Oil and Gas News Briefs
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Global LNG oversupply leads to more spot sales and trading

(Reuters; Oct. 30) - Producers and importers of liquefied natural gas are preparing to trade the fuel more actively on a spot basis as a looming supply surplus threatens to overwhelm decades-old contracts and push prices lower. With 130 million metric tons of additional LNG capacity in Australia and North America by 2020, producers and traditional buyers such as Japanese utilities have expanded trading teams to handle excess cargo flows and navigate a more open market.

Excess supply, along with rising demand, is key to establishing a liquid commodity market, as opposed to times of tight conditions when producers and consumers tend to enter long-term fixed supply agreements rather than trade openly. "Buyers will be able to have their choice ... (of) very large supply sources that can deliver pretty much at a moment's notice," Cheniere Energy CEO Charif Souki said this week at a conference in Singapore. Cheniere is set to start up its LNG plant at Sabine Pass, La., in January.

And while new demand is popping up in countries such as Jordan, Dubai, Egypt and Pakistan, it is unlikely to be enough to offset the slower-than-expected consumption growth in China and the falling demand in top importers Japan and South Korea. Some major players in the industry disagree, though, on how quickly a robust spot market will develop. The surplus, along with slow-growth demand, will keep prices under pressure until the end of the decade, consultancy Wood Mackenzie said in statement this week.

LNG market 'a train wreck happening in slow motion,' says analyst

(Wall Street Journal; Oct. 30) – With liquefied natural gas prices slumping and demand in key consuming countries like China looking shaky, the energy industry's optimism seems to have fizzled. In recent years, oil and gas majors have invested billions of dollars in LNG projects in countries such as Australia and Qatar, while vast sums have been spent on plants that turn LNG back into gas in consuming countries, all in the belief that demand for the fuel would rise rapidly. It hasn't quite worked out as planned.

The pessimism surrounding the LNG industry was unmistakable at this week's annual Gastech conference in Singapore. One regular attendee, an LNG strategist at a Malaysian energy company, said she had never been to a gloomier energy event. "The entire industry is worried because it is hard to tell when China's demand will pick up again. Rising demand from smaller countries such as Pakistan, Egypt and Bangladesh is not enough to offset the declining demand from north Asia," she said.

LNG prices are certainly in a funk. Two years ago, gas to Japan and Korea sold at $15 to $16 per million Btu. This month, cargoes are selling for $6.65. LNG prices are like “a train wreck happening in slow motion,” said Neil Tomnay, global head of gas and LNG research at Wood Mackenzie. Suppliers cannot rely on China’s rapid industrialization to soak up extra gas, with economic growth there dawdling. The industry now believes China won’t need all the LNG it has contracted to buy, Tomnay said. In line with his comments, PetroChina and CNOOC offered three LNG cargoes for resale last month.

Reuters analysis shows low prices undercut LNG economics

(Reuters; Oct. 29) - When Cheniere Energy opened its liquefied natural gas import terminal in Louisiana in 2008, a U.S. shale drilling boom soon made it obsolete. Seven years on, with the firm about to open an export plant on the same site, the timing, again, is far from ideal. A Reuters analysis shows that a slump in oil prices and glut of LNG threaten to undercut the economics of U.S. gas exports, crimp shippers' profits and possibly reduce demand for facilities such as Cheniere's $12 billion Sabine Pass plant.

New supply across the globe, faltering demand and a steep drop in oil-linked LNG prices will make short-term, or spot, deliveries of U.S. gas to markets in Europe and Asia unprofitable next year, according to the Reuters calculations. The calculations, corroborated by analysts, raise questions about the profitability of short-term shipments not just from Sabine Pass but from the four other U.S. export plants under construction.

The other U.S. projects are in Maryland, Louisiana and two in Texas, all set to go online between 2017 and 2019. "U.S. LNG will materialize at a time when the biggest market (Japan) is witnessing a demand reduction and when supply is growing again massively thanks to Australia," said Thierry Bros, senior gas analyst at Societe Generale. "This is the worst possible timing for this new LNG that has no dedicated market."

Experts don’t expect Cheniere's export plant to sit idle as its import plant did. BG Group, one of the biggest LNG suppliers in the world and the main shipper for the plant's first phase, will be able to profit by shipping U.S. gas under existing long-term contracts with Asian buyers that offer higher prices than short-term rates. Meanwhile, Cheniere's bottom line is protected by a $400 million annual fee that BG Group will pay for reserved capacity at the plant, regardless whether any gas is liquefied and shipped. That “tolling fee” guarantees income to Cheniere, with customers such as BG taking the market risk.

Low prices will spur increased LNG demand, Barclays says

(Energy Wire; Oct. 29) – New liquefied natural gas export terminals and expansions will be put on hold as players reassess the market, a Barclays research note argues. "Most of the demand outlooks we have seen were based on the expectation that LNG prices were going to be in the teens," the analysts wrote, referring to prices that prevailed as recently as a year ago before the oil and gas price crash. "If it is going to remain in the $7 to $9 (per million Btu) range, we think these demand outlooks are understated."

The oil price drop affected world gas markets by pulling down prices thanks to contracts that use complex formulas to link LNG prices to crude. As crude prices have continued to drag, though, the impact on LNG is more complicated: Spot market prices are low, but many long-term contracts rely on multiyear averages that put buyers on the hook for higher rates based on oil from the $100-per-barrel days. The upshot, Barclays notes, is that many buyers have cut their LNG offtake to the lowest limits allowed under contract.

But many analysts expect crude prices to recover in the next year or two, rising to a $70 range. Meanwhile, spot and contract LNG prices will likely remain depressed, they said, due to factors including those lagging averages, the flood of new LNG supplies coming online and excess supply turned away by buyers. "When crude prices recover and LNG prices don't follow suit, we think fertilizer, power and petrochemical industries are going to have to seriously consider switching from higher-cost feedstocks such as naphtha and fuel oil," the analysts wrote, with a resultant surge in gas demand.

Yamal LNG continues work to secure financing

(Reuters; Oct. 29) - A deal to raise financing for the Novatek-led Yamal LNG project in the Russian Arctic is in its final stages, the chairman of Gazprombank, Andrey Akimov, told Reuters. Gazprombank is a co-lender to Yamal LNG on the Russian side, along with Sberbank. State development bank VEB has pledged $3 billion in banking guarantees to the $27 billion project that is under construction.

Akimov said Chinese lenders are set to provide $12 billion, Russian banks $4 billion, and export credit agencies are expected to put up $4 billion. He said he planned to travel to China in early November for talks on the deal. But Akimov’s reassurances run contrary to reports in Kommersant, a Russian business daily, which reported Oct. 29 that Yamal is having trouble with financing. The Russian, French and Chinese partners have already put up $10 billion, leaving at least $17 billion still to be financed.

Novatek has been negotiating with Chinese banks for more than a year, the newspaper reported. Sources say that the main cause for the delay in negotiations is a very high interest rate on bank loans in China. The newspaper refers to sources saying that Novatek, which cannot attract financing in dollars due to the Western sanctions against Russia for its role in the Ukraine conflict, hopes to get the money from European export agencies because that would be cheaper than attracting the loans from Chinese banks.

Qatar expects long-term LNG demand growth at 2% a year

(Gulf Times; Qatar; Oct. 28) - The longer-term fundamentals for natural gas and LNG look bright amid new market dynamics and price volatility, a senior Qatargas executive said. Qatargas chief operating officer Alaa Abujbara presented at Gastech 2015 in Singapore, focusing on recent changes in global gas and LNG markets and changes expected over the medium to long term. He said the energy sector was going through a "fundamental re-balancing," characterized by "new market dynamics and price volatility."

The LNG sector, he said, has been adjusting to a number of factors including the lower oil price, lack of short-term demand from the traditional Far East markets, new markets appearing in the Middle East, and ample supply from existing and new LNG producers, all of which have led to an uneven market. "Our view is that over the next five years, global gas demand will grow about 2 percent a year, which is slightly lower than previous forecasts," he said.

"However, we believe that a strong political will for 'clean air policies' is expected to spur gas demand," Abujbara said. And despite new LNG supplies scheduled to come online this decade, there are questions whether there will be sufficient supply to meet demand after 2020. "We must remain vigilant in advocating for the future of our industry."

Excess LNG will go where it can best compete with coal, analyst says

(Reuters; Oct. 28) - What's well known is that a wave of new liquefied natural gas is about to swamp already well-supplied markets. What's less known is how these cargoes will be absorbed. The assumption has always been that China would soak up vast quantities of the fuel, driven by rising energy demand and the need to switch from more polluting coal. But this view has been challenged by China's slowing growth and by evidence that gas is failing to make the anticipated inroads into China's energy markets, mainly as it remains a higher-cost option for industry, consumers and power generators.

China's LNG imports dropped 3.8 percent to 14.13 million metric tons in the first nine months of the year compared to the same period last year, while pipeline imports of gas gained 8 percent to 18.13 million tons. Even assuming a fairly dramatic increase in LNG purchases by China, there is still likely to be a global supply glut by 2020 that will need to find a home. Idling LNG production is less likely, given the need to keep production going to repay the enormous capital invested to build LNG export projects.

Australia will effectively own spot LNG supplies to Asia, given their cost advantage and closer proximity to the region, said Trevor Sikorski, the head of gas and coal research at consultants Energy Aspects. This will force Qatar, the world's largest LNG producer, to send its spot cargoes to Europe, he said. It also means that U.S. producers are unlikely to be able to sell spot LNG to Asia. In effect, Europe will become the clearing house for excess LNG. Under this scenario, Sikorski believes the market will be able to absorb all the coming LNG, simply by sending it where it is most able to compete with coal.

China is key player in coal-to-gas switching

(Reuters; Oct. 29) – A wave of liquefied natural gas due to hit energy markets over the next couple of years is expected to displace tens of millions of tons coal demand globally, helped by government initiatives to move away from polluting power generation. Both coal and LNG are oversupplied after higher prices during the past decade triggered investments in new projects and expansion plans. That new supply arrived just as demand weakened.

At the same time the gap between their prices has narrowed as LNG has become more competitive, particularly where governments penalize coal via taxes or emissions trading schemes. "There is a monstrous amount of LNG coming into the market, on pure cost economics you can say coal is cheaper than LNG at any realistic price, but it (the gas) is going to be used somewhere and if it is coming in the volume that's forecast it will be displacing coal," a coal trader said.

One of the biggest factors in how much switching occurs will be what the world's largest coal consumer China does. Environmental concerns and a desire to help financially distressed domestic coal miners has led to a dramatic fall in China's coal imports, with shipments down 30 percent in the first nine months of the year compared with a year ago. Smog is a major problem for the government, which has relied on coal and highly polluting heavy industries to fuel its economic growth, especially in northern regions.

Cheniere signs 5-year deal to sell LNG to French company

(Bloomberg; Oct. 28) - Engie has agreed to buy liquefied natural gas from Cheniere Energy, increasing the importance of France as a market for U.S. gas. The Houston-based company will ship as many as 12 LNG cargoes a year to France's Montoir-de-Bretagne regasification terminal under a five-year contract, Engie said Oct. 28. The deliveries, on an ex-ship basis, will start in 2018 at prices linked to northern European markets, Engie said. The LNG can alternatively be shipped to other European terminals.

U.S. LNG will help diversify gas supplies for Europe, according to Engie. A third of European gas demand is met by Russian gas delivered by pipeline from Siberian fields. Norwegian gas, domestic production and LNG from existing suppliers such as Qatar and Algeria account for the rest. Cheniere's Corpus Christi liquefaction plant currently under construction in Texas will be the primary source for supply under the contract, Engie said. Corpus Christi is due to start its first production train in 2018.

Cheniere plans to ship the first U.S. Gulf Coast LNG from its Sabine Pass project in Louisiana in January, marking the start of a wave of export projects resulting from the U.S. shale-gas boom. Cheniere has agreements with Electricite de France (EDF) for as many as 50 cargoes a year from Sabine Pass for delivery through 2018, making France a key European entry point for U.S. exports. Both EDF and Engie are French utilities that are also active in global LNG trading.

[Australia LNG project set for November start-up]

(Sydney Morning Herald; Oct. 30) - Origin Energy has confirmed November as the date for the long-awaited start-up of its $24.7 billion Australia Pacific LNG project in Queensland, making it the third of the state's huge coal-seam gas projects to begin production this year. Origin's head of integrated gas, David Baldwin, said the first liquefied natural gas would be shipped from the plant "a few weeks thereafter."

Meanwhile, Origin's partner in the project, ConocoPhillips, reassured investors that the biggest customer for APLNG, China's Sinopec, is set to take its full take-or-pay volume, despite the weak Chinese gas market. But Conoco said some concessions to Sinopec have been made, allowing the Chinese customer and partner to re-sell cargoes. "We've given them the right to divert cargoes outside China, but as a take-or-pay contract and with a price tied to oil," Conoco executive vice president finance Jeff Sheets said.

[Company targets 2016 for decision on African floating LNG project]

(Reuters; Oct. 29) – London-based Ophir Energy expects to make a final investment decision in 2016 for its floating liquefied natural gas project off Equatorial Guinea, a senior executive said Oct. 29. Oliver Quinn, director of new business for Ophir, told an industry conference that first gas production from the project would come by the middle of 2019. The offshore operation would produce 2.2 million metric tons of LNG per year.

The west Africa nation's energy minister told Reuters his government was focusing on floating LNG — a large vessel with production and storage facilities on board, anchored over an offshore field — and had canceled plans for adding a second production train to the country's onshore plant that opened in 2007. Ophir's offshore discovery in almost 6,500 feet of water is expected to reach "plateau production" of about 330 million cubic feet of gas per day, according to the company.

[Eni still plans Mozambique floating LNG decision this year]

(Reuters; Oct. 30) - Italy's Eni said Oct. 30 it was still looking to secure debt financing for its Coral LNG offshore project in Mozambique and will make a final investment decision on the development by year-end. Eni is in discussions to secure 60 to 70 percent debt financing for the project, Ferruccio Taverna, vice president for Eni in Mozambique, said at an industry conference in Singapore.

The company said it was in final stages of talks with BP for offtake from the project. In addition to the offshore plant, at 2.5 million metric tons annual capacity, Eni is looking at building a larger onshore LNG plant in Mozambique, at 10 million tons annual capacity. The company plans to make a decision on the larger project in 2016.

First Nation says B.C. approval of LNG plant premature

(The Canadian Press; Oct. 28) - The Squamish Nation says the B.C. government's conditional approval of a proposed liquefied natural gas export facility north of Vancouver did not fully assess how the project would impact its aboriginal rights. Chief Ian Campbell said the province granted an environmental assessment certificate for the Woodfibre LNG plant this week without full consultation with the First Nation.

Campbell said the Squamish Nation is looking forward to further discussions with the government because many of its own conditions for approving the facility are different than those set out in the certificate. The Squamish Nation has expressed concern about the impact on fish in Howe Sound. The B.C. Environment Ministry has said Woodfibre LNG must continue to work with aboriginal groups.

B.C. LNG developer appeals federal import duty on plant

(Business in Vancouver; Oct. 27) - If Canadian liquefied natural gas projects are to avoid the cost overruns that Australia experienced, they might need to have some of the fabrication done offshore, rather than try to build everything on site, according to a recent analysis by KPMG. But one company that’s trying to do just that has had a $75 million hurdle placed in its path by the federal government in the form of a customs duty on a floating LNG plant, and as a result is postponing a final investment decision.

AltaGas is among the companies considered front-runners in the race to build an LNG plant in B.C. The company had planned to make a final investment decision by the end of 2015 on its small, barge-mounted Douglas Channel LNG project in Kitimat, estimated at $600 million. The project has several advantages, including an agreement to take gas through an existing pipeline. AltaGas also has a willing First Nation partner – the Haisla.

The company is appealing a federal customs duty on the floating LNG plant that one of its partners, Belgium’s Exmar, is building. The plant is estimated at $300 million and could face a 25 percent import duty. The fee was adopted years ago to protect Canada’s shipbuilding industry. “They are highly sophisticated, and most certainly [with] the expertise and capacity that we have in our yards now, there is no way you could get one of these built in Canada,” said Stephen Brown, president of the Chamber of Shipping of BC. “It’s a very outdated regulation.”

Qatar largest LNG and condensate exporter in the world

(Arabian Oil and Gas; Oct. 26) - Qatar, the world's second-largest exporter of natural gas (behind only Russia), exported nearly 4.3 trillion cubic feet in 2014, almost all of it as liquefied natural gas — making the country the world's largest LNG exporter in 2014 at 32 percent of global supply, according to a recent country report released by the U.S. Energy Information Administration. Most of Qatar's exports go to Asia.

Qatar has more than 90 percent of its LNG production volumes committed through 2021. Due to a self-imposed moratorium on new projects, however, Qatar's production has plateaued and could begin to decline soon. The potential for a near-term increase in production lies in the Barzan project, which was the last project approved before the moratorium. Scheduled to come online in 2016 and reach maximum capacity of 1.4 billion cubic feet per day in 2017, Barzan is only expected to offset some of the decline.

Meanwhile, Qatar has increased its output of condensates and natural gas liquids, valuable by-products of gas production. Qatar's condensate production is approximately 700,000 barrels per day, with exports of about 500,000 barrels per day, making it the largest condensate exporter in the world.

Hawaii Gas still wants to bring bulk LNG to the islands

(The Garden Island; Hawaii; Oct. 25) - Hawaii Gas is continuing with its plans to bring liquefied natural gas in bulk to Hawaii. Joseph Boivin Jr., senior vice president, said LNG will be the premier energy source going forward in Hawaii. It’s cleaner than petroleum products, cheaper, environmentally friendly and there’s plenty of it. “We want to bring larger-scale natural gas to the islands,” he said during a recent visit to Kauai.

Today, Hawaii Gas brings propane to Kauai via a 5-million-gallon tanker that docks once a month. It offloads through a pipeline to a bulk storage facility and serves about 9,000 residential and commercial customers who use the fuel for cooking and to heat water. But there’s a better way, Boivin said. Hawaii Gas recently sought proposals for LNG bulk deliveries to the islands, using a floating receiving and storage vessel with a pipeline connection to shore for distribution.

Hawaii Gas makes synthetic natural gas for its customers on Oahu, and distributes propane to customers throughout the state's six primary islands. The utility since last year has brought in small loads of LNG via 40-foot-long tanks aboard containerships, but is looking at expanding to bulk cargoes. Complications include the governor's opposition to bulk LNG deliveries, the $300 million to build a receiving terminal, and state law that requires Hawaii to move to 100 percent renewable energy by 2045.

LNG ship builder says market will pick up

(Bloomberg; Oct. 29) – South Korea's Daewoo Shipbuilding & Marine Engineering, the world's second-biggest shipbuilder, expects demand for liquefied natural gas carriers to return next year as global efforts to reduce greenhouse gases increase the need for cleaner fuel. More industries will look at using gas to replace other fuels, Kim Nam Soo, deputy director of the company's ship design department, said in Singapore.

"There are a lot of gas projects under development in the world, and that will drive demand for more ships," Kim said Oct. 28. "Growing environmental concerns also are pushing demand for more gas-powered power plants, which means there will be more demand for gas." Daewoo Shipbuilding won the most orders for LNG ships among rivals last year as gas projects in countries including Russia and the U.S. gear up for production and need transportation to reach their customers.

Daewoo Shipbuilding received contracts for 37 LNG vessels in 2014, the most among shipbuilders, and won orders for nine more in the first nine months of this year, it said on its website. LNG carriers accounted for 52 ships in Daewoo Shipbuilding's order book at the end of September, the largest number by vessel type.