

Oil and Gas News Briefs

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Japanese utility signs first LNG contracts for new power plant

(Reuters; Sept. 24) - Japan's Hokkaido Electric Power said it has signed its first agreements to buy up to 330,000 metric tons per year of liquefied natural gas as it prepares to launch its gas-fired power plant in 2019. The northern Japan utility signed basic agreements with Kansai Electric Power and a unit of Malaysia's Petronas on Sept. 24 to buy up to three and two cargoes per year, respectively, for 10 years starting in April 2018, Hokkaido Electric said in a statement.

The utility's 569-megawatt Ishikariwan Shinko plant is set to come online in 2019. The LNG supplies will cover feedstock for the No. 1 plant and the 569-megawatt No. 2 unit, which is set to start operations in December 2021, a company spokesman said.

Kansai will supply Hokkaido with LNG procured from its portfolio contracts, while Petronas will supply LNG produced from Malaysia, Hokkaido said in a statement. Kansai Electric said this marks its first LNG sales under a long-term contract.

Russia may allow expanded natural gas exports

(Reuters; Sept. 24) - Russia is looking at allowing companies other than Gazprom to export more natural gas, Energy Minister Alexander Novak said Sept. 24. Russian energy giants, including the world's top listed oil producer Rosneft and gas producer Novatek, have long been vying for lucrative exporting rights.

Gazprom, Russia's top gas producer, has had the pipeline gas exporting monopoly since 2006, generating more than half of its revenues from selling gas to Europe. Gazprom operates Russia's only liquefied natural gas export plant too. "In order to increase effectiveness on the whole, we believe that the access (of other than Gazprom) should be mentioned in the state strategy," Novak told a conference.

Rosneft and Novatek have already successfully challenged Gazprom's monopoly to export LNG. Novatek is building an LNG terminal at Yamal, in the Russian Arctic, and Rosneft wants to develop its own LNG project in the Russian Far East, near Gazprom's Sakhalin-2 plant. Rosneft has claimed that in order to make its far-flung gas projects in East Siberia viable, it should be allowed to export gas.

Chinese investment bolsters Yamal LNG, says Total CEO

(Wall Street Journal; Sept. 24) - A state-backed Chinese investment fund has bolstered the chances of an Arctic natural gas project in Russia moving forward despite U.S. sanctions, according to the chief executive of Total, the French oil giant involved in the project. Yamal LNG, a \$27 billion project on a Russian peninsula jutting into the Kara Sea, has been beset by questions over how to pay for it since the lead partner, Novatek, was hit by U.S. sanctions following Russia's annexation of Crimea last year.

With most western financing cut off, the partners have turned to Chinese state banks for \$12 billion in loans, but none have been approved. The project has become a test of whether complicated, expensive Russian energy projects are possible in an era of stringent U.S. sanctions on the country's oil and gas industry. This month, China's \$40 billion Silk Road Fund said it would finance part of the Yamal project, a development Total CEO Patrick Pouyanné called "a clear commitment by China."

The price paid by the Silk Road Fund was not disclosed. It joins Total, Novatek and state-owned China National Petroleum Corp. as partners in Yamal LNG. Pouyanné said the partners were still seeking financing from Chinese banks but said he didn't know when they would deliver the loans. Much of Yamal's gas has already been purchased by Chinese buyers. The partners are also seeking between \$3 billion and \$4 billion from Russian banks and up to \$5 billion from export credit agencies in Asia and Europe.

Low LNG prices cut into profits for U.S. exports

(Bloomberg; Sept. 24) - Just as liquefied natural gas export terminals are preparing to start up along the U.S. Gulf Coast, the oil-price crash has made it unprofitable to send the fuel abroad, according to the North America head of power and natural gas supplier Engie. It costs at least \$2 to liquefy gas and another \$3 to take it from the U.S. to Asia, said Zin Smati, president and CEO of Engie's GDF Suez Energy North America. Engie changed its name from GDF Suez in April.

Those costs used to leave plenty of profit when the gap between LNG prices in Asia and natural gas in the U.S. was more than \$14 per million Btu. Now, the spread is less than \$5, according to data compiled by Bloomberg. "You cannot ship gas from the U.S. anymore," Smati said at the Council of the Americas energy conference in Houston Sept. 24. "Nobody really is making money from LNG now. Certainly we are not."

Engie, the world's largest independent power generator, is a partner in the Cameron LNG export terminal being built in Louisiana. Cheniere Energy plans to begin production in December at its Sabine Pass, La., terminal, paving the way for the first LNG cargo from the Lower 48 states. Financing for U.S. export terminals isn't at risk, however, because it's tied to take-or-pay contracts that require the buyer to pay the terminals

regardless whether they make shipments, said Bill Connelly, CEO for commercial banking at ING Group. ING helped finance four U.S. LNG terminals, including Cameron.

Santos reports Australia LNG project starts up on schedule

(Platts; Sept. 24) - Troubled Australian oil and gas company Santos was able to deliver some good news Sept. 24 when it announced that its \$18.5 billion Gladstone LNG project had started up on schedule and within budget. GLNG on Curtis Island in Queensland state on Australia's east coast is the world's second coal-seam gas-to-LNG facility. BG Group subsidiary QGC began producing at the first, Queensland Curtis LNG, in January, and a third, Australia Pacific LNG, is set to start up before year's end.

GLNG has started producing LNG and is expected to load its first cargo, to be shipped to Asian markets, in the coming weeks, Santos said in a statement. Work is progressing well on the second train, which is expected to be ready for start-up by the end of the year. Santos CEO David Knox said the project's revenue was underpinned by long-term LNG sales contracts covering more than 90 percent of the plant's capacity. GLNG will have a capacity to produce 7.8 million metric tons per year when fully operational.

The project's gas is supplied from coal-seam gas fields in the Surat and Bowen basins. The gas is transported to Curtis Island via a 260-mile pipeline. The Gladstone project is Santos' first operated LNG development, and adds to its portfolio which includes 13.5 percent of ExxonMobil's Papua New Guinea LNG and 11.5 percent of ConocoPhillips' Darwin LNG. Santos has a 30 percent interest in the Gladstone project, alongside partners Petronas and Total with 27.5 percent each and Korea Gas with 15 percent.

India continues to seek lower LNG price from Qatar

(Live Mint; India; Sept. 24) - India is seeking a cut in prices from its largest liquefied natural gas supplier Qatar to match the 60 percent slump in global rates in the past year. India buys 7.5 million metric tons of LNG a year from Qatar on a 25-year contract, indexed to a moving average of crude oil prices. The price of LNG from Qatar comes close to \$13 per million Btu as compared to \$6 to \$7 now available in the spot market.

India's Petronet LNG "is working to mitigate the impact of the higher prices under the long-term contracts so as to bring the LNG prices more in line with the current market conditions," the country's oil secretary, Kapil Dev Tripathi, said. The drop in spot-market prices, which more quickly follow supply and demand and oil prices, "has created a disparity in the prices of LNG under the long-term contracts, he said.

The high price of LNG under the long-term contract has led to users in India's fertilizer and power industries finding it cheaper to use alternate fuels like naphtha and fuel oil.

Petronet, which has been buying LNG from Qatar since 2004, has reduced its offtake by at least 30 percent this year because of the high price. While Qatar has been the largest supplier of LNG to India for many years, various other countries are now selling LNG to India. "This helps the country diversify its sources of imports," Tripathi said.

New England still waiting on gas pipeline expansions

(Energy Biz; Sept. 25) - Though they live only a few hundred miles from North America's largest and most productive shale gas field, New Englanders still pay the highest energy costs in the continental U.S. Any explanation for why this densely populated region is still waiting for access to the Marcellus gas play starts with a grass-roots anti-pipeline sentiment, though it's more complicated than that. What isn't hard to understand is that it's costing New Englanders lots of money.

According to Intercontinental Exchange Group, Boston's wholesale gas price averaged \$24.09 per million Btu in January and February, compared with \$10.79 in Chicago and \$3.37 in Pennsylvania. Facing annual energy bills in the thousands of dollars, even the toughest New Englanders are expressing concerns over the area's economic future. Compounding the problem is electricity providers are increasingly dependent on natural gas as a generation fuel now that aging coal, oil and nuclear plants are being retired.

Fifteen years ago, about 15 percent of New England's electricity came from gas-fueled generators, said Marcy Reed, president of National Grid of Massachusetts. "By 2014, that number had risen to nearly 50 percent," she said. "Meanwhile, pipeline capacity for gas into New England has not kept pace." One problem is that gas supplies in the Northeast are constrained mostly only in the winter months. That makes it harder for utilities and pipeline companies to put together the financial deals for pipeline projects.

North Dakota gives industry more time to reduce gas flaring

(EnergyWire; Sept. 25) – North Dakota energy regulators have given the oil industry some breathing room in the state's rules on natural gas flaring, in exchange for tighter restrictions at the end of the decade. Oil companies will have until November 2016 to cut the amount of gas burned in flares to 15 percent — 10 months later than the timetable the state set last summer. In exchange, flaring will have to be reduced to 9 percent or less of gas production by 2020, down from a 10 percent standard.

The state Industrial Commission approved the compromise Sept. 24. Flaring has prompted some of the thorniest debates over oil production in North Dakota. The state's oil output has grown tenfold in the past decade to about 1.2 million barrels a day, since fracking and other new drilling techniques made it possible to tap the Bakken Shale formation in western North Dakota. The Bakken produces huge amounts of natural gas

and other byproducts along with oil, though, and the network of pipelines, processing plants and compressors needed to handle them hasn't kept up with the pace of drilling.

Until the past six months, high oil prices made it cost-effective to build oil lines or even transport the crude by truck. But gas prices have been stuck at low levels, making it cheaper to burn the gas than ship it to market. Also, North Dakota allows companies to avoid paying royalties and production taxes on flared gas for a year after a well is completed. At one point, 32 percent of the gas in the state was being burned in flares. Nationally, about 1 percent of natural gas is flared.

Developer abandons LNG import project offshore Florida

(Bloomberg; Sept. 25) - A proposed liquefied natural gas import project in Florida has become a casualty of the boom in domestic gas production that is poised to see the U.S. start large-scale LNG exports late this year. Port Dolphin Energy is abandoning plans for a floating import terminal in Manatee County and has asked the Federal Energy Regulatory Commission to vacate its permits, according to a filing Sept. 25.

The LNG plant, designed to serve Florida's Gulf Coast, was scrapped for a lack of buyers and "catastrophic changes" in market fundamentals, the company said. The plant had been designed to accept an average 1.2 billion cubic feet of gas per day. "Since the inception of Port Dolphins' plan for the deepwater port, the natural gas industry has substantially changed," the company, a unit of Leif Hoegh Co., of Bermuda, said in its filing with FERC.

Under the proposal, imported LNG would have been converted to gas aboard a vessel off the Florida coast, then shipped to land by an undersea pipeline, according to the company's website. Gas prices at the benchmark Henry Hub in Louisiana have fallen by two-thirds since Port Dolphin applied for federal approval of the project in April 2007. Meanwhile, Florida and the southeastern U.S. are expected to see a jump in domestic gas supplies from new pipeline projects.

Prediction of U.S. gas oversupply helps keep prices low

(Bloomberg; Sept. 25) - The slide in oil prices helped send shares of America's power generators to their worst weekly decline in over six years. And they don't even burn the stuff. The glut of crude pooling up around the world has cut oil prices 23 percent in three months, and overseas natural gas supplies linked to crude are so cheap that America's gas exports can't compete. Traders speculating that more of the power-plant fuel will just remain in the U.S. have sent gas futures to the lowest seasonal level in 14 years.

“Power price futures have fallen with natural gas prices amid concern about excess shale gas supply, in part because low oil prices may reduce price competitiveness and demand for U.S. liquefied natural gas exports,” said Stacy Nemeroff, a utilities analyst for Bloomberg Intelligence. “Investors may also be selling off power stocks as part of a strategy to reduce overall commodity exposure.”

The slump in energy prices is just the latest challenge threatening an industry that’s also facing tepid demand, rising environmental costs, high debt levels and competition from wind farms and solar plants. Wolfe Research analyst Steven Fleishman said he doesn’t see things turning around anytime soon for power producers. “Fairly stable sub-\$3 gas prices this year have left us convinced that \$3 is the new \$4, at least until new LNG exports pick up.”

TOTE part of global switch to LNG to power containerships

(Bloomberg; Sept. 24) - When TOTE, a shipper that operates between the U.S. and the Caribbean (also serving Alaska), launched its latest containership last month, the 760-foot craft carried a certain distinction: It’s only the second of the massive vessels worldwide fueled by liquefied natural gas. The first was launched four months earlier by the same company. TOTE is among a growing number of ship owners turning to LNG at a time of record U.S. gas output, stringent emission rules and churning oil prices.

About 70 vessels of all sizes worldwide of are now powered by LNG, up from 42 in just two years, according to DNV GL, which certifies ships for safety. By 2020, the number may pass 1,000. “More companies see natural gas as a viable alternative fuel source, given the abundance of supply and the relatively stable prices,” said Peter Keller, executive vice president of Princeton, N.J.-based TOTE. At the same time, “the environmental consciousness of the maritime industry has increased,” he said.

Gas output in the U.S., the world’s largest producer, rose to a record in December, according to the U.S. Energy Information Administration. While pricing is one reason behind the switch, an increasing global emphasis on curbing climate change is another. LNG reduces carbon dioxide pollution by at least 20 percent and eliminates sulfur dioxide emissions, compared with standard bunker fuel. In addition to newbuild ships for its Caribbean trade, TOTE is converting the new two ships it uses on runs to Alaska.

B.C. community endorses gas pipelines

(Alaska Highway News; Fort St. John, BC; Sept. 24) - Pipelines to ship northeast B.C. natural gas to two proposed liquefied natural gas export facilities were endorsed last week by the City of Dawson Creek and the Dawson Creek & District Chamber of Commerce. The Prince Rupert Gas Transmission pipeline and Coastal GasLink pipeline

— both TransCanada projects — would feed Petronas' proposed Pacific NorthWest LNG plant near Prince Rupert and Shell Canada's plant near Kitimat, respectively.

“We need to get our product out to markets,” Chamber of Commerce Executive Director Kathleen Connolly told the Alaska Highway News. “Without pipelines, we can't access those markets. It just needs to happen.” Dawson Creek is in the area of gas fields that would feed the LNG projects. Neither the Petronas-led nor the Shell-led project has advanced to a final investment decision for construction. Any pipeline work is contingent on a decision to proceed with its matching LNG plant.

Fracking service companies are victims of low oil prices

(Wall Street Journal; Sept. 24) - A wave of bankruptcies and closures is sweeping across the oil patch, with dozens of hydraulic fracturing companies at risk, industry experts said. Most of the companies that help oil and gas explorers drill and frack wells are small, privately owned and just a few years old. They are part of a flood of new entrants in the energy business — one that is drying up as oil is below \$50 a barrel.

One of the latest casualties is Pro-Stim Services. Launched in 2011 with backing from Turnbridge Capital, a private-equity firm, the company did work for producers eager to coax more fuel out of the ground in places like Texas and Louisiana. “The Haynesville Shale was blowing and going at that time,” said Bubba Brooks, who founded the company in Longview, Texas, after working in the oil industry for close to 20 years. Pro-Stim shut down earlier this year.

Several other companies are in a similar fix. At least five frackers have filed for bankruptcy, stopped fracking or shut their doors, according to consulting firm IHS Energy. Other analysts say that number may be higher, and they expect many more companies to follow suit or consolidate in a merger frenzy. Energy analysts at Wells Fargo say as much as half of the available fracking capacity in the U.S. is sitting idle. The market has gone from cutthroat to nearly nonexistent in some oil and gas fields. So far this year, the amount of fracking work has fallen 40 percent from a year earlier.