# Oil & Gas Bulletin

► *14.08.2015*

# Trend: First string of Turkish Stream Pipeline to cost $4.72bln

Azer News, *11.08.2015*


**Russian energy giant Gazprom estimates the cost of constructing the first branch of the Turkish Stream pipeline at €4.3 billion ($4.72 billion), while the overall price tag for all four legs of this project are estimated at €11.4 billion, First Deputy Head of Gazprom's Project Management Department Aleksei Serebryakov said Monday.**

**"The total cost [of the Turkish Stream pipeline] is currently estimated at €11.4 billion excluding VAT. The cost of the first branch of the gas pipeline will be about 4.3 billion euros excluding VAT," Serebryakov said on a conference call with investors.**

A source in the Russian Energy Ministry told journalists that Russia had sent a proposal for the construction of the first branch of the gas pipeline to Turkey. The Turkish Stream will have an annual capacity of 63 billion cubic meters and will run from Russia to Turkey beneath the Black Sea. The pipeline will continue to a hub on the Turkish-Greek border, from where it would be extended to Southern Europe. The Turkish Stream gas pipeline was launched as a replacement to the South Stream pipeline project that Moscow cancelled in December 2014, citing the "non-constructive" stance of the European Union on the issue.

# Turkey treads carefully on new gas pipeline with Russia

Al Monitor, *12.08.2015*

**A new world seemed to be in the making when Russian President Vladimir Putin visited Turkey. Putin, with his Turkish counterpart Recep Tayyip Erdogan at his side, announced that Russia and Turkey would boost their multibillion dollar trade by building a new natural gas pipeline, Turkish Stream.**

**Fed up with the European Union's foot-dragging, the Russian president canceled the South Stream project, which would have carried Russian natural gas under the Black Sea directly into the European Union via Bulgaria. Putin hoped to accomplish several objectives through Turkish Stream.**

To enlist Erdogan as an ally in Moscow's natural gas negotiations with EU members Greece, Italy and Austria, and to steer Turkey away from the West and in a more pro-Russian direction. Putin's visit appeared so promising and the two leaders so defiant that one columnist talked about the "two Rambos, Putin and Erdogan," and how they "were taking on the West." But despite initially optimistic analyses, Ankara and Moscow have yet to finalize a deal on Turkish Stream. Significant disagreements have slowed down the talks between the Turkish Ministry of Energy and Russia's state-owned Gazprom. In fact, the treacherous nature of the international energy trade could wreck the proposed project. Part of the problem lies in the conception of Turkish Stream. If completed, the new route would comprise four strings of pipelines, each carrying 15.75 billion cubic meters (556 billion cubic feet) of natural gas per year. Turkey expects to meet its growing domestic demand from one of the pipelines. The remaining three pipelines would carry 47.25 billion cubic meters into European markets through Greece.One point of discord between Ankara and Moscow is the price of natural gas. During Putin's December visit, the Russians promised a discount of 10.25% for the gas they were already selling to Turkey. The Turks want to get an official commitment from Russia on the discount first. Moscow, however, is reluctant to lower gas prices for existing exports before Ankara signs off on all four pipelines for Turkish Stream. Under current agreements, Turkey has a right to take its case to international mediation, which likely would rule in its favor because of the decrease in global gas prices since the 2008 economic crisis. At any rate, the Turkish Ministry of Energy is interested in only one of the pipelines and wants Gazprom to find its own customers in Europe for the other three strings. Gazprom, however, wants Ankara to sign off on all four and help negotiate with European buyers. Economically dynamic but resource-poor, Turkey produces about 45% of its electricity from natural gas, nearly 60% of which comes from Russia. Unwilling to assume additional risks and worsen their already excessive dependence on Russia, the Turks are cautious about Turkish Stream. But even if it were implemented fully, Turkish Stream would be born into a very complicated and treacherous global energy market.

First of all, Russia faces serious competition from Qatar. The Gulf emirate, with the third-largest gas reserves in the world, has built extensive facilities to ship liquefied natural gas to international markets. As a result, global prices have remained stable even as demand increased. At a time when Russia deals with decreasing gas revenues, its ability to finance projects such as Turkish Stream becomes questionable. Geopolitical hurdles are even more serious than market challenges to Turkish Stream. Russia exports a majority of its natural gas through pipelines in Belarus and Ukraine. But because of its troubles with Kiev, Moscow has signaled its intent not to renew transit agreements with Ukraine, set to expire in 2019. Moscow wants to bypass land routes to reach lucrative markets in Europe and beyond. Nord Stream is one such pipeline that allows Russia to circumvent Ukraine and Belarus and obviates the need for Turkish Stream. With a capacity of 55 billion cubic meters per year, Nord Stream sends Russian natural gas directly into Germany through a pipeline under the Baltic Sea. Because the system is still not working at full capacity, Germany hopes to become the main conduit through which Russian gas would flow into Western European markets. Plans are in place to build Nord Stream II, which would completely destroy the purpose of the four-string version of Turkish Stream. An official with knowledge of the Turkish-Russian negotiations and their international dimensions told Al-Monitor that Berlin is already trying to get the United States to put pressure on Greece and Turkey to scrap Turkish Stream. Meanwhile, he argues, Russia is signaling how it could strike a new transit deal with Ukraine to straighten up the capricious Germans and Turks. The official speaking to Al-Monitor on condition of anonymity compared the complicated geopolitical games of Russian natural gas to a "raging orgy" because "it's never clear who's screwing who."

Indeed, many experts are bearish about the fortunes of Turkish Stream. Edward Chow and Zachary Cuyler of the Center for Strategic and International Studies (CSIS) wrote in a recent article on the CSIS website, “There are many reasons to doubt the feasibility of the third and fourth strings of Turkish Stream and the South European Pipeline” that would carry Russian gas into the EU. Chow and Cuyler pointed out that “Russia and Europe will continue to be tied together by the gas trade” and “it is foolhardy to attempt to supplant Russian gas in Europe with alternatives from the United States and elsewhere, as some who look at energy through a geopolitical lens have proposed.” It would be best, they say, for Russia to use existing infrastructure and focus on its established markets in Europe. Volkan Emre, an international energy expert based in Washington, does not dispute Chow and Cuyler’s assessment. He thinks Western countries — especially the United States — “are too hung up on Turkish Stream” and the 47.25 billion cubic meters per year that might flow into Europe via Turkey. Still, Emre raises one important disagreement with Chow and Cuyler. He says Russia has a good shot at reaching customers beyond Western Europe. “The big bonanza for Russia,” he told Al-Monitor, “would be selling gas to Pakistan, India, China and Japan.” Regarding Turkey’s energy needs, Emre argues that it should diversify its supplies with pipelines from Azerbaijan, Turkmenistan, Iran and Iraq. In order to do so, he recommends Turkey to be “more actively involved in the diplomatic attempts to solve the legal disputes in the trans-Caspian gas transits.” He also warns that Turkey should “support the infrastructure developments in Iranian and Iraqi natural gas sectors.” “Even if only some of these projects play out,” he said, “Turkey would become less reliant on Russia and come closer to becoming the energy hub at the intersection of Europe, Asia and Africa.”

# Iran says it is in talks with Azerbaijan on joint gas exports

News.Az, *11.08.2015*

**Iran has announced the beginning of negotiations with Azerbaijan on joint exports of natural gas to global markets, the ISNA news agency said. It might be a “sign that Tehran may have already revived plans to pipe gas to Europe,” the agency said, ITAR TASS reports.**

**ISNA cited Alireza Kameli, the managing director of the NIGC as saying that his company had plunged into talks on that matter with Azerbaijan’s state oil company SOCAR. “Tehran and Baku have conducted negotiations over joint investments in gas export projects,” Kameli reportedly said.**

Thanks to its enormous gas reserves, Iran could have long been a key gas exporter to Europe, the agency said, adding that the issue was coming to the fore in view prospects of the abandonment of anti-Iranian sanctions as the Iranian nuclear deal had finally been signed. However, in the current conditions, cooperation with Azerbaijan, according to ISNA, appears the most promising project. During a recent visit to Teheran, Azerbaijan's Minister of Economy and Industry Shakhin Mustafayev reportedly told Iran's Oil Minister Bijan Zangeneh that Iran could use Azerbaijan's infrastructure to pump its oil to world markets. "Iran can use Azerbaijan's infrastructure, especially the Baku-Tbilisi-Ceyhan (BTC) pipeline to export its oil," Mustafayev was quoted as saying. He also invited Iran to join the Trans-Anatolian Natural Gas Pipeline (TANAP) project in the future. The TANAP projected is a 1,850-kilometer pipeline to pump gas from Azerbaijan's Shah Deniz 2 field in the Caspian Sea to Turkey and further on to Europe. Construction works began in March, 2015 and is expected to be over in 2018.

# Bank of Israel governor supports government's gas plans, despite not being perfect

Natural Gas Europe, *10.08.2015*

**Israeli leaders keep sending message in support of gas projects in the country, with Bank of Israel Governor Karnit Flug backing the government's plans for economic reasons. "The Bank of Israel's position is that, the new outline provides a reasonable response to the needs of the economy, particularly for purpose of speeding up the connection of an additional natural gas pipeline and promotion of development of Leviathan, Karish, Tanin reservoirs" Flug said.**

**The Governor said that, by the nature of negotiations, the outline does not achieve the ideal result, but it can still positively contribute to the economy of the country.**

"As such, the Bank of Israel supports the main points of the outline and progress toward its implementation" he said. He also supported the Government in its attempt to pave the way to export contracts with Egypt and Jordan for both economic and diplomatic reasons. All in all, though, the major target of the Israeli gas should be the domestic market and the creation of a framework that can protect local consumers."It is important that if a delay in development prevents the creation of a more competitive structure than is currently the case in the natural gas market, alternative steps be defined that will advance the connection of the gas reservoirs to the Israeli economy in the most rapidly possible manner, alongside a mechanism that will protect Israeli consumers from monopolistic pricing." Earlier this month, Noble Energy wrote that the Israeli government will soon ratify a regulatory framework for natural gas development in the country, adding that the company remains committed to operations in the Eastern Mediterranean.

# Will Eastern Mediterranean natural gas be able to resolve the Cyprus issue?

Natural Gas Europe, *22.07.2015*

**The Greek Cyprus issue, in spite of being the most controversial topic of Turkish Foreign Policy, has been on the table with minimum progress toward a solution for years. This issue, defined as a conflict in in 1960s, reached its peak with the Cyprus Peace Operation, conducted by Turkey in 1974, and evolved into a different phase until now.**

**The discovery of gas in Eastern Mediterranean left its mark on the Greek Cyprus issue. EU countries, importing natural gas mostly from Russia, have been disturbed as customers, due to Russia's use of Gazprom, as a weapon in the Ukrainian crisis.**

Thus, the EU has been searching for new energy resources. Therefore, the EU is interested in the TANAP project of Azerbaijan, natural gas of Northern Iraq, and even the natural gas of Iran, which brought the EU's positive attitude in nuclear negotiations with Iran. The commonality of all these alternatives is that none of these production fields belong to the EU. However, the situation in the Eastern Mediterranean gas is completely different. After the membership of Southern Greek Cyprus to the EU, the EU has actively participated in the Eastern Mediterranean natural gas dispute. On the other hand, the transport of natural gas through the shortest, cheapest and safest way to Europe is the most important for the EU. Israel is the leading country on the Eastern Mediterranean natural gas issue. In Israel's perspective, the Lebanon-Syria-Turkey line should be the route to transmit natural gas to the European market; however, currently it is not possible because of the Syrian war and broken relations between Turkey and Israel. Also, the EU's perspective within the framework of Europe's increasing energy demand is to find a way to bring this natural gas to Europe. From this point on, all attention is on Cyprus island. However, the political instability and dividedness in Cyprus island, as well as the increasing natural gas demand of the EU, pushes Europe to solve this problem immediately. On the other hand, economic problems in both Northern and Southern Cyprus, having combined with the desire of Cypriots for reunification as a result of recent governmental changes on both sides, has made it necessary for Turkey to generate new strategies on Cyprus island.  Recently, Egypt, Greece, Southern Greek Cyprus and Israel were in close cooperation for the last year, rushing how to transport natural gas from the Eastern Mediterranean to Europe. It should also be remembered that the route will be determined not only by political strategies but also by energy costs as a result of the pressure coming from energy companies.

From this point of view, it is impossible to transport Eastern Mediterranean gas to EU countries without Turkey in a secure and fast way. Within this context, Turkey should revise its Greek Cyprus policy without compromising the rights of Turkish Cypriots, and also by taking into consideration its own interests as the guarantor country. Turkey needs a strategy evolving into a reunited Cyprus island in which both sides have equal rights regarding politics, administration and energy and also protected by Turkey, unlike as it was in 1960s, when the Greeks had the advantage. Furthermore, it should be noted that “as long as a deadlock policy has been followed by Turkey as the solution, it may be too late.” We should never forget that a process has already started and the other parties are taking steps without Turkey. The EU, which will have already imported natural gas from its member state Southern Greek Cyprus, will also buy natural gas from Israel and Egypt for its own energy security. It is certain that gas will reach the European market, whether we like it or not, and Turkey should never underestimate that the pipelines may pass through Greece even though this route is more costly. However, unemployment in Northern Turkish Cyprus, economic conditions, attitudes of the young and the latest election results show that Northern Turkish Cyprus has been gradually shifting towards the EU side. As a result, it is necessary for Turkey to create a new Cyprus island strategy that will keep Cyprus island in the axis of Turkey and not the EU, enabling natural gas pipelines to carry Eastern Mediterranean gas through Turkey and make Turkey an effective actor in European energy security. Lastly, the possible reunification of Cyprus island has to be taken into account seriously by Turkey.

# Decision on a pipeline from Aphrodite gas field to Egypt expected soon

Cyprus Mail, *10.08.2015*

**The results of a study concerning the transportation of natural gas from Cyprus island’s Aphrodite field to Egypt are expected to be ready within the next few days, according to Energy Minister Giorgos Lakkotrypis.**

**The study, which started around two months ago will determine the technical and financial elements of installing a natural gas pipeline from Aphrodite (block 12) to the shores of Egypt, either for domestic consumption or for other markets, he said. The study is being carried out by the Cyprus National Hydrocarbons Company (CNHC) and Egypt’s EGAS.**

The next step would be establishing trade agreements that are currently “being negotiated” between the block 12 consortium, CNHC, and EGAS. In late 2011, US-based Noble Energy announced estimated gross mean resources of 5 Tcf for the Aphrodite gas field. Noble has a 70 per cent working interest, while Delek Drilling and Avner Oil Exploration each hold 15 per cent stakes. In the next few days, the ministry will provide feedback while “there are discussions on a corporate level for the sale of natural gas to Egypt with a number of companies,” Lakkotrypis said. He added that decisions should be expected in the next few months. Asked whether the sale price is expected to be discussed soon, he said it was a matter that along with other terms such as the funds and credit ratings of the buyer, were of great importance that will be agreed on. Less than two weeks ago, Egyptian media reported that Egypt completed a feasibility study into natural gas imports from Cyprus island and the results were being reviewed by EGAS. EGAS Chairman Khalid Abdul-Badi told Al-Bosra newspaper that the quantities to be imported amount to roughly 700 mcf/d of gas, and are expected to begin in 2018.

# Fracas over gas ‘no drilling’ deal

Cyprus Mail, *13.08.2015*

**Political parties called on the government for explanations after former Turkish Cypriot negotiator Kudret Ozersay appeared to let it slip that the Greek Cypriot side had stalled hydrocarbons exploration. Ozersay wrongly announced that the ENI-KOGAS drill ship Saipem 10000 had returned to EEZ.**

**It had left just prior to the election of Turkish Cypriot leader Mustafa Akinci. Turkish seismic exploration vessel Barbaros, which had been surveying in EEZ s since late last year causing President Nicos Anastasiades to pull out of the talks with then Turkish Cypriot leader Dervis Eroglu, also left Famagusta port.**

Anastasiades had said he would not return to the table unless the Barbaros left, while Turkey demanded Greek Cyprus stop drilling. The subsequent election of Akinci combined with the departure of the Saipem to Italy for maintenance, and the return of the Barbaros to Turkey then opened the way for talks to resume, while both sides appeared not to have backed down due to the ‘window of opportunity’ that had presented itself. However, Ozersay on Tuesday said the Saipem’s return meant “the Greek Cypriot side violated its word given at the resumption of the Cyprus talks”, according to Turkish Cypriot media. He said that while the Turkish side had stopped its activities regarding the natural gas issue for the sake of the negotiations, “the Greek Cypriot side continues to do it despite the Cyprus island talks”. This was a serious injustice against Turkish Cypriots, he said. “I don’t say let’s stop the negotiations or let’s send a vessel immediately. However, he added that it was an issue of trust when it came to “matters which are already agreed”. Ozersay however was in error. The Saipem did return to the region but to Egypt’s EEZ, which borders Cyprus’. The former negotiator tweeted that he had only been citing reports and was not trying to stir up trouble for the talks.Though Ozersay was mistaken in his assessment of the Saipem’s activities, his comments about an agreement did not go unnoticed among Greek Cypriot political parties.

Opposition DIKO was first to call for clarifications wondering whether the comments were just random statements by Ozersay or whether Anastasiades had backed down in the face of Turkish demands to stop drilling. “If the government of Mr Anastasiades consented to [UN Special Adviser Espen Barth] Eide’s proposal to suspend exploration in the exclusive economic zone of the Republic so that Turkey would withdraw the Barbaros and the talks would resume, then the people should know,” the party said in a statement. “Unfortunately, everything indicates that President Anastasiades has made a tragic retreat to integrate the gas issue – a sovereign right of the Republic of Cyprus – into the agenda of the negotiations on the Cyprus island issue.” The Green Party cited an interview with Energy minister Giorgos Lakkotrypis in Phileleftheros in which he had asserted the suspension of activities in the island’s EEZ were geological and not political. “Today, we learn that ENI’s rig Saipem 10000 is preparing to launch new drilling in the Egyptian EEZ,” the party said. At the same time, Greek Cyprus had suspended its hydrocarbons activities in a manner that had nothing to do with the exploitation of natural resources and everything to do with the “persistence of the Cypriot government in maintaining a good climate with Turkey”, and the government had failed to convince otherwise, it added. Junior coalition partner EVROKO called for an end to confrontation over the issue, saying it would only cause unnecessary damage to the energy interests of the Republic. However, the party said the government had an obligation to consult with the political forces on natural gas issues and take into account their views and concerns. “At the same time the parties have to end the unnecessary sensationalism with statements that add grist to the Turkish propaganda mill,” the party said. Deputy government spokesman Victoras Papadopoulos, in a written statement said some of the political parties seemed unable to stop bombarding the public with “non-existent issues and unbridled populism” even during the summer holidays. “There has never been any kind of agreement or understanding with anyone on suspending the energy programme of the Republic,” he said. “The programme is proceeding rapidly on all levels. The proof of this is the recent exchange of visits between President Anastasiades and the Prime Minister of Israel Mr [Benjamin] Netanyahu and as previously stated… we are in constant negotiations with Egypt.”

# Will Iran focus on oil rather than gas?

Natural Gas Europe, *12.08.2015*

**Despite the possible hurdles for Iranian gas exports to Europe, the International Energy Agency acknowledged the potential of Teheran. On Wednesday, the Paris-based organisation said that Iran could raise its oil output by as much as 730,000 barrels per day (bpd).**

**“While significantly higher production is unlikely before next year, oil held in floating storage - at the highest level since sanctions were tightened in mid-2012 - could start to reach international markets before then,” the IEA wrote in a monthly report. Iran could take advantage of global oil market dynamics.**

‘Global oil demand in 2015 is expected to grow by 1.6 mb/d, up 0.2 mb/d from our previous Report and the fastest pace in five years, as economic growth solidifies and consumers respond to lower oil prices. Persistent macro-economic strength supports above-trend growth of 1.4 mb/d in 2016’ IEA forecasted. Iran and six world powers agreed on a deal in July aimed at curbing Tehran’s nuclear programme. The next 5 months will tell whether the US Congress will ratify the agreement and when the sanctions would be eventually removed. Minister of Petroleum Bijan Zangeneh said that Iran will introduce its new oil and gas contracts during a conference to take place in London in December. On the other hand, natural gas export is a different story. According to a story published by the Financial Times on Tuesday, LNG, Azerbaijan and Russia are too much of an obstacle. The oversupply and the strong competition could put Iran off.

# Germans, Italians lead race for Iranian contracts

Natural Gas Europe, *13.08.2015*


**Iranian delegations have never been as busy as in the last days, negotiating new deals and discussing details for new contracts with European, Russian, Central Asian and Chinese companies.**

**Under the nuclear deal reached in Vienna, Iran’s banking, energy and trade sectors will benefit from the lifting of the sanctions if Tehran will curb its nuclear program. Everybody is now trying to understand which EU company and country will be the first to capitalise on the latest developments. German and Spanish companies could be unexpected winners, while Rome is trying its best too.**

At the moment, Germany, France, Italy and the European Union took the lead of diplomatic missions. Austria, Spain and Sweden could send trade delegations to Iran right after the summer. Philipp Ackermann made the German position clear. The German diplomat said that the rejection of the deal from Washington would be a catastrophe. In this sense, Berlin can capitalise on its diplomatic weight, and it comes as no surprise that, according to Deputy Minister of Oil of Iran Amirhossein Zamaninia, Germans are the favourites for this race. “All European delegations (Italy, France and Germany) were serious about resuming cooperation with Iran after the lifting sanctions, but it seems Germans overtake others,” Zamaninia told ISNA. “Italy has left open doors of relations during all years of tough relations between Iran and the West and now plans to show itself as Iran’s most important trade partner in Europe,” Italian Foreign Minister Paolo Gentiloni said last week, explaining that the next semester will be crucial for European firms to step in and promote stronger ties with Iranian companies. “Iran’s economy hinges upon oil income, with recent surge to privatize the larger part of itself; with long history of cultural and economic relations with Italy, now Iranian economic activists are willing to attract Italian investments in domestic projects,” Mohsen Jalalpour, Head of Iran’s Chamber of Commerce, recently said.

Italian lender Chief Executive Alberto Nagel Mediobanca SpA said that all Iranian sectors show “very interesting opportunities” According to a story published by FARS News, Iran will send two trade delegations to Italy by the next two months. ‘Italy could successfully beat its European rivals, on top of them France and Germany, who have been trying to lure Iranians and guarantee their presence in Iran’s lucrative domestic market after the Vienna deal’ the Iranian news agency wrote. Spain’s oil and gas industry is probably not as recognised and credited as the ones of Italy, Germany and France. All in all, Madrid has its good chances. According to ISNA, Iranian and Spanish companies signed a Memorandum of Understanding for power generational projects worth $250 million in Chile and Mexico. The main focus will be on the renewable sector, but the cooperation could be a testing ground for future agreements. “Repsol is pushing hard. It monitored the situation over the last years. Executives are now taking decisions. They will participate in the Iranian oil and gas sector for sure” a source with direct knowledge of the matter told Natural Gas Europe. The Spanish company, which recently became one of the 15 largest publicly-traded oil companies in the world, could capitalise on its growth and positive reputation. Iranian officials say that the oil and gas sector requires $185 billion in investments over the next five years. In this sense, the country offers enough room for several companies to (re)enter the market, but this does not mean that there will not be competition between European companies. Minister of Petroleum Bijan Zangeneh said that Iran will introduce its new oil and gas contracts during a conference to take place in London in December. Clearly, Europeans are just a part of the puzzle. In the last hours, Teheran is discussing stronger ties with Armenia, and Pakistan too. “The Iranian foreign minister will discuss expansion of Iran-Pakistan relations, completion of the peace pipeline and control of common borders with Pakistani officials during a visit that is paid following the recent nuclear agreement between Iran and the world powers in Vienna” Pakistani Foreign Ministry Advisor Nazar Abbas told Iran’s FNA. Likewise, stronger ties between Armenia and Iran will be energy-oriented. ‘Hovik Abrahamyan expressed confidence that stronger cooperation with Iran, especially in the energy sector, will contribute to a significant increase in trade turnover between the two countries’ reads a note released by the Government of Armenia’s on Thursday, referring to Armenia’s Prime Minister Hovik Abrahamyan. If the Iranian potentials is clear, the short-term prospects show a mixed figure. Oil contracts could be more easier to achieve than gas contracts in the medium-term. According to a story published by the Financial Times on Tuesday, LNG, Azerbaijan and Russia are too much of an obstacle. The oversupply and the strong competition could possibly put Iran off.

# Caspian Sea's status problem – potential source of more problems

Trend, *08.08.2015*


**The change in the situation with the gas giants of the Caspian region – Turkmenistan and Iran – can affect the problem of the Caspian Sea's status, which, as it just recently seemed, could be solved in the near future.**

**All the Caspian countries were assuring in September 2014 that the next summit of the heads of state of the 'Caspian Five' will find a definitive solution to the complex issue of delimitating the Caspian Sea's bottom. At the time, during the 4th summit of the heads of state, the five Caspian countries managed after many years to agree on the key principles of the sea's status.**

However, since then the situation has changed dramatically. This was affected both by the sharp deterioration of relations between Moscow and the West, and the improvement in the climate of relations between Iran and the EU, as well as by Turkmenistan's decision to switch from two major buyers of gas to the markets of the European Union. Thus, today two countries of the region – Iran and Turkmenistan – are conducting massive preparation for diversification of gas supplies, particularly in the direction of Europe. Currently, Ashgabat is building infrastructure via which gas will be transported from the richest gas fields to the coast of the Caspian Sea through the country's territory. It would be logical to assume that the construction of a Trans-Caspian gas pipeline will be the next step in creating gas infrastructure. The Trans-Caspian gas pipeline will be a part of the Southern Gas Corridor and will transport both Azerbaijani and Turkmen gas. Or Turkmen gas can be delivered to the west through Iran which will bring Tehran great benefits in relations with Europe and undermine the regional influence of its main political rival – Turkey which will otherwise become an influential hub for gas supply to Europe. It is obvious that in this situation, it is not advantageous for Iran to back down from its position against construction of the Trans-Caspian pipeline. The second question: will Ashgabat invest in the pipeline running through Iran's territory? The answer is no. At present, one can definitely say this since it is risky.

But if all IAEA inspections confirm Tehran's desire to continue cooperation with the West for several years, Turkmenistan can agree to this way of entering the European markets, if it has time to wait. Moscow is another important factor for torpedoing the problem of determining the status of the Caspian Sea. It realizes that Turkmenistan is the fourth country in the world in natural gas reserves. This can greatly weaken the positions of Gazprom in Europe. Taking into account that Europe has strongly lobbied for the construction of the Trans-Caspian gas pipeline, which will be part of a gas corridor in the EU, Russia could also do everything to slow down the process of determining the status of the Caspian Sea, thus, delay the Turkmen gas supply to the European market until it supplies its gas to the European markets through the new supply routes.

Despite the fact that Baku and Ashgabat have repeatedly stated that the construction of the Trans-Caspian gas pipeline concerns only these two countries, Russia constantly focused on the fact that any decisions can be made only by consensus of the five Caspian littoral states. Otherwise, any decisions will be illegitimate in Moscow's opinion. The Russian side hopes that the EU cannot ignore this point. However, at present, given the rather harsh political confrontation between Russia and the West over the crisis in Ukraine, Europe can ignore Russia's opinion about the "illegitimacy" of construction of the gas pipeline between the two sovereign states along the bottom of the Caspian Sea, like Moscow ignores the illegitimacy of the Crimea's annexation by Russia. Regarding Moscow's arguments about the environmental threat posed by the possibility of laying the gas pipeline under the Caspian Sea, Russia first set a precedent of laying pipelines in a much more aggressive environment along the bottom of the Black Sea.

# Shah Deniz production increases by 9.5% in 1h15

Natural Gas Europe, *10.08.2015*

**BP plc, the operator of Azerbaijan's offshore Shah Deniz gas field released a report a report today indicating that the output from Shah Deniz Stage 1 (SD1) increased by 9.5 percent to 5.2 billion cubic meters (bcm) in first half of 2015, in comparison to the same period last year.**

**The increase at SD1 occurred as a report published by the State Oil Company of Azerbaijan Republic last week, indicated that the country's total gas production decreased by 0.711 bcm to 14.68 bcm. This volume includes the re-injected and flaring gas. SOCAR's report said that company's own gas production decreased by 0.448 bcm to 3.373 bcm.**

BP also reported that the amount of delivered associated gas from Azeri-Chirag-Deepwater Gunashli (ACG) to Azerbaijan in six months was 2.1 bcm. Therefore, with comparing the SOCAR and BP's statistics, Azerbaijan's produced 10.673 bcm of commercial gas in 1H15 in total and the remained volume (4 bcm) of gas has been re-injected to oil wells. BP also said that the existing Shah Deniz facilities' production capacity is currently 29.5 mcm/d or around 10 bcm per annum (bcm/a). The report says during the first half of 2015 (1H15), Shah Deniz spent approximately $0.25 billion in operating expenditure and $2.26 billion in capital expenditure, the majority of which was associated with the Shah Deniz Stage 2 project. During the 1H14, operating expenditure was $0.243 billion, while capital expenditure was $1.766 billion. BP also reported that in the first half of 2015, SCP spent about $22 million in operating expenditure and $559 million in capital expenditure. The pipeline has been operational since late 2006, transporting Shah Deniz gas to Azerbaijan, Georgia and Turkey. In the first half, SCP's daily average throughput was 20.34 million cubic meters of gas per day.

In the second quarter, the existing Shah Deniz Stage 1 platform completed the SDA07 gas production well and continued drilling another production well, whilst the Istiglal and Heydar Aliyev rigs continued drilling operations in support of the Shah Deniz Stage 2 pre-drill program. The Istiglal rig was transferred to the shipyard for rig certification and upgrade in July 2015. The Heydar Aliyev rig will continue drilling activities. These two rigs have already drilled eight production wells in preparation for the first gas and consequent production ramp up.

# Details of Azerbaijan’s gas sector for 1h 2015

Natural Gas Europe, *13.08.2015*

**During the first half of 2015, Azerbaijan’s gas export increased despite a decline in the country’s gas production as well a halt in gas export to Russia. Azerbaijan halted gas export to Russia at the beginning of 2015.**

**A source in State Oil Fund told that Azerbaijan’s revenues from gas export decreased significantly during the mentioned period despite an increase in volume. “Azerbaijan’s revenues from the exported gas and gas condensates from Shah Deniz 1 decreased by 36 percent to $189.532m , mostly due to a decrease in oil and gas price as well as an increase in capital expenditure of Shah Deniz 2,” the official said anonymously.**

The shareholders of Shah Deniz are: BP, operator (28.8 percent), AzSD (10 percent), SGC Upstream (6.7 percent), Malaysia’s Petronas (15.5 percent), Lukoil (10 percent), NICO (10 percent) and TPAO (19 percent). During the mentioned period Azerbaijan’s exported gas to Turkey dropped by 25 percent in value, while the gas condensate price decreased by 45 percent year-on-year. The official refused to give the value of gas export from Shah Deniz in total (not only Azerbaijan’s revenues). The State Custom Committee also reported on August 13th that the country’s total gas exports stood at 4.547 billion cubic meters (bcm) during the first half of 2015 (1H15), including 896 million cubic meters of gas which exported by the State Oil Company of Azerbaijan Republic (SOCAR). The Custom reports always keep the value of Shah Deniz gas export unveiled, but this report says that SOCAR’s gas export reached $143.883 million dollar.

During the same period in 2014, SOCAR had exported 1.145 bcm in gas worth $196.333 million. According to a report, published by BP plc on August 10th, Shah Deniz spent approximately $2.26 billion in capital expenditure, the majority of which was associated with the Shah Deniz Stage 2 project, while this figure in the same period of last year was $1.766 billion. The output from Shah Deniz Stage 1 (SD1) increased by 9.5 percent to 5.2 billion cubic meters (bcm) in first half of 2015, while the total Azerbaijan’s commercial gas production stood at 10.673 bcm. Azerbaijan also re-injected some 4 bcm of gas to oil fields. In the first half of 2015, BP completed the interpretation of the seismic dataset for Shafag-Asiman. This work required some 18 months to complete and is followed by another year required for planning of the first exploration well.

The block lies some 125 kilometers to the South-East of Baku. It covers an area of some 1100 square kilometers and has never been explored before. It is located in a deepwater section of about 650-800 meters with reservoir depth of about 7000 meters. BP also signed a new production sharing agreement (PSA) with SOCAR in December 2014 to jointly explore for and develop potential prospects in the shallow water area around the Absheron Peninsula in the Azerbaijan sector of the Caspian Sea. In the second quarter, the existing Shah Deniz Stage 1 platform completed the SDA07 gas producer well and continued drilling another production well, whilst the Istiglal and Heydar Aliyev rigs continued drilling operations in support of the Shah Deniz Stage 2 pre-drill programme. These two rigs have already drilled eight production wells in preparation for the first gas and consequent production ramp up. SOCAR also announced on August 6th that it started drilling a new gas well in depth of 6,200 m on “Bulla Deniz” in Caspian Sea. The well will produce 0.8 mcm/d of gas. The Bulla-Deniz offshore field is located at 80 kilometers south of Baku, and it was opened in 1975. During this time, over 61 bcm of gas was produced at the field.

# Russia: Gazprom, a behemoth no more

Natural Gas Europe, *08.08.2015*


**It was not too long ago that Gazprom, the state-controlled energy conglomerate, was one of the Kremlin’s most potent geopolitical weapons. But those days now seem like a distant memory: Gazprom is a financial shadow of its former self.**

**The speed of Gazprom’s decline is breathtaking. At its peak in May 2008, the company’s market capitalization reached $367.27 billion, making it one of world’s most valuable companies, according to a survey compiled by the Financial Times. Gazprom’s deputy chair, Alexander Medvedev, repeatedly predicted at the time that within a decade the Russian energy giant could be worth $1 trillion.**

That prediction now seem foolhardy. Since 2008, Gazprom’s value has plummeted. As of August 3, it had a market capitalization of $51.12 billion. A little over four years ago, in April 2011, the figure stood at $194.5 billion. No company among the planet’s Top 5,000 has suffered a bigger collapse in market capitalization, according to Bloomberg Business News. Indicators suggest Gazprom is nowhere near hitting bottom, and lingering uncertainty raises questions about its survivability. During the first two quarters of 2015, Gazprom’s natural gas production fell by 12.9 percent. In addition, Russia’s Ministry of Economic Development predicts that annual production will fall to 414 billion cubic meters (bcm), the lowest level in Gazprom’s history, and well below the company’s 2015 target of 485 bcm. Last year, production declined by 9 percent to 444 bcm, which, at the time, was the lowest on record. Industry experts forecast that production will remain low over the next few years. Not only production is sagging, export revenues are also taking a big hit. During the first five months of 2015, export revenue shrank by 35.8 percent to $18.768 billion, according to Russia’s Federal Customs Service.

Last year, the company's net income plummeted by over seven times in ruble terms to 159 billion rubles from 1.139 trillion rubles in 2013, and by whopping 12.5 times in dollar terms to $2.8 billion from $34.8 billion in 2013. So what happened? Why is the company with the largest proved oil and gas reserves among publicly traded energy giants, and operating in a country bordering on two of the world's top energy consumers – the European Union and China – performing so badly? The Kremlin, which holds a controlling stake in Gazprom, tends to blame the sharp drop in oil prices and "warm winters." However, energy giants ExxonMobil and Petro China, Gazprom's financial contemporaries back in mid-2008, have remained top performers. As for falling demand in "warm winters," while Russian supplies to Western Europe shrank, Norway boosted its market share and, for the first time, significantly beat Russia – by more than 50 percent – in terms of supplies to this critical region in the last quarter of 2014 and first quarter of 2015, according to the latest data available.

Experts say that Gazprom's main problem is that it continues to serve as the Kremlin's favored geopolitical weapon, rather than be allowed to act as a purely commercial enterprise. President Vladimir Putin's administration keeps forcing the company to serve its political interests. Examples include Gazprom's purchase of major Russian media outlets that were then turned into Kremlin mouthpieces, bullying or buying the loyalty of neighboring states for Moscow's geopolitical benefit, and sponsoring the egregiously expensive Olympic Games in Sochi. Gazprom's "plunge has become emblematic of the malaise that has overtaken President Vladimir Putin's economy," noted a commentary published by Bloomberg Business in 2014. Russia will finish 2015 as the second biggest loser in global economic growth, according to forecasts of economists surveyed by Bloomberg. Most ominously for the company, the Putin administration still keeps pushing Gazprom to implement new projects that are "geopolitically important," but risky from a financial viewpoint. Two prominent examples of such projects concern Ukraine and China. The Kremlin's sponsorship of separatists in eastern Ukraine has cost Gazprom dearly. Gazprom's exports to Ukraine fell from 36.4 bcm in 2010 to 3.7 bcm during the first six months of 2015, before stopping altogether on July 1. Moscow's efforts to effectively mount an energy blockade against Ukraine in 2014-2015 did not work, but ended up costing Gazprom close to $6 billion in lost revenue and fines, while pushing European customers to diversity their energy imports.  Moscow still wants to stop transit supplies of gas via Ukraine to Europe (or at least cut them from 60-62 bcm in 2014 to 10-30 bcm) by 2019. The alternative for Russia is to channel gas via Turkey and two new lines via the North Stream network. Analysts are not thrilled with these plans, seeing them as more about politics than economics. The estimated construction costs for two new lines of North Stream stand at €9.9 billion ($10.9 billion), while the first of the total of four Turkish Stream lines could cost €3.3 billion ($3,6 billion).

Thus, the total costs of the projects, without taking into account the likelihood of cost overruns, will reach about €23.1 billion ($25.4 billion). Beyond the construction expenses, transit costs for North Stream appear to be significantly more expensive than shipping energy via Ukraine. Experts estimate that in 2014 Gazprom's transit costs per tcm via North Stream amounted to $43 compared to $33 via a Ukrainian route. When it comes to Gazprom's commitments to Chinese exports, the news for the company may not be much better. Initially, when the $400-billion, 30-year deal was announced in May 2014, it was widely seen as a major geopolitical victory for Putin and Russia. But details of the agreement remain a secret, suggesting that there is little good news for Gazprom in it. The limited information that has emerged supports this assumption. The project is expensive, with cost estimates ranging from $55 billion, as mentioned by the Kremlin, to $100 billion or more cited by Gazprom's specialists.

In addition, Gazprom is reportedly obligated to cover the costs of building infrastructure to extract, process, store and deliver gas to China on its own. China was initially supposed to help out with a $25-billion payment, but it never happened. Meanwhile, Gazprom moved ahead with the project on borrowed money, increasing the price tag and risk. Adding to the risk is the fact that the project poses significant technological challenges, including difficult terrain along the planned route. While it was initially announced that the deal could be worth upwards of $400 billion for Gazprom, Russian officials now estimate the deal could reap significantly less due to low oil prices. A benchmark barrel of oil cost roughly $100 at the time the deal was announced; these days the oil price is hovering in the $50-per-barrel range. Analysts at Merrill Lynch estimate that Gazprom needs to sell gas to China at a price of $340-380 tcm to turn a small profit. Currently, however, Gazprom is receiving about $200 per bcm for its gas exports. For the third quarter, for example, Gazprom is charging Moldova a price of $210 per bcm. With revenue potentially falling to about $200 billion, and construction costs of $100 billion or more, the China deal could potentially turn toxic for Gazprom. Overall, the price tag of the new geopolitically driven pipelines could exceed $125 billion, or about 2.5 times Gazprom's current market capitalization. Given the company's financial situation, Gazprom executives have a lot to worry about in the immediate future.

## Putin is actually in serious trouble

Business Insider, *11.08.2015*

**Russia's claim, using an extremely creative interpretation of international law, to exclusive economic rights to nearly half a million square miles of the Arctic Sea, was certainly a head scratcher.**

**Sure the territory is valuable due to its untapped reserves of fossil fuels and for the shipping lanes that will open as Arctic ice melts. But the claim is likely to ultimately be rejected by the UN. At the same time, sparking a manufactured international crisis over the Arctic, one that pits Russia against the United States and Canada, might be just what the doctor ordered.**

Why? Because Vladimir Putin badly needs to make a new action movie to distract his people. The Kremlin leader is boxed in on so many fronts right now that he badly needs to change the subject. For starters, Putin has no good options in eastern Ukraine. The old fantasies about seizing so-called Novorossia, the strip of land from Kharkiv to Odesa, and establishing a land bridge to Crimea are dead. And the more modest goal expanding the territory Russia and its proxies currently hold, perhaps with a push to Mariupol, is probably out of the question too. Either campaign would be costly in terms of blood and treasure, it would certainly spark a fresh round of sanctions, and it would involve occupying hostile territory. The recent uptick in fighting this week reeks more of desperation than of a serious move to acquire more territory. Russia could, of course, just annex the territories controlled by Moscow's proxies; or it could freeze the conflict and establish a Russian protectorate there.

But in this case, Moscow would be shouldered with the burden of financing an economically unproductive enclave whose infrastructure has been destroyed. And do so while Russia's economy is sinking into an ever deeper recession. Moreover, Russia would lose any leverage over the remainder of Ukraine, which would quickly move West. Sanctions would be continued, and possibly escalated. The Kremlin's preferred option, given these limitations, is to force the territories back into Ukraine on Moscow's terms — with broad autonomy and the ability to veto decisions by the Kiev government. But Ukraine and the West appear unwilling to let this happen. Putin has boxed himself into a corner in Ukraine, and it is difficult to see how he is going to get out of the quagmire he has created. It's also difficult to imagine how Putin is going to extract himself from the quagmire he has created at home. The Kremlin leader is caught in a trap of his own making, between economic and political imperatives. With the economy sinking deeper into recession, inflation spiking, oil prices dipping below $50 a barrel, and the ruble approaching the lows it reached earlier in the year, Putin badly needs sanctions eased to give the economy breathing space. But for that to happen, he would need to climb down in Ukraine, a move that would undermine the whole rationale for his rule and infuriate the nationalist supporters who make up his base. "Putin's return to the presidential seat heralded a rather sudden pivot towards a deep-seated domestic nationalism," Moscow-based journalist Anna Arutunyan wrote recently. "Yet nationalism as a state policy and identity, initially implemented to shore up Kremlin power, now has the Kremlin itself trapped and threatened by forces that it initially nurtured, but can no longer fully control." A recent report in Novaya Gazeta, for example, claimed that the war in eastern Ukraine risks "metastasizing" as volunteer fighters have been returning to Russia with large quantities of heavy weapons. During his first two terms in the Kremlin, Putin's team — and most notably his chief political operator, Vladislav Surkov — very skilfully co-opted and manipulated both liberal and nationalist groups. That strategy caught up with him in 2011-12, when liberal disappointment resulted in the largest anti-Kremlin street protests Russia has seen since the breakup of the Soviet Union — leaving him no place else to turn but toward the nationalists. "Given the higher prevalence of nationalist views — especially among members of the security services — a sense of betrayal could have much bigger consequences for the Kremlin than simply mass protests," Arutunyan wrote.

And on top of it all, Putin has an energy problem. It's not just that oil prices are low, and will remain so for sometime — although that certainly is a problem. But the real essence of Putin's energy woes are structural, not cyclical. The global energy game is changing — and it is not changing in Moscow's favor. Shale, liquified natural gas (LNG), and renewables — three areas where Russia is extremely weak — are ascendant and are dramatically altering the market. The potential for ending sanctions on Iran puts a powerful new player and competitor — the world's third largest natural gas producer — in the game. And the Ukraine conflict and Moscow's aggressive posture toward the West have led Europe — Russia's most important market — to change its energy policies and seek alternative suppliers. Moreover, rather than looking the other way as Gazprom repeatedly flouted the European Union's antitrust laws, now Brussels is now cracking down. If one looks at Gazprom as a barometer of Russia's fortunes, one statistic says it all: in 2008, the company had a market value of $360 billion; today it is worth just $55 billion.  Energy has always been Putin's trump card. He has been able to use it to bully former neighbors into submission and bribe and blackmail the Europeans. But at least Putin is still winning the battle for hearts and minds, right? For more than a year, we've been hearing about how Russia's slick propaganda machine is crushing the West in the information war. Moscow has no doubt been very effective mounting guerrilla marketing campaigns aim at sowing doubt and confusion in the West.

And they have been skilfull in manipulating and surreptitiously influencing media narratives on issues like the Ukraine war and the downing of flight MH17. But guess what? After spending nearly half a billion dollars to get its message out to the world, after unleashing armies of trolls to disrupt Western news sites, after launching the most widespread disinformation campaign since the end of the Cold War, after all this, Russia's global image is in the toilet. According to the Pew Research Center's new report, only three countries in the world have a net positive opinion of Russia: China, Vietnam, and Ghana. Worldwide, a median of just 30 percent view Russia favorably. Writing in Bloomberg View, political commentator Leonid Bershidsky quipped that "the money might be spent just as wisely buying more $600,000 watches for Putin's press secretary, Dmitry Peskov." And the numbers are dismal across the board. In Europe, just 26% view Russia favorably, in the Middle East, only 25% do. In Latin America, it's only 29%. In the regions most favorably inclined toward Russia — Asia and Africa — it's just 37%. And if Russia's global image is bad, Putin's is dismal. Worldwide, just 24% trust him. In Europe, just 15% do.

# Russia resubmits petition to UN for control over big chunk of arctic shelf

Natural Gas Europe, *11.08.2015*

**Despite problems and resistance, the oil and gas industry remains committed to operations in the Arctic. Shell and Russia voiced their intention not to lose the battle. Russia re-submitted its petition to the UN claiming exclusive control over 1.2 million km2 of the Arctic sea shelf.**

**Shell applied to the US Bureau of Safety and Environmental Enforcement to amend its federal exploratory drilling permit. The company received its safety vessel repaired and it is getting ready for drilling in in the Arctic Ocean off Alaska. Lukoil has been awarded the right to develop the Vostochno-Taimyrsky block.**

'The area of the Vostochno-Taimyrsky block is 13,800 square kilometers. The concession period is 27 years.The new concession opens up new opportunities for PJSC Lukoil in Eastern Siberia' reads a note released by the Russian company. A few hours before, Lukoil said it passed a 5 million tonnes (38.6 million barrels) mark in oil production at the Yuri Korchagin field in the Caspian Sea.

# Gazprom reduces export price forecast

Argus, *10.08.2015*


**Gazprom has increased its forecast for gas sales to Europe and Turkey this year, which would require strong exports to continue through the rest of 2015. Gazprom expects sales of 156bn-160bn m³ to Europe and Turkey, it said.**

**Gazprom had previously planned to sell about 150bn-157bn m³ to Europe and Turkey this year, which would be up from 146.6bn m³ in 2014.Sales, which were 88.6bn m³ in January-July, would need to be 67.4bn-71.4bn m³ in August-December to be the forecast of 156bn-160bn m³ over the whole of the year. Sales in line with the upper end of the 71.4bn m³ forecast for August-December would be 14.28bn m³/month,**

Gazprom sold 14.29bn m³ to Europe and Turkey last month, which was up from 12.8bn m³ in June. This was Gazprom's highest-ever sales in July and the most for any month since January 2014. Oil-indexed prices are likely to be lowest in June-August, offering an incentive for high European imports from Russia. European hub prices above crude-linked import costs also encouraged a strong call on Russian supply. Gazprom's sales to Europe and Turkey over the second half of 2015 would need to remain higher than in recent years to reach 158bn m³ — the median of the firm's forecast — over the whole of this year. The firm sold 74.3bn m³ in January-June, which would need to rise to 83.7bn m³ in July-December to reach 158bn m³. Gazprom sold an average of 70bn m³ to Europe and Turkey in July-December over the past five years. The highest over that period was the 82.6bn m³ in the second half of 2013. But Russian exports appear to have slowed from July's high. Deliveries through Nord Stream, at Mallnow on the Germany-Poland border and at the Ukraine-Slovakia border, fell to 314mn m³/d on 1-9 August from an average of 331mn m³/d in July. Lower sales this month may be offset by higher exports in the winter, when Europe typically buys more gas from Russia. Gazprom sold an average of 38.4bn m³ to Europe and Turkey during each fourth quarter of the past seven years compared with 33bn m³ in each third quarter over the same period.

# Ukraine hopes for new gas talks with Russia, EU at end-August

Reuters, *10.08.2015*

**Ukraine hopes to hold a new round of talks with the EC and Russia about natural gas supplies at the end of August in Vienna, Energy Minister Volodymyr Demchyshyn said.**

**The EC has been mediating in a gas pricing dispute between Russia and Ukraine, an important transit route for gas to the EU, for more than a year." Our talks with the EC will definitely take place on Aug 27-28 and we hope the Russians will join," Demchyshyn said. The Commission said it could not confirm any dates, but expected preparatory talks to take place that could lead to the trilateral negotiations at ministerial level needed for any breakthrough.**

"A technical level trilateral meeting is foreseen mid-August," spokeswoman Anna-Kaisa Itkonen said. Kiev and Moscow reached an interim accord last year for supplies over the winter period. However Ukraine suspended gas imports from Russia in July due to a price dispute, leaving it dependent on its own output and European imports.

# Polish, Lithuanian companies agree on non-binding open season procedure for GIPL

Natural Gas Europe, *14.08.2015*

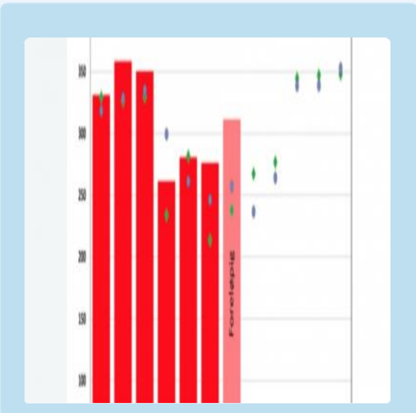
**The Gas Interconnection Poland – Lithuania (GIPL) project promoters, the Polish and Lithuanian gas transmission system operators, Gas Transmission Operator GAZ System S.A. and AB Amber Grid, agreed to conduct the Non-Binding Open Season Procedure.**

**'During this phase, the Polish and Lithuanian gas transmission system operators seek to estimate the market participants' demand for the firm capacity at the Entry/Exit Point Poland – Lithuania of the Gas Interconnection Poland–Lithuania in both directions of the gas flow' reads a note released.**

According to GAZ System, the outcome of this phase of the Open Season Procedure will result in respective decisions on launching the Binding Open Season Procedure, where the binding orders on capacity booking will be collected. ‘The main aim of the Gas Interconnection Poland – Lithuania Open Season Procedure is to identify market interest which shall be confirmed by long-term pipeline capacity booking as well as to define the optimal way of financing of the project.’ AB Amber Grid concluded a contract with UAB Ardynas, a private company that will perform the territorial planning and designing works. Started in 2013, the environmental impact assessment procedure is nearing completion. Another important step – the preparation of the GIPL special plan has been initiated. Amber Grid wrote that the two companies launched the preparation of the special plan on the pipeline connecting Poland and Lithuania. ‘This phase will include the development of the territorial planning solutions for the implementation of the GIPL in the territory of the Republic of Lithuania; identification of the optimal locations (strips or areas of land) for the construction of the new pipeline (the gas interconnection between Poland and Lithuania) in the territory of Lithuania ensuring an efficient use of land and forests during the construction and/or operation… It is estimated that the territorial planning tasks will be completed in 2016’ reads the press release. The European Union granted financial assistance to the Spatial Planning and Engineering Design Works of the Poland-Lithuania Gas Interconnection project. Under the agreement signed by Amber Grid and Poland’s Gaz-System, the European Union’s Innovation Network Executive Agency (INEA) granted EUR 10.6 million under the Connecting Europe Facility (CEF).

# PGNiG secures financing for total E&P Norge’s assets, eyes new assets

Natural Gas Europe, *13.08.2015*



**PGNiG executed a USD 400m credit facility agreement with Societe Generale, BNP Paribas, ING, HSBC, Citibank, CACIB, SEB and Natixis. ‘The primary use of proceeds from the facility will be early payment of some of PUI’s outstanding debt, including the entire debt contracted to finance acquisition of assets from Total E&P Norge in 2014’ reads a note released.**

**The loan will give PGNiG the opportunity to freely purchase other production assets on the Norwegian Continental Shelf. ‘The funding will also support the development plans for the two new oil and gas fields – Gina Krog and Snadd.’**

Also, Norwegian Petroleum Directorate reported July gas production higher than expectation. Norway’s preliminary figures also hint at production sensibly stronger than in July 2014. ‘Total gas sales were about 9.6 billion Sm3, which is 1.3 GSm3 more than previous month’ NPD wrote. Gas real production was higher than expected for the second month in a row. Statoil reported positive developments in the North Sea. ‘The first piece of the Johan Sverdrup development has now been completed and installed on the field in the North Sea’ reads a note released by the Norwegian company.

Heerema Marine Contractors were responsible for design, building and installing the pre-drilling template. “We have completed and installed the first piece of one of the largest industrial projects in Europe. We still have a long journey ahead in the Johan Sverdrup development, but we are very pleased that we have completed and installed the subsea template without serious incidents and according to plan. This is a good start according to the required quality and precision standards for successful implementation of the development,” Kjetel Digre, head of the Johan Sverdrup field development, noted. According to some analysts, Norway is poised to reach an eight-year high. Output from the Troll field is set to climb 23 percent to 33.5 billion cubic meters (1.2 trillion cubic feet) in the year through September.

# Eastring: Diversifying Eustream’s portfolio

Natural Gas Europe, *10.08.2015*

**Slovak TSO Eustream proposed the “Eastring” natural gas infrastructure project as an alternative to the South Stream pipeline project, which was officially scrapped.**

**As told to Natural Gas Europe, Eastring’s objectives include providing gas supply alternatives for Balkan countries like Romania, Moldova and Bulgaria, would be linked to all natural gas sources, be compliant with EU law, facilitate access to new gas sources, and be the most efficient in terms of time and cost (the total cost of Eastring is EUR 1.8 billion (to Isaccea) to EUR 2.2 billion (to Malkoclar), given its plan of refurbishing existing natural gas infrastructure.**

To get an update on the project, Natural Gas Europe spoke with Eustream’s staff at the World Gas Conference in Paris, France. Natural Gas Europe: When we’re considering the Slovak natural gas market and those of other countries in Central and Southeastern Europe, what would you tell those who are not familiar with their infrastructure and sources of gas? Eustream: Our basic mission is to transport natural gas in Slovakia and through Slovakia to the European markets. To this end, we operate a large-scale high-pressure gas transmission system in the territory of the Slovak Republic. This transmission system represents an important energy link between the Commonwealth of Independent States (CIS) and the European Union. In other words, we are the main entry gate and the biggest highway for Russian gas in the EU. The business name “Eustream” is intended to reflect this specific role we have. Could you refresh our memories on how Slovakia was affected by the gas cut-off of 2009? How much was it affected? It was really affected. All such projects have been started as reverse flows, because Slovakia had never been through such a situation, and that’s why all these projects for reverse flow and security of supply, as well as the role of storages, come into play. The gas industry has come a long way since that time.

Why has Eustream decided to enter the realm of international pipeline connections, i.e. Eastring? Eustream is a part of international pipeline connections for more than 40 years. Slovak Gas TSO in connected with Austrian, Czech, Ukrainian and Hungarian transmission systems and we are preparing connection to polish pipelines. As strategic gas carrier we fill liability for ensuring energy security of the European region. On the other hand use of our system had been dropping step-by-step so we were looking for new business opportunities and utilization of our system. The Eastring project would connect western liquid markets to southeast Europe and Turkey. After cancelation of the South Stream project, Eastring is very important element in process of diversification of natural gas sources and transmission routes, namely for the countries of the Balkan region. This would be possible by connection of these countries to the developed gas market places in Western Europe.

Another very important aspect of the project is its ability to connect countries in the Central and Eastern Europe to the gas from the LNG terminals in Greece and Turkey, which would be possible via intended Bulgarian projects of connections to both mentioned countries. Intended connection between Bulgaria and Turkey allows also to consider Eastring pipeline from the another perspective – as a project able to connect Europe to the alternative gas sources from the Caspian region, e.g. Azerbaijan, Turkmenistan and Iran. From the perspective of the all mentioned aspects, Eastring project perfectly fits into the strategy of development of Bulgarian gas infrastructure. What qualities or assets does Eustream have that make it well suited to pursue this activity? For more than 40 years, we’ve been involved in the effective transmission of Russian gas through our territory. We’ve got good technicians, technical experts who have a wealth of experience. One of the Eustream´s main contribution will be also the biggest Compressor Station of EU, situated in the east of Slovakia, in Veľké Kapušany. What are your thoughts about refurbishing existing pipelines versus constructing new natural gas transport infrastructure? Compared to other projects, Eastring is the best alternative from economic and time point of view. It should be an alternative to use an already existing network and pipeline. Our colleagues have recognized the possibility that this is a feasible project among these kinds of projects, and that’s a view that I share. What geopolitical arguments are you using to further the Eastring project in terms of diversification of sources and/or routes of gas? Eustream is very important project also from geopolitical point of view, because it will resolve Central European region´s security issues as well as help to Balkan countries and support trade in western hubs. Discussions with our potential project partners, mainly from Hungary, Romania and Bulgaria continue and had resulted into successful submission of the project to the reopened Ten Year Network Development Plan (“TYNDP”) and to the list of candidates for the PCI list (Projects of Common Interest), which would enable Eastring project to be eligible for the financial support from the Connect European Facility fund (“CEF”). Recently some sort of agreement has been signed regarding Eastring. What can you tell us about that? Slovakia, Hungary, Romania and Bulgaria signed a Joint Declaration in May in Riga. We consider conclusion of mentioned document on further gas infrastructure development in these countries as a very important milestone for the region. Nevertheless, despite the fact we perceive conclusion of this Declaration in a very positive way, this agreement is not concrete on further steps and timeline of the Eastring project implementation.

This is a task to be solved on the commercial/company level and due to this fact we are progressing with conclusion of the Declaration/s to be signed on the companies level. What are the next steps for the Eastring project? Will you continue to advocate for it, or what's going to happen next? Eustream will continue to promote the project and cooperate with TSOs from Romania, Bulgaria and others, and also have a discussion with potential partners and shareholders, also from Western Europe. Activities leading into successful submission of the project to the PCI list, in order to become eligible for grants are our main target for the upcoming weeks. Such activities cover also works on detailed project routing and calculation of precise costs of the project. After successful submission of the project to the PCI list, we will be able to proceed with further steps, covering also performance of the market screening.

# Fast track for fracking bids: Ministers set to be given powers to speed up applications if they are being delayed by councils

Daily Mail, *09.08.2015*

**Fracking sites could be fast-tracked through the planning system under new rules to be announced. Ministers will be given new powers to push through shale gas applications if they are being held up by councils.**

**It is a response to concerns from ministers that Britain will have to rely on unstable imports and expensive solar and wind power. Amber Rudd warned the current system allowed applications. The delays could spell the 'death' of a 'vital national industry', she said. Miss Rudd warned that Britain could be forced to import three-quarters of all its oil and gas by 2030 if it doesn't exploit shale.**

Applications for shale sites have been held up amid ferocious opposition from green campaigners and and some local residents' groups. Ministers are frustrated at Britain's failure to join the fracking revolution which has transformed energy supplies in the US – and slashed energy bills. Writing in the Sunday Times, Miss Rudd said: 'We need more secure, home-grown energy supplies and shale gas must play a part. 'We can't continue with a system that sees applications dragged out for months, or even years on end which doesn't give certainty to industry and which could spell the end of a potentially vital national industry.' She added: 'Planning authorities generally fail to meet a target to process environmentally sensitive applications in 16 weeks or less.' Official estimates suggest shale could create more than 60,000 new jobs in the UK, and bring billions of pounds in revenue for the taxpayer. It could also see communities benefit, as a slice of revenue is set aside for local councils.

One application by the firm Cuadrilla for wells on the Fylde coast was rejected by Lancashire county council in June, more than a year after it was first submitted. An appeal decision is not expected for many months. The guidance will be issues by Communities Secretary Greg Clark, who is to write to councils this week. He will say: ‘There is an urgent need to explore and develop our shale gas and oil resources in order to unlock their potential benefits and to help meet our objectives for secure energy supplies, economic growth and lower carbon emissions.’ Updated rules will make it easier for him to take charge of appeals for shale to go ahead if they have been rejected by councils. New licences for gas exploration are expected to be handed out within weeks. That could clear the way for new exploration once councils approve drilling sites.

Energy Minister Andrea Leadsom said safe fracking was a ‘key priority’. ‘We are exploring ways to really kickstart the industry as we know it could support over 60,000 jobs and lead to tens of billions of pounds of investment in the UK, helping to create lasting economic security for hardworking people and families across the country,’ she said. ‘We will be using gas to heat our homes and cook our meals for decades to come, and it makes total sense that we make the most of this home grown energy source we have right here in Britain instead of relying more and more on volatile foreign gas imports.’ Opponents of fracking claim the process of pumping water and chemicals into the ground at high pressure to release gas is dangerous and could pollute water supplies. Fracking was put on hold four years ago after a minor earthquakes near Blackpool which was linked to test wells.

# Britain braces for next wave of fracking

The Memo, *11.08.2015*

**Fracking is set to become a major part of Britain’s energy mix as the Department for Energy and Climate Change is poised to reveal the winners of the latest auction for drilling licences. Despite intense public opposition, the government has thrown its weight behind the controversial drilling technique which many believe can cause irreparable damage to the countryside.**

**Writing in The Sunday Times, Climate Change & Energy secretary Amber Rudd pledged her unwavering support for fracking, claiming the so-called shale gas revolution could generate 60,000 jobs and billions of pounds of investment:**

Britain is currently on course to be importing about 75 per cent of its oil and gas resources by 2030 – we need more home-grown energy supplies and shale gas must play a part in that. The choice is not gas or no gas. The choice is how much we rely on gas from abroad or whether we extract more in the UK. Exploration licences have already been granted for sites across the country including Sussex and Lancashire which have seen numerous protests from the public. The latest auction could see vast swathes of the country opened up to fracking and shale gas exploration. Bids have been received from 95 companies for licences that could cover more than 40% of the UK’s land mass.

# Despite public opposition, UK government could take over decision-making from local councils

Natural Gas Europe, *13.08.2015*


**The UK Government relaunched its shale campaign, asking local governments to take faster decisions on companies' bids. It also said that the Secretary of State could call in shale applications, but it did not clarify how it could react to growing local opposition.**

**'The Secretary of State will also actively consider calling in shale applications. Each case will be considered on its individual merits in line with his policy. Priority will be given to any called-in planning applications' reads a note released by the Department of Energy. The Government also intends to analyse the performance of local planning authorities.**

'When such applications are made to underperforming local planning authorities, the Secretary of State will consider whether he should determine the application instead.' The Government asked local planning authorities to take a decision on planning applications within 16 weeks where an application is subject to Environmental Impact Assessment. 'This should be supported through an upfront timeline agreed with the applicant including the anticipated decision date.' Local planning authorities should single out which issues can be left to other regulatory regimes. 'We also expect local planning authorities to make full use of the funding available for 2015/16 through the £1.2m shale support programme. This will ensure there are adequate resources locally to enable the timely determination locally of planning applications for shale gas.' Moreover, DECC tries to speed up seismic investigation and groundwater monitoring. 'The Government has published its response to consultation and will take forward amending permitted development rights to allow the drilling of boreholes for groundwater monitoring. The Government is also inviting views on proposals for further rights to enable, as permitted development, the drilling of boreholes for seismic investigation and to locate and appraise shallow mine workings.' Once more, London stressed that local communities would cash in on their open-to-business approach. 'We also strongly believe that communities hosting shale gas developments should share in the financial returns they generate. The Government welcomes the shale gas companies' commitment to make set payments to these communities, which could be worth £5-10m for a typical 10-well site, and we want to go further. As announced by the Chancellor in the 2014 Autumn Statement, and set out in our manifesto, we are determined to ensure that local communities share more of the proceeds and feel more of the benefits.' The Government also mentioned once more how developments could bring along new jobs. "As a One Nation Government, we are backing the safe development of shale gas because it's good for jobs giving hardworking people and their families more financial security, good for our energy security and part of our plan to decarbonise the economy. We need more secure, home grown energy supplies – and shale gas must play a part in that" Energy and climate change Secretary Amber Rudd said in a separate statement.

All in all, the government seems to confirm that shale is a national priority and that shale applications cannot be slowed down by local councils. This could be good news for shale enthusiasts, but it remains to be seen how the public will react. Local communities could easily enter into complex political mechanisms. The Government's case-by-case approach could backlash, as Conservative MP representing the local community could pay the price of the centralisation. Additionally, the Cameron government could not anymore blame local governments. In case it failed triggering a shale gas revolution in the country, the government would be easily hated by locals and mocked by the industry. According to the DECC Public Attitudes survey, public opinion gradually shifted from relative support to relative opposition over the last 19 months. On the other hand, the Government is at least trying to flex its muscle and show that political intentions can turn into practical measures. Along with a renewed interest for North Sea production, shale gas could come in handy too. 'North Sea production is falling. By 2025 we will import almost 70% of the gas we need. By producing shale gas we become less reliant on foreign imports' the Government noted in another communiqué, showing coherence and some central planning. The Government changed rules for E&P operations in National Parks, Areas of Outstanding Natural Beauty, the Broads and World Heritage Sites. Gas provides around a third of UK energy. The British Geological Survey identified shale gas or oil in the Bowland shale in the North of England, the Weald Basin in Sussex and Surrey and the Midland Valley in Scotland.

# Norwegian gas production could reach 8-year high soon

Natural Gas Europe, *11.08.2015*

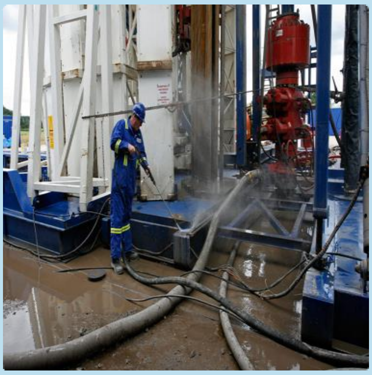
**After a fall in British spot gas prices on Monday, analysts started explaining the possible reasons behind such a trend. Most of the experts see in the Norwegian production a reason for the falling prices in the UK.**

**Norway's production is growing, as planned maintenance operations have been completed over the weekend. This is likely to add to an already oversupplied system. According to Bloomberg, Norway is poised to reach an eight-year high. Output from the Troll field is set to climb 23 percent to 33.5 billion cubic meters (1.2 trillion cubic feet) in the year through September.**

On other hand, companies keep divesting from the country. Halliburton reportedly cut another 141 positions in Norway on Monday. Recent developments showed how companies in the North Sea are trying to monetise assets, while increasing production. Norway's preliminary production figures for June 2015 show an increase in gas production with respect to the same period of 2014. Figures for June also indicate that actual production is higher than expected.

# U.K. tries to kick-start shale gas with planning speedup

Bloomberg, *13.08.2015*



**The U.K. said it will fast-track planning applications for shale gas in a bid to tap fuel resources that could supply the country for a half-century.**

**Communities Secretary Clark may take over planning decisions from local councils that fail to reach conclusion within 16 weeks, his department and Department of Energy and Climate Change in a statement. He may consider appeals on failed applications, it said."To ensure we get this industry up and running, we can't have a planning system that sees applications dragged out for months or even years on end," Energy Secretary Amber Rudd said in the e-mailed statement.**

"We now need, above all else, a system that delivers timely planning decisions and works effectively for local people and developers."Earlier tax breaks and easing of planning rules have so far failed to spur hydraulic fracturing in the U.K., where companies including Celtique Energie Ltd., Ineos Group AG and IGas Energy Plc expressed an interest in tapping shale. Amid environmental opposition, not a single well has been fracked since 2011, when drilling by Cuadrilla Resources Ltd. caused two small earthquakes. A moratorium that followed the tremors was lifted at the end of 2012, and the next year the government announced tax breaks to the industry. That was after the British Geological Survey estimated that an area of northern England called the Bowland basin may hold enough gas to meet demand for almost 5 decades, based on a 10 percent extraction rate. "It's preposterous that we have not drilled a well in four years," Peter Atherton, a utilities analyst at Jefferies Group LLC in London, said in an interview. "Development of shale gas is a national strategic issue and decisions like that should be made by Parliament." The enforcement of a strict time frame on planning decisions may be a warning by the central government to Lancashire County Council, which in June rejected two applications by Cuadrilla more than a year after they were submitted. The delay included a deferral requested by Cuadrilla to give it time to prepare further measures to counter traffic noise. "Recent experience has shown that the planning process is unwieldy and the time taken for planning decisions has soared from three months to over a year," Ken Cronin, chief executive officer of the industry group U.K. Onshore Oil and Gas, said in a statement that described development of shale as a "national priority." The failure of the industry to take off is in part due to the opposition of environmental groups and locals who say the extraction process may contaminate groundwater, pollute the air and bring heavy traffic to quiet country roads. "People who love and live in the countryside and who care about climate change will not stand for a government which is riding roughshod over democracy to industrialize our most beautiful landscapes and damage the climate," Daisy Sands, head of Greenpeace's energy campaign, said in a statement.

# Parliament split on North Sea gas exploration

NL Times, *13.08.2015*

**Minister Henk Kamp of Economic Affairs' plans to extract more gas from gas fields in the North Sea have the Tweede Kamer, lower house of parliament, divided. The VVD and PVV support the plan, the PvdA and GroenLinks are solidly against it. Other parties are on the fence.**

**According to MP Andre Bosman, the gas has to come from somewhere, especially now that gas production in Groningen is slowing down. "Production at sea is a serious option", he said, The PVV also fully supports the plan PvdA Parliamentarian Jan Vos pointed out that the IMF recently criticized the subsidized extraction of fossil fuels.**

"I find it surprising that the Minister intends to grant subsidies to companies that extract antiquated and expensive fossil fuels. The IMF only just said that it is unwise. The PvdA is also against it." GroenLinks is also against gas extraction in the North Sea. The other parties have not made up their minds yet. The CDA "understands the minister's choice", but wants to know what it would mean for his ambitions with renewable energy. The SP can support Kamp if it means more and quicker relief for Groningen, but adds that if it is more expensive than buying gas from Russia, the plans are "absurd". The D66 is cautiously positive.

# Nord Stream: The Sequel

EU Observer, *12.08.2015*

**Summer is the time for movie blockbusters and some film studios prefer safer sequels over original plots, often independent of the success of the original. So it is perhaps appropriate that Gazprom recently proposed to expand its Nord Stream gas pipeline to ship more gas directly to Germany.**

**This latest episode in the ongoing drama of Russian pipeline politics follows a popular (perhaps even correct) script of Russian proposals 'with political strings attached', designed to use national self-interest to undermine European solidarity on Ukraine and on Russia sanctions.**

The proposal to expand Nord Stream comes amid difficult negotiations on Turkish Stream, which, in December, replaced South Stream as the main transit proposal for Southern Europe and which is designed to further weaken Ukraine.Gazprom is in dire need of direct access to trading hubs in north-western Europe, as its old business model - ‘from wellhead to burner tip’ - is no longer fit for purpose and is detrimental to its market position in Europe. The economics of the Nord Stream route may also help Gazprom to rationalise its export strategy in Europe and convince its masters in the Kremlin not to turn it into an old-style Soviet ministry of gas. There are some real benefits of the Nord Stream extension proposal. Most obviously, the Nord Stream route is closer to Russia’s new production base in Yamal and costs would be lower for Gazprom to ship gas directly into its largest and most liquid market in north-western Europe. This is a major advantage compared to any current alternatives such as Turkish Stream or the Ukrainian route. Next, the main market for Turkish Stream, is, unsurprisingly, Turkey which, although a fast growing gas market, is in general a riskier proposition for Gazprom than north-western Europe because of potential snags (as seen from the long-running price disputes during the Blue Stream pipeline project under the Black Sea). Indeed, reports say Russia and Turkey have essentially put a hold on Turkish Stream negotiations since mid-June and are already bickering over who is to blame for the delays. That said, expanding Nord Stream would not allow Russia to fully bypass Ukraine and Russia would still need at least another line of Turkish Stream. Third, the inherent problem with Turkish Stream is the need for inevitably fraught negotiations with European buyers to change delivery points for Russian gas currently coming through Ukraine, including at the Slovak-Ukraine border and at Austria’s Baumgarten trading hub. European buyers may agree (at a price), to change the delivery point for some of their gas now coming through Ukraine, but in any case, they would not want to depend on a single delivery point, which, for Turkish Stream, would be the Greek-Turkish border. The full-blown Turkish Stream vision, of 63 billion cubic meters (bcm) of gas per year with a delivery point at the Greek-Turkish border, is therefore impossible in practice. Finally, the existing Nord Stream pipeline has already established onshore connections, in particular through the Czech Republic.

These pre-existing connections will allow Gazprom to avoid the need for contract negotiations for the new pipeline under the Baltic Sea, as the expansion of Nord Stream will ship gas directly to the Czech Republic and Austria and so the delivery point would remain practically the same. Cleverly designing the regulatory regime for onshore connections in Germany, the Netherlands, and the Czech Republic would probably allow the project sponsors to receive exemption from third party access (TPA) laws - Gazprom and its partners would just need to use the TAP exemption as a template. Another advantage of Nord Stream expansion, at least for Germany, Austria, and Gazprom, is that it will allow Austrian and German trading hubs - NCG, Gaspool and CEGH - to become more important than the UK and Netherlands’ TTF/NBP hubs. If 110 bcm of Russian gas (or a substantial fraction) is to be physically shipped to Germany, then surely Gazprom can control the pace of development of the hub by actively engaging in gas trade from there. This would circumvent the need to develop a trading hub in its home market (at St. Petersburg), which has no physical (or commercial) connection to the real markets where most of its paying customers reside.

But pipeline deals, however they evolve, cannot trump the need for Russia and Europe to normalise their political relationship, in particular with regard the Ukrainian crisis. Any further pipelines from Russia that would circumvent Ukraine will face political opposition from Brussels - these pipelines are designed to weaken an already financially distressed Ukraine. These new pipelines to Europe would face additional regulatory hurdles under EU competition legislation and increased scrutiny by the European Commission, adding to the concerns which have led to the existing investigation of Gazprom. Ensuring security of supply is clearly in the national interest of Germany and other member states, but, ultimately, security of supply is not as simple as building new pipelines.

# Estonian and Finnish ministers stressed the importance of Balticconnector

The Baltic Course, *12.08.2015*


**The Estonian Minister of Economic Affairs and Infrastructure Kristen Michal and the Finnish Minister of Economic Affairs Olli Rehn held a phone conversation, and both ministers reaffirmed that they will continue executing actions agreed upon in the plan on uniting gas market, as concluded between prime ministers of countries in November, reported LETA the Ministry of Economic Affairs and Communications.**

**The two ministers share the position that Balticconnector is an important facility for trading gas, and in addition to uniting the markets, it is also necessary from the point of view of enhancing energy security in the entire region.**

“Balticconnector has two main objectives; there will be more competition on the market, and we will put an end to the situation where the Estonian and Finnish gas markets are isolated,” said Michal. In according to the communique signed by the prime ministers of Estonia and Finland in November, the gas link Balticconnector between Estonia and Finland ought to be completed in 2019.

# Cheniere Selling LNG to EDF at European Spot Prices

Natural Gas Intel, *13.08.2015*

**A unit of Cheniere Energy Inc. has struck what is thought to be the first U.S. liquefied natural gas (LNG) supply deal linked to European spot prices, implying confidence in the staying power of low U.S. gas prices, analysts said.**

**Subsidiary Cheniere Marketing International LLP entered into sales arrangements with EDF for the delivery of LNG cargoes on an ex-ship basis (DES) from the Sabine Pass LNG terminal to the Dunkerque LNG terminal in France. The agreement covers up to 26 cargoes, or up to about 100 million MMBtu, through 2018.The sales price is linked to the TTF, a natural gas pricing index in continental Europe.**

“This is a significant deal for a number of reasons,” analysts at Tudor, Pickering, Holt & Co. (TPH) said in a Thursday morning note. “It is, we believe, the first U.S. LNG deal that is linked to European spot prices. It implies that Cheniere thinks it can make money at current European gas futures prices over the next few years of about $7/Mcf and that U.S. gas prices will stay low.” Volumes will be sourced from Cheniere Marketing’s LNG supply portfolio, which includes rights under a sale and purchase agreement (SPA) with Sabine Pass Liquefaction LLC to purchase any LNG produced from Sabine Pass in excess of that required for other customers. The Sabine Pass terminal is expected to be online by the end of the year. Cheniere Marketing has a similar SPA with Corpus Christi Liquefaction LLC for LNG produced from Cheniere’s Corpus Christi liquefaction project. On a combined basis, Cheniere Marketing’s LNG portfolio is expected to have about 9 million tonnes per annum (mtpa) of LNG available from the nine liquefaction trains being developed at the Sabine Pass terminal in Louisiana and the Corpus Christi terminal in Texas. The company has also sold 42 cargoes to date with delivery expected from Sabine Pass in the 2016-2018 period. The majority of these cargoes were sold to customers on a DES basis whereby Cheniere Marketing will use its chartered vessels to deliver the LNG to the requested terminal. The sales price for these 42 cargoes is based on an applicable Henry Hub index price plus a fixed fee. In total, Cheniere Marketing has executed agreements for the sale of up to 68 cargoes, or up to about 250 million MMBtu, to buyers in Europe and Asia through 2018 (see Daily GPI, June 11). Cheniere Marketing recently announced the sale of 0.6 mtpa of LNG under a 20-year SPA with Chile’s Central El Campesino, which is expected to be delivered from Corpus Christi (see Daily GPI, July 31). This deal is indexed to Henry Hub. TPH also said the EDF deal suggests that Cheniere has confidence in the strength of European gas prices, even with the expectation of new LNG liquefaction capacity coming online, particularly in Australia and the United States from this year through 2018. Implications are negative for non-U.S. liquefaction that hopes to compete, TPH said.

# Replicating unconventional gas: Digging into the details

Natural Gas Europe, *13.08.2015*

**What can the global shale gas industry learn from US shale producers? In a session on reproduction the unconventional gas revolution at the World Gas Conference, Prof. Jason Bordoff from the Center on Global Energy Policy of Columbia University explained that there are numerous reasons why the shale revolution had occurred in the US, for example the small, entrepreneurial explorers, who had tried and failed over time.**

**"They were very innovative, took a lot of risk and had the incentives to do so," he explained, adding that the policies had also been in place to create incentives.**

Of the private ownership of mineral rights in the US, he said: "That means if you have someone come on your land to do explorational drilling, you're going to benefit financially from that – that's a factor that doesn't exist in any other place in the world."A very robust pipeline and gas storage system in the US has also facilitated the revolution, making it possible to quickly bring a lot of gas into the power sector and displace coal, Prof. Bordoff explained. "We also have a very liquid financial sector and capital markets," he added, "so the shale revolution was financed with access to capital."So I think it's going to be more challenging to advance this, not only from the technological reasons – the nature of the geology, access to water – but you have to create the right incentives through above-ground policies, making sure that access to capital is there, that there's a lot of competition in the sector, continued reforms is important, and the right policies to attract foreign investment and the technology from US companies and others who have pioneered this and developed the technology and will continue to bring the costs down," he said. Building public trust, according to him, is also crucial. He offered, "There are concerns – many of them legitimate, maybe not all of them. We see them in the US: moving oil by trains, seismic activity. There are real impacts on peoples' lives and we need to take those very seriously and demonstrate that this can be done responsibly and safely to build public support to get their social license to operate." Entrepreneurship is yet another element of the equation, according to the World Petroleum Council's President, Jozsef Toth, who cited it as available and an open opportunity for every country, in contrast to subsurface rights. Financing, he added, however, can also be a problem. "It's theoretically possible; practically, there aren't enough funds available in many other places where unconventional resources are available." "One thing that we've learned from the US producers of shale gas is that we have to do things differently," explained Ernesto Lopez Anadon, President, Argentine Oil and Gas Institute, of Argentina's approach.

“Not all the wells drilled in the US were economic. If you see the total number of wells drilled, and plot them out, it shows what the typical economic well is. It shows that half of the wells in the US are below that curve,” he observed, adding that 40% of investments may not result in producing wells. This, he opined, creates a mandate for locating a technical solution for how to hydraulically fracture wells. Mr. Bertrand Garnier, Technical Director – Industrial Solutions, Suez Environnement, was asked if his organization might join with others in Europe for coming up with such solutions. Mr. Garnier cited the UK, calling it a “very interesting case.” He explained: “The government is pro fracking, but nevertheless there is strong resistance from local communities, so they’ve created what they call a ‘Task Force on Shale Gas’, and we are sharing experiences and approaches for how to go about these issues.” The burning issue, he added, is public acceptance. Mr. conceded that the image of the petroleum industry is not good enough. “To change the public perception, a lot of effort has to be made, every day. It’s an ongoing effort and if there’s an accident in any part of the world these efforts begin again.” It is a permanent, ongoing effort, he said. Mr. Lopez Anadon reported that much work had been done on communications in Argentina, but the effort needs to be for both conventional and unconventional hydrocarbons. “The oil and gas all over the world should get together, as we did in Argentina, to start working on that image,” he opined. “People classify our industry as polluting and without any safety whatsoever. We who work in the industry know that we do things well, that we care for the environment and for the safety of people, but that’s not the perception of the general public.”Working on that image, he said, is necessary before working on unconventionals. Origin Energy’s Managing Director, Grant King, was asked how the current price environment is impacting unconventional gas and LNG developments in Australia. He reported that of Australia’s current seven LNG projects under construction, three of them are using unconventional gas as a resource. “Of those three, he said, they comprise six trains: one train is in production and the remaining five trains will come into production in the next 18 months. Mr. King explained, “Clearly the price of oil, with which the gas price is linked, is falling in US dollars. For Australian companies, companies producing in Australia, most of their costs are in Australian dollars, and whilst the oil price has fallen from say US $100 to US$ 60, the Australian currency has also fallen in Australia, so the fall of price in Australia is more like $100 to $85 – 15%. I would not think at this stage it would make good projects bad projects. Clearly, revenues and returns will be less, but the exchange rate is substantially offsetting the US dollar in world prices.” While he said he doesn’t know how long oil prices will stay where they are, but once Australian projects come into production “good projects will remain good projects.” Among environmental, technological or transmission aspects of shale gas in China, Mr. Liu Yuzhang, Vice President, Research Institute of Petroleum Exploration and Development, CNPC, offered his assessment of which is the greatest challenge for shale gas production in China. First of all, he called the environmental issue is a very delicate area. “There are concerns about hydraulic fracturing – the fluid and the drilling, the oil-based drilling cuttings – those are under control.” He estimated that shale gas production in China by the end of this year should reach or surpass 5 BCM, but the transmission system is not yet ready to deliver that.

# The voice of gas: “can you hear me now?”

Natural Gas Europe, *10.08.2015*


**The voice of natural gas may be a bit soft, but by sending out the right messages it can earn the social license to operate and even help in efforts to mitigate climate change. In a session entitled “Gas Communication: Gas the public debate: still a “fuel without a voice” at the World Gas Conference poll questions were posed to those in attendance.**

**The first regarded the “global voice of gas” - is it effectively conveying the merits of natural gas? 76% of attendees in the session answered “no.” They were also asked to pick a slogan for gas among several plays on words; “Silence of the Lamps” came out the winner.**

Finally, delegates were asked what energy technologies they’d invest in for their grandchildren’s trust funds: 53% answered solar and 37% natural gas. Mr. Mel Ydreos, Chairman, Coordination Committee at International Gas Union (IGU), opened up a debate concentrated on issues like “social license,” which he said has emerged on the radar screen. “One can say that the shale gas revolution has perhaps put it up on the radar screen, but it’s beyond shale. Generally, energy infrastructure is becoming much more difficult to build, whether it’s a gas pipeline, oil pipeline or a windfarm. And everything centers around the social license.” Mr. Dave McCurdy, President and CEO, American Gas Association, admitted social license means different things to different people. “To me it means local community acceptance to a company or the activities that that company may be engaged in,” he explained. As to how well it’s being done in the US, he noted that the shale phenomenon is fairly new: since 2007-08. “Today, the industry is doing a much better job trying to communicate with engaged communities about their activities. But in the beginning – the early stages – the shale production moved from areas where people were already accustomed to that activity, to areas that were new to shale or any energy production,” he said, adding “it was a rocky start.”

According to Mr. McCurdy, the industry at that time did not engage communities as effectively as they could have. In one of his previous positions in the Internet industry, he said he had observed that the industries that are closest to consumers do a better job of messaging the public value, public good and engagement with the community. “The farther you’re removed from the customer, I think the more challenging it becomes.” For example, he argued there used to be a disconnect between production and distribution segments of the hydrocarbons industry. “I think that may be changing; I think there’s an opportunity today that we can have more of a global positive voice about the benefits of natural gas.” Still, he observed that there are still some in the industry that question whether social license should be discussed at all. He recalled, “In the old days we just produced it, and they needed it, therefore we sold it. “That’s no longer the case,” observed Mr. McCurdy, who noted perceptions of “big oil.” The American Gas Association, he said, is the “face of gas in our communities. We deliver natural gas to consumers, they derive the benefit.” According to him, social license goes beyond being involved in local charity. “It means actual engagement on a regular sustained basis. If you’re going to build a pipeline in a region you’d better have an action plan beforehand, an engagement plan to make sure that there is real communication and dialogue – if not, you’re going to be reacting.” In contrast to social and environmental activists, he maintained that the industry is “fact-based” in its dialogue with legislators and regulators with whom such facts may still have relevance. “But in the realm and perception of public opinion emotion, feelings and arguments must be dealt with honestly. At the same time we have to connect on a level that people understand,” said Mr. McCurdy. Mr. Ydreos observed that this year at WGC may be the first time he’s ever observed consistent messaging on the part of the industry regarding its position and what the product can do. Noting the great need for energy in Asia-Pacific, he questioned whether social license is an issue in Korea. Mr. Kim Jae Seob, Secretary General, Korea Gas Union, said he wanted to stress the importance of focusing communication efforts on what the public perceives as a risk due to various online media, including social media. “There is a growing gap between perceived risk and actual risk,” he explained. “In other words, the public’s perceived risk is more important than actual risk, and we need to focus on our communications efforts on reducing the gap.” To illustrate this, he noted that the public’s perception of terrorist attacks is much greater than the risk of cancer or a traffic accident; in the same way they might overestimate the risk of natural gas projects. The gas industry can help alleviate such fears, he added. According to Mr. Jae Seob, the perceived strain on water resources by fracking. “However, even in Texas water used for hydraulic fracturing accounts for less than 1% of the total use in the state. In contrast, irrigation water accounts for 56% of total use; production of coal and coal-based ethanol requires 10 times and 1,000 times more water than fracking.” He also challenged the allegations that fracking is linked to seismic activity. Voters are not always rational, but they are always right, noted Mr. Gertjan Lankhorst, CEO, GasTerra BV.

In connection with climate change, he stated: “I think that voters are not impressed by our arguments that gas-fired power stations are better for the environment than coal-fired power stations. Substitution of coal-fired power production by gas-fired of 1% would equal the CO2 reduction of an 11% growth in renewables – that’s a fact, but I don’t think it’s a message that appeals to voters.” For them, he explained, it’s important what’s happening in their local communities, like the purchase of solar panels, which is predicated by their neighbors doing that and the perceived independence that goes along with it, including from the energy business. “For people, the question will always be ‘what’s in it for me?’ And that’s one of the basic reasons shale gas is a success in the US and not in Europe; in the US the landowner gets a large piece of the pie, in Europe he doesn’t – all the revenues go to the government. “If that’s not changed, we can argue for shale gas in Europe for 100 years, but it will not work.” CEOs coming to Europe and pushing for shale gas, he called “counter effective.” Mr. Lankhorst explained, “The image of shale gas in Europe is flaring, fracking, pollution.” The industry, he said, must listen to voters, be consistent in messaging and consider effective communications strategies for rational arguments. Eradicating energy poverty, Mr. Ydreos pointed out, is an important and big issue. “But are we doing a good enough job of communicating how gas can change the world from an energy poverty perspective, or should we let others carry that message for us?” he asked. In his part of the world, the Middle East, Mr. Khaled Abubakr, Chairman, TAQA Arabia said natural gas is a sign of prosperity. He explained, “It means access to modernization. In the Middle East it means an introduction to introduction to heavy industry, petrochemicals, proper hygienic air conditioning and basic cooling in temperatures of 45-50 degrees C.” In Egypt, he added, gas can replace unsafe LPG, interrupted supply with a safe, reliable gas network to homes and commercial facilities. In the coming years, according to Mr. Abubakr, Sub Saharan Africa needs to add almost 100 gigawatts of power to its energy systems.

In 16 countries in the region, 75% of the populations have no access to power, he noted, meaning that this translated into insufficient healthcare standards and no industry. Gas, he opined, is the best choice for Africa and it is incumbent for the industry to communicate this. Regarding the road to COP 21, which could be a breakthrough event for global targets, Mr. Ydreos noted the proclamation from the majors seeking a global price for carbon. “Has the gas industry done a good enough job communicating our role from a climate change/environmental perspective – should we be doing more? What’s going to be effective in influencing the potential framework that may result out of COP 21?” Mr. Langhorst opined that the gas industry is doing the right things as it moves towards COP, and trying to get a place at the table is extremely important. Referring to the call by six industry CEOs requesting a carbon price, he said, “It’s a good move forward, because I think we must be credible. Just saying that COP 21 is important, but not contributing yourself, saying ‘my fuel is better than the others’ – that’s not enough. You must also act accordingly.” Meanwhile, delegates observed that the United States and China are willing to come to the table and deliberate regarding climate targets – the US success with natural gas has made such negotiations possible, along with the Chinese desire to mitigate pollution.

# Announcements & Reports

### ► *Monthly Oil Market Report*

**Source** : OPEC
**Weblink** : http://www.opec.org/opec_web/en/publications/338.htm

### ► *Gas-to-Power Market and Investment Incentive For Enhancing Generation Capacity: An Analysis of Ghana's Electricity Sector*

**Source** : OIES
**Weblink** : http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/08/EL-13.pdf

### ► *Short-Term Energy Outlook*

**Source** : EIA
**Weblink** : http://www.eia.gov/forecasts/steo/report/natgas.cfm

### ► *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/

### ► *Drilling Productivity Report*

**Source** : EIA
**Weblink** : http://www.eia.gov/petroleum/drilling/

# Upcoming Events

### ► *7th South Russia International Oil & Gas Exhibition*

**Date** : 02 – 04 September 2015
**Place** : Krasnodar – Russia
**Website** : http://www.oilgas-expo.su/en-GB

## ► 22nd Annual India Oil & Gas Review Summit and International Exhibition

**Date** : 09 – 10 September 2015
**Place** : Mumbai – India
**Website** : http://www.oilgas-events.com/india-oil-gas

## ► The Energy Event 15

**Date** : 15 – 16 September 2015
**Place** : Birmingham – United Kingdom
**Website** : http://www.theenergyevent.com/Content/MAIN-SF-W2L-enquiry-form

## ► 3rd East Mediterranean Gas Conference

**Date** : 22 – 23 September 2015
**Place** : Paphos – Greek Cyprus
**Website** : http://www.oilgas-events.com/East-Med-Oil-Gas

## ► LNG Global Congress

**Date** : 23 - 24 September 2015
**Place** : London - UK
**Website** : http://www.lnggc.com/?xtssot=0

## ► 23rd Kazakhstan International Oil & Gas Exhibition and Conference

**Date** : 06 – 09 October 2015
**Place** : Almaty – Kazkhstan
**Website** : http://www.kioge.kz/en/conference/about-conference

## ► Shale Gas Environmental Summit

**Date** : 26 - 27 October 2015
**Place** : London - UK
**Website** : http://www.smi-online.co.uk/energy/uk/shale-gas-environmental-summit

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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

► *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/

► *Project Financing in Oil and Gas Conference*

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