(BN) China Piped Gas Imperils $100 Billion LNG Plans: Energy Mar kets

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By Bloomberg News

Oct. 10 (Bloomberg) -- China is importing more natural gas by pipeline than sea for the first time, highlighting the risk to planned LNG projects costing at least $100 billion as buyers seek cheaper supplies.

The country, which accounted for almost a quarter of Asia's gas use last year, increased shipments from Turkmenistan, the provider of almost all its piped supplies, by 55 percent to 9.85 million metric tons in the first eight months of the year, customs data show. Liquefied natural gas purchases from nations including Australia and Qatar advanced 23 percent to 9.08 million tons and cost about 3 percent more than pipeline imports, even before the cost of regasification.

China's bill for LNG, gas cooled to a liquid and transported by tanker, has surged in the past four years as it feeds its booming economy and cuts reliance on more-polluting coal for power generation. The growing dependence on cheaper supplies by pipeline is threatening the viability of LNG projects planned by companies from Exxon Mobil Corp. to Woodside Petroleum Ltd. that are waiting for investment approval, according to CLSA Ltd., a Hong Kong-based broker partly owned by France's Credit Agricole SA.

"We don't think LNG will grow to be as big as many people are thinking," Simon Powell, the head of Asian oil and gas research at CLSA, said by e-mail. "LNG prices are still too high to compete in China. Piped gas imports are way bigger."

China accounted for 22 percent of Asia-Pacific gas consumption last year and 4 percent of global demand, according to BP Plc's Statistical Review of World Energy. The nation spent $5.4 billion, or an average $547 a ton, for supplies from Turkmenistan in the year through August, Chinese customs data show. It paid $5.1 billion, or $562 a ton, for LNG.

Rising Price

China's spending on LNG has surged as prices and volumes have climbed. The bill in 2008 was $942 million and the average price paid was $282 a ton. This year's price is equivalent to $10.81 per million British thermal units, or about three times as much as benchmark U.S. gas futures, which were at $3.496 today, according to data compiled by Bloomberg. Cargoes from Qatar, China's biggest and most expensive supplier, cost $19.33 per million Btu.

"China imported more pipeline gas as some of its LNG contracts, such as those from Qatar, are relatively expensive,"
Ricki Wang, a natural gas analyst with C1 Energy, a Shanghai- based commodity researcher, said by phone.

The country may curb plans to expand its terminals for receiving seaborne LNG and converting it back to gaseous form, while weaker-than-expected demand and "bloated" production capability beyond 2016 mean some LNG projects, particularly in Australia, may get shelved or canceled, according to Powell.

Investment Decisions

China has 29 billion cubic meters a year of LNG-receiving capacity in operation and 26 billion under construction, according to the International Energy Agency. Global LNG production capacity will increase by 81 million tons, or 27 percent, through 2017 and a further 143 million tons is awaiting a final investment decision, CLSA estimated in a July 20 report.

Companies may decide within 18 months whether to proceed with more than $100 billion of LNG projects in Australia. Final decisions are expected for Woodside's Browse and Sunrise projects, Exxon Mobil and BHP Billiton Ltd.'s Scarborough gas field, and Hess Corp.'s Equus project, Martin Ferguson, Australia's natural resources minister, said in a Sept. 21 interview in Tokyo.

The Browse project in Western Australia will cost about A$44 billion ($45 billion), Deutsche Bank AG estimated in June. Woodside and its partners plan to make a decision in the first half of next year, Chief Executive Peter Coleman said in an Aug. 22 presentation. The company is "updating the costs, uncertainties and challenges" of the Sunrise project near East Timor, he said. Daniel Clery, a spokesman for Woodside in Perth, declined to comment further when contacted by Bloomberg Oct. 4.

Increasing Demand

Antonios Papaspiropoulos, a spokesman for BHP in Melbourne, declined to comment on China's demand for pipeline gas or the status of plans for Scarborough off Western Australia.

Arrow Energy Ltd., owned by Royal Dutch Shell Plc and PetroChina Co., said in March that it planned to decide in late 2013 whether to develop an LNG export facility on Queensland state's Curtis Island. Deutsche Bank estimates the project may cost more than $20 billion.

"Australia is a good place to do business, but the international competitiveness of the LNG sector is being challenged by factors like the high Australian dollar and high labor costs," Paul Zennaro, a Melbourne-based spokesman for Shell, said by e-mail yesterday. The company will develop the nation's gas resources and invest around $30 billion over the next five years, he said, without specifying the projects.

Replacing Nuclear

LNG purchases may still retake the lead over piped gas imports as China's demand increases, according to the IEA. The nation's gas consumption will double from last year to 273 billion cubic meters by 2017, the Paris-based agency said in its first Medium-Term Gas Market Report on June 5. Imports will be 85 billion cubic meters by 2015, including 47 billion in LNG and 35 billion via pipeline, it said.

LNG demand will also be boosted by Japan, the world's biggest buyer of the fuel, as it switches to thermal power from nuclear, according to Goldman Sachs Group Inc. The bank raised its forecast for the country's LNG use for electricity generation this year and next in a Sept. 13 report, citing a slowdown in the approval process for stress tests on reactors before they can resume operations.

'Range of Options'

All but two of Japan's 50 reactors remain shut more than 18 months after an earthquake and tsunami caused a meltdown at Tokyo Electric Power Co.'s Fukushima Dai-Ichi plant and shattered public confidence in the safety of atomic power. The country's utilities imported 5.31 million tons of LNG in August, a record for that month, the Federation of Electric Power Cos. said Sept. 14. Japan accounted for 18 percent of Asia-Pacific gas demand last year, according to BP.

"I don't necessarily see imports as a direct threat to LNG in all cases," said Gavin Thompson, the Beijing-based head of Asia-Pacific gas research for Wood Mackenzie Ltd., an energy consultant.

“China isn’t the only LNG market that is driving demand, so new projects will be looking at a range of options.
All serious LNG project developers are undertaking their own assessment of the risks to LNG demand in China, but they are also considering the upside.”

LNG prices still need to fall to $9 to $11 per million Btu to spur demand from buyers in China and India, Shigeru Muraki, the chief executive officer of Tokyo Gas Co.’s energy-solutions unit, said at a conference in London on Oct. 8.

Pipeline Construction

Japan and India will begin a joint study on how they can reduce costs for imports of the fuel, Shinichi Kihara, director for international energy strategy office at the Ministry of Economy, Trade and Industry, told reporters at bilateral energy talks in Tokyo today.

China is extending its pipeline network to allow the Turkmen gas to be delivered to the more heavily populated provinces in the south and east, with talks under way to increase the imports to 65 billion cubic meters a year, according to the IEA.

Uzbekistan started exporting an unspecified volume of piped gas to China in August, the Associated Press reported Sept. 13, citing the country’s UzA state news agency. A link from Myanmar with a capacity of 12 billion cubic meters a year under construction by China National Petroleum Corp. may start in 2013. Kazakhstan is building a line that may supply China after 2013. Piped gas from Russia may boost supplies if the nations can resolve a decade-long disagreement on price.

Shale Gas

LNG suppliers in the Asia-Pacific region may also face competition in coming years from shale-gas deposits in China and exports of the fuel from North America, according to CLSA and Mirae Asset Securities Ltd.

While China doesn’t produce shale gas commercially yet, it aims to supply 6.5 billion cubic meters annually by 2015 and as much as 100 billion a year by the end of the decade, the National Development and Reform Commission said in March. The nation will hold its second auction for exploration licenses on Oct. 25.

Cheniere Energy Inc., the first company to win approval to export gas from the continental U.S., agreed in January to sell LNG to Korea Gas Corp. from as early as 2017 based on prices at the Henry Hub in Louisiana, the delivery point for New York futures. The deal made buyers reluctant to sign contracts based on the higher oil-linked prices that are typical in Asia, David Calvert, a manager at Houston-based Apache Corp.’s Kitimat LNG venture, said at an energy conference in Calgary on Oct. 2.

Export Licenses

Cheniere’s Sabine Pass facility in Louisiana is one of as many as 12 projects that have applied for an LNG export license.
An Energy Department report assessing the economic impact of overseas sales on domestic energy use before further permits are issued has been delayed until late this year.

“If politics allow the U.S. to export more LNG from the shale gas production boom, China and the rest of northern Asia could benefit from much cheaper gas than what they’re paying now,” Gordon Kwan, the head of regional energy research for Mirae Asset Securities Ltd. in Hong Kong, said by e-mail. “The availability of extra gas from countries in Central Asia and Southeast Asia will cut demand for offshore LNG.”

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--With assistance from Ben Sharples in Melbourne and Paul Gordon in Hong Kong. Editors: Paul Gordon, Alexander Kwiatkowski

To contact the reporter on this story:
Jing Yang in Shanghai at +86-21-6104-3052 or jyang251@bloomberg.net

To contact the editor responsible for this story:
Alexander Kwiatkowski at +65-6212-1329 or akwiatkowsk2@bloomberg.net
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