Oil and Gas News Briefs
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Nuclear plant restarts cut into Japan's LNG demand

(Platts; Dec. 15) – The restart of nuclear reactors in Japan, growing renewable sources of energy and a slow economy are expected to trim the country's LNG consumption by 2020 as much as 10.5 percent from 2014 levels, Eclipse Energy said this week. Japan's LNG demand is expected to drop to 77 million metric tons a year by 2020 from a record 86 million tons in 2014, according to Eclipse, an analytics unit of Platts.

Kyushu Electric restarted its two 890-megawatt reactors at Sendai in August and October, the nation's first restarts since Japan shut down all of its reactors following the 2011 Fukushima disaster. Kyushu's consumption of liquefied natural gas in September dropped to the lowest level since May 2011, data from the Ministry of Economy, Trade and Industry showed. From September to November, Kyushu Electric received seven LNG cargoes at its Tobata terminal, down from 13 in the same period last year.

Eclipse estimates that if Kyushu's two 1.18-gigawatt reactors at Genkai start up, it would replace up to three or four LNG cargoes a month. Other power companies are expected to restart five reactors by 2019. Meanwhile, LNG demand is expected to drop over the next four years amid a slower economy. "Our forecasts suggest that U.S.-sourced LNG is only called on during the winter peak season at least until 2020," Eclipse said. Buyers in Japan have contracted for about 17 million tons of LNG a year from three U.S. export projects under construction, though Eclipse expects that the buyers will take just 20 to 25 percent of the volumes in 2018-2019, rising to about 50 percent early in the 2020s.

Small LNG plant proposed in B.C. works to reduce costs

(Vancouver Sun; Dec. 13) - Woodfibre LNG hopes to cut the cost of its proposed $1.8 billion liquefied natural gas project near Squamish, just north of Vancouver, B.C., to offset a drop in prices for natural gas in China. That would allow the small export facility — annual capacity of 2.1 million metric tons — to remain as a leading contender for the first LNG project in B.C. to make a final investment decision, possibly in 2016. The plant is proposed for a former pulp mill site.

The company, owned by an Indonesian billionaire, is trying to take advantage of the fact there is less work for industrial contractors and engineering firms in the aftermath of the global oil price collapse, which has shelved or cancelled major projects, especially in the Alberta oil sands. Any project cost savings would help offset a nearly one-third cut in the price of gas set recently by China’s National Development and Reform Commission. Woodfibre LNG has its provincial approval, and is waiting on its federal authorization.

Proposed LNG export projects in B.C. wanted to take advantage of the price differential between North America and Asia. However, prices in Asia have fallen off their highs as a result of falling demand and increased supply. “It’s hard, no question, but that really hasn’t stopped us,” Woodfibre LNG vice president Byng Giraud said of the recent gas price decrease in China. Two items — obtaining gas sales agreements and lowering the capital spending — will get the company to a final investment decision in 2016, he said.

B.C. premier still expects province to win LNG investments

(The Tyee; Vancouver; Dec. 14) - British Columbia Premier Christy Clark won election in 2013 making big promises about the prospects of a liquefied natural gas industry that she said could make the province debt free. But with just 17 months left until Clark faces voters in 2017, no LNG proponent has made a final investment decision to build in the province. Reports of a global supply glut and plunging prices have many observers wondering if any of the 20 plants proposed for B.C. will ever be built.

Adding to the challenge for LNG in B.C. is the fight against global warming. The Pembina Institute environmental group estimates operating five LNG plants would double B.C.'s carbon emissions. Could a renewed push to limit carbon emissions, as new Canadian Prime Minister Justin Trudeau has signaled, further derail B.C.'s plans? In an interview with The Tyee, Clark said the province has not missed its “window of opportunity” to join the global LNG trade.

“I think in a world where over a billion people are looking for energy security, gas is going to play a really crucial role. I think at issue is where will they get that energy?” She acknowledged there is a lot of competition to secure LNG investments, but said B.C. has its advantages. “I do know that in British Columbia we've got one of the most politically, economically stable jurisdictions in the world. That is a huge asset for us. ... I would say there are a lot of very unstable jurisdictions with poorly developed proposals.”

Indonesia expects up to 60 uncommitted LNG cargoes in 2016

(Platts; Dec. 14) - Indonesia is expected to have as many as 55 to 60 uncommitted cargoes next year from the Tangguh and Bontang LNG plants, a spokesman at the country’s upstream regulator SKK Migas, Elan Biantoro, said Dec. 14. The cargoes are likely to be offered on the spot market, Biantoro said. "We will prioritize domestic needs, if they can't absorb it we will offer via tender," he said. BP leads the Tangguh LNG consortium. The cargoes have become available because sales contracts have expired.

Indonesia has three LNG plants: Bontang (eight liquefaction trains) in east Kalimantan, Tangguh (two trains) in Papua, and Donggi Senoro (one train) in central Sulawesi. The country closed its Arun LNG plant in Aceh due to a fall in gas production and the expiration of LNG export contracts.

Lower LNG prices bring relief to India's power generators and banks

(Business Standard; India; Dec. 14) - Falling global gas prices have brought good days for India's beleaguered power-from-gas sector — ridden with unused power plants — and for struggling banks that have loaned billions to these projects. Almost 18 months after it shut down due to a lack of liquefied natural gas, the Dabhol power plant in Maharashtra started generating electricity again for the Indian Railways in November.

The Railway Ministry said it has started buying 300 megawatts of electricity direct from the power plant, which will later increase to 500 megawatts. This electricity will be cheaper than the rate the Railways pays to utilities and will result in an annual saving of almost $150 million, according to the ministry. Ratnagiri Gas and Power, which owns the 1,980-megawatt Dabhol power plant and the associated LNG import terminal, owes more than $1.2 billion to banks — money which now has a chance of being repaid.

The revival of the Dabhol plant has been made possible by the sharp fall in global LNG prices. India's private-sector power companies own 9,773 megawatts of gas-fueled plants. All of these plants have either been idle or operating at low capacity for several years. Cheap domestically produced gas was not available, while imported gas was too expensive. This is now changing. During October 2015, these plants generated 150 percent more electricity than they produced in October 2014.

Low prices taking toll on oil and gas industry

(New York Times; Dec 14) - Plummeting oil and gas prices have whipsawed the energy industry, forcing cancellations of billions of dollars of projects, late payments on loans, and over a quarter-million layoffs worldwide. With U.S. natural gas prices at their lowest since 2001, oil-and-gas producer Cubic Energy on Dec. 14 became the latest of several dozen producers to file for bankruptcy this year. Even Chesapeake Energy, one of the nation's biggest gas producers, is struggling to reduce its $11.6 billion debt load.

Over the weekend, Charif Souki, the chief executive of Cheniere Energy, was unceremoniously dismissed only weeks before the Louisiana liquefied natural gas export terminal he conceived and built will send out its first shipment — the first of its kind from the Lower 48 states. At the heart of Souki's dismissal was a divergence of views with activist investor Carl Icahn over the future of global gas markets and LNG, much of which is linked to oil prices that have fallen two-thirds since summer 2014.

In Souki's view, oil prices should rebound strongly over the next year or two, meaning that cheap U.S. gas will have a big competitive advantage over other suppliers. But the board saw it differently and decided Souki's plan to build and expand Cheniere LNG export terminals in Texas and Louisiana was a foolhardy crapshoot at a time when the dominant view is that oil will remain low for a long time. Meanwhile, the LNG market is so glutted that, many experts say, it's time to consolidate and roll back plans to expand.

Gorgon LNG starts preparations for first cargo, maybe in February

(The West Australian; Dec. 16) - Chevron's $54 billion journey to finish the Gorgon LNG project on Australia's Barrow Island is headed for a major milestone with the imminent arrival of the first LNG carrier. However, the carrier will arrive fully laden, with the liquefied natural gas to be injected into the Gorgon plant to cool the tanks and processing lines, and purge any air left in the system. The maiden Gorgon LNG cargo is not expected to leave Barrow Island until February, at the earliest.

Nonetheless, the arrival of the LNG carrier will serve as a key milestone before Chevron can turn on the first of Gorgon's three liquefaction trains and prepare for production. Chevron would not comment on the LNG carrier's imminent arrival, which had been slated for as early as Friday though the timetable is thought to have shifted into next week.

It is assumed the Chevron, the Gorgon project's operator and biggest equity holder ahead of ExxonMobil and Shell, bought the LNG cargo on the spot market. "The commissioning of Train 1 and associated infrastructure on the Gorgon project is well advanced, with first cargo planned in early 2016," a spokeswoman said Dec. 15. "We are undertaking the final testing of critical systems needed for the safe import of the commissioning cargo."

U.S. natural gas futures fall to lowest price since 1999

(Wall Street Journal; Dec. 15) – Natural gas prices dropped to the lowest level since 1999 as concerns about weak demand continued to weigh on the market. Futures for January delivery settled down 7.2 cents, or 3.8 percent, on Dec. 15 at $1.822 a million Btu, the lowest since March 24, 1999. On an inflation-adjusted basis, it's the second-lowest on record. The inflation-adjusted record low is $1.80, reached in January 1992.

Gas futures have fallen for five consecutive sessions as higher-than-average temperatures show no sign of letting up. Warm weather in the U.S. caused by the El Nino weather phenomenon has sharply limited demand for the heating fuel this year. About half of U.S. households use natural gas as their primary heating source. "The potential for early winter is gone," said Donald Morton, senior vice president at Herbert J. Sims & Co., who runs an energy-trading desk. "They're talking 65 degrees in New York on Christmas day. … Every day we go is one less day of demand."

The market is oversupplied due to weak demand and continued robust production. Stockpiles stood at 3.88 trillion cubic feet as of Dec. 4, near the record high reached last month and 6.5 percent above average levels for this time of year. Some traders and analysts say the industry could run out of storage space for gas by mid-2016. Traders also said the market is unmoved by an increase in U.S. exports to Mexico to record levels. Exports to Mexico have risen to a record high of 4.1 billion cubic feet per day.

Not all crudes are equal; some are selling in the $20s

(Bloomberg; Dec. 22) - As oil crashes through $35 a barrel in New York, some producers are already living with the reality of much lower prices. A mix of Mexican crudes is already valued at less than $28, an 11-year low, according to data compiled by Bloomberg. Iraq is offering its heaviest variety of oil to buyers in Asia for about $25. In Western Canada, some producers are selling for less than $22 a barrel.

"More than one-third of the global oil production is not economical at these prices," Ehsan Ul-Haq, senior consultant at KBC Advanced Technologies, said by email. "Canadian oil producers could have difficulty in covering their operational costs." Oil has slumped to levels last seen in the global financial crisis in 2009. While benchmarks West Texas Intermediate and Brent hover in the $30s, they represent a type of crude — light and low in sulfur — that is more highly valued because it's easier to refine.

Some producers of thicker, blacker and more sulfurous varieties have suffered heavier losses and are already living in the $20s. A blend of Mexican crude has plunged 73 percent in 18 months to $27.74 on Dec. 11, its lowest since 2004. Venezuela is living with similar lows. Western Canada Select, which is heavy and sulfurous, has fallen 75 percent to $21.82, the lowest in seven years. Other varieties including Ecuador's Oriente, Saudi Arabia's Arab Heavy and Iraq's Basrah Heavy were selling below $30.

Full storage tanks could push U.S. crude into the $20s, Citigroup says

(Bloomberg; Dec. 15) - U.S. oil prices may fall into the $20s if tanks used to store crude start to fill up before producers sufficiently curb output, Citigroup predicted. Prices would need to fall low enough to force some production to be halted if supplies overwhelm storage capacity, a scenario that looks set to be tested in the first half of next year, the bank said in a report. That would require West Texas Intermediate crude, the U.S. benchmark, to slump "to the high $20s" from about $37 currently, the bank said.

Markets are already oversupplied from the boom in U.S. output and OPEC's refusal to curb production. The global benchmark, Brent, and WTI slumped to the lowest price in more than six years this week, and Citigroup predicts markets will face further pressure next year as Iran revives exports with the end of sanctions. "The already oversupplied market now faces the imminent return of Iranian barrels and onshore storage capacity constraints look set to be tested in the first half," Citi managing director Ed Morse said.

Sanctions could be lifted on Iranian crude as early as January with the completion of the accord on the country's nuclear program, Morse said. Iranian supply "could even hit the market as or before winter demand peaks" and as demand from refiners tails off during their seasonal maintenance period, he said. The bank, however, has maintained its forecast for average prices in 2016 at $51 a barrel for Brent and $48 for WTI.

Continued fall in oil prices could push OPEC into emergency meeting

(The Financial Post; Canada; Dec. 14) - The OPEC oil cartel will be forced to call an emergency meeting within weeks to stabilize the market if crude prices fail to rebound after crashing to eight-year lows of $35 a barrel, two member states have warned. Emmanuel Kachikwu, Nigeria's oil minister, said the cartel was still hoping the oil market would recover by February as low prices squeeze out excess production from U.S. shale, Russia and the North Sea. But nerves are beginning to fray.

"If it doesn't, then obviously we're in for a very urgent meeting," he said. Indonesia has issued similar warnings over recent days, suggesting the OPEC majority may try to force a meeting if Saudi Arabia's strategy of flooding the market creates a deeper crisis. The comments came as Brent oil plunged to $36.76 on the fall-out from OPEC's deeply divided meeting earlier this month. It is now within a whisker of its Lehman-crisis lows in 2008. West Texas crude dropped to $34.54 before rebounding in late trading.

Anton Siluanov, Russia's finance minister, said his country was bracing for the worst. "There is no defined policy by the OPEC countries: it is everyone for himself, all trying to recapture markets, and it leads to the dumping that is going on," he said. "Everything points to low oil prices next year, and it's possible that it could be $30 a barrel, and maybe less. If someone had told us a year ago that oil was going to be under $40, everyone would've laughed. You have to prepare for difficult times."

U.K. industry group pushes for shale gas drilling

(Bloomberg; Dec. 15) - Shale gas can be produced safely in the U.K. and exploratory drilling should start to determine recoverable reserves, according to a group funded by the industry. Gas is required to meet the U.K.'s future energy needs, and developing a shale industry will increase security of supply, the Task Force on Shale, funded by five companies including Centrica and Cuadrilla Resources, said in an e-mailed statement.

Operators must be held to the highest standards for well integrity, allow independent monitoring of their sites and make the economic benefits clearer for local residents, it said. “It is simply not feasible to create a renewables industry that can meet all our energy needs in the short term,” the Task Force said. “Gas represents an environmentally cleaner alternative to coal. The adverse climate impact of shale gas is similar to conventional gas and less than LNG.”

Gas generated 30 percent of the U.K.’s electricity in the second quarter. Along with nuclear, the fuel will be central to the nation’s energy mix for decades to come as Britain plans to phase out coal plants by 2025, Secretary of State for Energy Amber Rudd said last month. “The development of a domestic shale gas industry provides a clear means of strengthening the U.K.’s energy security and mitigating against potential risks to energy supply,” the Task Force said.