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LNG market looks 'ugly' today, but better in the 2020s

(Bloomberg; Sept. 21) - The slump in liquefied natural gas prices still has further to go even after a plunge of 60 percent from last year's peak, according to FGE, an energy consultant. LNG prices may sink as low as $4 per million Btu by 2017 because of a glut and probably won't rise above $8 before 2020, FGE Chairman Fereidun Fesharaki said in a phone interview. That compares with the latest spot price of $7.10 for LNG shipped to northeast Asia, according to New York-based Energy Intelligence Group.

"It's an ugly environment," Fesharaki said. While the International Energy Agency four years ago envisioned the possibility of a golden age of gas, Japan's return to nuclear power and cheaper energy alternatives are threatening demand. LNG producers, meanwhile, are forecast to add 50 million metric tons of new capacity next year, the largest single annual increase and equivalent to a fifth of current global demand, according to Sanford C. Bernstein & Co. The bulk of the new supply is from Australia.

Spot LNG prices in Asia have declined for six straight weeks, with buyers "on the sidelines," and have now slumped more than 60 percent from a record $19.70 in February 2014, according to Energy Intelligence Group. "But as we go forward, the outlook looks better and better in the early 2020s," said Fesharaki, whose firm advises big oil companies and banks. "The challenge is to persuade your board to go forward and put the money up. Nobody wants to spend that kind of money in this environment."

LNG buyers have leverage in oversupplied market, analyst says

(EnergyWire; Sept. 23) - Global suppliers of liquefied natural gas are "locked into a game of chicken" in pursuit of dwindling demand, according to an analyst who sees excess supply growing over the next few years before markets start to rebalance. At a presentation Sept. 22 for the U.S. Energy Association, Christopher Goncalves, a managing director for energy and natural resources with the consultancy Berkeley Research Group, offered a bleak prognosis for LNG suppliers.

"After several years of economic malaise and high oil and LNG prices, the global engines of LNG demand in Europe and Asia have hit the brakes," he said. Goncalves' comments line up with other recent assessments, including from the International Energy Agency, which recently downgraded its natural gas demand forecast. Meanwhile, in response to the previous high prices and demand, new LNG export facilities in Australia and the United States are starting to come online.

Goncalves estimates that globally, excess LNG supply will continue to grow through 2018 before gradually being absorbed by new demand over the next decade. "Right now, I think the buyers in Asia are feeling a tremendous amount of leverage," he said, suggesting that many parties locked into unfavorable long-term LNG contracts could be close to overcoming a historic aversion to testing international arbitration in pricing disputes. "Once somebody is sort of brave and does this, the genie is out of the bottle."

Japan plans to limit coal use by power utilities

(Nikkei Asian Review; Sept. 21) - The Japanese government plans to require electric utilities to limit the amount of power generated by coal starting in fiscal 2016. The Ministry of Economy, Trade and Industry will set common energy-mix targets for the power sector, requiring liquefied natural gas to account for at least 50 percent of electricity produced from fossil fuels while limiting coal to help meet emissions targets.

Those in violation for longer than a set period of time without seeking to remedy the issue will face orders and fines. METI also plans to encourage upgrading of fossil-fuel power plants by requiring utilities planning new facilities to scrap or idle outdated ones. New plants also will be required to meet the government's efficiency standards.

Under an optimal energy mix adopted by the government, Japan aims to reduce its reliance on coal to 26 percent of total energy needs while keeping the LNG ratio at 27 percent of all energy supplies in fiscal 2030. The ratio of coal power at just the major electric utilities is now around 35 percent, and with new facilities being planned, METI concluded that the power sector's voluntary efforts will not be enough to bring down carbon dioxide emissions. A return to nuclear power is also part of the government mix.

LNG delays could cost B.C. industry $20 billion a year in revenue

(Financial Post; Canada; Sept. 22) - Delays in building liquefied natural gas export projects in British Columbia will cost industry billions of dollars in lost revenue starting in 2020, according to a study by the Fraser Institute. “As a result, British Columbians will invariably forgo higher levels of job growth and billions of dollars in tax revenues which could pay for things like health care or public education,” said Ken Green, the report’s co-author and senior director of natural resource studies at the think tank.

The Fraser Institute forecasts that B.C. LNG proponents stand to reap revenue totaling $22.5 billion in 2020, if the fledgling industry were to start construction of export terminals in the province within a year or two. If not, the revenues will be delayed. But getting even one project to the construction stage is proving to be difficult because of regulatory delays and a range of other factors such as protracted consultations with First Nations and project changes to address environmental concerns, Green said.

“We’re hoping this study helps focus the mind on what’s at stake,” he said. “The B.C. government can think of what it means for royalties and First Nations can think in terms of compensation for projects passing over their lands.” None of the projects proposed for B.C. have committed to construction. Green said the regulatory process is not entirely to blame for delays. “Some … are also due to energy companies dealing with multiple projects and multiple timelines and different challenges,” he said. “Some of it is based on resistance of First Nations and … environmental and local opposition.”

First Nation files in B.C. court to block plans for LNG project

(Globe and Mail; Canada; Sept. 21) - The Allied Tribes of Lax Kw’alaams are claiming title to Lelu Island and Flora Bank in the Port of Prince Rupert, B.C., arguing in a court filing that a proposal to export liquefied natural gas would interfere with aboriginal fishing rights. Pacific NorthWest LNG, led by Malaysia’s state-owned Petronas, wants to build an LNG export terminal on Lelu Island. The island is located next to Flora Bank, which contains eelgrass vital for nurturing juvenile salmon in the Skeena River estuary.

“The aboriginal rights of the plaintiffs have never been lawfully extinguished,” according to the notice of civil claim filed by Lax Kw’alaams Mayor Garry Reece and the nine-community Allied Tribes of Lax Kw’alaams. “The construction and operation of the project would damage important fish habitat on and adjacent to Flora Bank, which would interfere with the plaintiffs’ fishing rights.” The defendants in the case are the federal and B.C. governments, the Prince Rupert Port Authority and Pacific NorthWest LNG.

The aboriginals say they are worried about Pacific NorthWest LNG’s plans to construct a suspension bridge and trestle-supported jetty over the northwest flank of Flora Bank, a sandy area that is visible at low tide. Lelu Island and Flora Bank have been labelled as federal properties by the administrator, the Prince Rupert Port Authority. The court filing, however, argues that members of the Lax Kw’alaams hold fishing rights “and rely on them for their cultural and spiritual identities, and to feed and sustain their families.”

Cheniere strikes deal to sell U.S. LNG to French company

(Reuters; Sept. 21) - U.S. liquefied natural gas exporter Cheniere Energy announced Sept. 21 a deal to sell up to 24 cargoes to French energy giant EDF in 2017-2018. Under the deal, the price will be linked to the Title Transfer Facility in the Netherlands, continental Europe's biggest and most liquid gas trading point. But a source said Cheniere retained cancellation options as part of its deal, meaning it could wriggle out of some supply commitments if it found more profitable outlets in Asia or the Middle East.

The exact number of cargoes firmly committed to EDF could not be confirmed. Cheniere, which has locked up most of its LNG export capacity already, is seeking fall-back options on where to place cargoes from its first LNG export plant due to start up in December, a trader said. The plant is nearing completion at Sabine Pass, La., adding liquefaction capability to an underutilized LNG import plant. Most of the production is covered by long-term contracts, with Cheniere selling the remainder on shorter deals.

The preferred market for LNG volumes has traditionally been Asia and the Middle East, where buyers paid premiums as demand rose. But slowing growth in China and falling demand for gas in top LNG importers Japan and South Korea, combined with a surge in new supply from Australia and the United States, has cut prices and prompted greater competition for market share. Producers in turn are scrambling to lock in buyers and set up fall-back positions where they can sell if needed. Much of that could go to Europe.

Chinese, Greek companies team up on Yamal LNG carriers

(Wall Street Journal; Sept. 22) - Work to build giant icebreaking liquefied natural gas carriers that will move the fuel from Russia's Yamal LNG project in Siberia to Europe and Asia is picking up speed, easing concerns that the development could be delayed as sanctions have crimped financing options. Greece-based Dynagas is teaming up with Chinese shipping giants China LNG Shipping and Sinotrans Shipping to order five tankers to move LNG to Europe during the winter and to East Asia in the summer.

The three companies agreed to set up a consortium in which Dynagas will own a 49 percent stake and the two Chinese companies the remainder. A person directly involved in the Dynagas deal said the three partners are satisfied by assurances that the $27 billion Yamal project will start operations in 2017 as targeted, "because if that wasn't the case, they would not invest in such ships that cost multiple times the price of regular tankers and are purpose-built to operate in the Arctic with icebreaking specifications."

The consortium said it would have capital of $296.5 million to build the ships, which are estimated to cost $1.6 billion. Andrey Polischuk, senior vice president of equity research at Raiffeisenbank in Moscow, said the ship deal could be a sign that Yamal's financing could be wrapped up soon. U.S. sanctions on Novatek, Yamal's leader, have barred the project from raising long-term dollar financing, forcing the partners to seek more money from Chinese lenders. The project partners have, so far, failed to secure the $15 billion or so needed to complete the LNG export project, which is around 30 percent finished.

China permits third-party access to import terminals

(Reuters; Sept. 23) - Beijing Gas Group becomes China's latest importer of liquefied natural gas outside the dominant state energy firms after the government permitted third-party use of idle capacity at import terminals built mostly by the majors. The Beijing company, the dominant gas distributor to the Chinese capital that consumes some 9 percent of the country's gas use, is slated to receive its first imported LNG cargo in late November, industry officials said.

The cargo will be sourced from French utility ENGIE, part of a cooperation agreement signed in July with Beijing Enterprises Holding, parent of Beijing Gas. Gas demand typically surges in winter in China’s capital city (population 21 million). The metropolis is among the world's top gas users. An industry official with direct knowledge of Beijing Gas said the firm aims to become a longer-term LNG buyer with a plan to establish its own procurement team, beyond a traditional role as a marketing middleman.

The cooperation with ENGIE may evolve into longer-term supply, said the official, without elaboration. The November cargo is slated to arrive at a receiving terminal near Beijing that was built by PetroChina. Price of the cargo was estimated at $7 to $8 per million Btu, according to two sources. China is freeing up the nation's LNG trade as part of broad reforms that allow private companies to invest in oil and gas exploration as well as pipelines and tank farms, and to engage in importing and exporting.

Coal at lowest price since 2003; Goldman sees no improvement

(Reuters; Sept. 23) - Coal futures are trading at $50 a metric ton for the first time since 2003 as the commodity downturn deepens, and U.S. investment bank Goldman Sachs said the resource will never gain enough traction again to lift it out of its slump. Tumbling coal and metals prices have weighed heavily on mining shares this week, led by the world's biggest thermal coal producer Glencore, which has seen its share price down 82.1 percent since the firm was listed in 2011.

Benchmark coal futures hit historic peaks in 2008, when coal traded above $200, and like most commodities has not returned to such heights. Yet the plight for coal has been worse than for other fuels as its latest downturn started in 2011, while the current slump for oil and natural gas only started in 2014. Coal's fall has also been steeper, plunging 77 percent since 2008 and 63 percent since 2011, compared with 69 percent and 60 percent drops for oil since the same two years.

Goldman Sachs said coal is in terminal decline. "Peak coal is coming sooner than expected," Goldman said in a note to clients this week, adding that its consumption would peak before the end of the decade. "The industry does not require new investment given the ability of existing assets to satisfy flat demand, so prices will remain under pressure as the deflationary cycle continues," Goldman said.