

Oil and Gas News Briefs

Compiled by Larry Persily

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Japanese banks provided 43% of lending for LNG projects in 2014

<http://blogs.wsj.com/japanrealtime/2015/04/20/japan-banks-provide-big-share-of-lending-for-lng-projects/>

(Wall Street Journal; April 20) - Japanese banks provided over \$5 billion, or 43 percent, of the \$12.28 billion in total lending for liquefied natural gas projects in 2014, energy and shipping adviser Poten & Partners said in an April 17 report. Five Japanese banks were among the top 10 lenders in this area; the top three were Bank of Tokyo Mitsubishi UFJ, Mizuho and Sumitomo Mitsui Banking Corp., each lending more than \$1 billion. Japan's total is \$6 billion if the country's export credit agency lending is added to the number.

Japan's dominance came mainly from its strong support for projects in the U.S., in which many Japanese companies have equities and off-take or tolling contracts. European banks were close behind Japanese banks with total lending worth \$4.8 billion. Non-Japanese Asian banks, which included lenders from Australia, Singapore, South Korea and China, provided \$880 million. And 2015 is likely to be another busy year for LNG project finance because more U.S. ventures will make final investment decisions.

"The main appeal of LNG projects to lenders are long-term take-or-pay contracts or tolling contracts with investment-grade counterparties," the report said. If Anadarko and Italy's Eni can secure sufficient customers for their massive Mozambique projects, 2015 could be a record year for LNG project lending. But Japanese banks are unlikely to collectively dominate the financing lineup to the same extent they did in 2014 because LNG demand growth from Japan is slowing, Poten & Partners said.

Long-term pricing is what really matters, LNG researcher says

<http://www.naturalgasintel.com/articles/102043-long-view-needed-to-understand-lng-outlook-expert-says>

(Natural Gas Intelligence Daily; April 20) - The future of U.S. liquefied natural gas exports could be in jeopardy, an ExxonMobil executive warned April 20, with the industry urging speedier export approvals. "If policymakers don't revisit and redress some significant legal and regulatory problems ... the U.S. could be left behind during one of the great, historic developments in global energy," Rob Franklin, president of ExxonMobil Gas & Power Marketing, said in a speech in Washington. An LNG expert advises, however, it's also important to keep a long-term view on supply and pricing.

Christopher Goncalves, head of the LNG, natural gas and power group at Berkeley Research Group, told Natural Gas Intelligence, "I think it's important to distinguish the short- to mid-term from the long-term outlook." In the near term, an abundance of liquefaction capacity coming online will create a surplus, he said. There will be pressure on LNG prices and pressure on the more expensive LNG projects around the world.

But the long-term outlook for prices is different from looking just to the end of the decade, Goncalves said. "With a lot of these projects aiming to come online in the time period of 2018 to 2022 ... what really matters to them and their economics is the long-term outlook for prices."

What matters are contract negotiations, pricing mechanisms and price indices for the next decade and beyond, Goncalves said. Looking long term, Franklin said global LNG demand is expected to triple between 2010 and 2040. "To put this into perspective, it means that the amount of incremental gas needed to meet global demand by 2025 will be almost double the size of the entire U.S. gas market today. ... Most of the new demand for LNG will come from existing and emerging markets in the Asia-Pacific."

Natural gas poised to gain ground on coal in Asia power generation

<http://uk.reuters.com/article/2015/04/21/column-russell-natgas-asia-idUKL4N0XI2GW20150421>

(Reuters column; April 21) - Can Asia replicate the coal-to-natural-gas switching that has revolutionized power generation in the United States? Up to now the conventional thinking has been not really, given that coal remains cheap and abundant in the region, while natural gas is more scarce, expensive and difficult to transport. But factors are at work that suggest several Asian countries may be able to use more gas for power generation, and at prices that are still competitive, albeit higher than sticking with coal.

The main reason is that gas is becoming significantly cheaper in Asia and is likely to decline more — due to the surge in supply of liquefied natural gas. Spot-market LNG in Asia is around \$7 to \$8 per million Btu, down almost 30 percent this year and down even more sharply from the record \$20.50 in February 2014. While a milder than usual winter in North Asia was partly behind the slump in regional prices, the more compelling reason is the start-up of the first of a slew of giant LNG projects in the region.

At current prices LNG is still more expensive in Asia than coal, but the gap has been narrowing. And to dismiss the chances of gas displacing coal on a cost basis alone would be failing to consider other factors. The fall in gas prices appears structural and has further to run, while coal prices are probably about as low as they can go. Gas plants are also about one-third the price to build than coal-fired equivalents, and are also likely to be easier to finance given the growing opposition to the more polluting fuel.

Middle East nations increasingly turn to LNG imports

<http://www.bloomberg.com/news/articles/2015-04-21/lng-takes-off-in-gas-rich-mideast-as-conflict-thwarts-pipelines>

(Bloomberg; April 21) - Pipelines are a cheaper way to deliver natural gas than tanker ships. They're also easier to blow up. That's one reason countries in North Africa and the Middle East are going full steam ahead on sea transport. They also want diversity of supply. The volume of cargoes carrying liquefied natural gas climbed 31 percent in 2014 as Middle East nations increased imports at the fastest pace in four years. The fuel is in demand as electricity use surges for growing populations and industries.

The Middle East and North Africa will spend \$120 billion on gas-fired power plants by 2035, more than either China or the European Union, according to the International Energy Agency. Meanwhile, strife between nations has jeopardized pipelines that are used as political power plays as well as increasingly attractive targets for sabotage. The Mideast is home to more than half the world's gas reserves. Even so, Dubai and Kuwait are major importers, and Egypt, Jordan and Pakistan are adding LNG import terminals.

Morocco, which closed its border with gas-rich Algeria in 1994, is building a \$4.6 billion power-plant complex to be supplied with LNG from Qatar, Russia and the U.S. The country's energy minister said last month that "uncertainty" over the future of a pipeline network for Algerian gas motivated his country to secure LNG as an alternative. Egypt halted exports by pipeline to Israel in 2012 and Jordan in 2013 amid sabotage attacks on its network in the Sinai Peninsula. And as domestic gas production is falling short of local needs, Egypt's government began importing Algerian and Russian LNG in March.

LNG market players respond to changing dynamics

<http://uk.reuters.com/article/2015/04/20/column-russell-lng-asia-idUKL4N0XH2HH20150420>

(Reuters; April 20) - Nothing shows the changing nature of the global liquefied natural gas market more than the creation of super-sized producers and buyers. The \$70 billion merger of Shell and BG and the joint fuel procurement venture between Japan's top utilities, Tokyo Electric Power and Chubu Electric Power, are flip sides of the same coin. Shell is trying to create a natural gas giant to bank on economies of scale. TEPCO and Chubu have created the world's biggest buyer of LNG to secure the best possible deals and ensure that the balance of market power permanently shifts toward consumers.

Both sets of companies are responding to the reality that the LNG market is moving from global deficit to oversupply. Major LNG producers had taken the view that demand growth would be strong for an extended period of time, led mainly by China but also by emerging economies in India and Southeast Asia. This led to a surge in export projects,

with seven LNG operations starting construction in Australia in recent years, and additional plants being built elsewhere, including the U.S. and Russia.

But while Chinese demand has continued to rise, it hasn't been quite as fast as producers had expected. With the first of the seven new Australian ventures now exporting, the market is likely to enter a surplus, which will keep a lid on LNG prices. The trend in LNG pricing is now toward shorter-term contracts, more flexible pricing and fewer restrictions on destinations or re-selling. This works in the buyers' favor, as long as the market is in oversupply. But the LNG surplus may not last as long as buyers hope, given the enormous cost in bringing new capacity to market.

Japanese utility moves closer to first nuclear plant restart

<http://www.platts.com/latest-news/natural-gas/tokyo/japan-nuclear-ruling-expected-to-cool-kyushu-27334190>

(Platts; April 22) - Japanese utility Kyushu Electric's late-summer LNG demand is expected to be lower than last year after a court April 22 rejected a lawsuit attempting to stop the company from restarting its Sendai nuclear reactors, sources said. The ruling paves the way for Kyushu Electric to restart its two 890-megawatt reactors at its Sendai nuclear power plant in Kagoshima prefecture by this summer.

Platts research unit Eclipse Energy expects the restart to replace capacity currently met by Kyushu Electric's oil-fired power plants. Market sources, however, said that having nuclear as baseload power would give Kyushu Electric more room to cut down on LNG purchases. "This will definitely depress their demand for spot cargoes," said a North Asian source, adding that Kyushu Electric has been buying spot cargoes and not committing to long-term contracts because of the uncertainty over nuclear restarts.

The Sendai reactors would be the first in Japan to restart after all of the country's nuclear plants closed down following the 2011 Fukushima plant disaster. Further impact on Kyushu Electric's LNG demand could be felt if the utility's two 1.18-gigawatt reactors at its Genkai nuclear power plant restart. They are currently undergoing safety reviews. Eclipse Energy said the resumption of the Genkai reactors could cut demand by about 350 million cubic feet of gas as LNG per day.

Latin America looks to LNG to fuel economic growth

<http://fuelfix.com/blog/2015/04/22/ceraweek-latin-america-bets-on-lng/>

(Houston Chronicle; April 22) – Liquefied natural gas imports will fuel the future economic growth of Latin America, a panel of the region's executives told IHS Energy CERAWEEK attendees April 22. Demand for electricity and energy in general has

increased by leaps and bounds as economic growth has created wealth across the region. But options for generating that power and maintaining growth have been limited.

New hydropower projects — the traditional electricity workhorse for the region — have run into a variety of problems, including drought. Tougher environmental regulations have put other sources out of reach, and other renewable projects can offer only a sliver of total power needs. In most countries that do produce their own natural gas, demand for the fuel has begun to outpace production. The result has been a massive shift toward importing the fuel, panelists said.

Marcelo Tokman, the CEO of Chilean state-owned energy company Empresa Nacional del Petróleo, said his country's need for the fuel made the future clear: "The only option we have is importing it through LNG." Thomas Garcia Blanco, CEO of Repsol Sinopec Brasil, said LNG will remain important despite the presence of large unconventional gas reserves in the region. "We do not forecast that big [unconventional] volumes will developed in the short and medium term," he said. "Latin America will continue growing. And with that growth, energy will be required, and that energy will come from ... gas."

Global LNG market cooling down, but 'buyers beware'

<http://fuelfix.com/blog/2015/04/22/ceraweek-weaker-lng-projects-could-lose-their-nerve-amid-a-slowdown-parallax-ceo-says/>

(Houston Chronicle; April 22) - Falling oil prices are pumping the brakes on the global liquefied natural gas market, forcing a much-needed cooling-off period for a white hot market that has rapidly expanded in recent years, a panel of LNG experts said April 22. "Low oil prices aren't necessarily bad," Chris Holmes, senior director of global gas and LNG with IHS, said on the third day of the weeklong IHS Energy CERAWEEK conference. "It instills some discipline into the industry which clearly I think it needed."

The crude collapse has paralyzed the market, forcing sellers to re-evaluate pricey new projects and presenting buyers with an overwhelming amount of choices, said Martin Houston, CEO of Parallax, a Houston-based LNG company. Companies scrambling to build expensive new projects to supercool natural gas and ship it to hungry markets in Asia and Europe are "losing their confidence" as LNG prices weaken, Houston said. "The weaker projects may well lose their nerve."

Countries eager to buy LNG shipments have the upper-hand for now, with vast supplies of cheap LNG soon headed to market. But buyers' markets "don't prevail for long" and a price correction may soon be on its way, Houston said. "Buyers beware: The tightness is coming," he said. "I don't know when it's coming or what it looks like, but it looks expensive and it looks volatile."

U.S. LNG export hopefuls will need to adapt to new pricing world

<http://www.usatoday.com/story/money/business/2015/04/19/loveless-cheniere-souki/25980327/>

(USA Today; April 19) - The collapse in oil prices has shaken up executives from oil and gas companies, large and small — among them, Charif Souki. Not that Souki is in any imminent trouble. His company, Cheniere Energy, is on the verge of beginning the first exporter of liquefied natural gas from the continental U.S., with customers locked up in Asia and Europe. But the CEO knows that growing his business will be more difficult with low oil prices, and as oil and gas markets seem likely to stay volatile for some time.

The reason? The oil-price decline relative to U.S. natural gas prices has eliminated the price advantage of U.S. LNG, reversing wide differentials that prompted Asian buyers to seek out LNG linked to the U.S. gas price. "We're all going to have to adapt," Souki said at an Atlantic Council event in Washington DC. "I think it's pretty unsettling, as it is now. I really can't imagine anything that gets worse, and I speak from experience."

By experience, he means Cheniere's brush with bankruptcy in 2008 as the company's multibillion-dollar plans to import LNG into the U.S. ran afoul of the "shale gale." With his company on the brink, Souki decided to retool his projects in Texas and Louisiana to export U.S. gas. Now, Cheniere is on the verge of becoming one of the world's major LNG exporters. The new challenge for Cheniere and other prospective U.S. LNG exporters is building market share without the price advantage that they had anticipated.

"We're stuck in an industry where we make investments for 40 years, and things change every five years," Souki said. "It's not a very comfortable situation."

Investors not happy with Norway's move to cut gas pipeline tariffs

<http://www.wsj.com/articles/norway-angers-investors-in-pipeline-network-1429560142?KEYWORDS=statoil>

(Wall Street Journal; April 21) - In 2011, Canada's largest pension fund plowed about \$760 million into a state-controlled Norwegian pipeline network, citing the country's transparent regulatory environment and expecting the project to deliver stable returns. One risk the Canada Pension Plan Investment Board didn't see was that the Norwegian government would slash the rates the pipeline can charge for carrying natural gas.

The fund, along with another Canadian pension plan and some of the world's largest institutional investors, is suing Norway's government, whose action will cut the amount of revenue they are paid. The investors say they may only get half of the return they had expected, leading to multibillion-dollar losses. A trial starts April 27 in Oslo. Bankers and lawyers say the case has some investors reassessing the political risk of this kind of investment in Europe, where governments have been seen as reliable partners.

At the crux of the dispute is Gassled, a 5,000-mile pipeline network that stretches across the North Sea, linking oil and gas fields off Norway's coast to terminals around Europe. It carries about one-fifth of the European Union's gas supplies. In 2011, Statoil, Norway's state-controlled oil and gas giant, sold a 24 percent stake in Gassled to an investor group including the Canadian pension fund. Statoil now owns just 5 percent.

Then in January 2013, Norway unexpectedly announced a public hearing on plans to cut Gassled's rates by 90 percent. The government's rationale: Cheaper transport costs would encourage more exploration and development. Norway's economy depends heavily on oil and gas, but many of its existing fields are running out. Statoil, which ships gas through the pipeline network, stands to gain substantially from the decision. Its financial interest in the gas is substantially higher than its stake in the pipeline.

Yamal LNG deals with remote Arctic work site — and sanctions

<http://www.nst.com.my/node/80966>

(Agence France Presse; April 19) - Spread across the frozen whiteness of the Russian Arctic, the ambitious \$27 billion Yamal liquefied natural gas megaproject aims to defy both the extreme temperatures and the Ukraine crisis impacting its funding. Some 1,600 miles northeast of Moscow, the Yamal LNG project is a joint venture by Russia's Novatek, France's Total and China National Petroleum Corp.

Not long ago the area drew only geologists and explorers whose neighbors were polar bears and foxes. "There was nothing, just tundra," said Dmitry Fonin, who is at the helm of construction at Yamal. Now development is in full gear and around 9,000 workers are toiling away in often fiercely inhospitable conditions to launch the huge facility by 2017.

Plans for Yamal LNG date back about 10 years, long before Russia's standoff with the West over Ukraine and sanctions imposed by the United States and European Union. Russia hopes the plant's location will allow it to diversify its energy exports, selling to Asian and European markets. Fears have swirled over the project's future, however, as international relations tanked over the Ukraine crisis and the West's tough sanctions led to shelving some major energy ventures between Western and Russian firms.

The project still needs \$18 billion of investment. An employee of a European company confirmed that potential investors are hesitant: "Banks take time to make sure they don't violate sanctions, and they wonder whether the sanctions will be tightened further. It creates stress." Despite the problems, the project's owners insist it will succeed.

Canada will extend LNG export licenses to 40 years instead of 25

<http://www.bloomberg.com/news/articles/2015-04-21/canada-aims-to-boost-investment-with-40-year-gas-licenses>

(Bloomberg; April 21) - Canada will extend natural gas export licenses to 40 years while cutting taxes for small businesses and the manufacturing industry in a federal budget designed to boost flagging business investment. The extension of export licenses from 25 years comes amid a global race for liquefied natural gas projects. The extension is in addition to recently announced measures to allow faster write-offs of LNG plants, according to budget documents presented April 21 by Finance Minister Joe Oliver.

The small-business tax rate will also fall to 9 percent by 2019 from 11 percent in what Oliver called the biggest cut for small firms in 25 years, while write-offs for machinery and equipment will also be extended for the manufacturing industry for 10 years. The drop in prices for crude oil, Canada's top export, led Oliver to delay his budget after the new fiscal year began April 1. Lower crude prices will trigger a 30 percent drop in oil and gas investments this year, the Bank of Canada said.

The government is basing its budget projections on West Texas Intermediate crude oil at \$54 a barrel this year and \$67 a barrel next year, down from \$95 in September. The budget also affirms an earlier announcement for tax breaks on investment in LNG projects. The 40-year export license term is intended as an incentive for developers to commit to the multibillion-dollar investments by providing more certainty.

Oil and gas industry presents First Nations with ethical dilemmas

<http://thechronicleherald.ca/novascotia/1281713-mi%E2%80%99kmaq-urged-to-look-at-lng-fracking-links>

(Herald News; Halifax, Nova Scotia; April 20) - The Canadian government's process for aboriginal consultation is working fairly well, but it is fraught with ethical dilemmas that First Nation negotiators in Nova Scotia will have to address, said a prominent Mi'kmaq lawyer. That includes the possibility of opposing hydraulic fracturing for oil and gas, while accepting benefits from an industry that profits from the drilling process.

Bernd Christmas, a Toronto attorney, said Bear Head LNG, which is planning a liquefied natural gas export project in Nova Scotia, followed the consultation process properly and is working on a benefits agreement with the Mi'kmaq. The company approached local bands and First Nation groups and then widened the talks to include larger aboriginal organizations and, eventually, Kwilmu'kw Maw-klusuaqn, which represents all 13 bands in the province and is the recognized negotiator for aboriginal consultation.

When the province banned fracking last fall, the KMK supported the government. "We were clear that the Mi'kmaq of Nova Scotia are against all types of fracturing activity on our lands," Chief Paul Prosper of Paqtnekek First Nation said at the time. Christmas said there may be ways to work around that in a benefits agreement with Bear Head LNG. "The nature of that business is there are all kinds of ethical challenges that I think every group in society faces, and that's going to be an issue as well with our communities."

Alberta farmers, ranchers worry about oil company defaults

<http://www.calgaryherald.com/news/edmonton/Farmers+face+loss+lease+payments+maller+companies+bankrupt/10975338/story.html>

(Edmonton Journal; April 14) - Dozens of small oil companies are defaulting on lease payments owed to Alberta farmers and ranchers, and the province refuses to provide compensation. Facing losses of thousands of dollars each, more than 400 landowners packed the Trochu hall southeast of Red Deer last week in a growing campaign to regain their long-standing right to compensation.

Don Bester, a Red Deer area farmer, said there is a lot of concern after the Alberta Surface Rights Board in 2013 reversed a long-standing policy of compensating land owners for defaulted lease payments. "We're gearing up to have this decision reviewed by the courts," said Bester, president of the Alberta Surface Rights Group. By law, rural landowners must allow oil companies access to their land to drill wells and lay pipelines. The companies must pay rent for farmland they use and for disturbance to farming.

If the companies default, the government had stepped in to make the payments. Lemke said he is owed three years of lease payments — about \$10,000 — by bankrupt Petroglobe. He was shocked when the Alberta board turned him down in 2013 and again in 2014. The loss of rental income is just one issue, he said. "The even bigger problem is with a bankrupt company. How do I get the well site cleaned up so the land can be returned to farming?"

New studies link earthquakes to drilling wastewater injection

<http://www.wsj.com/articles/new-studies-link-earthquakes-with-oil-gas-drilling-1429650687?KEYWORDS=earthquake>

(Wall Street Journal; April 21) – New scientific findings link earthquakes to underground wastewater injections from oil and gas operations, adding to a growing consensus among researchers that energy development is probably causing seismic activity in Oklahoma, Texas and other parts of the U.S. The Oklahoma Geological Survey said April 21 it now "considers it very likely" that most of the hundreds of earthquakes in the state in recent years were "triggered by the injection of produced water in disposal wells." Produced water is salty fluid that naturally flows up wells along with oil and gas.

Meanwhile in Texas, a team of college and federal researchers headed by scientists at Southern Methodist University released a new study concluding that a string of earthquakes that began in 2013 northwest of Fort Worth was also likely caused by wastewater injection. Oklahoma Gov. Mary Fallin called the findings by state geologists

significant and said the state was working to toughen regulations in response to an increase in quakes. "State agencies are already taking action to address this issue."

Oklahoma last year experienced 585 earthquakes of 3.0 or greater magnitude — big enough to be felt indoors — according to the state, more than in the previous 30 years combined. The team behind the Texas study also linked the quakes, centered on the town of Azle, Texas, to the extraction of produced water from nearby gas wells. Geologists concluded decades ago that injecting fluid into a geologic fault can lubricate slabs of rock, causing them to slip and triggering earthquakes.

World's first LNG-powered containership launched in San Diego

<http://timesofsandiego.com/business/2015/04/18/nassco-launches-worlds-first-lng-powered-container-ship/>

(Times of San Diego; April 18) – In a nighttime ceremony before 3,400 shipyard workers and dignitaries, General Dynamics NASSCO on April 18 launched the world's first natural-gas powered containership. After its christening, the 754-foot-long Isla Bella slid into San Diego Bay on the high tide. Fireworks erupted as the ship floated.

The ship was under construction for two years, and a sister ship being built nearby will be launched in August. The two ships will be used for service between Florida and Puerto Rico, operated by TOTE. The ship was designed by DSEC, a South Korean-based company. By burning liquefied natural gas, instead of the traditional bunker oil, the ship will be more efficient and significantly less polluting.

The two ships represent a \$750 million investment by TOTE, which also is converting its two 840-foot containerships that sail between Tacoma, Wash., and Alaska, to run on LNG. That \$80 million project is scheduled for completion in 2016.

TOTE will bring in LNG from Georgia plant to fuel new ships

<http://shipandbunker.com/news/am/272380-tote-finalises-plans-for-lng-bunkering-system-to-supply-new-containerships>

(Ship & Bunker; April 17) - Sea Star Line, a subsidiary of TOTE, has finalized plans for a liquefied natural gas bunkering system that will be used to supply its new LNG-fueled containerships, MarineLink reports. Under the plans, 25 cryogenic tanks will make regular trips between a gas liquefaction plant in Georgia and the TOTE facility in Jacksonville, Fla., where the ships will be fueled in under six hours.

"With little LNG infrastructure available for the maritime sector, Sea Star Line faced a challenging scenario in finding a solution," said Jim Wagstaff, vice president of operations. The delivery and fueling system should be ready in September. TOTE's new

containerships will serve the Puerto Rico market. The first of the two vessels will launch at General Dynamics NASSCO's San Diego shipyard in April, with outfitting to continue.

Lithuania considers reselling unneeded LNG

<http://www.reuters.com/article/2015/04/13/lithuania-lng-russia-idUSL5N0XA2YY20150413>

(Reuters; April 13) - Lithuania is considering allowing its liquefied natural import terminal to re-export LNG to global markets during the summer when local demand declines, the facility's operator said April 13. The Independence LNG import terminal, which opened last year, was built to reduce Lithuania's total reliance on pipeline gas supplies from Russia's Gazprom, by giving it access to global gas supplies.

Since the terminal opened, Gazprom has cut the price of gas to Lithuania by 20 percent to maintain market share, while Lithuania already had signed a deal to buy LNG from Norway's Statoil. Mantas Bartuska, CEO of Klaipedos Nafta, which operates the terminal, told Reuters that Russia's price cut has prompted the industry and government to consider amending Lithuanian regulations that prohibit the re-export of imported LNG.

Litgas, the state-run gas trading arm of Lithuanian energy company Lietuvos Energija, signed a five-year supply deal with Statoil late last year for almost 20 billion cubic feet of natural gas as LNG a year. If the regulations are changed, the terminal could unload the Norwegian LNG cargoes, reload and sell them for profit to other buyers, Bartuska said.