lower carbon and quick start-up, and governments and their electorates continue to push for more solar and wind, and there is no improvement in the economics of carbon capture and storage, that price could be high.

Europe: Getting fired up for a gas generation revival?

ICIS, 19.05.2016



Gas-fired power generation looks set to make a comeback across Europe as state subsidies, improving spark spreads and the retirement of older coal-fired plans could force a turning-point in government policies across the continent.

Twelve European countries are expecting to build new gas-fired generation between now and 2020, representing just over 28.5GW of capacity at various stages of development, according to data collated by ICIS. This amounts to 25.6% of the planned installed capacity that could come online in the identified countries over the next five years according to data.

In Britain alone, a total of 15GW of gas-fired capacity could be rolled out, subject to planning permission and investment decisions between now and the end of the decade. This represents 20% of capacity that could be commissioned over the same period. Other countries such as France, Germany and Italy could well build a combined 6.5GW of gas-fired capacity, although the three countries have already cancelled a combined 11.1GW over the last five years.

Meanwhile, Turkey expects to bring online just over 4GW of gas-fired capacity in 2016 and 2017 alone, representing more than half of the planned capacity that is due to come online in the country over the next two years. Over the last five years gas-fired generation across Europe has been the casualty of falling economic demand following the 2008 recession and often slapdash energy policies that sought to respond to short-term challenges rather than provide long-term visions.

This has led to a bubble in renewable capacity that has been not only expensive to subsidise, putting a strain on public coffers, but also to shrinking margins caused by sharp falls in spot electricity prices. On several occasions, spot prices turned into deeply negative territory as supply outstripped demand, as is the case in Germany where renewable capacity now exceeds 30% of its total installed capacity.

On the other hand, coal increased its share thanks to low international prices and government interventions to prop up domestic production, as was the case in Spain and Germany. As a result, the impact on gas-fired capacity could not have been more obvious.

In Germany the share of gas-fired generation in the total mix dropped from 14% in 2010 to 9%. In Spain the falls were even more dramatic, plunging from 32% in 2008 to 9% in 2014. In Italy its weight dropped from 48% in 2011 to 34% in 2014 and in the UK the fall was equally spectacular from 40% in 2011 to 25% in 2013. However, there are now indications that gas-fired generation could make a comeback, underpinned by several factors. Firstly, spark spreads, a measure of profit for gas-fired plants, indicate more attractive margins.



In the UK, clean spark spreads with carbon price support (CPS) included, for plants with a non-rounded efficiency of 49.13%, have been on a steady upward trend. For example, the Winter '16 product has seen incremental gains from an average £2.22/MWh (€2.81/MWh) when the product was first calculated in October '14, to £6.57/MWh on 13 May.

Comparatively, clean dark spreads with CPS for UK plants with an efficiency of 35% have been on a steady decline. Winter '16 was first calculated by ICIS at £12.42/MWh in October 2014, falling 36% to £4.42/MWh. The turnaround in UK clean spark and dark spreads was largely helped by falling gas prices.

Nevertheless, the knowledge that as much as 7GW of coal-fired capacity had been retired and that another 13GW would be switched off by 2025 as the UK replaces ageing capacity, has also been factored into the spark spread. Falling gas prices have been a key factor helping to push up the profitability of spark spreads.

Until two years ago the price of pipeline gas purchased under long-term oil-indexed contracts was often prohibitively expensive. This meant some plants either had to be mothballed or cancelled entirely. Around 14GW of gas-fired capacity was mothballed in France, Germany, Italy, Spain, Turkey and the UK, and just over 13GW of gas-fired projects were cancelled in Austria, France, Germany and Italy over the last five years.

However, as crude prices have dropped by nearly 60% since 2014, gas-prices indexed to oil have been dragged lower, making the fuel more attractive. For example, the BAFA price, the average price of gas imported at Germany's borders, which include oil-indexed prices, dropped by half between 2008-2015, falling from just over €30.00/MWh to €15.00/MWh.

This also fed through to hub prices where Calendar Year '16 on the Dutch TTF hub, which acts as a reference for numerous European markets, fell from €25.48/MWh when first assessed by ICIS in January 2012, to €14.83/MWh at the end of December 2015.

Secondly, the high cost of subsidies for renewables combined with rising costs incurred from the European emissions trading system hit energy-intensive economic sectors, such as the steel industry. In the UK, high energy costs, an expensive top-up carbon tax, and competition from Chinese companies has led to thousands of job losses in the steel industry since September 2015 alone. This has highlighted the urgency among policy-makers that reform was required.

A third factor that could encourage more investors to turn to gas-fired capacity is the review of government subsidies for renewables and coal generation. A study commissioned by the European Commission in 2014 showed that in 2012 the total value of public interventions in energy, excluding transport, in the 28 EU member states amounted to €122bn. Interventions to support renewable energy sources had the highest value, amounting to €41bn.

The high incentive costs have now prompted some countries to review their subsidy policies. In the UK, subsidies for onshore wind generation will be withdrawn from 2018. Onshore wind capacity in the UK currently stands at 8.7GW. Other countries such as Denmark, Finland and Norway have or are looking to remove their feed-in premium.



On the other hand, coal-fired capacity, which had also benefited from subsidies, will also see some of that support withdrawn. In 2012, coal-fired capacity benefited from €10bn in subsidies across the EU-28, according to the same commission study.

That trend seems to be taking a different turn now, as new support schemes are being brought in. A law came in force in Germany at the beginning of this year whereby subsidies for coal-fired co-generation units will be scrapped, increasing subsidies instead for gas co-generation and heating plants.

Britain, which fears falling dark spreads mean coal generation could be switched off ahead of the 2025 target, introduced a capacity market to ensure that reactive capacity receives payment to be available to generate at short notice. The capacity market that was brought in 2014 requires thermal generators to bid into an auction to secure a payment per kilowatt of capacity from the government.

Payments were originally meant to begin in winter 2018, but fears that too many plants were closing means the scheme will be brought forward a year. This development, combined with a more attractive spark spread, would ensure that existing or mothballed CCGT operators would remain in the market.

Lastly, a fourth factor that is likely to encourage the revival of gas-fired generation across Europe is the start of new LNG production capacity in the US and Australia. Just short of 70 million tonnes per annum (mtpa) could reach markets through to 2019 from the US alone. Of this, up to 40mtpa could end up in Europe, according to forecasts from France-based gas company Engie. The total amount of LNG coming to the market is expected to be 132mtpa between 2015-2019, a 50% increase on current volume.

Recent LNG tenders in Poland and Italy, and rising delivery into Lithuania, show a growing depth of LNG importers. But it will be the ability of the big gas users in Britain, Germany, France, Belgium, the Netherlands and Spain to absorb LNG directly or indirectly that will shape future demand and pricing.

On the other hand, the arrival of more US LNG in Europe is also likely to force traditional pipeline suppliers such as Russia's Gazprom to show more flexibility in contracts, particularly with regards to linking import prices to hubs rather than oil. Despite clear indications that gas-fired generation is about to make a comeback, the recovery is likely to be uneven across Europe.

Some countries such as Austria appear to have turned their back on gas-fired generation altogether. A total of 2GW of gas-fired capacity was cancelled over the last five years and there are plans to bring online 1GW of hydro capacity before the end of the decade.

At the other end of the spectrum, Britain will be firmly looking to gas-fired generation as a viable replacement for its coal plants. A total of 15GW of gas-fired capacity is at various stages of development, of which at least 2GW is due to come online in the short- to medium-term. Spiralling costs and growing uncertainty over plans to bring in 15GW of nuclear capacity by 2030 could prompt British policy makers to see gas as the optimal fuel to plug the upcoming shortfall. Other countries such as Germany and France, which mothballed their gas-fired capacity, have more recently turned back to the fuel.



In January and February 2016, the share of gas-fired generation in the German mix started to increase compared to the same months last year, although gas-fired plants remain profitable only during peak hours. Higher subsidy rates introduced by the latest legal changes could help to bring in some new CHP plants, but traders and analysts say the scheme would still be insufficient to lead to a substantial increase in gas-fired capacity.

Similarly, mothballed plants returned to the system over the winter months in France, boosted by outages and the closure of coal plants. French electricity incumbent EDF plans to complete a 575MW plant this summer and Direct Energie, an independent producer, expects to complete a 400MW plant in 2018-2019. The project relies on subsidies and, analysts say, does not reflect a national trend, but is more related to supply issues in the northern Brittany region.

In Italy, gas-fired capacity remains squeezed by a surge in renewables and subdued demand. Peak demand caused by very hot or cold temperatures has warranted the brief return of gas-fired plants to the system in recent months. A capacity market that is due to come into force in 2017 could throw a lifeline to CCGTs, some of which were built in the late 2000s.

In Spain, with a further 8GW of renewables such as solar and geothermal being installed – all of which come above gas in the dispatch merit order – it seems increasingly likely the recovery of gas-fired generation will hinge on the demise of coal-fired capacity.

Finally, just as most European countries now look set for a U-turn on energy policies that had encouraged a boom in renewable and coal-fired capacity, Turkey looks to be setting back the clock, offering support for domestic resources.

Wind capacity alone has surged to nearly 5GW from a standing start in 2007, leading to volatility and in general steep falls in average spot prices. More solar and wind capacity that is expected to be commissioned in the upcoming months could add further pressure to prices, rendering thermal capacity completely unprofitable.

By 2025, Turkey's total installed capacity will reach 100GW in 2025, recording a net capacity increase on 2014 of 51%, or 36GW of which 22.5GW will be renewables and 13.5GW will be thermal, mainly coal plants.

More recently, under proposed changes to the electricity market law sent to the parliament last month, coal-fired plants will be able to sell their generation, possibly at a fixed tariff, to at least one state entity. The output will be sold under power purchase agreements, although it is not yet known which period these contracts will cover.

The proposed amendments come at a time when the Turkish power sector is facing important structural changes. From next year more than 6GW of gas-fired capacity, which had been generating under the build-own-operate (BOO) or build-own-transfer (BOT) models will start to be phased out as their contracts reach their shelf life. Depending on each plant's efficiency, some will be switched off, others upgraded and the remainder transferred back to the state. In its defence, the government has claimed that there is now a need to support local resources, as the import of gas or coal has increased the country's current account deficit.

In addition, escalating tensions between Turkey and Russia in the aftermath of the Syrian crisis has had a spillover effect on energy relations. After giving its enthusiastic support to TurkStream, a 63bcm pipeline project designed to bring Russian gas to Turkey and further to south European countries, Ankara pulled the plug on the project in November 2015, less than a year after it was first mooted.

On the other hand, while Russia has shown flexibility on granting discounts or introducing a hub-indexation element in its contracts with European customers, it refused to reduce import prices for Turkish incumbent BOTAS and even cancelled a discount to Turkish private importers earlier this year. This is raising questions about the sustainability of the Turkish gas market in the long run.

However, plans to bring in three Floating Storage and Regasification Units (FSRUs) to allow the import of more LNG, the construction of more interconnectors in the region and the general shift in European dynamics could help reverse the current trend, to the extent that gas-fired generation could also make a comeback in Turkey soon.

In Europe there are already signs that a new trend has been set in motion as countries are becoming increasingly interested in using natural gas as a cleaner, cheaper fuel to drive economic growth. The question that remains is whether the LNG volumes that are set to reach markets globally in the upcoming years, improved technology and more attractive margins will be sufficient to make gas the fuel of the future.

Fitch: US LNG to force suppliers focus on spot prices

AA Energy Terminal, 12.05.2016



The U.S. LNG exports are expected to pressure European suppliers to focus more on spot market prices, rather than having long-term contracts, Fitch Ratings said.

Due to the oversupply of gas in the market, European customers have pressured gas suppliers like Statoil and Gazprom to lower their long-term contracts, in which they link gas prices to oil. Instead their gas prices are becoming more based on spot market, Fitch said. “Low gas prices in Europe will continue to pressure Gazprom’s earnings, especially if it decides to defend its market share, but this will be mitigated by low production costs,” the agency said.

“Statoil’s natural gas business is highly exposed to spot prices in Europe, but as a company it is more reliant on oil,” it added. Yet, both companies may be forced to lower their gas prices, to divert them from long-term contracts to spot-based. And, this could be further facilitated when the U.S. would ship more LNG to Europe, according to Fitch.



The rating agency said the U.S. gas producers would send their LNG to Europe as long as the cost of gas, transportation and regasification are below European spot prices. “Europe is a more attractive market for U.S. LNG than Asia at current spot prices because transportation costs to Asia are significantly higher. We expect an LNG supply glut to keep prices under pressure globally in the medium term,” the agency explained.

Currently, the U.S. has a total of 10 projects that gained approval from regulatory bodies to export LNG to countries that the U.S. does not have a free-trade agreement with. At the end of April, the U.S.’ first LNG cargo arrived in Portugal, while all projects are under construction and their completion varies, depending on level of investment and building infrastructure.

Fitch said the U.S. LNG exports are unlikely to threaten the world’s biggest LNG exporter Qatar, which has a high competitive position and most of its contracts are long-term. And, Fitch says American LNG exports would not have a big impact on domestic gas prices in the U.S. “We believe the U.S. natural gas market is too big and too well supplied for LNG exports to significantly increase U.S. natural gas prices.” However, Fitch said it is unlikely to have one global natural gas market, due to infrastructure limitations and high transportation costs of LNG, compared with oil.



Announcements & Reports

Gas Storage Task Force and CEER LNG Task Force

Source : CEER

Weblink : http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2016/C16-GWG-129-04_EC%20strategy%20for%20LNG-Storage_Response.pdf

International Oil Companies: The Death of the Old Business Model

Source : Chatham House

Weblink : <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-05-05-international-oil-companies-stevens.pdf>

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

Pipeline Technology Conference

Date : 23 – 25 May 2016

Place : Berlin, Germany

Website : www.pipeline-conference.com

Caspian Oil & Gas

Date : 01 – 04 June 2016

Place : Baku, Azerbaijan

Website : www.caspianoilgas.az/2016/

Yamal Oil & Gas

Date : 08 – 09 June 2016

Place : Salekhard, Russia

Website : www.yamaloilandgas.com/en/programmerequest/



7th International Energy Forum

Date : 10 June 2016
Place : Istanbul, Turkey
Website : www.iicec.sabanciuniv.edu

Energy Systems Conference 2016

Date : 14 - 15 June 2016
Place : London, UK
Website : www.energysystemsconference.com

World National Oil Companies Congress

Date : 15 - 16 June 2016
Place : London, UK
Website : <http://www.terrapinn.com>

Energy Trading Central and South Eastern Europe 2016

Date : 15 – 16 June 2016
Place : Bucharest – Romania
Website : <http://www.energytradingcsee.com/>

Eurasian Natural Gas Infrastructure

Date : 22 – 23 June 2016
Place : Athens – Greece
Website : <http://www.engi-conference.com/>

ERRA Summer School: Introduction to Energy Regulation

Date : 20 - 24 June 2016
Place : Budapest, Hungary
Website : <http://erranet.org>

9th SE Europe Energy Dialogue

Date : 29 – 30 June 2016
Place : Thessaloniki, Greece
Website : www.iene.eu

Global Oil & Gas - Black Sea and Mediterranean

Date : 22 – 23 September 2016
Place : Athens, Greece
Website : www.iene.eu



23rd World Energy Congress

Date : 09 - 13 October 2016
Place : Istanbul, Turkey
Website : <http://wec2016istanbul.org.tr/>

15th ERRA Energy Investment & Regulation Conference

Date : 17 - 18 October 2016
Place : Budapest, Hungary
Website : <http://erranet.org/InvestmentConferences/2016>

21st IENE National Conference "Energy and Development 2016"

Date : 24 - 25 October 2016
Place : Athens, Greece
Website : www.iene.eu

European Autumn Gas Conference 2016

Date : 15 – 17 November 2016
Place : Hague, Netherlands
Website : <http://www.theeagc.com/>

5th Greek Cyprus Energy Symposium

Date : 29 - 30 November 2016
Place : Nicosia, Greek Cyprus
Website : www.iene.eu