Reliable Gas : Not for Iran, Turkey, Europe

By David Wood
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An unprecedented cold winter for much of the Middle East and the Caspian region highlighted the unreliability of regional gas supplies. The cold weather resulted in heated rhetoric, as Turkmenistan temporarily stopped shipping gas to Iran. Meanwhile, Russia continues to resort to supply interruptions in commercial disputes with transit countries. Here is a closer look at the disputes.

Turkmenistan and Iran Argue, Turkey Gets Pinched In late December, Turkmenistan interrupted the flow of gas to Iran during a cold spell, blaming technical problems. But it was really about pricing.

Turkmenistan halted the flow of gas (about 23 million cubic meters per day) because Iran refused to accept a price increase. Turkmenistan has been getting from \$75 to \$140 per thousand cubic meters (about \$2 to \$4 per thousand cubic feet). This event then led to gas supply interruptions from Iran to Turkey, and subsequently deliveries to Greece, throughout much of January.

There's no shortage of irony in the fact that Iran, with the second-largest gas reserves on the planet, is a net gas importer. It relies on Turkmenistan to provide about 5 percent of its domestic gas needs.

The pipeline between Turkey and Greece was inaugurated last November, and will eventually carry some 12 billion cubic meters of gas a year. About 3 Bcm of that comes from Azerbaijan's Shah Deniz field and is destined for Greece.

The result of Turkmenistan's decision to shut off gas to Iran was that it diverted gas from Azerbaijan to Turkey. The Turks also bought some liquefied natural gas (LNG) to make up for the shortfall, incurring substitution costs.

In 2006, Turkmenistan signed a gas sales agreement with Iran designed to increase exports to Iran to 14 Bcm per year (from about 8 Bcm per year) by 2024, at \$75 per thousand cubic meters. However, on the backs of successful price negotiations with Gazprom and PetroChina, and rising Asian gas prices in 2007, Turkmenistan clearly feels bold enough to take on Iran regarding what it views as below-market pricing for its gas.

Indeed, Turkmenistan has been doing that with other customers. It has hiked prices on the gas it delivers to Gazprom for the first half of 2008, charging it \$130 per thousand cubic meters (about \$3.70 per Mcf). In the second half of 2008, that will increase to \$150 (about \$4.30 per Mcf). The new gas pipeline from Turkmenistan to China is scheduled for completion at the beginning of 2010, and PetroChina has reportedly agreed to pay \$195 per thousand cubic meters (about \$5.60 per Mcf) for Turkmen gas.

Such antics from Turkmenistan and Turkey do not help convince potential customers that they are reliable suppliers. Nor are the latest curtailments doing much to promote the Nabucco gas pipeline, a 3,000 kilometer, \$7.5 billion project planned to run from eastern Turkey to Austria's Baumgarten gas hub, via Bulgaria, Romania, and Hungary, transporting some 30 Bcm of gas per year.

That line has been a top priority for the European Union, which sees it as a way to diversify its gas supplies away from Russia. Construction on Nabucco is expected to start in 2010, with first gas deliveries expected in 2013.

Hungary is leading the negotiations on the international treaty agreement required for the project.

But most of Nabucco's gas supply requirements remain in doubt and Gazprom is keen to keep it that way. In addition to the currently secure Azerbaijan supply, additional gas is expected to come from Turkmenistan, Iran, Egypt, and Iraq. With Turkmenistan, Iran, and Turkey all apparently prepared to shut off supplies to their neighbors without notice, it seems the E.U. may not be gaining much security of supply by investing in such a project. That said, Nabucco has gained a small boost by signing up Germany's second-biggest gas utility, RWE AG, as its sixth partner, to join the other major utilities: Austria's OMV AG, Hungary's MOL Nyrt, Romania's Transgaz SA, Bulgaria's Bulgargaz Holding EAD, and Turkey's state-controlled Botas.

While talks on Nabucco continue, the large German utility, E.On, and Italian gas company, Eni, appear to be making progress in securing tangible gas supplies, albeit under Russian control, by partnering with Gazprom in promoting the Nord Stream and South Stream gas pipeline projects, respectively.

StatoilHydro and Swiss company EGL Group are progressing with a study on a project to build the 10 Bcm per year Trans-Adriatic Pipeline. The $2.2 billion, 520 kilometer project will deliver gas to southeastern Italy across the Adriatic Sea via existing Greek pipelines, and facilitate a new delivery corridor from the Caspian Sea and the Middle East into western Europe via Italy.

The more speculative White Stream pipeline project has received a boost from recent events, as it could bring Caspian gas into the E.U. by avoiding Russia and Turkey. The proposed pipeline would branch off from the Baku-Tbilisi-Erzurum (South Caucasus) pipeline, in conjunction with the second and third phases of field development at Azerbaijan's Shah Deniz field. Initially named the G.U.E.U. (Georgia-Ukraine-E.U.), this project involves a seabed pipeline from Georgia to Crimea, with options to continue through Ukraine's gas transit system into the E.U., and another branch from either Crimea or Georgia to Romania's Black Sea coast.

If trans-Caspian deliveries of Turkmen gas ever materialize, White Stream would offer a valuable alternative route to Europe for that gas. No major European utilities have yet backed the White Stream project, fearing possible retribution from Gazprom and recognizing that Russia will use every possible obstacle to prevent such a pipeline from ever being built.

The scramble for pipelines among the European utilities is not only about securing gas supplies; it is also about increasing their influence in controlling and developing the emerging gas hubs in western Europe. Those hubs that can secure diverse gas supplies â€" particularly LNG and pipeline gas â€" will be the ones to flourish in the long term. The T.T.F. hub in Holland will soon be competing more strongly with the Zeebrugge hub in northern Europe, and Baumgarten in Austria and P.S.V. in Italy could ultimately compete to bring Russian and Caspian gas into south-central Europe.

Meanwhile, Russia, Ukraine Bickering Continues ENERGY TRIBUNE DETAILS: Address: 800 Gessner rd. ste. 1220 Houston, TX. 77024 Phone: (713) 647-0903 FAX: (713) 647-0940