Hong Kong seeks LNG as FSRU plans advance

HONG KONG IS moving ahead with plans to start importing LNG in 2020 as the scheme for its maiden import facility takes shape.

Local company CLP Power, which is leading the development of a planned FSRU scheme, has asked for proposals for a vessel to supply two gas-fired power plants. The project is part of a drive to reduce dependence on coal-fired generation.

An environmental study for the project – known as the Hong Kong Offshore LNG Terminal – is well under way and approval is expected by early 2018 with an FID following shortly after. “Preparations for the commercial arrangements for LNG supply are also under way,” a spokesperson for CLP told Interfax Natural Gas Daily.

The utility has not publicly given any estimates of how much LNG it will import as it has yet to finalise the charter for the FSRU and imported volumes will depend on the future economics of LNG versus piped gas. “I’m assuming the FSRU will have the capability of handling at least 3 mtpa, and I wouldn’t be surprised if CLP were to go for one capable of handling as much as 5 mtpa to secure maximum flexibility,” Tony Regan, managing director of Singapore-based consultancy Data Fusion, told Interfax Natural Gas Daily.

Market sources said CLP has shortlisted three LNG producers to supply 1.4 mtpa starting from 2020 for a term of 10-15 years. Based on the initial LNG import volumes “the electricity provider is probably looking to fuel some 1.0-1.5 GW of power generation”, added one industry source.

Gas demand to double by 2030

Hong Kong’s gas demand is driven by the power sector and is forecast to reach 5 billion cubic metres in 2017. Demand is expected to double by 2030, however, creating room for more imports either through pipelines or via the proposed FSRU, Miaoru Huang, senior consulting manager for China gas and LNG at Wood Mackenzie, told Interfax Natural Gas Daily.

Hong Kong has no indigenous energy resources, meaning it must import all of its energy needs. CLP receives pipeline gas from Chinese NOCs China National Offshore Oil Corp. and PetroChina while the territory’s other power company, Hong Kong Electric, takes regasified LNG from the Dapeng terminal in Shenzhen province via pipeline.

“The FSRU project will not only enable Hong Kong to have direct access to the international market for gas supplies at competitive prices and enhance the city’s bargaining power for natural gas purchases, but also improve Hong Kong’s energy security with diversified sources of natural gas,” said CLP.

In 2015, 25% of Hong Kong’s electricity was imported from Guangdong province, 27% came from local gas power generation and 48% was derived from local coal power plants.

Regional strategy

The move towards LNG is consistent with the regional government’s medium-term strategy of boosting gas-for-power generation and diversifying away from pipeline gas, as well as closing coal-fired power plants and reducing
CONTINUED FROM PAGE 1

carbon emissions. LNG imports will help Hong Kong achieve its target of improving air quality by curbing coal use, with most of the city’s coal-fired power plants due to be retired within the next decade.

CLP said the FSRU project will help the Hong Kong government achieve its target of boosting local gas-fired power generation to around 50% of the fuel mix in 2020. Gas made up around 26% of CLP’s generation mix in 2016, while coal and nuclear power comprised about 41% and 32% respectively.

While CLP is leading the FSRU project, the facility will be shared with fellow utility HK Electric. Gas made up 34% of HK Electric’s fuel mix in 2016, with the remaining 66% coming from coal.

To hit the government’s target, CLP will install a new 550 MW combined-cycle gas turbine at its Black Point Power Station. The unit will raise gas-fired power generation to 49% of CLP’s fuel mix when it starts up in 2020. HK Electric is adding two new gas-fired combined-cycle units at its Lamma power station. They will add a combined 730 MW of capacity and boost the share of gas to around 55% of the utility’s total output by 2022.

We welcome your comments. Email us at comments@interfax.co.uk.

Energy front-month futures, 29 September

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Prices provided by GlobalView. GlobalView provides benchmark pricing, news and analytics for the commodities and energy sector. For more information, please contact sales.london@marketview.com.

On interfaxenergy.com

Brazil faces pre-salt growing pains

Brazil theoretically needs around 150 MMcm/d of extra pipeline capacity over the next 12 years to keep pace with pre-salt output growth.
CESEC countries pledge to boost power infrastructure

A NUMBER OF countries in Central and Southeastern Europe have pledged to boost investment in electricity infrastructure to strengthen security of supply in both gas and power.

Seventeen countries in the EU-backed Central and South-Eastern European Energy Connectivity (CESEC) group signed a memorandum of understanding (MOU) in Bucharest on Thursday to boost interconnectivity and exploit the potential for renewables and energy efficiency.

The CESEC group was established after the cancellation of the South Stream pipeline project, when the focus moved from megaprojects to small-scale infrastructure and cross-border market integration. The region has traditionally shown vulnerability in its energy security – particularly in gas – but addressing gas in isolation makes “no sense”, the European Commission said in a statement after the meeting.

“Given its rapid accomplishments in the field of gas, we are expanding the scope of the [CESEC] cooperation in the region to electricity, renewables and energy efficiency. It will therefore cover all dimensions of this project of European solidarity that is [the] Energy Union,” Maroš Šefčovič, the commission’s vice president for Energy Union, said after the meeting.

Examples of CESEC priority projects include increasing cross-border power transmission capacity between Bulgaria, Romania and Greece, and along the East-West corridor from Italy to Romania via the Balkans. Other priority projects include new electricity connections between Hungary and Serbia, and new-build infrastructure supporting the integration of the power systems of Ukraine and Moldova into the European electricity market.

The countries also agreed to make an assessment of the renewable energy potential in the region by 2030 and 2050. Central and Southeastern Europe has high potential for renewable and hydropower development, which could help address the issue of how to replace its ageing lignite power plants.

“There has been an underinvestment in energy infrastructure in the CESEC region since the 1990s as countries tend to look at energy from a national perspective. Regulated prices for households also mean that there have been few private investors involved over the last 20 years. Energy poverty remains a big issue in many of the countries,” Christian Egenhofer, senior research fellow and director at Brussels-based thinktank CEPS, told Interfax Natural Gas Daily. “Many of the CESEC countries have excess power capacity, but these are old assets such as lignite power plants,” he added.

Reducing Russian supplies

Over the past few years, CESEC has taken steps towards establishing a regional gas market with less dependence on Russian supplies. For example, the interconnection between Bulgaria and Romania was completed in 2016 and will reach its maximum capacity by the end of 2019, when Phase 1 of the EU-backed Bulgaria-Romania-Hungary-Austria (BRUA) pipeline corridor is expected to be completed on Romanian soil. BRUA received a €179 million grant from the EU under the Connecting Europe Facility (CEF).

Moreover, an MOU was signed between Croatia and Hungary in June this year on reverse flows, which could enable LNG deliveries from Croatia’s EU-backed Krk terminal to reach Hungary in the medium term and increase diversification options in the region. The Croatian terminal received a €102 million ($210 million) grant from the EU under the CEF. However, it is uncertain how many projects in the CESEC region will materialise, and many obstacles to investment remain. Energy is politically sensitive because many of the countries in the region subsidise household energy prices.

“There is big political will and big capital has been spent by the European Commission. However, the situation on the ground is murky. For example, not all regulators and [transmission system operators] are sufficiently independent from their respective governments,” said Egenhofer.

The meeting in Bucharest was attended by ministers from nine EU member states: Austria, Bulgaria, Greece, Croatia, Hungary, Italy, Romania, Slovenia and Slovakia. Eight members of the Energy Community also attended: FYR Macedonia, Serbia, Ukraine, Albania, Bosnia and Herzegovina, Montenegro, Kosovo and Moldova.

We welcome your comments. Email us at comments@interfax.co.uk.
Ukraine must clean up its act to attract Western players

UKRAINE NEEDS TO find a way to curb the power of its oligarchs before presenting itself as a suitable destination for Western explorers.

Speaking at the European Gas Summit in Rotterdam on Wednesday, Yuriy Vitrenko, chief commercial officer of Ukraine’s state oil and gas player Naftogaz Ukrainy, restated the country’s intention to increase domestic gas production from its current level of 20 billion cubic metres per year to 27 bcm/y by 2020.

Naftogaz wants to see the additional 7 bcm coming from private – preferably Western – players. Vitrenko told delegates that attracting Western players would help Ukraine to “clean up the mess” and reduce corruption.

The executive made the same speech at the Flame gas conference in Amsterdam in May, but developments in the interim meant the words rang hollow second time around.

A second shareholder revolt in 18 months at JKX, a UK-listed explorer attempting to drill in Ukraine, illustrates the operational risk prevalent in the Eastern European nation.

Both revolts were spearheaded by two of Ukraine’s richest men: Igor Kolomoisky and Gennadiy Bogolyubov, the cofounders of PrivatBank. Kolomoisky, in particular, has a reputation as a corporate raider and is viewed as kryptonite by banks.

The revolts were the culmination of a protracted squabble between the oligarchs and senior management at JKX, with the board fighting in vain to maintain control of the company.

The second revolt, at the end of June, saw the company’s then-chief executive, Tom Reed, and chief financial officer removed from the board, even though they had been appointed only 18 months before. The remaining Western board members decided to leave soon after.

Private investors are allowed to buy as many shares as they like in any sort of listed company operating in the country, so it’s not easy to exclude individuals such as Kolomoisky from the game. Even if they were excluded by law, it is unclear if that would act as much of a deterrent. Anyone familiar with the strong-arm tactics of Kolomoisky would be left with the distinct impression that this is not the type of man who fears regulation.

Clamping down on oligarchs is an unlikely path for Ukraine’s president, Petro Poroshenko, mainly because he is one of them. Clearly, meaningful action will require a change in the guard and for a leader to emerge from outside the post-Communist political landscape.

If this were to happen, then a new president could start to pursue as many oligarchs as possible on corruption-related charges, with the main aim being to recoup a decent chunk of their ill-gotten gains. With the oligarchs out of the way, Ukraine can set a clear path towards a robust democracy.

Only then, when Western companies can be sure the oligarchs are being brought to heel and that the risk of being strong-armed out of a business has been eradicated, will interest levels start to rise. Until that point, Vitrenko’s wishes are unlikely to be granted.

We welcome your comments. Email us at comments@interfax.co.uk.

Further reading

🔗 FSU MARKETS
Ukraine eyes gas exports from 2020
Ukraine will be able to export gas to Europe from 2020 thanks to an increase in production and energy efficiency, Naftogaz says.

🔗 FSU MARKETS
Ukraine turns to Slovakia to diversify supplies
Slovakia’s plans to increase exports to Ukraine will provide it with commercial opportunities while diversifying Ukraine’s supply.
India boosts gas price to relief of producers

Andrew Walker / London

India has set its price for gas at $2.89/MMBtu for the next six months under its pricing formula, which was introduced in late 2014. It is the first time that gas prices have increased under the formula. This is expected to help companies that have been struggling to make a profit on the production and sale of gas.

The ceiling price for gas produced from discoveries in deepwater, ultra-deepwater and high-pressure, high-temperature fields was raised to $6.30/MMBtu – an increase of 13% on the previous six-month period.

The gas price for the domestic market was $2.49/MMBtu over the past six months, which has been too low to encourage new exploration, according to major investors such as Oil and Natural Gas Corp. New Delhi is encouraging domestic gas production as it seeks to limit its reliance on energy imports. Companies previously called for a floor price of $4.20/MMBtu. With domestic production unable to meet demand, India has become increasingly reliant on imported LNG in recent years.

The country is expanding its import capacity with new terminals under construction in Mundra, Jaigarh and Ennore. However, India will need to ensure that the pipeline infrastructure is in place to connect these terminals to demand centres to ensure all the terminals can operate at capacity.

India is importing LNG from an increasingly diverse range of countries and reducing its heavy reliance on Qatar. Petronet LNG, the state importer, recently renegotiated a contact with ExxonMobil to lower the cost of the LNG it is purchasing from the Gorgon project and agreed to import another 1 mtpa from the plant. Australia is emerging as the third-largest supplier to India behind Qatar and Nigeria.
End of CTG switching may puncture China’s gas growth

Colin Shek / Shanghai

China’s gas use may be booming under the drive to improve air quality by switching away from coal, but the market should be prepared for demand growth to ebb once this key growth contributor is tapped out, experts have told Interfax Natural Gas Daily.

Intense coal-to-gas (CTG) fuel switching in the industrial sector and rural households helped Chinese gas consumption surge by 17.8% year on year in the first eight months of 2017, to 150.1 billion cubic metres. Gas use in August alone rose by 30.4%, the highest increase in 19 months, as stronger policy backing for CTG substitution helped gas distributors such as China Gas Holdings boost sales.

Consumption growth will not sustain this momentum once CTG switching has run its course, however, according to an industry expert with a government thinktank in Beijing. This has implications for the global LNG market as Chinese LNG imports – up by 44% year on year in the first eight months of 2017 – could slacken once CTG switching begins to fade.

CTG switching was never expected to be a long-term driver of Chinese gas demand, but the question is how much demand will flatten after its impact has faded and how the market and industry players should prepare for slower growth, said an analyst at an industry consultancy in Shandong province.

An analyst at China National Petroleum Corp. said consumption growth would remain robust for decades while China undergoes its era-defining shift from economic expansion at any cost to cleaner and more sustainable growth.

Gas-to-power and transport have been touted as potential growth drivers for gas demand in China, but gas-fired power generation is still hobbled by weak economics while transport faces policy and technical obstacles, said the expert in Beijing.

Subsidies are unsustainable

Government subsidies to encourage conversion to gas for heating are unsustainable, according to the expert. To promote switching from coal to gas for household heating in northern China, the central government has earmarked annual funding of RMB 1 billion ($150 million) for Beijing and Tianjin, RMB 700 million for four provincial capitals, and RMB 500 million for 22 prefecture-level cities over the next three years, Bernstein analyst Neil Beveridge wrote in a report last week.

In Hebei province, home to six of the 10 smoggiest cities in China from January to August, rural homeowners switching to gas can receive subsidies of up to RMB 4,000 for the connection fee and up to RMB 2,700 towards the purchase of gas appliances. They are also eligible for a RMB 1.0 per cubic metre subsidy for winter heating for three years, capped at RMB 1,200 annually.

The government of Hebei aims to convert 6 million coal-burning rural households to gas or electricity by 2020. If 3 million are converted and they each consume 1,000-1,200 cubic metres per year, this would add 3.0-3.6 bcm/y of new gas demand. But Hebei could also expect to pay RMB 3.0-3.6 billion in purchasing subsidies and some RMB 8.1 billion in connection subsidies.

Most of the subsidy policies will last until 2020; after that, local governments will be less motivated to incentivise CTG switching, according to the Beijing expert.

Strong policy backing this year for greater gas use in place of coal has seen gas distributors strike a slew of agreements to assist local governments in switching. China Gas, one of the country’s biggest distributors, said on 20 September it had signed clean energy strategic cooperation framework agreements with 10 northern cities – including Baoding, Langfang, Tianjin and Taiyuan, all of which suffer from chronic smog.

The company added that it had contracts to convert 2.1 million households from coal to gas in rural parts of northern China and had completed connection work for 600,000 – equal to 75% of its target of 800,000 for the financial year ending March 2018.

Four days later, China Gas said it would switch around 2 million households in Shandong from coal to gas by 2020 and supply at least 2 bcm/y of gas to the province by the same year.
Bolivia-Argentina export tango continues

Chris Noon / Barcelona

BOLIVIAN STATE-RUN YPFB appears to have under-exported gas to Argentina in August and September, according to state agency Enarsa, which oversees Argentina’s gas imports.

ARGENTINE IMPORTS OF BOLIVIAN GAS, 2017

The contract between Bolivia and Argentina stipulates minimum exports of 20.3 million cubic metres per day (MMcm/d) from 1 May until 30 September. However, the deficit appeared to be around 100 thousand cubic metres per day (Mcm/d) in August and widened to around 500 Mcm/d in the first three weeks of September.

YPFB’s daily export volume statistics have not been available since mid-May. At the time of publication, neither Enarsa nor YPFB had returned calls seeking comment.

Friction between La Paz and Buenos Aires hit exports in May, with Bolivian President Evo Morales saying Argentine authorities had demanded less gas. Buenos Aires denied the claims. La Paz was allegedly unhappy with Argentina’s deal with Chile to import 276 MMcm of gas between 1 June and 31 August.

ARGENTINE LNG IMPORTS, SEP-OCT

Argentina plans to import 12 LNG cargoes in September and October, according to the latest Enarsa statistics. Eight of the cargoes will be delivered to Argentina’s Escobar terminal, which is on the Paraná River about 50 km outside Buenos Aires, while the other four will go to the larger Bahia Blanca terminal, which is southwest of Buenos Aires province.

The average price of the cargoes will be $5.82/MMBtu. Singaporean commodities giant Trafigura will charter four of the 12 cargoes.
Africa | LNG
Schlumberger and Subsea 7 win Fortuna FLNG construction contract
The upstream construction contract for Equatorial Guinea’s 2.2 mpta Fortuna FLNG project has been awarded to Integration Alliance, a joint venture between Subsea 7 and Schlumberger subsidiary OneSubsea. The contract covers EPC, installation and commissioning, Ophir announced in an emailed statement. The Fortuna project is expected to reach FID before the end of the year after the decision was delayed from H1 2017. Fortuna is being developed by Ophir and OneLNG, a JV between Schlumberger and Golar LNG. Gunvor has been awarded the offtake contract for the project.

Asia Pacific | Gas to Power
South Korean utilities call for gas price cuts
South Korea’s power generators have called on the government to lower the cost of gas because it is currently more than twice the cost of coal, according to Reuters. Seoul has plans to increase its power production by 10% by 2030, mostly using LNG and renewables. However, the high cost of gas for generators means using more of the fuel will increase the cost of power for the population.

Asia Pacific | Gas to Power
Chinese company signs deal to build gas power plant in Punjab
China Machinery Engineering Corp. signed an agreement on Friday with the government of Pakistan’s Punjab province to build a 1.26 GW gas-fired power plant in the city of Jhang, according to the Pakistan Observer. The region has experienced power shortages in recent years but the new plant should deliver enough electricity to meet its needs. The first phase of the project is expected to be completed in 14 months and will produce 810 MW of electricity, while the second phase will be competed in 26 months and boost capacity to 1.26 GW.

Asia Pacific | LNG
New FLNG vessel sets sail from Singapore
The FLNG Hilli Episeyo sailed from the Keppel shipyard in Singapore on Monday, according to a press release from Golar LNG. The vessel has been moved to a deepwater anchorage where the shipyard will carry out the final commissioning process. It is then expected to leave Singapore between 15-20 October. The vessel has been chartered for use in Cameroon to produce LNG from gas from the Kribi fields, which are operated by Perenco. The ship is expected to take 32-40 days to reach Cameroon, where the mooring system is reportedly ready for it to be hooked up.

Asia Pacific | Companies & Finance
NuEnergy signs CBM supply deal with Pertamina
NuEnergy, a subsidiary of Globaltec Formation, has signed a memorandum of understanding with Pertamina Gas to supply CBM to Pertamina for distribution to consumers in Sumatra, according to Hydrocarbons Technology. The MOU will help the companies negotiate a heads of agreement on the supply of gas and the main commercial terms of the contract. NuEnergy plans to submit a plan of development to the Indonesian Energy and Mineral Resources Ministry by the end of the year.

Asia Pacific | Markets
China may lift South China Sea exploration ban
China’s ambassador to the Philippines has said the Chinese government will lift its moratorium on oil and gas exploration in disputed areas of the South China Sea if a joint commercial development agreement can be agreed with the Philippine government, according to the Manila Bulletin. Exploration will take place only once a government-to-government understanding is in place, and both sides are still in the process of discussing the possibilities of joint development.

North America | Policy & Regulation
US energy secretary asks FERC for power plant payment plan
United States Energy Secretary Rick Perry sent a proposal to the Federal Energy Regulatory Commission (FERC) on Friday asking the agency to create a payment plan for power plants that provide “essential energy and ancillary reliability services”. The proposal was phrased in such a way...
Gas subsidy cuts forecast in Trinidad’s budget

The government of Trinidad and Tobago will present its budget for the 2017-2018 financial year on Monday. Experts are forecasting cuts to gas and power subsidies as well as a statement of the netback price assumptions to be used for the coming 12 months. The assumptions used in the 2016-2017 budget were $48-50 per barrel for oil and $2.25/MMBtu for gas, which was up from $35/bbl and $2/MMBtu for the previous fiscal year.

CONTINUED FROM PAGE 8

A sales agreement for gas produced from Venezuela’s Dragón field could be signed in “a month or two”, Franklin Khan, Trinidad and Tobago’s energy minister, was quoted as saying by Newsday. Trinidad has also signed a deal to buy gas from Dragón, which will be processed by Shell’s Hibiscus platform offshore Trinidad. These volumes will be used to feed Trinidad’s domestic market and, potentially, the flagging Atlantic LNG plant.

North America | LNG

Delfin LNG wins approval for onshore construction

The Delfin LNG project may become the first offshore export facility in the United States following approval by the Federal Energy Regulatory Commission on Thursday to construct the onshore metering, compression and pipeline facilities. The infrastructure is needed to deliver feed gas to the deepwater liquefaction facility. Project owner Fairwood Peninsular Energy has proposed mooring the liquefaction vessels, which could process up to 13 mtpa, about 65 km off the Louisiana coast. Golar LNG and Delfin signed a joint development agreement in June for the financing, marketing, construction and operation of the project. FID is planned for 2018, and the project is expected to be operational in 2021 or 2022.

Latin America | E&P

Agreement on Dragón gas could be signed in next few months

A sales agreement for gas produced from Venezuela’s Dragón field could be signed in “a month or two”, Franklin Khan, Trinidad and Tobago’s energy minister, was quoted as saying by Newsday. Trinidad has also signed a deal to buy gas from Dragón, which will be processed by Shell’s Hibiscus platform offshore Trinidad. These volumes will be used to feed Trinidad’s domestic market and, potentially, the flagging Atlantic LNG plant.

Trinidad’s Atlantic LNG plant. (Shell)