



## **Cyprus Oil & Gas Update 5**

This is our firm's fifth Cyprus Oil & Gas Update. We are looking to keep practitioners specializing, or working from time to time, in oil & gas matters informed as to developments in the Cyprus oil & gas sector.

### ***The First and Second Licensing Rounds***

As mentioned in previous Cyprus Oil & Gas Updates, the First and Second Licensing Rounds have resulted in the following awards in the exclusive economic zone (“**EEZ**”) of the Republic of Cyprus: (1) Noble Energy being awarded Block 12, (2) Total being awarded Blocks 10 and 11, and (3) a consortium of ENI (operator – 80%) and KOGAS (20%) being awarded blocks 2, 3 and 9 (with Block 9 being estimated to be the richest in natural gas in the EEZ). In relation to awarding any of the remaining seven (out of thirteen) blocks, the Council of Ministers of the Republic of Cyprus has decided in May to grant an extension for any awards until December 2013.

### ***Developments in Relation to Block 12***

#### ***Noble Energy Transfers/Assigns 30% of its Rights in Block 12***

In February 2013, Noble Energy transferred/assigned 30% of its rights in Block 12 (which is the only block awarded in the First Licensing Round), under the relevant production sharing contact (“**PSC**”), to Israel's Delek Drilling and Anver Oil and Gas Exploration, which are both subsidiaries of Delek Energy Systems Ltd. Noble Energy now holds 70% of the rights under the

PSC and the other two companies hold 15% each. The Cyprus government, in order to grant its consent for such transfer/assignment, demanded unlimited guarantees by the parent company to ensure compliance with all obligations under the PSC.

### *Second Appraisal Drilling in Block 12*

The drilling of a second appraisal well in Block 12 has started in June 2013, aiming to ascertain the size and quality of the relevant gas field, which is estimated to contain 5-8 trillion cubic feet of natural gas. The drilling is expected to last three to four months and it is hoped that the appraisal work programme will finish in the third quarter of 2014. The Cyprus government hopes, if it all goes well, that the first quantities of natural gas from Block 12 will be delivered to Cyprus by the third quarter of 2018 and that they will have first exports of LNG from Block 12 by the end of 2019 (see below).

### ***Cyprus Signs a MoU with Noble Energy, Delek Drilling and Anver Oil and Gas Exploration***

In late June, the Cyprus government signed a memorandum of understanding with Noble Energy, Delek Drilling and Anver Oil and Gas Exploration (i.e. the parties to the PSC for Block 12) regarding the construction of an LNG facility. The proposed facility is expected to cost around USD\$ 6bn, it will be located at the southern coastal industrial site of Vasilikos and will constitute the biggest single investment in the island's history. The LNG facility will initially process natural gas from Block 12 into LNG for export and delivery to international markets, but it will also have the ability to expand to accommodate additional natural gas discovered in other blocks in the EEZ of Cyprus as well as natural gas from neighbouring countries such as Lebanon and Israel. The final agreement regarding the construction of the LNG facility needs to be signed by 31<sup>st</sup> December 2013. It is estimated that by the end of 2019, Cyprus will be in a position to deliver LNG from the facility to international markets.

### ***Short-term Supply of Natural Gas to Cyprus***

Cyprus does not currently use any natural gas for energy production. Natural gas from the EEZ of Cyprus will not be available at least until the third quarter of 2018, which means that Cyprus, if it is to use any natural gas any time soon, has to import it. The Natural Gas Public Company (“**NGPC**”), a state owned company which will be the sole importer and distributor of natural gas

in Cyprus, once Cyprus is able to import natural gas, has in 2012 announced the commencement of the procedure for the expression of interest for a short term supply of natural gas. The expression of interest concerned the potential of supply of natural gas for a period of approximately five years and the target date for the first delivery of natural gas in Cyprus is the 1<sup>st</sup> of January 2015. The NGPC initially received 17 applications from interested parties and after several stages in the process three proposals proceeded to the final stage. The final decision of the NGPC as to the successful applicant has yet to be announced.

*We will revert with any further updates in due course. In the meantime, if you have any related questions/queries please do not hesitate to contact us.*