Oil and Gas News Briefs
Compiled by Larry Persily
October 29, 2015

Wood Mackenzie expects LNG prices to remain low all decade

(Houston Chronicle; Oct. 27) - A looming glut of liquefied natural gas is set to force down local spot prices for the fuel, according to global energy consulting group Wood Mackenzie. About 130 million tons per year of new LNG supply is set to come online over the next five years. At the same time, the global economy has slowed and China — a major source of demand for the fuel — has seen its economy falter.

The additional supply and weakening demand could spark a downturn in LNG prices similar to 2008-2010, when Qatar added 50 million tons per year of new capacity while markets sputtered. “The LNG market is facing another oversupply which is likely to be deeper and persist for some years,” said Noel Tomnay, head of gas and LNG research at Wood Mackenzie, in a study released Oct. 27. “Prices in Asia will be … at their lowest between 2017-2019, while prices in Europe will not reach a low point until 2020.”

China’s economy will be a wildcard throughout this period, according to Wood Mackenzie. If the country’s regulators allow in more liquefied gas, the demand could lessen the glut. In addition, the price of coal will be a factor in determining how much LNG is needed across Asia and Europe. Higher coal prices would encourage power generators to switch to run on gas, while lower prices would allow them to run on coal.

LNG still faces price competition from coal, IEA director says

(Platts; Oct. 26) – Liquefied natural gas continues to face strong competition from coal in Asia despite recent reductions in gas prices, Fatih Birol, executive director of the International Energy Agency, said at Singapore International Energy Week Oct. 26. Birol said LNG would soon face challenges to its growth if it does not become more competitive on price. "LNG is competing with other fuels. You cannot look at LNG in isolation. I see for LNG a major challenge, especially in this region, coming from coal."

Operating costs for coal-fired power plants are almost half of existing LNG-fired units, according to IEA figures, giving coal a strong pricing advantage, particularly in countries with minimal environmental restrictions. "The message for the LNG market is, you need to be cheaper," Birol said. But the industry appears to be facing a dilemma. While prices below $10 per million Btu are low enough to prompt the additional demand needed for further growth, it might be insufficient to attract investment in new LNG export projects.

The global LNG industry is projected to double production by 2020, according to IEA figures, as liquefaction projects come on stream — predominately in the U.S. and Australia — and new consuming markets emerge. The figure is based on liquefaction facilities that have already reached final investment decision, but many have cautioned that low prices are having serious implications for future investments. "There are signs that we will see delays and cancellations of the LNG projects that have not yet been FIDed ... The lower gas prices may postpone several LNG projects," Birol said.

Financial advisers pessimistic about new U.S. LNG projects

(Natural Gas Intelligence Daily; Oct. 26) – The outlook for liquefied natural gas exports has something to disappoint nearly everyone, according to analysts at Raymond James & Associates. U.S. domestic natural gas prices are down, which should make U.S. gas attractive to overseas buyers. But prices for LNG in Europe and Asia are "massively cheaper," Raymond James said. That's thanks to oil-linked prices in Asia, mainly, but also in Europe, too, the financial adviser firm said.

Demand in Asia has not materialized to the extent many thought it would. Japan's economy has been slow, and the coal-to-gas switch-over in China for environmental reasons also has been slow. "If there were too many LNG [export] wannabes a year ago, we would argue that is doubly true today," Raymond James said. The firm's analysts project exports of 7 billion to 9 billion cubic feet per day from the U.S. by the end of the decade. That assumes six projects in the Lower 48 states online by 2020.

Raymond James analysts don't hold out much hope for LNG latecomers, particularly greenfield projects whose economics don't benefit from existing facilities at underutilized LNG import terminals such as those in Louisiana and Texas. And even with LNG exports to take up some of the surplus U.S. gas production, Raymond James said "barely half of the potential U.S. gas glut will be alleviated by LNG exports in 2019."

Statoil supports LNG prices that reflect supply and demand, not oil

(Platts; Oct. 27) - As the LNG spot market becomes more liquid, an LNG-based pricing reference that is reflective of the commodity's supply-and-demand balance will be the most robust option for its long-term pricing, Statoil's senior vice president for marketing and trading Tor Martin Anfinnsen said Oct. 27. "We believe in long-term pricing relationships that reflect the market over time," Anfinnsen said in an interview with Platts on the sidelines of a Singapore energy summit.

"A commodity that is priced off itself and has a separate price established for that commodity is more robust than a price that is derived from some other commodity," he said. An LNG-based price is not only more reflective of the market fundamentals than oil-linked prices, but also more sustainable in the long term and fair to both buyers and sellers, especially as the Asian markets become increasingly competitive, he added.

"We would encourage the development of an LNG price," he said. Buyers had been pushing to break away from the traditional pricing structure that linked the cost of LNG to a barrel of oil, on an energy-equivalent basis. That was a painful link for buyers when oil was above $100 a barrel. But now, with prices near $50, oil-linked prices don't look so bad — though most buyers still favor a new pricing mechanism of some sorts. Statoil is responsible for marketing approximately 70 percent of Norway's gas exports.

Mozambique faces political problems as it awaits LNG decisions

(Reuters; Oct. 26) - Carlos Candido has been fishing in Mozambican waters for three decades, unaware until recently of huge gas deposits beneath the ocean floor. Now the gas wealth is about to be released, and Candido wishes it had never been found. Up the coast from where he lives in northern Mozambique, thousands of people face resettlement to make way for planned gas projects in an area where money is already starting to flow, bringing unwanted consequences such as a rise in prostitution.

The reserves were discovered between 2010-2013 offshore Mozambique, one of the world's poorest countries, offering an opportunity to transform the former Portuguese colony that was ravaged by a 16-year civil war that ended in 1992. Last week the government said Anadarko and Eni would make final investment decisions on planned liquefied natural gas projects in the first quarter of next year. That could bring more than $30 billion in investment and make Mozambique one of the world's top LNG exporters.

Yet recent signs of reckless government spending and an uptick in political violence have raised concerns that Mozambique could be the latest African country to suffer the resource "curse," in which an influx of petro-dollars suffocates the rest of the economy, encourages corruption and stirs unrest. "We know change is coming," Candido said in Pemba, a small fishing town where clusters of bamboo huts have been dwarfed by gas company offices and new hotels. "But I don't see it getting better for us. The government made big promises but all I see is rich foreigners and happy politicians."

Egypt may rent third floating LNG import vessel to meet demand

(Reuters; Oct. 24) - Egypt is looking to rent a third floating LNG storage and regasification unit (FSRU) late next year or early in 2017 as it works to plug its acute energy shortages, the head of the country's gas board said Oct. 24. The FSRUs let Egypt import liquefied natural gas and convert it back to a gaseous state to feed its power grid, which is often hit by blackouts. More recently, the gas shortfall has led to rationing among energy-intensive industries such as steel mills and fertilizer plants.

Egypt's third FSRU would be used to meet the natural gas needs of industry and boost electricity generation, head of the state-run EGAS gas board, Khaled Abdel Badie, told a news conference. Once an energy exporter, falling oil and gas production coupled with rising domestic consumption have forced Egypt to divert supplies to the domestic market and it is now a net energy importer.

Egypt took delivery of its first FSRU from Norway's Hoegh in April, allowing the country to begin LNG imports. The second FSRU, provided by Singapore-based Norwegian group BW Gas, arrived in September. The vessels receive LNG deliveries, store the fuel, and return it to a gas and pipe it to shore as needed.

TransCanada wins B.C. approval for gas line to LNG plant

(Bloomberg; Oct. 27) - TransCanada announced it cleared one of the final regulatory hurdles to begin construction of a $5 billion pipeline serving a proposed liquefied natural gas export facility near Prince Rupert, B.C. The B.C. Oil and Gas Commission extended about a dozen permits for TransCanada to start work on the 550-mile gas pipeline, the Calgary-based company said Oct. 27. The pipeline will connect supplies in the Montney Shale fields of northeastern B.C. to Pacific NorthWest LNG's export terminal.

"Along with the B.C. Environmental Assessment Certificate received last November, the Oil and Gas Commission permitting process was the last major regulatory step," Tony Palmer, president of the Prince Rupert Gas Transmission project, said in a statement. "We continue to work toward securing more project agreements with First Nations." The Pacific NorthWest project, led by Malaysia's Petronas, has encountered First Nation opposition, particularly over the LNG plant site and its impact on salmon habitat.

Pacific NorthWest is waiting on resolution of First Nation issues and its federal environmental review before committing to starting construction on the LNG plant and pipeline. In addition to its selection as the pipeline partner for the Petronas-led project near Prince Rupert, TransCanada is also the pipeline developer for an LNG plant proposed at Kitimat, B.C., led by Shell and its partners. That project, too, is waiting on final regulatory approvals and a final investment decision by the developer.

TransCanada proposes new gas line route to meet local concerns

(Vancouver Sun; Oct. 25) - TransCanada is making pipeline route changes to lock up First Nation support for a proposed liquefied natural gas project on B.C.'s northwest coast. The Calgary-based company announced it will apply next month for an alternate route along a stretch of its $4.7 billion Coastal GasLink pipeline that will supply the

Shell-led LNG Canada terminal proposed for Kitimat, B.C. TransCanada said it did so after “extensive” consultations with aboriginal groups along the alternative route.

The company already has provincial approval following an environmental assessment for its 400-mile pipeline from gas fields in northeastern B.C. to Kitimat. The 35-mile alternative section would be subject to review by the province. TransCanada said it wants to have the option to construct the section north of the approved route to address concerns of aboriginal groups about the potential effect of pipeline construction and operations on groundwater flows into the salmon-bearing Morice River.

“We’ll decide on the route once we have all of our regulatory approvals, and when we’ve had the opportunity to fully assess both options,” TransCanada spokesman Mark Cooper said in an email Oct. 25. Shell and other leading LNG proponents in British Columbia have yet to make final investment decisions on their projects and face headwinds from reduced available capital due to low oil prices, increased global LNG supply coming on stream and lower natural gas prices in a jittery global economy.

B.C. approves small LNG project north of Vancouver

(Vancouver Sun; Oct. 26) - A contentious liquefied natural gas facility planned southwest of Squamish, B.C., received provincial environmental approval Oct. 26, despite objections from some local residents and municipalities. The province issued an environmental assessment certificate for Woodfibre LNG’s proposed $1.6 billion gas export facility, but attached 25 conditions designed to lessen the impact on marine life, water quality and traffic within local waterways in the area just north of Vancouver.

The facility still requires federal environmental approval and it could be the first test of the incoming Trudeau government’s approach to energy exports. The project also needs permits from B.C.’s Oil and Gas Commission and a final investment decision by the company. An application for a gas pipeline to feed the facility is undergoing its own separate environmental process and has not yet been approved. Woodfibre LNG is a subsidiary of Pacific Oil and Gas, owned by Indonesian billionaire Sukanto Tanoto.

“It’s a step in a long process,” said Byng Giraud, vice president of corporate affairs for Woodfibre LNG. “It’s not the end by any means, but it’s a significant milestone.” The Woodfibre project, although small in size compared to other LNG proposals in B.C., has divided the community and First Nations leaders. Local municipalities have staunchly opposed an LNG plant in the region. Last year, councils in West Vancouver, Lions Bay, Gibsons and Bowen Island all called for a ban on LNG tankers in Howe Sound.

Singapore wants to become LNG trading hub for Asia

(Reuters; Oct. 26) - Singapore plans to establish a domestic natural gas trading market to help support its plans to become a regional center for trading liquefied natural gas and to take advantage of the growing importance of the fuel in Asia's energy markets. Singapore, already a global oil trading hub, is aiming to take advantage of rising LNG supplies in the region, particularly from Australia, and an increasing numbers of buyers especially in China but also India and other parts of Asia.

The city-state of about 5.5 million people produces more than 90 percent of its electricity from imported gas, including LNG, however users currently buy the fuel under contracts. "(A transparent domestic gas market) will allow domestic gas price discovery that reflects Singapore's demand and supply conditions," S. Iswaran, minister for trade and industry, said Oct. 26 at Singapore's International Energy Week. As part of the effort, expansion is underway at Singapore’s LNG import, storage and reloading terminal.

Although price reporting agencies like Platts publish Asian LNG prices, there is currently no established LNG benchmark. Instead, most contracts are priced off a mix of oil, price reporting agency assessments, and regional contracts. Last week, Singapore Exchange told Reuters it planned to create an Asian benchmark for LNG with the aim of breaking the long-established reliance on oil-linked pricing. Singapore is competing with Japan, the world's largest importer of LNG, to become a regional center for LNG trade.

Singapore trader strikes deal to buy Russian LNG

(Reuters; Oct. 26) - Pavilion Energy has signed a 10-year agreement to buy liquefied natural gas from a unit of Russia’s gas giant Gazprom, Seah Moon Ming, CEO of the Singaporean company, said Oct. 27. Pavilion, the LNG unit of Singapore’s state-owned Temasek Holdings, also announced a memorandum of understanding to sell LNG to China Huadian Green Energy, beginning in 2020, and an agreement with Japan’s Jera to jointly procure and invest in LNG, Seah said at a conference in Singapore.

Jera, a joint venture of two Japanese utilities, is looking to cut its purchasing costs for the fuel. Singapore is working to position itself as an LNG trading hub for Asia. “Pavilion Energy is currently focused on developing regional demand,” Seah said. “We see this as an important step toward building a reliable and robust LNG ecosystem in Singapore, and hopefully for Asia.” Deliveries from Gazprom Marketing & Trading will begin in two or three years. Seah declined to provide details of the volume or value of the deal.

Additional LNG could help hold down power rates in New England

(Boston Globe; Oct. 25) - Additional supplies of liquefied natural gas are expected to reach New England this winter, helping to prevent gas shortages and lower heating and electricity costs, analysts said. LNG producers, facing weaker demand and lower prices in Asia and Europe, are likely to turn to the New England market, sending extra cargoes to terminals near Boston. That could help prevent the price spikes that have occurred in the region’s wholesale energy markets during times of extended cold and high demand.

Electric rates jumped a year ago as a result of shortages of gas, which generates more than half of the region’s electricity and heats an increasing number of homes. Last year, 14 LNG cargoes landed at the Boston harbor terminal, owned by Distrigas, a unit of the French company Engie (formerly GDF Suez). Nicholas Potter, an analyst for the British financial services company Barclays, said an additional three to five shiploads of LNG could arrive this winter, supplying an additional 9 to 15 billion cubic feet of gas.

Brant Davis, of the Boston consulting firm SourceOne, said falling oil prices have helped make Boston a more lucrative destination for gas. In much of the world, LNG prices are linked to oil because both fuels can be burned by some power plants. With oil prices falling, LNG sellers haven’t been able to get the high prices in countries like Japan and South Korea that they used to receive. Several billion cubic feet of gas may not seem like much in a region that uses about 1.9 bcf a day in the winter, but Potter said the extra cargoes could prevent gas and power prices from spiking on the coldest days.

IEA director says global oil supplies could tighten mid-2016

(Reuters; Oct. 26) - Countries should not bank on oil prices remaining low when setting their energy policies, as supplies could tighten in mid-2016 due to a drop in investment and falling U.S. output, a senior industry official said Oct. 26. Global prices have more than halved since June 2014 on rising U.S. shale oil output and as OPEC members decided to defend market share rather than cut production.

"It will be a great mistake to index our attention to oil security to the oil price trajectory in the short term," Fatih Birol, executive director of the International Energy Agency, said at the Singapore International Energy Week. If prices hold at current levels, oil investment is likely to decline again in 2016, mainly in high-cost regions, after sliding this year by more than a fifth, said Birol, who took over the top post at the Paris-based IEA in September.

"If it comes true, this will be the first time in two decades we will see oil investments declining for two consecutive years," he said. "One should think about medium- and long-term implications of this lack of investments." U.S. production of light tight oil has peaked and is expected to decline by 400,000 barrels per day in 2016, tightening supplies. Birol said Mideast geopolitical risks that could disrupt supplies remain, though lifting sanctions on Iran could boost production 400,000 to 600,000 barrels a day.

Low prices squeeze cash flow at oil companies

(Wall Street Journal; Oct. 25) - The world's biggest oil companies are struggling to generate enough cash to cover their spending and dividends, despite efforts to slash billions of dollars from their budgets in the face of tumbling oil prices. Spending on new projects, share buybacks and dividends at four of the biggest oil companies — Shell, BP, ExxonMobil and Chevron — outstripped cash flow by more than a combined $20 billion in the first half of 2015, according to a Wall Street Journal analysis.

The cash crunch underscores the problems amid a 16-month slump in oil prices. After a decade of high prices supporting megaprojects and escalating payouts to shareholders, the supermajors have slashed spending by more than $30 billion in recent months, laying off workers and delaying projects. More cuts are expected. But the cost-cutting could threaten the companies' ability to maintain or increase production in the future. The four oil giants had pushed back development of an estimated 7.3 billion barrels of oil, gas and other liquids, according to a July report from consultancy Wood Mackenzie.

Unless oil prices rebound sharply, it likely will take years for the companies to bring their spending under control, because of long-term projects already in motion that can't be put on hold easily. Last month, credit-rating firm Moody's said it expected the cash-flow crunch to continue well into 2016. The world's integrated oil companies will have a cash-flow deficit of as much as $80 billion this year and $55 billion next year at current price levels, Moody's said.

Alberta oil and gas industry wants new credits, royalty break

(Calgary Herald; Oct. 26) - Alberta's oil and gas industry is calling for royalty system changes to lower industry costs and increase its competitive position, including a new credit for deep oil wells similar to that for gas wells and a royalty freeze for enhanced recovery from mature formations. The Canadian Association of Petroleum Producers listed 60 recommendations in its submission to the provincial royalty review panel.

Those include requests that the government offset the impact of higher income taxes and carbon levies — or any other climate change provisions — with lower royalties. It also suggests more ongoing consultation with industry on royalties, including an annual review. "If we look at our competitive position in North America, or really in the world, we have seen it decrease over the past decade for a lot of reasons," the association said.

"Changing technologies, increasing opportunities in other places, as well as increasing costs being leveraged onto our industry here," CAPP president and chief executive Tim McMillan said. Alberta's royalty system is similar to those in other parts of Canada, he said, but producers in certain plays in British Columbia and Saskatchewan pay less. Meanwhile, production growth in the U.S. is transforming a customer into a major oil competitor.