BP awarded two new Egyptian exploration licences

BP Egypt has been awarded two new exploration blocks as part of Egypt's 2013 bidding round, the company said on Tuesday.

BP will operate Block 3, North El Mataria, some 57km west of Port Said, holding a 50% stake, with Abu Dhabi's Dana Gas holding the remainder. The award represents BP's entry into the Onshore Nile Delta.

BP will also take a 50% stake in Block 8, Karawan Offshore in the Mediterranean 220km north-east of Alexandria, in which Eni will be operator.

The development programme will include 3D seismic and three exploration wells per block in phases over six to eight years with a total investment from BP and partners of USD 240 million.

The investment is a show of faith by BP in the country that has had much to do to restore its credibility for foreign investors. Egypt's debts, as well an on-going energy crisis, have put its government between a rock and a hard place. Failure to meet "immense" domestic gas demand led to the diversion of all gas to domestic use, which in effect shut down BG's Idku LNG plant in January. However, BG is in negotiations for a supply from Israel's Leviathan field and is reportedly looking for further supplies from BP's North Alexandria development, as well as from Cyprus via Cyprus Hydrocarbons.

The government of President Abdel Fattah el-Sisi is working to overcome the many facets of Egypt's energy crisis. The massive USD 6.4 billion in energy-sector related debts still to pay, mostly to foreign firms, has been dented by a USD 1.5 billion repayment in October, with the remainder of the balanced promised before end-of 2014.

Egypt has also revised its terms of investment to increase the price it pays to operators to produce gas and removed its burdensome subsidy regime, steps that were rewarded with high levels of interest in the recent bidding round. Government officials hope Egypt can resolve its energy crisis by 2018.

Meanwhile, state-owned EGAS recently took delivery [1] of a 400 MMcf/ FSRU from Hoegh LNG as part of a five-year contract starting in Q1 2015. It also secured three LNG import deals for up to 2.77 MMcm, with the first cargo coming from Algeria by the end of 2014.

However, as Middle East energy expert Justin Dargin put it to Gas Strategies, LNG is a "very, very expensive solution" for a developing country that in 2011 suffered enough civil tumult to topple its government, and the USD 700 million put aside in the 2014 budget to pay for those imports is something the country can ill afford. - RT

For more on Egypt's supply alternatives and recent upstream reforms, see the November issue of Gas Matters: The Gas Strategies Interview with Justin Dargin. [2]

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