# Egypt signs first batch of exploration deals

Egypt has signed six exploration agreements with companies including BP, ENI, Shell and Canada's TransGlobe for concessions in the Western Desert and the Gulf of Suez, but the country's energy ministry says it eventually expects to close over a dozen more deals.

Egypt's energy ministry did not give a definitive timeline for the agreements, but said in a statement that a total of 20 new agreements would be signed "over the coming period".

Eni subsidiary IEOC finalised its agreement to operate the southwest Melehia block in the Western Desert. The company was granted the license towards the end of last year as part of the 2013 EGPC and EGAS bid rounds.

During the rounds, Eni was also awarded operatorship of deepwater blocks 8 and 9 located in the Mediterranean Sea near the maritime border with Cyprus. BP will take a 50% stake in block 8.

The agreements would involve 41 wells, minimum investments of USD 5.27 millionand a USD 124 million signature bonus, the Egyptian energy ministry said in a statement.

BP confirmed to Gas Matters Today that it had signed a deal with the ministry on Friday. But the company said it was a five-year extension on a Gulf of Suez block jointly held with GUPCO, rather than one of the latest awards.

The company expects to finalise agreements awarded in last year's licensing round in the near future, BP said.

BP is currently working with Eni in block 8 and announced plans in November to operate block 3 with Dana Gas.

Shell told Gas Matters Today it had agreed a contract extension for the Sitra and BED3 development leases located in the Western Desert.

Other companies that were successful in the 2013 bidding round include RWE, Dana Gas, Tunisia's HBSI, Total and Edison.

In stark contrast to neighbouring Algeria, which received only four takers for the 31 blocks it had recently offered, the latest tender in Egypt has been considered a success.

According to Middle East energy expert Justin Dargin, companies were encouraged by gas price reform, improving state finances and political stability.

"Key to the appeal of Egypt's acreage is a revision of a pricing policy that had restricted remuneration for gas production to a miserly USD 2.65/MMbtu. Onshore producers in areas with dense existing gas infrastructure – such as the Nile Delta – have been able to turn a profit, especially if the gas contains a significant cut of liquids," he said.

"But with offshore drilling costs rising, it has not proved sufficient to incentivise offshore drilling, particularly in deep water. Energy companies will be further encouraged by a reduction in domestic subsidies on natural gas and transport fuels, which had been crippling the government's finances and impeding its ability to pay producers," Dargin added.

The success of the bidding round is all the more surprising given that the Egyptian government owes billions of dollars to foreign energy producers like BP and BG.

As reported last week, the government paid back another USD 2.1 billion to international firms, but still owes over USD 3 billion in unresolved debt after cutting exports to help meet growing domestic demand.

Egypt is keen to increase domestic production, but output from the fields offered in the 2013 bidding round will likely require years of work. In the meantime, the country is looking to LNG imports in order to avoid diverting exportable gas.

An LNG supply deal with Gazprom will be signed before the end of the month, according to Reuters. Reports citing Egyptian energy minister Sharif Ismail said that an agreement made in principle last April to buy seven LNG cargoes from Russia will be completed sometime this month.

In November, Egypt received an FSRU from Norway's Hoegh, which is expected to come online in the current quarter, while Cairo agreed in December to purchase six LNG cargoes from Algeria's Sonatrach.

Under the terms of the contract, shipments of 750,000 cm of LNG will cover the summer period from April to September.

Gazprom may be eyeing Egypt as an LNG buyer, as demand in some markets remains limited and the country may offer higher profits than European hubs.

JKM prices have fallen in recent months thanks in part to weak Asian demand, leaving LNG producers and aggregators with excess volumes from liquefaction plants in the Atlantic Basin such as Atlantic LNG in Trinidad to sell into European markets – especially the UK's liquid NBP hub – rather than sell FOB cargoes.

Short-term LNG delivered into alternative and new markets like Egypt would likely make netbacks more attractive to sellers than the NBP, where prices have hit their lowest levels in several years amid lower-than-average seasonal demand, high storage levels in Europe and lower Asian and Latin American demand for LNG leading to an influx of supply into the UK spot market. - JM

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