



Regional Gas Issues

Central Asian Gas Export Prospects

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Energy Security Conference

**“Strengthening Regional Cooperation in Central Asia for Promoting
Stable and Reliable Energy within Eurasia.”**

Ashgabat, 3-4 May 2010

Hard Security Issues: Gas Demand Uncertainty The European Gas Balance 2005-2020

	2005	2020	2020	2020	2020
	Actual	Baseline	Baseline	New Energy Policy	New Energy Policy
Oil price		\$61/bbl	\$100/bbl	\$61/bbl	\$100/bbl
Total	516	585	514	462	400
Net Imports	298	452	383	337	284
Domestic	218	133	131	124	116
Import change 2005-2020		+154	+85	+39	-14
Source:	Second	Strategic	Energy	Review	
	EU	Brussels	November	2008	

Europe: Reliable Gas Supply Increases

The EU import issue:

A gas powered future: Looking for an extra 70-80 bcm 2005-20

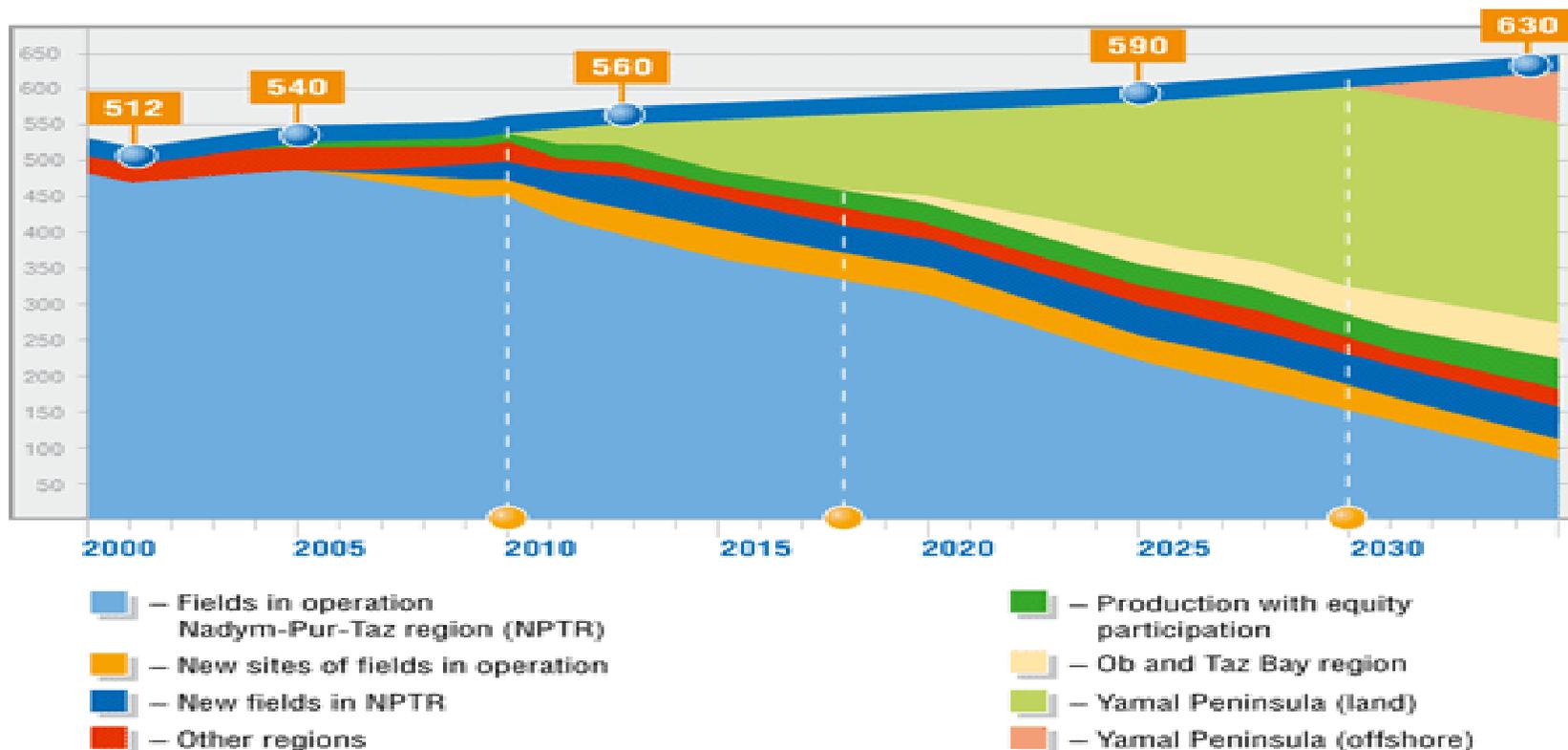
Should be possible from three reasonably predictable suppliers:

- **Norway – but Arctic complexities**
- **North Africa – but rising demand**
- **Qatari LNG – but moratorium**

Above all, this is predicated on a sustained level of gas imports from Russia

Outlook for Russian Production

(Source: Gazprom, from Jonathan Stern)



EU - Russia: Differing Views of Trade Volumes

What the EU expects:

The contrast between old and new estimates/projections for EU gas imports amounts to 168 bcm/y by 2020. That's a range that is as almost as big as Russia's **TOTAL** indigenous gas export availability in 2008.

What Russia expects:

European imports to rise by 195 bcm between 2005 and 2025. Projection cited by Nordstream in January 2010, based on scenario developed by European Commission, DG-TREN, in 2007.

What Russia might produce in 2030 – Two views:

1. 760 bcm (Up 114 bcm from IEA output level of 646 bcm for 2007)
Source: IEA. WE0 2009 Reference Scenario: Gas Table 12.1 (Page 429)

2. 885-940 bcm (Up 239-294 bcm from IEA output level of 646 bcm for 2007)
Source: Energy Minister Sergei Shmatko 26 Nov 2009

NOTE: Shmatko has also said Yamal could yield 360 billion cubic meters a year.
But how to transform resources into output?

Global Crisis – Eurasian Energy Implications

The reduced importance of take or pay

1. Russia-Ukraine
2. Russia-Turkmenistan
3. Turkey-Azerbaijan

A gas world with fewer guarantees as it moves to more flexible market structures.

The Problems for Caspian Gas Producers

Azerbaijan:

- Shakh Deniz and beyond
- A 30 bcm gas exporter?
- And when?

Turkmenistan:

- A genuine exporter
- South Yoloten/Osman
- Trans-Caspian aspirations

Kazakhstan:

- “If the Nabucco project gets real, Kazakh gas will be one of the main sources of the project along with the Azeri and Turkmen gases.”

Hulusi Kilic, Turkish Ambassador to Baku, Azerbaijan Today, May/June 2009.

Eurasian Pipelines: The Shakh Deniz Game Changer - 1

The new SD-2 Timetable

- The 25 April Socar-Turkey agreement
- Mid-2010: Gas sales negotiations start
- IH-2011 Final Investment Decision
- 2011-2015 €20 bn project implementation
- 2016 First SD-2 Gas
- 2018 Full Field Development. c.16 bcm/y increase; total field output: c. 25 bcm/y.

Eurasian Pipelines: The Shakh Deniz Game Changer - 2

Pipeline Implications:

- Mid-2010: Nabucco's 'Open Season' gas supply negotiations start (the counterpart to SD-2 Gas sale negotiations).
- 2H-2010: Nabucco Financing
- Early 2011: FID for either Nabucco or ITGI (or TAP? – or a combination??).

Eurasian Pipelines: The Shakh Deniz Game Changer - 3

The next stage of Azerbaijani field development:

Absheron: A real prospect for Total

Umid/Babek: Drilling by Socar

SD-3

Deep Level Azeri-Chirag-Guneshli: “The Strategic Reserve. We recognise it’s there. But it doesn’t have to be developed immediately.”

Bottom Line: Azerbaijan set to become a major gas exporter:

- 20 bcm/y in 2018, perhaps 30 bcm by 2025.
- Implication: New pipelines beyond SCP

Eurasian Pipelines: The Shakh Deniz Game Changer - 4

- Implications for other Caspian producers:
- Short term: potential availability in SCP c.2013-2016
- The need for much greater South Caucasus capacity beyond 2018.
- Implications for Turkmenistan and Kazakhstan. Should they be taken into account for a 2014 pipeline system, for a 2018 pipeline system. Or are they irrelevant?

Turkmenistan: Taking Advantage of New Openings

The Short-term issue: Petronas and the issue of stranded gas

- Petronas: 8-10 bcm of gas output by 2013-14

Options:

- The Caspian Coastal Pipeline (Pri-Caspiy) to Kazakhstan and Russia. Technical capacity: 14-16 bcm/y: effective capacity, probably 7-8 bcm/y without significant repair.

Turkmen attitudes:

One: Renovate and upgrade CCP (Pri-Caspiy), as envisaged in the May 2007 agreements with Russia and Kazakhstan.

Two: Opt for a trans-Caspian solution.

- “Obviously, we are ready to supply gas for Nabucco when it reaches us,” said a Turkmen government official who asked not to be named.
- “As early as next year, 10 bcm can be exported from the Turkmen Caspian shelf where Petronas is working.”

Source: Reuters – Ashgabat 19 November 2009

CCP/Pri-Caspiy Issues

- But does Russia want Petronas/Dragon/Burren gas
- If so, on what terms?
- Does it envisage a return to the concept that it is Turkmen gas that will, in effect, be used to supply Ukraine – if so, would it be at the discounted price Russia recently agreed with Ukraine?

Turkmenistan's Position – An International Perspective

Key facets of Turkmenistan's cash balance in 2010

Gas exports to:

	Volume	Price	Revenue	Growth prospect
	bcm	per '000cm		
Russia	12	\$195	c. \$2.34bn	up to 30 bcm
China	6	\$180	c. 1.08bn	40 bcm in 2014-2016
Iran	10	\$140	c. 1.68bn	up to 20 bcm
Total	24-30		\$5.1bn - \$6.3bn	c. 90 bcm by 2016

Source: Methinks Ltd, Scotland.

Costs: \$10-14 bn/y energy sector investment needs
c. \$12bn/y all other government programmes

Borrowing hampered by unwillingness to furnish sovereign guarantees and persistence of Turkmengas as budgetary body, rather than as corporation with reportable balance sheet.

Turkmenistan's Position – The View from Ashgabat?

- Opportunity Cost: Reduction in exports means Turkmenistan's gas remains available for sale in future, so no long-term loss.
- Pricing Policy: The state considers it important to purchase gas from producers -- e.g. the output from Petronas & Dragon -- and then handle the resale for export itself. Under this system, the Turkmenistan Government retains its existing pricing system, which reflects political as well as commercial considerations.



Questions?

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**Please note: All the views in this paper are those of the
author alone.**