Kuwait turns towards LNG after ditching nuclear

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Kuwait will scrap plans for four new nuclear power plants. (Microsoft/iStockphoto)

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Kuwait's decision to ditch its nuclear power ambitions could clear the path for the Gulf state to make a strategic move for long-term natural gas imports, as its own efforts to develop non-associated gas fields in the north of the country make patchy progress.

The Kuwait government confirmed earlier this month that it would scrap plans for four nuclear power plants, a decision influenced by the Fukushima disaster in Japan. Though Saudi Arabia and Abu Dhabi remain committed to civilian nuclear power generation capability, Kuwaiti leaders appear to doubt their ability to push through a nuclear programme in the face of domestic political opposition from a fiercely independent National Assembly.

Nuclear energy was intended to be one significant part of Kuwait's long-term strategy to keep pace with one of the region's fastest-rising electricity demand rates.

Gas demand is also ballooning. In 2010, Kuwait's gas consumption increased by a robust 18.8% to 14.4 billion cubic metres, as LNG imports increase under a four-year contract with Royal Dutch Shell and Vitol. Imports grew from 11 cargoes in 2009 to an estimated 45 cargoes this year.

An agreement signed in June 2010 committed Kuwait Petroleum Corporation (KPC) to import 2.1 million tons a year of LNG, resulting in the import of five cargoes of gas a month – three supplied by Shell and two by Vitol. The deal – intended as a stop-gap solution to slake the burning of around 800,000 barrels per day of crude oil in domestic power stations – now looks increasingly like the first stone in a long-term LNG import strategy.

"Now that nuclear power is effectively dead, they are going to have to accept that they will have to import LNG on a more permanent basis and that this will be part of their future energy mix," Justin Dargin, a Gulf gas analyst at Harvard University's Belfer Center, told *Interfax*.

Furthermore, said Dargin, Kuwait's only gas option is imported LNG. "At first they saw LNG importation as a temporary measure, so it has been framed as cargo purchases from Shell's international portfolio. But gradually it is turning into a more permanent import basis," he said.

Plans are afoot to build a permanent LNG regasification facility to supersede the existing LNG plant at the Ahmadi port. A feasibility study is looking into ways of replacing the 500 million cubic feet a day (14.2 million cubic metres a day: MMcm/d) al-Ahmadi regasification terminal, and will report by year-end 2011.

As yet, Kuwaiti officials have come to no firm strategy about securing long-term LNG supplies from a bilateral supplier, though an obvious candidate is Qatar, boasting a production capacity of 77 million tons per year.

When KPC's contract with Shell and Vitol runs out in 2013, Kuwaiti officials say they will buy gas from the open market but that doesn't rule out a future accord with Qatar, with several compelling synergies.

"If you look at Kuwait's dire energy requirement, they simply can't afford to potter around. They have to reassess their pricing framework as they cannot afford to be resistant to higher gas prices," said Dargin. "At the same time, if you look at Qatar's LNG glut they may well have to accept a lower price, so that might push them towards some kind of accommodation."

Ideally, Kuwaitis prefer not to be dependent on imported gas. The original aim was to increase domestic production from both associated and non-associated fields and thereby limit its exposure to the LNG market.

Associated gas is running at historically high levels of 34 MMcm/d as oil production edges near 3 million barrels per day. State-owned Kuwait Oil Company meanwhile aims to hike production to 17 MMcm/d from Jurassic era non-associated discoveries in the north by end-2012 and to 28.3 MMcm/d by 2016.

"Recent upgrades to Kuwait's gathering and processing facilities have helped boost associated gas supply, but the non-associated gas programme has run into difficulties and is probably a few years behind schedule. It is this together with strong demand

growth which has forced Kuwait to look at other sources of gas for the short to medium-term," Chris Graham, Middle East energy analyst at Wood Mackenzie, told *Interfax*.

The country's cautious approach to allowing foreign investment has discouraged international oil companies with the technical expertise to tap gas reserves found in deep accumulations.

Unattractive contract structures have impeded progress – the Kuwaiti constitution prohibits production sharing contracts in development projects – while the geological complexity of the mainly sour and tight gas deposits in the north represent another hazard for potential developers.

Non-associated northern gas fields have proved more challenging than initially thought, say analysts. Fields like Umm Niqah and Sabriya are ultra-deep and therefore highly capital-intensive – and this increases the likelihood that other non-associated gas fields will also be ultra-deep.

"There's been a number of technical challenges with the fields to date and these have delayed the whole non-associated gas programme. Development phases two and three have suffered the knock-on effects of these delays to phase one," Graham added.

If domestic supply options appear constrained, Kuwait does have other alternatives up its sleeve. Iraq's gas-rich southern fields – around 70% of whose output is currently flared – present one possible supply source within easy reach.

The contours of a possible cross-border gas deal are slowly emerging. The privately-owned Kuwait Energy Company was awarded 20-year contracts in October 2010 for developing the Siba and Mansouriyah fields. Mansouriya holds an estimated 1.3 trillion cubic metres of gas, while Siba has 42.5 bcm.

"Siba may appear to provide a strategic fit for Kuwait but politics are likely to play their part. In any case material gas volumes are unlikely before 2016, so there would be a short-term gap to fill even under this best case scenario," said Graham.

Importing gas from Iraq could be difficult. Though a gas pipeline between the two countries already exists, Iraq is much more advanced in talks with other partners about exporting its gas, Laura al-Katiri, an analyst at the Oxford Institute of Energy Studies, said in a speech on Kuwait's energy at the London School of Economics on 19 October.

"In any case, because of past history, the Kuwait National Assembly would be certain to block any deal that left Kuwait dependent on Iraq; Kuwait has a well established contractual relationship with Shell, which supplies gas; this is purely commercial and Kuwaitis feel comfortable relying on Shell, even though the gas is priced expensively under this deal," she added.

Structuring Iraqi gas sales as LNG could help the Kuwaitis out of their predicament. One possibility is for a floating LNG structure to be set up at the northern tip of the Persian Gulf, where Kuwaiti territory meets Iraq. "They are neighbours, so supplying Kuwait with Iraqi LNG allows more flexibility compared to building a pipeline, which would make it a more permanent relationship," said Dargin.

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