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RECOVERY IN NATURAL GAS DEMAND

Monthly Gas News Commentary: August- September 2020

India

Regulation & Governance

PNGRB may allow additional relief period for CGD companies facing delays in execution of projects due to national and state-level lockdowns imposed by the government to curb the spread of Covid-19 pandemic. The downstream regulator had issued a fresh set of guidelines to examine the requests of CGD compressed natural gas players for time extension on account of Force Majeure events. The guidelines list events such as war, riots, natural disasters and restrictions by the central or state governments as conditions that qualify under Force Majeure and can result in time extension to complete MWP obligations. PNGRB may further allow additional restoration period after the determination of the event of Force Majeure for restoration of the activities, ratings agency ICRA said. Over the last few months, while several city gas firms have claimed Force Majeure after work on sites got stalled due to the lockdowns, such claims could not be immediately accepted by the regulator PNGRB in the absence of guidelines listing the events that can trigger Force Majeure. The new guidelines by PNGRB come as a major relief for CGD companies. CGD players have MWP obligations for each year in terms of the length of pipelines, number of CNG stations and number of domestic connections to be completed during each of their initial years after receiving exclusive authorization to market gas in each Geographical Area which generally consists of 1-3 districts. If there is delay in execution, CGD regulations permit imposition of penalties on the entities.

Domestic Demand

GAIL (India) Ltd sees its gas demand returning to pre-Covid-19 levels by the end of the current quarter as the expansion of the city gas network will offset shrinking consumption. GAIL sold about 113 mmcmd of the fuel before the outbreak of the pandemic. GAIL saw gas demand almost halving when a nationwide lockdown was imposed beginning 25 March to contain the spread of coronavirus. Industries that used gas as feedstock shutdown and CNG-run buses and vehicles went off the road. But with the restarting of economic activity and unlock phases that began in May and June, the demand started coming back. GAIL is currently selling gas at almost 95 percent of pre-Covid-19 levels. The most prolonged reduction in gas demand came from the city gas distribution sector that sells CNG to automobiles, piped cooking gas to households, and provide fuel to hotels and other industries in towns. The reduction in demand in existing city gas networks would be offset by new demand from newer areas where the network is being expanded. City gas networks are mostly concentrated in Delhi, Gujarat, Mumbai and a few other cities and licences have been given to roll out the same in other areas. Gas consumption for the industry as a whole is likely to return to normal by the end of the financial year.

Higher demand from fertilizer plants, refineries and power plants has helped natural gas demand recover to almost pre-Covid levels with consumption in July just 2 percent lower than last year. India consumed 5,333 mmscm of natural gas in July as against 5,433 mmscm in the same month last year, official data showed. This is a sharp recovery from June when the consumption of 4,925 mmscm was 9 percent lower than a year earlier. Increased demand by fertilizer makers, power plants and refineries has led the revival, offsetting poor show by city gas players, which mainly supply to local industries and gas-based city transport. Lower price for imported LNG also helped boost local demand. LNG import rose 6 percent to 2,963 mmscm in July from a year earlier. LNG made up 55.6 percent of the country's total gas demand in July. India has six LNG import terminals with a combined capacity of 42.5 mtpa. During April-June this year, Shell Energy's terminal at Hazira in Gujarat clocked the highest capacity utilisation of 87.8 percent while Indian Oil's new terminal at Ennore operated at the lowest 8 percent utilisation.

CNG sales in Delhi have risen to 85 percent of the pre-lockdown level as the Delhi government progressively opened up markets, allowed businesses and other economic activities to resume after the Centre began lifting curbs since June. Data from IGL, the sole supplier in the capital and most of the towns in neighbouring UP, show CNG sales averaging 2.75 mn kg/day in August against 3.45 mn/day in the same month a year ago. Data shows current daily average sales at 3.2 mn kg/day, or 92 percent of the pre-Covid average sales of 3.45 mn kg/day. Sales had slumped by 90 percent to 370,000 kg/day in April as the countrywide lockdown to

check coronavirus infections from spreading shuttered nearly all economic activities and all vehicular movements, except emergency services, were halted. This forced IGL to close most of its stations in the NCR, though the company maintained round-the-clock service throughout the lockdown period.

Domestic Production

According to Oil India Ltd, in order to reduce the surface level well head pressure of the blowout well number 5 at Assam's Baghjan, the process of restoration of diversion of the flow of gas from the well head to Baghjan EPS and two flare pits was successfully implemented. On 27 May this year, a blowout occurred after the well suddenly became active while Oil India was carrying out work over operations in the gas-producing well Baghjan-5 under Baghjan Oilfield.

LNG

The Gopalpur Port Ltd in Odisha has planned to set up an LNG terminal and an investment of ₹20 bn for setting up fertilizer and petrochemical industries. While there are no restrictions on the loading of trucks from mines of the state for Vishakhapatnam and Gangavaram Ports in Andhra Pradesh, there is a restriction on loading for Gopalpur Port. As a result, the exporters are facing a tough time and stiff competition and there will be a huge loss of foreign exchange earnings to the nation also.

CNG

India will soon launch a bid round to give out licences for retailing gas in cities to help extend the coverage of environment-friendly fuel to about 500 cities. During 2018 and 2019, sector regulator PNGRB gave out licences to retail CNG to automobiles and piped cooking gas to household kitchens in 136 geographical areas. This extended coverage of the city gas network to 406 districts and around 70 percent of the country's population. The push for city gas expansion is part of the government plan for raising the share of natural gas in the country's energy basket to 15 percent by 2030 from the current 6.3 percent. The 11th bid round is being planned around a new pipeline being constructed from Angul in Odisha to Mumbai in Maharashtra to ferry natural gas between the east and west coast. GAIL has started work on the Angul-Mumbai pipeline. 17,000 km of gas pipelines particularly in the eastern part of the country are being built to connect gas sources with consumption centres. Also, the capacity of LNG import terminals is being raised to meet rising domestic demand. Retail outlets dispensing CNG have risen from 938 in 2014 to 2,307.

Pipelines

Italy's Snam, the operator of Europe's largest natural gas transmission network, is eyeing investment opportunities in the Indian gas pipeline business and has roped in GAIL's former chairman B C Tripathi as its adviser. Snam top executives have held discussions with the oil minister, officials, regulator and industry executives in India to understand the investment opportunities and regulatory landscape, people familiar with the matter said. The discussions have ranged over several topics including hydrogen fuel, gas storage and small-scale liquefaction technologies but the big thrust has been on pursuing investment opportunities in the gas pipeline business, they said. Niti Aayog proposed hiving off GAIL's pipeline assets and monetizing it but encountered resistance from the company as well as the petroleum ministry. GAIL owns about 11,000 km of gas pipelines across the country and is currently planning to shift all its pipeline assets to a wholly-owned subsidiary. Snam, which also operates in the UK, France, Austria, Greece and China, expects to leverage its deep knowledge of the gas sector to launch itself in India. Snam can offer technology and equipment for CNG refuelling stations, the company said. Some of India's small gas fields are unconnected to a pipeline, and a cheap liquefaction facility can help evacuate such gas. India is seeking to expand the use of natural gas in transport and also setting up new LNG regasification terminals. The country has given away more than 100 CGD licenses in the past three years to increase population's access to CNG.

Rest of the World

Global Trends

The amount of regasification capacity, plants that bring LNG back to a gas, currently under construction globally will rise to a 10-year high this year, research and consultancy firm WoodMac said. Regasification capacity being built may rise to 144 mtpa led by projects in China, WoodMac said. This includes 33 new terminals totalling 92.8 mtpa that are under construction and another 51 mtpa of capacity to be added to existing terminals, WoodMac said. China, the world's second largest LNG importer after Japan, accounts for over one-third, or 52.6 mtpa, of the new capacity, including 10 new terminals. India is building five new terminals with a capacity of 20 mtpa while Europe could add 13 mtpa of additional capacity from expansion projects until 2025 across the Netherlands, Poland, France, Greece and the UK. While the coronavirus pandemic has hampered construction and could lead to potential delays of new projects, seven new regas terminals are expected to make a final investment decision this year, WoodMac said.

Middle East

Israel's Petroleum Council gave its approval for Chevron Corp to take over Noble Energy's stakes in Israeli natural gas fields, which are a key component in Chevron's \$5 bn acquisition. Chevron agreed in July to buy the Texas-based oil and gas producer, which operates two large offshore gas fields in the eastern Mediterranean. Upon completion, Chevron will be the first major energy group to enter the Israeli market. The Petroleum Council, which advises on exploration and production licenses, gave its blessing, paving the way for Chevron to become a dominant player in Israel, according to the energy ministry.

Turkey expects its energy imports to fall significantly following a major Black Sea natural gas find and more discoveries could be made in another area now being evaluated. Turkey announced the discovery of a 320 bcm gas field that could come on stream as soon as 2023. Turkey was determined to become a net energy exporter. If the gas can be commercially extracted, it could transform Turkey's dependence on Russia, Iran and Azerbaijan for energy imports, which cost the country \$41 bn last year.

Asia

Asian spot LNG prices hovered above \$4/mmBtu as cargo loadings from the US were delayed due to a powerful hurricane. The average LNG price for October delivery into northeast Asia LNG-AS was estimated at about \$4.05/mmBtu, down five cents from the previous week. Loadings of LNG cargoes from the US have been delayed following Hurricane Laura, which made landfall near the Texas-Louisiana border and is one of the most powerful storms to ever hit the region. US LNG exports were on track to fall to 2.1 bcf their lowest since February 2019, according to data from Refinitiv. Cheniere Energy Inc's Sabine Pass and Sempra Energy's Cameron LNG export plants in Louisiana, which suspended operations, will likely be the last terminals to restart exports in the Gulf, analysts at ClipperData said.

Japanese trading house Sumitomo Corp has sold all its stake in the Marcellus shale gas project in the US for an undisclosed sum. Sumitomo bought a 30 percent stake in the project in 2010 from Rex Energy Corp, which went bankrupt in 2018. The project is 70 percent owned and operated by PennEnergy Resources. Sumitomo had booked an impairment loss on the stake in around 2015 when slumping oil and gas prices forced international energy companies and Japanese trading houses to write down the value of their assets.

N America

The US has set aside \$1.5 bn for political risk insurance in the gas-rich northern Mozambique region ravaged by an Islamist insurgency for the past three years. The insurance is poised to cover the construction and operation of an onshore natural gas liquefaction plant and support facilities being developed by energy giants including American firm ExxonMobil, French's Total and Italian's Eni. The gas project, one of Africa's largest investment in recent decades, is situated in the Cabo

Delgado which has been the scene of the jihadist attacks since 2017. Although the gas project has not been directly targeted, the extremist attacks pose a serious threat to the success of offshore investment valued at more than \$60 bn.

US LNG exports were on track to increase for a second month in a row in September for the first time since hitting a record high in January as rising global gas prices prompted buyers to reverse some cargo cancellations. Gas prices surged over 60 percent in Europe and Asia last month, causing US LNG exports to jump from a 21-month low of 3.1 bcf in July to 3.7 bcf in August and an expected 3.8 bcf in September, according to federal data. Several US LNG export plants stepped up to supply more of the super-cooled fuel even though Cameron LNG's facility in Louisiana remains shut due to lingering power problems after Hurricane Laura slammed into the Gulf Coast in late August. Energy traders said Cameron has already deferred cargo loadings from September to October.

Units of Glenfarne Group LLC and Kinder Morgan Inc asked federal regulators for five more years to complete the Magnolia LNG export plant and associated gas pipeline expansions. The US Federal Energy Regulatory Commission approved construction of Magnolia LNG and related pipeline expansions in April 2016. That approval required the companies to complete the project within five years, by April 2021. Glenfarne has said it expects to decide late next year whether to build the Magnolia plant and the Texas LNG facility it is developing in Texas. If the company decides to build the projects, they could enter service around 2025. Several developers have put off decisions to build LNG projects in North America over the past year due to uncertainty about demand as the pandemic and other factors have cut energy consumption. Magnolia is designed to produce 8.8 mtpa of LNG or 1.2 bcf of natural gas. 1 bcf is enough gas to supply about 5 mn US homes for a day.

Exxon Mobil Corp is limiting output at its flagship offshore project in Guyana to 100,000 bpd due to more issues with the reinjection of natural gas. Exxon, which operates the Stabroek block in a consortium with Hess Corp and China National Offshore Oil Corp, had initially planned to ramp up output for this first phase of the Liza project to its full capacity of 120,000 bpd in August. But mechanical issues with gas compressing equipment are preventing Exxon from reinjecting all of the natural gas produced alongside the light, sweet Liza crude, prompting the company to limit output so as to not flare an excessive amount of the gas. Natural gas flaring is a significant source of climate-warming greenhouse gas emissions. Guyanese authorities say Exxon should eliminate all flaring except for a "pilot" flame, necessary for safety. Exxon and its partners have discovered more than 8 bn barrels of recoverable oil and gas off Guyana's coast, which is expected to transform the poor country's economy.

S America

Brazil's lower house approved the basic text of a bill to further open up the natural gas market to private competition and break the monopoly held by state-controlled oil company Petrobras. The new legal framework changes natural gas distribution from a regime of concessions by the government to one of authorizations by the country's oil and gas regulator ANP, thus reducing bureaucracy for building pipelines. The bill, which still needs to pass the Senate, would also open up competition by changing the vertical structure of the gas sector so producers cannot be distributors and vice-versa. Mines and Energy Minister Bento Albuquerque expects the law to unlock 40 bn reais (\$7.41 bn) in private investment for the gas sector, while Economy Minister Paulo Guedes said it will bring a "shock of cheap energy" for Brazilian industries.

Europe and UK

EEX said it will enable negative prices on its natural gas spot markets from 1 October to cater for any such market movements in the future. This spring, European gas prices slumped due to weak demand amid coronavirus lockdowns and strong renewables output, compounding an already oversupplied market with little available storage space left. China's Sinopec Corp has awarded a 10-year tender to buy 1 mt of LNG annually from Qatargas. Sinopec has agreed to pay at a slope of 10.19 percent to Brent crude on a delivered ex-ship basis. The Chinese state oil and gas producer issued the tender in July, seeking supplies starting 2023, to take advantage of current low prices after the Covid-19 pandemic hammered global demand for the fuel.

French oil major Total has signed a security pact with the Mozambique government to protect a \$20 bn LNG project being developed in the southern African country, the company said. Mozambican security forces have been battling a low-level insurgency against militias suspected of having links to Islamic State in the gas-rich north of the country. Total's project includes the development of the Golfinho and Atum natural gas fields in the Offshore Area 1 concession, containing more than 60 tcf of gas, and the construction of a liquefaction plant with a capacity of 13.1 mtpa. Initial production is slated by 2024.

Greece and Bulgaria sought to reduce their reliance on Russian gas with the signing of an agreement that will allow Bulgaria to participate in a planned LNG terminal in northeastern Greece. The project, which has strong support from the US is aimed at boosting energy diversification in southeastern Europe, a region largely reliant on Russian natural gas. Bulgaria's state-controlled Bulgartransgaz will acquire a 20 percent stake in the Greek company, Gastrade, that is developing the LNG terminal outside the Greek city of Alexandroupolis as per the agreement. Bulgarian participation in the venture is tied to a separate pipeline project that will be used to transport the gas northward.

Imports of natural gas to Ukraine from European countries have risen by 30 percent to 12.5 bn cubic meters so far 2020, including 3.4 bn in August, Ukrainian state-run gas transit operator said. It said 65 percent of the volume was supplied by owners for the future transit outside Ukraine. The operator said most of the gas had been imported from Slovakia. Ukraine used to meet its gas needs with imports from Russia but has not bought Russian gas directly since November 2015 after Kiev's relations with Moscow soured over Russia's annexation of Crimea. Kiev imports from Europe but transit volumes remain important both as a source of gas which Ukraine can tap into and then replace from its own supplies when it needs and as a source of revenue to buy gas from Europe.

PNGRB: Petroleum and Natural Gas Regulatory Board, CGD: city gas distribution, MWP: Minimum Work Programme, CNG: compressed natural gas, mmscmd: million metric standard cubic meter per day, mn: million, bn: billion, mt: million tonnes, mmscm: million metric standard cubic meter, LNG: liquefied natural gas, IGL: Indraprastha Gas Ltd, UP: Uttar Pradesh, kg: kilogram, NCR: National Capital Region, km: kilometre, mtpa: million tonnes per annum, UK: United Kingdom, WoodMac: Wood Mackenzie, bcm: billion cubic meters, mmBtu: million metric British thermal units, US: United States, bcf: billion cubic feet per day, bpd: barrels per day, Petrobras: Petroleo Brasileiro SA, EEX: European Energy Exchange, tcf: trillion cubic feet

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