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Winners and losers

Asia's oil refiners have been enjoying healthy margins on the back of low crude prices, but the good times may not last for some.

On the offensive

Taliban forces have captured sections of Afghan territory close to the route that Turkmenistan hopes to use for a gas pipeline to Pakistan and India.

Lost patronage

Malaysia's service providers have been hit hard by state-owned Petronas' budget cuts.

Scavenger hunt

Japan wants its energy firms to boost their foreign asset acquisitions while oil prices are low.

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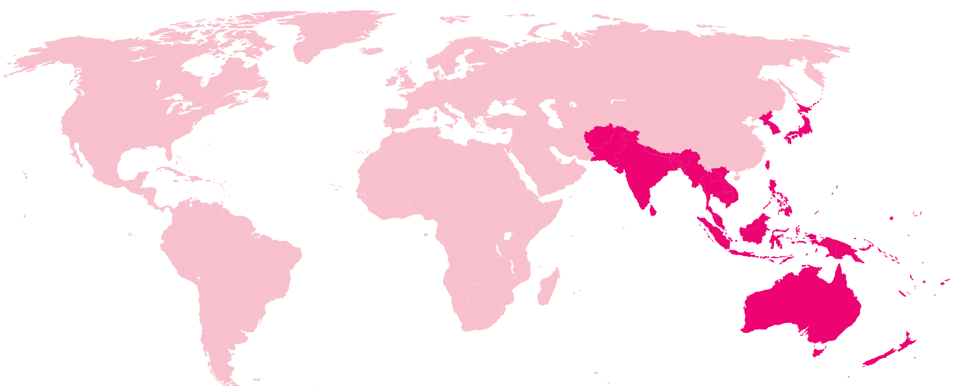


Have a question or comment? Contact the editor – Andrew Kemp (andrew.kemp@newsbase.com)

Winners and losers in the Asian downstream

PERFORMANCE

ASIA'S refiners have been enjoying healthy margins on the back of low crude oil prices and should be rubbing their hands with glee at predictions that prices will stay lower for longer.

But in a new analysis released this week consultancy Wood Mackenzie has warned that while low oil prices will be good for some downstream players, others are going to be squeezed by a ramp-up in regional capacity.

Asia's net refining capacity has increased by 360,000 bpd this year, according to Wood Mackenzie, which also predicted last week that crude prices were likely to remain around US$50 per barrel level over the next three to four consecutive years.

The analysis house said new capacity in China and Vietnam would keep most of Asia well-supplied and weigh on refining margins for export-oriented refiners in South Korea and Thailand. But it pointed to Indian refiners as likely to be shielded from margin pressure by strong local demand.

This gloomy outlook came despite reports last week that South Korean and Japanese refiners were running at near-maximum capacity to cash in on profit margins that were at five-month highs.

But while South Korean and Thai players may be in for some stormy weather, Wood Mackenzie noted that strong Indian demand would likely shield local refiners from margin pressure.

Betting on India

On July 31, Indian Minister of Petroleum and Natural Gas Dharmendra Pradhan said national oil product consumption would rise from a predicted 205 million tonnes in fiscal 2017-18 to 226 million tonnes in fiscal 2021-22.

Goldman Sachs shares the minister's bullishness over demand, recently advising clients: "We expect India to lead global oil demand growth, contributing to one-third of the growth expected in 2017-30."

Hindustan Petroleum Corporation Ltd's (HPCL) chairman, M K Surana, told Reuters this week: "Indian refiners are a bright spot in Asia because of rising fuel demand."

He forecast that Indian demand would grow by about 5% per year until 2030, driven by population growth and a burgeoning middle class.

Ivy Global Energy director Tushar Tarun Bansal told Reuters that the Indian oil market was likely to remain snug as capacity additions slowed even as demand ramped up. "Only a few secondary units are expected to come on stream in the next five years," he said.

Pointing to regulatory changes in India that allow refiners to charge market rates for fuels, Goldman Sachs said: "Multiple re-rating could continue as investors give more credit for diminishing regulatory headwinds and sustainable earnings growth."

But where there are winners there must be losers.

Bearish tidings

Goldman Sachs said it expected Singapore complex refining margins to drop to US$7.70 and US$7.30 in 2018 and 2019 respectively from US$8 this year. This would stretch valuations for Asian refiners, it said, prompting a sell recommendation for shares in South Korea's SK Innovation and Thailand's Thai Oil and IRPC.

This outlook provides some sobering context to news that Singapore overall refining margins to Dubai crude rose to US$7.34 per barrel on July 6, their highest level since February 16.

This had driven South Korean and Japanese refiners to run their plants at almost full capacity, unnamed industry sources told Reuters on July 28.

Petroleum Association of Japan data showed that the country's refiners were running at more than 90% of capacity in the first five months, after trending below the 90% level in the same period of 2016.

Korea National Oil Corp. (KNOC), meanwhile, revealed that South Korean refineries were running at 99.1% of capacity in the same period compared with 96.6% a year earlier.

"[Margins] were strong because of tight regional inventories, and this shows how solid demand is," said an anonymous source from a South Korean refinery. "There is little reason to trim down the run rates."❖

Taliban offensive casts doubt over TAPI progress

PIPELINES & TRANSPORT

TALIBAN forces have captured sections of Afghan territory close to the route that Turkmenistan hopes to use for a gas export pipeline into Pakistan and India.

Al Jazeera reported that militants had struck in a district in northwest Faryab Province close to the Turkmen border, while also mounting an attack on the central Afghan province of Ghor.

It marks a renewed push by Taliban forces to advance beyond their current strongholds in pockets around the southeast, southwest and northwest of the country. Key advances have included a blockade mounted on the main artery between northern Afghanistan and Kabul, the capital, according to the Turkmen pro-democracy news outlet Gundogar.

The latest action also represents a further blow for Ashgabat's proposed 33 bcm Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas export pipeline. The planned 1,800-km route would give Turkmenistan an alternative outlet for its gas reserves, estimated at 17.5 tcm according to the BP Statistical Review of World Energy.

At present, Turkmenistan only exports gas to Iran and China, but Ashgabat hopes to win new customers by building both TAPI and the proposed Trans-Caspian Gas Pipeline to Europe.

Turkmenistan produced 66.8 bcm of gas in 2016, of which 30 bcm is thought to have been shipped to China via the three-string Trans-Asian Gas Pipeline (TAGP), leaving Ashgabat with around 5 bcm of booked capacity to spare.

Construction on TAPI is understood to have commenced on the Turkmen side of the border, and Ashgabat sealed a US$700 million loan from the Islamic Development Bank (IDB) to fund construction in October 2016.

On July 28, ngv.ru quoted Pakistani Minister of Oil and Natural Resources Shahid Abbasi as saying that Islamabad anticipated receiving

first gas via TAPI by 2020. Abbasi added Islamabad had provided a 336 billion Pakistani rupee (US$3.2 billion) guarantee for the TAPI project, but did not comment on how the Afghan border issue might be resolved.

Ashgabat also hopes to transport an extra 25-30 bcm of gas to China once China National Petroleum Corp. (CNPC) completes a fourth TAGP trunk with 25 bcm capacity, but this project has stalled amid softer Chinese economic growth and a dispute over construction costs.

Citing comments from Tajik Minister of Energy and Water Resources Usmonali Uzmonzoda, Trend.az reported on July 27 that construction had started on the Tajik leg of TAGP Line D and would be finished by 2019.

But in an interview with China's Sina news agency on July 15, an official with Chinese pipeline construction venture Zhongya, Fan Zhong, said construction had been suspended until consumption growth recovers.❖

ONGC probed over old rig hire plan

POLICY

INDIA'S Central Vigilance Commission (CVC) has asked state-run Oil and Natural Gas Corp. (ONGC) and its directors to justify a plan drawn up several years ago to hire rigs without the usual process of holding open tendering.

The case dates back to 2015 when ONGC, following media reports, scrapped the leases of nine international rigs awarded directly by the management.

"The CVC has taken a harsh view of the matter," the financial daily Economic Times quoted an unnamed source with direct knowledge of the matter as saying last week. "ONGC's initial explanation has cut no ice with the CVC. The company said it was just a plan that remained unexecuted. But CVC wants to know why ONGC drew [up] such a plan in the first place."

This back and forth between CVC and ONGC response has reportedly lasted the better part of two years. ONGC's stand so far has been that it wanted to hire the rigs quickly in order to take advantage of their availability at cheaper rates owing to the oil price crash. Several IOCs deferred their upstream investment in 2015, resulting in a steep drop in rig leasing costs.

Bucking the global trend at the time, the Indian government allowed its NOCs to raise their capital expenditure budgets in a bid to boost domestic output and reduce the country's oil import dependency.

The CVC investigation highlights the lack of flexibility and independent decision-making that is often seen as one of the Indian NOCs' major operational drawbacks. The bureaucratic nature of the Indian energy sector has been blamed for ONGC's inability to compete with Chinese NOCs while bidding for energy assets overseas.

The issue has become increasingly relevant given the recently confirmed plans to merge ONGC and state-run Hindustan Petroleum Limited Corp. (HPCL). New Delhi is reportedly now looking at another such transaction between explorer Oil India Ltd (OIL) and refiner India Oil.

While the pooling of resources and expertise is being used to justify these moves, the government will need to be careful about creating unwieldy behemoths bogged down by unnecessary processes and procedures.❖

SOUTHEAST ASIA

Indonesia seeks new investors for East Natuna after ExxonMobil's exit

PROJECTS & COMPANIES

THE Indonesian Ministry of Energy invited international developers to join the Natuna Gas Consortium last week following ExxonMobil's withdrawal from the project.

The US super-major pulled out of the development of the East Natuna block, which is expected to cost US$20-40 billion, earlier this month after examining the conclusions of a feasibility study. ExxonMobil has not commented on the reason for its withdrawal. Jakarta has offered Japan's Inpex a partnership in the consortium, which includes Indonesia's state-owned Pertamina and Thailand's state-run PTT Exploration and Production (PTTEP), government officials said last week. Inpex is reported to be interested in the project but has yet to say so openly.

"The government offers [the consortium stake] to any firm, including Inpex," Deputy Energy Minister Arcandra Tahar told local media last week. "Anyone who wants to enter East Natuna, we more than welcome them. I will help any company that wants to enter."

East Natuna holds 46 tcf (1.3 tcm) of proven gas reserves. Project development calls for output to reach 1.98 bcf (56.07 mcm) per day, but the field has a carbon dioxide (CO_2) content that is 71% of the reservoir. Arcandra said Pertamina could not develop the field on its own because of the high CO_2 content. Pertamina said the feasibility study would be turned over to the ministry for use as a reference in managing the block.

The field is located in the South China Sea about 225 km off the northern shore of Natuna Island in an area disputed by China, which has claimed most of the South China Sea as its own offshore territory.

In July, Jakarta renamed the northern reaches of its exclusive economic zone (EEZ) in the South China Sea as the North Natuna Sea.

The East Natuna field, which covers 310 square km, was discovered in 1973 by Agip, but Pertamina has over the years had a number of contracts with international operators regarding the exploration and exploitation of the field. ExxonMobil has had intermittent involvement with the field since 1995. A new consortium agreement involving PTTEP was opened for negotiation in 2016, but will now not be concluded.❖

Malaysian offshore service sector heads for consolidation

The Southeast Asian country's service providers have been hit hard by state-owned Petronas' budget cuts, writes Sam Imphet

COMMENTARY

WHAT:
Service firms are increasingly looking for foreign contracts to bolster their bottom line.

WHY:
The sector's biggest client, Petronas, has become progressively cost conscious.

WHAT NEXT:
While Petronas will continue to favour local firms, providers need to diversify their client lists to avoid being swallowed up by bigger players.

MALAYSIAN offshore services provider Sapura Energy's recent spate of foreign contract wins underlines how the sector has had to adapt after more than two years of low oil prices.

The industry – one of the biggest in the region, employing thousands of people – is hurting despite having been cushioned by state-owned Petronas, which favours local service providers. Government investment funds have also played a part in keeping service companies afloat.

But this is unlikely to last, given that crude prices are not anticipated to return to their pre-2014 crash levels anytime soon. This point is further driven home not just by bearish oil price forecasts but also by Petronas' lasting clamp-down on spending.

This suggests that the time is approaching when a wave of industry consolidations will separate the strong from the weak.

Sagging support

Sapura Energy, known until just a few months ago as Sapura Kencana, recently announced four contract wins totalling US$206 million, with not a single one in Malaysian waters. The company, whose bread and butter business has traditionally come from Petronas, secured deals in Myanmar, India, Australia and Brunei.

The pursuit of foreign contracts is hardly surprising, though, given the paucity of available service work thanks to US$50 per barrel oil prices.

Wood Mackenzie said in a recent note that, following the OPEC meeting in Russia on July 24 – which saw no action taken on extending crude production cuts beyond March 2018, the price downturn would last another three to four consecutive years, with prices stubbornly holding at around US$50.

For its part, Petronas is not only undertaking less work but is also inviting foreign partners to buy stakes in its domestic projects to help spread costs and reduce risk.

Thailand's state-owned PTT has just bought a 10% stake in the Petronas LNG 9 Sdn Bhd (PL9SB) plant for US$500 million. Petronas is also still seeking bids for 49% a stake in its SK316 gas block off the coast of Sarawak State.

Sarawak Chief Minister Datuk Amar Abang has described the block, which contains several gas fields some with high carbon dioxide (CO_2) content, as "high risk" financially. But Petronas has dressed up its apparent risk and cost-sharing strategy by saying it is only looking for partners who can provide the necessary technology to tackle the CO_2 problem.

Petronas' patronage

Over the last 18 months Petronas' financial contribution to government income has been trimmed back. Petronas used to contribute about 33% of government annual revenue. In 2015, this amounted to around US$6.4 billion, but in 2016 it was down

nearly 40% at US$3.96 billion. More worrying for the offshore services sector is the NOC's US$11.2 billion capital expenditure cuts until 2019.

Malaysia's offshore upstream services industry is one of the biggest in the region and has managed to avoid serious consolidation, thanks mostly to being sustained by Petronas contracts. The Malaysian Oil and Gas Services Council lists 602 companies as members. What hurts Petronas hurts the entire Malaysian oil and gas chain.

But a push this year to consolidate three state-linked service providers collapsed in April after months of negotiation, owing to what UMW Oil & Gas (UMWOG) described as capital constraints and industry uncertainties. The deal was meant to merge Icon Offshore and Orkim with UMWOG, a subsidiary of state-owned industrial conglomerate UMW Holdings.

Icon is Malaysia's biggest upstream support vessel operator with 37 ships, while Orkim has a fleet of petroleum and gas tankers. UMWOG has a fleet of eight offshore drilling rigs.

Both Icon and Orkim are majority owned by state-run equity fund Ekuiti Nasional (Ekuinas), which was established to support so-called bumiputera businesses. Bumiputeras give preference to ethnic Malay business development and generally exclude the country's large Indian and Chinese communities.

"The deal was seen as starting the ball rolling in the consolidation of the domestic oil and gas industry," financial daily The Edge reported. "[It] may hinder the pace of the consolidation in the [Malaysian upstream] that is currently in the worst doldrums for decades."

Greener grass

Sapura's foreign contracts are for engineering work on pipelines and wellheads in PTTEP's Zawtika gas field in Myanmar's Gulf of Martaban, also called Moattama; subsea installations for Oil and Natural Gas Corp. (ONGC) in India; a contract for Royal Dutch Shell's Seria Crude Oil Terminal in Brunei, and repair and maintenance work at PTTEP's offshore Montara oil project off Western Australia.

The CEO of Singaporean business consultancy Consulus, Lawrence Chong, told *NewsBase Intelligence (NBI)* that he thought it was a good move by Malaysian offshore firms to try to reduce their reliance on Petronas as a way of diversifying their income sources.

But he said: "Given the entrenched nature of the role of Petronas, not all will succeed in this move so some level of consolidation in the sector might take place."

In a June report, BMI forecast that investment in oil exploration and production in Malaysia would remain curtailed due to continuing low prices, although gas output might improve over the 10 years to 2026.

"Malaysia's approach to boosting oil production through deepwater developments, marginal oilfield developments and enhanced recovery programmes will suffer setbacks due to the low oil prices," BMI said. "While we expect some developments, largely sanctioned prior to the oil price decline, will boost production until 2018-19, oil production decline will resume past 2019 due to a lack of new large-scale projects past 2018."

Scrambling for survival

Interestingly, though, the industry depression has enticed a number of international offshore service providers to relocate from Singapore to Kuala Lumpur to reduce their regional operating costs.

Over the last year these have included McDermott of the US, France's Technip and Norway's Subsea 7. They have cited lower real estate and other office and administration costs as making Malaysia more attractive than the city state, whose own large offshore services industry has suffered thousands of job losses.

Financial analysts UOB Kay Hian Securities said in a recent note that while the time was right for the "natural attrition" of smaller offshore players under normal circumstances, this was hindered by Petronas operating a form of cabotage whereby it reserved some jobs for Malaysian firms.

The state's heavy involvement in all aspects of Malaysia's upstream and downstream will likely help protect the energy industry from some of the pain being felt across the border in Singapore. But without the prospect of higher oil prices in the medium term it is hard to see how the Malaysian service sector can avoid painful consolidations for much longer.❖

Petronas to ditch blocks offshore Vietnam

PROJECTS & COMPANIES

PC Vietnam, a subsidiary of Malaysia's state-owned Petronas, is to hand over two blocks offshore Vietnam when the contract expires in September. The firm will relinquish Blocks 01 and 02 located in the Cuu Long Basin when the PSC for the blocks expires on September 9, Petronas said last week.

The Cuu Long Basin is located off the south-eastern coast of Vietnam and lies mainly in shallow waters. The PSC, which began more than two decades ago in September 1991, also represented Petronas' first entry into the Southeast Asian country, Petronas added.

The company was a "pioneer" investor in Vietnam's oil and gas industry, said Petronas' president and CEO, Datuk Wan Zulkiflee Wan Ariffin. The entry into Vietnam "was an important first step at the beginning of our globalisation journey", the firm added, without giving a reason for the contracts' relinquishment.

After the blocks are returned, Petronas will still hold producing Blocks 102 and 106, which are located in Northern Vietnam's Song Hong basin, the company said. The two blocks are located in water depths of around 25-30 metres.

Vietnam's proven oil reserves are estimated at 4.4 billion barrels, while proven natural gas reserves are estimated to be 21.8 tcf (617.38 bcm). It produced around 333,000 bpd of crude in 2016.

PetroVietnam is the country's only oil and gas company that builds infrastructure to exploit the sector, giving it a dominant position in the industry. Its upstream unit, PetroVietnam Exploration and Production (PVEP), is responsible for oil and gas production.

If a private or foreign company forms a joint venture (JV) in Vietnam, the state-run firm is obliged to take a controlling stake.

Approximately 40% of Vietnam's output is from fields operated by the Vietsovpetro JV, managed by state-run PetroVietnam and Russia's Zarubezhneft.

The joint venture operates Bach Ho, Vietnam's oldest field, which began producing in the mid-1980s. Bach Ho, meaning White Tiger, is located in the Cuu Long Basin.❖

EAST ASIA

Japanese LNG imports predicted to fall in coming years

PERFORMANCE

JAPAN'S LNG imports will decline for two years in a row in fiscal 2017, which started on April 1, and fiscal 2018 as more nuclear reactors come back online, the country's top energy think-tank has predicted.

The country's LNG purchases inched up 1.4% year on year in fiscal 2016 to 84.7 million tonnes, though their value tumbled 26.6% on the year to 3.33 trillion yen (US$30.08 billion).

But import volumes are set shrink 3.1% to 82.1 million tonnes in fiscal 2017 and then by 2.3% to 80.3 million tonnes in fiscal 2018, the government-affiliated Institute of Energy Economics, Japan (IEE Japan) said in a new report.

IEE Japan's estimates are based on the assumption that the Japanese economy, as measured by real GDP, will grow by 1.4% in fiscal 2017 and 1.1% in fiscal 2018, while five more nuclear reactors will come online by the end of fiscal 2018.

In that base-case scenario, Japanese nuclear power generation will rise from 18.1 billion kWh in fiscal 2016 to 55.6 billion kWh in fiscal 2017 and 65.6 billion kWh in fiscal 2018.

Resource-poor Japan imports almost all of its natural gas in the form of LNG and is the world's largest buyer of the frozen fuel. LNG demand

has risen sharply in Japan as an alternative fuel to atomic power in the wake of the 2011 Fukushima nuclear disaster.

Before the nuclear disaster, Japan had more than 50 nuclear reactors in operation supplying about 30% of the country's electricity needs. There are currently about 40 usable nuclear reactors in Japan, but most of them remain idle because of safety concerns.

There are only five reactors online at present: Sendai nuclear power plant's (NPP) No. 1 and No. 2 units; the Ikata NPP's No. 3 unit and the Takahama NPP's No. 3 and No. 4 units.

Japanese power companies have significantly boosted generation at thermal power plants (TPPs), especially LNG-fired ones, to make up for lost NPP output.

Japan's LNG imports surged from 70.6 million tonnes in fiscal 2010 to 87.7 million tonnes in fiscal 2013 and 89.1 million tonnes in fiscal 2014 before dropping to 83.6 million tonnes in fiscal 2015.❖

Japan looks for overseas oil assets

Tokyo wants its energy firms to boost their foreign asset acquisitions, writes Hisane Masaki

COMMENTARY

WHAT:
Tokyo wants more of its imported oil and gas to come from projects led by Japanese developers.

WHY:
Over 80% of the country's oil demand is met by imports from the Middle East.

WHAT NEXT:
The government has thrown its weight behind its oil and gas majors, but they still need to compete with much larger rivals for the choicest assets.

RESOURCE-POOR Japan is doubling down on energy security by increasing the percentage of Hinomaru oil and gas – fuel supplies produced by domestic firms – in its total procurements.

Oil and gas account for more than 60% of the country's primary energy supplies, but it relies heavily on imports to meet its demand. More than 80% of Japan's oil demand comes from the politically volatile Middle East.

In a bid to increase security of supply, Tokyo has set a target of boosting Hinomaru's share of the country's oil and gas supply to 40% by 2030.

To this end the government has increased its support for those developers who are keen to acquire upstream assets abroad.

METI data

According to figures released by the Ministry of Economy, Trade and Industry (METI) on July 14, Hinomaru's share of oil and gas supplies rose for the fourth year in a row to 1.47 million boepd in fiscal 2016, which ended on March 31.

But a brief glance at the figures shows that the pace of growth was marginal and the rate is still way below target. The ratio of Hinomaru oil and gas stood at 27.4% in fiscal 2016 compared with 27.2% in fiscal 2015. METI said declining output at a number of existing fields had offset production gains in Russia, the United Arab Emirates (UAE) and elsewhere.

But while output growth has the government's support, its domestic companies' efforts to enter foreign upstream plays have picked up pace. METI-affiliated Japan Oil, Gas and Metals National Corp. (JOGMEC) has played a key role in providing financial and other support for domestic companies acquiring foreign energy assets.

In November 2016, the Japanese parliament enacted a bill to allow JOGMEC to expand its support functions significantly.

The company can now provide financial assistance to help domestic companies acquire foreign resource developers and develop large-scale, technologically difficult fields. JOGMEC can now also acquire equity stakes in foreign state-run oil companies.

The revision of the law covering JOGMEC has come at a time when oil-producing countries such as Saudi Arabia and Russia are moving to sell stakes in their state oil companies, while China and India are aggressively acquiring foreign companies and upstream assets.

Price pain

Oil-producing countries' finances have been dealt a serious blow by slumping crude prices. This crunch has also driven down the prices of foreign oil companies' stocks and assets, making it easier for Japanese firms to move in. Just week Indonesia offered Inpex a stake in the East Natuna gas development.

In his New Year's message, Minister of Economy, Trade and Industry Hiroshige Seko referred to Japan's energy strategy and vowed to ensure a stable supply of fossil fuels such as oil and gas.

"The current slump in crude prices provides a good opportunity for Japan to acquire upstream oil and gas assets. We will enhance the international competitiveness of domestic energy developers while utilising the revised JOGMEC law," Seko said. In June, Seko's ministry released an annual white paper on energy echoing those views.

METI earmarked 76.2 billion yen (US$691.78 million) in its fiscal 2017 budget for JOGMEC-led efforts to promote Japan's acquisitions of foreign oil, gas and coal assets, up 6.1% from 71.8 billion yen (US$651.76 million) in its initial fiscal 2016 budget.

Japan's biggest energy developer Inpex has been at the vanguard of the country's drive for Hinomaru oil and gas and the company could well emerge as a full-fledged Japanese oil major with the government's backing.

Backing Inpex

Inpex has set a medium and long-term target of ramping up its net oil and gas production to 1 million boepd during the first half of the 2020s, compared with 514,000 boepd in fiscal 2016.

Inpex's two flagship LNG projects – Ichthys in Australia and Abadi in Indonesia – hold the key to whether the company can achieve its output targets. Perhaps Inpex's inexperience is showing through, however, as both projects have both been delayed with regard to the firm's initial plans.

Still, the Inpex-led US$34 billion Ichthys LNG project is the first large-scale gas export development to be headed by a Japanese company.

It represents a huge step forward for Japanese companies, as the country has so far lagged behind regional players such as China and India when it comes to claiming a stake in foreign energy assets.

The current low oil price situation provides Japan with a golden opportunity to enhance its energy security, but it comes down to whether the country can seize the moment even as others are no doubt thinking the same. Hinomaru oil and gas is key to the country's security and while government support will be key, so too will Japanese energy companies' ability to beat out their rivals.❖

"The current slump in crude prices provides a good opportunity for Japan to acquire upstream oil and gas assets

Hiroshige Seko
Minister of Economy, Trade and Industry Japan

APLNG ramp-up boosts Origin's revenue

The APLNG plant shipped 33 cargoes of LNG in the June quarter.
Image: ConocoPhillips

PERFORMANCE

THE continued operational ramp-up of the Australia Pacific LNG (APLNG) export project helped to more than double Origin Energy's revenue in the 12 months to June 30.

The company said sales had climbed by 105% year on year to A$2.2 billion (US$1.76 billion) on the back of higher production and higher average prices across all products. It noted that revenue for the final quarter of the financial year had jumped 106% to A$673.4 million (US$537.2 million).

The natural gas export project launched its second train in October 2016 after bringing the Halladale and Speculant wells in the offshore Otway Basin online in August 2016.

The company's gas and liquids production for the 12-month period climbed by 40% year on year to 323 PJ equivalent (8.41 bcm of gas equivalent).

Milestones

The company's CEO, Frank Calabria, pointed to the successful completion of a 90-day operational phase during which project lenders required APLNG's two trains to produce more LNG than their combined nameplate capacity.

Calabria said: "[The test's completion] represents a significant step in releasing the remaining US$3.4 billion of shareholder guarantees relating to APLNG's US$8.5 billion project finance facility, which is now expected to occur in the first quarter of FY2018 [July-September 2017]."

Origin said the plant performed well in all key areas during the test, increasing average production by more than 10% of the project's its nameplate capacity of 9 million tpy, with high thermal efficiency and minimal downtime.

In order to achieve that result, however, the company bought extra feedstock gas from the Santos-led Gladstone LNG (GLNG) project. APLNG is scheduled to complete maintenance shutdowns for both trains in the July-September quarter.

Despite a growing domestic backlash to gas exporters over soaring local fuel prices, APLNG is not covered by Canberra's new gas export restrictions, which should come into force next year.

The facility, in which Origin and ConocoPhillips each own 37.5% and Sinopec holds the remaining 25%, is a net contributor to the local market.

Origin has said previously that it has 67 PJ (1.75 bcm) per year of excess gas it can sell to domestic buyers and Calabria noted this week that the company already supplied more than 20% of the East Coast's gas demand.

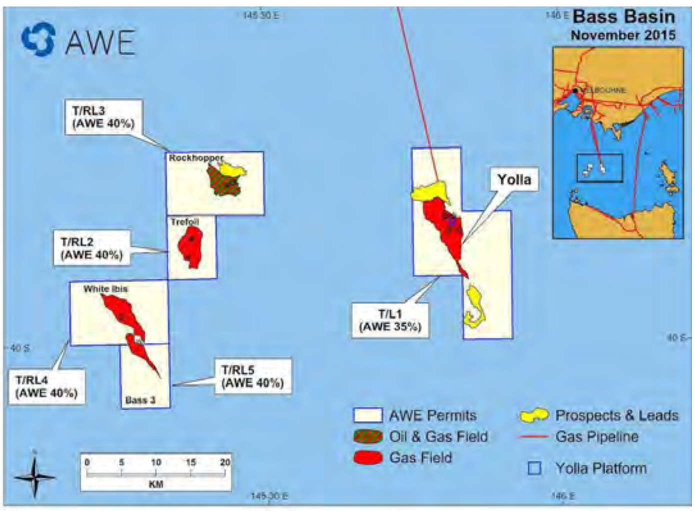
At present, only the GLNG project taps the local gas market to fulfil its export contracts leaving it the only export project in the government's sights.

Conventional push

Output from its Origin's Lattice Energy unit, which manages the group's conventional upstream assets, exceeded a full-year production guidance of 90 PJ (2.34 bcm), thanks to the aforementioned Halladale and Speculant start-ups. The wells' success helped lift gas production from the entire Otway Basin to 41.9 PJ (1.09 bcm) from 20.8 PJ (541.81 mcm) in financial year 2016.

Origin is currently looking to divest Lattice either through an IPO or a sale in an effort to reduce its debt burden. The company said earlier this year that sale was integral to reducing its debt to below A$9 billion (US$7.19 billion).

While there was no apparent sign of progress on the divestment front, Calabria noted last week that Lattice had successfully commissioned the Yolla compressor in June. The start-up is expected to maximise production over the life of the field and help the BassGas project, which lies in the offshore Bass Basin to the north of Tasmania, to continue meeting southern Australia's gas demand.❖



Australia's LNG sector loses value

PERFORMANCE

AS the completion of a string of LNG facilities in Australia ushers in the full-scale production phase of the country's LNG industry, the value of future projects looks under threat, according to a new study from Deloitte Access Economics.

The total value of future LNG projects tracked by Deloitte – which includes both "possible" and under construction projects – has fallen to A$744.7 billion (US$592.2 billion), according to Deloitte's latest quarterly investment monitor. This is the lowest level seen for seven years.

The value of definitive projects – defined as those under construction or committed – has also contracted 18% year on year to around A$350 billion (US$278.34 billion).

The simultaneous completion of multiple big gas projects is largely to blame, according to the report's lead author, Stephen Smith. Many of these are in Western Australia, where the A$61 billion (US$48.51 billion) Gorgon LNG plant was recently completed.

The value of Australia's gas projects will drop further as the A$45 billion (US$35.79 billion) Ichthys and A$34 billion (US$27.04 billion) Wheatstone projects reach completion, marking the end of a huge development phase in Australia's LNG industry, he added.

The report was published as Royal Dutch Shell announced that its Prelude floating LNG (FLNG) unit had finally arrived in Western Australia. The 488-metre vessel is part of a US$12 billion floating gas processing venture that will be the first of its kind in Australia.

The project will employ 260 workers on board the facility during operations, and create more than 1,500 jobs during its hook-up and commissioning phase.

The fall in value of Australia's gas projects also coincides with a retail price war for gas, exacerbated by the arrival in Western Australia of AGL.

Alinta Energy has recently started offering customers a discount of up to 30% on their gas bills for 25 months, with no lock-in contract or exit fees. Before this, the best deal available was a 25% discount offered by Wesfarmers' Kleenheat, which entered Western Australia in 2013.

Analysts caution, however, that low prices will not last. The start-up of LNG export projects also means that more gas will be sucked away from the domestic market, worsening a supply-demand imbalance that retailers will not be able to cushion customers from for long.❖

NEWS IN BRIEF

SOUTH ASIA

Korea Gas, POSCO Daewoo jointly bid for LNG terminal in Bangladesh

South Korea's state-run Korea Gas Corp has jointly submitted a preliminary bid with POSCO Daewoo Corp for construction of a terminal for importing LNG in Bangladesh, according to Korea Gas officials. A consortium formed by Korea Gas and POSCO Daewoo recently submitted its expression of interest to the Bangladesh government for the terminal with an annual capacity of 7.5 million tonnes of LNG.

LNG-import terminal will be developed by Petrobangla subsidiary Rupantarita Prakritik Gas onshore on Moheshkhali Island in the Bay of Benga, according to reports by LNG World Shipping and Korea Herald. SK E&S Co, an energy affiliate of South Korea's SK Group, is also believed to have submitted a preliminary bid for the project. One US, two Chinese, and five Japanese firms were among the preliminary bidders. The Bangladesh government is expected to shortlist the bidders to five next year.

THE FINANICAL EXPRESS (BANGLADESH), July 31, 2017

Gas discovery: ONGC for pricing freedom

State-owned Oil and Natural Gas Corp. (ONGC) has sought pricing and marketing freedom to help bring to production a one-trillion cubic feet gas discovery that will open up a new sedimentary basin after over three decades.

ONGC, which has opened for commercial production six out of India's seven producing basins, has made a significant natural gas discovery in the Gulf of Kutch of Gujarat coast that can produce about three million standard cubic meters per day, a senior company official said.

This will open up the country's eighth sedimentary basin — the first in over three decades — for oil and gas production in two years. "We can bring to production the find in 2-3 years time," he said. "The present government-mandated gas price of US$2.48 per million Btu does not make the discovery commercially viable. Since the find is in shallow waters, it does not qualify to get the US$5.56 per million Btu cap price set for difficult fields," the official said. The current rates of gas are uneconomic, he added.

PTI (INDIA), July 30, 2017

HPCL may shelve plans to buy stakes in Russian oilfields

With oil explorer ONGC's acquisition of HPCL now well on track to be completed by this fiscal, the latter's plans to pick up stakes in upstream fields in Russia will be shelved. Earlier, an HPCL official had told BusinessLine the company was keen to pick up stakes in Russian oilfields, along with ONGC (through ONGC Videsh Ltd), Oil India, Indian Oil Corporation and Bharat PetroResources (part of BPCL), in several instalments starting from 2015. The four companies now own 49.9% of Vankorneft, a subsidiary of Russian state-owned oil company Rosneft that owns and operates the Vankor cluster.

The Vankor cluster comprises three small fields, Suzunskoye, Tagulskoye and Lodochnoye, around Vankor in eastern ▸▸

Siberia. It is Rosneft's second largest field in terms of production and, according to reports, it accounts for about 4% of the country's annual oil production, pumping out 421,000 barrels of crude a day.

An HPCL official had earlier said the company was looking at picking up stakes in satellite fields in the region and was evaluating opportunities. However, the plan has now changed, with the company being merged with ONGC.

Sumit Pokharna, Deputy Vice-President, Kotak Securities, said: "The merger means ONGC will now focus on the upstream. HPCL's plans to pick up stakes in oilfields, like other PSU oil marketers, may now be cancelled out."

THE HINDU (INDIA), July 30, 2017

Indian orders LPG price to be hiked

Oil marketing companies like Indian Oil Corporation (IOC), Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) have started increasing the prices of cooking gas by 4 rupees per cylinder as part of the phase-wise decontrol of the fuel.

OMCs were authorised to increase price of subsidised domestic LPG cylinder by 2 rupees per cylinder (14.2 kg) per month with effect from July 1, 2016. "The government vide its order dated May 30, 2017 has again authorized OMCs to continue to increase the effective price of subsidised domestic LPG by 4 rupees per cylinder effective from June, 2017 per month till the reduction of Government subsidy to "NIL", or till March 2018, or till further orders, whichever is earliest," petroleum minister Dharmendra Pradhan said responding to a question in Lok Sabha. The price for the other subsidised cylinders like 5 kg would be increased proportionately by OMCs.

For the month of July, the subsidy amount on a 14.2 kg cylinder transferred to the accounts of Delhi consumers stood at 86.54 rupees. The prices of subsidised LPG in Delhi stood at 477.46 rupees per cylinder in Delhi in the month of July, while non-subsidised prices stood at 564 rupees.

BUSINESS STANDARD (INDIA), July 31, 2017

SOUTHEAST ASIA

Pertamina begins producing Euro 4 standard fuel

Pertamina's Cilacap unit refinery in Central Java, has begun to produce the Pertamax High Quality gasoline with Euro-4 standard. The first production began symbolically in Cilacap's Patra Graha Building, launched by the state-owned oil company's senior vice president for refining operations Ardhy Mokobombang.

Pertamina Cilacap Refinery general manager Nyoman Sukadana said that Pertamax High Quality is composed of 46% RCC Naphtha and 54% Platformate ex Platformer II. The Cilacap refinery is estimated to produce 1,100 metric barrels of this type of gasoline a month.

Pertamax High Quality is more eco-friendly as it has maximum sulphur content of just 50 part per million (ppm).

Nyoman said that this sulfur content is subject to the standard emission of new vehicles, as regulated by the Environment and Forestry Minister's Regulation registered as number P.20/MENLHK/SETJEN/-KUM.1/3/2017," he said

He said that Indonesia still uses fuel with Euro 2 standard emission, which has a maximum sulphur content of 300 ppm.

"The global Euro standard is Euro 6. That's why, the use of Euro 4 in Pertamax High Quality would significantly help reduce air pollution in Indonesia," he said. Ardhy Mokobombang said that the product will be available in the market by December 10 this year.

TEMPO (INDONESIA), August 1, 2017

PHE reports oil and gas production rise

PT Pertamina Hulu Energi (PHE), a subsidiary of state-owned oil and gas company PT Pertamina reported a rise in the production of oil and natural gas by 14% on average foe one decade from 2008 until first semester this year.

PHE president and director Gunung Sardjono Hadi in his written statement said that the company's oil and gas production in 2008 reached 62 million boepd, while it reached 199 million boepd in the first semester this year.

The rise was sustained by the operation of a number of new blocks such as Offshore North West Java (ONWJ), West Madura Offshore (WMO), North Sumatera Offshore (NSO) and on stream of several projects such as ONWJ ground GG and Senoro Toili, Gunung said.

Gunung added that the company's highest production in the past one decade came from production of gas that posted a rise by 18% on average. Gas production in 2008 reached only 163 mcf per day, while in the first semester this year, it reached 742 mcf per day. In the meantime, oil production rose by 9% on average from 34 million bpd in 2008 into 71 million bpd in the period of January - June 2017.

ANTARA (INDONESIA), July 30, 2017

Petronas sells interest in Bintulu LNG 9 to PTTGLI

Petronas has signed an agreement with PTTGL Investment Ltd (PTTGLI) for PTTGLI's equity participation of a 10% equity interest in Petronas LNG 9 Sdn Bhd (PL9SB) in Bintulu. PL9SB, a subsidiary of Petronas, owns the ninth LNG liquefaction train (Train 9) in the Petronas LNG Complex in Bintulu, Sarawak. PTTGLI is a subsidiary of PTT Global LNG Company Ltd (PTTGL) which is a 50:50 joint venture company between PTT Public Company Ltd (PTT), Thailand's state-owned oil and gas company, and PTT Exploration and Production Public Company Ltd (PTTEP).

With a production capacity of 3.6 mpta, Train 9 started its commercial operations in quarter one of this year, boosting the total output capacity of the Petronas LNG Complex to 30 mtpa.

Following PTTGLI's 10% participation, Petronas now owns 80% share in PL9SB, while the remaining 10% is owned by JXTG Nippon Oil & Energy Corporation through its subsidiary, Nippon Oil Finance (Netherlands) BV.

"This strategic partnership demonstrates Petronas' ongoing commitment to grow our LNG business and more importantly pave ways for both parties to collaborate further in strengthening and maximising the integrated oil and gas value chain," said Petronas executive vice president and chief executive officer of upstream, Datuk Mohd Anuar Taib in a statement. "This collaboration with PTT is also a catalyst for Petronas' growth in the Thai gas market, as part of our long-term gas business strategy," he added.

BORNEO POST (MALAYSIA), July 29, 2017

Former exec at PetroVietnam subsidiary surrenders to police

A former Vietnamese oil executive has surrendered to police after a year on the run amid a crackdown on corruption by the country's communist authorities. Trinh Xuan Thanh, 51, disappeared in July last year after he was accused of mismanagement at a subsidiary of national oil and gas giant, PetroVietnam, resulting in losses of some US$150 million.

Police issued an arrest warrant against Thanh in September. Officials have said he fled to Europe. Thanh turned himself to police, the Ministry of Public Security said on its website without giving more details. Thanh was chairman of PetroVietnam Construction Joint Stock Corporation until 2013 when he was appointed to several senior government positions including vice chairman of Hau Giang province in the southern Mekong Delta. He was elected to the National Assembly in May 2016, but was dismissed from the communist-dominated legislature before its first session the following month.

In another development, a vice trade minister was facing dismissal for alleged wrongdoing as a company executive.

ASSOCIATED PRESS, August 1, 2017

EAST ASIA

Tokyo Gas to enter natural gas distribution biz in Vietnam

Tokyo Gas Co. said it has acquired a 24.9% stake in a subsidiary of state-run PetroVietnam Gas Joint Stock Corp. to launch natural gas distribution operations in the Southeast Asian country. The Japanese company is believed to have invested some 5.4 billion yen for the acquisition of the stake, informed sources said.

JIJI PRESS (JAPAN), July 31, 2017

Japan protests Chinese activity near Senkaku Islands in gas-rich East China Sea

Japan has lodged a protest with China over what it described as suspicious activity in a maritime area rich in gas deposits in the East China Sea, officials said. The two countries have a longstanding dispute over the Japan-controlled, China-claimed Senkaku Islands in the East China Sea. China uses the name Daioyu.

Tokyo and Beijing agreed in June 2008 to co-operate over oil and gas resources in the area, but negotiations stopped two years later amid rising tensions and have not resumed. "We confirmed that China is engaged in some kind of activity by stopping mobile drilling ships" near the median line separating the two countries' exclusive economic zones in the area, said Chief Cabinet Secretary Yoshihide Suga.

"It is extremely regrettable that China is unilaterally continuing its development activity," Suga, the government's top spokesman, told a news conference. Foreign Minister Fumio Kishida made similar comments. Suga added that Japan lodged the protest late last month after noticing the activity but did not specify what exactly the Chinese ships were doing.

So far, China has built 16 drilling platforms on its side near the median line, the Asahi Shimbun reported. Suga urged Beijing to resume stalled negotiations to jointly develop resources in the region, as discussed by Chinese President Xi Jinping and Prime Minister Shinzo Abe in September last year. The gas field under the joint development agreement lies in an area where both countries' EEZs overlap.

Japan says the median line between the two nations should mark the limits of their respective EEZs. But China insists the border should be drawn closer to Japan, taking into account the continental shelf and other features of the ocean.

JAPAN TIMES (JAPAN), August 1, 2017

South Korea's July crude oil imports up 0.8%

South Korea's crude oil imports edged up 0.8% in July from a year earlier to 90.8 million barrels, preliminary data from the Ministry of Trade, Industry and Energy showed. Final data will be released later this month by state-run Korea National Oil Corp. (KNOC).

South Korea's total crude imports in June climbed 4% to 87.3 million barrels year on year, according to KNOC data last month.

REUTERS, August 1, 2017

AUSTRALIASIA

Chevron sets August start date for US$34 billion Wheatstone LNG project

Chevron has suffered a further slippage in the start-up of its US$34 billion (A$42 billion) Wheatstone LNG project in Western Australia, but has told investors that production should commence in August. The first production unit at the two-train project, which had been targeted for start-up in mid-2017 after missing an original end-2016 date, is "in the final stages of commissioning", head of upstream Jay Johnson said in the US.

Investors have been nervously awaiting the start of production at Wheatstone after the circa 18-month delay at Chevron's first WA LNG venture, the monster Gorgon project, which ran US$17 billion over the original budget.

The Wheatstone schedule is more relevant for Australian investors given the participation of Woodside Petroleum, with a 13% stake. This project has seen a more modest cost increase, of US$5 billion.

Woodside chief executive Peter Coleman said earlier this month he was "very pleased with the contribution that Woodside has been able to make" at Wheatstone, which it bought into through a December 2014 deal with Apache.

AUSTRALIAN FINANCIAL REVIEW (AUSTRALIA), July 30, 2017

Gorgon hits capacity as gas projects pick up steam

Australia's US$200 billion (A$250 billion) gas export construction boom over the past decade is starting to finally bear fruit, with Chevron declaring that the nation's most expensive resources project, the US$60 billion Gorgon LNG, is running at full capacity and the start of the US$34 billion Wheatstone project is imminent.

The progress update on the two West Australian projects, announced on Friday in the US, comes as the floating Prelude LNG, the biggest ship ever built and estimated to have cost much more than US$20 billion, is being towed to WA's offshore Browse Basin.

And last week, Origin Energy's Australia-Pacific LNG project completed a lenders' test that means all six LNG export trains built side-by-side on Gladstone's Curtis Island are operational. The question now is how much of Australia's gas bounty will be harvested by the nation, with cost blowouts at all the projects providing big deductions, and lower LNG prices slashing expected cash flows and company profits.

Chevron's head of exploration and production, Jay Johnson, said the three big trains at Gorgon, designed to export a combined 15 million tonnes of LNG a year, were up and running at nameplate capacity after glitches last year starting the first train. "Gorgon's running really well," he said. "Train 3 start-up was a beautiful thing — we're really pleased with it; it looked great."

THE AUSTRALIAN (AUSTRALIA), July 31, 2017

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