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Japan paid an average $8.84 for LNG last year; lowest since 2009

(Reuters; June 29) - Japan's average price for imported liquefied natural gas fell to its lowest since September 2009, dragged down by weak oil markets, offering relief to the countries' utilities that had been burning record amounts of the fuel after the Fukushima 2011 nuclear plant disaster. LNG import prices averaged $8.84 per million Btu in May, the lowest since $8.28 in September 2009, Reuters calculations based on government data showed June 29. The average includes long-term contracts and short-term deals.

Japan, which takes in about a third of global LNG volume, spent a record 7.78 trillion yen ($63.25 billion) purchasing a historically high 89 million metric tons of the fuel in the fiscal year that ended March 31. A flood of new supply coming on stream later this year in Australia and the U.S. is helping to cap the global price. Asian LNG spot prices for August delivery were $7.30 last week. The majority of LNG imports in Japan are long-term oil-linked contracts that respond to oil prices with a time lag of several months.

Weaker demand in China could squeeze LNG suppliers

(Bloomberg; June 30) - China's weakening appetite for liquefied natural gas is raising concerns that the industry is facing a glut as global supply grows. "Downside risks appear to be growing," according to a report June 30 by the Office of the Chief Economist in Australia, which is predicted to become the world's largest LNG supplier later this decade with production from six new projects.

Lower demand for gas in China and more supply moving into the country on top of a downturn in the oil market are weighing on LNG prices. Chinese LNG buyers will probably struggle to digest all the fuel that they have agreed to purchase, according to a Citigroup report June 29. Proposed LNG export developments face the risk of delays.

China's imports in the first three months of 2015 fell from a year earlier for the first time since 2006, the Australian government said. Competition from pipeline supplies and rising coal and renewable energy capacity will probably squeeze LNG, according to the report. Although China's long-term gas demand is forecast to rise at least threefold to more than 60 million metric tons per year by 2025 from last year's level, "a slowdown in economic activity and higher domestic gas pricing has limited demand," Citigroup said.

Citigroup forecasts weak LNG market into next decade

(Sydney Morning Herald; June 30) - Liquefied natural gas markets are likely to remain weak well into the next decade, causing delays to new projects in Australia and Papua New Guinea, and driving contract prices lower, according to Citigroup. Citi expects that the timing of Woodside Petroleum's Browse floating LNG project in Western Australia will have to be put back, and that the expansion of ExxonMobil's Papua New Guinea project will also take longer than anticipated to get a green light.

Gas demand in China has fallen well short of forecasts, leaving Asian LNG markets facing oversupply for several years as a wave of new plants begin production in Australia. Citigroup is now forecasting markets will remain in oversupply until 2022 or 2023, a more bearish forecast than some other analysts, which expect a recovery earlier next decade.

In a note to clients, Citi said that in anticipation of a buyer's market continuing for some time, it has reduced its assumptions for long-term LNG prices and spot prices. It is now assuming long-term LNG sales contracts will be priced at 13.5 percent of crude oil prices ($100-per-barrel oil equals $13.50 per million Btu LNG), rather than the typical 14 percent. Prices for spot and short-term sales may be priced at just 10 percent of oil for 2016 to 2020 when the oversupply will be at its worst, rather than 12 percent, it said.

Gazprom confirms it is postponing Vladivostok LNG project

(Gas World; June 29) - Russian state gas company Gazprom is postponing construction of a liquefied natural gas plant on the country's Pacific Coast, as it focuses on building pipelines for gas delivery to China. Vladivostok LNG was announced in 2013 in a bid to boost sales in Asia as the company faces regulatory pressure and competition in Europe, but Gazprom CEO Alexei Miller said June 26 it was no longer a priority.

"Vladivostok LNG isn't on the list of priority projects, and isn't on the list of projects that will be carried out in the near future," Miller told reporters. By shelving the project, Gazprom is betting on the success of delivering gas to China via pipelines. The company last year signed a contract to supply China with large volumes of pipeline gas after more than a decade of talks. The start date for deliveries via the multibillion-dollar pipeline is uncertain, however.

That deal came as Moscow sought closer ties with Asia amid increased tensions with the West over Russia's invasion of Ukraine. Gazprom is also in talks with China on a second contract to deliver gas via another pipeline, although there are few signs of progress in those talks. Russia is the world's second-largest gas producer, but lags competitors in the LNG market. Russia's second largest gas company, Novatek, is building an LNG plant in the Arctic — only the country's second export plant.

Japan’s utilities and customers benefit from lower LNG prices

(Bloomberg; June 29) - Japan’s biggest power utilities, emerging from four years of gloom, have cut electricity rates as cheaper imported natural gas benefits both their bottom line and their customers. The global collapse in energy prices and abundant supplies of liquefied natural gas are a boon to Japan, the world’s largest LNG importer. The utilities that use the biggest proportion of LNG for power generation are benefiting the most, and will lower their electricity rates for households and industry in August.

Tokyo Electric Power is one of six utilities to cut rates in the most recent round. TEPCO accounted for one-quarter of Japan’s record 89 million metric tons of LNG last year. Helped by lower costs, TEPCO’s profit expectations for the year ending March 2016 have surged threefold in the past 12 months. For Japan’s third-largest utility, Chubu Electric Power, profit forecasts have more than doubled. Chubu accounted for about 15 percent of LNG imports and is the most dependent on the fuel of all Japan’s utilities.

With electricity sales expected to remain broadly flat, fuel costs are the biggest lever on utilities’ profits. As such, expect more procurement deals along the lines of TEPCO and Chubu’s alliance of October last year, said Jane Nakano, a fellow at the Center for Strategic and International Studies in Washington D.C. “How they can procure cheap resources will matter,” Nakano said in an interview. “Some of the companies will have a lot more joint ventures like the way we have recently seen with Chubu and TEPCO.”

Australia Pacific LNG project says it will be OK in soft market

(Australian Business Review; June 29) - Origin Energy has moved to soothe concerns that soft demand is putting its Australia Pacific LNG project in jeopardy, saying that its sales deal with Sinopec gives the Chinese group flexibility and the option of reselling the fuel elsewhere. Recently, there have been concerns that China's demand for LNG has been weakening, as slowing economic growth and the higher cost for the fuel dampen consumer demand, while the global market will be oversupplied in the medium term.

Origin Energy said June 29 there is some flexibility in its sales-and-purchase agreement with Sinopec to decide the start date for supply of LNG to the Chinese buyer, which also has flexibility on where it can take the cargoes for resale if Sinopec wants to market the gas on its own. Origin also said its agreement was structured as a take-or-pay contract, meaning it gets paid regardless whether Sinopec actually takes the gas.

After a start-up period, the Australia Pacific LNG joint-venture between Origin Energy, ConocoPhillips and Sinopec has a deal in place to supply 7.6 million metric tons of LNG per year to Sinopec. "The [agreement] does provide Sinopec with flexibility in terms of where it can take the cargoes. … Any exercise of this flexibility by Sinopec would not impact Australia Pacific LNG's rights," Origin said. Initial cargoes have gone out under short-term contracts; the project remains on track for sustained production late 2015.

Energy Department approves LNG exports for Cheniere expansion

(Houston Chronicle; June 26) - A federal agency June 26 granted Cheniere Energy export authorization for expansion of its liquefied natural gas plant under construction at Sabine Pass, La., paving the way for the company to press forward with adding more capacity to the plant. The Energy Department approved Cheniere's request to export production from two more liquefaction trains proposed for the site. (The company's board of directors June 30 approved construction of the first of the two additional trains.)

The agency said it gave its approval after "extensive, careful review" of the project that took into consideration the proposal's effects on the U.S. economy, energy security and the environment. The export authorization applies to the coveted market of countries lacking free-trade treaties with the United States.

The announcement came days after the Federal Energy Regulatory Commission cleared Cheniere to start construction on the project. With its major regulatory hurdles out of the way, Cheniere was ready to make a final investment decision on the expansion at the same site the company is already building four liquefaction trains The first unit is scheduled to start production late this year.

Newest Indonesian LNG plant starts production

(LNG World News; June 30) - Indonesia's Donggi Senoro LNG plant started producing its first liquefied natural gas last week, according to local media reports. The facility is expected to dispatch its first shipment of LNG within the next 30 to 40 days, PT Medco Energi International director Lukman Mahfoedz said. The gas field feeding Indonesia's newest, and smallest, LNG plant is expected to hit peak production at about 300 million cubic feet of gas per day.

The plant started its commissioning phase in September 2014, with testing to continue through its early stages of operation. Donggi Senoro has signed agreements with Kyushu Electric and Chubu Electric of Japan for 300,000 metric tons of LNG per year and 1 million tons per year, respectively. Korea Gas signed up for 700,000 tons a year. The $2.8 billion plant is owned by Indonesian companies Pertamina Hulu Energy, Medco LNG Indonesia and Sulawesi LNG Development.

Floating LNG receiving terminal unused in Indonesia

(Reuters; July 1) - A $400 million floating plant for changing LNG back to gas has sat idle off Indonesia's coast for six months despite only being commissioned last summer, hit by faltering demand for the fuel as oil prices drop and economies slow. The stoppage could stoke government worries over the strength of the appetite for gas in Southeast Asia's largest economy, another blow to Indonesia's president who has been pushing for greater consumption of the fuel to curb pollution and diversify energy sources.

Tepid Indonesian demand also means more liquefied natural gas is likely to spill into regional markets already struggling near their lowest since before the Fukushima crisis in 2011 boosted usage after Japan shut down all its nuclear reactors. Floating storage and regasification units convert LNG back into gas before moving it onshore by pipeline. They are typically cheaper and quicker to build than land-based LNG terminals.

But the Lampung floating terminal, moored off the coast of Sumatra with a capacity to process 2 million metric tons of LNG a year (a little less than 100 billion cubic feet of natural gas), has not transferred any gas since January. That amount of LNG could provide about 14 percent of Indonesia's total power demand in 2014, according to Reuters calculations. Electricity demand growth in Indonesia is down, just as the appetite for gas has been curbed by declining prices for rival fuels coal and diesel.

Woodside commits to FEED for Australia floating LNG project

(Australian Financial Review; July 1) - Woodside Petroleum has persuaded its partners to commit to engineering design work on the proposed Browse floating liquefied natural gas project in Western Australia, despite doubts over project costs and global demand for LNG. The decision to start front-end engineering and design follows last week's deal between Woodside and the Western Australia state government on local gas supplies from the project and development of an onshore supply base for the offshore plant.

The Browse FLNG venture would involve three floating production vessels sited at the three fields in the Browse Basin that would produce gas and condensates for the export market. The venture partners had originally aimed to build an enormous onshore LNG plant to process the gas on the remote Kimberley coast, but scrapped that plan after they found the project would cost $80 billion or more.

Woodside CEO Peter Coleman said the decision to enter FEED was a "significant step" toward developing the 15.4 trillion cubic feet of gas held in the three fields. Woodside reiterated its target of reaching a final investment decision on the Browse project in the second half of 2016. However, it has yet to find customers to buy the LNG amid a surplus of gas in the Asian market that Citigroup said this week would likely last until 2022 or 2023.

[Russia reportedly close to deal for LNG sales to Pakistan]

(Oil & Gas 360; June 30) - Pakistan is expected to sign an agreement with Russia for construction of a 684-mile natural gas pipeline from Karachi in southern Pakistan to Lahore in the north to move regasified LNG deliveries from the country's only import terminal. Under the partnership, Russia would provide $2 billion to lay the pipeline, and in exchange Pakistan would award the contract to Russia without inviting bids, reports Pakistan's Express Tribune.

"We are trying to sign an LNG pipeline accord with Russia in a government-to-government arrangement during the visit of Prime Minister [Nawaz Sharif] to Moscow," Petroleum Minister Shahid Khaqan Abbasi said. Prime Minister Sharif is expected in the Russian capital July 9, to attend a summit of the Shanghai Cooperation Organization.

In addition to financing the pipeline, Russia has agreed to sell LNG to Pakistan, which suffers from energy shortages. Pakistan earlier this month opened its first LNG import terminal in Karachi, receiving a cargo from Qatar. Pakistan has a 15-year supply deal with Qatar, the world's largest LNG producer.

[B.C. plant could start LNG deliveries to Hawaiian Electric in 2019]

(The Province; Vancouver, BC; June 29) - FortisBC has struck a conditional deal to deliver liquefied natural gas to Hawaii that could result in mid-sized LNG tankers on the Fraser River in 2019. The deal with Hawaiian Electric would trigger a further $400 million expansion at the FortisBC plant in Delta, 10 miles south of downtown Vancouver, if the contract is approved by the Hawaiian Public Utilities Commission. The 2019 start-up for LNG deliveries is a couple of years later than the utility originally had proposed.

The FortisBC plant has operated since 1971 and helps to meet the area's peak winter needs. Expansion of the small plant is underway, with additional capacity possible. The Hawaiian utility has conditionally contracted for an average of 700,000 metric tons of LNG per year for 15 years (about 90 million cubic feet of gas per day). The company said the deal was signed for a liquefaction cost of $2.70 per gigajoule, which works out to about $3 per thousand cubic feet of gas. The cost of feed gas would be additional.

"The price was lower than any other rate we are aware of, including the rates offered by Gulf of Mexico liquefaction projects," Hawaiian Electric said in an August 2014 filing with the state utilities commission. In addition to plant expansion, a number of regulatory approvals must be obtained before deliveries can start, including reviews under Environment Canada, Transport Canada, the Fisheries Act, Species at Risk Act, B.C. Oil and Gas Commission and forest and environmental ministries, and the city of Delta.

U.K. county government denies fracking application

(Wall Street Journal; June 30) - An English county government June 29 rejected the first onshore hydraulic fracturing in Western Europe since 2011, another blow to efforts to develop a shale gas industry outside the U.S. Though U.K. Prime Minister David Cameron supports the controversial technique, the Lancashire County Council planning committee in northwest England decided that Cuadrilla Resources could not drill without causing quality-of-life issues in a region known for its agriculture and bucolic charm.

By a 9 to 3 vote, the committee said no. “I’m not against fracking as such, but I feel it’s in the wrong place,” said Councillor Paul Hayhurst, who said the drilling would have had an “unacceptable impact” on the landscape and noise levels. The decision effectively extends the moratorium on fracking in the U.K. that followed Cuadrilla’s first drilling in 2011, an effort blamed for a series of earth tremors near the city of Blackpool.

Fracking unleashed an oil and gas boom in the U.S., but it has proved politically toxic in Europe, where it has been blocked over environmental and health concerns. Elsewhere in the U.K., Scotland has banned fracking and Wales is considering a similar measure. It is banned in France and is indefinitely on hold in Germany. In Eastern and Central Europe, where fracking has been embraced, drilling results have been disappointing.

The decision doesn’t end fracking efforts in the U.K. Companies are preparing to apply to drill and frack elsewhere in Britain — requests that will be decided by local officials.

Pennsylvania gas industry not feeling loved by new governor

(Wall Street Journal; June 30) - Since taking over from a Republican in January, Democratic Pennsylvania Gov. Tom Wolf repeatedly has said he supports the state’s booming shale gas industry. But lately, the industry is wondering. State regulators, who have begun reviewing dozens of environmental cases the previous administration handled, recently imposed an $8.9 million fine for a gas well they said is contaminating drinking water — the largest fine ever against a gas operator in state history.

The state is also proposing a raft of stricter rules to prevent drilling wastewater from contaminating drinking water sources. And the industry is upset that the Wolf administration earlier this month slashed its estimate of Pennsylvania jobs supported by shale gas to 89,000 from the previous administration’s estimate of more than 200,000. Some in the industry say the lower estimate is politically motivated.

The governor’s spokesman, Jeffrey Sheridan, said Wolf seeks a balance between promoting development and protecting the environment. Another sore point for the industry is the governor’s appointment of cabinet members who previously worked for an environmental nonprofit called PennFuture that has pushed for tougher drilling rules.

The governor has said he will veto a Republican-crafted state budget because it doesn't include his top priorities, such as a new 5 percent severance tax on shale gas that he estimates will bring in $1 billion a year to fund schools. The budget stalemate continues.

Enbridge buys into proposed U.S. Gulf Coast offshore LNG project

(Houston Chronicle; July 1) - Pipeline giant Enbridge has agreed to buy a 5 percent stake in a proposed offshore Gulf Coast liquefied natural gas export facility. Houston's Fairwood Peninsula Energy, which owns the project, said July 1 the Calgary-based company had purchased the small stake and agreed to assist in the development. Delfin LNG has applied to the U.S. Energy Department but has not yet received export authority, nor has it completed its review at the Federal Energy Regulatory Commission.

If built to current plans, Delfin would ultimately put four or more vessels about 50 miles off Louisiana's coast in the Gulf of Mexico. Gas would be piped to the offshore site, liquefied and loaded aboard tankers for delivery worldwide. Fairwood didn't put a dollar amount on Enbridge's 5 percent stake. Enbridge's relationship with Fairwood goes back to 2012, when the pipeline giant sold the LNG company a gas pipeline that runs from the Louisiana cost to the offshore liquefaction vessels.