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PIPELINES PLACE BIDS FOR SHAH DENIZ GAS

The long wait to see who gets the 10 billion cubic meters of Shah Deniz gas that becomes available in 2017 may soon be over. Nabucco Gas Pipeline International, the Trans Adriatic Pipeline (TAP) and the Interconnector-Greece-Italy (IGI) Poseidon, which is a segment of the larger Interconnector-Turkey-Greece-Italy (ITGI) project, submitted their proposals to transport gas to the Shah Deniz consortium on October 1.

Just to make things more interesting, BP last week announced a pipeline project of its own to carry natural gas produced from the Shah Deniz Stage 2 (SD2) development into Central Europe. BP is operator of the Caspian offshore Shah Deniz gas field, which first came on-stream in 2006. SD2 will produce 16 billion cubic meters of gas per year (bcm/y). Of this, 6 bcm/y has already been committed to Turkey, which receives the same amount from Shah Deniz's first stage development.

It is understood that BP's reason for making its own proposal to carry SD2 gas to Europe is that it has doubts about the abilities of the other three pipelines to be credible partners.

The Shah Deniz consortium, which includes Azerbaijan's state-owned oil and gas company Socar, had set October 1 as the deadline for bids on the tariff cost to transport the gas. The group is concerned about pricing the gas for European customers. A decision on which pipeline will be awarded the contract is expected by the end of the year.

One of the three: Nabucco, TAP, ITGI – or now the South East Europe Pipeline (SEEP) proposed by BP – will be the vanguard of the proposed Southern Corridor, the route across Turkey that will transport gas from the Caspian, and eventually the Middle East, to Europe.

Nabucco, the largest project of the four pipelines in the bidding, said in a statement on October 1 that it sees itself as “the European flagship project of the South East European Gas Corridor,” and that it is commercially viable and competitive. While supported by the European Union and the US, Nabucco will have a design capacity to carry 31 bcm/y, far too much capacity for SD2 gas alone. SD2 will be able to offer only 10 bcm/y. The Shah Deniz consortium is concerned that the pipeline's huge capacity will push up the cost of the tariff Nabucco must charge will make the price of SD2 too high. The pipeline will be 3,900 kilometers in length, running from Turkey's eastern border to central Austria.

Nabucco has said that its commercial operation capacity is 21 bcm/y. It is looking to also transport gas from Iraqi Kurdistan, where consortium partners OMV, MOL and RWE are active for the purpose of exploring for and exporting natural gas. Nabucco has also attempted to gain favor with the Shah Deniz

consortium by offering to extend the pipeline further east from the border of Turkey to Baku. It is also likely to extend the pipeline westward into Central Europe. Nabucco got a boost in late September when it was announced that Munich-based Bayerngas would become the seventh member of the consortium.

The EU has recently looked to strengthen Nabucco's hand in the bidding further by announcing several weeks ago that the European Commission would negotiate a treaty between the EU, Azerbaijan and Turkmenistan for a trans-Caspian gas pipeline. Large volumes of Turkmen gas flowing into Nabucco would assure the pipeline's success.

TAP announced that it, too, had submitted its bid, expressing confidence that it would win the SD2 contract on the basis that it is the shortest and most financially viable. TAP has an initial throughput capacity of 10 bcm/y and will run from Komotini in northern Greece, across Albania and the Adriatic Sea to southern Italy. Eventually, TAP's capacity will expand to 20 bcm/y.

Greece's DEPA and Italy's Edison submitted bids for the IGI Poseidon, which will cross northern Greece and enter southern Italy through the Poseidon underwater pipeline. It has a capacity of 10 bcm/y.

While the smaller pipelines may appear to be the most economical at this point, the Nabucco project will be new-built pipeline for its entire length. TAP, ITGI and the BP-proposed SEEP, will rely on Turkey's existing gas grid operated by Botas to move SD2 gas to western Turkey or the Interconnector-Turkey-Greece (ITG) to move it to eastern Greece.

BP's SEEP pipeline will begin in western Turkey and run 1,300 kilometers into Europe through Bulgaria and Romania, ending near the Hungarian border along a route similar to the one planned by Nabucco.

A spokesman for the Shah Deniz consortium said in London on October 3 that three compliant bids had been accepted from the three pipeline projects. "They will be evaluated over the next few months with a view to making an award around the end of the year," the spokesman was quoted by *Reuters* as saying. He also said that the consortium would consider the option to use the BP pipeline.

This will not, however, be the last chance to purchase Azerbaijan gas. A recent discovery by Total in the Apsheron Block and the chance of developing huge reserves some 7,000 meters deep in the Shah Deniz Block mean that Azerbaijan position as a gas producer and exporter will strengthen.