Oil and Gas News Briefs
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Oversupply steers LNG importers away from long-term contracts

(Nikkei Asian Review; April 7) - China, India and other liquefied natural gas importers are moving away from long-term contracts and want to renegotiate contracts made at the peak of the energy cycle — potentially costing money for investors in LNG projects. These trends have added to the uncertainty affecting the LNG sector, already dragged down by the oil-price crash and uneasiness about delays to major gas projects.

In March, spot-market LNG prices in Japan and South Korea were about $4.50 per million Btu, down 38.7 percent on the comparable month a year earlier. Analysts are forecasting that prices may fall as low as $4 in the next two years. They expect the low spot prices will encourage contract buyers to force producers into renegotiations, strengthening an existing shift away from long-term contract pricing that used to underpin project financing. Long-term contracts often include clauses that allow buyers to renegotiate if prices change by certain percentages or cross threshold price levels.

"In the current weaker LNG environment, buyers are seemingly reluctant to sign long-term contracts," said analysts at Australian bank Macquarie. Citi bank analysts forecast that China and Japan would soon move to renegotiate contracts. "Demand growth looks limited in the short term due to the slowdown of Asian economies and competition from renewables," Macquarie said. "Excess supply will grow to a peak of about 70 million metric tons per annum in 2019 before returning to a balanced market in 2023."

Osaka Gas plans to sell off its surplus LNG

(Platts; April 7) - Japan's Osaka Gas will likely have more LNG than it needs in the short to medium term and plans to sell off the surplus, the utility's president Takehiro Honjo said April 7. "We have slightly overcommitted LNG in the short- to mid-term," Osaka Gas's Honjo told a media conference, declining to specify how much surplus LNG the utility would have because of its uncertain demand outlook.

Japan is forecast to have a substantial excess of LNG in the coming years with an increase in solar power, restarts of nuclear power plants and a slowing economy seen as likely to dent the country's LNG demand. Eclipse Energy, an analytics unit of Platts, estimates that Japan's contracted LNG volume will likely grow from 82.3 million metric tons in 2017 to 88.2 million in 2019 and 84.8 million in 2020, while its LNG demand is projected to drop from 78.2 million tons in 2017 to 77.2 million in 2020.

Osaka Gas plans to strengthen its trading business and tap both domestic and overseas markets to offload its excess volume, Honjo said, adding that the utility also aims to further develop its LNG value chain from procurement and transport of LNG to the production and supply of city gas and power services. Osaka Gas has said it plans to boost investment in upstream projects with the aim of increasing its equity lifting to 30 percent of its overall LNG procurement from less than 10 percent currently.

LNG market players gather amid low prices and years of oversupply

(Bloomberg; April 10) - The most influential executives, investors and traders in the liquefied natural gas market will gather in Perth this week for the industry's biggest conference — and the market does not look good. While oil has risen about 50 percent since hitting a 12-year low in January amid the worst price crash in a generation, LNG continues its downward slide as spot-market prices are at one-fifth of their 2014 peak.

In the LNG business, where projects cost billions of dollars and take years to build, a backlog of developments sanctioned when prices were higher are bringing supply online faster than demand can soak it up. "It looks like there's going to be a lot of LNG out there chasing buyers," said Singapore-based Jeff Brown, president of FGE consultants. "LNG is going to continue to throw gas at the world as major projects come on stream and need to recover their big costs," said Trevor Sikorski, of Energy Aspects in London.

About 42 million metric tons a year of liquefaction capacity is expected to come online this year, boosting supplies by 14 percent. The projects were drawn by expectations of rampant demand growth in Asia that failed to materialize. But the oversupply may only last a few years as low prices force cancellation of some projects, setting up the market for a potential shortage the next decade. That deficit could hit 75 million tons a year by 2025, requiring $250 billion in investment through 2020, Sanford C. Bernstein & Co. said in November. However, the market is well supplied at least through 2018, it said.

Oregon LNG appeals FERC rejection; signs up potential customer

(Calgary Herald; April 8) - Calgary-based Veresen continues to make a case for its LNG export facility at Coos Bay, Ore., announcing April 8 it has signed a second Japanese customer to a preliminary agreement. If finalized, the deal with trading conglomerate Itochu would sew up 1.5 million metric tons per year for 20 years. With a similar deal announced two weeks ago with Jera, a joint venture of two Japanese utilities, half of the liquefied natural gas output of 6 million tons per year at the plant would be spoken for.

Last month, the Federal Energy Regulatory Commission rejected Veresen's application to build the LNG export terminal and its joint proposal with Williams Partners to construct a 230-mile pipeline that would supply the plant with U.S. and Canadian gas from the North America pipeline network, throwing into question the future of a project that has waited almost three years for regulatory approval. Veresen said it filed its request with FERC on April 8 for a rehearing of the denial.

FERC said it was reluctant to allow the project to proceed over landowner objections when it hasn't demonstrated need, but left the door open for the companies to try again. "This is the second major customer agreement for the Jordan Cove LNG project and it represents further proof of the market support for this project," Veresen CEO Don Althoff said in a news release.

Both sides lobbying Canadian government on LNG project decision

(Vancouver Sun; April 7) - The Canadian government, under growing pressure to approve a B.C. liquefied natural gas project, says it will base its decision on science and public consultation — not politics. Environment Minister Catherine McKenna made the comment in response to questions about the high-pressure lobbying effort underway to press Ottawa in its decision on the Pacific NorthWest LNG project near Prince Rupert.

The environmental review decision "will be based on the best available science and on real and meaningful consultations with Canadians, including indigenous communities," McKenna said. She was responding carefully to questions about the considerable political pressure being put on the new federal government that has promised to restore Canadians' faith in an independent, evidence-based review process.

"I'm confident that any remaining questions can be answered completely and quickly," said B.C. Natural Gas Minister Rich Coleman. "Jobs for British Columbians should not be held by unnecessary delays." Pacific Northwest LNG has hired a lobbying firm to help sell the project to the federal government. On the other side, Grand Chief Stewart Phillip of the Union of B.C. Indian Chiefs traveled to Ottawa last month to oppose the project. And the Skeena Watershed Conservation Coalition has paid for eye-catching billboards near Parliament Hill suggesting Prime Minister Justin Trudeau's image will be forever tainted if his government approves a project they call a "climate disaster."

Japanese operator of Australia LNG project confident of profitability

(Sydney Morning Herald; April 9) - The head of Japan's Inpex Corp. has shrugged off the gloom of oil and gas markets to declare the $37 billion Ichthys liquefied natural gas venture in northern Australia a valuable investment with attractive opportunities for expansion. CEO Toshiaki Kitamura has emphasised the "robust" economics of the huge project even at current depressed oil prices. Ichthys LNG is more than 80 percent built, with production from the 8.9 million metric tons-a-year plant on Darwin Harbor due to commence in the September quarter next year, about nine months later than scheduled.

The project was the last of a $200 billion investment wave in LNG in Australia, and drove an escalation in costs. About 70 percent of its output will be supplied to Japan. Inpex, Japan's largest oil and gas company and a 62 percent owner of Ichthys, has a lot riding on the project, which will be its first operated LNG plant. The project is running about 10 percent over budget. The 65 percent plunge in oil prices since mid-2014 has raised concerns, but Kitamura said he was "not in the least" worried about profitability.

"Even looking beyond the 15-year sales and purchase agreements now in place, a long-term, sustained growth in LNG demand in the Asia-Pacific region, and particularly in emerging Asia, will mean that there will continue to be opportunities for the project in the long term," he said. Kitamura noted that with the expiration of several long-term LNG sales contracts in the 2020s in Asia, the need would emerge next decade for about 25 million tons of additional supply to the market in balance.

China may allow natural gas prices to reflect market demand

(Bloomberg; April 6) - China may harmonize wholesale natural gas prices for residential and industrial users as early as this year in an effort to make pricing of the fuel more market based. The National Development and Reform Commission is discussing a plan to set a single wholesale gas price for all users in 2016 and let suppliers and customers negotiate rates around the benchmark, ICIS China, a Shanghai-based commodity researcher, said in an e-mailed report citing people familiar with the plans.

Industrial and commercial users in most regions pay a premium of as much as $7.50 per 1,000 cubic feet of gas compared to residential consumers, ICIS said. China is reforming its state-controlled energy industry to make prices more reflective of supply and demand. The world's largest energy consumer is targeting raising the share of natural gas in its energy mix to 10 percent by the end of the decade from about 6 percent last year in an attempt to shift consumption from coal and reduce pollution.

China cut natural gas prices for commercial and industrial users in November by 26 percent for Beijing and 24 percent for both Shanghai and Guangdong as the nation's gas demand in 2015 expanded by the least in a decade amid a price slump in alternative fuels such as coal.

Number of rigs drilling for natural gas lowest in three decades

(Bloomberg; April 6) - Natural gas producers are finally realizing that the age-old adage is true: If you find yourself in a hole, stop digging. Explorers have idled drilling equipment at historic rates — a drop in prices has resulted in the fewest rigs in at least three decades searching for new output. Southwestern Energy, the third-largest U.S. gas producer, has stopped drilling altogether, while Chesapeake Energy has no rigs in the gas-rich U.S. East, down from an average of about 13 in 2014.

It's part of a broader cost-cutting effort as companies aim to weather the downswing, betting that a price recovery will begin this year. While some unfinished wells can be used to keep up output, the industry is facing a sharp drop in future production without new drilling investment. The lack of exploration is particularly troublesome given that output from gas wells tends to decline sharply from initial production rates.

"Companies that do absolutely nothing are going to lose a quarter of their production this year," said Neal Dingmann, managing director for equity research at SunTrust Robinson Humphrey in Houston. Rigless drillers are the companies hardest-hit by the crash in oil and gas prices. They borrowed heavily at the height of the shale boom to snap up assets. Producers need gas prices to rebound and fast. Credit rating downgrades to junk status mean these companies will have limited access to bank financing, and loan agreements reached before the plunge are set to expire.

Norway permits production increase at its largest gas field

(Bloomberg; April 5) – Norway will allow increased production from its biggest gas field as Europe's second-largest supplier of the fuel prepares for increased competition with Russia and the U.S. The production permit for Troll was increased 10 percent for the gas year starting Oct. 1, according to field operator Statoil. Norway last year installed two new compressors at the North Sea field, ending technical issues that previously limited capacity and helping to supply record volumes to Europe.

The higher limit may help Norway to catch up with Russia, the top European supplier which said it would this year exceed its 2013 export record. The two nations can send fuel to Europe by pipeline at a lower cost than the U.S., which in February began liquefied natural gas exports from a Louisiana LNG plant. "This is exactly the thing Norway was going to do to defend market share," said Thierry Bros, an analyst at Societe Generale in Paris, referring to the Troll permit.

Troll's production permit is for 1.2 trillion cubic feet for the 2016 gas year, or almost as much as France's annual consumption.

Canadian oil and gas industry cuts capital spending 62% from 2014

(The Canadian Press; April 7) - Canada's oil and gas industry is on track to see the biggest two-year capital spending decline in its 70-year history, according to the Canadian Association of Petroleum Producers. Companies are expected to invest $31 billion in 2016, a 62 percent drop from the 2014 record of $81 billion. It's the biggest drop since CAPP and its predecessor organizations began keeping track in 1947 — the year of Alberta's first major oil discovery.

The U.S. benchmark oil price was above $100 a barrel in mid-2014. Now, it's at about $37 — below what most producers need to be profitable. CAPP estimates 110,000 direct and indirect jobs have been lost in the downturn, which began in late 2014 and continued to deepen through to last February when crude fell below $30 a barrel for a time. "It is a really tough time," CAPP president and CEO Tim McMillan said April 6. "Almost no one is left untouched within their family circle and within their social circle."

Compounding the pain is the inability for Canadian oil and gas producers to reach markets outside of the United States, a major global petroleum player itself. Efforts to build oil export pipelines and liquefied natural gas export terminals have faced stiff environmental opposition and regulatory delays. In a release, CAPP said building that infrastructure should be a "national priority" but did not specify what concrete actions it wants provincial and federal governments to take.

India seen as fastest-growing market for oil demand

(Bloomberg; April 7) - In the energy world, India is becoming the new China. The world's second-most populous nation is increasingly becoming the center for oil-demand growth as its economy expands by luring the type of manufacturing that China is trying to shun. And just like China a decade ago, India is trying to hedge its future energy needs by investing in new production at home and abroad. But India may have one advantage its neighbor to the northeast didn't.

While China's binge came during a commodity super-cycle that saw crude reach a high of $147.27 a barrel in 2008 — due in no small part to that nation's demand — India's spurt comes during the biggest energy price crash in a generation. While oil has tumbled more than 50 percent from mid-2014 levels, the South Asian nation spent $60 billion less on imports in 2015 than the previous year even while buying 4 percent more.

India consumed 4 million barrels of oil a day last year, according to the International Energy Agency, and is expected to surpass Japan as the world's third-largest oil user this year. It will be the fastest-growing crude consumer in the world through 2040. The growth is being driven by manufacturing. India's prime minister aims by 2022 to create 100 million new factory jobs and increase manufacturing's share of the economy to 25 percent from about 18 percent in 2014. Manufacturing drives oil use by increasing the volume of goods moved on ships and trucks, and raising living standards of workers.