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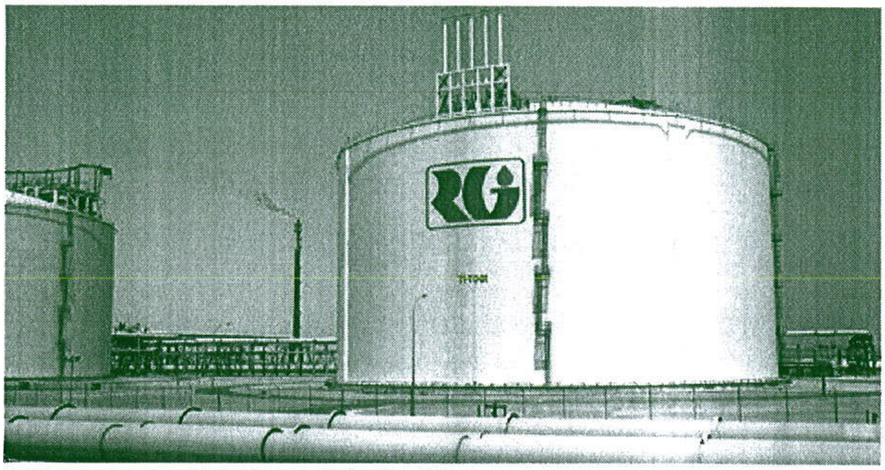
RasGas still grappling with Barzan problems

Verity Ratcliffe / Dubai

Technical issues are set to further delay the startup of Qatar's Barzan gas project, but reduced demand may be also be a factor.



RasGas is working to bring the Barzan project online. (PA)

RASGAS IS STILL working to resolve technical issues at the Barzan gas project in Qatar, which will continue to delay its startup.

ExxonMobil, one of the partners in the project, expects Barzan to come online in the third or fourth quarter of the year, Siamak Adibi, senior consultant for Middle East gas at London-based FGE, said at the 25th Middle East Petroleum & Gas Conference in Dubai on Tuesday. Barzan will be commissioned in November, according to a *Reuters* report citing sources close to the project.

Barzan, a joint venture between Qatar Petroleum and Exxon, was announced in 2011 with the startup planned for 2014.

After repeated delays, RasGas indicated in September 2016 that the project's first phase would start producing in November 2016. However, a leak in a subsea gas pipeline postponed the startup once again.

"There are some serious technical problems with corrosion," one IOC source said on the sidelines of the conference. "It's not something that will be solved easily."

The unexpected complications in the project's development and resulting delays have increased overall costs. Barzan was originally presented as an $8.6 billion project before costs were revised up to $10.3 billion in 2016. RasGas is yet to update the figure in light of its latest challenges.

While rising development costs between 2011 and 2014 could account for some of the increase, lower costs after global oil prices fell should have mitigated the impact.

Billed as 'the largest single-site gas producer in the world' by an agency hired by RasGas to promote Barzan, the delayed startup of the project has hit available gas supplies for domestic users. Barzan's gas was intended to meet rising demand from Qatar's power plants, desalination units and industrial sector.

However, domestic gas demand has not risen as sharply as expected and this may have affected the Barzan project.

Howard Rogers, chairman of Oxford Institute for Energy Studies' Natural Gas Research Programme and senior research fellow, said Barzan's late startup may be partly intentional. Rogers suggested a JV blessed with Exxon's ability to overcome development challenges would otherwise have prevailed by now.

"The problem with projects like Barzan being developed for domestic consumption is that, if domestic consumption doesn't rise as fast as you expected, you [might be tempted to] delay the project," said Rogers. "Barzan is not really urgent because Qatar is facing a surplus of gas supply," said Adibi.

Lower unmet global demand for petrochemicals may have curbed Qatar's urgency in resolving hurdles facing Barzan's startup. The dynamics of the petrochemicals sector will determine whether future phases of Barzan go ahead, said Rogers. Representatives from Qatar Petroleum, Exxon and RasGas could not be reached for comment.

Export potential

But while Barzan's gas was intended for domestic use, it could be rerouted for export, particularly now Qatar has lifted its self-imposed moratorium on new gas development at the North Field. "That gas creates new opportunities," said Adibi at the conference. "It could be sent through the Dolphin pipeline to UAE or Oman, or [used] for debottlenecking [Qatar's] LNG."

The moratorium on the North Field was lifted in April. Qatar may start producing an extra 57 million cubic metres per day in the next five-to-seven years, said Saad al-Kaabi, Qatar Petroleum's chief executive, in April. This could be produced on top of additional output from Barzan.

Qatar should be able to undercut LNG exports from projects in other countries with its additional output. Assuming condensate production can match the levels expected for Barzan, and a cost of $700 per mtpa for liquefaction, Rogers estimates a new Qatari LNG plant would have a breakeven price of $5.2/MMBtu. If the condensate levels from the new production match those seen at previous Qatari gas developments, the breakeven price would be $2/MMBtu, he said.

"The LNG industry has been a story of boom and bust. We're just about to get into the next boom of volume, but the situation [will] change quite quickly in the 2020s," said Rogers. "Qatar is thinking about the early-to-mid 2020s when the world needs some new LNG again, and it would like to have a fair share of that. Unfortunately, nobody has an accurate view of how big that next wave of LNG needs to be."

While the lifting of the moratorium on the North Field will increase Qatari gas production only by around 11%, its impact on the global LNG market could be large. "What [Qatar is] doing is exactly the right thing – making a big noise to put off all the others that are not quite as cost-competitive," said Rogers.

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