S&P Global
Platts

INTERVIEW: Energean paves way for East Mediterranean gas monetization

HIGHLIGHTS

Building own gas infrastructure, can contribute to more: CEO

Sees EastMed pipeline as key for marketing of region's gas

Eyes closure of 'transformational' Edison E&P acquisition

London — UK-based Energean Oil & Gas -- which is building a portfolio of mostly gas-focused Mediterranean assets -- is keen to support the realization of more projects to monetize the region's vast gas resources, its CEO Mathios Rigas said in an interview.

Energean plans to start production from its major gas field complex offshore Israel in the first half of 2021, but is set to become a significant regional producer before that with the acquisition of Italy's Edison E&P, which it hopes to close in the first half of this year.

Rigas, while reflecting on the technical and geopolitical challenges of the East Mediterranean in particular, said independents such as Energean had a key role to play in accelerating developments and pushing forward key infrastructure projects.

"The East Mediterranean is a very challenging place to do business because of two things -- lack of infrastructure and geopolitics," Rigas said in the interview in London.

Energean, he said, was helping resolve the first problem by building its own infrastructure, while the company is able to "navigate" around the second thanks to its understanding of the region's cultures.

The company is installing a dedicated 8 Bcm/year floating production, storage and offloading (FPSO) vessel to sit on top of its Karish gas field offshore Israel.

A pipeline will connect the FPSO to Israel where Energean has already contracted for 5 Bcm/year of sales with local customers, plus 1.3 Bcm/year in contingent contracts.

"All our gas is sold under fixed-price, long-term gas contracts, so we're not affected by the oil price or by spot LNG prices," Rigas said.

"In today's market where people are panicking that spot gas prices are low, we are not affected. We have our long-term contracts with credible buyers and we're there for the long run. So we've protected our downside," he said.

The advantage of the FPSO, Rigas added, is that Energean can tie back any new discoveries into the vessel, keeping costs down.

"There will undoubtedly be a lot more gas discoveries in the East Mediterranean -- in Israel, Cyprus, Egypt, Lebanon, Greece -- everywhere," he said.

Export options

Rigas said that while Energean was happy to be a regional gas supplier, it would like to see the realization of the 10 Bcm/year EastMed pipeline to Greece -- a potentially key route for East Mediterranean gas to access the European market.

Energean in January agreed a provisional deal with Greek utility DEPA to send 2 Bcm/year of gas from its Israeli fields via the EastMed pipeline to Greece.

"My position is this: We are there, we have committed to use the pipeline, we have committed to send gas to DEPA, and DEPA has committed to buy gas from us," Rigas said.

"If the promoters of the pipeline and the governments decide to build it, we will use it. If not, we will find another route," he said.

The project received a boost in January when the governments of Israel, Cyprus and Greece signed an intergovernmental agreement to support the 1,900 km pipeline, which is estimated to cost some $6 billion-$7 billion.

"It is very challenging technically, but from what I hear from the promoters, it is doable. Someone has to put [up] the money. Without the money projects don't happen. That's the big challenge for the project," Rigas said.

"We will support it because we want an export route. If it happens, our gas will be landing on the shores of Europe. If not, we'll continue to sell to the local domestic Israeli market," he said.

3rd floor, Accurist House, 44 Baker Street, London W1U 7AL, United Kingdom
Tel:+44(0)2036557200
www.energean.com

Although near-term economics for the EastMed pipeline may look challenging, Rigas said it was essential to consider a long-term view of the gas market and compare the pipeline to a long-term LNG export project.

"If you base a 30-year pipeline project on the spot market of today it doesn't work. You have to compare it with a long-term LNG solution," Rigas said.

Another option for monetizing gas from the East Mediterranean is as LNG. Already, Cyprus has agreed to send gas from its Aphrodite field to Egypt for liquefaction and export.

The US' Noble Energy -- operator of the giant Leviathan and Tamar fields offshore Israel -- has also flagged the idea of a floating LNG facility to export surplus gas.

Rigas said Energean would be happy to contribute gas to such a project. "If somebody wants to take the risk, we would be very happy to commit our gas at a very competitive price," he said.

A speculative FLNG project -- developed on the hope that the LNG price will rise in the future -- is not for Energean, however.

"FLNG adds a lot of costs to the price, and you have to compete with LNG from the US, which is onshore and already built, and you have to compete with Russian gas which is a lot lower cost," he said.

"So the economics of an FLNG project today are not that obvious because of where prices are. It would need a strong offtaker that has a view about long-term LNG prices to underpin the output," he said.

"We are an upstream player, we are not a trader. So yes, we would be very happy to team up with anyone and make the project more viable," he said.

While remaining disciplined with regard to how the company will grow, Rigas said Energean was firmly focused on closing its $750 million acquisition of Edison E&P.

"Our number one priority is to close Edison and to integrate the business," Rigas said.

The deal hit a not unexpected obstacle in late 2019 when Algeria signaled it would block the sale of Edison E&P's business there to Energean. Edison E&P holds an 11% stake in the Reggane Nord gas project, which started production in December 2017.

It followed a similar move by Algiers earlier in the year when it blocked the sale of Anadarko's Algerian assets to France's Total.

"We always knew Algeria is a tough place to do business. But Algeria today is sending a very negative message to the market," Rigas said.

"Energean is investing $2 billion in the Mediterranean today. We'd be very happy to do more in Algeria -- and I think Algeria would benefit from having an operator like us. They need operators that are committed to the country. We'd be happy to be more than just a participant in the Reggane Nord field and do a lot more in Algeria," he said.

Future plans

Rigas said Energean hoped to make more gas finds in the East Mediterranean and is drilling more wells offshore Israel and Egypt in 2020.

By 2021, Energean hopes to be producing 130,000 b/d of oil equivalent, of which 80% will be gas underpinned by long-term contracts.

Focusing more on gas helps Energean also to commit to reducing its carbon emissions. In December, it said it would be a net zero emissions company by 2050, the first London-listed E&P company to make the commitment. Executive pay will also now be linked to ESG.

Rigas said Energean did not need to make any more acquisitions, unless they are as "lucrative" as its deals so far -- buying the Greek oil field Prinos for Eur1 million ($1.13 million), buying the Karish licenses for $40 million and acquiring Edison E&P. "Otherwise we will grow organically," he said.

Nor would Energean be distracted from its core strategy of developing Mediterranean gas assets. "I have my golden rule -- we only do business in countries that I can fly to in three hours from Athens," Rigas said.

"These are the areas that I know. I understand the blocks and the above-surface issues as well."

Energean would also be happy to join the exploration drive offshore Cyprus, but Rigas said to date the Cypriot government was focused on bringing oil majors -- such as Total, Eni and ExxonMobil -- into the country.

Cyprus has made three gas discoveries to date -- the first being Aphrodite in 2011 -- but has not been able to monetize them, and still burns diesel for power generation.

Energean has offered to build a $350 million gas pipeline to Cyprus -- using its own money -- to supply gas from its Karish North field to the island in the power sector.

"We're happy to make the investment on the back of contracts we've already signed with IPPs [independent power producers] in Cyprus," Rigas said.

"We have a well-defined project that has clear benefits to all the stakeholders," he said.

So far, Cyprus has said it does not need the pipeline as it plans to install a floating LNG import terminal in 2021. It is also set to award a long-term supply contract for LNG -- in effect creating a single-supply market.

"Cyprus insists that they want to create a monopoly situation, which amazes me," Rigas said. "In 2020, where everybody is opening up to competition, Cyprus is doing the opposite. They want to lock down the country for 10 years," he said.

Rigas said Energean could have a role to play in monetizing Cyprus's gas resources. "We can take those discoveries and do exactly what we did with Israel and develop them at a much faster pace," he said.

"Independents like us are fast movers, and we're a lot more flexible and nimble when it comes to developments."