Kuwait’s energy programme due for revision

Kuwait Oil Company has fallen behind its output targets for the non-associated Jurassic gas fields. Unless it revises its attitude to foreign involvement in the oil and gas sector, LNG will be the only option for meeting a looming gas shortage. Leigh Elston reports

The Kuwait Oil Company (KOC) plans to increase non- associated gas production to 2.5 billion cubic feet per day (70.8 million cubic metres per day: MMcm/d) by 2030. The Jurassic gas fields, estimated to hold 991 billion cubic metres of reserves, will be pivotal to this growth. But development at the project has fallen severely behind schedule due to continuing construction delays, Samia Ahmed, a Middle east geologist at IhS Global told Interfax. The first phase of the project targeted 4.9 MMcm/d by 2008. however, as of mid-September 2011, the fields were only producing 3.9 MMcm/d, Ahmed claims. This makes the second phase target of 14.1 MMcm/d even more unrealistic.

The project is expected to produce 28.3 MMcm/d by 2015, Wood Mackenzie analyst Chris Graham told Interfax, “but we don’t think phase three will be in place by then, never mind up and running.”

“The fields have proved more challenging than initially thought,” he added. “They’re not only very deep, at between 5,000 and 6,000 m, but there are issues with well control, together with CO_2 in the reservoirs, which increases costs. The low liquids content also doesn’t help the economics.” Production costs at the field are estimated to be $5 per million Btu.

Fear of foreign contractors International oil companies are still banned from investing in Kuwait’s oil and gas sector. In February 2010, Shell signed an $800 million five-year enhanced Technical Service Agreement (eTSA) with Kuwait to assist with the development of the field. however, “the deal is very much limited to co-operation with research and development and capability building, rather than actual development of the field”, Graham said.

Despite the contract drawing strict limitations on International companies Shell’s role in developing the reserves, it has still aroused suspicion in parliament. In June, MPs asked why the deal was handed to Shell without a formal tender, and the deal is now being investigated by both a committee ap- pointed by Kuwait’s Oil Minister Mohammad al-Baseeri and a separate parliamentary panel.

However, through the eTSA, Shell, like many international oil companies operating in the Gulf, is able to maintain “good relations with the government and keep a foothold in country”, Justin Dargin, a Gulf energy analyst at Harvard University’s Dubai Initiative told Interfax. “Gas production is underutilised in the Gulf at the moment, but it could pick up significantly in the next five to 10 years and that the pricing formula is going to be reconfigured. When that happens, companies want to already have their foot in the door.”

Shell’s deal already looks likely to have paved the way for more lucrative agreements. Shell was chosen as the key supplier to Kuwait’s floating LNG terminal in 2009 to cover peak summer periods between April and October up to 2013. “I don’t think there was an explicit link to the LNG supply contract [and the eTSA], but both were being negotiated at roughly the same time and must have played in high-level considerations in one way or another,” Hakim Darbouche, research fellow, Oxford Institute for energy Studies, and regional head of Middle east and North Africa at Oxford Analytica told Interfax. With Kuwait’s LNG demand rising rapidly, Shell is “certainly very well placed to play a greater role in Kuwait’s LNG import plans in the future”, he added.

Surging imports Kuwait’s LNG supply deal with Shell is no longer sufficient to meet demand, with Kuwait Petroleum Corporation (KPC) extending its buying season to November. Kuwait imported 30 cargoes in the first eight months of 2011 through its floating LNG facility, nearly one-third higher compared to the same period last year, according to IhS Global data, and “Kuwait is seeking to increase LNG imports in the next few months,” Ahmed said.

Kuwait is conducting a feasibility study for the construction of an onshore LNG facility, understood to have a capacity of around 14.1 MMcm/d. “The fact that Ku- wait is even considering a permanent facility, shows they recognise that the odds of them really increasing their own gas production rapidly to meet their needs are low,” Jareer Elass, an independent energy consultant and edi- tor for the Baker Institute energy Forum told Interfax.

“The irony is the Kuwaitis tried to negotiate an LNG supply deal with the Qataris, who would be the most obvious, close-by provider and might give them preferential terms, given their relationship in the Gulf, but they didn’t want to be tied into any long-term contracts,” Elass added. KPC eventually signed a shorter contract with Shell, due to expire in 2013, to coincide with the