Australia and East Timor make Sunrise breakthrough

EAST TIMOR AND Australia have agreed on the central elements of a permanent maritime boundary in the Timor Sea. The move is part of a conciliation process to settle their territorial dispute, which has stalled development of the Greater Sunrise gas field.

“The parties’ agreement constitutes a package and, in addition to boundaries, addressed the legal status of the Greater Sunrise gas field, the establishment of a special regime for Greater Sunrise, a pathway for the development of the resource, and sharing of the resulting revenue,” the Permanent Court of Arbitration in Copenhagen said in a statement on Friday.

Few details were announced about the new arrangements as some issues are still being resolved, but a deal will be formalised and made public in October, the court added.

In the meantime, the Australian and East Timorese governments have said they are starting to engage with other stakeholders in the Timor Sea about the implications of the agreement – in particular regarding Greater Sunrise, which is operated by Woodside and straddles the Australian and East Timorese maritime border.

“We hope that this is the first step towards providing the fiscal and regulatory certainty required to develop Greater Sunrise for the benefit of all parties,” a spokesperson for Woodside told Interfax Natural Gas Daily.

A spokesperson for ConocoPhillips, a partner in the Sunrise joint venture, told Interfax Natural Gas Daily that the project offers a development opportunity that could benefit all parties.

“We look forward to working with both nations over the coming months to better understand the implications of their agreement,” added the spokesperson.

The termination in January 2017 of a revenue-sharing treaty between East Timor and Australia to develop Greater Sunrise, which was designed to provide fiscal and regulatory stability for investors, appeared to leave the project indefinitely stalled.

Under the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS), revenue from the development of the field – which holds more than 142 billion cubic metres of gas reserves – would have been split equally between the two countries.

“Chances are the new agreement will be 50/50, as it was under CMATS – or slightly in favour of East Timor if the gas is processed in Darwin, to compensate for local taxation in Australia,” Jeffrey Feynman, an independent oil and gas consultant who has carried out studies in East Timor, told Interfax Natural Gas Daily.

Backfill options

ConocoPhillips has said that the owners of Darwin LNG in northern Australia – which include Santos, Inpex, Eni and Tokyo Gas – are assessing several options to backfill the LNG plant from 2023. By that time, the plant’s current offshore gas supply from the Bayu-Undan field, which lies in the joint petroleum development area (JPDA) between Australia and East Timor, is expected to be exhausted.

The logical and most cost-effective backfill supply option would be Greater Sunrise, analysts told Interfax Natural Gas Daily. But the legal
dispute between Australia and East Timor has stalled any progress on development of the field.

As a result, Conoco has said its proposed Barossa project off northern Australia is the leading candidate to backfill the plant’s sole 3.7 mpta train. The United States-based major is targeting an FID in late 2018.

Wood Mackenzie has said Greater Sunrise would be a cheaper option but tougher commercially with regards to the JPDA negotiations, which would take longer to agree.

“It’s a case of time versus cost,” said the energy research company, adding that Barossa would require subsea wells tied back to an FPSO, with estimated total development costs of $6 billion.

But offshore costs are falling, and the economics could improve. Analysts told Interfax Natural Gas Daily it would cost just $3-4 billion to backfill Darwin LNG with gas from Greater Sunrise as the field could be connected to Bayu-Undan’s existing infrastructure via a short spur pipeline.

“Sunrise gas is cleaner with high condensate, so it would be a better bet. Barossa [gas], which is high in carbon dioxide, would be better suited to methanol or fertiliser production,” Peter Strachan, an independent oil and gas analyst based in Perth, told Interfax Natural Gas Daily. However, he cautioned it would be unlikely that both projects could be developed as LNG at this point.

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

Further reading

AUSTRALIA E&P
East Timor’s last chance for Greater Sunrise
East Timor is running out of time to develop its Greater Sunrise gas fields, as potential investors consider alternatives.

AUSTRALIA E&P
Signs East Timor softening Greater Sunrise stance
East Timor has insisted that the Greater Sunrise fields be developed on its shores, but this commitment may be wavering.

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Energy front-month futures, 1 September

<table>
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<tr>
<th>Commodity</th>
<th>Close</th>
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<td>WTI Crude, $/bbl</td>
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<td>Henry Hub, $/MMBtu</td>
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<td>NCG, €/MWh</td>
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<tr>
<td>South China Coal, $/t</td>
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</tr>
</tbody>
</table>

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.

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On interfaxenergy.com

LNG in shipping needs all hands on deck

LNG as a marine fuel will sink without a trace unless the gas industry builds more bunkering facilities – especially in Asia.
Norway elections could be turning point for oil and gas

Silvia Favasuli / London

Norway’s upcoming general elections on 11 September may mark the beginning of an about-turn in the country’s oil and gas policies even if radical changes are not expected any time soon.

The lack of a significant advantage for either of the two main parties – Labour and the Conservatives, both of which are traditionally positive towards fossil fuels – means that smaller parties will likely be the kingmakers. The Greens have said that a ban on oil and gas exploration in Norway within 15 years would be a non-negotiable request should Labour or any other party want to create a coalition with them, a spokesperson for the Green Party told Interfax Natural Gas Daily.

“As the likelihood of a clear-cut win for a ‘red bloc’ between Labour, the Centre Party and the Socialist Left has shrunk, there has been some speculation that the Greens could join a centre-left coalition,” said Michael Barrett, editor of Danish news site The Local.

But the majority of Norway’s media think the Greens – who are likely to win a total of seven seats in parliament, according to recent polls – will give the red bloc their parliamentary support on a ‘supply and confidence’ basis only, given their stance on oil and gas. This would give them the ability to influence parliamentary discussions, but not to impose significant changes.

However, environmental pressures are coming from both sides of the political spectrum. “If the Conservatives win, they will have the Liberal Party [inside their coalition], which will try to push for more restricted lines regarding the Barents Sea,” said Anders Bjartnes, editor at the Norwegian Climate Foundation.

Analysts and industry figures told Interfax Natural Gas Daily they do not see significant changes as imminent, but agreed that both environmental concerns and market prices are fuelling a long-term debate that could result in restrictions on new exploration or on fiscal incentives for the sector.

In an interview with a Norwegian newspaper in late August, Marianne Marthinsen – a Labour MP and member of parliament’s Finance Committee – called for an amendment to rules allowing oil and gas companies to claim back tax paid on failed exploration as a measure to emphasise the urgency of climate change. A few days afterwards, Marthinsen clarified that her party does not intend to make changes to the tax regime in the next parliamentary term, but said her remarks were intended to open a debate on the issue.

Regime change

According to Per Ove Eikeland, senior research fellow at the Fridtjof Nansen Institute, a change in the oil and gas tax regime is not unrealistic.

“There are strong forces that would like to endanger such an important industry,” he told Interfax Natural Gas Daily. However, Norway has a strong reliance on the oil and gas sector, and the many entrenched interests will make turning away from it hard to achieve.

Karen Sund, founder of Norway’s Sund Energy, told Interfax Natural Gas Daily that the debate is motivated more by economic than environmental concerns. With an economy and a welfare state reliant on revenues from the oil and gas sector, the government has prioritised a high level of exploration. But now it will need to balance risks and rewards in a potentially low-price future environment with more pressing climate concerns. Hence, the need to review Norway’s fiscal incentives.

“I don’t think there will be any significant changes to anything for a few years. But whoever wins the election should start looking at how much risk the government is taking. Because of the high tax rate of 78% on profits, the government is the most exposed to changes to oil demand and oil price,” Sund said.

“This discussion is starting to come now, but cannot be only on one of the elements of the fiscal regime. A new direction has to be agreed on first,” she added.

Norway’s oil and gas sector accounts for 12% of its GDP and 13% of state revenues. The state owns 67% of the shares in Statoil. In 2016, the dividend paid to the state was NOK 11 billion ($1.41 billion). The Government Pension Fund Global – to which revenues from petroleum activities are transferred – had holdings with a total value of NOK 7,510 billion at the end of 2016.

We welcome your comments. Email us at comments@interfax.co.uk.
Financing could stymie FYR Macedonia-Bulgaria link

QUESTIONS OVER FINANCING and profitability are standing in the way of the planned second gas interconnector between Bulgaria and FYR Macedonia, analysts say.

The neighbouring Balkan states, which have had a historically fraught relationship, signed an energy memorandum on 1 August. However, the agreement leaves a lot to be desired, according to Martin Vladimirov, energy analyst at the Sofia-based Center for the Study of Democracy.

The core of the energy memorandum is a plan to build a second gas interconnector between the two countries. The existing link, which forms part of the Trans-Balkan pipeline, brings Russian gas to FYR Macedonia through Bulgarian territory.

However, sceptics say finance will be a challenge. “This new interconnector is going to die in the archives,” Vladimirov told Interfax Natural Gas Daily. “Bulgaria’s links to Greece and Serbia, which are commercially and strategically more important, are long-delayed due to financing, so where would the money for this project come from?”

Vladimirov also questioned the economic rationale of the planned pipeline and said FYR Macedonia simply cannot consume any more gas at this point. “Only a few parts of the country are gasified. There’s limited infrastructure, and gas is seen too expensive by the local population, who use mostly wood and coal for heating,” he said.

However, Ana Stojilovska, an energy analyst at Skopje-based thinktank Analytica, said it was too early to comment on how the project would be financed. “A feasibility study should proceed to show the economic logic behind the project. It remains to be seen whether the procedure will be transparent,” she told Interfax Natural Gas Daily.

Stojilovska did not write the pipeline off, claiming it fits well with the plans of FYR Macedonia’s new government, led by Prime Minister Zoran Zaev. Zaev, who took office at the end of May, is a former mayor of the municipality of Strumica, close to the Bulgarian border.

“Strumica has created its own gas distribution network by bringing CNG with trucks from Bulgaria,” Stojilovska said. “In my opinion, the government wants to play the card of being a ‘gasification-bringer’ as the gasification of Strumica was a small success,” she added.

According to the most recent available data from the Macedonian statistical office, gas accounted for only 1.6% of the country’s final annual energy consumption in 2015, when it constituted just 4.1% of the power generation mix.

Transnational connectors

The new interconnector plans also reflect FYR Macedonia’s desire not to be left out of transnational interconnector projects in the region. “The country doesn’t want to be [bypassed] by the Turkish Stream [pipeline], whose second string is now being discussed,” Vladimirov said. Once the undersea pipeline reaches the Turkish coast, it can either connect to Greece and then to the Trans-Adriatic Pipeline (TAP) or the Interconnector Turkey-Greece-Italy (ITGI) pipeline, or alternatively it can connect to Bulgaria.

According to Vladimirov, “Bulgaria [is trying] hard to be chosen [as the connection point]” and is touting its port of Varna as a possible European hub. “FYR Macedonia wants to benefit and, as the existing interconnector cannot be used due to its poor state, they came up with the brand new one. The truth is that Bulgaria doesn’t need it. That’s why I think it’s all just rhetoric,” Vladimirov added.

Meanwhile, Skopje is pondering an alternative plan. Macedonian and Greek transmission system operators signed a memorandum of understanding in October last year to build a pipeline between the two countries, which would allow FYR Macedonia to join TAP and ITGI in the future and also enable it to use Greece’s Alexandroupolis LNG terminal.

As a part of this plan, Skopje has commissioned an internal pipeline between Negotino and Klecovce, to be built by Russia’s Stroytransgaz, which is intended to connect its southern border with Greece to its northern border with Serbia.

We welcome your comments. Email us at comments@interfax.co.uk.
Indian LNG imports up 20% year on year in May

Andrew Walker / London

Indian consumption of gas continues to grow rapidly; statistics from the commerce department show.

**INDIAN LNG IMPORTS, MAY 2017**

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume, tons</th>
<th>Value, $million</th>
<th>Cost, $/MMBtu</th>
<th>Cost in 2016, $/MMBtu</th>
<th>Cost in 2015, $/MMBtu</th>
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<tr>
<td>Qatar</td>
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<td>7.46</td>
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<td>Nigeria</td>
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<tr>
<td>Eq. Guinea</td>
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<td>45.55</td>
<td>6.10</td>
<td>5.35</td>
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<td>Australia</td>
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<tr>
<td>UAE</td>
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<td>17.42</td>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>549.31</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td><strong>Average</strong></td>
<td>–</td>
<td>–</td>
<td><strong>7.05</strong></td>
<td><strong>5.39</strong></td>
<td><strong>11.51</strong></td>
</tr>
</tbody>
</table>

Source: Department of Commerce

**INDIA’S LNG IMPORTS** increased by 20% in May on an annual basis, according to statistics published by the Department of Commerce.

The average price that India paid for LNG fell for the third consecutive month in May, to $7.05/MMBtu. This is 23% higher year on year as prices bottomed out at $5.39/MMBtu in May 2016 as a result of falling oil prices.

The average price India has paid for its LNG reached a high of $8.02/MMBtu in February 2017 but fell over the summer. India is considered a price-sensitive market, and imports have increased significantly following the drop in LNG prices in January 2016.

Gas consumption in India is growing as the country boosts both domestic production and LNG imports, according to statistics from the Petroleum Planning and Analysis Cell. Sales of domestically produced gas reached 2.8 billion cubic metres in July – a multi-year high.

India received nearly 60% of its LNG from Qatar over the first five months of 2017, with Nigeria and Australia as its second- and third-largest suppliers respectively. West African countries accounted for 21% of India’s imports between January and May, while Asia Pacific nations delivered 11% of India’s cargoes. India's position between the Atlantic and the Pacific basins means it has received cargoes from 14 countries so far in 2017.
China price cut aims to maintain demand momentum

The benchmark gas price cut will shave nearly $1 billion off fuel costs for the non-residential sector and help ensure China's gas demand stays healthy entering winter.

China's First Wholesale gas price cut for commercial and industrial users in nearly two years reflects Beijing's intention to ensure gas demand growth maintains momentum in the second half of 2017, when coal combustion traditionally spikes to create intense smog.

The National Development and Reform Commission (NDRC) cut citygate prices by a flat rate of RMB 0.1 per cubic metre ($0.42/MMBtu) on Friday, a reduction of 5.5% from the previous national average that will save non-residential end-users at least RMB 7 billion ($920 million) per year. Total annual savings could reach RMB 16 billion based on further price adjustments by distributors, according to the NDRC.

“The NDRC has in the first half of this year […] cut transportation costs after evaluating the cost for cross-provincial pipelines […] which gives room for lowering the citygate prices,” said the commission.

Non-residential users make up around 80% of China's gas demand, said the NDRC. The government last slashed citygate non-residential prices by RMB 0.70/cm, or nearly 25%, in November 2015.

The latest cut was slightly higher than media reports of a RMB 0.08/cm decrease, which would have been equivalent to a reduction of 4.4%.

“The reduction in citygate prices will encourage consumption because it lowers the overall production costs of non-residential users, assuming a timely cost pass-through from the distributor to end-users,” said Moody's analyst Ralph Ng. “It is also credit-positive to the gas distributors, given the expected result of higher gas sales volumes.”

Guo Jiaofeng, a senior researcher at the Development Research Centre of the State Council, suggested the reduction would be positive for China's NOCs. “The price cut isn't very large, so it will barely impact their margins. In addition, the price cut can help them to increase gas sales, which is the most important thing for them,” Guo told Interfax Natural Gas Daily.

China’s central government wants gas to contribute up to 10% of primary energy consumption by 2020, which analysts estimate would be equal to demand of 360 billion cubic metres per year. The contribution would rise to 15% by 2030. The world’s third-largest gas consumer burned 205.8 billion cubic metres of gas in 2016, constituting 6.3% of the energy mix.

Distributors to benefit
ENN Energy Holdings, one of the largest independent gas distributors in China, stands to benefit the most from the cut as it has the largest exposure to non-residential users, Nomura analyst Jamie Wang wrote in a research note last week.

Analysts at Standard & Poor's Global Ratings agreed. “We believe downstream gas distributors could benefit from the cut in city-gate prices, given the potential boost in gas sales volumes. Operators with larger exposure to the industrial and commercial sector, such as ENN, could enjoy greater upside,” S&P said in a note.

The NDRC has requested distributors reduce the retail price of gas for non-residential users in order to fully pass through the wholesale price cut, according to Wang. “The purpose of this is to alleviate the natural gas costs of commercial users and eventually to boost natural gas consumption,” he added.

Separate sources at an LNG plant in Inner Mongolia, an LNG trading company in Hebei province and a gas filling station operator in Shandong province told Interfax Natural Gas Daily the price cut was relatively small and that they expected it to take at least a month to filter through to end-users. The move will nevertheless bolster downstream demand from factories and vehicles, something that has already strengthened this year.

The three sources said they expected PetroChina to hike citygate prices again this winter as a result of a policy adjustment in November 2015 that allowed upstream suppliers to negotiate increases of up to 20%. The sources said they did not expect last week's cut to offset the potential hike.

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Puerto Rico prepares for more LNG traffic

Chris Noon / Barcelona

EcoEléctrica, the operator of Puerto Rico’s only LNG terminal, has requested authorisation from the United States Federal Energy Regulatory Commission (FERC) to increase the send-out capacity of the facility – located in Guayanilla Bay, Peñuelas – by an additional 2.63 million cubic metres per day (MMcm/d), to a total of 7.90 MMcm/d.

EcoEléctrica, which is owned by Spanish giant Gas Natural Fenosa, will place one of its two spare LNG vaporisers into full-time service. A total of 5.27 MMcm/d will be sent to the island’s Costa Sur gas-to-power plant, while the remaining 2.63 MMcm/d will be burned in EcoEléctrica’s cogeneration power plant. EcoEléctrica’s proposal will boost the number of LNG cargoes arriving at the terminal from 24-26 per year to approximately 40 per year.

Trinidad and Tobago delivered all but five of the 35 cargoes imported by Puerto Rico in 2016 and H1 2017, according to FERC data. Despite the boost in send-out capacity, Puerto Rico’s planned second LNG terminal has run into difficulty – mainly because the island’s public utility (PREPA) is bankrupt and unable to finance the project.

Excelerate Energy confirmed in late July that it had cancelled its contract with PREPA for the FSRU, which would have had 14.16 MMcm/d of regasification capacity. Puerto Rican authorities criticised both parties for a lack of transparency when it emerged that the contract was scrapped a month earlier, on 27 June.
Global | Markets
Gas to be biggest single source of energy by 2050 – DNV GL
Gas will be the biggest single source of energy by the middle of the century but will peak in 2035, Norwegian quality assurance and risk management company DNV GL predicted in its Energy Transition Outlook, released on Monday. According to the report, oil will peak between 2020 and 2028 and be surpassed by gas in 2034. Renewable sources will make up nearly half of global energy supply by 2050. The world’s energy demand will plateau from 2030, the report said, thanks to energy efficiency and rapid electrification.

Global | LNG
LNG prices for October delivery increase by $0.05/MMBtu
Global LNG prices for cargoes delivered in October have increased by $0.05/MMBtu, according to Hellenic Shipping News. In the United States, the shutdown of the third train at the Sabine Pass plant for maintenance and the impact of Hurricane Harvey have caused some loading delays, which has tightened the market. However, additional supplies from Australia and Papua New Guinea mean the American problems are unlikely to have too much of an effect.

Africa | LNG
Angola LNG and Vitol sign long-term sales agreement
Angola LNG (ALNG) has signed a deal with European trader Vitol to supply LNG over several years, ALNG has announced in an emailed statement. The gas will come from the 5.2 mtpa liquefaction plant in Soyo, which uses associated gas from oil production. The deal is a “multi-year” agreement, but no further details have been given. “ALNG cargoes will be delivered to Vitol at destinations around the world,” the African company said.

Asia Pacific | Exploration & Production
Japan’s METI seeks budget boost to fund foreign asset purchases
Japan’s Ministry of Economy, Trade and Industry (METI) has requested an 11% increase in its 2018-2019 budget as it is seeking to acquire exploration and production assets overseas, according to Platts. The plan submitted to the Ministry of Finance asks for $552.8 million, an increase of 10.5% from the previous year. METI is looking at assets in Iran and Russia as well as shale gas fields in the United States, according to an official quoted by Platts.

Asia Pacific | Gas to Power
Tepco and JXTG to build gas power plant in Kawasaki
Tepco and JXTG Holdings will work together to build a 1.3 GW gas-fired power plant in the Japanese city of Kawasaki, according to the Nikkei Asian Review. The companies will establish a 50/50 joint venture to develop the $1.08 billion project and aim to bring it online by 2024. Tepco and JXTG also plan to build an LNG terminal to supply gas to the power plant. They hope cooperation will enable them to better compete in Japan’s deregulated consumer power market.

Australia | Exploration & Production
South Australian government to invest $1 mln in Cooper Basin
The government of South Australia will contribute nearly $1 million to help bring a Cooper Basin gas project online as the region is facing gas shortages, according to The Australian. Strike Energy, the company behind the project, will move its headquarters from Sydney to Adelaide and aims to commercialise a deep CBM play, which the government says is an industry first.

China | LNG
Zhuhai LNG terminal supplies China with 44 MMcm in late August
China National Offshore Oil Corp.’s (CNOOC’s) Zhuhai LNG terminal supplied 44 million cubic metres of gas during 22-29 August, when typhoons suspended production at offshore gas fields in the South China Sea. The terminal paused its trucked LNG sales to secure the supply of pipeline gas. CNOOC’s Dapeng terminal increased its daily trucked LNG sales from 20 to more than 100 tankers to meet LNG demand in Guangdong. Some of the offshore gas fields have resumed production.

 CONTINUED ON PAGE 9
China | LNG
Beijing confident on winter gas supply
Beijing Enterprises Holdings (BEH), the parent of Beijing Gas Group, does not expect China’s capital to face gas shortages this winter as China National Petroleum Corp. has pledged to ensure gas supply, BEH’s vice president, Zhi Xiaoye, said at a press conference last week. BEH may buy no more than two LNG cargoes this winter to supplement piped gas supply compared with 10 last winter.

CONTINUED FROM PAGE 8
China | LNG
Tangshan LNG terminal supplies China’s Hebei province with 10 bcm
PetroChina’s Tangshan LNG terminal in Hebei province has supplied 10 billion cubic metres of regasified LNG to the region’s pipeline network since it went online in November 2013. The terminal has received 7.74 mt of LNG so far during 2017 and sold 682 million cubic metres (MMcm) of the regasified fuel. It supplied a record 42 MMcm of regasified LNG during a single day.

North America | Policy & Regulation
FERC processing 51 pipeline project applications
The United States Federal Energy Regulatory Commission (FERC) was processing 51 applications for pipeline projects as of the end of August, while 10 pre-filing applications have been submitted, according to data from PointLogic Energy, the Energy Information Administration (EIA) has reported. “The combined proposed capacity of all these projects totals about [1.27 billion cubic metres per day], covering over [4,800 km] of both new and upgraded pipeline construction,” the EIA said. The 10 largest projects by capacity that have applied to FERC have a combined available volume of 637 million cubic metres per day (MMcm/d). The projects include four proposed pipelines that depend on the approval of LNG export facilities, including the Rio Grande, Driftwood, Port Arthur and Plaquemines projects. Other proposed pipelines – the Mountaineer Xpress, Mountain Valley, Supply Header, Atlantic Coast, and PennEast projects – are planned to increase flows from the Utica and Marcellus shale plays. “Thirty-six gas pipelines are under construction. The total capacity of these pipelines exceeds [595 MMcm/d] and covers more than [3,500 km],” the EIA said.

Latin America | Gas to Power
Argentina to add 3 GW of new gas-fired power by February
Argentina will have added 3.08 GW of new power generation capacity by February 2018 compared with February 2016, Business News Americas has reported, citing the country’s energy ministry. President Mauricio Macri aims to increase the share of renewables in Argentina’s power mix from 1.8% to 8% by the end of 2017, and to 20% by 2020. ■

The Beijing skyline. (Gazprom)