Oil and Gas News Briefs
Compiled by Larry Persily
October 8, 2015

‘Buyers’ market’ changing relationships with LNG suppliers

(Bloomberg; Oct. 6) - Encouraged by the plunge in prices, the world’s biggest buyers of liquefied natural gas are demanding more say in negotiations with their suppliers. Two of the largest utilities in Japan, the world’s top purchaser of the fuel, said they will no longer sign contracts that restrict reselling cargoes by limiting the destination of shipments they buy. Customers elsewhere in Asia are pushing to break LNG’s price relationship with oil and to start regional trading and storage hubs.

The changes being sought could reshape the industry, making LNG easier to trade and allowing for expansion of a spot market. “The increasing number of suppliers of gas in the market, of course, makes the hands of the importers stronger,” said Fatih Birol, executive director of the International Energy Agency. “This will also increase the negotiating power when it comes to importing discussions.”

Consumers of the fuel are looking for more flexible contract terms even as producers say that financing LNG projects will continue to depend on long-term deals. The recent plunge in prices is disrupting global supply-chain patterns, according to Qatar’s Energy and Industry Minister Mohammed Al Sada. LNG buyers see no urgency to commit to long-term supply contracts, he said at a conference in Tokyo on Sept. 16.

“Supply options are increasing for the consumers,” said Prabhat Singh, CEO of India’s Petronet LNG. “We are moving into a buyers’ market.” Buyers are not only renegotiating existing deals, they’re also hesitating to sign new long-term contracts, cutting off a crucial source of funding for the development of planned export projects.

Investment bank gives bleak report of LNG producer profits

(Reuters; Oct. 6) - Investment bank JPMorgan Chase warned that new lows in global LNG prices will demolish producer profits as top Asian consumers freeze big purchases and rework or ditch existing import deals. In a client note seen by Reuters, the bank spells out the changing strategies of the world's top liquefied natural gas importers — Japan's Jera (a joint-venture purchasing entity) and Korea Gas — emboldened by surging supply to demand concessions from producers facing a decade of pain.

These include breaking away from oil-indexed LNG deals, which tend to be costly, and abolishing restrictions that block buyers from diverting or reselling cargoes. The note draws on 28 meetings between the bank and Asian LNG players, including KOGAS, Jera, Inpex and PetroChina, providing new insight into the buying strategies of major consumers. Rising supply has cut spot LNG prices by more than 60 percent since last February as demand wanes and new production goes online in Australia and the U.S.

Citing company sources, JPM says KOGAS would avoid taking an impairment on its investment in two costly Australia LNG export projects — Prelude and Gladstone — so long as oil prices stay around $50 a barrel. At current oil prices KOGAS sees an internal rate of return on Gladstone at 6 percent and Prelude at 7 to 9 percent, JPM said.

According to the note, both Jera, a joint venture between Tokyo Electric Power and Chubu Electric, and KOGAS will not sign any new long-term import deals this decade. KOGAS also intends to renegotiate existing contracts with top exporter Qatar and Oman, which expire in the early 2020s, while Jera will wait for deals signed with Qatar after the 2011 Fukushima disaster to run out before signing new ones, the bank said.

LNG prices not likely to see winter bump in Asia

(Reuters; Oct. 7) - Around about now it would be normal for the price of spot liquefied natural gas in Asia to start rising ahead of the northern winter, but these are far from normal circumstances. It's hard to imagine a more bearish set of circumstances facing LNG suppliers, and it's about to get worse with exports ramping up from Australia's latest export plant and the start of commissioning of the first of a wave of new units in the United States.

This year the price has shown no seasonality, remaining within a relatively narrow band since February. The Asia spot price slid to $6.60 per million Btu in the week to Oct. 2, down from $10.10 at the start of the year, and not even a third of the record high of $20.50 from February 2014. The drop in oil prices, combined with softer-than-expected demand growth from major Asian natural gas consumers and increasing supplies have all worked against LNG prices. But it's likely to get worse before it gets better.

The factors keeping prices down include: A strong El Nino weather event, which will likely lead to a third straight winter of above-average temperatures in top consumers Japan, South Korea and China; the restart of Japan's first nuclear reactor, with a likely seven more to come back online within the coming years (while this is fewer than expected, it will still cut demand for LNG for power generation); and an easing in natural gas demand growth in China amid a more broad slowing of economic growth.

China's LNG demand falling short of expectations

(Wall Street Journal; Oct. 5) - The energy industry overestimated just how much natural gas China needs, and global oil and gas companies risk paying a heavy price. When

China's economy hummed along a few years ago, energy companies from Australia to Canada bet its demand for gas would grow fast. They spent billions on promising fields, with plans to liquefy the gas and ship it to energy-starved Asian buyers at a premium.

China was "always seen as the kind of wonder market that was going to grow and need so much LNG," said Howard Rogers, of the Oxford Institute for Energy Studies and a former gas executive at BP. "People got somewhat carried away." Recent data paints a grimmer picture. Chinese LNG imports are down 3.5 percent this year, compared with a 10 percent rise in 2014. Total gas consumption grew about 2 percent in the first half, a turnabout from double-digit growth in recent years.

Energy consultancy Wood Mackenzie has slashed its China gas-demand forecast by about 15 percent by 2020. "We're already seeing China cannot absorb all the gas that is thrown at it — that it's choking on gas somewhat at the moment," said Gavin Thompson, an analyst at Wood Mackenzie. Northeast Asia spot LNG prices have fallen to less than $8 per million Btu from over $14 last fall, according to pricing agency Platts.

Several reasons explain China's lackluster LNG demand. Government-regulated gas prices are proving too expensive, sparking conflict between government and industry. Meanwhile, bloated sectors are cutting capacity, lowering energy needs. China is also importing more gas via Central Asia pipelines and has plans for big Russian shipments.

Falling power demand hits Japanese electric utilities

(Bloomberg; Oct. 5) - The decline in Japan's power use to its weakest level in 12 years underlines the risk to earnings at the nation's biggest utilities and raises expectations of increased competition and consolidation fueled by government reforms. Power consumption dropped in August to the lowest for that month since 2003, according to data released by the Federation of Electric Power Companies of Japan.

Demand from manufacturers, which comprise more than a third of the nation's total consumption, fell for the 15th straight month, as output from machinery and metals factories lagged, according to data compiled by Bloomberg Intelligence. Falling energy consumption and lower sales volumes could mean changes. "Longer-term consolidation is certainly possible as we've seen in other highly-competitive power markets abroad," Joseph Jacobelli, an analyst at Bloomberg Intelligence, said by e-mail.

Measures to diversify may include more aggressively seeking strategic alliances, expanding other business segments and going abroad to pursue better growth opportunities, Jacobelli said. Declining power use, throttled by a stagnant economy that uses less electricity year-after-year, is likely to erode earnings for power companies. Tokyo Electric Power, Japan's largest utility, will probably see revenue decline 9.4 percent this fiscal year, according to the average of estimates compiled by Bloomberg.

Pacific trade deal would make it easier for U.S. LNG exports

(International Business Times; Oct. 6) - The Trans-Pacific Partnership could boost exports of U.S. energy supplies by making it easier to sell to Pacific Rim nations. The biggest recipient likely would be Japan, which is looking to U.S. liquefied natural gas to replace output from its nuclear power plants. The 12-nation agreement completed this week is expected to call for the “national treatment for trade in natural gas,” a provision that would lower regulatory hurdles and cut tariffs among the free-trade pact members.

If approved by Congress, the pact likely would require the U.S. Department of Energy to approve automatically all gas exports to the 11 other member nations, potentially accelerating LNG exports. Under current rules, the department must decide whether it’s in the public interest to export gas to nations that do not have free-trade agreements with the U.S. The department has approved several export applications, including the proposed Alaska LNG project, but many more are stacked up and waiting a decision.

Japan joined the negotiations in 2013 in large part because of its interest in cheaper U.S. gas supplies. Energy analysts said the trade deal won’t likely drive a spike in LNG exports, at least not in the short term. With several U.S. export plants already approved and under construction, the Trans-Pacific deal’s immediate impact is “minimal,” Erica Bowman, chief economist for America’s Natural Gas Alliance, an industry advocacy group, told National Public Radio this week.

Sakhalin LNG will maintain full production in 2016, exec says

(Reuters; Oct. 5) - Russia's only liquefied natural gas plant, the Sakhalin-2 project in the Far East, plans to maintain production at around 10.8 million metric tons in 2016 despite falling demand from Asia, the firm's chief executive officer said. "As we have long-term commitments for our customers, we do not plan to cut production,” Roman Dashkov, the head of Sakhalin Energy, said in emailed answers to Reuters’ questions.

Sakhalin Energy is a joint venture between energy giant Gazprom — which owns a 50 percent stake — and Shell, which has 27.5 percent. Japan Mitsui has 12.5 percent and Diamond Gas, a Mitsubishi Corp. subsidiary, 10 percent. Dashkov's comments come in an uncertain market after Asian LNG prices for November delivery slid to $6.60 per million Btu, down from $10.10 at the start of the year — partially due to new Australian supply coming into the market and subdued demand for the fuel.

Sakhalin-2 exported 80 percent of its LNG to Japan last year and 18 percent to South Korea. When asked how long low demand could persist, Dashkov said Sakhalin Energy sees "a conservative scenario." He cited new LNG supplies coming from Australia and the U.S., and the fact that Korea and Japan might restart their nuclear power plants soon. "But in the short term, it will have no effect on (Sakhalin) LNG production.” A final investment decision to add a third train at the plant is expected the second half of 2017.

Woodside expects help from Korea on floating LNG project

(Sydney Morning Herald; Oct. 5) - Woodside Petroleum is ramping up pressure on South Korea to buy liquefied natural gas from the company’s proposed Browse floating LNG project, emphasizing it is in Korea's interests to see the development move ahead given the boost it would give to its economy. Senior officials at the Australian company, including CEO Peter Coleman, also point to South Korea's responsibility to help reduce costs at the project, as the huge vessels would be built at a Korean shipyard.

"We value Korea's support — both in terms of cost reductions and LNG purchases — in achieving a final investment decision," Reinhardt Matisons, Woodside executive vice president of marketing, told South Korean business leaders Oct. 2. The targeting of South Korea on the Browse floating LNG project comes amid heightened uncertainty that Woodside and its partners can reach their target of giving the go-ahead on the $40 billion-plus (U.S.) project in the second half of 2016.

Brokers are putting about a 50 percent chance on the Western Australian project proceeding, which Coleman has signaled is about right for its current chances. The project will not proceed unless deals are struck for long-term LNG sales and costs are reduced enough to make the investment worthwhile. Woodside is focusing on Japan and South Korea for the marketing of its share of LNG from Browse.

Iran says it prefers LNG to pipeline gas exports

(Interfax Global Energy; Oct. 5) - Iran is looking to supply Europe with gas after international sanctions are formally rolled back, but Tehran would prefer to export the gas as LNG rather than through pipelines, the country’s Deputy Oil Minister Roknodin Javadi told Interfax. Javadi, who is also managing director of state exporter the National Iranian Oil, said last week that an LNG project would be the preferred point of export, unless companies are willing to shoulder the costs of building a pipeline.

"Our understanding today is that LNG is more promising for the European market and is much more economical than pipelines," Javadi said. "But if there are parties who would like to work on this [pipeline] issue, and if they don’t expect the difference in price to be reimbursed by Iran, we would welcome ideas." Since 2006, when sanctions were originally imposed on Tehran, external investment in Iran’s energy sector has all but disappeared. But the recent nuclear deal paves the way for new investment.

It could take years and billions of dollars to build a liquefaction terminal. "If they made the decision today, you probably wouldn't see LNG exports from Iran until maybe early 2020," said Ali Ghezelbash, co-founder of the European Iran Research Group. Production rates will also determine the level of exports. "Between now and 2025, production is going to very closely match domestic consumption. Unless there are massive new developments over the next decade, you're not going to see a huge gap. So for there to be large exports you need massive investments," Ghezelbash said.

Philippines' first LNG-fueled power plant expected online next spring

(Reuters; Oct. 6) - Energy World Corp. does not expect the Philippines' first liquefied natural gas-fueled power plant to be ready for commercial operation until the first half of next year, another delay in the country's plans to boost the cleaner energy. Energy World, a Hong Kong-based energy firm, said in its annual report last week that it now expects to bring the first 200 megawatts of its plant in Pagbilao in Quezon Province into commercial operation by March and a second 200-megawatt unit next June.

It was previously looking to bring the first unit into operation by the second quarter this year, a delay from the original December 2014 start-up target reported by local media. The Philippines is promoting clean energy, seeking increased power supply from renewables and natural gas, but still expects to remain dependent on imported coal for much of its electricity needs.

Energy World, which has power and gas production projects in Indonesia and Australia, is also building an LNG import and storage terminal Pagbilao. Until the terminal is fully operational, the company said it will use a floating LNG storage vessel at the site.

Hawaii Gas says LNG could be big money saver

(Pacific Business News; Honolulu; Oct. 3) - Hawaii Gas' $300 million plan to import bulk shipments of liquefied natural gas could save customers over $2 billion between 2019 and 2033, according to public documents. The state's only regulated gas utility also said it has selected an offshore floating receiving and storage approach for its LNG shipments because it involves the lowest infrastructure cost, lowest total cost of supply and the least environmental impact of any approach for fuel supply to Hawaii today.

Hawaii Gas is one of 28 intervenors taking part in the regulatory review of NextEra Energy's proposed $4.3 billion acquisition of Hawaiian Electric. In its filing, the gas utility provided new details regarding its LNG endeavors. Hawaii Gas plans to supply itself and independent power producers in the state with LNG, as well as other industries, including ground and marine transportation companies.

Hawaii Gas has said it hopes to begin LNG bulk shipments by 2019, pending regulatory approval. The utility, which currently distributes synthetic natural gas produced from naphtha to its customers, has been bringing in small amounts of LNG since spring 2014 — using 40-foot-long tanks delivered from California. Its bigger plan is to import bulk shipments by tanker. The governor, however, has said he does not favor expanding the use of LNG, and wants Hawaii to focus on its goal of 100 percent renewable energy.

Louisiana company proposes LNG export project

(Houston Chronicle; Oct. 6) - A Louisiana-based company says it plans to build a massive facility along the Calcasieu River ship channel to export liquefied natural gas. Baton Rouge-based G2 LNG announced Oct. 5 that it plans to construct an $11 billion liquefied natural gas export facility on the ship channel in Cameron Parish. If built, it would be one of the largest capital investments in Louisiana history, said the company.

Before construction can begin, however, the company needs full export approval from the Department of Energy. It also needs an environmental review and approval from the Federal Energy Regulatory Commission. The company says the facility would be able to export 14 million metric tons of LNG a year. The company, which formed in June 2014, hopes to get federal agency approval and begin construction by mid-2017. G2 LNG joins a couple dozen companies proposing U.S. LNG export projects on all three coasts.

Rift grows between First Nation members over LNG plant site

(Globe and Mail; Canada; Oct. 5) - A group of Lax Kw’alaams hereditary chiefs has welcomed studies for a proposed liquefied natural gas export terminal on Lelu Island near Prince Rupert, B.C., pitting the leaders against a protest camp on the island. The Nine Tribes of Lax Kw’alaams consider the camp set up six weeks ago an unauthorized occupation of Lelu Island, according to a statement issued by Alex Campbell, a spokesman for the Nine Tribes and a hereditary chief in the Gispaxlo’ots tribe.

Pacific NorthWest LNG, an international consortium led by Malaysia’s state-owned Petronas, wants to build a liquefaction plant and export terminal on Lelu Island, which is next to the ecologically sensitive Flora Bank, a sandy area that nurtures juvenile salmon in the Skeena River estuary. Donnie Wesley, a clan leader of the Gitwilgyoots tribe who objects to the terminal site, started the protest camp with more than a dozen supporters. He considers Lelu Island and Flora Bank off-limits for development.

But other Lax Kw’alaams leaders, including chiefs of other Gitwilgyoots clans, are open to listening to the consortium’s argument for allowing construction on Lelu Island. The aboriginal disagreement highlights a growing internal rift among Lax Kw’alaams members. The Gispaxlo’ots and Gitwilgyoots are two of the Nine Tribes. The protesters who oppose test drilling do not speak on behalf of Lax Kw'alaams members, said the statement issued on Oct. 5 by the Nine Tribes.

North Dakota Indian reservation also feels pain of low oil prices

(EnergyWire; Oct. 5) - A year into his tenure, the chairman of the Fort Berthold Indian Reservation said he's coping with the same problems as other officeholders in North Dakota's oil patch. The drop in oil prices has cut into finances on the reservation, which is home to the Mandan, Hidatsa and Arikara Nation, known as the Three Affiliated Tribes. That is compounding the historical infrastructure and funding problems on the reservation and leading to heightened tension with the state and federal governments.

"The biggest concern we've got right now is the price of a barrel of oil, obviously, like everyone else," Chairman Mark Fox said. Fort Berthold, a 1-million-acre reservation in western North Dakota, sits above the most productive part of the Bakken Shale oil field. The reservation produced 358,000 barrels a day in July, according to state figures, putting it in the same league with oil-producing states like Colorado and Oklahoma.

Fox was elected last November, after a campaign that focused on making the tribes' finances more transparent and ensuring the oil boom helps improve the standard of living. About 60 percent of the more than 14,000 tribal members receive no income from oil production, but they've had to cope with increases in truck traffic, crime, dust, pollution and other side effects. The state collects drilling taxes on the reservation, but so far hasn't returned a lot of that revenue to Fort Berthold.