Oil and Gas News Briefs
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Japanese LNG buyer plans to cut long-term supply contracts 42%

(Reuters; Aug. 10) - Japan's Jera Co., the world's biggest importer of liquefied natural gas, is planning to cut the amount of gas it purchases under long-term contracts by 42 percent by 2030 from current levels, the company's president told Reuters. The company now buys 34.5 million metric tons of LNG per year under contracts for 10 years or longer. By 2030, that will drop to about 20 million tons, President Yuji Kakimi said. Jera will take this step to prepare for the liberalization of the Japanese electric market that has clouded the outlook for LNG purchases by the country's utilities.

Kakimi also said future LNG consumption may be limited by nuclear plant restarts and renewable generation such as solar power. The cutbacks in long-term contracts put question marks over planned large-scale, multibillion-dollar LNG projects that rely on long-term deals to win financing. LNG suppliers to Asia are also suffering through a 72 percent slump in prices since February 2014. Jera, a joint venture between Tokyo Electric Power and Chubu Electric Power, takes in 40 million tons of LNG per year.

The company's long-term contracts start expiring in 2018, and Kakimi said Jera has no plan to sign new, large-volume pacts for the foreseeable future. To offset the decline as long-term contracts expire, he said Jera will sign long-term agreements for about 5 million tons — equal to a single LNG production unit. The government forecasts Japan’s LNG imports will fall to 62 million tons in 2030 from a record 88.5 million tons in 2014 because of a shift to nuclear power as plants restart and more use of renewable energy.

Japan's retail electricity reform started in April, ending regional monopolies, throwing future power sales into doubt and forcing utilities to reduce long-term contracts to cover minimum fuel requirements, Kakimi said. "The power generators cannot have fuel for 20 years without having [matching] long-term power sales contracts," he said.

LNG producers should work to boost demand rather than fight market

(Reuters columnist; Aug. 8) - Global producers of liquefied natural gas are facing a choice they probably didn't anticipate or want, but their response will likely shape the future of their industry. The dilemma facing producers is how do they respond to the moves by buyers to effectively scrap the oil-linked pricing model that has underpinned development of LNG projects for the past five decades.

There are increasing moves by buyers, particularly in Asia, to end long-term, oil-linked price contracts that also feature restrictive destination clauses. What buyers have realized is that global oil companies bet heavily on LNG, building new plants exceeding even the most optimistic demand forecasts for the next few years. Buyers see this as an opportunity to not only lower their costs, but also to introduce flexibility into the market.

Producers can either fight the changes and try to keep the pricing system intact, or they can embrace the changes and try other avenues to compensate for what will likely be lower prices in the short to medium term. While producers will no doubt be tempted to try and keep what's left of their lucrative contracts, past history with commodities suggests that this will largely be futile. Rather, they should concentrate on expanding the market for LNG as fast as they can in order to soak up the current excess supply.

Given that new LNG projects are finding it increasingly hard to get final investment approval because today's low prices cannot justify the massive upfront costs, it would seem only a matter of time before the boot moves back to the feet of the producers. Right now they have to suck up lower prices, largely because the industry has over-invested in recent years. But if the industry can weather low prices for the next few years, while at the same time boosting demand among new users, it will be rewarded.

China's national oil companies promise to boost gas production

(Radio Free Asia; Aug. 8) - China's national oil companies are promising to boost natural gas production despite deep cuts in overall investment and losses so far this year. The shift in focus from oil to gas by the big state-owned producers appears to be driven by the government's policy of reducing the use of high-polluting coal, rather than the prospect of greater returns.

Last month, China National Petroleum Corp. pledged to boost its investment in gas exploration, production and pipelines over the next decade. The company expects a near-doubling of annual gas output to 6.3 trillion cubic feet by 2020. Even at that, China will need to boost its gas imports. Last year, CNPC produced 3.3 tcf of gas, accounting for 72 percent of China's production, according to company data. China's leading oil company now spends 70 percent of its total budget on gas production and about 10 percent on gas pipeline construction, said Hou Qijun, head of the planning department.

Hou predicted the gas share of CNPC's budget will continue to rise, adding that the cleaner-burning fuel is "our top priority with high potential for profit growth." A first-half report by second-ranked China Petroleum & Chemical Corp., known as Sinopec, also stressed gas growth over production of oil. Sinopec's gas output rose 10 percent to 400 billion cubic feet during the period while crude production fell 11.4 percent, Bloomberg News said. Sinopec plans to double annual gas production by 2020.

Chinese oil and gas producer forecasts big increase in gas imports

(OilPrice.com; Aug. 8) - China has become the usual suspect when it comes to commodity prices. Whether it's oil or copper, LNG or gold, China is almost invariably the first place everyone looks for an explanation as to why prices are up or down. Now Asia's largest economy is on its way to swing the international gas market, and swing it big. According to China National Petroleum Corp., the state-owned oil and gas giant, natural gas imports could jump to as much as 9.5 trillion cubic feet a year by 2030.

To put this in perspective, imports in 2015 totaled less than 2 tcf, with total consumption reaching 7 tcf. The increase in imports, even with a boost in domestic gas production, will come largely due to a general shift toward cleaner energy sources as China seeks to improve its image as one of the biggest polluters in the world. The shift is also part of a government strategy to move away from heavy industry to services. The news, though just an estimate, could be the best news for the global gas industry in a while.

With a saturated global market and prices at multi-year lows, things recently have been as gloomy for the natural gas business as it has been for oil. Gazprom is perhaps best placed for the moment if China's demand jumps up. The Russian company is already working, in partnership with CNPC, on the Power of Siberia pipeline to move Russian gas into China. In addition to pipeline imports from Russia and Central Asian producers, China is a major buyer in the global LNG market.

Pakistan has taken 33 LNG cargoes since imports started in July 2015

(Daily Times; Pakistan; Aug. 8) - As many as 33 cargoes carrying more than 100 billion cubic feet of natural gas as LNG have arrived in Pakistan since the country started importing the fuel in spring 2015, sources in the Ministry of Petroleum and Natural Resources reported Aug. 7. The LNG was imported by Pakistan State Oil under competitive bidding and through short- and long-term contracts, utilizing a floating receiving, storage and regasification vessel to serve the country of 190 million people.

Pakistan's total gas production is about 4 billion cubic feet per day against a demand of 8 bcf a day. The sources also reported that Pakistan's domestic gas production was expected to fall 1.5 bcf a day by 2030, as existing gas reserves are in fast decline.

Sri Lanka considering proposals to import LNG for power generation

(Natural Gas Asia; Aug. 5) - Sri Lanka is expected to soon approve four LNG-fueled power plants with a combined capacity of 2,040 megawatts, according to the local newspaper Business Times. The country's Board of Investment is currently studying proposals for the projects. “They are British, Indian and two U.S. companies,” an official told the newspaper, adding that the total investment could be about $3 billion.

The companies have proposed liquefied natural gas receiving terminals, storage tanks and power plants, along with an undersea gas pipeline to deliver the fuel to Sri Lanka from an offshore LNG import facility. With the environment in mind, Sri Lanka wants to move away from coal-fired power plants to LNG. The sharp fall in LNG prices over the past year has made it attractive to pursue gas-based power generation.

Landowners say Papua New Guinea has not paid gas royalties

(Radio New Zealand; Aug. 11) - Police from Papua New Guinea's capital have been flown to Hela province in the Highlands in response to a landowner blockade of a gas conditioning plant. The National newspaper reports that the plant, which serves the country’s 2-year-old liquefied natural gas project, is locked by landowners protesting that the government has not honored its royalty commitments to property owners.

Landowners have threatened to shut down the entire LNG project if outstanding royalties are not paid by next week. Hela provincial police commander Michael Welli said the reinforcements are to help Hela police bolster security at the site. Welli said the situation is under control, with landowners expecting the country’s acting Secretary for Department of Petroleum and Energy to meet with them soon to discuss a way forward.

Minister of Petroleum and Energy Nixon Duban said delays in royalty payments to landowners are due to complications over identifying genuine landowners. "This project is going to be here for a long time. We cannot make a mess and pay the wrong people. So the onus is on the state to ensure it's done properly. Whether we take one year or a couple of months, we must ensure it is done properly."

Partners in the LNG project are ExxonMobil, two state-owned and two private Papua New Guinea companies, an Australian firm and a Japanese partner. The project's agreement with the government sets aside a 2 percent royalty for landowners, to be held in trust by the government until they have vetted the clans that claim to own land.

Exxon urges resolution of landowner claims in Papua New Guinea

(Reuters; Aug. 9) - ExxonMobil on Aug. 9 urged a quick resolution to a dispute between the government of Papua New Guinea and disgruntled landowners, following a protest at its $19 billion PNG LNG project over royalty disagreements. Media reports said the protesters have given the government a seven-day deadline to pay royalties to landowners or they will forcefully shutter the operation.

ExxonMobil is the operator of the liquefied natural gas project, partly located in the restive Highlands region of Papua New Guinea. Its agreement with the government sets aside a 2 percent royalty for landowners, to be held in trust by the government until it has vetted the clans that claim to own the land. The clan-vetting process has not yet been completed. The plant started operations in 2014.

"Our facilities are continuing to operate," ExxonMobil said in a statement. "We respect the right of individuals to peacefully protest, but we also encourage continued dialogue between landowners and the government to resolve their outstanding issues."

B.C. approves gas line to proposed small-scale LNG plant

(Squamish Chief; Squamish, BC; Aug. 9) – B.C. Minister of Environment Mary Polak and Minister of Natural Gas Development Rich Coleman issued FortisBC its conditional environmental assessment certificate Aug. 9 for a gas pipeline to serve a liquefied natural gas export project proposed on Howe Sound, just north of Vancouver. The Woodfibre LNG plant needs 29 miles of new pipe and a compressor station to serve the liquefaction plant, proposed at the site of a former pulp mill.

“It is a step forward, but there is still a lot that has to happen,” said Trevor Boudreau of FortisBC, shortly after the decision was released. Conditions imposed by the environmental certificate include reducing impacts on wildlife, mitigating impacts to wetlands and compensation for any permanent loss of wetlands, as well as continuing to consult with First Nations and the public.

Woodfibre LNG, a $1.8 billion project backed by Indonesian billionaire Sukanto Tanoto's RGE Group, was approved by federal regulators in March, but the developer has not yet made a final investment decision whether to proceed with construction. The plant would produce about 2 million metric tons of LNG per year, about 100 billion cubic feet of natural gas. The project has been controversial among residents concerned over damage to fish and wildlife habitat from the plant’s emissions and tanker traffic.

Statoil drills CO2 injection well to boost Arctic gas production

(UPI; Aug. 9) - Norwegian energy company Statoil has started drilling operations at a field above the Arctic Circle to rebuild the region’s recoverable gas reserves. Statoil said it started drilling an injection well for carbon dioxide in the Snohvit field off the northern coast. A production well will follow in order to replenish gas reserves to feed the liquefied natural gas plant on an island near Hammerfest that has operated since 2007.

Injection of carbon dioxide is needed to help stimulate additional production at the Snohvit field. "Hammerfest LNG needed replenishment of gas in order to maintain the high production and capacity utilization at the plant, while ensuring sustainable CO_2 storage," said Geir Owren, a project manager. The government confirmed a sizable discovery of additional oil and gas at the field in the Barents Sea two years ago at 525 billion cubic feet of recoverable gas and more than 130 million barrels of recoverable oil.

U.K. gas storage facility shutdown may drive up winter prices

(Bloomberg; Aug. 8) - Centrica's Rough, the U.K.'s largest natural gas storage facility 9,000 feet below the North Sea bed, has unexpectedly closed for the summer and will probably remain unavailable for most of the winter. Rough accounts for more than 70 percent of Britain's gas storage capacity. Without the facility, the U.K. will be more dependent on imports this winter, potentially making energy more expensive.

With strong North Sea production, the U.K. used to be less reliant than most other European nations on imports and storage to meet peak winter demand. But that has changed as North Sea production has dropped more than 60 percent from its peak. Rough is a layer of sandstone under the North Sea, into which Centrica injects and withdraws gas through 30 wells. The sandstone is covered with a separate layer of impermeable rock, a cap that keeps gas from escaping.

But testing has showed the layer didn't stand up to the normal pressure gas exerts on the borehole, due to aging and usage. Fearing the problem may exist throughout the facility, Rough was closed so that Centrica could examine all the other wells. Four passed, two are uncertain and the rest are being tested. While it's unlikely Rough will have to be closed permanently, its overall capacity will probably be reduced. And because it's age-related, this may not be the last time Rough will need costly repairs.

Cheniere reports loss as it starts up Sabine Pass LNG exports

(Wall Street Journal; Aug. 10) – LNG producer Cheniere Energy reported a second-quarter net loss Aug. 9 as the ramp-up in production at its liquefied natural gas plant in Sabine Pass, La., runs into a worldwide glut that is depressing prices. Surging gas supplies in North America and slowing demand from traditional buyers in Asia have pushed down LNG spot prices. Cheniere is spending billions of dollars to build liquefaction and export capabilities at the site of its underused LNG import plant.

The Houston-based company, which exported the first shipment of LNG from the U.S. mainland earlier this year, posted a loss of $298.4 million for the three months to June 30, compared with a $118.5 million loss a year ago. Cheniere said it began recognizing LNG revenue and sales costs in the quarter after taking control of the first production line at Sabine Pass. Cheniere said it has shipped 22 LNG cargoes from the facility, but will halt production for four weeks next month to fix a design flaw in flaring excess gas.

Cheniere's new chief executive told analysts he is focused on long-term contracts instead of chasing short-term deals. "Having stability in the cash flow is more important to Cheniere than trying to play some spot market, or basis, spreads throughout the world," said Jack Fusco. Cheniere said it has contracts with 20 buyers committed to taking 87 percent of its production capacity under construction. Those contracts will help pay down a $17.8 billion debt load as of June 30, up from $15 billion in December.

Opponents object to electricity customers paying for new gas line

(Rhode Island Public Radio; Aug. 10) - National Grid has come under fire for two proposals to move more natural gas into its Northeast U.S. service area. The utility's goal is to bring down electricity costs in the winter, when gas supply constraints drive prices to painful spikes, but some state lawmakers and environmental groups aren't convinced. The cost of the proposed pipeline expansion would be paid "through an additional charge to electric customers," said National Grid spokesman David Graves.

The Rhode Island Public Utilities Commission is reviewing a request to add a charge to electricity bills to help pay for a Spectra Energy pipeline. The environmental group People's Power and Light is one of a number of groups that oppose the project. They disagree that additional pipeline capacity is needed. Executive Director Larry Chretien said the project would put ratepayers on the hook for 20 years. Another National Grid proposal would use liquefied natural gas to help meet peak winter demand.

"That is such an outdated concept. We don't think we need it in 2016 and we are pretty damn sure we are not going to need it in 2036 with all of the advancements of technology that are going to be happening," Chretien said. The Massachusetts attorney general also opposes charging electricity ratepayers for new or expanded pipelines. A study concluded the region does not need additional pipelines and that energy needs could be met with other more affordable solutions, such as energy efficiency.

New Brunswick First Nation says oil pipeline needs its permission

(The Canadian Press; Aug. 10) - Mi'kmaq communities in New Brunswick, Canada, said Aug. 10 that TransCanada's proposed Energy East oil sands pipeline project must have their consent in order to pass through their territories. Chief George Ginnish, of the Eel Ground First Nation, told National Energy Board hearings in Saint John, N.B., that Mi'kmaq communities remain "deeply concerned" about the effect the pipeline would have on their aboriginal and treaty rights.

Ginnish was speaking on behalf of a group of nine communities in eastern and northern parts of the province. "We have to consider the impact that any projects will have on our next seven generations, it's our duty to our ancestors," Ginnish said. He told the three-member panel the Mi'kmaq are concerned about the impacts of pipeline construction and potential oil spills on watersheds and water crossings, as well as on traditional fisheries. He said there are also concerns about increased tanker traffic.

"Unless all of these concerns can be meaningfully addressed, we cannot and will not consent to the pipeline in our territory," Ginnish said. The chief said the Mi'kmaq have never surrendered their aboriginal title to their lands. "The project will require our consent," he said. Officials with Energy East said they are committed to ongoing consultations with First Nations groups. TransCanada proposes the 2,800-mile pipeline project to move oil sands production to eastern refineries and to the coast for export.

Small Alberta oil sands project to stay closed until prices recover

(The Canadian Press; Aug. 8) - One of Canada's oldest oil sands projects, shut down during the wildfires in Fort McMurray, Alberta, will stay closed until benchmark oil prices rise above US$50 per barrel, its operator said Aug. 8. The Hangingstone thermal oil sands project, operated by Japan Canada Oil Sands since 1999, was shuttered in May as a precaution when staff were evacuated due to the wildfires. Satoshi Abe, executive vice president, said the facility will not be restarted for economic reasons.

"It was our plan before the wildfire to shut it down temporarily because of the very, very weak oil price market," Abe said. "With WTI (West Texas Intermediate) in the lower $40s, we are losing money for every barrel we produce. So we decided to suspend production to improve our short-term results while at the same time leaving resources in the ground to be produced when market conditions get better."

The project was built with capacity of 10,000 barrels per day to test the use of steam to produce bitumen from wells, but had been producing about half of that in recent years. Abe said construction continues on the company's nearby $1.8 billion Hangingstone expansion project, which is expected to begin producing by mid-2017. Japan Canada Oil Sands is planning to ramp up capacity at the site to 20,000 barrels per day. Analyst Michael Dunn of FirstEnergy Capital said the operation had higher costs because of its small size, the age of some of its wells and the fact it was trucking its product to market.