

PetroChina to step up coal-bed methane production on green demand

.....
Bloomberg in Beijing

PetroChina, Asia's biggest company by market value, will accelerate coal-bed methane production in the next decade to meet domestic demand for cleaner-burning fuels.

Annual output may exceed 10 billion cubic metres by 2020 compared with about 4 billion cubic metres by 2015, Jie Mingxun, president of PetroChina's coal-bed methane unit, said. The 2020 forecast is four times more than the country's entire production last year.

China, the world's largest polluter, wants to triple the use of gas to about 10 per cent of energy consumption by 2020 to rely less on coal. PetroChina teamed up with Royal Dutch Shell in March to acquire Aus-

tralian coal-bed gas producer Arrow Energy to help the Beijing-based company develop China's reserves of the resource, chairman Jiang Jiemin said then.

"The additional output will be mainly supported by new projects in northern China," Jie said. PetroChina plans to spend about 11 billion yuan (HK\$12.5 billion) to increase its coal-bed methane production capacity to 4.5 billion cubic metres a year by about 2013, according to Jie.

The country's annual coal-bed methane output may reach 20 billion cubic metres by 2015, Sun Maoyuan, chairman of China United Coalbed Methane, a unit of China National Coal Group, said in November. China produced 2.5 billion cubic metres of the resource last year, Hu Wenrui,

Further afield China is increasing its reliance on unconventional gas

.....
**By 2020, the amount of China's
total gas output unconventional
gas may account for is**

30%

chairman of China Petroleum Enterprise Association, said yesterday.

Coal-bed methane, gas in shale and tight gas held between rocks are collectively known as unconventional gas resources. Unconventional gas may account for 30 per cent of China's total gas output by 2020, Jie said at an oil conference in Beijing.

PetroChina has fallen 2.8 per cent in Hong Kong trading in the past year, compared with the 11 per cent gain in the benchmark Hang Seng Index. The stock rose 3.5 per cent to close at HK\$8.49 yesterday.

China may only meet half of its 2010 coal-bed methane production target of 10 billion cubic metres, as low returns and difficulty in delivering the gas to users have damped investment in the industry in the last

few years, China Petroleum Enterprise Association's Hu said.

The country is likely to keep hunting for resources that can be developed as liquefied natural gas after the Arrow Energy acquisition, Neil Beveridge, a Hong Kong-based analyst at Bernstein, said in a report to clients on Thursday.

"Conditions are ripe for more deals," he said. "Although energy security is a prime factor in overseas M&A, the cost of acquiring proven reserves overseas is in many cases cheaper than replacing reserves domestically through the drill bit."

The Chinese government is getting more calls from gas suppliers to speed up natural gas pricing changes as China starts to receive more piped gas from neighbouring countries.

Importers typically buy at higher international rates and sell at lower state-regulated prices. The government controls energy prices to keep inflation in check.

"Possible gas pricing changes will also help boost our profitability," Jie said.

China may raise natural gas prices by as much as 20 per cent in the third quarter, the *Economic Observer* said on its website yesterday, citing an unidentified official from the energy bureau under the National Development and Reform Commission.

The government may increase wholesale gas prices by 20 to 30 per cent after implementing pricing reforms, an official at ENN Group, the parent of Hong Kong-listed Xinao Gas Holdings, said in November.