

Globes (Gina Cohen & Miki Korner) - More of the same, will not lead to a different outcome – 6.8.2018



“Why does the committee expect that doing the same thing will lead to different results?” This rhetoric question was our first reaction after the inter-ministerial committee published its interim recommendations on natural gas policies.



The committee describes how “they had expected that there would be significant exploration and development” in the 5 years since the government passed its previous decision in June 2013: **not even one** well was drilled, and this compared to **19** wells drilled in the 5 years prior to 2013. Moreover, they state “that even those licenses that were awarded to companies have not been drilled”. In addition, no new entities with intention to drill have entered the exploration market.

The committee analyzed the situation in Israel, and concluded (as all agree) that without sufficient demand, no further exploration would take place, that the duty to connect new fields to the local market in addition to the 1,000 bcm which will be connected to Israel by 2021 (Israel consumes currently +/-11 bcm a year) “would dampen the interest of investors to explore and develop new fields, would harm competition and block new investment in the sector”. The committee went further and carried out a benchmark of countries with similar characteristics to Israel and found that “these countries decided not to limit leaseholders ability to export gas and that exports were needed to achieve security of supply in the Israeli market”. And yet, they recommended totally the opposite.

Anyone who just reads the introduction rather than the full committee’s report, could be forgiven if he reached the conclusion that the team recommended that new discoveries in

the forthcoming 5 years until the next re-assessment, would not have **any** restrictions imposed on them (no local supply or local connection requirements) and that the government would support the increase of local gas consumption and build adequate infrastructure.

But ‘lo and behold’, no, their recommendation is that any field above 50 bcm has to be connected to the local market and more strenuously that every field above 25 bcm has to sell gas to Israel (meaning spending billions of shekels for extra infrastructure).

Local market - The report then delves into the volume of gas available to the local market on an hourly basis, stating that supplies become tight by 2033 (!). First, it only takes 3-4 years to develop a new field in Israel, or expand existing ones. The report has also mistakes in the basic data, including underestimating both the hourly volume of gas available as of 2021 (Tamar, Leviathan, Karish, LNG) and the volume of gas in short-term storage in the pipeline (linepack) which provides an ideal solution to any hourly/daily deficiency that might occur. The committee thus recommends to enact policies for the next 5 years that are both technically erroneous and irrelevant for what might occur in 15 years’ time.

Consumption forecast - Elaborating on the demand side of the equation, the committee’s main forecast scenario is that demand in Israel will only be 14.1 bcm/year in 2025. In fact, all 8 scenarios considered in the report are much lower than any of the business sector’s forecasts, signaling to the market that the government see things differently.

This is a double whammy in that it’s a self-fulfilling prophecy in that transmission pipelines to supply greater quantities to the market will thus not be constructed, and because it shows that the Minister of Energy’s policies that coal will be reduced and totally phased-out by 2030 and that transportation will all convert to gas and or gas-generated electricity are not taken seriously by the regulators.

Export market - On the other hand, the report talks about “it being best to encourage export of gas in the next decade when demand for gas in the local market is relatively low”, but provides no incentives or assistance to achieve this.

New policies needed to achieve a better outcome

After the failure of the last licensing round in November 2017, the Minister of Energy stated that they would learn what needs to be done differently. The report talks about our neighbors doing drilling operations, and although the committee does not mention Lebanon, even this country has attracted majors such as Total, Eni and Novatek.

Although the government is well aware that its policies have failed to encourage further exploration, and although the committee acknowledges that its objective is to promote development, the committee sadly lacks the courage to admit that it is the policies that

have led to past disappointments and fails to take the only logical step, namely to propose the new policies that are required to achieve a different result.

Instead they have at best made fringe changes - not necessarily an improvement - in the conditions required (a new field of 75 bcm has to preserve 20 bcm for the local market compared to 18.75 bcm for old fields and new fields of 150 bcm have to preserve 55 bcm for the local market compared to 60 bcm for old fields) or more of the same (obligations to connect and supply to the local market, which is now totally glutted, the Petroleum Commissioner having a say in certain characteristics of the export contracts).

The report is only the interim recommendations, and we hope that the final government decision will reflect the cataclysmic changes that need to occur for exploration and development to happen: in the very least, the new policies need to foster demand on the local market, encourage infrastructure construction, remove any restrictions on exports of new discoveries for the next 5 years, and provide government to government backup to overcome geopolitical impediments, and streamline all the processes.

Under the proposed restrictions and limitations and in light of the very pessimistic gas demand forecast, it would seem that the implementation of the committee's conclusions will not encourage the construction of infrastructure and the development of the natural gas market in Israel, it will restrict exports and will prevent new oil and gas exploration in Israel.