interfax
Natural Gas Daily
Vol. 6 / No. 188 / 29 September 2016

Natural gas insight and analysis
Interfax Information Services Group
interfaxenergy.com

Peru hobbled by its LNG contracts


An LNG tanker at Peru's Pampa Melchorita plant. The country is trying to reduce its exports to Mexico. (Repsol)

Chris Noon / Rio de Janeiro

PERU'S NEW GOVERNMENT is working to reduce its LNG exports to Mexico as it seeks higher-priced markets. However, Lima has limited room to manoeuvre because of existing contracts between Peru LNG, Shell and Mexico, according to experts.

Energy and Mines Minister Gonzalo Tamayo told local press last week that it was "no longer convenient" for Peru to keep exporting LNG to Mexico, and that Japan and Europe could be alternative markets.

"[It is unclear] if Shell has the right to send cargoes wherever it chooses without Peru LNG, or if the government can influence where the cargoes go," Andy Flower, an independent LNG analyst, told *Interfax Natural Gas Daily*.

Shell has a 20% equity stake in the single-train 4.45 mtpa Peru LNG plant at Pampa Melchorita and controls 100% of the offtake.

Interfax Natural Gas Daily understands the supermajor has a free-on-board (FOB) contract, meaning it theoretically owns and controls the LNG the moment it is loaded onto its vessels.

At the time of publication, Shell had not responded to calls seeking comment.

The Peruvian government may see more value in encouraging domestic gas consumption rather than exporting LNG on an FOB basis, Claudio Steuer, director of UK-based energy consultancy SyEnergy, told *Interfax Natural Gas Daily*.

The FOB arrangement exposes the government to lower tax and royalty revenues because Lima has no control over the final destination of the cargo, said Steuer.

"If LNG were exported on a delivered basis, the Peruvian government's tax and royalty revenue would benefit from the higher delivered price of the market of the LNG buyer," he added.

It is not the first time Peru has sought a better deal from its gas exports. The previous government clashed with Shell last year, accusing the company of failing to pass on royalties related to the export of seven LNG cargoes in 2014.

"It appeared from that [2014] dispute that the contract between Shell and Peru LNG provides for the FOB price being a netback from the price in the market in which the LNG is consumed," said Flower.

Mexican stand-off

The issue is complicated by Peru LNG's contract to supply Mexican state-owned utility CFE with up to 3.68 mtpa, which is just over 80% of the plant's capacity.

"Unless CFE agrees to receive gas or LNG from other sources, it is unlikely this long-term supply contract would be reduced or interrupted by the Peruvian authorities," said Steuer.

CONTINUED ON PAGE 2

Contents

CONTINUED FROM PAGE 1

CFE's LNG imports from Peru have been well short of its maximum contracted volumes in recent years. The company imported 71.5% (2.65 mt) of Peru LNG's total production in 2015 and more than 73% (3.17 mt) in 2014, according to data from state agency Perupetro.

Peru LNG has also been operating below capacity, producing 4.22 mt in 2014 and 3.70 mt in 2015. Any capacity not bought by CFE is sold on the spot market.

Cargoes exported to Mexico are sold at around 90% of Henry Hub levels. Average daily prices on the Henry Hub have fallen steadily in recent years, from $3.73/MMBtu in 2013 to $2.31/MMBtu in 2016, according to the Energy Information Administration.

Royalties slump

The fall in the Henry Hub price has hit average royalties for Peru's LNG exports, which dropped from $1.16/MMBtu in 2013 to $0.12/MMBtu in 2016, according to data from Perupetro. Total royalties paid to the Peruvian state by the country's oil and gas producers slumped by nearly 34% year on year in H1 2016, to $267.1 million.

"It is not surprising that the Peruvian government wants a price increase or the volume of LNG delivered to Mexico reduced [given the Henry Hub peg]," said Flower.

Peru LNG charges an NBP-based price for exports to Europe and a JKM-based price for Asia, but royalties from the cargoes have only a $0.05-0.10/MMBtu premium to Mexico-destined exports.

Peru has cause for optimism, as Shell recently beefed up its LNG portfolio through its acquisitions of BG Group and the bulk of Repsol's LNG assets, said Steuer.

"The potential optimisation of LNG supply to [Mexican terminal] Manzanillo from other sources of gas and LNG closer to Mexico could free incremental volumes from Peru LNG to be sold to the higher value-added markets of the Far East and South America," he said.

However, he warned that, even if Lima were successful in sanctioning additional LNG production for higher-value markets, Shell's existing FOB contract would not necessarily mean a bump in tax revenues.

"As Peru considers potential new upstream gas developments – and the Peru LNG site can accommodate two additional LNG trains – there should be plenty of room for all the parties to find a satisfactory agreement for additional LNG production and domestic gas supply," Steuer added. ■

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

Energy front-month futures

	Closing date	Close	High	Low	% change
Brent Crude, $/bbl	28 Sep	48.69	48.96	45.70	5.92
WTI Crude, $/bbl	28 Sep	47.05	47.45	44.35	5.33
Henry Hub, $/MMBtu	28 Sep	2.95	2.99	2.91	-1.47
NBP, p/th	28 Sep	36.25	37.25	35.00	3.69
TTF, €/MWh	28 Sep	13.90	14.20	13.43	4.51
Gaspool, €/MWh	28 Sep	13.95	–	–	4.49
NCG, €/MWh	28 Sep	14.25	–	–	4.01
Central Appalachian Coal, $/t	28 Sep	40.00	–	–	0.00
Newcastle Coal, $/t	28 Sep	72.60	–	–	0.97
South China Coal, $/t	28 Sep	69.65	–	–	1.02

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

Editor's choice

Chinese driller Kerui looks to tap skills demand

Demand for oil and gas professionals is growing, and Shandong Kerui is diversifying to meet the need.

A tale of two facilities in Colombia

The bear market has had stark consequences for Colombia's nascent LNG sector, with a proposed floating project dead in the water.

Trending

1. Ukraine independents call for new tax regime
2. Eni asks banks for billions for Mozambique gas project
3. H-Energy lodges complaint over unauthorised IOC pipeline
4. Reliance Power seeks higher prices for regasified LNG
5. Canada grants conditional approval for Pacific NorthWest LNG

Connect

twitter.com/interfaxenergy
facebook.com/interfaxenergy
interfaxenergy.com/rss/gasdaily

MEPs warn against excess LNG and storage capacity

Andreas Walstad / Brussels

A draft resolution adopted this week by the European Parliament's energy committee has highlighted the risk of LNG terminals and gas storage facilities becoming stranded.

An LNG carrier approaching Italy's Panigaglia terminal. Many European LNG terminals are under-utilised. (Interfax)

EUROPE'S LNG TERMINALS must be used more efficiently before new ones are built in order to avoid assets becoming stranded, a non-legislative draft resolution adopted by the European Parliament's energy committee said this week. Achieving a higher degree of cooperation and coordination between member states will be a challenge for the EU gas market, noted file rapporteur András Gyürk (EPP, Hungary).

"Completing the missing gas infrastructure is essential for maximising the use of the existing LNG terminals and gas storage. It is the only way that we can save them from becoming stranded assets", said Gyürk.

The utilisation rate of Europe's LNG terminals has been less than 20% since the start of the year, reflecting relatively weak gas demand and higher prices for LNG relative to piped gas.

The draft said EU countries with access to the sea should cooperate closely with landlocked countries to "avoid over-investment in unnecessary and uneconomic" gas infrastructure projects. Better use of west-east and north-south corridors, with improved reverse flow capacity, would increase LNG supply options, it added.

The draft also noted the current "excess capacities in European gas storage", and called for more efficient use of storage facilities to avoid assets being stranded. It suggested harmonised tariff structures across the EU could lead to a higher utilisation rate at storage sites.

Brussels is developing network codes to address the absence of harmonised tariffs among member states, but it is not clear when they will be finalised.

Concerns over Nord Stream 2

MEPs also reiterated their concerns over the planned Nord Stream 2 project on the grounds that it could have "counterproductive effects" on energy security, diversification of gas supplies and the principle of solidarity among member states.

The draft hit out against any increase in Gazprom's dominance in Europe, stating Nord Stream 2 "would give one company a dominant position on the European gas market, which should be avoided".

It added that the pipeline also raised concerns because a number of EU countries lack access to LNG as an alternative to Russian gas. The draft resolution was adopted with 33 MEPs in favour, 10 against and six abstentions. It is expected to be endorsed by parliament as a whole in a plenary session in October.

Although the resolution does not carry legislative weight, it nevertheless shows MEPs are putting the commission under increasing pressure to stop Nord Stream 2.

Politically sensitive

Nord Stream 2 would double the capacity of the existing 55 billion cubic metre per year pipeline. However, the project is politically sensitive because Brussels wants to reduce Europe's dependence on Russian gas, and because the pipeline would bypass Ukraine – which receives around $2 billion a year in transit revenues from Russian gas exports.

It remains unclear if the EU's Third Energy Package – which enforces third-party access and ownership unbundling – will apply to the offshore part of Nord Stream 2, which would run from Russia to Germany under the Baltic Sea. The commission is also assessing whether the project is compatible with EU competition law as it could increase Gazprom's market share, particularly in Germany.

However, Simone Tagliapietra, a researcher and energy fellow at thinktank Bruegel, said Nord Stream 2 was not about increasing Gazprom's market share but about Russia's increasing desire to bypass Ukraine when shipping gas to Europe.

"If the Russians were to expand their market share in Europe, they would not need additional infrastructure because they are not utilising Nord Stream 1 or other existing pipelines at full capacity," Tagliapietra told *Interfax Natural Gas Daily*. "They already have huge spare capacity. If they need to send more volumes they can do so. Nord Stream 2 is just a strategy to avoid transit through Ukraine."

Tagliapietra added that the volume of Russian gas transiting Ukraine has been declining for many years.

"Over the last decade the transit through Ukraine has been reduced after Gazprom built Yamal, Nord Stream 1 and Blue Stream. Russia never trusted Ukraine as a transit platform. Nord Stream 2 is about cutting off the transit route through Ukraine from 2020. Of course the commission is not happy about this," he added.

The expansion to the Nord Stream pipeline suffered a setback in August when Gazprom's prospective European project partners – Engie, OMV, Shell, Uniper and Wintershall – withdrew their applications to form a joint venture. Gazprom is expected to offer an update on the project's progress in October. ■

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

Paks 2 to get green light from European Commission

Dariusz Kalan / Budapest

The EU looks to have changed its mind on the expansion of Hungary's nuclear power plant despite the concerns of critics.

THE EUROPEAN COMMISSION is set to give Russia's Rosatom clearance to build two new nuclear reactors in Hungary despite previously suggesting it would try to block the project on competition grounds.

The commission launched an infringement procedure last autumn for non-compliance with public procurement law after Rosatom was awarded the contract for the Paks 2 nuclear reactors without a tender.

The commission's official decision has not been announced yet, but according to MEP Benedek Jávor (Greens, Hungary) it will be made public in two-to-three weeks.

Jávor, who has asked the commission to investigate the award of the contract for Paks 2, published a letter last Thursday from the directorate general for internal markets dated 8 August, which states "the commission does not consider it opportune to pursue the infringement procedure".

The Hungarian government said earlier this month it was expecting the commission's approval. "We assume a positive decision," Attila Aszódi, commissioner for the Paks 2 expansion, told *Reuters*. Aszódi's press office confirmed negotiations are going well but refused to comment on details before the decision is officially announced. A commission spokesperson neither confirmed nor denied the agreement, saying dialogues with member states are confidential.

The project began in January 2014, when Budapest and Russia's Rosatom agreed to build two 1.2 GW VVER 1200 reactors in central Hungary. The cost was set at €12.5 billion ($14 billion), of which 80% was to be financed by a Russian loan with a 30-year duration and the rest by Hungary. Hungary already has four Russian-built VVER 440 nuclear units with a combined capacity of 2.0 GW, accounting for 40% of the country's power consumption.

Aside from nuclear, Hungary relies heavily on imported gas, which is used in all sectors of the economy. However, a government energy strategy document released in 2011 stressed the need to develop other sources of energy, largely to reduce Hungary's exposure to the vagaries of the international gas market.

The Paks nuclear power plant in Hungary. The EU is expected to approve its expansion. (MVM)

"Gas faces also scrutiny from the EU [regarding its climate targets and the Emissions Trading System], along with coal", said Márton Ugrósdy, a research fellow at the Institute for Foreign Affairs and Trade in Budapest. "We are a flat country, so hydro is not on the list. Biomass is polluting. I do not foresee any other option for Hungary to have a reliable baseload power plant other than nuclear."

But domestic critics fear the Paks 2 deal will increase Hungary's considerable energy dependence on Russia, which already supplies 60% of Hungary's gas and 80% of its oil.

Hungarian watchdogs, including the Energiaklub thinktank and Corruption Research Centre Budapest, argue the deal will be expensive and plunge Hungary into debt. There are also environmental concerns. "Originally, Hungary had the opportunity to ship spent nuclear fuel back to Russia. This [...] disappeared from the contract. Now, Hungary needs to build a storage facility, which is both costly and environmentally risky," said Jávor.

Time to start off

It is not the first time European institutions have questioned the compatibility of Paks 2 with EU rules. Euratom refused to approve Hungary's exclusive 20-year fuel deal with Russia in March 2015, so the contract was shortened to 10 years. The commission is also investigating a proceeding brought by Austria, which has alleged the project has benefited from possibly unlawful state aid. According to two sources, the two procedures could be settled in the same package deal in mid-October.

The commission's positive reaction is expected to speed up work on Paks, which is in the early stages of design and is in the process of gaining the necessary permits, with construction yet to begin. The government is also waiting for environmental licences from the local authorities. Originally, Hungary planned to start building the reactors in 2015, but this has been postponed until 2018.

Despite the expected approval from Brussels, questions still hang over the financing of the Paks expansion. For example, given the state of the Russian economy, it is questionable if the country would be willing to provide a €10 billion loan.

State-owned Vnesheconombank, which was set up to finance projects outside Russia, is low on cash and is relying on emergency government assistance worth $20 billion to avoid bankruptcy. "Spending so huge amount of money on not a crucial [customer] is not what Russia can afford," said Ugrósdy.

Jávor suggested successful financing would depend on how high Paks sits on Russia's list of priorities. "Russia can always look for additional money by, for instance, increasing taxes. It depends on whether it finds Paks 2 an important geopolitical goal. After the annexation of Crimea, energy became part of its struggle for influence in the EU," he said. ■

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

Turkey and Iran bide time on gas price discount

James Gavin / London

The International Chamber of Commerce has called for a discount to the price Turkey pays for Iranian gas, but getting an agreement on an exact amount is taking time.

South Pars phases 6, 7, and 8. Iran has enough gas to increase supplies to Turkey. (Pars O&G)

DESPITE FREQUENT HIGH-LEVEL contacts, Turkey and Iran are struggling to agree on a new discounted price for gas supplies, almost three months after the expiry of a deadline for Iran to implement a mandated cut in its price.

The pressure is on Iran to agree the discount price, with Turkey considering cheaper alternatives from Russia and Azerbaijan. Iran has sought to defend higher prices, but the ruling by the International Chamber of Commerce (ICC) arbitration court on 2 February – stipulating a reduction of 13.3-15.8% on gas purchased from Iran by Turkey between 2011 and 2015 – has forced Iran to face hard realities.

Iran has benefited financially from the existing take-or-pay contract with Turkey's state-owned Botas on occasions when the customer has been unable to take the mandated supply volumes. Now, Iran faces financial consequences of its own if it fails to agree terms with Turkey.

Although the ICC has said Iran needs to export more gas to Turkey, it is resisting the lower price and is reluctant to pay an estimated $1 billion in backdated compensation to Ankara.

A breakthrough seemed imminent in mid-August after Turkish Minister of Foreign Affairs Mevlut Cavusoglu held talks in Ankara with his Iranian counterpart Javad Zarif. But although Cavusoglu reiterated that Turkey wanted to buy more gas from Iran, he said price issues still needed addressing.

Iranian officials are eager to exploit the improving political ties with Ankara, and they have expressed their commitment to continuing to supplying their northern neighbour. Iran's deputy minister of industry, mine and trade, Mansour Moazami, told the *Anadolu Agency* on 8 September that his country wanted to increase gas supplies to Turkey.

Despite the price wrangling, there has been no slippage in exports in recent months. According to official Turkish statistics, Iran exported 3.35 billion cubic metres of gas to Turkey between January and May 2016, a 9% increase year on year. Hamid Reza Araghi, managing director of National Iranian Gas Co. (NIGC) has said more could be piped to Turkey via the Tabriz-Ankara pipeline, with the average 30 million cubic metres per day (MMcm/d) Iran sends expandable by 6 MMcm/d.

Iranian volumes account for about 16% of Turkey's total supply. However, Iranian gas is alleged to be more expensive than alternative Russian sources. In 2014, the Brookings Institute reported Iran was selling gas to Turkey at $505 per thousand cubic metres (Mcm: $13.75/MMBtu), compared with $425/Mcm for Russian gas.

Price reduction

The Turkish government has sought a reduction in that price, reflective of weaker global market conditions and Turkey's own economic headwinds.

Turkey has pressing reasons for holding Tehran to the ICC's call for a price reduction. "This is very important for Turkey as it wants to cut the domestic natural gas price," said Ozgur Altug, chief economist at BGC Partners. Altug estimates the discount would reduce Turkey's annual current account deficit by some $400 million.

Siamak Adibi, a Middle East gas analyst at FG Energy, said this might not require a wholesale change in the agreed contract formula. "The formula is unlikely to be changed, but they could consider some reductions based on market conditions," he said.

Despite past claims from Turkey's state-owned Botas about deficiencies in Iran's gas supply – Botas alleged Iran reduced export volumes by 25% in 2014 without mutual consent, a claim the ICC rejected – Iran should not find it a problem to keep the pipeline filled.

"The Iranians don't have any issue sending gas to turkey," said Adibi. "They have enough gas in winter from South Pars, and new gas projects are coming online. There aren't any issues in terms of the existing infrastructure, which can handle more supply. Any problems are on the Turkish side," he said.

In 2009, Botas had to pay $600 million in compensation to Iran as it fell 3.2 bcm short of its 10 bcm annual purchase requirement.

However, in the past Ankara has criticised Tehran's practice of limiting deliveries in winter to prioritise the needs of its domestic consumers.

The political backdrop is more favourable for a deal to be done, with a rapprochement between the Turkish and Iranian political leaderships that are backing opposite sides in the Syrian conflict.

Iranian President Hassan Rouhani was among the first of world leaders to call Turkish President Recep Tayyip Erdogan after the failed coup on 15 July to offer his support. The gesture was well received in Ankara and contrasted with the perceived tepid reaction from some Western capitals. ■

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

Taiwan imports record levels of LNG in July

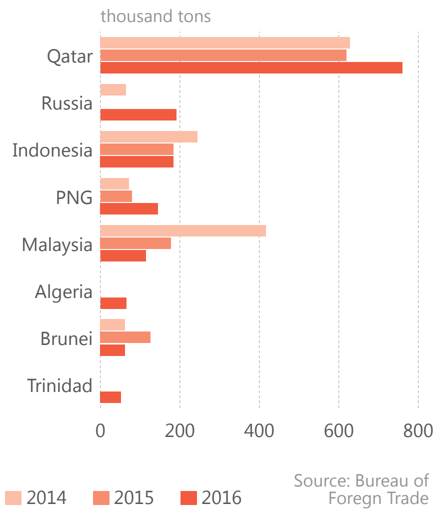
Andrew Walker / London

TAIWAN'S LNG IMPORTS, JULY 2016

Country	Volume, mt	Value, $ million	Cost, $/MMBtu	Cost in 2015, $/MMBtu	Cost in 2014, $/MMBtu
Qatar	0.76	233.69	5.94	7.86	11.08
Russia	0.19	57.96	5.87	–	12.13
Indonesia	0.18	89.99	9.45	11.38	18.29
PNG	0.15	48.50	6.45	10.68	14.25
Malaysia	0.11	46.79	7.93	10.30	17.12
Algeria	0.06	17.87	5.33	–	–
Brunei	0.06	17.23	5.38	10.22	16.71
Trinidad	0.05	13.77	5.12	–	–
Total	1.57	525.81	–	–	–
Average	–	–	6.46	9.08	14.54

Source: Bureau of Foreign Trade

TAIWAN LNG IMPORT VOLUMES, JULY



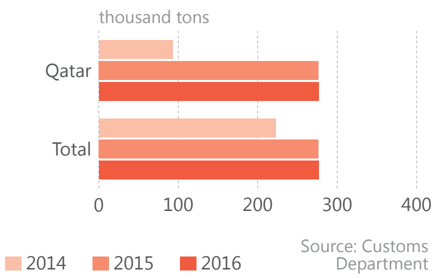
Taiwan imported more than 1.5 mt of LNG in July, the first time imports have breached this level since May last year. Imports were up by 21% year on year, while the average price paid for LNG was down by $2.61/MMBtu. Total expenditure on LNG for the first seven months of the year was down by 29% on the same period last year, saving the country more than $1 billion. Taiwan imported two cargoes from outside the Asia Pacific Basin in July, one from Algeria and the other from Trinidad.

THAILAND'S LNG IMPORTS, JULY 2016

Country	Volume, thousand tons	Value, $ million	Cost, $/MMBtu	Cost in 2015, $/MMBtu	Cost in 2014, $/MMBtu
Qatar	276.82	79.86	5.57	8.88	11.12
Total	276.82	79.86	–	–	–
Average	–	–	5.57	8.88	12.78

Source: Customs Department

THAILAND LNG IMPORT VOLUMES, JULY



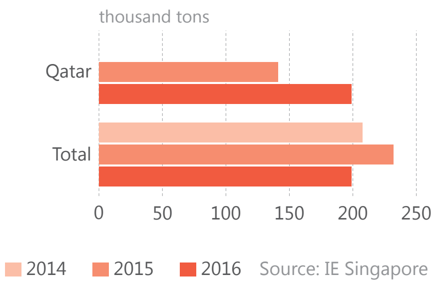
Thailand's LNG imports were virtually flat year on year in July, at 276,000 tons, all of which arrived from Qatar. However, the average cost of imported LNG dropped by $3.31/MMBtu over the period. The average price Thailand paid for LNG rose slightly in July, with total expenditure growing by 3% month on month. The country is expected to import more LNG in 2016 than it did in 2015, with imports to July 2016 up by 13% over July 2015.

SINGAPORE'S LNG IMPORTS, JULY 2016

Country	Volume, thousand tons	Value, $ million	Cost, $/MMBtu	Cost in 2015, $/MMBtu	Cost in 2014, $/MMBtu
Australia	198.99	67.95	6.59	9.53	–
Total	198.99	67.95	–	–	–
Average	–	–	6.59	9.61	15.10

Source: IE Singapore

SINGAPORE LNG IMPORT VOLUMES, JULY



Singapore imported nearly 200,000 tons of LNG from Australia in July, having imported 141,000 tons from the country last year and nothing two years ago. Total LNG imports in July were down by 14% year on year. Singapore reloaded its first cargo to Japan in July. The country has rarely used its reload facilities over the past couple of years, having delivered cargoes to South Korea, China and Egypt. The cargo delivered to Japan was 53,792 tons in 2016 and was sold at $6.79/MMBtu

The Clean Power Plan struggle

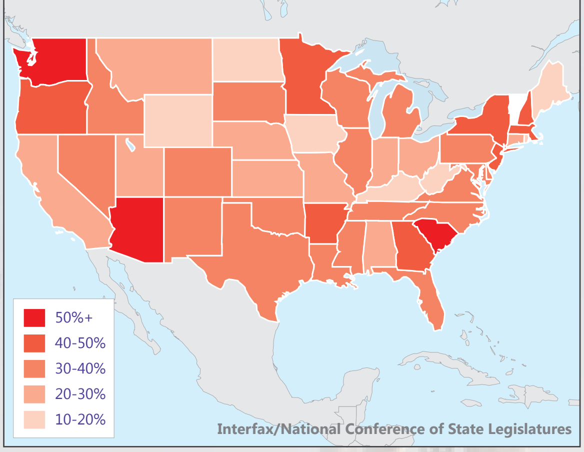
Therese Robinson / London

August 2015

President Barack Obama and the United States Environmental Protection Agency (EPA) announce the Clean Power Plan (CPP).

The CPP is implemented under Obama's climate change policy to reduce carbon emissions from US power plants. It sets emission reduction targets for each state but allows them to create their own strategies on how to meet those targets.

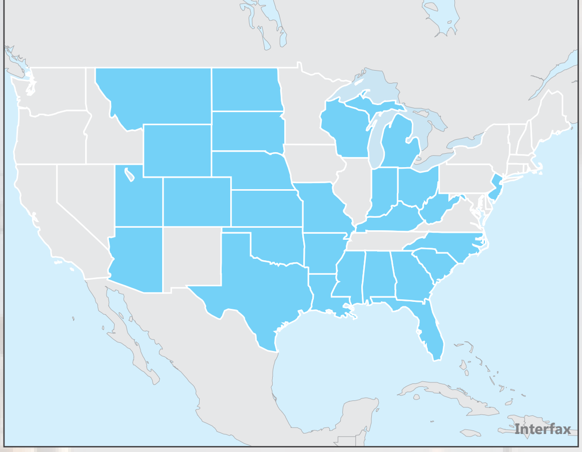
EPA PROPOSED EMISSION REDUCTIONS BY 2030



November 2015

A total of 27 states file suits against the EPA to block the new regulations. The states are mainly in regions directly involved with the coal industry. They claim the EPA has exceeded its authority by setting emission limits for gas- and coal-fired plants, resulting in prohibitive costs for utility companies, and that coal-based communities will suffer as a result.

STATES TRYING TO BLOCK THE CPP REGULATIONS

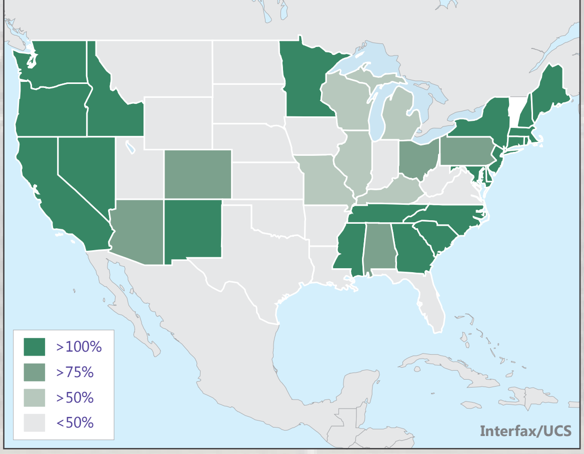


February 2016

The Supreme Court temporarily blocks the implementation of the CPP.

Eighteen states defend the EPA's plan, saying up to 21 of the 27 states opposing the CPP are able to meet interim targets from 2022 to 2024.

PROGRESS TOWARD 2022 EMISSION REDUCTION TARGETS



September 2016

The CPP faces a 27-state coalition in the United States Court of Appeal for the District of Columbia Circuit on 27 September. The states object to the regulation of their individual power grids, saying the EPA does not have the authority to impose regulations that would mean shutting down coal plants in favour of gas and renewables.

Opponents of the plan say the EPA's authority should not include wide-reaching changes and argue the Obama administration has "stepped beyond the boundaries of the law" to influence electricity regulation.

Early 2017

The final decision on the CPP will be based on whether the judges hearing the case this week believe Congress has given the EPA the authority to implement carbon emission regulations.

The DC Circuit decision on whether the plan is valid is expected in early 2017 – after Obama leaves office.

Image source: Microsoft

Rosneft announces reserves of 380 mtoe at Sakhalin

Rosneft has more than 380 mtoe of recoverable reserves at its Sakhalin acreage, Alexander Zharov, Rosneft's head of offshore exploration, said during the Sakhalin Oil & Gas 2016 conference on Wednesday. "This is 40% oil and 60% gas. Of the existing reserves, 20% are located onshore and 80% are on the [offshore] shelf," he said. He added that the company is the developer at 46 licensed blocks in the Sakhalin region, 16 of which are offshore. "The company's number of blocks has tripled in the last five years," Zharov said. "Rosneft is also carrying out [... exploration] at new licences in the region, the resource potential of which is estimated at more than 1.5 billion tonnes in oil equivalent," Zharov added. Rosneft's investment in geological exploration work has risen several times over in recent years, he said.

The Gorgon LNG plant in Australia. Its first train is now operating at 85% capacity. (Chevron)

Gazprom to press ahead at Yuzhno-Kirinskoye despite US sanctions

Gazprom plans to drill at the Yuzhno-Kirinskoye field in the Sea of Okhotsk despite it being on a United States sanctions list, but the timing will ultimately depend on finding a market, a company executive told reporters on Thursday. "We're supposed to drill the first production well in 2017 [and] we haven't cancelled these plans yet," said Vsevolod Cherepanov, the head of Gazprom's Department 307. "But an adjustment is always possible depending on agreements with consumers [and] who will be the consumers of this gas," he added. The development plan for Yuzhno-Kirinskoye was drafted in 2015. While the planned third train of the Sakhalin 2 LNG plant is one possible market for the gas, Cherepanov said Gazprom would need to find a home for the remaining volumes. "This is part of the gas. We can't [ship] the whole amount to the third train – only 7-8 billion cubic metres are needed there, while [projected production at Yuzhno-Kirinskoye will be] 21 bcm/y. The rest needs to be distributed," he said. First gas production from the field is intended to start in 2021 and full production is scheduled for 2022. Production from the field is scheduled to ramp up to 21 bcm/y over a period of 10 years. "We'll start with 3 bcm/y and slowly increase," Cherepanov said. Gazprom Deputy Chief Executive Alexander Medvedev has said sanctions will not make the company postpone the launch of the project. Gazprom will use other foreign suppliers to resolve problems caused by the sanctions and has launched a programme to manufacture equipment such as underwater production systems domestically. The head of Shell in Russia, Olivier Lazare, said his company is still holding negotiations to join the project to develop Yuzhno-Kirinskoye. The field has approved reserves of 711 bcm of gas, 111 mt of condensate and 4 mt of oil.

Nord Stream maintenance shutdown dates confirmed

The next annual maintenance period on the Nord Stream gas pipeline is scheduled for 11-22 September 2017, European gas transport operators have reported. The western branch of Nord Stream will completely shut down during 9-14 October 2017 for scheduled work at the terminal in Greifswald. No such stoppage notification has been issued by OPAL, Nord Stream's eastern branch.

Anivskiye field master plan will arrive in March 2018

A master plan on the use of gas from Russia's Anivskiye gas fields in southern Sakhalin will be finished by March 2018, regional government spokeswoman Vera Shcherbina said on Wednesday at the Sakhalin Oil and Gas 2016 conference. "The master plan will explore conceptual issues of gasification of the power sector of the regional economy, gasification of transport, autonomous power supply to the region's remote areas, and the organisation of gas-chemical production for export. We plan to finish the work on the master plan in March 2018," Shcherbina said. The plan is being drafted by a working group created by the Sakhalin regional government and a group of Japanese companies in July 2016; it has already prepared investment proposals to construct a mini LNG plant based on the Anivskiye fields for the gasification of remote regions in southern Sakhalin. "Right now we are implementing a programme to build up the resource bases of the Anivskiye gas complex. The implementation of those programmes will allow us to draw a conclusion on the possibility of using gas for joint projects with Japanese companies," Shcherbina said. Japan has yet to start discussions on the construction of a gas pipeline connecting it to Sakhalin, an idea mooted by Gazprom. "The idea is not yet under discussion. We are trying to include everyone who might be interested into those discussions regarding hydrocarbon production, their refinement and the construction of such a gas pipeline. We are open for discussions, but they have not yet begun," said Hajime Wakuda, chief executive of Japan's JOGMEC.

New Okhotsk field contains 40 bcm – Gazprom

Gazprom has estimated there are 40 billion cubic metres of gas reserves at its new offshore field in the Sea of Okhotsk, Vsevolod Cherepanov, the head of the Russian gas giant's Department 307, told reporters on Thursday. "So far we've confirmed the discovery. The potential is upwards of 40 bcm, on one well. We've

CONTINUED ON PAGE 9

CONTINUED FROM PAGE 8
drilled one so far. The condensate factor there is high," Cherepanov said.

Eni to build Egyptian solar plant

Eni plans to build a 50 MW solar photovoltaic project near Abu Rudeis in Egypt. Petrobel, a joint venture between Eni and state-owned Egyptian General Petroleum Corp., will develop the project. The plant will be sanctioned next month and completed by December 2017, Eni said in a statement. Eni expects to develop other renewable energy projects in the same way. "The implementation of renewable energy projects in the country will allow for a reduction in the use of gas in electricity generation," the company said. "The gas made available through these projects could be used to expand the utilisation of CNG as fuel in the automotive sector, in alternative to diesel or gasoline, thus generating a low-carbon cycle based on a gas-renewable energy mix."

OPEC agrees oil production cut

OPEC agreed on Wednesday to cut its output to 32.5-33.0 million barrels per day from around 33.5 million b/d. Oil prices rose on the news but have dropped again after questions arose over the implementation of the agreement.

Angola LNG back online – source

Angola LNG (ALNG) has restarted operations, a trader involved in sales from the project has confirmed to *Interfax Natural Gas Daily*. ALNG has not officially confirmed the restart, however. The plant has been offline for two months for planned maintenance. The tender for ALNG's first cargo after the most recent maintenance period will be awarded at the end of this week, the project company said. The Angolan government has revised its gas production estimate downwards, according to a report from *Sapo 24*. A revised version of the Angolan state budget report has re-estimated the plant's production at 54,145 barrels per day of oil equivalent, down from 60,000 b/d of oil equivalent initially.

ONGC asks Indian government to introduce gas floor price

India's state-owned Oil and Natural Gas Corp. (ONGC) has requested the Indian government introduce a floor price for gas before the next revision of tariffs at the beginning of October, according to *The Financial Express*. It was not disclosed whether the company was looking for a fixed amount or a formula to determine the floor price. A price cut of $1/MMBtu would reduce ONGC's annual revenue by INR 42 billion ($631 million) and profit by INR 24 billion. It is expected that the price of gas from domestic fields will drop to $2.45/MMBtu for the October 2016-March 2017 period compared with $3.06/MMBtu for the preceding six months. The formula is based on prices in the United States, Canada, the UK and Russia. The ceiling price for gas produced from difficult areas, such as deep offshore, is expected to fall from $6.61/MMBtu to less than $6/MMBtu. ONGC currently sells gas from the S1 Vashishta gas fields in the Krishna-Godavari Basin at the higher price because it is a deepwater field and production is more technically challenging.

Indian majors get green light to buy Russian oilfield stakes

India's cabinet has granted approval to a consortium of Indian Oil Corp. Oil India and Bharat Petroleum to buy stakes in two Russian oilfields for a total of $3.14 billion, according to *The Wall Street Journal*. The companies are looking to purchase a 29.9% stake in the Taas-Yuryakh oilfield in eastern Siberia for $1.12 billion and a 23.9% stake in the Vankor oilfield for $2.02 billion. The stake is being acquired from RN-Razvedka I Dobycha, a subsidiary of Rosneft.

Gorgon LNG Train 1 working at near capacity – Chevron

Train 1 at Australia's Gorgon LNG plant is producing at 85% of capacity, John Watson, chief executive of Chevron, was reported as saying in *The Australian*. Train 2 is anticipated to start up next month. The first train had teething problems and was forced to shut down temporarily, but the difficulties appear to have been overcome.

Extreme weather causes blackout in South Australia

South Australia suffered a blackout on Wednesday as extreme weather brought down power lines, South Australia Power Networks told the *Herald Sun*. Electricity supplies were restored to some areas last night as lines were repaired, but blackouts could continue elsewhere for an extended period, according to Jay Weatherill, the state's premier. ■

Interfax
Natural Gas Daily

Registered Office
Interfax Europe Ltd,
19-21 Great Tower Street, London EC3R 5AQ
Tel: +44 (0)20 3004 6200
Email: customer.service@interfax.co.uk
Web: interfaxenergy.com

Natural Gas Daily is published daily by Interfax Ltd, a division of Interfax Information Services Group.

ISSN: 2048-4534