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LNG projects in 'pause mode,' waiting for prices to recover

(Bloomberg; April 11) - The oversupplied LNG market is in hiatus as producers await a boost in demand from countries seeking access to energy. Liquefied natural gas producers are in "pause mode" as low prices have stalled development of new supplies, Woodside CEO Peter Coleman said April 11 at the LNG 18 conference in Perth. That respite from new projects means that demand later will exceed supply in the coming years, causing prices to rise back to higher levels, Shell CEO Ben van Beurden said.

The cycle underscores the difficulties in timing construction of multibillion-dollar projects that take years to build. Companies have to focus on long-term demand that is expected to grow by 35 percent over the next 20 years, Chevron CEO John Watson said. "There is LNG that is coming online and it's clear there is some surplus. Customers are doing what you would expect them to do, they are going to take advantage of that in the short term," he said. "Once you see that surplus absorbed, you'll see that market re-emerge."

"Industry is in this hiatus, in this pause mode where there is really no market to sell into, so it gives us a chance to step back and say what is the best way to move," Woodside's Coleman said. "Shorter-term LNG will go through different pricing environments," Shell's van Beurden said. "At the moment there is a bit more depth, a bit more room in the market, so short-term prices are probably a little bit discounted," he said. "When we see that shortness disappear and the market goes tight again," prices will rise.

Shell CEO says LNG industry needs to lower capital costs

(Dow Jones News; April 12) – Natural gas companies need to drive down capital costs to ensure the fuel can better compete against rival sources of power such as coal and renewable energy, Shell CEO Ben van Beurden said April 12. In a speech opening an industry conference on liquefied natural gas in Perth, Australia, van Beurden said demand for natural gas is expected to continue growing in the years ahead and projects with the lowest production costs will have a competitive advantage.

To ensure it can meet demand, the industry will need to keep investing, especially to provide for the developing world, he said. At the same time, new markets are opening up in countries such as Thailand, Pakistan and Poland that were previously considered too small to target. Technologies such as floating receiving and storage terminals that can turn liquefied natural gas back into usable gas and other developments have helped lower costs for importers, making LNG a viable energy source, van Beurden said.

The industry needs to continue to innovate to drive down capital costs for LNG, from upstream development to liquefaction, shipping and regasification, he said, adding that the most important areas to focus on are design, engineering and construction. "LNG plants have become more expensive because we take more time to engineer them, because we face lower productivity when we build them, and because we're often working in more complex locations. … We need to reverse this trend."

Producers say cost control essential for future LNG projects

(Sydney Morning Herald; April 12) - Some of the world's most powerful LNG producers have issued a stark warning that future growth in the industry relies on coming up with lower costs and more flexible ways of meeting rising demand as customers balk at traditional, costly long-term contracts. Chevron CEO John Watson said unless Australia reduces its costs, it would lose out on further investment in liquefied natural gas projects to rivals such as Canada and east Africa, while competing fuels would gain market.

"The message I would deliver to Australia is it is a very competitive world," Watson said at the LNG 18 conference in Perth. Having plentiful gas resources is not enough without labor reforms and suitable fiscal conditions and environmental policies. Otherwise, investors will look elsewhere. LNG producers are struggling to make new projects stack up economically, with customers wary of locking themselves into long-term contracts given the glut in the market that is expected to prevail over the next several years.

ExxonMobil vice president of gas and power marketing Richard Guerrant said development costs had become unsustainable. "LNG project costs escalated to the extent it was difficult for buyers to accept the price point and for developers to find an attractive investment," he said. “The good news, however, is the current market pause should eventually lead to a reduction in project costs as fewer projects move forward and as industry continues to find efficiencies and innovate.”

Lower LNG prices will help China move from coal, says Australia CEO

(Australian Business Review; April 12) - The current weakness in liquefied natural gas prices will accelerate the evolution of a global LNG spot market and speed up China’s efforts to replace its coal-fired power generation with cleaner-burning gas, according to Origin Energy CEO Grant King. Speaking ahead of the start of the LNG 18 conference in Perth April 11, King said the forecast for LNG looks strong, with recent international agreements to reduce carbon emissions likely to increase long-term demand for gas.

The LNG 18 event, which has attracted more than 6,000 participants from over 80 counties, comes at a rough time for the industry, with a $200 billion wave of LNG development in Australia driving an oversupply in markets at a time when LNG prices are already under pressure from a deep slump in oil prices. King said the excess supply would speed up the evolution of an LNG spot market that would improve transparency and help move the sector away from oil-linked pricing.

King predicted soft LNG prices could help drive a global replacement of coal-fired power generation with gas-fired power generation akin to that witnessed in the U.S. in recent years. That phenomenon could be repeated in China, he said. “It’s been extraordinary what’s been achieved (in the U.S.). … We know China is going to … double the amount of gas used in the Chinese economy from a low 4 to 5 percent up to 8 to 10 percent, and that’s an extraordinary increase in the amount of gas that will be used.”

RasGas CEO says low prices an opportunity to expand markets

(Bloomberg; April 12) - Global LNG export capacity has surged more than threefold to 300 million metric tons a year since the “world’s largest global LNG event” was last held in Perth in 1998. In the first day of this year’s LNG 18 conference, LNG suppliers talked of focusing on long-term demand that is expected to grow by 35 percent over the next 20 years, Chevron CEO John Watson said. Better to look long term — today’s LNG market is oversupplied and prices are low.

But those depressed prices are an opportunity to expand markets, said Hamad Mubarak Al Muhannadi, chief executive officer of Qatar’s RasGas. Regional price differences for the fuel are virtually gone and the market may remain “tough” for another five to six years before a rebound, he said. RasGas manages and operates seven LNG trains in Qatar, the world’s biggest exporter of the fuel.

LNG suppliers must add flexibility to win long-term deals, Japan’s Inpex CEO Toshiaki Kitamura told LNG 18 delegates. Inpex, Japan’s biggest oil and gas explorer, is the lead in the Ichthys LNG export project in Australia that is scheduled to go online late 2017. Producers need to adjust to the changing market and it may be time for companies to move further into distribution, said Woodside Petroleum CEO Peter Coleman. And future projects may be smaller with staged expansions, he said.

LNG producers invest in downstream to help build market demand

(Bloomberg; April 13) - LNG producers are taking a cue from John D. Rockefeller. France’s Total, Australia’s Woodside Petroleum and others want to invest more in downstream activities such as regasification terminals, pipelines and power plants to boost demand in an oversupplied liquefied natural gas market. The vertically integrated model is what Rockefeller used for crude oil to make Standard Oil the largest U.S. energy company in the early 20th century.

The push downstream underscores how desperate LNG producers are to lure new buyers for the excess supply that has depressed prices more than 70 percent the past 18 months. The glut isn't going away any time soon as production projects started years ago when prices were higher come online over the next few years. "We are aiming … to be not only producing gas and transforming it into LNG, but also going down to the market and delivering and going step by step down the value chain," Patrick Pouyanne, Total's CEO, said told reporters April 13 at the LNG 18 conference in Perth.

Total has invested in regasification terminals and is exploring a project in Indonesia where it could invest in gas pipelines and even an independent power plant, Pouyanne said. Shell is trying to convert some traditional oil demand into LNG consumption, said Maarten Wetselaar, the company's director of integrated gas. Shipping and trucking demand equates to about 700 million tons a year of LNG demand, nearly triple all the LNG sold last year, he said.

Petronas-led LNG project in B.C. cuts spending during delay

(Financial Post; Canada; April 13) - Progress Energy, a unit of Malaysia's state-owned Petronas, is drastically slashing its capital expenditure as it awaits a final approval from Canada's environmental agency on a proposed liquefied natural gas export project near Prince Rupert, B.C. "The plan with the final investment decision moving forward had been another $5 billion in the next three years moving into the development phase," said Michael Culbert, president and chief executive officer of Progress.

"We are going to drop that (figure) down to somewhere around $500 million over the next two years — so a significant drop," Culbert said. The cutback is part of Petronas' reduction in capital spending across its portfolio over the next four years. The company has already sunk $5 billion in the past three years to prove up reserves in the Montney gas basin that straddles the Alberta-B.C. border.

Petronas is looking to build the Pacific Northwest LNG project, along with partners from Japan, China, India and Brunei. The venture announced a conditional final investment decision in 2015, subject to government guarantees and environmental certificate. But the project has run into strong opposition from some First Nations and is on the 788th day of scrutiny by the Canadian Environmental Assessment Agency. The delays have meant that the company will seek new engineering, procurement, construction and commissioning bids for some of the contracts as they are no longer valid, Culbert said.

First Nation leaders plan to step up protest at site of LNG terminal

(Globe and Mail; Canada; April 12) - Native leaders of a protest camp are lashing out at the Port of Prince Rupert, B.C., by unveiling plans to build a cultural center on Lelu Island, the site of a proposed LNG terminal. Two Lax Kw'alaams First Nation hereditary leaders have written to Canadian Prime Minister Justin Trudeau, complaining about the federal port's support for Pacific NorthWest LNG. The consortium, led by Malaysia's state-owned Petronas, wants to build a terminal to export liquefied natural gas to Asia.

The port is demanding that members of the Lax Kw'alaams who erected two buildings on Lelu Island dismantle the structures, but demonstrators are ignoring the request. Instead of complying with the order, protesters are vowing to expand their construction plans. "Just last week, we reviewed exciting plans to build a cultural institution on Lelu Island," said the letter by tribal chief Donnie Wesley and house leader Ken Lawson. They are hereditary leaders of the Gitwilgyoots, one of nine tribes of the Lax Kw'alaams.

Demonstrators built a two-story house last fall and constructed a cabin this spring on the island. The protest camp started last August, with critics warning that Pacific NorthWest LNG will harm Flora Bank, a salmon-rearing habitat next to Lelu Island. Lelu Island and Flora Bank are federal Crown properties, port officials said. But the Lax Kw'alaams counter the properties are part of their traditional territory. The Canadian Environmental Assessment Agency is expected to rule on the LNG project by August.

Japanese company reportedly wins contract for LNG plant in Georgia

(Nikkei Asian Review; April 10) – IHI, a major Japanese heavy-machinery maker, has won an order to build a liquefied natural gas plant for pipeline company Kinder Morgan, developer of a small-scale LNG export plant proposed for near Savanah, Ga. The deal is estimated at $925 million, sources said April 8. The all-in contract covers everything from design to construction. The modular plant will have an annual capacity to make 2.5 million metric tons of LNG, with Shell to take all of the plant's capacity.

IHI would convert the existing LNG receiving terminal at Elba Island. The plant, built in the early 1970s, has been idle due to a sharp drop in LNG imports since shale gas production flooded the U.S. market. IHI plans to build 10 liquefaction units that can each process 250,000 tons annually. By opting to build smaller facilities — rather than a single midsize or large-scale liquefaction unit — the developer wants to make it easier to adjust production to match demand.

Kinder Morgan still needs approval for construction and operations from the Federal Energy Regulatory Commission and export authority from the Department of Energy for shipments to non-free-trade nations. The company has said it hopes to open the plant in a couple of years. Total cost is estimated at $2 billion.

Two more Japanese utilities team up on LNG purchases

(Reuters; April 11) - Japan's biggest city gas supplier Tokyo Gas and second-biggest power utility Kansai Electric Power said April 11 they will partner up on liquefied natural gas purchases and share technology for gas-fired power plants. The utilities are among the biggest LNG buyers in Japan, which buys about a third of global shipments of the fuel. The two firms have successfully completed their first swap of the super-chilled gas last week, Tokyo Gas officials said, declining to give details.

They also plan to pursue further cooperation in flexible LNG procurement, aiming to achieve stable supplies at lower prices, said Takayuki Uenaka, Tokyo Gas group manager of corporate planning. The two firms have no plan to match the LNG joint-buying venture between Tokyo Electric Power and Chubu Electric Power, he told reporters. The tie-up, called Jera Co., created the world's biggest LNG buyer.

Competition among Japanese power and city gas utilities intensified this month when companies lost their monopoly control over the retail power market in an unprecedented shakeup that could give a much needed jolt to Japan's long stagnant economy. The business environment is set to become even tougher next April when gas suppliers will also lose their monopoly on the retail city gas market.

Colorado governor backs request that FERC reconsider LNG project

(Denver Business Journal; April 11) - Colorado Gov. John Hickenlooper on April 11 asked federal regulators to reconsider their decision against a $6 billion project to build a 232-mile gas pipeline and liquefied natural gas plant on the Oregon coast — a project that he argued would benefit Colorado gas producers. The Jordan Cove Energy Project, backed by Calgary-based Veresen, has received the support of Hickenlooper as well as the business and political community on Colorado’s Western Slope, which is rich in gas.

The terminal would take gas from U.S. and Canadian producers, liquefy it and load it aboard oceangoing carriers for delivery to overseas customers. The Federal Energy Regulatory Commission last month rejected Veresen’s application to build the new LNG terminal in Coos Bay, Ore., as well as the pipeline. The commission said there was no evidence of customers for the LNG, making it difficult to justify the impacts to property owners along the pipeline route. Veresen has asked FERC to reconsider its decision.

Hickenlooper also has requested the commission reconsider its decision. The project “represents an important new source of demand for gas producers in Colorado,” the governor wrote to FERC. “It is important for shippers and domestic gas producers to continue to access markets for natural gas, including Asia-Pacific countries.”

U.S. Northeast utilities imported LNG they didn't need

(Bloomberg; April 13) - The U.S. is grappling with the biggest glut of natural gas in four years but you wouldn't know it from the number of ships bringing LNG to the Northeast. Earlier this week, Engie's terminal near Boston received its 12th liquefied natural gas cargo of the year, according to the French company's North America unit. That's the most for that period since 2012, when the terminal received 17 vessels from January through mid-April. Imports are up 31 percent to 28 billion cubic feet from a year earlier.

"Everybody's realized winter never happened but everybody took a position that winter is going to happen, which is what you have to do as a utility," said Jason Feer, head of business intelligence at Poten & Partners in Houston. Since late 2014, power grid operator ISO New England has offered incentives to utilities that import LNG in an effort to ensure that the region has enough gas for power plants during frigid winters. That strategy backfired this year as the warmest U.S. winter on record curtailed demand, expanding a stockpile glut as gas production from shale basins filled storage caverns.

The lack of heating demand carries a cost. ISO New England will pay $2.58 million to reimburse power generators for unused LNG under the grid manager's winter reliability program. Such costs are passed on to households and businesses. Though one benefit of the gas supply surplus was lower wholesale power prices. Spot electrical power is down 64 percent from a year earlier, averaging the least since at least 2005, as the glut weighs on gas markets that help set the price of electricity.

Australia's LNG industry learned lessons from megaprojects

(Australian Broadcasting Corp.; April 11) - Leaders in Australia's liquefied natural gas industry concede better collaboration would have saved money and made better use of the workforce. Over the past decade, $200 billion was pumped into projects in Western Australia, the Northern Territory and Queensland. A survey by consultants Deloitte — "The good, the bad and the ugly: The changing face of Australia's LNG production" — found one of the big challenges was finding workers for so many megaprojects at once.

The report coincided with the 18th International LNG Conference that opens April 11 in Perth. Oil and gas principal with Deloitte, Jamie Hamilton, said a staggered approach to construction could have prevented massive job losses as projects ramp up. "As all these projects start to come online with a lot of capacity all at once … it will take us a long time to come out of the bust cycle," he said. "While everybody had it very good for a long time, it might be a pretty hard landing for a lot of that skilled labor in particular."

The report found the industry now believes it should have been more involved in collaboration and better managed implementation of concurrent projects. "Developers could have shared more infrastructure to minimize costs," the report said. "The consequences of several independent projects … has led to a dramatic overbuilding of infrastructure," the report added. "There were also practices those surveyed said should never be pursued again, including a 'get-it-done-at-all-costs' mentality."

Gazprom loses title as Russia's most valuable company

(Russia Direct columnist; April 12) - As a sign of shifting trends in global oil and gas markets, Gazprom, the state-run energy giant, recently lost its status as Russia's most valuable company in terms of market capitalization. That distinction now belongs to Rosneft, Russia's largest oil producer. In early trading April 11, Rosneft had a market value of $52 billion, compared to Gazprom's market capitalization of $51 billion.

Gazprom has been under considerable stress lately. Its export revenues fell by 23 percent in 2015 due to lower volume and prices and currency volatility. Cash flow has turned negative as gas prices in Europe remain below $6 per 1,000 cubic feet, and access to international finance markets has been limited by U.S. sanctions. Faced with the growth of domestic competitors and rising export competition in Europe, Gazprom's prospects and its wide-ranging strategic ambitions are being called into question.

Gazprom's production fell to a record low of 14.77 trillion cubic feet in 2015, with the first months of 2016 signaling a continued decline. The problem lies in the complex and multi-layered challenges emanating from the current state of the European and global gas markets, as well as from slowing domestic consumption in Russia. Gazprom's domestic market share is under pressure, as it has seen a steady annual decline of 2 percent between 2008 and 2015 against the background of other producers' expansion.

Global oil production decline starts to show up in markets

(Wall Street Journal; April 12) - The debate among the world's biggest oil nations over whether to freeze production is beginning to be overtaken by a rapid slide in global output. On April 12 — as traders looked to a weekend meeting on output in Qatar — the government said U.S. production dropped in March and will likely continue falling. The combination amounted to a shot of adrenaline for an oversupplied market, driving oil prices to their highest this year. The price of U.S. crude jumped to $42.17 a barrel.

Increasingly, the low price of oil is doing the work for the world's big producers by knocking down production across the globe, according to traders and industry officials. Cash-starved smaller producers in Latin America, the North Sea and the shale fields of the U.S. are cutting production sharply. That could reduce or eliminate the glut of oil hanging over the market as early as late this year, some analysts said.

"It took longer than expected and the price had to fall further than expected, but it means there's not going to be as much supply in a couple of years," said Jason Bordoff, director of the Center on Global Energy Policy at Columbia University. London-based consultancy Energy Aspects has more than doubled its estimate for the non-OPEC production decline this year to 700,000 barrels a day. It expects demand to begin outstripping supply and drawing on swollen crude stockpiles globally starting in June.

Canadian oil sands producers look to smaller projects in the future

(Bloomberg; April 13) - The era of megaprojects in Canada's oil sands is probably over as crude prices are seen staying lower for longer, some of the biggest developers said. Producers that envisioned multibillion-dollar expansions when oil was over $100 a barrel are now opting for bite-sized additions. And while some production growth is still expected in a market rebound as companies cut costs with new technology, massive developments are on hold, said executives from Suncor, Cenovus and Meg Energy.

"The years of large, multibillion-dollar projects are probably gone," Alister Cowan, chief financial officer of Suncor, said April 12 at the Canadian Association of Petroleum Producers' Scotiabank Investment Symposium in Toronto. Fort Hills, the $13 billion project being pursued by Suncor and Teck Resources, will probably be the last oil sands mine built for many years, he said. "We're more likely into smaller, more modular-type projects."

Companies have shelved megaprojects globally as they cut spending to survive the oil-price slump. While a rebound is expected, there's a growing contingent of executives and analysts who believe abundant supplies will prevent prices from approaching their previous highs. Producers in Canada's oil sands, among the most expensive reserves in the world to develop, are depending on technology and process improvements to bring down costs significantly so that they can compete with cheaper U.S. shale.

Fitch lowers Saudi Arabia credit rating one notch

(The Associated Press; April 11) - Saudi Arabia suffered another credit rating downgrade April 12 after Fitch lowered its view on the oil-rich kingdom in light of the fall in energy prices. Fitch said it was reducing its rating on Saudi Arabia by one notch to AA- from AA and warned that another downgrade was more likely than an upward revision by keeping its outlook on the country at "negative." Fitch's move follows a downgrade earlier this year from rival Standard & Poor's.

Fitch said the downgrade is largely due to its decision to cut its average oil price assumptions for this year and next to $35 a barrel and $45 a barrel. The benchmark New York crude oil rate is currently trading around $40 a barrel. Prices have fallen sharply the past two years on a combination of factors, including worries over the state of the global economy in light of the slowdown in China. Saudi Arabia's decision to maintain production levels even with lower prices has also weighed on oil prices.

According to Fitch, the anticipated low oil price environment will have "major negative implications" for Saudi Arabia's financial position. Fitch expects a large chunk of Saudi Arabia's financing needs to be funded by the sale of foreign financial assets as well as by the issuance of debt domestically and abroad. The country is in negotiations on a syndicated loan of up to $10 billion and is planning a bond issue in Europe, too.

Sinopec reducing production at high-cost, low-output oil wells

(Platts; April 12) - China's Sinopec is cutting production at uneconomic oil wells and planning to boost its natural gas production as it alters its strategy to adjust to the changing market environment. The suspension of operations at more than 1,500 uneconomic wells in the Shengli oil field is part of a broader plan to cut total crude production by about 5 percent from 2015.

Shengli is China's second biggest oil block, with production of more than 158 million barrels a year. The price of Shengli crude oil in the first quarter hit a low of $20.94 per barrel and averaged about $28.45, down 48 percent from the average price in the whole of last year. "The oil field needs to close inefficient and high-cost wells in order to avoid the trap of 'lose more from high production' amid low crude prices," the company said.

"There are many such high-cost but low-output oil wells in aging Shengli and Daqing [the biggest oil blocks in China]. Closing these wells will have limited impact on the company's total output but will help with profits," said a source from an upstream service company. All of the upstream projects Sinopec listed in its budget plan for 2016 are gas projects. They include further development of its flagship Fuling shale gas project — China's first commercial shale gas development.