

Oil and Gas News Briefs

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[U.S. LNG exports add to global shift away from oil-linked pricing](#)

(Financial Times; London; May 28) - When the first U.S. shipment of liquefied natural gas leaves the Gulf Coast later this year, gas trading will fulfill its long-held promise of going truly global. Cheniere Energy's Sabine Pass terminal in Louisiana is expected to load its first LNG tanker around December, bringing U.S. shale gas to world markets at a time when trading of the fuel is picking up.

This has mobilized commodity traders who have been positioning themselves for increased trading activity and a move toward more LNG contracts being based on the price of natural gas. Up to now, the majority of LNG long-term contracts have been priced against crude oil. And fewer supply deals may be structured for a long period of time, say a decade or more, as supplies increase and as the price of LNG moves away from being linked to oil.

"It is not going to happen overnight, but [trading] volumes will build up over the next few years," said David Thomas, head of LNG trading at Vitol, one of the world's largest independent commodity traders. "The availability of U.S. exports will ultimately influence prices around the world." Even though producers need to lock in contracts to fund the construction of multibillion-dollar liquefaction and loading terminals, buyers' appetite for oil-linked contracts has fallen. Jonathan Stern, director of gas research at the Oxford Institute for Energy Studies, said the move away from traditional deals is unavoidable.

[Russia forecasts European gas prices as low as \\$5.30 next year](#)

(Bloomberg; May 28) - Gazprom, Russia's biggest natural gas producer, will probably see lower prices and profits in Europe for the next four years as weaker oil prices and rising competition threaten to further cut into its income, a government forecast showed. Gazprom's average price for gas delivered to Europe may drop to as little as \$5.30 per thousand cubic feet next year, the Russian Economy Ministry said May 28. That would be the lowest since 2004 and 23 percent less than this year's Gazprom forecast.

Gazprom, which derived \$68 billion in revenue from gas sales outside Russia last year, had its smallest export volumes in 11 years and cut its output to a record low as Europe and Ukraine sought to diversify deliveries. This year, the company has been hurt by falling prices as it sells most of the fuel under long-term contracts usually linked to crude oil prices with a time lag of six to nine months.

Russia's gas price in Europe probably won't recover soon and might only return to the level previously estimated for this year in 2018, according to the ministry's forecast. "There's a possibility of a sharper decline in the gas price influenced by the growth in supply and stiffer competition among suppliers," the ministry said in a statement on its website. Not everyone agrees. "The oil price won't stay low forever," Bloomberg Intelligence analyst Elchin Mammadov said. "The estimate is far too conservative."

Gazprom likely able to withstand period of low gas prices

(BBC News; May 28) - Just two years ago, Gazprom spent a reported \$1 billion on its 20th birthday celebrations, with Sting and the Bolshoi ballet entertaining President Vladimir Putin and company executives in a lavish gala dinner hosted at the Kremlin. There was much to celebrate. Russia was the undisputed king of gas — the world's biggest producer with the biggest reserves and the biggest exports. But the party has since fallen rather flat.

Weaker demand in Europe and plunging gas prices have hit revenues, while U.S. and European Union sanctions over the Ukraine are targeting Russia's energy sector. Add an EU charge of monopoly abuse, increased competition from Qatari LNG and a potential glut of U.S. liquefied natural gas flooding the market next year — not to mention the possible unleashing of Iran's vast gas resources if sanctions are lifted following a nuclear deal with Tehran — and the threats are both numerous and real.

With state-controlled Gazprom one of Moscow's primary foreign policy levers, the stakes could not be higher. As the biggest supplier of gas into Europe, will Russia's influence on the continent wane, and will she flirt ever more with China to compensate? The question for Gazprom is whether to cut exports to combat oversupply, thereby supporting prices, or keep volumes high to protect market share. Rather like Saudi Arabia with oil, Gazprom is perfectly able to withstand a prolonged period of low prices.

Tokyo Gas consultant promotes Russian gas pipeline to Japan

(Oil & Gas 360; May 27) - A consultant with Japan's largest gas company said they are interested in building a pipeline to obtain Russian natural gas at half the cost of liquefied natural gas imports. Tokyo Gas, the country's largest gas company, would like to build a gas pipeline from the gas fields of the Sakhalin Island region to central Japan, Shigeru Muraki, a consultant for the company, said at the third annual Russian-Japanese Forum on Cooperation in Business, Technology and Culture in Tokyo.

Muraki said the 900-mile pipeline across the Sea of Okhotsk would cost \$3.5 billion, reports Russia Beyond the Headlines. He said the pipeline would offer an economical alternative to LNG. Last year, supplies of Russian LNG from the country's only export

terminal, located on Sakhalin Island, cost an average \$16.40 per million Btu, while Gazprom's average for pipeline gas supplies to Europe was between \$10 and \$11. Spot-market LNG in May, however, was selling under \$8, as the market is oversupplied.

Sergei Agibalov, deputy director of the economics department at the Institute of Energy and Finance in Moscow, estimated that even considering project costs and Gazprom's unwillingness to lose revenue, the pipeline gas supplied to Japan would cost less than \$12 per million Btu. But the pipeline might seem less attractive to Gazprom, which has greater flexibility through LNG shipments, said Vyacheslav Mischenko, vice president of the Argus news and research service in Russia. The pipeline would tie Russia to Japan.

Rosneft/Exxon may need to change plans for Sakhalin LNG project

(Reuters; May 28) - Russia's top oil producer Rosneft said May 28 it is considering moving construction of its proposed liquefied natural gas plant away from the Pacific Far East island of Sakhalin due to Gazprom not giving it access to the area's natural gas pipeline. Rosneft signed an agreement with ExxonMobil in 2013 that aimed at starting production in 2018 from the venture's Sakhalin Island LNG project. Gazprom has operated Russia's only LNG export terminal, located on Sakhalin Island, since 2009.

Rosneft has long sought access to the Sakhalin gas pipeline, controlled by Sakhalin Energy, a venture between Gazprom, Shell, Japan's Mitsui and Mitsubishi, with Gazprom owning a controlling interest. Gazprom has voiced strong opposition to plans by Rosneft and Exxon to build their own LNG plant to ship gas from their offshore reserves. Sakhalin is strategically sited near Japan, the world's LNG top consumer.

First Nation's environmental report could 'delay or derail' oil pipeline

(Vancouver Sun; May 25) - A small First Nation's environmental assessment of Kinder Morgan Canada's proposed \$5.4 billion oil sands pipeline expansion could "delay or derail" the project, according to a legal analysis of the report. The scathing 90-page assessment, released May 26 by the 570-member Tsleil-Waututh First Nation of North Vancouver, includes scientific research that says Kinder Morgan has underestimated the environmental and public health risks of major and minor oil spills in Burrard Inlet.

"The assessment lays out the profound impacts of the project on Tsleil-Waututh title and rights, thus setting the stage for litigation that could delay or derail" the project, said the analysis of the report by six law professors. The report concludes the company's plan to triple the capacity of its pipeline system from Edmonton, Alberta, to Burnaby, B.C., is contrary to the interests of the Tsleil-Waututh and should be opposed by its chief and council. The pipeline expansion would boost tanker traffic to 34 ships a month from five.

The Tsleil-Waututh reserve is in North Vancouver, less than 1.5 miles across Burrard Inlet from Kinder Morgan Canada's Westridge oil tanker terminal. Kinder Morgan Canada is seeking National Energy Board approval to boost the capacity of its Trans Mountain Pipeline to 890,000 barrels a day from 300,000. The federal cabinet will make the final decision. The Tsleil-Waututh on May 26 drew about 100 people to the shores of the Burrard Inlet to bless the report with a traditional song and dance.

B.C. gas minister defends progress toward LNG industry

(Global News; May 28) - In his office, B.C. Minister of Natural Gas Development Rich Coleman compares building the province's hopeful liquefied natural gas industry to the path Vancouver took getting the 2010 Winter Olympics. "It took a number of years to get it, a number of years to build it ... it was well over a decade and a half in process," he said. "We've been at this three years, and we're at the threshold for a final investment decisions for at least one or two companies in the next 10 to 12 months."

He added, "I don't think we're going slow at all. ... I'm pretty pleased with the progress to be honest." But while the past three years have been marked by bold promises by the provincial government, framework agreements and behind-the-scenes negotiations with multinational companies and First Nations groups, the next 12 months will go a long way in determining the government's LNG legacy. The general consensus among industry analysts is that low energy prices, new LNG plants in Australia and competition from the U.S. make the chances of more than one B.C. plant start-up by 2020 unlikely.

While the B.C. government lists 19 proposed LNG projects on its website, none have reached a final investment decision, half have yet to receive government approval, and several have stalled. Coleman still expresses confidence. "What do you expect of the people who lead your province? To put their head in the sand, or think of something that's generational, that can change opportunities for First Nations and non-First Nations alike, provide jobs and opportunities, and a strong future," he said.

Columnist questions whether B.C. has missed its LNG opportunity

(Globe and Mail column; Canada; May 29) - "The window is closing down." So believes Thierry Bros, one of Europe's and the world's leading experts in natural gas, about British Columbia's ability to build a liquefied natural gas industry. If Bros, who was recently in Ottawa, is correct, then British Columbia risks arriving too late for the world's LNG party. LNG projects are proceeding in Australia, the U.S. and elsewhere. In B.C., they face regulatory delays, long negotiations with aboriginals and rising costs.

The world is not waiting on British Columbia. The first liquefaction and export plant in the Lower 48 U.S. states will open at the end of this year, with three more under

construction — and more possible. So many new LNG terminals are opening up in Australia this decade that the country will surpass Qatar as the world's largest LNG producer. Africa is expanding its LNG production, although the lack of rules and infrastructure will slow down development in Tanzania and Mozambique.

Maybe there will be room for B.C. gas, but the outlook is distinctly less rosy than when LNG was first touted as a boom industry for the province. Add together these factors — changing world demand and supplies, the regulatory and aboriginal dimensions of doing business in B.C. — and the recent headline on an Oilprice.com story seems appropriate: Is the Canadian LNG Export Dream Dead?

Canadian gas producers learn to survive with low prices

(Financial Post; Canada; May 28) - Advantage Oil & Gas is so lean that it can make money even if natural gas prices plunge to \$1 per thousand cubic feet. "We can't grow the business at that price, but we can survive. But a lot of companies are nowhere near that low cost," said Andy Mah, chief executive officer of Calgary-based Advantage. Michael Rose, CEO of Tourmaline Oil, another gas-heavy operator, also "squeaked" out earnings in the first quarter, even as gas prices averaged under \$2.60 during the period.

"The trick is to drill the absolute highest quality and most economic wells so they will have the quickest payout and the best return whatever the gas price is," Rose said. Advantage and Tourmaline, also based in Calgary, are among a new breed of Canadian producers that have evolved to survive prices that have languished for much of this decade. While the price outlook remains grim, a handful of the companies have put themselves on sure-footing as they tackle the competition from U.S. shale producers.

Canadian benchmark natural gas prices have averaged \$3.28 this decade. In the past decade, that figure stood at around \$5.80, according to Bloomberg. Mah doesn't expect the rout to end any time soon. "We should be prepared to survive and grow in this \$3 environment, even down to \$2.50," he said. "That's going to be the reality for the next three years. I don't think we are going to see a significant lift." The low costs come as the U.S. shale surge has pushed Canadian gas exports to the U.S. to a 19-year low.

BP signs agreement to supply LNG to Kansai Electric

(The Wall Street Transcript; May 28) - BP and Kansai Electric on May 28 entered into a sales-and-purchase agreement for liquefied natural gas, along with a cooperation agreement to explore opportunities for business collaboration. Under the agreements, BP will provide Kansai Electric with up to 13 million metric tons of LNG over 23 years (more than 620 billion cubic feet of natural gas) from BP's portfolio of LNG sources.

In addition, the agreements provide for Kansai Electric and BP to explore areas of cooperation across a wide range of LNG business activities such as trading and optimization of LNG ship operations. "Building on a separate LNG sale-and-purchase agreement signed in 2013, this new LNG deal entails additional supply from BP's portfolio," said Paul Reed, chief executive of BP Integrated Supply and Trading. Kansai Electric is Japan's second largest electric utility, with 13 million customers.

Cheniere says Sierra Club appeal delays expansion at LNG plant

(Houston Chronicle; May 29) - Cheniere Energy is ready to start construction on expansion of its Sabine Pass liquefied natural gas export terminal, but it can't start work until federal regulators dismiss an environmental group's request to intervene. The Federal Energy Regulatory Commission in April cleared Cheniere to expand the terminal beyond the four trains already under construction in Louisiana, but the Sierra Club asked for a rehearing, delaying the project.

The Houston-based LNG company said it is eager to start work on the expansion. It has locked in contracts for a fifth production unit with a French company and an English utility, Cheniere CEO Charif Souki wrote in a letter this week to FERC. The company is nearly finished piecing together financing for the project and is poised to give a construction company the green light to start work, but it can't make a final investment decision until FERC rules on the Sierra Club's requests.

Cheniere urged FERC to act soon to deny a rehearing, arguing that the group is raising the same concerns it made regarding the company's proposed Corpus Christi LNG export terminal. Federal regulators dismissed the group's request for additional review on that project. The Sierra Club has argued that the Sabine Pass expansion will contribute to air pollution and lead to a swell in gas production, in turn causing an increase in greenhouse gas emissions and an uptick in gas prices for U.S. consumers.

Eni differs on price with Chinese buyer for stake in Mozambique gas

(Reuters; May 29) - Talks between Eni and suitors including Chinese state utility Huadian for a stake of about 15 percent in the Italian oil major's prized Mozambique gas field are dragging on due to differences over price, industry and banking sources said. State-controlled Eni is looking to sell about \$9 billion of assets in the next five years to fund growth in new markets and help protect dividends.

The biggest foreign oil producer in Africa plans to raise about one-quarter of these proceeds from the sale of minority stakes in top acreage such as Mozambique, Congo and Ghana, without giving up operatorship. In Mozambique, Eni is looking to sell down its 50 percent stake in its huge Area 4 gas field. But its insistence on remaining operator

is likely to exclude majors such as ExxonMobil and Shell, which tend to favor controlling investments in big oil and gas projects, the sources said.

Area 4 is in Mozambique's Rovuma Basin, where gas in place amounts to 85 trillion cubic feet. Plans are to build an onshore liquefaction plant and export terminal. The field's production capacity attracted peak valuations two years ago, when Eni sold 20 percent to China National Petroleum Corp. for \$4.2 billion. But a halving of oil and gas prices since then, combined with an upcoming surge in global LNG export capacity, has dulled buyers' enthusiasm while Eni has been reluctant to budge on price, sources said.

Surge in demand for tankers could signal more oil supply

(Bloomberg; May 28) - Four months into oil's pricing rebound from a six-year low, the tanker market is sending a signal that the price rally is under threat. A sudden surge in demand for supertankers drove benchmark charter rates 57 percent higher in the two weeks through May 20. OPEC will have almost half a billion barrels of oil in transit to buyers at the start of June, the most this year, while analysts say about 20 million barrels are being stored on ships in another indication the oil glut has yet to dissipate.

The Organization of Petroleum Exporting Countries is pumping the most oil in more than two years, determined to defend market share rather than prices. A record cut to the number of active U.S. drilling rigs and billions of dollars of spending reductions by companies since last year's price plunge has yet to translate into a slump in barrels produced. The world is pumping about 1.9 million barrels a day more crude than it needs, according to Goldman Sachs Group

“Supply of oil continues to build,” said Paddy Rodgers, CEO of Antwerp, Belgium-based Euronav, whose supertanker fleet can haul 56 million barrels of crude. “All of this oil needs to go somewhere.” Spare tanker capacity in the Middle East has seldom been tighter. But oil traders may take some comfort in recent drops in U.S. oil inventories, signaling a gradual easing of the glut, Standard Chartered analysts wrote in a report May 26. It may take at least another quarter for the surplus to disappear, they wrote.