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Japan has more LNG under contract than it needs, report says

(Bloomberg; Dec. 1) - Japan is probably set to receive more LNG than it needs, potentially forcing some purchasers to resell cargoes and add to the worldwide glut. Liquefied natural gas volumes contracted by Japanese buyers may exceed their combined demand from 2017 to 2021, according to a report compiled by the Ministry of Economy, Trade and Industry. The report, obtained by Bloomberg News, was distributed at a closed meeting attended by government officials, suppliers and buyers.

Japan in August restarted the first of its nuclear reactors idled for safety checks in the wake of the 2011 Fukushima disaster and a second in October, helping the nation reduce consumption of LNG for power generation. With more reactors expected to be back online in the coming years, the Japanese government estimates LNG demand will fall about 30 percent to 62 million metric tons by 2030, the ministry report shows.

Japan's annual long-term LNG contracted volumes will probably peak at about 95 million tons in 2017, according to data in the report. The volumes are expected to fall to about 90 million tons in 2018 and about 80 million tons in 2019 and 2020. The International Energy Agency estimates Japan's LNG demand will decline to 72 million tons by 2020, according to the report. Of the LNG procured by Japan in 2014, spot and short-term deals accounted for about 30 percent, according to the report.

LNG oversupply allows buyers to negotiate better deals

(Reuters; Dec. 2) - Global oversupply and sliding prices are pushing LNG buyers from India to China to look at reworking long-term agreements in what had been a producer-controlled market. Banking on a tide of new liquefied natural gas supply from the U. S., Australia and Russia, importers are seizing the chance to wring concessions from existing producers wary of losing market share. Top exporter Qatar, traditionally averse to granting concessions, rolled over in a contract dispute with India's Petronet days ago. Similar moves are likely as buyers rush to exploit the precedent, say industry sources.

"A year to 18 months ago, sellers could get what they wanted. But now they will do whatever they can within reason to keep those customers," said one source. A taste of what could come was seen in 2010-2014, when Russian gas producer Gazprom gave its European pipeline clients — smarting from steep import bills — deep discounts to avert arbitrations and repair ties. This time, global LNG buyers will be seeking changes to the way long-term contracts are structured in the $120 billion annual trade, such as loosening restrictions on cargo diversions and reducing imports below agreed floors.

"I think you will see shorter tenures for contracts, 25 years is a long time. You've also got some countries like Japan that traditionally were very much focused on long-term contracts that are (now) more comfortable with spot markets," said Jason Feer, head of business intelligence at Poten & Partners. Japanese importers are playing hard ball with Chevron's new Gorgon LNG project in Australia, while a string of 10-year Qatari deals with Japan will likely be allowed to expire in the early 2020s, sources said.

Global LNG glut could peak in 2018

(Bloomberg; Dec. 1) - Spare a thought for anyone who bet on a recovery in liquefied natural gas prices after last year's 45 percent plunge. LNG to northeast Asia, home to the world's biggest consumers, plunged a further 25 percent this year, outpacing Brent's 23 percent slump as of Dec. 1. While analyst estimates compiled by Bloomberg show that crude will recover in 2016, prices for LNG will probably extend declines by as much as an additional 25 percent, according to a survey by Bloomberg.

As the first U.S. Gulf Coast LNG export plant gears up to start deliveries and output from Australia to Angola increases, the glut will peak in 2018, said Sanford C. Bernstein & Co. LNG prices are at their lowest level since 2010. "The biggest story is the increase in export capacity," said Mike Fulwood at Nexant's Energy and Chemicals Advisory in London. Supply capacity will increase 14 percent through the fourth quarter next year, "while demand is increasing much more slowly in the main LNG importing countries."

As the plunge ripples through markets, low prices are heading lower. LNG for delivery in the next four to eight weeks in Asia cost $7.55 per million Btu on Nov. 23. Spot prices may fall as low as $5.70 next year, according to the survey of traders, executives and analysts. The glut is widening as Japan, South Korea and China are not taking as much as they used to amid slower growth, over-contracting and expanding nuclear capacity. "The really big question that frankly nobody can answer is whether lower prices will create more demand," said Jonathan Stern, of the Oxford Institute for Energy Studies.

Natural gas oversupply will force China to renegotiate deliveries

(South China Morning Post; Nov. 29) - A wave of new liquefied natural gas due to arrive on China's shores next year amid a gas glut will likely force the country's oil and gas majors to hold off taking gas deliveries and also cut high-cost domestic production, analysts say. But they are unlikely to default on their long-term contractual natural gas import commitments worth hundreds of billions of dollars, as that would jeopardize their reputation as reliable long-term purchasers whose commitments are key to successful development of big overseas gas export projects, the analysts said.

Instead, China’s oil and gas majors will be more inclined to defer or trim their import offtake volumes and pare high-cost domestic gas to make room for some imports, most of it LNG but also pipeline gas. “China will not want to damage relations with its energy-supply partners,” said Andrew Bridson, business development manager at energy consultancy BMT Asia Pacific. China has set a target for gas to meet 10 percent of its primary energy demand by 2020, up from 6 percent in 2014, in its air pollution battle.

But China’s energy giants have suffered billions of dollars of losses, forced to sell gas at less than it costs to import the fuel. The companies have seen some relief as lower oil and LNG prices have helped. Gavin Thompson, consultancy Wood Mackenzie’s vice president for China gas, said major buyers such as PetroChina, China National Offshore Oil and China Petroleum & Chemical are likely to seek permission from suppliers to reduce import volumes. But the key to relieving China’s gas oversupply are reforms to allow market-based pricing so that pent-up demand is released, he said.

Turkmenistan finds it hard to break into global gas market

(Agence France-Presse; Nov. 29) - The reclusive Central Asia country of Turkmenistan remains a slumbering giant in the high stakes game of energy politics. An ex-Soviet republic of 5 million people, it boasts more than 600 trillion cubic feet of proven gas reserves. But it has been unable to bring its full energy bounty to market as low prices and technological advances have expanded options for buyers. Once hailed as a missing piece in energy security puzzles for Europe and Asia, only China is a regular customer, while former chief buyer Russia has seemingly turned away.

China imports more than 1 trillion cubic feet of Turkmenistan pipeline gas a year, but low prices for hydrocarbons and the rise of alternatives such as shale gas and LNG have cast a shadow over two pipeline projects analysts say would establish the country as a key player on the global energy market. The $5 billion-plus Trans-Caspian pipeline that would move Turkmenistan gas beneath the Caspian Sea to markets in Europe and the $10 billion Turkmenistan-Afghanistan-Pakistan-India pipeline that would serve South Asia could have a combined capacity of almost 6 billion cubic feet per day.

While both lines have been endorsed by participating countries, they lack commercial backing and face competition from other potential links originating in gas-rich Russia and Iran. Industry analysts, like Laurent Ruseckas, a senior adviser at Veracity Worldwide, are skeptical. "Political will alone does not bring multibillion-dollar projects into fruition. What is the gas price?" Ruseckas said. "Both projects face significant challenges right there before questions of political risk even enter the equation."

Small Indonesia LNG plant plans for full production in 2016

(Reuters; Nov. 29) - Indonesia's 4-month-old Donggi-Senoro liquefied natural gas plant aims to produce 36 cargoes of LNG with full production in 2016, up from an estimated 12 cargoes this year, the plant's president director said in a press conference Nov. 30. The $2.9 billion plant, with capacity to produce 2 million metric tons of LNG per year, started up commercial operations in August.

Of the targeted production next year, 23 cargoes are expected to be sold to long-term buyers, and the remaining 13 cargoes will be sold to spot-market buyers, the director added. Shareholders in the project include Mitsubishi Corp., Korea Gas, Indonesia's Medco Energi Internasional and Indonesia's state energy firm Pertamina.

Pakistan advertises for more LNG imports

(Reuters; Dec. 2) - Pakistan, which suffers from chronic power shortages, imported liquefied natural gas for the first time this year and is now looking to buy more of the fuel. Pakistan State Oil Co. has launched a tender to buy seven LNG cargoes in January and February next year.

Pakistan in 2014 produced and consumed almost 1.5 trillion cubic feet of natural gas, but flat production is falling short of domestic demand in the nation of more than 180 million residents, pushing the country to import LNG.

U.S. natural gas prices set for worst year since 1999

(Reuters; Nov. 30) - U.S. natural gas prices this year are set to register their lowest average since 1999, marking one of the deepest and most prolonged slumps of any commodity, with a rebound unlikely as record production from shale formations has outstripped demand. In 2015 through the end of November, next-day gas prices at the Henry Hub benchmark in Louisiana have averaged $2.68 per million Btu. Prices in November were the lowest for the month in 20 years, averaging $2.08.

It was not supposed to be like this. Last December, analysts expected 2015 prices to average $3.89. U.S. regulations phasing out coal-fired power generation, more pipeline exports to Mexico and liquefied natural gas shipments to the rest of the world were supposed to push up demand faster than new supply. U.S. production in the Lower 48 states, however, is expected to average a record 78.7 billion cubic feet per day in 2015, according to federal data, swamping the market with gas.

"The problem is production growth is outpacing demand growth by a long shot. Demand this year is actually at record highs due to the power sector," said Tim Evans, energy futures specialist Citi Futures. Unlike three years ago, when slumping prices rapidly rebounded to stabilize over $3, few analysts anticipate a quick fix this time. Calendar futures do not rise over $3 until 2020.

LNG project in B.C. first to request 40-year export license

(LNG Projects.com; Dec. 1) – The ability of Canadian producers to serve the global liquefied natural gas trade will stay strong for generations to come, according to a report given to the National Energy Board. Shale gas discoveries have elevated supplies to such a level that the life span of reserves — over and above all conceivable Canadian needs — is counted in centuries, said the report. The review, commissioned by export project developer LNG Canada, supports its application for a 40-year export license.

The extended export authority is allowed under June 2015 federal legislation that abolished a longstanding 25-year limit. The LNG Canada venture, led by Shell, is the first applicant to seek 40-year authorization under the new law. LNG Canada received a 25-year export license in 2013. The project would draw gas from shale plays in northeastern B.C. In addition to regulatory approval, the partners are also working on commercial terms and sales contracts toward making a final investment decision.

“The Canadian resource base is sufficient to supply Canadian domestic demand at today’s levels, plus today’s net pipeline exports to the U.S., for 260 years, or just Canadian domestic demand for 380 years,” said the supply review prepared by Navigant Consulting for LNG Canada.

University of Texas to study impacts of LNG industry

(San Antonio Business Journal; Nov. 30) - Researchers with the University of Texas at San Antonio will soon begin a study looking at the economic impact of the liquefied natural gas industry on the Lone Star State. Construction is underway at two multibillion-dollar LNG export projects on the state’s Gulf Coast, with several more in varying proposal and planning stages.

In addition, a few companies are looking to build smaller liquefaction and shipping facilities to serve local transportation and industrial demand, plus Caribbean and Central American markets. Thomas Tunstall, senior research director at the university’s Institute for Economic Development, said his team will be doing a workforce analysis and creating estimates of the impacts from capital investment, construction and ongoing operations from the planned LNG export facilities.

Using different gas price scenarios, Tunstall's team will look at direct and indirect impact of LNG exports, as well as creating an outline of the supply chains and their impacts on government revenues. Funded by Texans for LNG, the $75,000 study should be completed by June, Tunstall said.

Wisconsin utility converts 1960s coal plant to run on gas

(Milwaukee Journal Sentinel; Nov. 28) - After burning coal in Wisconsin’s Menomonee Valley since 1968, We Energies has completed a $62 million conversion of its Milwaukee power plant to cleaner-burning natural gas. The coal barge heading to the power plant finished its last run up the river earlier this year, and the coal pile that once stood along the river is no more. The only We Energies plant in Milwaukee, it was the last major plant in the utility's Wisconsin fleet that lacked modern pollution controls.

The utility's move to upgrade the plant to pollute less is an important milestone, said Juan Carlos Ruiz, who chairs the Cleaner Milwaukee Coalition, whose members include conservation groups and public health advocates. The group organized protests over the pollutants emitted from power plant smokestacks that contribute to asthma and other respiratory diseases. They are now focusing on a coal plant in Wauwatosa.

Conversion of the Menomonee plant isn't just better for health and the environment, said Tom Metcalfe, We Energies senior vice president of power generation. The low and now stable price of gas means the conversion is good for customers, particularly the downtown businesses that rely on the plant's steam for heating and cooling, he said. Fuel costs at the plant are running 40 percent less than they were for coal, he said.

Forecaster predicts $35 oil in summer 2016

(Sydney Morning Herald; Dec. 1) - Those hoping that oil prices have bottomed out could be in for a shock as one respected forecaster predicts prices will soften further toward $30 a barrel within the next six months. Energy consultant Fereidun Fesharaki expects oil prices to slide to $35 by the June quarter of 2016, in contrast to consensus forecasts that point to a gradual recovery. He puts an "absolute floor" on prices in the high $20s, at which point onshore U.S. and deepwater projects are expected to run at a cash loss.

Fesharaki, founding chairman of Hawaii-based FACTS Global Energy and a former energy adviser to the prime minister of Iran, is typically one of the most bearish forecasters for oil and liquefied natural gas prices. He is basing his latest predictions on expectations that the Organization of Petroleum Exporting Countries will make no move to rein in oil flows at its meeting Dec. 4, while production from Iran will ramp up by about 1 million barrels a day through the course of 2016 as economic sanctions are lifted.

The gloomy prediction comes as other analysts are further cutting their price estimates. Citigroup downgraded its 2016 forecast for Brent by 4 percent to $51 a barrel and its 2017 forecast by 2 percent to $64. "The oil market looks set to stumble across the end-2015 finish line in feeble fashion," Citi analysts told clients. "2016 looks better … but not by much." Citi has a base case of Brent reaching a low in the March quarter of 2016 at $43, with the market finally finding a balance by the end of 2016 with oil at $60.

Russian oil producers not letting up, despite low prices

(Reuters; Nov. 30) - Russian oil firms are drilling more, showing that the world's top crude producer is ready for a long fight for market share with OPEC, as its industry can carry on even if oil prices reach $35 per barrel. As OPEC prepares to meet Dec. 4 in Vienna, Russia is sending a low-key delegation for talks that are unlikely to result in any output deal. OPEC oil ministers have repeatedly said they would only cut production in tandem with non-OPEC producers.

According to Eurasia Drilling Co., the largest provider of land drilling services in Russia and offshore in the Caspian Sea, Russian drilling rose in the first six months of this year from a year ago, despite a decline in oil prices to less than $50 per barrel from $115 in June 2014. "Russian production continued to accelerate as oil producers remained profitable even in the lower oil price environment, helped by the effect of a weak rouble on costs and lower taxes," Bank of America Merrill Lynch said in recent research.

Moscow has surprised OPEC by ramping up output to record highs this year despite low oil prices, which OPEC hoped would depress production from higher-cost producers. Moscow responded by steeply devaluing the rouble, giving an edge to its exporters. In many OPEC Gulf producers, currencies are firmly pegged to the dollar. Russian oil production, which together with sales of natural gas account for half of state budget revenues, has been steadily rising since 1998, apart from a marginal decline in 2008.