Oil & Gas Bulletin
▸ 13.01.2017

"Gazprom" intends to file lawsuits against the private Turkish companies

RBC, *13.01.2017*

"Gazprom" intends to file lawsuits against the private Turkish companies importing Russian gas. "Gazprom" considers low price of natural gas for 2017.

"Gazprom" plans to file lawsuits against private companies - importers of Russian gas to Turkey, with which it could not agree on the price of gas this year. This was reported by "Kommersant" sources in both countries. According to them, the company "Gazprom export" has already prepared all the necessary documents. Probably lawsuits will be filed in the Arbitration Court in Stockholm. "Gazprom" considers low price of gas in 2017.

"To put pressure on the Turks to" Gazprom "need permission from the leadership of Russia, but it either does not exist or was not even asked for, knowing that the time of a failed", - said one of the interlocutors "Kommersant".

The newspaper writes that about 10 billion cubic meters of Russian gas a year to buy the Turkish private company Akfel Gas, Enerco Enerji, Avrasya gaz, Bosphorus gaz, Bati Hatti and Kibar Enerji. "Gazprom" also supplies about 17 billion cubic meters of gas per year Botas Turkish state.

The trial with Botas is from October 2015, as the Turkish company wants to reduce the cost of gas supplies. "Kommersant" writes that the price of Russian gas to private Turkish importers are lower than for Botas, as it can supply gas at subsidized domestic market.

According to the agreement in 2016, "Gazprom" and private importers can revise the price, but if the parties do not come to a consensus, stored previously accepted conditions. According to the companion publication, "Gazprom" has offered to private importers to establish a temporary price for 2017, which is higher than the price in 2016. The Russian company wants to take this step at the time of the proceedings with Botas.

However, Turkish importers have refused the offer of the price increase, even when subject to retroactive discount from the beginning of 2017. A source explained that "Gazprom" intends to go to court because low, according to the company, the price for private importers in 2017 not only entails economic losses, but also undermines its position in the dispute with Botas.

Turkish sources editions believe that a serious impact on the position of the Russian monopoly had nationalized the largest private importer Akfel, on whose accounts, according to the newspaper, about 20% of all Russian gas deliveries to Turkey. In "Gazprom" about plans to file lawsuits did not comment. Turkish Botas filed a lawsuit against "Gazprom" in October 2015. The company has asked to review the prices for Russian gas, purchased from 29 December, 2014.

The Russian company Botas action considered normal practice. This is one way of settling a dispute about a discount on gas, specified the time in an interview with RBC official representative of “Gazprom” Sergei Kupriyanov.

Turkish power plants to halve gas use

AA Energy Terminal, *06.01.2017*

Turkey’s private-sector power plants must halve their contractual gas use from 08:00 local time (05:00 GMT) tomorrow, under instructions from gas firm Botas. State-run power plants reduced their gas use from 4 January.

Private-sector utilities reduced gas consumption considerably last month, as Botas prioritised supply for residential users. Curtailments were lifted on 31 December, amid milder weather conditions. But a continuing cold spell has resulted in new restrictions. Tetas’ 3.9GW of gas-fired capacity halted generation yesterday, while Euas’ 1.4GW Ambarli plant has switched to running on fuel oil.

Botas manages Turkish gas distribution through linepack, which has a capacity of 400mn m^3, but diminishing pressure during peak demand periods can result in restrictions on power sector gas consumption. Turkish gas demand was 219.5mn m^3 on 2 January, while linepack was around 345mn-360mn m^3, market participants say.

The country’s gas delivery capacity should rise to 236.3mn m^3/d when a 14mn m^3/d floating LNG storage and regasification unit (FSRU) at Aliaga — Turkey’s first — becomes fully operational. But, for now, the gas system struggles when demand hits 200mn-210mn m^3/d.

Commissioning of the FSRU started in early December and it delivered 8.5mn m^3 of gas to the system on 2 January, market participants say — although this could not be confirmed with the operator, local engineering company Etki Liman.

Gazprom's Europe-Turkey gas exports set industry record

Anadolu Agency, *10.01.2017*

Russian Gazprom's gas exports to Europe and Turkey reached a historical record high with 179.3 billion cubic meters in 2016, Alexey Miller, chairman of Gazprom said late on Monday.

Miller's statement reads that according to Gazprom's operational data, the company extracted 419.07 billion cubic meters of gas - about 11 billion cubic meters more than planned. Miller said that the quantity that Gazprom's extracted was to cover the needs of consumers. "Moreover, our production facilities are able to provide production to the extent of more than 150 billion cubic meters," Miller noted.

"This allows us to quickly increase the supply of gas within the country and abroad during the winter peak consumption," he added. He said that exports to Europe and Turkey in 2016 was 12.5 percent in total - 19.9 billion cubic meters more than in 2015. "The record result demonstrates the significant increase in demand for Russian gas in Europe, and our ability to ensure its robust exports in the required volume," Miller said.

Turkish January gas balancing price surges

Argus, *06.01.2017*

Turkey's state-run gas grid operator Botas has raised the January gas balancing price considerably above previous market expectations today at TL1,169.86/'000m³ ($325.04/'000m³), excluding taxes.

The gas balancing price is the highest since at least January 2013. It is also considerably above the December price of TL763/'000m³ and the regulated residential gas tariff of TL763.62/'000m³ — unchanged since October — which has historically been considered as an upper limit for the gas balancing price.

Gas market participants expected the January price to rise by around $3-5/'000m³ from December in line with the lira's depreciation last month. But the hike follows higher expected gas import prices this quarter compared with October-December following crude prices climbing in recent months. The price for Russian gas is estimated to have increased to $180/'000m³ from $160/'000m³, while the cost of oil-indexed supply from other countries also rose.

Crude prices have risen further since Opec agreed on 30 November to cut crude output by 1.2mn b/d in the first half of 2017. North Sea Dated crude closed at $54.51/bl on Tuesday, up from $49.06/bl on 30 November and having climbed steadily since January 2016.

Botas is also aiming to limit the strain on the transmission system by discouraging gas firms from running a negative balance while demand is strong during a continuing cold spell. Companies would have to pay the balancing price plus an 8pc penalty fee for negative imbalances this month.

Botas instructed independent power plants to halve their gas use as of tomorrow, while state-run utilities have limited their consumption since 4 January. Gas burn for power averaged 19.7mn m³/d on 14-20 December, when power plants halved their gas use, while total consumption was 198.2mn m³/d.

Keep gas off the Cypriot peace talks agenda

Natural Gas Europe, *10.01.2017*

The leaders of the Greek and Turkish communities, together with a host of international officials, are meeting in Geneva now to try to end a partition that has lasted for 43 years. But it might be best if they agreed to omit any substantive discussion at this stage of a particularly difficult issue – gas.

The reason is the discovery of gas in the eastern Mediterranean, and off the south coast of Cyprus island in particular, is fraught with both practical and emotional problems that makes it much easier to conceive of successful development in the wake of a Cyprus settlement than as a significant constituent part of the negotiation process.

The most obvious problem is that the only Cypriot discovery to date, Aphrodite, lies in waters off the south coast of Cyprus that are under the full control – both de jure and de facto, of the internationally recognised – and Greek Cypriot-run –government of Cyprus.

This means that, even though the government has said that gas development should serve the interests of the whole island, in practice Aphrodite development can be carried out in co-ordination with only the Greek Cypriot authorities. To the Turkish Cypriots, who regard the government of their self-proclaimed – and generally unrecognized – Turkish Republic of Northern Cyprus as having an exact equivalence to the government of Cyprus, this poses a massive problem. Put simply, how can they ensure that they, too, have a stake in gas development?

Yet there are good reasons for arguing that this is really a long-term problem. The immediate issue is that Aphrodite is a relatively small field, estimated by its developers to contain around 4.54 trillion ft³ (127.4bn m³) of recoverable gas.

That makes it an adjunct to other major fields in the region, such as Egypt's Zohr with its 32 trillion ft³ of proven reserves or Israel's Leviathan, with 18 trillion ft³. Moreover, most of the principal shareholders in Aphrodite – the US Noble Energy and Israel's Delek and Israel's Avner group – are also engaged in developing not only Leviathan but another big Israeli field, Tamar, with 10 trillion ft³ of in proven reserves. So, for the time being at least, their focus will naturally be on developing these finds in Israel's Exclusive Economic Zone (EEZ).

And even though the Anglo-Dutch Shell group has a major stake in Aphrodite – the result of the purchase by the former BG of half of Noble's original 70% stake in the field – the development of Aphrodite will naturally remain a secondary consideration for its owners, especially in an era of relatively low gas prices.

There is also a further difficulty that will impede Aphrodite's development. Almost certainly the southeastern section of the little field extends over the maritime boundary separating the Cypriot EEZ from that of Israel. This means that Aphrodite's development will either require a unitisation agreement or some other arrangement will have to be reached so that while production is essentially carried out on the Cypriot side of the line, Israel is also properly compensated for its share of the field.

Of course, matters could change if there were to be further discoveries in Cyprus's territorial waters or exclusive economic zone. This is where emotion plays a major role. Aphrodite was discovered in 2011, in an era of relatively high gas prices – and with a reserve base that was initially thought to be somewhat higher than a later examination has revealed it to be.

This prompted the Cypriot government to start preparing plans to develop a major plant, likely to cost at least $8bn, to produce liquefied natural gas (LNG) at a terminal at Vassilikos on the south coast.

It also prompted some exaggerated claims. The commerce minister at the time, Praxoulla Antoniadou, was quoted as saying: "If you want an indication of the value of the gas, if you consider that 6,000 cubic feet is equal to one barrel of oil, then approximately 7 trillion ft³ are equivalent to 1bn barrels, and to give an indicative value of these deposits based on the barrel analogy, the deposits in one of the 13 blocks are worth around 100bn."

The minister was clearly referring to the field's putative value in Euros – the Cypriot currency – so at the time she appeared to be saying that Aphrodite was worth as much as $130bn. No one would say that today.

Nor did the hype end when prices started to fall in 2014 and throughout 2015.On March 2 last year, energy minister Giorgos Lakkotrypis noted that data compiled by the government's foreign consultants had produced evidence that the geological origins of Egypt's Zohr field were to be found in the Eratosthenes Seamount, a massive underwater feature located within the Cypriot EEZ.

The next day’s front page banner headline in the Cyprus Mail read: “Egypt’s Gas comes from Cyprus’ EEZ”. But perhaps the most important element came in the sub-heading, which read: “Seafloor formation off Cyprus is source of Zohr gas play, prompts hopes for finds in Block 11.”

It is, indeed, Block 11 that is the immediate focus, with France’s Total expected to start drilling there in May. Yet it should also be noted that it was the underlying geological analysis that prompted the government to hold a third licensing round in 2016, attracting interest from such majors as ExxonMobil, Qatar Petroleum, Statoil and Eni, as well as the UK’s Cairn Energy and the Israeli partners in Aphrodite. On 14 November, Lakkotrypis said that a final decision awarding concessions for bidders in the licensing round should be made in early 2017.

What this interest demonstrates is that the search for gas – and oil – off the south coast of Cyprus will continue regardless of whether there is a successful conclusion to the talks in Geneva. Under any likely scenario – whether based on reunification, formal division of the island, or an interim agreement to continue on an ad hoc basis without a settlement – the search for new hydrocarbon resources off the island’s southern coast will continue and, through probably not for some time, Aphrodite will be developed.

This leaves the Greek Cypriots full of hope – dreams might be a better word – that one day they will reap the rewards of an offshore hydrocarbons bonanza. Yet for the Turkish community, this is the stuff of fears and even nightmares, with the division between a relatively rich south and a relatively poor north becoming even more marked.

Precisely because real field development remains some way off, it may be best for the principal parties involved to play down the gas issue for the time being. Right now, their leaders of the Greek and Turkish communities have far more pressing issues to tackle, including constitutional structures, territorial adjustments, compensation for seized properties and security arrangements, notably the role of Greece, Turkey and the UK as external guarantors of the 1960 agreement that secured the island’s independence, and the continued presence of some 30,000 Turkish troops in northern Cyprus. These are the major issues they need to focus on. Gas can be left for another day.

Minister: Turkey does not anticipate gas, power price hikes in 2017 despite cost increases

Hurriyet Daily News, *06.01.2017*

Turkey does not anticipate electricity and gas price hikes in 2017 despite recent cost increases, Energy Minister Berat Albayrak said on Jan. 6, adding that Iranian gas flows were continuing but below full capacity after a technical problem occurred in December.

In an interview with private broadcaster A Haber, Energy Minister Berat Albayrak said Turkey had taken necessary steps in the last two days to increase security around critical power and natural gas infrastructures after recent power cuts. "We have seen a rise in both gas and oil costs in recent months.

Besides that, the authorities making their sales based on the Turkish Lira have faced extra increases in their costs due to hikes in foreign exchange rates. In spite of these factors, we do not foresee any hikes in electricity or gas prices in 2017," he said.

Albayrak confirmed that gas flows from Iran were continuing, but in smaller amounts, after a cut in December due to technical problems. Asked about a question regarding recent power cuts mainly in the industrial production hubs of Turkey, including Istanbul, he said that there were no big problems posed.

"There are no serious problems with the main electricity transmission lines delivered to Istanbul... Some four of the damaged seven main lines are online now," he added. Albayrak, however, said that underground cables were cut on Dec. 31.

"We have launched the judicial process about this by contacting the prosecutor's office," he added. Although authorities announced there would not be further power cuts, electricity blackouts carried on in Istanbul on Jan. 2 and 3.

Bedaş, which is responsible for distributing electricity to the European side of Istanbul, said on Jan. 5 that some 1,300 employees would be on duty to prevent blackouts over the weekend, when heavy snowfall is expected. Meanwhile, the Organized Industrial Zone in the Marmara province of Kocaeli was also affected by power outages. A number of factories and workplaces suspended their works in the province's Gebze and Dilovası districts on Jan. 2, and sent their employees home, Doğan News Agency has reported. The Turkish Automotive Parts Industry Association (TAYSAD) announced that the country's automotive industry had incurred losses worth almost 300 million euros due to the latest power outages.

Europe left in cold as frost triggers global LNG hunt

Bloomberg, *10.01.2017*

The year has started off with a very cold snap, meaning Europe will have to pay a premium to stay warm. European countries from France to Greece are losing out in a search for liquefied natural gas cargoes amid a freezing spell, as ships sail to buyers in Asia willing to pay a higher price to meet peak winter demand.

The lack of LNG has prompted France's grid to call for more of the fuel to be supplied by southern terminals and issue the highest warning level on supplies for a second day. Shortages were experienced in Turkey, and Spain also boosted gas usage.

It's a sign of the times. The expansion of the liquefied natural gas trade has allowed the fuel to break out of conventional regional markets and become a global commodity. While the growth has evened out access to gas worldwide, it's hurt some buyers by ratcheting up competition among consumers during periods of increased demand.

"It's amazing what a bit of cold weather does," said Trevor Sikorski, an analyst at Energy Aspects Ltd., by e-mail. "All markets are wanting gas at the moment." Buyers in northeast Asia, the biggest consumer, are paying a two-year high of about $9.90 per million British thermal units for spot LNG cargoes shipped from Qatar or the U.S., meaning European countries, where prices have typically been lower, need to pay more. Hub prices in France's southern hub almost doubled over the past month to about $11.40 a million Btu on Jan. 9 on the Pegas exchange in Paris, the highest on record.

The jump is a result of cold weather across the northern hemisphere, which increases consumption of the heating fuel. Temperatures in southeast Europe could fall to minus 9 Celsius (16 Fahrenheit) on Tuesday, compared with a 10-year average of 1.5 Celsius, while central European temperatures may fall to minus 7.4 Celsius, according to data from the Weather Co.

Europe has increased imports by pipelines from suppliers including Russia, with Moscow-based Gazprom PJSC exporting record volumes to the region. As volumes shipped on those links gets nearer to capacity, buyers are getting in line for the limited number of LNG cargoes available.

French network operator GRTgaz SA issued the highest level of warning on gas supplies in the southeast of the nation Monday, urging more LNG to be supplied from its Mediterranean ports. Turkey has been forced to ask local power producers to cut gas use by 90 percent. That comes as China's LNG imports surged to a record in November to avert shortages during the winter, while higher Asian appetite and prices encouraged U.S. shale cargoes into the region.

Greece, which receives its gas by pipeline and tankers, has a stretched network due to colder weather and would welcome additional supply, a trader said, asking not to be identified by name because they are not authorized to speak to the media. Desfa SA, the country's gas network operator, wasn't able to immediately comment.

Four tankers are scheduled to arrive at Greece's only terminal this month compared with zero in a Dec. 17 update for the month and two in January 2016, according to data from Desfa. Spain, the biggest re-exporter of the fuel, is hanging onto its LNG cargoes, with no reloads since July, according to Enagas SA, the network operator.

Spanish gas demand rose 32 percent from a year earlier in the year to Jan. 8, driven by colder weather and lower wind and hydro generation, according to Enagas. Normal temperatures are expected to return in the next few days after they dropped 5 degrees Celsius below usual levels, the operator said by e-mail.

Northwest Europe has also felt the pinch of LNG competition. The U.K. has no scheduled imports after getting one cargo earlier this month, with a second, smaller vessel reloading, compared with six and a half cargoes imported in January 2016.

Mediterranean gas expected to fuel efforts to bring Cyprus sides together

Bloomberg, *04.01.2017*

Located in the Eastern Mediterranean, Cyprus - the third largest and most populated island in the region - staged a prolonged political conflict over the 20th century, which has also extended to the present day.

However, the recent series of negotiations that started at the beginning of this week in Geneva have increased the hopes of both politicians and the island's Turkish and Greek communities of the promise of a unified country. After decades of talks to ensure some kind of peace on the island and to create a unified Cyprus, what has happened this time that has instilled so much hope for the parties involved?

Let us name it for you: the huge natural gas potential in the Mediterranean Sea. Experts believe this new opportunity in the region, which requires the two communities to act together to benefit from it, might actually create huge economic benefits and make peace a reality.

Currently, the island is divided into two states: Northern Cyprus, ruled by Turks, and Southern Cyprus, which is known as the Republic of Cyprus and is the recognized state in the international arena.

Since 1974 when the Republic of Turkey launched a military offensive in an attempt to support Turkish people residing on the island and living in conflict between 1960 and 1974, there have been a couple of attempts to resolve the conflict.

The referendum of April 2004, which was brokered by then U.N. Secretary General Kofi Annan, resulted in the overwhelmingly 75.83 percent “No” vote from the Greek Cypriots community for unification. Since the 2004 referendum results, the peace talks have continued at intervals until today, yet no clear result in favor of the two sides of the island has been secured.

After failed peace negotiations over the past 40 years, there is one major reason to ignite a sense of hope in the heart of parties that participate in the current process. The vast amount of natural gas reserves that have been discovered over the last decade provides an important impetus to sustain the peace for good. Given the geographical position of the island, located south of Turkey, west of Syria and Lebanon, northwest of Israel and Palestine, and north of Egypt and southeast of Greece, the export of the gas to the European market requires collaboration by Cyprus, Turkey, Israel, and Greece.

The island is reported to have discovered a gas reserve of an estimated 4 trillion cubic feet (approximately over 110 trillion cubic meters) valued at $50 billion. The Aphrodite gas field located at the 12th exploratory drilling block in the maritime Exclusive Economic Zone is estimated to hold a 200 billion cubic meters of gas.

Included within the Mediterranean gas reserve, Israel’s Leviathan gas field is reported to contain some 500 billion cubic meters of gas, according to the U.S. Energy Information Administration. Furthermore, last year, Italian oil and gas giant Eni reported the discovery of an estimated 30 trillion cubic feet of natural gas in the Zohr field offshore Egypt. This enormous amount of gas constitutes an important source for natural gas supply and export in Eastern Mediterranean.

Due to the dispute over Cyprus’ maritime Exclusive Economic Zone, established with the 1982 United Nations Convention on the Law of Sea and covering 13 exploratory drilling blocks, the exploitation and export of the gas discovered in this area has not been allowed. However, now, in order to be able to export this gas to the European market and decrease Europe’s dependence on Russian gas, and to ensure energy supply security, the island is seeking a viable solution that will hopefully secure peace between the Turkish and Greek communities.

Speaking at an event assessing the natural gas expectations in the Eastern Mediterranean, Turkey’s envoy to Beirut Çağatay Erciyes drew attention to the significance of a definite resolution regarding the island. “The natural gas discoveries in the Eastern Mediterranean serve multiple purposes.

The natural gas reserves in the region will not only serve the domestic market, but will also decrease Europe’s dependence on a single exporter by providing the continent with multiple suppliers to ensure supply security. Therefore, natural gas constitutes an important factor toward ensuring reconciliation in the region.” Given that Israel seeks more cost-effective ways to export its gas in the Leviathan field and Tamar gas fields to Europe, the country is considering building a pipeline through Turkey in order to reach the European market.

As Daily Sabah previously reported based on a study prepared by Israel, if the natural gas is to be carried to Europe via Turkey, the cost of an assumed 600-kilometer-long pipeline will vary between $2.64 billion and $3.96 billion. Thus, the average cost of the pipeline stretching from Israel to Turkey will reach $3.3 billion. If the Greece route is preferred, the cost will double. For the actualization of the project, a 1,300-kilometer pipeline must be built with Greece. In this case, the average cost exceeds $7.15 billion.

With lucrative exports that will boost the economy of the island and the Eastern Mediterranean on a larger scale, the natural gas reserve in the region present a solid reason for optimism this time. Cypriot President Nicos Anastasiades and Turkish Cypriot President Mustafa Akıncı are committed to settling the issue after decades of dispute and have been discussing a reunification plan since May 2015.

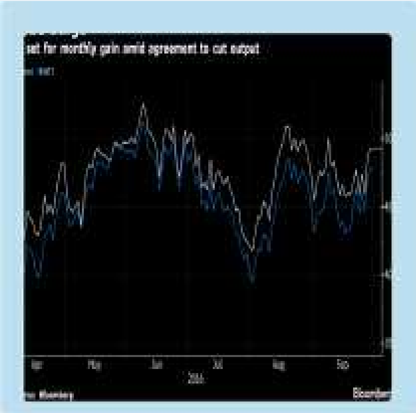
The current plan involves the establishment of two constituent states within a federal framework on the island. With this type of government on the island, every decision including the use of natural resources will include both parties and will yield benefits for both sides.

The resolution of the dispute will also settle the major conflict over the Exclusive Economic Zone, which has halted the export of gas to the European market since the offshore and undersea borders are not clearly mapped out yet.

However, the reunification of the island will settle the uncertainties and allow both sides to claim jurisdiction over the Exclusive Economic Zone, over which Greek Cyprus currently claims to exercise sovereign rights for the purpose of exploring, exploiting, conserving and managing the natural resources, whether living (eg fisheries) or non-living (eg hydrocarbons), of the waters superjacent to the seabed.

Turkish coal, hydro power output up on gas in 2016

WSJ, *05.01.2017*



Higher coal-fired power generation and renewable output in Turkey led to a more balanced generation mix in 2016 with gas burn for power continuing its year-on-year decline.

Coal-fired and renewable generation rose by 22pc and 5pc year on year in 2016, respectively, pressing gas-fired output to fall by 9pc. Coal-fired output counted for 33pc of the total, hydropower for 25pc while gas-fired was 33.5pc, with the remainder being other renewable and thermal generation. Hourly coal-fired output rose by 1.8GW year on year in 2016. Of this, domestic coal-fired generation rose by 1GW to 4.75GW and imported coal output rose by 0.8GW to 5.3GW.

Higher installed capacity and a support scheme for domestic coal output supported the increase. Domestic coal-fired capacity rose by 424MW to 9.4GW. And the state-run wholesale trading company Tetas purchased 6.4TWh of output from domestic coal plants in the second half after the government approved a support scheme in June.

Eren Enerji's 1.4GW Zetes 3 plant — whose units came online in June and August — lifted imported coal-fired generation. Hydropower output rose by 1.1GW to 30.7GW. Installed hydropower capacity rose by 650MW to 26.5GW and wind by 900MW to 5.4GW. Other renewable capacity rose by a combined 850MW to 2.1GW.

Gas-fired generation fell to 10.3GW from 11.3GW last year to make up 33.5pc of total generation, down from 38pc in 2015. It has been falling year on year since 2014 as capacity additions and support schemes boosted coal-fired and renewable output. Power demand was 1.2GW higher at 31.3GW.

Spot prices averaged TL140.56/MWh ($37.85/MWh) on average in 2016, from TL138.01/MWh in 2015, with firm December prices offering most support to the year-on-year rise. The day-ahead Exist (Epias) averaged TL133.30/MWh, or TL2.34/MWh lower year on year — in the January-November period, and rose by TL85.74/MWh to TL219.04/MWh in December.

Stronger hydropower generation offset lower gas output in December, following limitations in gas supplies to power plants to prioritise residential gas use. Hourly hydropower generation rose by 3.8GW to 9.7GW between 14 December — when gas supplies were limited for independent private utilities — and 31 December, compared with earlier in the month, to offset a fall by the same amount in gas-fired output to 5.2GW. This was generated by state-run utility Euas, whose output rose by 3.8GW to cover for a 2.8GW fall in private plants and 500MW in Tetas plants output, and a 500MW rise in demand.

Spark spreads rose significantly in December because of stronger spot prices during the spell of cold weather, and they exceeded dark spreads for the first time in November, as firmer coal prices in global markets and sustained weakening of the lira weighed.

Front-month spark spreads for 55pc-efficient plants using the regulated Botas industrial tariff rose to TL54.12/MWh in December, from just TL9.03/MWh earlier in the month. While dark spreads — for 38pc-efficient imported coal-fired plants using the Argus 60-days Iskenderun cif assessment — fell to a discount to sparks of TL51.05/MWh, from TL69.15/MWh.

Oil prices dip on doubts over planned crude output cuts

Reuters, *13.01.2017*

Oil dipped on lingering doubts that crude production cuts would go deep enough to curb a global fuel supply glut, with sentiment worsened by concerns over the health of the Chinese economy after it reported the steepest falls in exports since 2009.

Brent crude futures LCOc1, the international benchmark for oil prices, were trading at $55.87 per barrel at 0816 GMT (3.16 a.m. ET) on Friday, down 14 cents from their last close. U.S. WTI CLc1 crude futures were down 9 cents at $52.92 per barrel. Record Chinese crude imports of 8.56 million bpd in December helped buoy prices somewhat, traders said.

But they could not hide underlying fears over the overall health of the world’s second-biggest economy. Despite China’s oil thirst, overall exports - the country’s economic backbone - fell 7.7 percent in 2016 in what was the second annual decline in a row, and the worst since the depths of the global crisis in 2009. In another sign that China’s crude imports do not fully represent the country’s fuel demand, exports of Chinese refined oil products last month rose nearly 25 percent on a year earlier to a record 5.35 million tonnes, well above November’s previous record of 4.85 million tonnes.

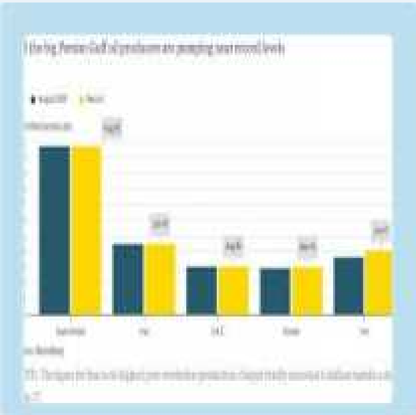
On the supply side, there was some market support from top crude exporter Saudi Arabia which said that its output had fallen below 10 million bpd, to levels last seen in early 2015. However, hard evidence of export reductions has yet to emerge, two weeks into the month when the cuts by the Organization of Petroleum Exporting Countries (OPEC) and other producers like Russia were supposed to start. Many analysts expect compliance of 50-80 percent, at best.

“Any slip in the market’s confidence that producers will follow through on their promises may lead to sharp price corrections,” said French bank BNP Paribas. BNP said that it expected WTI prices to average $56 per barrel in 2017, up $7 from its previous forecast, and Brent to average $58 per barrel, up $8 from its earlier estimate.

Even if OPEC cuts its output as agreed, traders said that rising U.S. shale output and increasing supply from OPEC members Nigeria and Libya, which were exempt from the pact, might offset any reductions. An informal Reuters survey of over 1,000 energy market professionals showed that Brent prices in 2017 are expected to average around $55-$60 a barrel.

Saudi oil output drops under OPEC quota close to two-year low

Bloomberg, *12.01.2017*



Saudi Arabia has reduced oil production to less than 10 million barrels a day, below its targeted level, and will consider renewing its pledge to cut crude output in six months, Energy Minister Khalid Al-Falih said.

The world's biggest oil exporter is currently producing at a 22-month low. It had agreed to cut 486,000 barrels a day to 10.058 million barrels a day as part of a global deal to reduce output to curb a supply glut. The caps on production, together with rising demand and natural decreases in output in some countries, will help balance the market and support prices, Al-Falih said at an energy conference in Abu Dhabi.

"Oil production now is below 10 million so far," he told reporters later on Thursday. "So, we're going the extra mile to lead our colleagues within and outside of OPEC to make sure that the market sees that there's serious action in place." Kuwait has also exceeded its targeted cut, according to that country's oil minister. Algeria's energy minister said his nation too will reduce output by more than its quota. Saudi Arabia is due to meet fellow members of the Organization of Petroleum Exporting Countries in May at their bi-annual meeting in Vienna to assess the market and the group's production policy.

OPEC states will also gather with major producers outside the group later this month in the Austrian capital to monitor their compliance with the production cuts, which aim at shoring up prices. Benchmark Brent crude was $1.00 higher at $56.10 a barrel in London at 3:03 p.m. local time.

"We have been moving toward a re-balanced market for some time -- too slowly to my liking," Al-Falih said. "The pace of re-balancing will be accelerated due to the recent agreements within OPEC and with our party from outside" the group.

"We will consider renewing" the agreement after six months, he said. Saudi oil output was last below 10 million barrels a day in February 2015, according to data compiled by Bloomberg. Al-Falih's comments amplified remarks made earlier at the same event by OPEC Secretary-General Mohammad Barkindo, who said global oil inventories will start to fall by the second quarter of this year and that crude-producing countries will decide in May whether to extend their output cuts beyond the first half.

Global macroeconomic numbers have responded “positively” to the agreement between OPEC and non-OPEC producers to pare output, Barkindo said at the Atlantic Council Global Energy Forum. “We have our target in accelerating those draw-downs to bring them closer to the five-year level -- that is our target,” he told reporters. OPEC isn’t targeting a specific price for crude, he said.

Total SA Chief Executive Officer Patrick Pouyanne, speaking at the same event, said he expects that the decline in oil inventories will take two years. The cuts began on Jan. 1 and are to stay in effect though June. Oil markets should be in balance in six months, and it’s premature to decide whether additional cuts will be needed, United Arab Emirates Energy Minister Suhail Al Mazrouei said at the Abu Dhabi conference. Countries with a naturally declining output of oil are contributing to a decrease in global production, he said.

Kuwait has cut 133,000 barrels a day of oil output and is currently producing 2.7 million barrels a day, Oil Minister Essam Al-Marzouk said at the conference. The production cut will be reflected in Kuwait’s crude exports, he said. Kuwait had agreed to cut 131,000 barrels a day in the global deal to reduce output.

Algeria, which pledged to trim production by 50,000 barrels a day, has started cutting and will reduce its output in January by 60,000 barrels a day, Energy Minister Noureddine Boutarfa said in an interview in Abu Dhabi. It may cut as much as 65,000, he said.

OPEC’s Barkindo expressed confidence in the level of commitment from all countries participating in the agreement to decrease supply. “I met with the Iraqi minister this morning,” he said. “He has reassured me Iraq will implement its part of the deal fully and on a timely basis.”

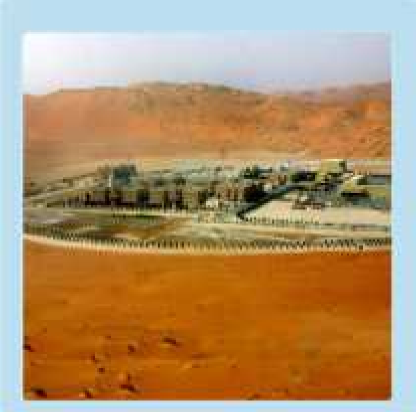
Global oil inventories will decline this year by 700,000 barrels a day even if Iraq, which initially sought an exemption from OPEC’s output cut, fails to comply, according to London-based consultant Energy Aspects Ltd.

OPEC is likely to achieve 80 percent compliance with its promised reduction, a level “higher than the not-so-shabby historical average of 66 percent” the group achieved in deals since the early 1980s, Energy Aspects said in an e-mailed report. The market, however, is “dubious of any compliance at all,” it said.

A committee of OPEC and non-OPEC producers responsible for monitoring compliance with the cuts will hold its first meeting on Jan. 22 in Vienna, Barkindo said. The committee, with Kuwait as chairman, also includes Algeria, Venezuela, Russia and Oman.

Despite OPEC production cut, another year of low oil prices is likely

Forbes, *09.01.2017*



An OPEC production cut offers oil producers hope for higher prices in 2017. But there is a dark cloud hanging over that expectation. Global storage inventories must be substantially reduced before higher oil prices can be sustained. Some of U.S. tight oil has nowhere to go but into storage because it can neither be refined nor exported.

If all OPEC cuts take place as announced, it will be at least a year before sufficient inventory reductions allow prices to move much higher than current levels. If not, lower oil prices will last even longer. OPEC agreed to cut production because it was incapable of sustaining output at 2016 levels.

Announcing a cut is a good way to cover the reality that commercial reserve limits have been reached. Analyst narratives have created the unfounded but widely accepted belief that OPEC has a strategy, and that strategy involves a price war with U.S. tight oil producers.

The cartel's inaction since 2014 more probably reflected an unwillingness to repeat the mistake of cutting output between 1980 and 1985: those cuts had little effect on world over-supply and damaged OPEC market share and revenue.

The possibility of a production freeze was suggested in February 2016 when oil prices were less than $30 per barrel. Expectation of OPEC action and improving fundamentals lifted prices to an average of $43 per barrel in 2016.

Failure to act in November probably would have sent prices into the mid-$30 range. As my colleague Allen Brooks remarked just after the cut was announced, this is more about setting an oil-price floor than about raising prices.

By July 2016, OPEC surplus production capacity had fallen to only 0.92 mmb/d (million barrels per day). The all-time low was 0.71 mmb/d in late 2004. The negative correlation between oil price and OPEC spare capacity is obvious. Low OPEC surplus after 2004 along with increased demand from China corresponded to rising oil prices that reached $146 per barrel in June 2008.

The exception to the correlation in late 2006 resulted from demand destruction when real oil prices (2016 dollars) exceeded $85 per barrel for the first time since 1982. A production cut may bring higher short-term prices but it should also result in higher OPEC spare capacity, a negative factor for higher prices. After the 2008 Financial Collapse, declining OPEC spare capacity, falling OECD inventories, low-interest rates, and record-high oil prices produced a classic oil-production bubble. The bubble burst in 2014 as over-production resulted in swelling inventories.

There is little chance that oil prices will return to the $70-80 range that many analysts predict until OECD storage falls approximately 400 million barrels to its 5-year average. If all the announced output cuts take place and extend beyond the 6-month term of the agreement, that will take at least a year.

The idea that there was a price war between OPEC and tight oil producers arose largely from a story line that analysts promoted. It was accepted and maintained largely by American hubris. An over-supply of oil was the enemy if there was one and it negatively affected OPEC as much as other world producers. It resulted from the longest period of high oil prices in history. Brent was more than $90 per barrel from October 2010 through October 2014.

It is true that tight oil over-production was the biggest single offender in the supply glut and price collapse but all global producers contributed their share. It is likely that OPEC would have cut production in late 2014 if Russia had agreed to participate. Ali Al-Naimi, the Saudi oil minister at that time said, “We met with non-OPEC producers, we asked ‘what are you going to do?’ They said nothing. We said the meeting is over.”

Tight oil has never been a long-term threat to OPEC because the reserves are relatively low. EIA year-end 2015 data indicates that U.S. tight oil proven reserves are less than 12 billion barrels. Canada’s and Venezuela’s combined oil sands reserves exceed 350 billion barrels. Oil sands are Saudi Arabia’s and OPEC’s chief reserve competition, not U.S. tight oil.

In fact, tight oil production is a plus for OPEC. The U.S. must import increasing amounts of OPEC heavier oil for blending in order to refine the ultra-light oil produced from tight oil plays. OPEC’S share of U.S. imports has increased 9% since January 2015. Total U.S. crude oil imports have increased about 1 million barrels per day and most of the increase has come from OPEC countries.

Canada could provide almost unlimited amounts of heavy oil to the U.S. but the Obama Administration’s decision to block the Keystone XL Pipeline means increasing reliance on OPEC. OPEC members leaked the possibility of a production freeze in early 2016 when oil prices were $26 per barrel. Fears of further price collapse began to fade reinforced by improving fundamentals.

The U.S. horizontal rig count fell almost 250 rigs (44%) between the end of 2015 and late May 2016. The world production surplus peaked in January 2016 and moved unevenly toward market balance throughout 2016.

Oil prices rose to more than $50 per barrel by June but prices fell below $40 in August when an OPEC meeting in Doha failed to produce a production freeze agreement (Figure 6). Increased global output, slowing demand growth and higher petroleum products inventories also weighed on prices.

In late September, OPEC abandoned its market-based approach begun in 2014 and agreed to cut production. Prices moved up and down as the likelihood of a production cut waxed and waned through October and November. A deal was announced on November 30 and prices have increased from $43 to $54 per barrel mostly on sentiment. Without participation by Russia, there probably would have been no agreement to cut production.

It is clear that like the global economy, the oil-price recovery has been weak and fragile. Hope for some OPEC action has been a significant support for prices throughout 2016. There is probably $10 to $15 of "expectation premium" built into current oil prices.

Some analysts forecast $70 oil prices in 2017. I won't recite the litany of reasons why OPEC members may cheat or that Libya and Nigeria may increase production. I am focused on the U.S. horizontal tight oil rig count that has increased 34% (85 rigs) since mid-September, 65% of which are in the Permian basin.

If two years of low oil prices have taught us anything it is that shale companies will produce oil at almost any price provided that investors give them money to drill. There does not seem to be any limit to investors' willingness to believe that tight oil is a good bet.

There never was an over-riding strategy behind OPEC's unwillingness to cut output over the last 2 years. More probably, it was based on a pragmatic recognition that cutting production without participation by Russia would not meet the cartel's needs. Now that surplus capacity is exhausted and Russia has agreed to participate, a production cut makes sense.

U.S. output will rise but imports of heavier oil will be needed for blending. Excess tight oil will go into storage keeping U.S. inventories high and U.S. crude prices at a discount to Brent. OPEC will sell heavier oil to the U.S. at higher international prices. OPEC knows this but those who are celebrating what they believe is OPEC's surrender in a make-believe price war, apparently do not.

Iran capitalizes on OPEC oil cut to sell millions of barrels – sources

Reuters, *06.01.2017*

Iran has sold more than 13 million barrels of oil that it had long held on tankers at sea, capitalizing on an OPEC output cut deal from which it is exempted to regain market share and court new buyers, according to industry sources and data.

In the past three months, Tehran has sold almost half the oil it had held in floating storage, which had tied up many of its tankers as it struggled to offload stocks in an oversupplied global market. The amount of Iranian oil held at sea has dropped to 16.4 million barrels, from 29.6 million barrels at the beginning of October, according to Thomson Reuters Oil Flows data.

Before that sharp drop, the level had barely changed in 2016; it was 29.7 million barrels at the start of last year, the data showed. Unsold oil is now tying up about 12 to 14 Iranian tankers, out of its fleet of about 60 vessels, compared with around 30 in the summer, according to two tanker-tracking sources.

The oil sold in recent months has gone to buyers in Asia including China, India and South Korea and to European countries including Italy and France, according to the sources and data. It was unclear which companies bought the oil.

Iran is also looking to use the opportunity to push into new markets in Europe, including Baltic and other central and eastern European countries, said separate oil industry sources, though it was not clear if any oil had been sold there.

The state-run National Iranian Oil Company (NIOC) could not be reached for comment. Tanker group NITC, which operates most of the country's fleet, could also not be reached. Tehran scored a victory when it was exempted from the OPEC deal agreed in November to reduce production by 1.2 million barrels per day for six months, an accord aimed at addressing the global oversupply and bolstering low oil prices.

The country successfully argued it should not limit its production which was slowly starting to recover after the lifting of international sanctions in January last year. While the deal did not come into effect until the beginning of 2017, industry sources said Tehran had already been offering aggressive discounts, aiming to coax buyers globally into stocking up for winter in anticipation of the OPEC cut.

Iran lacks enough land storage facilities for its oil and, to enable it to keep pumping crude, has relied on its tanker fleet to park excess stocks until it can find buyers. The tanker-tracking sources said it was unclear how much of the oil stored at sea was condensate, a very light grade of crude.

In another sign of the rising activity, Iran's oil ministry news agency SHANA reported in late December that the number of tankers able to berth at major terminal Kharg Island had reached a record in 2016 of 10 vessels at the same time.

“Iran got its way at OPEC and the Saudis agreed not to limit their capabilities. Iran will go ahead and look to export whatever they can for winter demand (globally),” said Mehdi Varzi, a former official at NIOC who is now an independent global industry consultant.

“This is a commercial policy of trying to get rid of a lot of their crude oil on tankers as holding oil on tankers is very expensive.” Many foreign ship insurers have resumed providing cover for Iranian vessels in recent months, which has also given Iran more scope to use its tankers to make deliveries or carry out ship to ship oil transfers rather deploying them for storage.

Despite Saudi signals, OPEC unlikely to deliver all promised oil cuts

Reuters, *13.01.2017*

OPEC is unlikely to deliver fully on its target to cut production despite Saudi Arabia saying it had trimmed more than it had committed to, OPEC delegates say, but compliance of 80 percent would be good and as low as 50 percent acceptable.

The OPEC is planning to cut its output by 1.2 million barrels per day to 32.50 million bpd from Jan. 1. Russia and other non-members are planning to cut about half as much. OPEC are cutting production to remove a global glut and prop up prices, which at $56 a barrel LCOc1 are half their level of mid-2014, hurting the revenue of exporting nations.

“Compliance won’t be 100 percent, it never is,” said an OPEC source, who added that an overall rate of 50 to 60 percent would be good enough, based on past compliance levels. Top exporter Saudi Arabia and Kuwait said on Thursday they had cut production by more than they committed to. Kuwait, the head of a committee to monitor compliance which meets on Jan. 22, said this was to “lead by example”.

But OPEC as a whole has a patchy record of complying with its agreements, and previous non-OPEC pledges to curb output have proved largely token. Compliance is voluntary as OPEC has no mechanism to enforce its agreements. Based on statements by producing nations so far, there has been more than 60 percent compliance, Kuwaiti Oil Minister Essam Al-Marzouq said on Thursday.

Last time OPEC cut its output, in 2009, following agreements the year before, it initially made 60 percent of the reduction and compliance peaked at higher rates, according to estimates from the International Energy Agency and other analysts, some of whom see that as a reasonable target this time.

“We should see 60-70 percent compliance once again,” Daniel Gerber of Petro-Logistics, a consultant which assesses OPEC supply by tanker tracking, told Reuters in December. The cuts in 2009 were more than OPEC achieved in previous price collapses, such as during the late 1990s when countries initially did not follow through on pledges. OPEC’s historical average compliance rate is 60 percent, according to the IEA.

“Normally for OPEC, good compliance is near 80 percent,” said another OPEC delegate. “It won’t be 100 percent.” Compliance with the 2009 OPEC cuts peaked at about 80 percent, according to the IEA. This was enough to help support a rise in oil prices, which began 2009 at $46 and stood at $69 by the end of June that year. Three months into that last OPEC cut, Saudi Arabia and its Gulf allies showed the highest level of adherence.

Saudi Arabia made a larger cut than it had to then, based on the IEA numbers, so history looks set to repeat itself in 2017 if Saudi Arabia's comments on Thursday are borne out. Next was Algeria, which implemented almost all of its commitment. Venezuelan compliance was 69 percent, more than that of Angola and Iran which both delivered less than half of their pledged reduction.

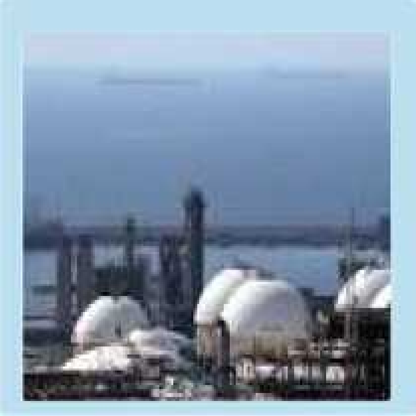
This time, while compliance in the Gulf OPEC members is expected by analysts to be high, industry and OPEC sources do not expect a similar level across the board. "There is a concern about Venezuela and Iraq not being committed to the cuts," said an industry source involved in the global cut talks, who added Russia appeared to be complying with the deal.

Iraq, which initially resisted joining the cut, said this week it was reducing production. Cash-strapped Venezuela, which pushed hard to bring the global deal together, has also said it intends to. Russia reduced production by 100,000 barrels a day in the first few days of January, industry sources told Reuters. That reduction, or at least part of it, is down to unusually cold temperatures in Siberia that have forced work at oil rigs to grind to a shivering halt.

Potential production growth in countries exempted from making a cut, Libya and Nigeria, could undermine reductions elsewhere. They both boosted production in December, even though OPEC supply overall fell. "If things go well in those countries, it could be quite hard for OPEC to maintain a 32.50 million bpd production target," Gerber of Petro-Logistics said.

Is a full recovery possible for Iranian oil and gas?

Oilprice, *06.01.2017*



In January 2016, the Islamic Republic of Iran (IR) agreed to scale back its nuclear facilities in exchange for the lifting of economic sanctions. During the sanction years, it had dreamed of a stampede of international oil companies returning to Iran and injecting substantial investment of capital into the waning Iranian energy industry.

The IR was therefore expecting a quick rejuvenation of its oil and gas industries and an economic bonanza following the end of international sanctions. It is a fact that Iranian oil output has been at a plateau for some time now, and production has been on the wane year after year.

Dropping reservoir pressure and a continuous decline in crude production appear to have been triggered by long periods of technical constraints on operation and by natural aging of the major Iranian oil fields. The lack of regular maintenance and application of new technology and particularly the extensive neglect of the reservoirs in the last several years under sanctions have resulted in further damage to the Iranian oil-producing fields.

Oil production after the Islamic revolution 38 years ago never returned to its previous peak, not because the IR did not want to have production over 6 million barrels per day, but because experienced, well-educated, and properly trained oil workers from all levels in every industry sector were arrested or terminated, and many fled the country. Further, the eight-year war with its neighbor Iraq and naturally poor management with roots in bribery and corruption inevitably caused a drastic drop in oil production.

Nowadays, the U.S. State Department has recognized that the NIOC is an entity of the Islamic Revolutionary Guard Corps (IRGC). The IRGC is notorious for its control of major sectors of Iran's economy and its involvement in terrorist activities outside of Iran. Further, it is an industrial empire with political clout that has grown exponentially since the establishment of the clergy regime in Iran.

The IRGC is essentially the owner of the most lucrative parts of the Iranian industry including the country's major source of income, the oil and gas industry. The IRGC operates almost all industrial segments in the country with huge political control and influence over governing groups. The IRGC is the only power structure of the IR that answers to no one and sees itself as the sole defender of the Islamic ideology and the only organization able to protect the so-called Islamic revolution.

French Total Oil Company has been involved in the Iranian oil industry since 1995, when it signed its first contract with NIOC for offshore activities. Later Total was awarded the development of Phases 2 and 3 of the giant South Pars gas field in 1997, and shortly thereafter Phase 11 was added.

But unexpectedly, in 2009 Total was relieved of the ongoing Phase 11 project, and with the start of international sanctions, incomplete petroleum projects that had been in the hands of foreign companies including Phase 11 were awarded in 2012 to domestic companies belonging to the IRGC. In 2013, Total agreed to pay a 400 million dollar fine to settle a Foreign Corrupt Practices Act case based on U.S. Securities and Exchange Commission and Justice Department charges of two incidences of bribery of the IR's Oil Ministry officials.

According to documents presented in court, Total intermediaries in 1995 paid a $16 million bribe to IR's Oil Ministry officials for a contract to develop offshore Sirri A and E oil and gas fields. Then in 1997, while Namdar Zanganeh was appointed oil minister (first term) by reputedly moderate and reformist clergy President Mohammad Khatami, Total entered another corrupt arrangement with the IR's Oil Ministry.

This time, company intermediaries paid a $44 million bribe to gain a contract to develop Phases 2 and 3 of the South Pars gas field. Of course, for that the company was awarded a juicy 40 percent interest in those phases of South Pars. The Phase 11 contract was cancelled because the bribe for that was not delivered to the Oil Ministry.

In another well-published bribery case during Namdar Zanganeh's first term as oil minister, Norway's Statoil in 2006 acknowledged the payment of bribes in 2002 and 2003 to the IR's Oil Ministry office to secure a development contract for part of the South Pars gas field. Statoil paid fines and disgorgement in the U.S. and Norway totaling $21 million and submitted to a 3-year deferred prosecution agreement.

IR's Oil Ministry in 2010 had a contract with Crescent Petroleum Co. to export natural gas to the UAE, but the agreement was abruptly cancelled after disclosure of corruption involved in the deal. For years the IR's tactic was to claim that sanctions were not hurting the country, and that the IR's economy under all international pressure was rather stable and functioning well.

And with about 80 percent of the regime's income arising from the selling of crude oil, the Oil Ministry and its officials have always been spreading empty rhetoric regarding the satisfactory performance of the Iranian oil industry. The reality is that the international sanctions imposed in 2012 on the IR choked Iran's oil production, and lack of investment and application of modern and up-to-date technology has brought the Iranian oil industry into ruin and bankruptcy.

This small exploration company has just signed a deal that could turn it into a major player in the coming EV boom as vital commodity supplies run low. After the IR reached an agreement over its nuclear intentions, a number of international energy companies quickly directed their attention toward the vast amount of Iranian oil and gas reserves.

Meanwhile, in an effort to take advantage of this situation to lure energy companies to Iran, the IR's oil officials came up with the proposal of an entirely new set of oil and gas agreements. The Oil Minister Namdar Zanganeh and his associates frequently have requested huge amounts of investment -hundreds of billions of dollars - till the year 2020 in order to revive and activate the Iranian petroleum industry. In order to attract these kinds of investments to the country, the IR's officials often have openly invited foreign companies to participate in the already planned privatization of state-owned companies in Iran.

In November 2015, the Oil Ministry introduced a new model of contract known as IPC. In this new form of contract, NIOC offers very inviting terms, such as full recovery of cost for foreign oil companies and up to 25 year contracts. The IPC model offers 52 oil and gas projects that apparently address investment risks and price fluctuation. The IPC was designed to replace the previous "Buyback" type contract which did not appeal much to international investors.

In Buyback, oil companies usually achieved single digit returns, whereas IPC guarantees that new contracts will deliver returns of at least 20 percent for investors. Therefore, the terms in the IPC are much more generous than the Buyback deals, and unlike the Buyback which merely paid an agreed fee when the contract was completed, the new model apparently can provide oil producers some shares of any field's production under its terms. Therefore, oil companies have the right to book more reserves on their balance sheet.

The purpose has been to attract oil companies and investors to participate in the renovation of the Iranian oil industry. However, the stampede of oil companies that the IR had hoped for has still not come to fruition. Only a few international oil companies positively (though tentatively) responded.

With the lifting of sanctions, the aforementioned Total, Norway's DNO, and Royal Dutch Shell each signed nonbinding letters of understanding with the NIOC. This time around, Total teamed up with China Petroleum Corp. (CNPC) and Petropars, an Iranian domestic company, in the form of a joint return for Phase 11 of the South Pars gas field. The agreement is for a 4.8 billion dollar natural gas development project, of which Total owns 50.1 percent, CNPC 30 percent and Petropars 19.9 percent of the deal. This agreement is tentative but may be finalized in early 2017.

The Norwegian operator DNO, which has worked for a long time in the Kurdistan area of Iraq and apparently is well-versed in its regional geology, also signed in mid-November of 2016 a memorandum of understanding with NIOC for the development of the Changulah oil field in western Iran, which straddles the Iran-Iraq border.

The Royal Dutch Shell oil company in early December 2016 signed a memorandum of understanding with NIOC. Shell officials have said it is a nonbinding contract, and details regarding the investment amount are confidential except “to further explore areas of potential cooperation”.

But the IR’s Oil Ministry revealed that there are three separate tentative contracts to develop. The most promising new fields include: the Kish gas field in the Persian Gulf, the Yadavaran oil field near the Iraqi border, and the South Azadegan oil field that crosses into Iraq, where it is known as the Majnoon field and has been developed by Shell.

Most importantly the IR is leaning toward its political supporter Russia. The two countries are jointly leading a proxy war against the West in Syria and Yemen. In mid-December 2016, Alexander Novak, the Russian Energy Minister, with a large delegation including officials from Gazprom, Gazprom Naft, and Lukoil visited Tehran and apparently signed a memorandum of understanding for seven oil and gas agreements as well as for the installation of a power station in the south and renovation of a railway in the northeast of the country.

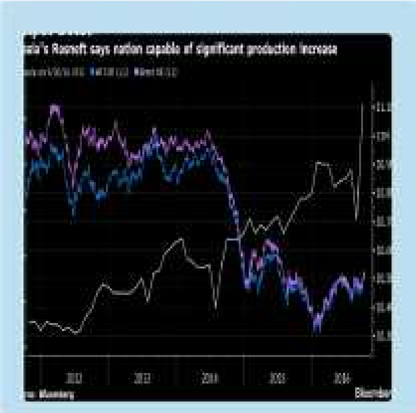
Russian investment in Iran is much more geopolitically viable than that of western firms and by far the largest share of Iran’s petroleum development is in the hands of Russian companies. Russian banks are less constrained than Western financial organizations. Moreover, Moscow considers the IR clergies its major regional ally.

The IR’s constitution clearly mentions that the country’s natural resource reserves cannot be in the hands of outsiders. Therefore, the Oil Ministry requires all foreign oil companies to have an Iranian firm aboard that will be assigned to them by the ministry in the form of a partner. For example, Petropars is a domestic share-holder in the new Total and CNPC contract.

International oil companies planning to make deals with the IR should be wary of the problem of chronic corruption in the governing system of the country. There is a bureaucratic attitude that dominates the business environment in Iran. So long as this corrupt and ill-managed regime is in control, investments in the Iranian oil industry, along with opportunities they might provide, could also be a great risk to prospective investors. Aside from this uncertainty, prospective investors still face the imminent possibility of the return of sanctions for years to come.

Rampant European gas demand but no LNG

ICIS, *12.01.2017*



This week, the Italian and Spanish Day-ahead gas contracts hit €40/MWh ($12.34/MMBtu) with a gas system alert triggered in Italy as the spot premium to the Dutch TTF reached a five-year high. The Spanish LNG assessment for March '17 of $8.84/MMBtu became the most expensive in the global market.

Yet while Europe is seen as a sink for an oversupplied LNG market it appears that periods of surging domestic gas demand do not coincide with available cargoes, at least in the short term. LNG deliveries to Europe are unchanged or even down in certain countries.

Europe is suffering a period of cold weather. The southern French TRS zone was subject to a supply alert with a call from the system operator for LNG send out to be lifted. Greek electricity exports were halted, a move soon followed by Bulgaria, and Portuguese gas demand hit five-year highs. Further north, gas hub prices in better-connected, more widely-traded markets rose but to a much lesser extent.

A lack of Qatari cargoes in the UK has limited LNG send out into the NBP as Qatar has other priorities. But the impact is mitigated by British gas consumption which is still 25% down from peaks in previous years when gas-fired generation was in greater demand.

Despite the struggle to produce sufficient gas-fired power generation when faced by local gas bottlenecks, talks over LNG reloads at most northwest European terminals continued with several planned over the next two weeks. The cold weather is expected to continue over the next 10 days in the south and southeast but could ease in the northwest which may widen gas price spreads further.

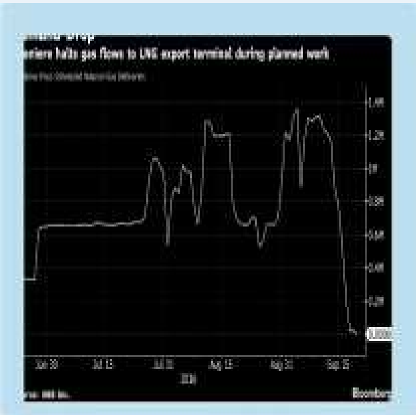
So why isn't LNG playing a greater role in the supply mix? One logical move would be to take reloaded cargoes from the north to the south, but current reload operations have likely been agreed to supply Middle East or Asian markets on a spot basis or to cover contractual requirements.

It seems unlikely that cargoes will soon arrive into the French Fos terminal because local cargoes are already committed to other buyers. But a southern European terminal could still be a good fit for a cargo from nearby Angola LNG. The monthly schedule for Greece indicates a sharp increase in provisional deliveries to four, compared with the usual one or two. These will be supplied by Algeria under contract. But system data shows the Revithoussa terminal can still only hold 110,000 cubic metres (cbm), despite plans to boost tank capacity to 200,000cbm by the end of 2016. This will limit the speed at which cargoes can arrive.

It also takes time to bring in LNG cargoes and the spike in prices may be over by February, currently the most prompt period under discussion by most LNG traders. A vibrant US Gulf export market could take advantage of such price spikes in the future, as Spanish buyers would be able to bring in their contractual cargoes purchased on a free-on-board basis. But north European buyers may decide to focus on pipe gas and storage rather than LNG. Hub prices at most European markets are still substantially below premium global LNG prices, and some of those European markets with the greatest need have no LNG import capacity, or suffer from various logistical constraints.

US natural gas production will increase in 2017

Bloomberg, *04.01.2017*



After the first fall in U.S. dry gas production in more than a decade in 2016, output is sure to regain its upward trend in 2017. No wonder, EIA has Henry Hub prices increasing from $2.50/MMBtu last year to nearly $3.30 this year.

Again, regardless of what some keep telling you, we have baseload gas demand markets that are continually growing: gas for electricity, gas for industrial use, gas for LNG export to the world, gas for piped export to Mexico and Canada. And don’t underestimate emerging idiosyncratic uses, such as gas in heavy trucking and gas as the required backup for wind and solar power.

Let’s be perfectly clear, following “the California model,” as environmental groups and President Obama’s EPA want us to, has a known bottom line: more renewables ultimately mean more natural gas.

I track gas production daily, and overall dry gas production in the recent month has been flat, at around 70-72 Bcf/d, even slipping below 70 Bcf/d due to production freeze-offs in Texas. But now, bolstered by rising oil and gas prices, the recent clouds are clearing for the U.S. shale industry.

Prompt month gas hit mid-$3.90s at the end of December, and oil prices have risen nearly 40% since early-August. This is starting to increase the value of oil and gas reserves against which loans are decided. So, a number of companies have seen their eligible proved reserves rise as of late, in part due to acquisitions.

With higher credit lines, companies can fund acquisitions and new exploration. In turn, North American producers are expected to increase capital investments by 30-35% this year. U.S. gas rig counts continue to climb, up some 65% since end of August. While some are expanding reserves with acreage purchases to up their borrowing bases, others are selling shares to fund more land purchases. And shale production costs continue to plummet.

Take Chesapeake, which has break-even costs in the Marcellus of just $2.00 and $2.15 in the Utica. For oil in the Utica, Chesapeake's break-even cost of producing oil is only $37 per barrel, important because with the OPEC deal, most believe that WTI crude prices will stick in the mid-$50 range for 2017.

As prices increase, many companies can develop prolific well locations that they were waiting on when realizing weak gas prices. While it was smart to hold production in the prolonged sub-$3 Henry Hub environment, the strip is now over $3.30 from June for the full year 2017.

Hedges represented just about 8% of U.S. oil and gas production in 2016, down from 15% in 2015. Having been burned by the market in 2016, the nation's leading independent gas producers are hedging this year at $3 and above to capitalize on the stronger NYMEX forward curve. Note that the majors generally don't hedge as a strategy.

Looking farther out, as the aforementioned gas demand markets continually mount, some higher cost shale areas and legacy conventional production should decline, but dry gas volumes are expected to grow at a 3-4% annual clip, closing in on 90 Bcf/d.

Yet, around 3 Bcf/d in the Marcellus has been curtailed because of lower prices and a lack of infrastructure. Higher prices, more pipelines, and rapidly evolving technologies are of great help. New production per rig now averages 12.5 million cubic feet of gas in the Marcellus, a staggering 38% improvement from last January. Although in the Northeast at least five large-scale expansions totaling more than 7 Bcf/d were slowed until 2018 because of permit denials or regulatory delays, a critical relief takeaway capacity of of 18 Bcf/d is coming. "Environmentalists," please, don't forget that pipelines are easily the safest and economical way to transport oil and gas. We need more of them.

Announcements & Reports

► *Iranian Energy: A Comeback with Hurdles*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/iranian-energy-comeback-hurdles/

► *Natural Gas Weekly Update*

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

► *This Week in Petroleum*

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

Upcoming Events

► *European Gas Conference*

Date : 23 - 25 January 2017
Place : Vienna, Austria
Website : http://www.europeangas-conference.com/

► *Oil & Gas IP Summit*

Date : 24 January 2017
Place : London, United Kingdom
Website : https://oilandgasip.iqpc.co.uk/

► *North Africa Oil & Gas Summit*

Date : 26 January 2017
Place : Milan, Italy
Website : http://nas.theenergyexchange.co.uk/

► *International Conference on Oil & Gas Projects in Common Fields*

Date : 07 – 08 February 2017
Place : Amsterdam – The Netherlands
Website : http://www.waset.org/conference/2017/02/amsterdam/ICOGPCF

► 19th International Conference on Oil and Gas Projects in Common Fields

Date : 07 – 08 February 2017
Place : Bangkok - Thailand
Website : http://www.waset.org/conference/2017/02/bangkok/ICOGPCF

► Cuba Oil & Gas Summit 2017

Date : 07 – 09 February 2017
Place : Havana - Cuba
Website : http://www.cubaoilgassummit.com/

► Iran LNG & Gas Summit

Date : 14 – 16 February 2017
Place : Frankfurt, Germany
Website : http://www.iranlngandgas.com/

► Australasian Oil & Gas Exhibition & Conference (AOG)

Date : 22 – 24 February 2017
Place : Perth - Australia
Website : http://aogexpo.com.au/

► LNG Summit

Date : 23 – 24 February 2017
Place : Houston – United States
Website : http://lng-usa.com/

► Nigeria Oil & Gas Conference & Exhibition

Date : 27 February 2017
Place : Abuja - Nigeria
Website : http://www.cwcnog.com/

► 15th Global Oil & Gas Turkey

Date : 15 – 16 March 2017
Place : Istanbul - Turkey
Website : http://www.global-oilgas.com/Turkey/Home/

► New Zealand Petroleum Conference 2017

Date : 21 March 2017
Place : New Plymouth - New Zealand
Website : http://www.petroleumconference.nz/

► *CIS Oil & Gas Summit*

Date : 26 – 27 April 2017
Place : London, United Kingdom
Website : http://cissummit.theenergyexchange.co.uk/

► *Offshore West Africa*

Date : 06 – 08 June 2017
Place : Lagos, Nigeria
Website : http://www.offshorewestafrica.com/index.html

► *Big Gas Debate 2017*

Date : 14 June 2017
Place : London, United Kingdom
Website : http://www.theenergyexchange.co.uk/big-gas-debate/

► *7th Iraq Oil & Gas Conference*

Date : 28 – 30 November 2017
Place : Basrah, Iraq
Website : http://www.basraoilgas.com/Conference/