Go for gas

NATURAL GAS / Despite the perennial shadow of political turbulence, upstream gas and LNG import projects are progressing / Fatima Sadouki

The resignation of Kuwait's cabinet on 30 October highlighted yet again the volatile nature of its politics. It came at a time when the Opec country is facing many competing priorities in both global and domestic energy issues.

The government collapse followed a no-confidence vote by MPs in the minister of state for cabinet affairs and acting information minister Sheikh Mohammed al-Abdullah Al Sabah over alleged financial and administrative infringements. Prime minister Sheikh Jaber al-Mubarak Al Sabah will remain in his post until a new cabinet is formed—which could take weeks. Until then, the National Assembly is suspended.

Sheikh Mohammed wasn't the only cabinet member in the opposition's firing line. Oil minister Issam Almarzouq, among others, is likely to be replaced as he, too, was expected to be called by MPs for questioning over alleged mismanagement of state-controlled Kuwait Oil Company (KOC). Marzouq was appointed in December 2016, having previously been on the board of Kuwait Petroleum Corporation (KPC).

Tension between the cabinet and parliament isn't new in Kuwait—the assembly has been dissolved seven times since 2006. But the timing of the latest political crisis was awkward, coming only weeks before the 30 November Opec meeting. As a leading Opec member, Kuwait chairs the Joint Ministerial Monitoring Committee which oversees compliance with the production cut agreement struck in late 2016.

So yet another leadership change in the oil ministry will mean further disruption and delays in Kuwait's energy sector—just as positive signs were beginning to appear in upstream expansion. In particular, progress is being made in the development of the Jurassic gas and condensate fields in northern Kuwait, which is part of KOC's 2030 Upstream Strategic Objective. Higher non-associated gas production would give greater flexibility in adapting to Opec quotas because around 90% of domestic gas is currently associated with oil. It would also reduce the dependence on growing liquefied natural gas imports, needed to meet rocketing electricity consumption.

Serenity and tranquility: both have been lacking in Kuwait's energy sector

Until indigenous gas supplies increase significantly, LNG imports are expected to rise

Internal political wrangling over the award of an enhanced technical services agreement to Shell in 2010 resulted in the project's halt until last year, when a parliamentary inquiry into the agreement closed.

KOC now plans to boost Jurassic gas output to around 0.520bn cubic feet a day by the beginning of 2018, from the current 170m cf/d. Condensate production would be increased to 200,000 barrels a day, supporting efforts to boost oil production to a target of 4m b/d by 2020—although this will depend on Opec strategy.

This summer, KOC opened a tender for a $3.6bn engineering, procurement and construction contract to add another 590m cf/d of gas and 200,000 b/d of light oil from the Jurassic fields. Bids are due mid-February 2018. Commercial production would increase to approximately 1.1bn cf/d by 2023. "These are ambitious targets and they might be delayed again by a few years. But there is an entirely different kind of vibe in Kuwait compared with 10 years ago," Middle East energy expert Justin Dargin tells *Petroleum Economist*. "There is a political will to get things on board, a full movement ahead."

Whether such momentum will be affected by the current political instability remains to be seen. But there are also significant cost issues. The Jurassic fields' ultra-deep, tight and sulphur-rich gas deposits require sophisticated technologies and high capital expenditure, pushing up gas prices to $6–8 per million British thermal units. "It is difficult to stimulate indigenous gas supplies and offer attractive contract terms to foreign partners when domestic gas prices have been kept so low due to the dominance of cheaper associated gas [of around $1.50/mBtu]," Dargin says.

Until indigenous supplies increase significantly, LNG imports in the coming years are expected to rise. At present, Kuwait imports around 2.4m tonnes a year from a variety of global suppliers via a floating storage and regasification unit at Mina al-Ahmadi. But construction of a 22m-t/y capacity land-based LNG terminal is underway at al-Zour port in southern Kuwait. Start-up is scheduled for 2020.

The focus on gas coincides with a major downstream diversification strategy. Kuwait National Petroleum Company is building a new 0.615m-b/d refinery at al-Zour and upgrading existing ones at Mina Abdullah and Mina al-Ahmadi through a clean fuel project, scheduled for completion in 2019. Kuwait's refineries will be able to produce and export middle-distillate and light ends products—including gasoline and diesel—that meet Euro4 emission standards by 2020. Kuwait aims to save oil and derived products for exports to maximise value in the current oil market environment. This should leave more room for gas consumption in the power sector, while supporting Kuwait's transition towards a more sustainable energy future. If politics doesn't put another spanner into the works. **PE**