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ISRAEL'S OIL & GAS INDUSTRY NEWSLETTER

A SUMMARY OF ALL TOP HEADLINES

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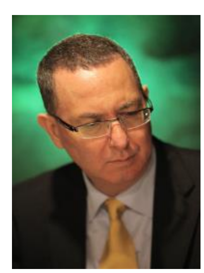

Sincerely,

Alan Wielunski
Senior Commercial Specialist

Israel's and Palestine's gas and oil

Too optimistic?

Obstacles still block the flow of oil and gas in the eastern Mediterranean

ARE governments of the Levant fooling their people with false promises of an offshore gas bonanza? From the proceeds, Lebanon hopes to fund a bullet train that will end Beirut's traffic snarl-ups. Across the water, the Cypriot government has equally grandiose plans. By 2020 a vast new complex in Vasilikos, on Cyprus's southern coast, is supposed to start shipping liquefied natural gas (LNG) to Europe and even Asia, salvaging the country's finances. Gas reserves, say Cypriot optimists, amount to 96 trillion cubic feet.

Yet most oil analysts say this is all wildly over the top. Even Israel, whose development of offshore gas is most advanced, is unlikely, they reckon, to start exporting large amounts by 2020, as it hopes.

The sceptics say that the main brake is a lack of regional co-operation rather than a shortage of oil and gas. The Americans' official Geological Survey estimates that from Gaza's coast to southern Turkey the eastern Mediterranean holds 122 trillion cubic feet of gas, comparable to the reserves of Iraq. But Lebanon's caretaker government lacks the authority to pass the legislation needed to persuade foreign oil companies to start drilling; a heralded auction is again likely to be delayed. America's effort to mediate over a disputed maritime boundary between Lebanon and Israel is stalling progress. The civil war in Syria is scaring away big oil companies. And drilling off the Lebanese coast has yet to begin.

It has done so off Cyprus, but estimates of the amount of gas and oil to be found there have been inflated, too. Delek Drilling and Avner Oil, two Israeli firms involved in exploration, say that Aphrodite, Cyprus's only proven gas field, has reserves of just 4.1 trillion cubic feet—barely enough to meet long-term local demand.

Oil companies, including Italy's Eni and France's Total, may find more gas there. If not, Cyprus's LNG venture will depend on getting it from elsewhere, perhaps from Israel's Leviathan field. In any case, Turkey and Cyprus both claim some of the same stretches of water. The Israelis, for their part, have prevented the Palestinians from developing Gaza Marine, a field off the coast of Gaza where BG (formerly British Gas) found gas a decade ago.

Israel, alone, is romping along. It has verified finds of 35 trillion cubic feet, though the recoverable figure may be lower. Noble, an American company that has so far dominated Israel's production, says that gas from its Tamar field, which began flowing this year, already supplies 45% of the country's electricity. But development of the much larger Leviathan field, farther west, is slow. Fearing an outcry over the sale of public assets, Israeli ministers have delayed the timetable.

There are other obstacles. Asian buyers, who tend to pay the highest prices, are reluctant for security reasons to ship Israeli gas through the Suez Canal. Turkey, whose energy needs are soaring, might have been an attractive export market for Israel. Construction of a pipeline on the seabed between Turkey and Israel could prove more profitable than an LNG plant, because upfront costs are lower and Turkish gas prices quite high, says Robin Mills, head of consulting at Manaar Energy, an advisory firm in Dubai. But such a pipeline might have to pass through officially recognised Greek Cyprus and the Turkish-ruled north of the island, so an agreement with both would be needed. That will be tricky. An alternative route, under Syrian and Lebanese waters, would be trickier still.

In any case, Israel is loath to strike an export deal with Turkey at a time when that country's foreign policy has become unpredictable and its prickly prime minister, Recep Tayyip Erdogan, could turn off the tap whenever he feels piqued. An Israel-Cyprus deal could make matters worse. Egypt's decision to discard a Mubarak-era agreement to supply 40% of Israel's gas serves as a warning against doing business amid unresolved conflicts. "Without peace with the Palestinians, we can't sell our gas to Egypt, Jordan, Turkey and—who knows?—maybe even to the Europeans," says an Israeli former energy minister, Josef Paritzky.

Tangled in red tape and regional disputes, even oil companies in Israel may flag. Woodside Petroleum, an Australian firm with LNG expertise, is still pondering an ambitious plan to build a floating LNG platform. Noble lacks the capacity to go it alone. Few developers will invest without secure long-term contracts. And buyers in Asia, the best market, are banking on getting an alternative deluge of gas from new finds in the United States. Without exports, regional prospects are less sunny. Ploughing billions of dollars into platforms, rigs, offshore pipelines or costly LNG plants is feasible only if drillers are confident of shipping gas to foreign markets.

For the moment, Noble's investors say they will be happy with smaller pickings. Israel's government may have underestimated its own country's demand for natural gas. Its fast-growing population may need more of it as its economy shifts to gas, for instance to power buses. Jordan, though a smaller market, yearns for a more reliable supplier than turbulent Egypt, and could easily be connected to Israel's system. Noble has already discussed supplying a Jordanian industrial zone near the Sea of Galilee and the potash plant on the Dead Sea. A short pipeline linking the two countries may be online by 2016. Earlier this month the Leviathan partners signed a deal to supply a Palestinians power station in the West Bank city of Jenin with gas from their field.

Egypt, which until 2012 supplied Israel, might also buy Israel's gas as demand surges. The idle pipeline that used to pump gas from Egypt to Israel through the Sinai peninsula could be used in reverse, were the local Bedouin to resist the temptation to sabotage it yet again. An undersea pipeline to Egypt's Nile Delta might offer a safer route. Both routes might one day offer links to LNG plants. Jordan is planning a terminal for LNG at Aqaba, its Red Sea port. British diplomats have also been promoting a plan to link Noble's fields off Israel's shore to the LNG plants run by two British companies, BG and BP, at Damietta, on Egypt's Mediterranean coast.

But even these plans may not come to fruition fast. Mr Netanyahu has yet to endorse a second pipeline to northern Israel, which Noble must build if Israel's domestic needs are to be met. "Without the pipeline," says an Israeli close to Noble, "Leviathan will not go ahead."

Published by The Economist , on January 23, 2014

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Deal frees Delek, Noble Energy from monopoly status

The trade-off: Pair must sell their rights to Karish and Tanin offshore gas sites

Antitrust Commissioner David Gilo has approved a compromise plan that would call for the Delek Group and U.S.-based Noble Energy to divest of their interests in two smaller Mediterranean offshore gas exploration sites, the purpose being to free themselves of a ruling two years ago that their holdings in the larger Leviathan and Tamar sites constitute a monopolistic restraint of trade.

The settlement with the antitrust commissioner, reached Tuesday, calls on the two firms to divest of their natural gas interests in the relatively small Karish and Tanin offshore sites, which have combined proven reserves of 70 billion cubic meters of gas, in addition to potential finds of an additional 26.6 billion cubic meters. Gas from the sites will be designated for domestic consumption in Israel.

To avoid undermining Delek and Noble's bargaining power, the government has not disclosed what deadline the companies have been given to divest of their rights at the two smaller sites. The time frame, however, is thought to be relatively short so it can be assumed the two companies are already engaged in feelers over the sale of the rights.

The resolution of this issue still leaves other, lesser matters to be resolved with the Antitrust Commission, but that is expected in the coming weeks as well, paving the way for Woodside Petroleum, the Australian energy giant, to take a 25% stake in Leviathan, which holds Israel's largest gas reserves. That would dilute Delek's subsidiaries' 45% stake in the venture as well as Noble's 40% and the Ratio Oil Exploration's 10% stake.

The Antitrust Commission is only requiring that Delek and Noble divest of their interest in the natural gas at Karish and Tanin. It would allow them to retain the rights to any oil found there. It is not clear, however, how such a division of interests would be carried out and what the stance of the Energy and Water Resources Ministry will be on the matter.

Development of the Tanin and Karish sites will not be limited and theoretically any new operator of the sites would be able save on development expenses by making use of infrastructure owned by Delek and Noble to transport the natural gas to shore.

Published by Haaretz, on January 23, 2014

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Antitrust Authority disappoints on gas competition

The only new company that will compete against Tamar and Leviathan will own less than 8% of Israel's proven gas reserves.

In a few weeks, Antitrust Authority director general David Gilo will make a big announcement. "I have reached a deal with Leviathan's partners, which will allow the entry of another player into the Israeli oil and gas exploration market," he will declare.

Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva, and Noble Energy Inc. (NYSE: NBL), which dominate all of Israel's natural gas fields have agreed to sell some of their new discoveries to other companies, which will compete against the Tamar and Leviathan gas fields for domestic customers.

If Gilo expects that his announcement will be welcomed by other Israeli gas exploration companies, he will be disappointed. Details of the pending agreement, which were published a few days ago, bitterly disappointed gas exploration companies, which had hoped that Gilo would create conditions for real competition in the industry - but that won't happen. The only new company that will have to compete against Tamar and Leviathan will own less than 8% of Israel's total natural proven gas reserves. It will have to invest in building pipelines from the offshore fields to the shore and find an onshore terminal. It will not be allowed to export the gas, or sell oil or condensate discovered at or proximate to the fields.

Most seriously of all as far as we are concerned, the new competitor will only be chosen in two years, long after Tamar and Leviathan will close the deals for their gas to every possible customer in the Israeli economy. Even Israel Electric Corporation's (IEC) option to purchase additional gas will only expire in April 2015, less than a year and a half away.

"Gilo has demonstrated that he knows nothing about oil and gas exploration," an energy explorer said this week. "Who could have believed that the Antitrust Authority director would be the man to hammer the last nail in the coffin of competition in the oil and gas exploration market?"

No antitrust case

The pending result in the agreement with Delek and Noble Energy is very far from the objective Gilo set two years ago. At the time, his aides explicitly said that he intended to break up the two companies' cross holdings in Israel's two biggest gas fields. The two companies together own 67% of Tamar and 85% of Leviathan, which together account for over 90% of Israel's gas reserves. Little imagination is needed to realize that this holding creates substantial added value for the owners. On the basis of its rights in Leviathan, in 2012, Delek was able to finance its share of the development of Tamar, by putting a lien on the rights as collateral for a $500 million loan from HSBC Holding plc (LSE: HSBA; HKSE: 005; NYSE, Paris: HBC).

In September 2011, Gilo announced that he would declare Tamar a monopoly in natural gas supply and Leviathan as a cartel - subject to a hearing. Specifically, he alleged that the 2007 deal in which Delek and Noble Energy acquired 85% of the rights in the exploration permit where the Leviathan field would be discovered, was a cartel. On this point, too, Gilo initially expressed determination, and even hinted that he was prepared to go to court to force Delek and Noble Energy to sell their stakes in Leviathan if no other solution was found to guarantee real competition.

Gilo's aggressive stance had broad public backing. It seemed obvious that Leviathan was a cartel to anyone with an understanding of antitrust law. Legal experts, however, immediately said in response that Gilo had gone out on a far limb and that his case against Leviathan's partners was extremely weak, if there was a case at all.

A classic restraint of trade offense involves business collusion between competitors. The main legal difficulty was to show that Ratio Oil Exploration (1992) LP (TASE:RATI.L) was a competitor of Delek and Noble Energy, because at the time of the deal, Ratio owned no gas field at all; it only held provisional offshore exploration rights where gas fields might be discovered. The Leviathan field was discovered three years after the deal, in late 2010, and only at that point did Ratio become a potential rival of Delek and Noble Energy. Ratio originally sold 75% of the rights to Delek and Noble Energy, but sold an additional 10% when it was unable to secure the $250,000 needed to finance its share of the seismic survey of the prospects.

Gilo's aides said that the legal definition of a cartel was sufficiently broad to include a deal that in retrospect became a cartel, and that the offense was not limited to collusion between competitors in the same industry. "It's like Osem Investments Ltd. (TASE: OSEM) colluding with Coca-Cola not to enter the soft drinks market," said a legal expert affiliated with the Antitrust Agency. "It's like Ms. Cohen of Hadera agreeing with Coca-Cola on non-competition," replied a lawyer for the gas field developers.

Tshuva and his partners' second argument was why the Antitrust Authority said nothing during the entire period, nor said that there was a problem. This argument is also relevant for the two years after the Leviathan discovery, when the conditions that Gilo objected to emerged.

The price of image

The negotiations between the parties, which have lasted for over two years, have mostly gone calmly. The only important turning point was the string of dry holes by Delek and Noble Energy's competitors during 2012: Myra, Sarah, and Ishai. After the hope of new gas producers died, Gilo raised the price for Delek and Noble Energy. The Karish field was consequently added to the deal, which until then only included the Tanin field.

Delek and Noble Energy agreed to pay Gilo's price even though they believed he had no case against them, because declaring Leviathan a cartel could have far-reaching consequences for the companies. This would be an offense that would make possible class-action suits against the members of the cartel for compensation and damages, or even criminal action (an impractical possibility in the case of Leviathan).

"Even if the chances of a cartel being declared were extremely low, it was not zero, and who knows what the final judgment might be," said an antitrust legal expert this week. Furthermore, a court case would greatly delay the project and the signing of the deal with Australia's Woodside Petroleum Ltd. (ASX: WPL). Another consideration for Delek and Noble Energy was their image: it is very important for Tshuva to show that he was allowing a competitor into the market to sell gas that he had discovered. It is important for Gilo to show that he had brought in a competitor, even if he knows that this is no more than a slap on the wrist for Delek and Noble Energy.

Whether pragmatism or cynicism won the day depends on who you ask.

A source close to Gilo said yesterday, "We won't be satisfied with Tanin and Karish. If our demands for competition are not met, the case will go to court."

The main points of the agreement between the Antitrust Authority and Delek and Noble Energy:

Delek and Noble Energy will sell the Tanin and Karish gas fields and a quantity of gas from Leviathan (70 billion cubic meters altogether) within two years;

Delek and Noble Energy may explore for gas and oil in prospects proximate to the gas fields that will be sold;

Delek and Noble Energy will sell the condensate from the fields that will be sold;

The buyer of the fields may not export the gas, and the export rights will be assigned to Leviathan.

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Gov't to allow gas storage test at Yam Tethys

If successful, the test will open the way for a granting a gas storage license at the depleted gas field, thereby removing the danger of a natural gas shortage.

A possible solution is emerging for the Tamar gas field partners to store natural gas at Yam Tethys's Mari B field. Sources inform "Globes" that the Ministry of National Infrastructures has decided to allow Noble Energy Inc. (NYSE: NBL), a partner in both gas fields, to test the feasibility of storing gas from Tamar in the largely depleted Mari B field.

If successful, the test will open the way for a granting a gas storage license, thereby removing the danger of a natural gas shortage. Noble Energy believes that converting Mari B into a gas storage facility will make it possible to meet Israel's natural gas demand in full in 2015-16.

Minister of National Infrastructures Silvan Shalom's aides attach great importance to guaranteeing a natural gas supply to factories and power stations which have not yet signed natural gas supply contracts with the Tamar partners -Noble Energy, Delek Group Ltd. (TASE: DLEKG), Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L), and Alon Natural Gas Exploration Ltd. (TASE: ALGS) - or their gas marketers. In view of these considerations, the ministry is leaning toward relaxing its demand for the construction of a natural gas pipeline from the Tamar production platform to Ashkelon.

Negotiations on this point have been stuck for over a year, after Natural Gas Authority director Shuki Stern demanded that the Tamar partners build the pipeline to Ashkelon as a condition for receiving a gas storage license for Mari B. Noble Energy opposes the construction of another pipeline, which would cost $1.2 billion, on the grounds that such an expensive engineering solution is not necessary to boost Tamar's gas production.

The current 22-kilometer pipeline from the Tamar production platform to the terminal at Ashdod has a capacity of one billion cubic feet (BCF) a day, or 10 billion cubic meters (BCM) a year. The compressors that Noble Energy is installing at the Ashdod terminal will boost the pipeline's capacity 20% to 1.2 BCF a day from 2016. Even this capacity will result in a gas shortfall of 800 peak hours during summer, from 2015.

This problem has been exacerbated by the delay in bringing the Leviathan gas field, also controlled by Noble Energy and Delek, into production, because of delays in approving construction of the onshore gas terminal in central Israel. The uncertainty has caused companies to freeze plans to convert factories to natural gas, despite the substantial savings from its use. Shalom recently cited the case of Shaniv Paper Industry Ltd. (TASE: SHAN), which saves NIS 15 million a year from the conversion of its Ofakim plant from industrial oil to natural gas.

Converting the Mari B field into a gas storage facility will make it possible to boost the pipeline's capacity to 1.5 BCF a day, or three BCM a year.

The Ministry of National Infrastructures also wants the second pipeline for reasons unrelated to Tamar, including the creation of redundancy in the gas supply system in the event of a breakdown in the pipeline to the Ashdod terminal, and the construction of infrastructure for future use by companies seeking to develop gas fields offshore from Ashkelon, such as Shimshon.

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Israel's Antitrust Authority resists pressure from Leviathan partners

Commissioner warns Delek, Noble and Ratio they could face lawsuit if they reject compromise plan.

The Israel Antitrust Authority has told the partners in the Leviathan natural gas field that unless a compromise is reached to reduce their dominance of Israel's natural gas market, they will face an antitrust case in court.

The IAA's warning comes after the partners in the giant field − Delek Group, Noble Energy of the United States and Ratio Oil Exploration − applied immense pressure on officials not to order them to reduce their stakes in Leviathan. The heads of the three companies, including Delek Group's controlling shareholder Yitzhak Tshuva, met with Antitrust Commissioner David Gilo in recent days in an effort to dissuade him from declaring their partnership a cartel, or at least receive better terms. Gilo is expected to rule on the matter this month.

Delek owns 45% of Leviathan through its Avner and Delek Drilling units, while Noble Energy controls 40% and Ratio 15%. The three are in talks with Australia's Woodside Petroleum to take a stake of between 25% and 30%, which would dilute their shares proportionately.

As first reported in TheMark, to prevent any delays in developing the Leviathan field, the IAA is considering allowing Delek and Noble to sell their rights in smaller gas fields closer to Israel's coast and allow them retain their holdings in Leviathan. Delek and Noble would sell to a third party their rights to the Karish and Tanin natural gas fields, which have an estimated 50 billion and 30 billion cubic meters in natural gas reserves, respectively. Another yet-to-be-named concession would be sold to the third party to allow it to reach a size that would enable it to effectively compete with Delek and Noble Energy in the local natural gas market.

The government has demanded the additional concession to Leviathan, to ensure that the development of the field will be done in a way that shores up competition in the natural gas market. In addition, the Antitrust Authority is demanding that Delek and Noble commit to a set timetable for selling their rights, to prevent dragging out the agreement's implementation.

Delek and Noble Energy have already rejected these conditions and are seeking an alternative arrangement, under which the additional natural gas required for the package deal would come from the

Tamar field's satellite field Tamar Southwest. They have also been adamant about maintaining the rights to sell any oil discovered in the fields.

In a related development, Bloomberg News reported this week that senior officials in the region said that the construction of a natural gas pipeline between Israel and Jordan would begin sometime in 2015 and be completed in 2016. The pipeline is the subject of talks between Delek, Noble and the Jordanian government to supply Jordan's Dead Sea potash plants with natural gas. The plants are operated by Canadian producer Potash Corporation of Saskatchewan.

Some 88% of Jordan's energy needs are supplied by natural gas. According to estimates, Jordan requires an additional 2-3 billion cubic meters of natural gas annually beyond what it gets from Egypt, which has become an unreliable supplier in the years since Hosni Mubarak was toppled from power. However, fulfilling the demand would require expanding Jordan's limited infrastructure for transporting natural gas. Jordan's current estimated natural gas consumption is half a billion cubic meters, primarily used by the Dead Sea plant.

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Israel planning gas pipeline to Jordan - report

Israel will build a 15 kilometer pipeline from the Dead Sea to Jordan in 2015, sources told "Bloomberg."

Israel is planning to lay a pipeline to convey natural gas from the Dead Sea region to Jordan reports "Bloomberg," quoting "two people with knowledge of the matter." According to the report, the Ministry of Energy and Water Resources will start work on the 15-kilometer pipeline in 2015 and complete it in 2016, "according to the people, who asked not to be identified because the information isn't public."

The ministry commissioned the project on behalf of Tamar and Leviathan partner Noble Energy Inc. (NYSE: NBL) and a Jordanian partner, "Bloomberg" reported. Israel's Ministry of Energy, Jordan's Ministry of Energy and Noble Energy all declined to comment on the report.

Jordan has seen its natural gas imports from Egypt disrupted by pipeline bombings in Sinai, so that Israel gas deliveries would help boost security of supply. Noble Energy is partners in the Leviathan field with Delek Group Ltd. (TASE: DLEKG) and Ratio Oil Exploration (1992) LP (TASE: RATI.L).

Earlier this week the Leviathan partners signed a deal to sell $1.2 billion worth of natural gas to the Palestinians over 20 years.

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Gas exports tax issue nears resolution

The Finance Ministry-Tax Authority committee's model is based on the normative netback on investment for each export deal.

The end of the Antitrust Authority investigation into suspicion of a cartel in the Leviathan gas field removes one of the main uncertainties for its partners in their relations with the government. Another subject which is moving toward resolution is taxes on gas exports.

The Sheshinski Committee, which drew up the model for taxing natural gas profits, decided that the tax on exports would be based on the "transfer price". In the past few months, a Ministry of Finance and Israel Tax Authority committee has been figuring how to calculate the transfer price. In the latest meetings, the committee realized that it was impossible to set a uniform transfer price for all export transactions, because of the large differences between the deals in their internal rates of return and risk-reward ratios.

For example, the price of an export deal to the Far East reflects a higher return on the capitalization than the price of gas in an export deal with a country in the Middle East, but the return on investment is slower because of the high cost of building onshore or offshore liquefied natural gas (LNG) facilities.

The model reached by the committee is based on the normative netback on investment for each export deal. It is based on the following formula: the price of gas in the target market, less the set-up and operating costs of the gas transportation infrastructures.

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E&Y: Tamar, Leviathan gas worth $52b to Israel

E&Y Israel partner Shlomo Alfia estimates the savings at $42 billion and the government's take at $10 billion in capitalization value.

The natural gas in the Tamar and Leviathan fields is worth $52 billion to the Israeli economy, says Ernst & Young Israel in a new report. The CPA firm will present the findings at a gas and energy conference in Tel Aviv next week.

The Tamar gas field, which began production in April 2013, boosted Israel's GDP by almost half a percentage point, and it is projected to boost GDP by 1.5 percentage points in 2014. Leviathan will begin supplying gas from 2017.

Ernst & Young Israel found that the main component of the gas's value is not the government's expected tax revenues from oil and gas, but the savings to the economy from the purchase of cheaper natural gas for electricity production, industry, and transportation. Gas currently costs Israel Electric Corporation (IEC) (TASE: ELEC.B22) $6.50 per million BTU, a third of the cost of the alternative fuels - diesel, industrial oil, and liquefied natural gas (LNG) - all of which are imported.
The switch to natural gas also affects the balance of payments and the shekel exchange rate. The Bank of Israel estimates that each $1 billion reduction in imports boosts the shekel by 1% against other currencies. E&Y Israel partner Shlomo Alfia estimates that Israel saves NIS 15 billion annually on the price differential between natural gas and other fuels. He estimates the capitalization value of the savings over the next 28 years (Tamar's lifespan) at $42 billion. Such a large savings in manufacturing inputs should lower prices, improve competitiveness, and boost companies' profits.

The second component is royalties and taxes on the gas suppliers' excess profits, which Alfia estimates at $10 billion in capitalization value.

The study does not take into account other costs to the company, such as the need to invest NIS 3 billion in protecting offshore gas infrastructures by the Israel Navy. On the other hand, it also does not take into account environmental and other benefits, such as reduced greenhouse gas emissions and hazardous particles from the burning of coal, diesel, and industrial oil. The study also did not quantify higher tax revenues from the increase in companies' profits and the economic benefit from the extra employment for the hundreds of employees of the gas suppliers and their service vendors.
The study estimates the value of the rights of Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva, Noble Energy Inc. (NYSE: NBL), and their partners in Tamar at $11-13 billion in capitalization value. A year ago, the value of the rights in Leviathan were estimated at $5 billion, on the basis of the purchase offer by Woodside Petroleum Ltd. (ASX: WPL). This week, "Globes" reported that Woodside has improved its offer, boosting Leviathan's value.

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Woodside to pay more for smaller Leviathan stake

Woodside Petroleum is prepared to acquire 25% of the Leviathan natural gas field, instead of 30%, for a higher price than previously agreed.

Sources inform "Globes" that Woodside Petroleum Ltd. (ASX: WPL) is prepared to acquire 25% of the Leviathan natural gas field, instead of 30%, even as it has agreed to pay more, although the final price has not yet been decided. The two changes have greatly increased Leviathan's value, assuming a deal is closed. They will also increase the stakes of the two Israeli partners in the gas field Delek Group Ltd. (TASE: DLEKG) and Ratio Oil Exploration (1992) LP (TASE: RATI.L), and strengthen their position in any future decision making. Noble Energy Inc. (NYSE: NBL) of the US is Leviathan's third partner.

Last week, "Globes" reported that Delek controlling shareholder Yitzhak Tshuva told a closed-door company meeting that the Woodside deal was very close to being signed, a year after Leviathan's partners signed the letter of intent with the Australian energy company. Following the report, Delek stated that the negotiations were not over, nor was there any assurance that a deal would be reached requiring the transfer of rights.

However, sources say that the gaps between the parties are narrow, and that there was a strong probability that a deal would be reached on the main issues within days. In addition to a smaller stake in Leviathan and a higher offer, Woodside is prepared to pay a premium if gas contracts are signed with countries in the Middle East, such as Egypt and Turkey.

In the letter of intent from December 2012, Woodside agreed to acquire 30% of Leviathan for $1.25 billion in cash. $696 million would be paid when the deal was signed, and the rest would be paid later. Woodside also agreed to pay up to $1 billion more if gas was exported at a price above the floor price. The offer reflected a value of $4.7-5.1 billion for Leviathan, not including the premium.

An agreement with Woodside will enable Israel to export liquefied natural gas (LNG) to the Far East, probably via a floating LNG vessel. In an interview with "Globes", Woodside CEO Peter Coleman said that the company was bringing to the deal its customer base in China and other countries. The cost of shipping LNG to the Far East would raise the end price by up to $1.30 per million BTU, but swap deals could offset the tyranny of distance by selling Israeli gas to customers in the Mediterranean Basin in exchange for changing the addressee of future gas shipments.

Published by Globes, Israel business news on January 6, 2014

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Leviathan partners sign Palestinian gas deal

The partners signed a $1.2 billion contract with the Palestine Power Generation Co. - the first export contract for the offshore natural gas field.

The Leviathan partners - Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) - have signed the first export contract for the offshore natural gas field: a $1.2 billion contract with the Palestine Power Generation Company plc for the export of 4.75 billion cubic meters of gas over 20 years,

Trading in Leviathan's Israeli partners was suspended just before the market closed. The announcement of the contract by the Leviathan partners was made shortly after the market closed.

The contract was signed in the American Colony Hotel in Jerusalem between Minister of the Palestinian Energy Authority Dr. Omar Kittaneh, Delek Group controlling shareholder Yitzhak Tshuva and senior company officers, and representatives of Noble Energy and Ratio.

"I believe that a strong and stable economy between the parties will bring peace and stability to the whole region, and everyone will benefit from a prosperous economy and growth," said Tshuva. "Peace, economic cooperation, and mutual respect and trust are a joint endeavor. Economic cooperation, such as the agreement signed today, will help bring the countries closer and will contribute to building a basis for peace. It will be possible to create many new jobs and cooperation between businesses and enterprises. Together, these will link the common wish of all the parties to reach understandings and peace."

Noble Energy VP Eastern Mediterranean operations Lawson Freeman said, "The group hopes to soon sign more agreements from Leviathan for both the Israeli market and for export. We continue to work toward developing the Leviathan field as soon as possible."

Published by Globes, Israel business news on January 5, 2014

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Tamar partners sign $200m deal with Global Power

With the natural gas supplied, Global Power will build a 120-megawatt power station at Dimona Silica Industries.

The Tamar natural gas field partners have signed a $200 million gas supply contract with GP Global Power Ltd., owned by chairman Ehud Ben-Shach and the Caspi family.

Trading in the shares of Tamar's Israeli partners Delek Group Ltd. (TASE: DLEKG) and its energy exploration units Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L), as well as in Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L) and Alon Natural Gas Exploration Ltd. (TASE: ALGS) was heavy following the announcement.

Global Power develops projects and invests in infrastructures and energy. It is due to build a 120-megawatt power station at Dimona Silica Industries Ltd. (DSI). The company said that the gas supply agreement guarantees its ability to achieve commercial operations and the supply of electricity and thermal energy by three power stations in 2014.

Ben-Shach said, "This agreement is an important step in Global Power's development. It is also a new basis for gas purchase agreements, which allow high certainty in predicting the price of natural gas in the medium and long term on one hand, while hedging the short and medium-term price of natural gas on the other hand. The use of power generated by small and mid-sized power stations allows large companies and enterprises to greatly reduce their energy costs, while providing greater flexibility in the electricity supply. Global Power has agreements to build power stations with leading Israeli companies as part of its relative advantage in building small and mid-sized power stations.

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Israel should issue bonds in run-up to natural gas bonanza, top economist says

Leumi's Chief Economist Gil Bufman says it's time to act before Israel's sovereign wealth fund from natural gas royalties starts operating in 2018.

The Tamar natural gas rig, off the coast of Haifa. *Photo by Albatross*

To help bail out exporters stung by the appreciating shekel, Israel should securitize the profits from its natural gas royalties to buy dollars, Bank Leumi Chief Economist Gil Bufman said during a recent visit by an IMF delegation. This would be done through special bond issues.

Israel's sovereign wealth fund from natural gas royalty payments will only begin operating in 2018. In the meantime, Israel should securitize the fund's future revenues to buy dollars today and offset capital flows into the country, Bufman told TheMark in an interview.

According to Bufman, exporters will be seriously threatened if Israel does not implement a long-term policy to halt the shekel's appreciation. The Bank of Israel's current dollar-buying program is a short-term solution that does not solve the problem of capital flowing into the economy faster than it leaves, he says.

In the near term, Israel should issue shekel-denominated bonds to build up the capital held in the sovereign wealth fund and use the money raised to buy assets denominated in foreign currencies, Bufman adds.

"To effectively deal with the appreciation of the shekel, one can assume that the size of annual investments the fund makes abroad must be similar to the size of direct capital flows entering Israel [about 10 billion shekels ($2.85 billion) per year]," he says.

"In other words, it would be the securitization of future tax receipts from natural gas production and the hedged use of the bonds' proceeds to establish the sovereign wealth fund." In no way should the money be used to fund the state budget deficit, Bufman says.

To make the bonds more attractive to investors and make clear that they do not constitute an expansion of the national debt to fund the budget deficit, Bufman proposes creating a new bond series to be used solely for the sovereign wealth fund.

He admits that such bond issues would increase Israel's debt-to-GDP ratio, but if they were used to maintain a stable shekel they would encourage growth in the Israeli economy and labor market, justifying a limited and temporary expansion of the debt-to-GDP ratio. Moreover, as tax receipts from natural-resource royalty payments increased, the bonds would be redeemed and the debt-to-GDP ratio would shrink.

"It's desirable that the term to maturity for these new bonds be long," Bufman says." This would match them to the state's revenue flow from tax returns, which would create a clear link between the expected timing of the tax receipts and the planned principal and interest payments for the bonds."

He adds that this long term to maturity would make the bonds attractive to pension funds, which seek long-term government bonds with fixed interest rates. Bufman says it would even be preferable to make the bonds non-tradable to reduce their exposure to short-term market volatility.

Bufman will present his plan in greater detail at the Bank of Israel's forecasters' forum on December 26, where Bank of Israel Governor Karnit Flug will be in attendance. Copies have already gone to the central bank and the Finance Ministry.

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Noble: 3 billion barrels of oil at Leviathan, Block 12

Noble Energy has told analysts that Leviathan and the neighboring field in Cyprus might each contain 1.5 billion barrels of oil.

Noble Energy Inc. (NYSE: NBL) believes that as much as 3 billion barrels of oil might be discovered in Israeli and Cypriot waters. Delek Group Ltd. (TASE: DLEKG) is Noble Energy's partner in the Leviathan prospect and the neighboring Block 12 (Aphrodite) prospect in Cyprus. Until now Noble Energy had only spoken about the potential for 1.5 billion barrels of oil at Leviathan but now it seems there may be similar oil potential at Block 12. Noble and Delek have already discovered 19 trillion cubic feet of natural gas at Leviathan and 4 trillion cubic feet at Block 12.

Noble confirmed the estimates that have been circulating in recent days that the oil potential in the region is double previous estimates during a comprehensive briefing with analysts. Regarding the start of an exploratory drill for oil at Leviathan, Noble Energy confirmed "Globes" reports that it will not begin before the end of 2014 or early 2015. The main reason for the delay according to Noble Energy CEO Charles Davidson is the regulatory uncertainty over the Leviathan field's development program.

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Record demand for Tamar gas

Sources inform "Globes" that the Tamar pipeline is already working at full capacity.

In recent days demand for natural gas from the Tamar field has reached a new record, sources inform "Globes," and consequently the only pipeline from the prospect to the Israeli coast is working at full capacity. Noble Energy Inc. (NYSE: NBL) had previously forecast that the pipeline would not reach full capacity until the summer of 2014. The reason for the steep rise in demand is probably that the Dorad private power plant has been partially connected to Tamar gas.

Within this context Noble Energy believes that demand for gas in Israel and from its neighbors will rise rapidly in the coming years. From 2018 daily demand will be 575 million cubic feet and will more than double to 1.2 billion cubic feet by 2023. Noble Energy plans increasing daily capacity on the Tamar pipeline from 1 billion cubic feet to 1.2 billion cubic feet by installing compressors at the Ashdod terminal.

Noble Energy is also asking to increase daily capacity to 1.5 billion cubic feet by converting the empty Mari-B field in Yam Tethys to an operational storage reserve but the Ministry of National Infrastructures is demanding that Noble build an additional pipeline from the production platform to Ashkelon. Noble Energy is refusing this request saying there is no economic worthwhileness in laying an additional pipeline.

The Tamar partners include Noble Energy, Delek Group Ltd. (TASE: DLEKG) and Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L).

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Tamar could provide gas to Jordanian potash works

"The Wall Street Journal" reports a possible deal between the Tamar partners and Arab Potash Company.

The partners in the Tamar gas field off the coast of Israel could provide natural gas to potash works in Jordan, on the eastern side of the Dead Sea.

"The Wall Street Journal" reported on Friday that the Tamar partnerships, Noble Energy of the US, Delek Group Ltd. (TASE: DLEKG) and Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L), would extend their natural gas pipeline and provide gas to Arab Potash Company, which is 28% owned by Potash Corporation of Saskatchewan (PotashCorp).

Such a deal would be Israel's first ever energy export, and could open the door to larger deals with Jordan or Egypt in the future.

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Investment by energy giant Woodside in Leviathan gas field now unlikely

Woodside's offer less attractive following increased valuation of Leviathan due to possibility of exporting natural gas by pipeline to Turkey.

Citing changed regional politics, local analysts expressed increasing doubts Thursday that Australian energy giant Woodside Petroleum would close its original deal to buy 30% of the rights to the Leviathan natural gas field.

Woodside reached a memorandum of understanding with the field's partners in December 2012 to purchase 30% of the rights to Leviathan's natural gas for $1.5 billion. Under the proposal, Woodside would liquefy the natural gas and ship to destinations around the world.

Gil Bashan, IBI Investment House energy analyst, said Wednesday that the Woodside deal, which values the Leviathan field at $5 billion, was no longer relevant to the field's partners, Delek Group, Noble Energy and Ratio Oil Exploration. Bashan placed the current value of the Leviathan field at $6.9 billion.

"During the height of the crisis [in Israel's relations] with Turkey and the revolution in Egypt, it appeared that liquefying the natural gas with the help of Woodside was the single reasonable option," said Bashan. "The tensions with Turkey have subsided and the government in Egypt has changed again, bringing exports to these markets back on the table." He added that since the memorandum of understanding with Woodside was signed, the size of natural gas reserves in the field has been revised upwards by 2 trillion cubic feet to 18.9 trillion cubic feet of gas.

Bashan said there were now three options regarding the Woodside deal. One was that the value of the deal would be adjusted upwards to reflect the economic value of exporting the natural gas by pipeline to countries in the region. Already half a year ago, *TheMarker* revealed that Leviathan partners would ask Woodside for a "Turkish premium," and last month reported that the partners had asked Woodside to increase its offer to $2.5 billion. A second option would be renegotiating the terms of the deal regarding the ownership of concession rights or division of work. The last option would be canceling the deal.

Leumi Capital Markets analyst Ella Fried, who met with the management of Delek Group subsidiaries Delek Drilling and Avner Gas & Oil Exploration, said that the Woodside deal was no longer crucial to the development of the field due to the possibility of exporting natural gas by pipeline.

“There is a real chance that the Leviathan partners are capable of independently carrying out the development [of the field],” said Fried. She added that while there were clear advantages to bringing in a major international partner like Woodside to help develop the field, exporting natural gas by pipeline to countries in the region presented the best option if the deal with Woodside fell through.

Last December's agreement with Woodside was supposed to be completed within two months, but the failure of the Israeli government to clarify its policy on natural gas exports - the key to Woodside's participation in Leviathan - held up the deal. When the government did finally set its export policy, the Australian company balked at paying the first milestone payment of the agreement until it was clear that the High Court of Justice would not overturn the government's decision. The court ultimately rejected petitions filed against the government's decision in October.

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Leumi: Leviathan does not need Woodside

After meeting Avner's management, analyst Ella Fried thinks Leviathan's partners can develop the field independently.

Bank Leumi (TASE: LUMI) believes that it is possible to develop the Leviathan natural gas field without Woodside Petroleum Ltd. (ASX: WPL).

"We are changing our assessment about the ability of Leviathan's current partners to develop the field on their own. Consequently, we believe that the solution to diversify exports via a pipeline to countries in the region, including Turkey, and a FLNG (floating liquefied natural gas) platform could shorten the project's timetable," said Bank Leumi analyst Ella Fried today, following a meeting with the management of Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L), the energy exploration units of Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva.

"As a result of the conversation with the management we conclude that in the new geopolitical situation, and given the success in completing the Tamar project, there is a real chance that the Leviathan partners can develop it independently," says Fried, adding, "Despite the clear advantages of bringing in an strong international partner in the field, if the negotiations fail, there are practical alternatives that have their own advantages."

Fried says, "In our opinion, the best alternative, economically, about which we have written more than once, is the diversification of exports through a pipeline to countries in the region, including Turkey, a FLNG platform, and/or a pipeline from Leviathan to an LNG plant in Cyprus."

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Leviathan partners mull leasing rig

The rig with the best chances of being leased to drill to the oil strata is owned by Italy's Saipem.

The partners in the Leviathan gas field - Noble Energy Inc. (NYSE: NBL), Delek Group Ltd. (TASE: DLEKG), and Ratio Oil Exploration (1992) LP (TASE:RATI.L) - are considering leasing a rig to replace the planned drillship, if they decided to go ahead with the drilling a well to the oil-bearing strata. The rig with the best chances of being leased is owned by Italy's Saipem SpA (BIT: SPM).

A Saipem rig is due to arrive in Cypriot waters to drill an exploratory well for ENI SpA (NYSE: E; BIT: ENI) over a four-month period. The characteristics of the well are very similar to those of the well planned for Leviathan, and it would be possible to use geologic data obtained from the first Leviathan well. It is important to emphasize that leasing the rig is subject to a final decision to drill an oil well at all - a decision that still depends on other conditions unrelated to the availability of a rig, the most important of which is regulatory certainty.

The Leviathan oil well was supposed to be drilled in the first quarter of 2014 by the new Atwood Advantage drillship, which Noble Energy leased for three years. However, in response the uncertainty created by the government over the timetable for the Leviathan gas field, Noble Energy has redirected the drillship to its leases in the Gulf of Mexico.

Noble Energy CEO Charles Davidson said that there was no point in sending the drillship to Israel just to drill a well if there was no certainty if additional wells could be drilled. The cost of bringing the drillship to Israel is $50-75 million.

However, energy exploration industry sources say that there is a strong probability that Noble Energy and Delek may decide in the end to drill several wells at Leviathan to the oil bearing strata and for natural gas production. The Cypriot media reports that Noble Energy has not ruled out drilling more exploratory wells in Block 12, following analysis of the 3D seismic survey carried out in Israel's nearby Ruth licenses, where possible gas-bearing structures were found.

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Noble Energy exec: Leviathan gas only in late 2017

Keith Elliott says that the Leviathan gas field will cost $8 billion to develop and is confident of finding oil in the region.

Development of the Leviathan natural gas field will cost $8 billion and production will begin in late 2017 said Noble Energy Inc. (NYSE: NBL) EVP Eastern Mediterranean Keith Elliott at the "Globes" 2013 Israel Business Conference. "Leviathan is our next major project in Israel."

Elliott continued, "Leviathan will be developed in stages, a domestic component and an export component. The expected cost of developing the field is $8 billion, and we'll start production in late 2017, a year behind our initial estimate. The reasons for this are known, such as Israel's export policy. We need an environment that supports investment. We intend to develop Leviathan as fast as we can, and we're confident that the challenges will be solved. We're committed to working with our Israeli partners and the Israeli government."

Commenting on the potential of oil at Leviathan, Elliott said, "We've been working in the Mediterranean since 1998, and we have an ongoing work plan between Israel and Cyprus. We think that there is a strong probability of an oil discovery in this region."

As for the Tamar gas field, Elliott said, "The Tamar discovery should generate more than $30 billion for the Israeli economy. Tamar's performance has been outstanding. Within three days of the start of operations in March, we reached the field's full output. Noble Energy considers Tamar as its most important investment in Israel; what we owe Israel… We're expanding Tamar for the next stage, a compressor at Ashdod. A project like Tamar is technically complex, and there are challenges, such as bringing the gas ashore, government intervention in our sale contracts, and so on."

Elliott added, "We're continuing to drill and explore in Cyprus. We've completed the assessment for Block 12. We're planning its development. Finally, I wish to say that our goal is to supply energy to the world and improve people's lives. We believe that there is great potential in the Levant basin."

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Israel seeks to buy German missile boats to protect offshore gas

In previous navy purchases, Germany agreed to cover a third of the costs as a way of expressing its commitment to Israel's security.

Israel has previously bought six Dolphin submarines from Germany. The German government then agreed to cover a third of the cost of those purchases, as a way of expressing its commitment to Israel's security.

Berlin hasn't yet responded to the current request, partly because the new government elected in September hasn't yet been sworn in. Chancellor Angela Merkel will need to consult her new foreign and defense ministers before making a decision.

A senior Israeli official said Israel needs three or four missile boats to protect the gas fields, which are located in the Mediterranean Sea. On October 21, the Israeli business daily Globes reported that the navy had drawn up a list of the equipment it needs to protect the fields and presented it to the diplomatic-security cabinet. The paper also reported that Israel had obtained price quotes from shipyards in Germany, South Korea and the United States.

The diplomatic-security cabinet discussed the matter and decided to try to purchase the boats from Germany. But in contrast to the submarines, which Israel never seriously considered buying from any country but Germany, the planned missile boat deal has sparked interest from several other countries.

Germany's largest shipyard is currently in difficult economic straits and is hungry for new projects. The German government thus has a strong interest in approving the purchase: Aside from its direct financial value, it would give the shipyard some much-needed industry income and provide jobs for thousands of workers.

As a result, Jerusalem believes Berlin will probably accede to its request. Any such deal would require approval not only from Merkel, but also from the German parliament and the German equivalent of the diplomatic-security cabinet.

If the deal does go through, Germany will become the Israel Navy's main supplier in the coming years. Currently, the navy has three German-made Dolphin submarines in operation. Three others are on order, with the fourth expected to be delivered in the coming months and the fifth toward the end of 2014. The sixth submarine will be delivered only in another few years, since that deal was signed only in March 2012.

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Delek to buy $100m. of Tamar gas for industry, transportation

The company is promoting the use of CNG and natural gas in general as an alternative to gasoline and diesel.

Tamar natural gas rig. Photo: Albatross

Delek Israel Fuel Corp. has signed a $100 million deal to purchase gas from the Tamar reservoir for the next seven years to distribute within the industrial and transportation sectors.

The Delek Israel Fuel Corp. board members, in conjunction with the partners of the Tamar reservoir, approved the purchasing agreement Wednesday morning. They informed the Tel Aviv Stock Exchange that the gas would be available over the course of 2013.

To make its way toward customers, the gas will be carried both by open distribution systems as well as through a compressed natural-gas (CNG) compression facility, which is currently in its licensing and construction phases at the Delek Pi-Glilot site in Ashdod.

"The Israeli government decided on reducing dependence on oil, and the transportation market is ready for the entry of gas," Delek Israel Fuel Corp.

CEO Avi Ben Assayag said. "Gas fuel will lead to a revolution in Israel."

Delek Israel Fuel Corp. is a subsidiary of the Delek Group and holds about 23 percent of Israel's fuel-sector market.

The Tamar reservoir, which has been online and providing a source of electricity to the national grid since the spring, holds about 282 billion cubic meters of natural gas. At Tamar, Houston- based Noble Energy holds 36%, Delek Drilling and Avner Oil Exploration, which are both subsidiaries of the Delek Group, each own 15.625%, while Isramco owns 28.75% and Dor Gas owns 4%.

The neighboring and much larger Leviathan natural-gas field holding about 535 b.cu.m. of gas and will only be online in a few years. A slightly different group of partners are the stakeholders in Leviathan, with Noble Energy owning 39.66%, Delek Drilling and Avner Oil Exploration each owning 22.67% and Ratio Oil Exploration holding 15%.

Delek Israel Fuel Corp.'s agreement is part of the company's broader initiative to market natural gas to the industry and transportation sectors in Israel, the company said. The firm is already the leading supplier of natural gas both through distribution networks and through CNG, to plants that have not yet or never will receive hookups to the natural-gas pipelines, Delek said.

The company is promoting the use of CNG and natural gas in general as an alternative to gasoline and diesel in transportation. Natural gas allows for savings of up to 50% compared to the other fuels, in addition to significantly reducing pollution levels, Delek said.

In collaboration with the Energy, Water and National Infrastructures Ministry, Delek Israel Fuel Corp. is also in the process of building a CNG fueling station to be located in Tzifrin, the company said.

"We believe that as in many countries around the world, Israel will also transfer to using natural gas in industry and in transportation, mainly thanks to the cheap price compared to fuel and lower air pollution," Assayag said. "We are committed to bringing the message of natural gas to every factory and area in Israel and providing the industrial factories with the opportunity to succeed in the face of international competition."

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No oil found at Ofek 2

Globe Exploration's share price fell 39% after announcing that production tests found no substantial flow of hydrocarbons.

The share price of Globe Exploration LP (TASE: GLEX.L) collapsed after the company announced that its Ofek 2 well near Ramle was a dry hole. The share price was down 39.2% by mid-afternoon, to NIS 0.03, giving a market cap of NIS 9 million.

Globe Exploration said that production tests in the borehole in Permian strata found no substantial flow of hydrocarbons. It added, however, "On the basis of findings to date from the production tests and in view of the signs of substantial hydrocarbons in Permian strata found by the drilling and electrical log, the partnership's consultants advise continuing the production tests using selective acid techniques for the relevant area in order to improve the flow (fracture stimulation) of hydrocarbons to significant quantities."

Globe Exploration plans to carry out the expanded production tests, but will need $5 million to finance them. "The company has not yet drawn up a detailed plan, timetable, or budget for the additional production tests," it said.

Globe Exploration lacks the money for the tests, and will have to raise capital. The tests to date cost an estimated $2.5 million. It began drilling the Ofek 2 well in early June, after its Ofek 1 well failed to find oil, losing the company $6.6 million.

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All at sea

Sea-based technologies for handling natural gas promise huge cost savings, and are leaving Israeli regulators behind.

At the Samsung shipyards in South Korea, the largest ever apparatus to set to sea is being constructed. Its length, 488 meters, is almost double that of the Titanic. It will have a displacement weight of 600 thousand tonnes, equivalent to five aircraft carriers. Its job will be to produce gas from the Prelude reserve, 200 kilometers from the Australian coast. Pumping the gas, separating the expensive condensate, liquefying the gas, and the other operations that currently take place in land-based installations, will all be performed on this huge facility. 50 million liters of water an hour will be pumped to help cool the gas to minus 162 degrees Celsius, the temperature at which it becomes liquid. An area the size of 175 Olympic swimming pools in the belly of the facility will be used to store the liquid gas. Yet despite its monstrous dimensions, the floating gas liquefaction plant (FLNG) will still be 75% smaller than a land-based liquefaction plant.

The Prelude FLNG vessel in distant Western Australia heralds a revolution in the natural gas industry. More and more gas infrastructure installations are going offshore thanks to technological advances. One of the first places to feel the outcome of the revolution is Israel.

A changed picture

Israel's gas export policy, recently given the green light by the High Court of Justice, was designed to suit the longstanding technology of land-based gas liquefaction plants. In its interim report, the government commission headed by Ministry of Energy and Water Resources director general Shaul Tzemach recommended allowing the export of at least 400 billion cubic meters (BCM) of natural gas. "What is the professional basis for the understanding that the minimum necessary is 350 and not, say, 200?" asked Deputy Attorney General Avi Licht at the commission's concluding session. "It's technology," answered National Economic Council chairman Eugene Kandel, and did an instant calculation showing the minimum amount of gas that would justify construction of a land-based liquefaction plant. "Gross, it's 360. That's the calculation. Very simple", Kandel said with finality. The commission added the extra 40 BCM to the quota as a safety margin. "Braces" as Ministry of Finance representative Shaul Meridor described it.

FLNG technology was known to some members of the commission at the time of the discussions, but they refused to treat it seriously. "FLNG is not a reality," said economist Morris Dorfman at one of the sessions. Less than two years later, and the picture is changing before our eyes. FLNG technology is still not proven, but at the Eco Energy Israel Energy and Business Convention two weeks ago it was presented as the best solution for exporting gas from the Leviathan field. Not a word was said at the convention about the plan to construct a liquefaction plant on the Israeli coast.

The FLNG facility that the Leviathan developers wish to build is one of seven currently planned around the world, of which two (Prelude in Australia and a facility for Malaysia's Petronas) are already at advanced stages of construction. The Leviathan facility would be smaller than the one being built for Western Australia. The main reason for that is that the Israeli gas is "cleaner" than the gas produced in Australia and does not contain heavy condensates that require complex refining installations. The fact that the Mediterranean Sea is relatively calm is another point in favor of FLNG, which requires complete stability in the water in order to be able to pump liquid gas into tankers. Even so, this is a 400 meter-long sea monster that will cost $4-5 billion to build. There is currently lively competition between three international consortia to build the facility: Technip Samsung, which is building the Prelude facility, and two other consortia led by Hyundai and DSME. According to the presentation by Yehuda Saban, VP regulation at Delek Drilling, the facility for Leviathan will have an annual output of 3 to 4.7 million tonnes (4.2 to 6.6 BCM). And now we come to the dramatic difference: the FLNG facility will need a minimum of 80-100 BCM to make constructing it worthwhile, less than a third of the amount required for a land-based facility.

Does all this mean that the conclusions of the Tzemach commission are no longer relevant? Not necessarily. The limited exports by means of FLNG leave Israel with enough gas for other export channels (by pipeline to Turkey, Egypt and Jordan, for example). Reliance on one single channel weakens the developers bargaining position vis- à-vis buyers, and increases risk exposure, whereas negotiating on several channels at the same time creates synergy.

The main problem in laying a pipeline to Turkey or to Egypt and Jordan is political. The Egyptian and Jordanian regimes are not overjoyed at being portrayed as collaborating with the Zionists. Relations between Israel and Turkey are fickle, and the need for the pipeline to traverse Cyprus's exclusive economic zone makes it necessary to reach agreement between the Turks and the Cypriots, who are in bitter, almost insoluble dispute. These difficulties could be surmounted by means of new technology presented at the convention by Ronen Hadash, who represents SeaNG, an international consortium controlled by Japanese company Marubeni, Teekay of the US, and Enbridge of Canada. This is a floating facility for compression of natural gas (FCNG). Gas compression installations, it turns out, are the next technology about to migrate from land to sea.

FCNG is based on a ship for treatment and compression of gas, which it supplies to special tankers. The compression technology is simpler and cheaper than liquefaction technology, and the length of a compression ship is not more than 200 meters. For distances of up to 1,000 kilometers, FCNG can provide a cheaper and more flexible alternative to existing solutions, one almost immune to geopolitical risks. SeaNG supplies the gas reserve owners with the compression ship and its ancillary systems in exchange for a treatment and shipping tariff, estimated at $1.8 per million thermal units (MMBtu) in the case of Turkey, obviating the need to invest billions in infrastructure. FCNG technology is still unproven and exists mainly on the drawing board, but within 2-3 years it is likely to emerge as the next big thing, just as happened with FLNG.

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Drilling halted at Givot's Meged 6 well

The drilling pipes in Givot's Meged 6 oil well, near Rosh Ha'Ayin, jammed at a depth of 3,860 meters.

Givot Olam Oil Exploration LP (TASE:GIVO.L) today reported that the drilling pipes in its Meged 6 oil well, near Rosh Ha'Ayin, jammed at a depth of 3,860 meters in the 4,498-meter borehole drilled to date, and that the drilling has been halted.

"It is not possible to continue the drilling at this time. The reasons for the incident are not yet known. It is not yet possible to determine the effect of the incident on the continuation of the drilling or its budget," said Givot.

"The general partner wishes to clarify that it intends to continue the attempt to release the drill pipes. If these measures fail, the general partner, in consultation with its advisers, will decide on subsequent measures for continuing the drilling, and will announce them.

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Energy Ministry approves natural gas to fuel cars

National Infrastructures Ministry: Switching to CNG could save NIS 1,700 a year in fuel costs for a car with an engine larger than 1.4 liter.

On Friday, Minister National Infrastructures Silvan Shalom signed a directive allowing the use of compressed natural gas (CNG) by vehicles, as an alternative to gasoline, diesel, and cooking gas. CNG is less polluting than gasoline or diesel

"We're continuing to take steps in every area to reduce the cost of living and savings by consumers are already in the offing," said Shalom. "When natural gas replaces gasoline and diesel, drivers will be able to save thousands of shekels a year, and benefit from cleaner, cheaper travel."

The Ministry of National Infrastructures estimates that switching to CNG could save NIS 1,700 a year in fuel costs for a car with an engine larger than 1.4 liter, assuming that CNG costs NIS 5.40 a liter. Switching to CNG could save NIS 55,000 a year in fuel costs of an average bus, and NIS 34,000 for an average truck, if CNG costs NIS 4.50 a liter.

However, the ministry's estimates assume that taxes on natural gas will not change, even though the Israel Tax Authority has already announced that it plans large tax hikes on it. Revenues from the fuel excise exceed NIS 16 billion a year.

The directive is part of the government's effort to encourage the construction of a CNG infrastructure for vehicles. Delek Group Ltd. (TASE: DLEKG) unit Delek Gas Ltd. is building the first CNG fuel station at

Zerifin, outside Tel Aviv, at a cost of NIS 3 million. Half the cost is financed by a Ministry of National Infrastructures grant.

The conversion of buses to CNG has been delayed after a CNG bus was blow up causing far more damage than the explosion of an ordinary bus. Until the safety problem has been addressed, the Ministry of National Infrastructures hopes that large car fleets will convert to CNG.

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Italian minister wants to import Israeli gas

Energy Minister Silvan Shalom: Israeli natural gas exports to Italy are a common interest of both countries.

"Israeli natural gas exports to Italy are a common interest of both countries," Minister of National Infrastructures Silvan Shalom told Italian Minister of Economic Development Flavio Zanonato at the government-to-government meeting in Rome today.

Shalom and Zanonato discussed the Egyptian liquefied natural gas (LNG) option at the ENI SpA (BIT: ENI; NYSE: E) plant at Idku. Shalom outlined a proposal along these lines, and Zanonato said that he would promote it because it was the fastest and most economical way for all the parties, countries, and LNG companies. They also discussed the advantages and disadvantages of the Turkish, Greek, and Cypriot options.

By selling natural gas to LNG plants in Egypt, Israel could export gas to Europe, the buyer of Egyptian LNG. Egypt's two LNG plants are only partly operational because the development of the country's natural gas fields lags the rise in domestic consumption. As a result, the plants are losing billions of dollars. BG Group plc (LSE; NYSE: BG) operates the Damietta plant, and ENI and its Spanish partner operate the Idku plant.

During the meeting Mekorot National Water Company and Italian water utility Acea SpA (BIT: ACEA) signed a collaboration agreement. Shalom said that Israeli water technology was replacing the Jaffa Orange brand of the 1950s and 1960s, and that there was almost no country in the world, including countries with no diplomatic relations with Israel, that do not use Israeli water technology.

Shalom and Zanonato also discussed compressed natural gas (CNG) for use in public transport, following a meeting on the subject two months ago. Shalom, who encouraged the reciprocal delegations of experts to the two countries, signed a directive and a standard allowing the use and installation of CNG, told Zanonato that he welcomed the entry of Fiat SpA (BIT: F) and Iveco SpA into the Israeli market with CNG-powered cars and buses.

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4.1 TCF estimate for Cypriot Block 12

Delek Drilling and Avner report that the amount of condensate in the reservoir is put at 8.1 million barrels.

Yesterday evening, Delek Drilling and Avner Oil and Gas LP (TASE: AVNR.L) announced an updated resources report following the drilling of an exploratory well in Cypriot Block 12. According to the report, compiled by Netherland, Sewell and Associates , Inc., the amount of condensate in the reservoir is 8.1 million barrels. In the previous report, the condensate in the reservoir was estimated to be below economic quantities.

The total best estimate of resources fell from 5.2 TCF (trillion cubic feet) to 4.1 TCF, mainly because of a reduction in the estimate of the thickness of the C sands layer. The estimate of the probability of success in that layer rose, however, from 79% to 95%.

The overall low estimate of contingent resources rose by 30%, while the high estimate fell by 25%. The partnerships explained that the narrowing of the range between the low and high estimates was normal as the exploration program for the well progressed.

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