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ISRAEL'S OIL & GAS INDUSTRY NEWSLETTER



*A SUMMARY OF ALL
TOP HEADLINES*



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Note from Local Specialist:

This past few months have been quite busy for CS Israel, our office initiated a 2-day conference on skills and safety training in the natural gas sector. The conference took place on February 25-26 and attracted 350 attendees. It was the result of collaboration between our office, local media company Tashtiot and the Australian Embassy. The conference was opened by Israel Minister of Infrastructure, Energy & Water Resources, Mr. Silvan Shalom. Most of the speakers came from abroad to make their presentations and had an opportunity to meet with local companies and government officials. This was the first conference of this kind that went into detail on technical issues and spoke to the needs of local operators. The event was well received by the local industry.

Some of the photographs in this newsletter were taken at the conference.

Sincerely,
Irit van der Veur
Senior Commercial Specialist



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EXPORT

Leviathan partners push for better export deal

The foreign partners are demanding that Israel change the draft production lease, saying it is too strict for them to attract financing.

The foreign companies involved in developing the Leviathan offshore natural gas field are pressuring Israel to make it easier for them to export gas.

The partners in Leviathan, U.S.-based Noble Energy and Ratio Oil Exploration and Israel's Ratio Oil Exploration and Avner Oil Exploration, part of businessman Yitzhak Tshuva's Delek Group, say the draft production lease will not allow them to raise the financing they need to develop the massive field, located off the coast of Israel in the Mediterranean Sea. They say the conditions the government included in the lease will prevent the export of gas, torpedo an anticipated deal to sell gas to Turkey and cause Australia's Woodside Petroleum to cancel its 25% stake in Leviathan for up to \$2.7 billion.

On Tuesday, Noble CEO Charles Davidson met with Harel Locker, the director-general of the Prime Minister's Office, and Eugene Kandel, the chairman of the National Economic Council. Woodside CEO Peter Coleman is scheduled to arrive in Israel on Wednesday for a two-day visit. The CEOs are not scheduled to meet with Energy and Water Resources Ministry officials.

"Projects of this scale require certainty — certainty of policy and of all the aspects that go along with it. That's the most important thing," Davidson told the Eastern Mediterranean Gas Conference in Tel Aviv on Tuesday.

Discovered in 2010, about a year after the Tamar field, Leviathan is the biggest gas-field find of the past decade. It is estimated to hold some 19 trillion cubic feet of gas, enough for Europe for a year. Last month, the partners signed a 20-year, \$1.2 billion deal to supply gas to plan a Palestinian power plant once Leviathan starts production in 2016 or 2017. Developing the field is expected to be the largest infrastructure project in Israel's history and the partners' investment in it will likely amount to billions of dollars.

After a lengthy and heated debate, Israel's government last year agreed to allow 40% of the field's gas reserves to be exported. The production lease is the final and most important remaining regulatory step and will serve as the basis of the partners' rights to produce and sell the gas for up to 30 years, setting a strict timetable. Once issued by the Petroleum Commissioner in the Energy Ministry, the production lease will replace the partners' existing exploratory license.

The Leviathan partners are most upset by section of the draft lease that controls the export of gas. The draft lease states that in time of national necessity, the Petroleum Commissioner can limit or

halt gas exports and direct the gas to the Israeli economy. The partners claim this clause will make it impossible to finance their plans, as no customer will agree to it.

The Leviathan partners are also challenging the draft lease's requirement that they build large enough facilities, like pipelines and gas-handling centers, to serve smaller fields nearby. They say this will commit them to enormous expenditures that cannot be accurately estimated at this point.

Finally, the partners say it is excessive to ask them to post guarantees of \$100 million to cover potential future damages they cause.

Published by Haaretz, on Mach 13, 2014

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Israeli gas industry leaders push government for regulatory certainty

Natural gas industry heads look toward Israel's future export market.

As natural gas industry leaders look toward Israel's future export market, they urged the government on Tuesday to maintain a certain environment that will attract additional operators.

“Although it's clear and acceptable that the government needs to regulate and set the rules, the important message from everyone in the industry here and the global industry is let's go with the best practice of the industry,” said Yossi Abu, CEO of Delek Drilling – one of the Eastern Mediterranean exploration partners.



“Let's not develop our own regulation that will push from Israel significant players to work elsewhere in the world.”

Abu was addressing participants in the Eastern Mediterranean Gas Conference, organized by the Houston-based Gulf Publishing Company in Tel Aviv and sponsored by a number of hydrocarbon developers, including Noble Energy, the largest firm involved in Israel's Tamar and Leviathan reservoir partnerships.

Industry stakeholders discussed possible international outlets for Israel's gas, all the while maintaining the need to attract additional companies to come explore and operate in the Eastern Mediterranean waters.

“If we’ll be able to have clear regulation, stability and certainty that capture the best practice of the industry, we’ll be able to push forward and go ahead with the potential of this basin,” Abu said.

Although the Israeli government approved a policy capping exports at 40 percent on June 23, 2013, the question remains to whom Israel will export the gas that has not been reserved for the domestic market.

Noble Energy holds 36% of the 282 billion cu. m. Tamar basin, which is already flowing to the domestic market, while Delek Drilling and Avner Oil Exploration – both subsidiaries of the Delek Group – each own 15.625%. Isramco owns 28.75% and Dor Gas owns 4%.

At the 535 b. cu. m. Leviathan reservoir, Noble Energy holds 39.66% of the Leviathan field, Delek Group subsidiaries Delek Drilling and Avner Oil Exploration each have 22.67% and Ratio Oil Exploration owns 15%.

Along the way toward solidifying an export policy for Israel’s basins, Noble Energy CEO Charles Davidson explained that there have been many challenges.

“Leviathan was delayed by about a year as the export policy here in Israel was put in place,” Davidson said. “Projects of this scale, of this scope, require certainty.”

Without some sense of stability, the existing partners and potential future explorers and developers cannot afford to invest billions of dollars in the market, according to Davidson.

As far as the progress of developing Leviathan is concerned, its first phase will involve securing a domestic supply and then its second phase will involve export, likely through liquefied natural gas (LNG) options, Davidson said.

Although this project is more costly and complex than Tamar in scale and scope, the basin provides “a great opportunity not only for the State of Israel but for the companies involved and for our customers,” he added.

Australian drilling firm Woodside is expected to negotiate a final agreement regarding entering the Leviathan partnership by March 27, according to a memorandum of understanding signed last month. While Davidson did not explicitly confirm that this would occur as planned, he expressed the group’s hopes “that we can bring [the Woodside] agreement to closure in the near future.”

Regarding export opportunities, Woodside’s CEO last month expressed a preference to construct a floating liquefied natural gas (F-LNG) facility off Israel’s shore for exports to Europe and Asia. Small agreements have been made with Dead Sea companies in Jordan and with a future Palestinian power provider in the West Bank, yet the partners are still evaluating larger opportunities.

Among these opportunities are the F-LNG option, a pipeline to Turkey and a shared onshore LNG facility in Cyprus.

“We believe that the characteristics of our gas could be the ultimate solution that would allow us to export F-LNG to the world and become a player to the premium market in Asia,” said Gideon Tadmor, CEO of Avner Oil Exploration and chairman of Delek Drilling.

“Now we are at the next level of potentially becoming a global player in Asia.”

Although expressing optimism for the F-LNG route, Tadmor said that the partners are “keeping all options on the table.”

While continuing gas exploration in the Eastern Mediterranean remains crucial, both Davidson and Abu emphasized the importance of searching for deep-water oil reservoirs as well.

Ideally, Davidson explained, such drilling for Mesozoic layer oils would be combined with the development of the Leviathan reservoir.

Acknowledging that the search for deep-water oil is “very high risk” and does not involve nearly the level of certainty as has the gas exploration thus far, Davidson expressed the consortium’s desire to search for these resources nonetheless.

“If you think natural gas was a game changer, finding deep oil in the Mediterranean, whether it’s Israel or Cyprus, that’s a world changer,” he said.

Published by Haaretz on Mach 11, 2014

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Cyprus conflict threatens Israel-Turkey offshore gas trade

Turkey will refuse to recognize any gas deals that would involve the Greek side of Cyprus.

What might Israel’s offshore gas discoveries have to do with the Cyprus reconciliation talks between Turkey and Greece, which are resuming Tuesday in an effort to resolve the conflict over the island that’s been divided for 40 years?

At a conference six months ago (sponsored by the Institute for National Security Studies in Tel Aviv), a representative of Turkey sat next to a Greek Cypriot representative and debated the possibility of Israel exporting its gas to the two neighboring countries, which both desperately want it.

The idea was to export the gas from the Leviathan reserve directly to a facility that would be set up in Vassilikos, in southern Greek Cyprus. Alternately, the gas could be delivered via an underground pipeline to the port of Jihan in southern Turkey, but en route the pipeline would have to cross under the territorial waters of Greek Cyprus to avoid crossing Lebanese and Syrian territory.

Within minutes the two speakers left the audience with little hope the two countries would ever be able to cooperate on such a regional initiative.

“Turkey will never recognize any deal taking place on the Greek side of Cyprus,” said Dr. Ahmet Khan of Kadir Has University in Istanbul.

“There is no chance that the Cypriot government will approve the running of a gas pipeline to Turkey through its economic waters,” declared Charles Ellinas, CEO of the Cyprus National Hydrocarbons Company.

The presence of gas in the Mediterranean played a role in Cypriot-Turkish tensions even before Israel's export potential became an issue. It started when Turkish Prime Minister Recep Tayyip Erdogan warned Greek Cyprus that it didn't dare issue licenses for oil and gas drilling in disputed international waters.

Tensions increased further when Turkey backed its threat by sending warships to the area. That move led to unconfirmed reports that Israel sent warplanes to circle over that Turkish flotilla. Whatever the case, international energy companies have been careful to avoid bidding for the controversial licenses.

The diplomatic row eventually assumed economic-strategic overtones. Cyprus has a relatively backward electricity economy and needs natural gas to lower the costs of energy on the island and detach it from dependence on foreign energy suppliers.

Island officials were also hoping to leverage the discoveries in the Mediterranean and become a regional gas trading hub, serving as a bridge for exporting gas to the Far East or to Greece, and strengthen the island's shaky economic and geopolitical situation.

These hopes suffered a blow last year when the Aphrodite gas field located between Cyprus and Israel turned out to have more modest reserves than expected, and when the Israeli defense establishment expressed vehement objections to sending Israeli gas to the island.

At the same time, Israel's relations with Turkey were beginning to thaw after several years of being in deep freeze following the 2010 Israel Defense Forces' lethal raid on the Gaza-bound Turkish ship Mavi Marmara.

This led several international and Turkish firms to show interest in financing a gas pipeline from the Leviathan drilling site to Turkey at a cost of \$5 billion.

The project has the support of the Israeli government for geopolitical reasons. The growing Turkish economy is also seeking cheaper gas, which it now must import from Iran or Russia at relatively high prices, or even import liquefied natural gas from North Africa at double the cost.

“Turkey has nothing against Israeli gas,” said Khan at the INSS conference. “After [Israel's] apology [for the Marmara incident], Israel can contribute to Turkey more than Turkey can contribute to it.” But his interlocutor, Ellinas, retorted that Cyprus would not sit idly by, and reminded Khan that Greek Cyprus has EU backing in its conflict with the Turks.

Such a project, however, is still contingent on a series of worldwide agreements and would need the backing of the European Union and the United States. But neither is keen on starting up with Russia, which views the introduction of Mediterranean gas to Turkey as a direct threat to the monopoly its Gazprom has on supplying gas to Europe

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Bloomberg: Turkey really wants Israeli gas

The prospect of gas from the Leviathan field is prompting Turkey to normalize ties with Israel.

"Bloomberg" reports that Israel and Turkey may resume diplomatic ties, after the long breakdown since the Mavi Marmara affair during the Gaza flotilla. "Bloomberg" quotes Turkish Foreign Minister Ahmet Davutoglu as saying that the two countries "are closer than ever to normalizing ties." Top Israeli officials are keeping quiet, with both the Prime Minister's Office and the Ministry of Foreign Affairs declining to comment on the remarks made in Ankara.

"Bloomberg" says that the Turks are seeking normalization in ties with Israel as quickly as possible for two reasons: the domestic problems of Prime Minister Recep Tayyip Erdogan, and Turkey's wish to obtain Israeli natural gas via pipeline from the Leviathan gas field.

"Erdogan really, really wants that gas, and could spin an agreement as Israel basically conceding to Turkey," said Alon Liel, a former director general of the Ministry of Foreign Affairs. He adds that Erdogan wants Israel to export natural gas to Europe via a pipeline routed through Turkey.

Despite the chilly relations between the Israeli and Turkish governments and the halt in defense deals, Israeli export of goods to Turkey rose to \$4.9 billion in 2013 from \$3.5 billion in 2012.

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Israeli cos in pole position for Cyprus gas tender

Cyprus seeks to buy gas in a ten-year contract worth some \$3 billion.

Israeli natural gas suppliers have the best chances of winning a \$3 billion natural gas supply tender published by Cyprus. On Saturday, Cyprus's Natural Gas Public Company (DEFA) published an Invitation Document for proposals for the supply of natural gas for a period of up to 10 years, beginning on January 1, 2016. The gas is intended for use by the Vasilikos Power Station on the island's south coast. The tender is for the supply of 0.6-0.8 billion cubic meters (BCM) of natural gas a year.

Leviathan seeks Turkish customers

Cypriots currently pay the highest electricity prices in Europe because all the island's electricity is generated by diesel. The switch to natural gas should save Cyprus \$300 million a year. The country has not yet recovered from the debt crisis that forced it to seek EU aid.

The new tender follows the cancellation of a previous tender, which was won by Russia's Itera Group, in late 2013. Itera was due to supply liquefied natural gas (LNG) at \$14.75 per million British Thermal Units

via a floating storage and regasification unit (FSRU). Energy majors that specialize in LNG purchases, such as BP plc (LSE; NYSE:BP), the natural gas supplier to [Israel Electric Corporation](#) (IEC) (TASE:[ELEC.B22](#)), are expected to participate in the present tender.

The Cypriots hope to obtain a price of \$10-11 per million BTU in the present tender. LNG prices are currently \$17 or higher, whereas the price of Israeli natural is almost two-thirds lower. Israel is the only country with the means to deliver gas to Cyprus, either via pipeline or by compressed natural gas (CNG). Natural gas could be compressed at a facility built in Israel. The gas could come from the Tamar field, which currently produces surplus gas during night hours, from Leviathan in future, or from smaller fields that [Noble Energy Inc.](#) (NYSE:[NBL](#)) and [Delek Group Ltd.](#) (TASE:[DLEKG](#)) will sell.

The other Mediterranean country with natural gas reserves, Egypt, is struggling with a severe gas shortage, because of delays in the development of new fields.

To date, Israeli gas suppliers have signed one export deal, with the Palestinian Authority.

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LOCAL MARKET DEVELOPMENT

Delek Drilling CEO: High probability of Leviathan oil

Yossi Abu: We have not yet fulfilled the entire potential of the Leviathan field.

"There is still huge potential for more discoveries in the Levant Basin, especially in the deeper strata of the Tamar Sands formation. To date, we've only covered a small part of the Tamar Sands," said Delek Drilling LP (TASE:DEDR.L) CEO Yossi Abu at a conference in Tel Aviv today. "We have not fulfilled the entire potential of the Leviathan field. Leviathan's deep strata have a high probability of discovering oil, and we intend to continue oil exploration operations at Leviathan by the fourth quarter of 2014."

Abu added, "The government should adjust local regulations to the norm in the global oil and gas industry. That is the only way to stimulate the industry and to create certainty that will bring here skilled and technically capable foreign companies which will discover more fields and develop them."

"The infrastructure built at Leviathan will ensure redundancy and energy independence for Israel," said Delek Drilling chairman and Avner Oil and Gas LP (TASE:AVNR.L) CEO Gideon Tadmor, "We currently have almost 40 trillion cubic feet of natural gas, which turns us from a regional story into a global story. The partners in Leviathan have options for commercial and political collaborations, even in our challenging neighborhood. Regionally, the Palestinian Authority, Jordan, Egypt, Turkey, and Cyprus are all relevant regional export targets for us. Natural gas will be the bridge between countries and stabilize the Middle East."

Tadmor added, "The technological change that made FLNG development possible will make us a global story. It will allow us to export gas and become a dominant player in Asia too.

"We are not seeking just to maximize value for our shareholders, but to be partners in a major change for many countries in the region, especially for Israel. The commercial and economic advantages of the gas discoveries will overcome political disputes. We're talking about a win-win situation, not just commercially, but geopolitically."

"The Tamar discovery was just the beginning," said Noble Energy Inc. (NYSE:NBL) CEO Charles Davidson. "The scale of the Leviathan discovery will require external markets. We'll have to obtain the necessary regulation to enable us to develop the field, because, in contrast to Tamar, it cannot rely solely on the home market.



"Leviathan needs all the necessary regulation to move forward, and we've had problems for this reason. It is already a year behind schedule before Israeli policy was approved. Before companies can invest billions of dollars in global projects, we need certainty, because we cannot allow ourselves to invest billions only to discover that something isn't safe and has changed.

"We see Leviathan initially supplying gas to Israel and countries in the region, and in the second stage, exporting LNG. We hope that we can soon close the deal with Woodside Petroleum Ltd. (ASX:WPL), and we want this because of its global experience, LNG capabilities, and financial wherewithal, which is needed because of the scale of the project's development."

Davidson agrees with Abu about the potential for more offshore discoveries in Israel. "There is a lot of exploration ahead of us. Everything is still at the early stage. I wish we had success in the world like our success in Israel. We still have to drill wells to the deep oil target, which will be more expensive, deeper, and riskier. But finding offshore oil in this area won't be a game changer, but a world changer."

Noble Energy owns 39.66% of Leviathan, Yitzhak Tshuva's Delek Group Ltd. (TASE:DLEKG) exploration units Avner and Delek Drilling each own 22.67% and Ratio Oil Exploration (1992) LP (TASE:RATIL) owns 15%. Noble also owns 36% of Tamar, Avner and Delek Drilling each own 15.625%, Isramco Ltd. (Nasdaq:ISRL; TASE:ISRA.L) owns 28.7%, and Dor Alon Energy in Israel (1988) Ltd. (TASE:DRAL) unit Alon Natural Gas Exploration Ltd. (TASE:ALGS) owns 4%. Delek and Noble Energy also own Cyprus's Block 12 discovery near Leviathan

Tamar partners sign \$1.85 billion in natural gas deals in just a week

Second big contract in a week is 15-year agreement to supply more than \$1 billion of natural gas to two private power plants.

The Tamar natural gas field partners on Wednesday announced their second big contract in a week, a 15-year agreement to supply more than \$1 billion of natural gas to the private power plants in Alon Tavor and Ramat Gavriel.

Taking into account the \$750 million contract with the Delek Group's Sorek IPP power plant that the partners announced Sunday, the Tamar field has now won commitments from customers to buy \$1.85 billion in gas. Last month, two Jordanian companies signed their first export deal, a \$500 million contract for their Dead Sea region facilities.

The Tamar field will supply 4.5 billion cubic meters of gas to two private power companies over 15 years, estimated to be worth \$1 billion. The companies that will buy the gas are Ramat Gabriel Ltd. and Alon Tavor Ltd., under the agreement signed over the past week.

The Alon Tavor power plant is located in the complex owned there by Tnuva, Israel's largest food supplier. The new Ramat Gavriel power plant is located near Migdal Ha'emek, in the Nilit factory, which manufactures nylon fibers and thermoplastics. The cogeneration plants are planned to generate 55 megawatts of power each for their respective factories.

The deals are subject to approval of Israel's antitrust authorities and closing the financing for the enterprise.

The sale is on a "take or pay" basis, with a minimal annual amount, and the deal will last 15 years or until the total amount is supplied.



In the deal signed Sunday, the Tamar field will supply 3.3 billion cubic meters of gas over 15 years to the 140-megawatt IPP power plant, which is fully owned by Delek Group and will power a water desalination plant.

Texas-based Noble Energy owns 36% of the gas field. Israel's Delek Group, through its units Avner Oil Exploration and Delek Drilling, holds a 31.25% share. Isramco Negev has a 28.75% stake, and Alon Natural Gas Exploration holds 4%.

As for the Jordanian deal, Tamar will supply 66 billion cubic feet of gas a year to the Jordan-based Arab Potash Company and Jordan Bromine Company, a joint venture between Arab Potash and the Louisiana-based Albemarle Holding Company, Noble Energy announced last month.

In total, the Jordanian buyers have agreed to buy about 1.8 billion cubic meters of natural gas over 15 years, at an estimated value of at least \$500 million. The U.S. State Department was involved in getting the deal signed.

Tamar's sales to Jordan are expected to start in 2016, once the minimal required infrastructure has been completed.

The much larger Leviathan field nearby signed a 20-year, \$1.2 billion deal last month to supply gas to a planned Palestinian power plant once Leviathan starts production in 2016 or 2017. Leviathan is estimated to hold about 540 billion cubic meters of gas, enough to supply Europe for a year.

Tamar has an estimated 300 billion cubic meters of gas, including its nearby satellite field. Tamar began supplying Israeli industry with natural gas in March of last year, and the partners have signed deals so far for 200 billion cubic meters, which leaves them quite a bit of room for future sales. The field came online months after Egypt halted gas supplies to Israel.

After a lengthy and heated debate, the Israeli government last year decided to allow 40% of its natural gas reserves to be exported, while Tamar can sell up to 50% of its reserves. Following the agreement with Jordan, Tamar is free to sign export contracts for an additional 48.2 billion cubic meters.

Tamar and Leviathan were two of the largest gas finds in the past decade, and turned Israel into a gas exporter. In February, Australia's Woodside Petroleum signed a deal to take a 25% stake in Leviathan for up to \$2.55 billion.

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Private power producers levy lower than IEC demand

The Public Utilities Authority estimates the service tariff at NIS 0.01-0.03 per kw/h.

The ancillary service tariff is estimated by the Public Utilities Authority (Electricity) at just NIS 0.01-0.03 per kilowatt/hour. On Friday, a special meeting of the Public Utilities Authority Council at Airport City discussed the new tariff, which is deeply worrying independent power producers.

Regulator to raise rates for independent power producers

Independent power producers warn of serious harm to the private electricity market if [Israel Electric Corporation's](#) (IEC) (TASE:[ELEC.B22](#)) position on the tariff, or its composition, is NIS 0.07-0.085 per kw/h. Friday's meeting discussed the methodology, and presented no numbers. However, the position of the Public Utilities Authority's professional staff, as presented to the council, was very close to the position of the independent power producers, which assumed that the tariff would be NIS 0.01-0.02 per kw/h. The Public Utilities Authority will announce its decision on the matter, for the purpose of a hearing, within two weeks.

The ancillary service tariff is intended to reflect costs that, until now, IEC has borne alone as the supplier of a critical service to the economy. IEC is reimbursed for these expenses by its consumers through the electricity tariff, but the independent power producers' consumers are exempt from them. This situation made it possible for IEC to claim that its consumers, most of which are householders, are subsidizing the independent power producers' customers, which include some of Israel's largest and strongest companies.

Until now, the IEC comprises three items: production, transportation, and distribution. The customers of the independent power producers paid the transportation and distribution tariffs like the other consumers, but received a 7-9% discount on the production tariff compared with the production tariff paid by IEC consumers. As "Globes" revealed, last summer, the Public Utilities Authority began including system costs in the new tariff item, which will also apply to the independent power producers.

Ahead of the decision on the new tariff item, the Public Utilities Authority published a list of 12 system costs that, currently, only IEC bears. The biggest of these costs is backup, or IEC's commitment to supply electricity to the independent power producers' customers if they cannot meet their commitments to these customers. This commitment forces IEC to keep power stations as backup for the independent power producers.

Other expenses that might be included in the new tariff component are IEC's expenses for subsidizing electricity to needy customers and expenses for the purchase of electricity from solar power producers, which IEC is required to buy at higher incentive rates set by the Public Utilities Authority.

Ahead of the decision on the new tariff component, IEC presented a paper by [TASC Strategic Consulting Ltd.](#), which reportedly estimates the system costs at NIS 4 billion a year, of which the

independent power producers will cover NIS 400 million. However, the position of the Public Utilities Authority's experts is closer to the position of the independent power producers than that of IEC.

The Public Utilities Authority said that the tariffs are still under discussion, and that, at this stage, any number is mere rumor and unsubstantiated.

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Gas exploration cos: Industry faces standstill

Objective problems have prevented licensees from drilling exploratory wells.

In letters to Minister of Finance Yair Lapid and Minister of National Infrastructures Silvan Shalom, Israel Oil and Gas Exploration Industries chairman Uri Aldubi warns that objective problems have prevented licensees from drilling the exploratory wells they promised in their work plans submitted to the Ministry of National Infrastructures under the terms of their licenses.

Aldubi says that the common factor in exploration companies' failure to begin drilling on time was the difficulty in finding foreign drilling companies that meet the ministry's threshold conditions. The exploration companies have also been affected by the uncertainty caused by the government's delay in establishing a natural gas export policy. Most exploration licenses are held by small limited partnerships for which the licenses are their main asset.

"Many companies in the industry are liable to wind up their activity, which could drastically reduce the number of companies in the business, leaving only a very small number of companies," says Aldubi.

Licenses due to expire in the coming months include Hof Ashkelon, Myra, Sarah, Ishai, Gabriella, Yitzhak, Yam Hadera, Shemen, Daniel West, Daniel East, Oz, and Arie.

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No work for Israel's energy professionals

Graduates must work abroad with no domestic industry being developed.

"Oil and gas engineer" sounds like the career with the most secure future in Israel today. In three years, we have become a regional oil and gas power, and demand for engineers in the field is meant to skyrocket: according to Ministry of Economy and Natural Gas Authority estimates, 3,000 employees will be needed in the gas sector in the coming five years. But estimates are one thing, and reality is another. Two years ago, the [Technion Israel Institute of Technology](#) in Haifa

opened a prestigious M. Sc. Engineering program, with a focus on oil and gas, together with the University of Haifa. Only four of the program's twenty graduates have found work with the oil and gas exploration companies in the local market. Not one of the graduates has found work in government services, such as the Oil and Gas Division of the Ministry of National Infrastructures, Energy and Water Resources, which does not have an excess of experts in the field, to put it mildly. "We don't have much hope of finding work in the local market," a student in the program told "Globes," "Anyone looking for work in the field needs to relocate abroad, or to go for a Ph.D. in Norway or Texas.

About half of the program's lecturers are from abroad, because it is difficult to find suitable lecturers in Israel. One of them is Prof. Ove Gudmestad, an expert in developing offshore gas fields from Norway's University of Stavanger, which offers doctoral scholarships for the program's graduates. "It is important that your government have people who can understand what the foreign companies that are drilling in your country are proposing," said Prof. Gudmestad

*The government can hire a foreign consultancy company to oversee the developers.
"True, but would it put Israel's national interests first, or its own business interests?"*

Norway's first oil and gas fields were discovered in the 1960s by a US company, but the Norwegians insisted on developing an independent oil and gas industry, and established a government company called Statoil, which did the drilling. Former Statoil employees then established dozens of companies specializing in technical services for the oil and gas industry. The sector today employs a quarter of a million people, according to the Norwegian Oil and Gas Association.

Israel's gas fields are operated by US based [Noble Energy Inc.](#) (NYSE:[NBL](#)). Its Israeli partners, [Delek Group Ltd.](#) (TASE:[DLEKG](#)), Ratio Oil Exploration (1992) LP (TASE:[RATIL](#)), and others, are essentially financial investors. An Israeli drilling company would provide jobs for hundreds of workers in various areas of oil and gas production. An initiative to create such a company came about a year ago, from businessman Shlomi Fogel, who acquired [GeoGlobal Resources Inc.](#) (AMEX:[GGR](#)) Israel's operations, which was involved in the failed drillings at the Myra and Sarah wells. The deal was contingent upon the Ministry of National Infrastructures Petroleum Commissioner giving the company an operating license for drilling. The company's staff was based on former Noble Energy employees, who had drilled in more than 30 locations in Israel's waters and discovered, among other things, the Tamar, Leviathan, Dalit, and Karish fields. Fogel and his partners proposed insuring the company against risks and accidents, and brought examples of young US companies that started from scratch and relied on venture capital and skilled workers. But the commissioner, Alexander Varshavsky, said he did not have the professional capacity to check the experience of the company's workers, and rejected the request on grounds of insufficient drilling experience.

"With the Ministry of Infrastructure's methods, there will never be an Israeli company," say industry sources in Israel. "It is no problem to buy an experienced company - it only costs a few hundreds of millions of dollars, and even then there is no guarantee there won't be disasters. It is cheaper to buy good regulators abroad who know how to perform proper risk analyses. At the end of the day, the question is simple: what is the government's plan for building an industry in Israel?"

Ministry of National Infrastructures: “We support professional training”

The Ministry of National Infrastructures said: “The ministry has been giving stipends over the past two years to undergraduate, graduate, and doctoral students, and supports training programs for engineers in the field of natural gas at Tel-Hai Academic College and at the Technological College of Be'er Sheva.” Regarding the rejection of Shlomi Fogel’s request, the ministry said: “The ministry requirements for a licensed operator, with extensive experience as a field operator and the required operations for production, are essential in order to preserve a stable, high level of professionalism, which allows for the long-term development of the oil and natural gas fields.”

Published by Globes, on February 26, 2014

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Israel must build energy services industry

Israel can copy Norway in using gas revenues to develop an energy industry.

How much added value has been created for the Israeli economy by the huge investments in the Tamar and Leviathan gas fields beyond lowering energy prices and tax revenues? This question must be asked now before development of the Leviathan field gets underway.

Woodside signs Leviathan deal

To mark the signing of the Memorandum of Understanding with Australia's [Woodside Petroleum Ltd.](#) (ASX:WPL), [Delek Group Ltd.](#) (TASE:DLEKG) controlling shareholder Yitzhak Tshuva repeated the stately tone that he reserves for such special occasions. While Delek Energy senior executives Gideon Tadmor and Yossi Abu focused on the contribution of Woodside to the Israeli economy and its gas and oil exploration sector, Tshuva chose to talk about Woodside's contribution to the Israeli economy, and the "tens of billions" that will be invested in Israel in the coming years.

However, on this point a far-reaching change of approach is required. It is the government's duty to ensure that Israeli companies and professionals will win the biggest possible share of the more than NIS 20 billion that Woodside and its partners will invest here in the coming few years.

Israel can produce much more from its gas than tax and royalty revenues. As with the sovereign wealth fund, so Norway can serve as an example. The country of just 4.5 million citizens took advantage of the oil that was discovered in the North Sea to train up a skilled work force specializing in working alongside the international companies that implemented the deep sea drilling.

Within 20 years, Norway grew from nothing to a full gas and oil service industry. This comprises hundreds of companies that have developed expertise in fields such as drilling engineering, building infrastructures and rigs, planning projects and more. This is an export-led industry that can continue to flourish long after Norway's gas and oil fields are empty. The number of jobs

added to Norway's economy is estimated in the tens of thousands and that energy services industry already generates more added value than the drilling and production itself.

Taxi drivers and helicopter pilots

[Noble Energy Inc.](#) (NYSE:[NBL](#)), the operator of the Tamar well, which came on-stream in 2013, is proud of the fact that most of the workers employed on its production and conveyance installations are Israeli. Noble and its partners like to remind us that development of Tamar was the largest infrastructure project ever undertaken in Israel - valued at \$3.5 billion. But how many of these billions are destined for the pockets of Israeli entrepreneurs, companies and professionals? We haven't managed to get an answer to this question.

Israeli companies specializing in gas and oil services have not been established following the gas discoveries. The main people who have profited from the billionaires who have invested here so far have been the "small time" service providers as happens in third world countries, such as taxi drivers, helicopter pilots and port services providers. Serious companies that asked to take part in the development of Tamar knew that the address for their requests was not in Israel but in Houston, Texas in the US where Noble Energy is headquartered.

Woodside continues to work hard to maintain a very low profile in Israel. A team of six employees headed by vice president Greg Mogan is in Israel and has been looking for offices for several months and has even yet to hire a media consultant. Woodside promises that after the final agreement is signed, they will dramatically expand their activities. Woodside, in contrast to Noble Energy, is talking about hiring Israeli engineers and acquiring knowhow and technology from Israeli companies.

Published by Globes, on February 9, 2014

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The Technion in Haifa will sign a cooperation agreement with the Department of Petroleum Engineering at Stavanger University.

The Technion Israel Institute of Technology in Haifa will sign a cooperation agreement with the Department of Petroleum Engineering at Norway's University of Stavanger to train Israeli engineers in the oil industry and services. The University of Stavanger has already signed the agreement, which will also offer scholarships to Israeli doctoral students to study petroleum engineering. The scholarships, amounting to \$75,000 a year per student, will be used to finance studies and living expenses in Stavanger.

Norwegian-Israeli Chamber of Commerce chairman Aharon (Orni) Izakson told "Globes" that Israel and Norway were examining an idea under which veteran Norwegian petroleum engineers would help train skilled workers in Israel. Most of the employees in Israel's natural gas drilling and production industry are not Israelis, and until recently, there was no program to teach the skills in Israel.

Izakson added that Israel and Norway have recently grown closer in the energy and other fields. This warming has been seen since the swearing in, in October, of Norway's new government, which rejects any boycott of Israel. The center-right government is headed by Prime Minister Erna Solberg of the Conservative Party with the Progress Party.

Published by Globes, on January 26, 2014

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Long delay seen in Jerusalem natural gas pipeline

National Gas Lines has failed to reach an agreement with Petroleum & Energy Infrastructures on the sharing of financing for the project.

The hook-up of Jerusalem to the national natural gas pipeline is liable to be delayed for years, because of a financial dispute between the two government companies responsible for the country's oil and gas pipeline. Sources inform "Globes" that Israel National Gas Lines Ltd., which is responsible for hooking up the capital to the gas pipeline network, has initiated procedures to change the pipeline's route, after it failed to reach an agreement with Petroleum & Energy Infrastructures Ltd. on the sharing of financing for the project.

Among other things, Petroleum & Energy Infrastructures wants Israel National Gas Lines to build it a new fuel pipeline to replace the 1973 pipeline for it.

Unless a solution is found to the dispute, hooking up Jerusalem to the natural gas pipeline network could be delayed for years, because changing the pipeline's route involved protected planning and approval procedures, and is liable to cause objections and demands for compensation by parties at interest along the alternative route.

The dispute involves the pipeline's final 35-kilometer route, which was originally due to be built by the end of 2015. Israel National Gas Lines is due to lay 17 kilometers of the pipeline between Mesilot Zion and Jerusalem's southwest neighborhoods. The problem is an 11-kilometer section with difficult topography in the Burma Road area, where, in 1973, Petroleum & Energy Infrastructures, laid a pipeline to carry fuel from the Gilot depot to Jerusalem. Israel National Gas Lines wants to build the gas pipeline along this route, but because of the topography, it cannot lay the pipeline next to the existing pipeline, which is the usual practice. Former Ministry of National Infrastructures director general Shaul Tzemach rejected a proposal to close the existing pipeline.

Because Israel National Gas Lines feared that construction work of the new pipeline was liable to damage the existing pipeline, Tzemach decided that Israel National Gas Lines would cover up to NIS 10 million of the upgrade costs, and that the two companies would equally share any additional costs. However, the Natural Gas Commissioner, who oversees Israel National Gas Lines, refuses to recognize the company's expenses for the upgrade.

Israel National Gas Lines is also exposed to claims for compensation from Pi Glilot, a subsidiary of Delek Group Ltd. (TASE:DLEKG) unit Delek Israel Fuel Corporation, which receives fuel from the pipeline. Petroleum & Energy Infrastructures wants the pipeline's problematic section to be replaced, on the grounds that the pipeline is old and work on laying a pipeline is underway anyway.

Israel National Gas Lines says in response, "Due to the dispute with Petroleum & Energy Infrastructures, with regard to the route of the gas pipeline, the company is examining alternative plans. The company is also seeking a change in the national outline plan for the locations in dispute.

Petroleum & Energy Infrastructures says in response, "Following the meeting of May 14, 2012 by the Ministry of Energy and Water Resources director general on the matter of the fuel pipeline to Jerusalem, the company has sought for full implementation of the director general's decision, in coordination with Israel National Gas Lines. Petroleum & Energy Infrastructures will continue to operate on the basis of the agreement of the ministry's director general.

Natural gas industry sources say that the natural gas pipeline to Jerusalem is under construction between Yesodot and Mesilat Zion, so there should be no real delay in the timetable. There are also questions about the project's worthwhileness, because no one has been found to assume responsibility for building and operating the natural gas distribution network to industries and households in Jerusalem.

Published by Globes, on January 12, 2014

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On February 25-26, 2014, 350 leaders in the newly emerging Israeli gas sector had the opportunity to attend the first of its kind Gas-Tech Conference. The conference was organized by CS Israel in collaboration with the Israel Company Tashtiot Media and the Australian Embassy. This two-day conference created excellent opportunities for Israeli companies, regulators and educational institutions to learn about the skills necessary to work in this industry, and for American training providers to market their services to a dynamic new market. The first day of the conference highlighted specific skills-training needs within the Israeli gas industry, while the second day focused on workplace safety training. The conference was opened by SCO Maria Andrews and the Australian Ambassador to Israel, Mr. Dave Sharma, and on day two by the Israel Minister of Infrastructure, Energy & Water Resources, Mr. Silvan Shalom.

[Watch a great summarized video here!](#)



OFFSHORE DEVELOPMENT

Leviathan partners, gov't argue over lease

The government wants the right to restrict gas exports in favor of the domestic market.

The partners in the Leviathan gas field and the Ministry of National Infrastructures disagree over the terms of the lease that the government is offering them. The negotiations are entering the critical stage on the lease, which regulate the developers' rights and duties to the stage during the field's 30-40 year lifespan.

The agreement's first draft was sent to the Leviathan partners on Sunday, and they have serious reservations. [Noble Energy Inc.](#) (NYSE:[NBL](#)), [Delek Group Ltd.](#) (TASE:[DLEKG](#)), and Ratio Oil Exploration (1992) LP (TASE:[RATIL](#)) are mainly worried about the Ministry of National Infrastructures' demand to allow the Petroleum Commission to restrict natural gas exports, if the gas is needed for the domestic market.

Sources inform "Globes" that the Ministry of National Infrastructures' legal adviser, Adv. Drora Lifshitz made the demand. The Leviathan partners say that this clause in the lease will make it very hard for them to sign long-term gas supply contracts with foreign customers. Earlier this year, the Egyptian government took a similar step to restrict gas exports by foreign companies operating in the country, in favor of the domestic market. The restriction exposes the government to \$6 billion in claims by the foreign companies that export gas.

The Ministry of National Infrastructures also wants to reserve the Petroleum Commissioner's wide-ranging rights to determine natural gas pipelines, in order to guarantee redundancy and allow other gas producers to hook up to the infrastructure. The Leviathan partners say that adapting the infrastructure to other suppliers will add hundreds of millions of dollars in construction costs, and they are insisting that the government participate in the added cost, or at least provide guarantees for the raising of the additional capital.

The Leviathan partners intend to invest an initial \$4.6 billion in the gas field's development, including construction of a floating production, storage and offloading (FPSO) ship with a 16-billion cubic meter (BCM) annual capacity for the domestic market and possible customers in Cyprus, Egypt, Jordan, and Turkey. The draft lease also includes a "local content" clause requiring the Leviathan partners to give work to Israeli companies. This will greatly help establish a domestic oil and gas services industry. The Leviathan partners intend to invest \$10 billion in the coming years in developing the gas field, including switching from the FPSO to a floating liquefied natural gas (FLNG) facility for exporting gas to Asia.

The partners in Leviathan and the government are due to sign the lease agreement within days, because the companies' current rights expire on March 20. The partners want to sign the final farm-in agreement with [Woodside Petroleum Ltd.](#) (ASX:[WPL](#)) on March 27. That said, the current rights can be extended by several months and the signing date with Woodside is not binding.

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Offshore gas platforms vulnerable to attack

State Comptroller: Government foot-dragging means the IDF can only provide partial protection.

Israel's offshore natural gas facilities in the Mediterranean are inadequately protected and vulnerable to attacks by hostile countries and terrorist organizations, says State Comptroller Joseph Shapira in a report on the Ministry of Defense. He found that delays in decision-making by the National Security Council, the Ministry of Defense, and the IDF have left the platforms only partly protected, despite the acknowledgement of their huge economic potential.

Shapira warned that an attack on gas facilities is liable to have significant economic and strategic consequences to Israel, and even deters foreign companies from operating in the country, greatly disrupting life in Israel.

"The reality in which Israel's economy and international standing are improving in the gas production industry, and the economy's growing dependence on the gas supply, make the gas facilities targets of attacks by hostile countries and terrorist organizations," warns Shapira. "Hezbollah has made explicit threats to attack Israel's gas platforms. Threats against the Tamar production platform and the Yam Tethys platform which contain combustible gas and complex machinery, which are close to the Gaza Strip and not far from shore, are diverse and should be prepared for."

Staff work on a defense plan for the gas facilities by the National Security Council, the Ministry of Defense, the Israel Navy, and others is characterized by foot-dragging, says Shapira. National Security Council began its staff work on the subject in late 2010 and submitted proposals to the security cabinet in April 2013. The plan includes protecting Israel's exclusive economic zone, timetables for the procurement of equipment, and the necessary budgets. The security cabinet only discussed the matter in September 2013, and gave the IDF the mission two months later.



Shapira says that the IDF lacks the means to adequately defend the facilities. He says that even as the staff work dragged on, the IDF tried to move forward. In October 2012, then-Deputy Chief of Staff Major General Yair Naveh warned then National Security Council chairman Yaakov Amidror, "We're entering the Israel project on the back foot."

The gas facilities are protected by private security companies which mostly use veterans of combat units. Shapira found that the platforms have not yet been declared "critical enterprises" during an emergency, which means that the security guards are liable to be called up for reserve IDF duty, even though threats to the facilities will be heightened during an emergency.

The Ministry of the Economy is responsible for classifying "critical enterprises", but it told Shapira that the Ministry of National Infrastructures has not requested the designation. The Prime Minister's Office told Shapira that the IDF is responsible for protecting the facilities, and that it will use its discretion whether to call up the facilities' security guards during an emergency. "This decision should not be put at the IDF's door, because it is not responsible for the facilities' security," said Shapira.

The Ministry of Defense said, "When the government decision was made, the ministry acted to execute the procurement of ships for the navy and other equipment under a very short timetable."

The IDF spokesman said, "As part of the staff work, the cabinet was shown a defense concept and plan to carry out this mission. The designated system will include field ships, ships for routine operations, and unmanned vessels, intelligence gathering, and more. Pursuant to the cabinet decision, the Navy is carrying out its mission using the means available and carries out patrols in the defense space defined for it."

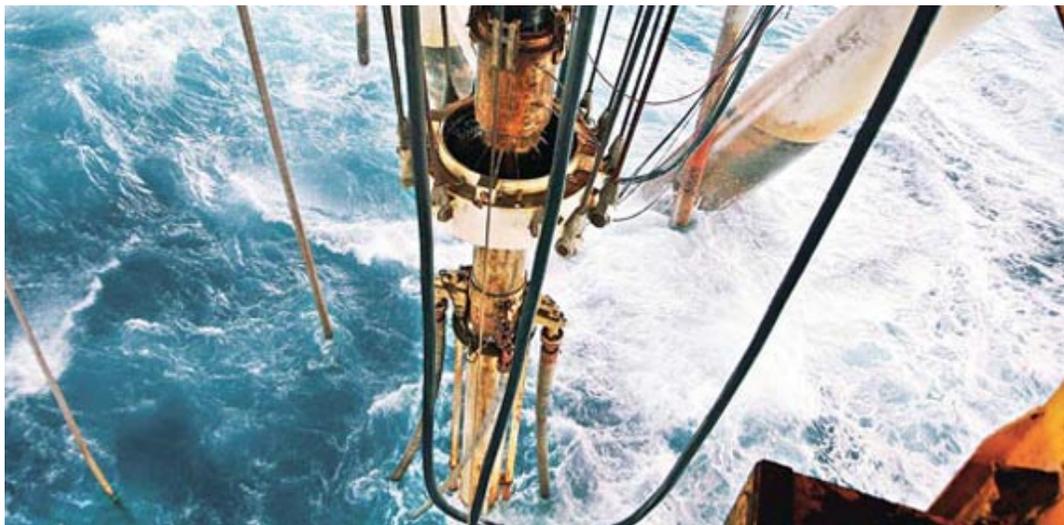
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Edison in talks to buy Israeli gas fields - report

"Reuters" reports that the Italian energy giant is in talks to buy Noble and Delek's stakes in the Karish and Tanin fields.

Italian energy giant Edison S.p.A (BIT: EDN) is in talks to buy the Karish and Tanin gas fields from [Noble Energy Inc.](#) (NYSE:NBL) [Delek Group Ltd.](#) (TASE:DLEKG), two sources with knowledge of the negotiations told "Reuters." The two fields are estimated to hold up to 70 billion cubic meters of natural gas.



Regulator reaches deal with Delek and Noble Energy

Noble and Delek, which are developing the far larger Leviathan and Tamar gas fields, are expected to be forced to sell their stakes in Karish and Tanin to avoid being declared a cartel by Israel Antitrust Authority. "Reuters" said that Edison was not immediately available for comment.

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Gas exploration cos: Industry faces standstill

Objective problems have prevented licensees from drilling exploratory wells.

In letters to Minister of Finance Yair Lapid and Minister of National Infrastructures Silvan Shalom, Israel Oil and Gas Exploration Industries chairman Uri Aldubi warns that objective problems have prevented licensees from drilling the exploratory wells they promised in their work plans submitted to the Ministry of National Infrastructures under the terms of their licenses.

Aldubi says that the common factor in exploration companies' failure to begin drilling on time was the difficulty in finding foreign drilling companies that meet the ministry's threshold conditions. The exploration companies have also been affected by the uncertainty caused by the government's delay in establishing a natural gas export policy. Most exploration licenses are held by small limited partnerships for which the licenses are their main asset.

"Many companies in the industry are liable to wind up their activity, which could drastically reduce the number of companies in the business, leaving only a very small number of companies," says Aldubi.

Licenses due to expire in the coming months include Hof Ashkelon, Myra, Sarah, Ishai, Gabriella, Yitzhak, Yam Hadera, Shemen, Daniel West, Daniel East, Oz, and Arie.

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Ratio eyes stake in Sarah, Myra licenses

In late 2012, the licensees announced that the two wells were dry holes.

Ratio Oil Exploration (1992) LP (TASE:[RATI.L](#)), which owns 15% of Leviathan, today notified the Tel Aviv Stock Exchange (TASE) that it was in preliminary talks with some of the partners in the Myra and Sarah licenses, with a view of becoming a partner in the licenses.

Ratio did not mention with which licensees it was in talks, saying only, "At this stage there is no certainty if or when the negotiations will result in a binding agreement, and/or what the final structure of a deal will be."

The main licensees in Myra and Sarah are Israel Land Development Company Energy Ltd. (TASE:[IE](#)), controlled by Ofer Nimrodi, and Modiin Energy LP (TASE:[MDIN.L](#)), controlled by Tzahi Sultan.

In early September 2012, the Myra and Sarah licensees announced that the Myra well to the natural gas targets "found no significant signs of gas" in the target strata. In late October 2012, they announced that the Sarah well was also a dry hole.

After the failures of the wells, the licensees said that they had a report by Netherland Sewell & Associates Ltd. (NSAI), which estimated the prospective resources in the two licenses. In a notice to the TASE, the licensees said that NSAI had reviewed the results of the wells and found that the prospective natural gas resources at Sarah and the prospective oil resources at Myra and Sarah were unchanged.

Published by Globes, on February 2, 2014

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Delek, Noble Energy to sell Alon A and C licenses

The regulators will not allow the Karish and Tanin discoveries to be separated from the licenses.

Sources inform "Globes" that the antitrust settlement with [Delek Group Ltd.](#) (TASE:[DLEKG](#)) and [Noble Energy Inc.](#) (NYSE:[NBL](#)) has been expanded to the sale of the Alon A and Alon C licenses, where the Karish and Tanin gas fields are located, and not just the gas fields. The companies and the [Antitrust Authority](#) agreed to the sale of licenses in their latest talks.

Regulator: I can't remove Delek from Leviathan

Antitrust Authority director general David Gilo originally demanded only the sale of the gas fields, which would allow Delek and Noble Energy to continue oil and gas exploration in the rest of the licenses' area. However, Petroleum Commissioner Alexander Varshavsky objected to the agreement, arguing that the gas fields could not be separated from the license area.

Delek and Noble Energy have therefore apparently agreed to sell the rights to the licenses in full, and in the future, if new discoveries are made in the licenses' area, they will be eligible for royalties on oil and gas sales from these discoveries.

[Avner Oil and Gas LP](#) (TASE:[AVNR.L](#)) CEO Gideon Tadmor told the Knesset Economic Affairs Committee today that Delek Group had invested NIS 700 million to discover the Karish and Tanin fields, which together have 58 billion cubic meters (BCM) of natural gas.

Rebutting charges that Delek was involved in a cartel, Tadmor said, "We acquired Leviathan with the full knowledge of all government agencies and with their permission. Had we not acquired Leviathan, this debate would not exist because there would simply be no gas. Our sole sin was to discover gas. As far as we're concerned, the settlement proposed by Antitrust Authority director is difficult and problematic, but we'll accept it if only to remove the uncertainty over Leviathan's development."

Published by Globes, on January 30, 2014

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"We need independent player with 70 BCM gas"

Antitrust Authority chief David Gilo: If Delek and Noble don't meet conditions for competition, I'll fight in court to take away Leviathan.

Antitrust Authority director general David Gilo mentioned the negotiations with the partners in the Leviathan natural gas field over his options and attempts to create competition out of nothing in the natural gas market, and the problems that competition and the economy are liable to face because of the years of legal hearings on the matter. He was speaking at the agency's annual conference this morning,



David Gilo, Antitrust Authority Director General

"The objective is for the economy to soon benefit from competition and not be at the mercy of a monopoly. The competition that we're now demanding in the talks with Delek Group Ltd. (TASE:DLEKG) and Noble Energy Inc. (NYSE:NBL), without the need for protracted legal hearings, is for an independent player with at least 70 billion cubic meters (BCM) of gas, and the high probability of finding relevant fields that will give it an additional 26.6 BCM," said Gilo. He made it clear that if Delek and Noble Energy do not meet these conditions for competition, he is prepared to fight them in court to take Leviathan from them, in order to at last achieve some competition in the long term.

"Paralleling this effort, we prepared in time the infrastructure for bringing in a new competitor. We've limited the existing gas partnerships so that the competitor we're creating will be able to compete for customers in the market, including Israel Electric Corporation (IEC) (TASE:ELEC.B22). Our vision in this market is an integrated effort that includes the creation of competition in the short term on one hand with intervention in the existing gas partners' contracts on the other hand, so that the customers will benefit from this competition and not be shackled to the existing gas partnerships."

As for the electricity market, Gilo said, "We're very worried about the incentive and ability of IEC and its employees to prevent independent power producers to compete against it in electricity generation through IEC's control of the electricity grid. We're dealing with the need to find the limits between the freedom for workers to unionize and a situation in which the workers of a monopoly use a tool ostensibly for a labor dispute in order to consolidate the position of the monopoly they work for."

He said, "We're simultaneously dealing with a number of cases in which indictments have been filed with the Jerusalem District Court. And the next challenge of the Antitrust Authority's legal department is to persuade the court to increase the penalties for antitrust violations."

"The court has already said that the proper penalty for an antitrust violation is imprisonment. This was the ruling in the Tnuva Food Industries Ltd. case, in which former President of the

Supreme Court Dorit Beinisch said that imprisonment was fitting, rather than community service, for antitrust violations, in addition to a hefty fine. These are fighting words, but penalties in Israel are still lower than penalties in other countries. In the US, the average penalty for cartel violations is 25 months in jail," said Gilo.

"The creation of a cartel is like theft. The consumer has the right to a competitive price, so when several firms fix prices and create a cartel, it is even worse than theft from an individual, because with price fixing, the companies are picking the pockets of all consumers in the country and taking their money. That is why we think that the courts should treat them severely."

Commenting on the Antitrust Authority's past year, Gilo said, "This was a year with a lot of work and a year in which many new challenges emerged. On our agenda is the creation of competition in natural gas and increasing competition at the ports and in the credit card market."

Among the other challenges in the coming year, Gilo mentioned his handling of the price gouging of consumers. "In the coming year, I expect more financial penalties against companies which cannot be handled through criminal proceedings."

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WOODSIDE

Woodside CEO visiting Israel Wednesday

Peter Coleman is making a lightning visit to discuss differences over tax rates, with the Leviathan deal in the balance

[Woodside Petroleum Ltd.](#) (ASX:[WPL](#)) CEO Peter Coleman is flying out to Israel for a lightning visit to discuss the natural gas export taxation issue. During his visit tomorrow (Wednesday) he will meet senior officials at the Prime Minister's Office and other ministries. A committee headed by Ministry of Finance director general Yael Andorn is this week due to submit recommendations on the topic of taxation for natural gas exports to Prime Minister Benjamin Netanyahu.



As revealed by "Globes," the Ministry of Finance is expected to recommend a higher taxation rate on gas exports than the Australian company is seeking. Woodside has warned that the issue

could scupper the talks for it to buy a 25% stake in the Leviathan field for \$2.71 billion. The deal is supposed to be signed on March 27 at a ceremony in Jerusalem.

The imminent recommendations on taxation will fill the vacuum left by the Sheshinski Committee, which did not discuss the matter in detail but merely said that tax on surplus profits would be between 20-50%, according to a "transfer price" that reflected the domestic price for natural gas. The Andorn Committee was appointed by the government last July to consider tax on exports, so that the minister of finance could recommend rules for taxing gas exports to the government.

Some of the Leviathan gas will be exported to Asia through long-term contracts and via Floating Liquid Natural Gas (FLNG) installations. Woodside is a leading specialist in FLNG projects.

"Globes" recently reported that Woodside presented its position to Minister of Finance Yair Lapid that the taxation on a FLNG project like Leviathan should reflect returns of 17-19%. The Ministry of Finance recommends a possible ceiling of returns on taxation of 17% and a floor of 5-6%. The Ministry of Finance insists that a midstream FLNG venture should reflect returns at a relatively low risk.

Published by Globes, on March 11, 2014

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Treasury undaunted by Woodside tax demands

The Finance Ministry will propose levying a higher tax on gas exports than Woodside wants, endangering the Leviathan deal.

The [Ministry of Finance](#) will recommend to the government to levy a higher export tax on gas exports than demanded by Australia's [Woodside Petroleum Ltd.](#) (ASX:[WPL](#)). On Sunday, Woodside CEO Peter Coleman warned that it might withdraw from the Leviathan deal if no solution was found to the tax issue. Sources inform "Globes" that Woodside expects a tax of 17-19% on the capital invested in the venture, but the gas exports tax committee appointed by Minister of Finance Yair Lapid will recommend recognizing lower yield rates than Woodside wants.

Woodside CEO: Leviathan deal not certain

Given the strategic importance of the matter, the committee's recommendations will be submitted to Prime Minister Benjamin Netanyahu in a few days, before they are submitted to the cabinet. This means that Woodside can still hope that Netanyahu will intervene in its favor. After the cabinet decides on the matter, the process to amend the necessary legislation will take a few months, but will not delay closing the Leviathan deal.

The gas exports tax committee, chaired by Ministry of Finance director general Yael Andorn, will submit its recommendations in a few days to Minister of Finance Yair Lapid, who was authorized by the cabinet in June 2013 to draw up rules on the matter. The current law, which is based on the Sheshinski Committee recommendations, states that to calculate the tax on gas export deals, the government will set the price at which a gas field owner will sell the gas to the operator of the export facilities.

A maximum tax rate of 60% will be levied on the difference between this price, known as the "transfer price", and the transaction price, under the Israel Petroleum Profit Tax Law (5771-2011), which was enacted on the basis of the work by the committee chaired by Prof. Eytan Sheshinski. This law resulted in a major arbitrage gap between the tax levied on gas field owners (up to 60%) and the tax levied on gas exporters, which only pay the companies tax (currently 26.5%). The Ministry of Finance warns that this large differential in the tax rates opens the door to creative tax planning to roll profits from the gas field companies to the exporters. The ministry warns that the treasury could lose tens of billions in tax revenues as a result.

Closing the tax loophole

The Andorn Committee was appointed to close the tax loophole. It examined prevailing tax methods in other countries, and as first reported by "Globes" in January, it opted for the netback method. Under this method, the normative netback on investment for each export deal is based on the price of gas in the target market, less the set-up and operating costs of the gas transportation infrastructures.

To prevent gas field owners from selling gas at very low prices (to evade taxes), the Andorn Committee has established a mechanism to guarantee that the price of gas in export contracts will not be less than the accepted price in Israel. This mechanism will levy a surtax on gas field owners which declare that they sold gas for less than the floor price in Israel, which is the average weighted price in gas supply contracts with Israeli customers in the preceding years.

The proposed netback method includes a number of variables that can affect the final tax rate. The variable at the model's core is the accepted profit margin (or normative yield) in transactions of this kind. There is an inverse relationship between the height of the normative yield set by the committee and the taxable profit.

On this point, the gas field owners argue that the normative return should not be uniform. They argue that there are material differences between different gas export ventures relative to the risk/reward ratio from which the yield is derived. A floating liquefied natural gas (FLNG) venture requires much higher upfront capital investments than a pipeline export venture, which means that an FLNG venture should have a higher normative yield. This is an acute point for Woodside, which is investing in Leviathan precisely to export gas via FLNG.

In Sunday's interview with "The Australian", Coleman warned that the deal to acquire 25% of the rights in Leviathan for \$2.71 billion could collapse. The sources said that Woodside has approached Lapid on this matter, claiming that the standard normative yield on FLNG ventures is 17-19%.

However, the Andorn Committee the accepted normative yield on gas export ventures is 5-6% to 17-18%. The Ministry of Finance is convinced that gas exporters, because they belong to the

midstream part of the industry, have far lower risk than the gas exploration companies, which in the upstream part of the industry, because in the export stage there is already considerable certainty about the quantity of gas and the production potential.

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Woodside signs Leviathan deal

The Australian company will buy a 25% stake in the Israeli gas field for \$2.7 billion.

Australia's Woodside Petroleum Ltd. (ASX:WPL) has agreed a memorandum of understanding (MOU) to join the Leviathan field. The protracted negotiations were affected by the drawn-out regulatory developments in Israel.

Woodside to pay more for smaller Leviathan stake

After the deal is completed, Woodside will hold 25% of the rights of the Leviathan field for a payment and commitment to royalties worth \$2.71 billion, giving the field a value of \$10.8 billion. Also agreed as part of the deal is that the partners will be paid a special "bonus" from any revenue that Woodside will receive from the sale of oil (if discovered) and if the natural gas reserves in the field rise above 20 trillion cubic feet (TCF).

The MOU gives Woodside exclusive rights to continue talks and complete the details of the deal by March 27.

After Woodside joins the partnership, Delek Group Ltd. (TASE:DLEKG) energy exploration units Avner Oil and Gas LP (TASE:AVNR.L) and Delek Drilling Limited Partnership (TASE:DEDR.L) will each own 16.93% of the rights in the field, Noble Energy Inc. (NYSE:NBL) will hold 30%, Woodside 25%, and Ratio Oil Exploration (1992) LP (TASE:RATIL) 11.12%.

Woodside has agreed to increase its initial payment to the existing Leviathan partners to \$850 million from the \$696 million specified in the initial letter of intent. A further \$350 million will be payable when the investment decision is made to develop the field, which will cost an estimated \$8 billion, and another \$350 million will be payable when exports of gas from the field commence. Altogether, Woodside will pay the other partners \$1.35 billion in the course of gas exports from Leviathan. It has also undertaken to pay a 2.5% royalty to the partners on sales of oil, if oil is discovered beneath the gas reservoir. Exploratory drilling for oil is due to begin the second half of this year.

One of the issues that delayed completion of the negotiations on the deal was Delek Group's demand that Woodside should recognize other options for exporting gas from Leviathan besides LNG (liquefied natural gas). Woodside, whose expertise lies in LNG, will operate the gas liquefaction project, but at the same time the Leviathan partners are conducting negotiations to

sell gas via pipeline to customers in Turkey, Egypt and Jordan, and have already signed an agreement for the sale of gas to the Palestinian Authority.

The initial terms being negotiated in December 2012 were a 30% stake for up to \$2.3 billion. Macquarie Equities analyst Adrian Wood commented to Reuters, "From a Woodside perspective it's clearly not good news. You're paying more to get less. And strategically this is no longer such a strong fit because it's less LNG, which is what Woodside wanted.

"The Israeli government is looking to use its new found resource wealth to exercise foreign policy. That's a potential risk for the joint venturers that maybe this becomes a political weapon rather than a return-generating development," Wood added.

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Australia's Woodside set to sign Leviathan deal

Sources inform "Globes," Woodside will pay \$3 billion for its stake in the Israeli gas field.

Sources inform "Globes" that the huge deal whereby Australia's [Woodside Petroleum Ltd.](#) (ASX:[WPL](#)) is to buy a major stake in the Leviathan gas field offshore from Israel will be signed next week. The deal is expected to be signed during a visit by senior managers of [Delek Group Ltd.](#) (TASE:[DLEKG](#)), Ratio Oil Exploration (1992) LP (TASE:[RATIL](#)) and Noble Energy to Australia. The group is due to leave Israel Saturday night.

According to information that has reached "Globes", the deal will be worth \$3 billion, valuing the Leviathan field at over \$9 billion. The partners in Leviathan declined to comment to this information or to provide any details of the deal and its value.

Under the original terms of the deal agreed in December, Woodside was to have paid just \$2.5 billion.

One of the matters still delaying the final signing of the deal is the question of taxation. There remains a gap between the position of the Israel Tax Authority, which seeks to collect capital gains tax on the deal as soon as it is signed, and the position of the Leviathan partners, which seek a deferment of the tax payment, on the grounds that the entire consideration for the sale of the rights will be invested in developing the reserve.

There will apparently have to be further discussions on the subject between the Leviathan partners and Woodside, and the Tax Authority.

A number of other matters remain open, but the deal should be signed next week.

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