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Compiled by Larry Persily
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Papua New Guinea LNG partner says long-term deals ‘very unlikely’

(Bloomberg; Aug. 23) - ExxonMobil’s partner in a liquefied natural gas export project in Papua New Guinea sees Asian buyers pushing back on the pricing and structure of LNG contracts as a glut of supply gives them greater bargaining power. Oil Search, the Sydney-based producer that owns a 29 percent stake in the Exxon-operated PNG LNG development, sees signing traditional long-term deals “very unlikely” in the current market, according to Managing Director Peter Botten.

The company plans to begin negotiations for new contracts next year, it said in a presentation Aug. 23. "We’re seeing a revolution in the LNG market right now," Botten said in a phone interview with Bloomberg. “With oversupply, which is likely to be the case for some years, customers quite rightly are using this opportunity to recalibrate what they pay and how they pay it and the structure of any future contracts.”

Asian spot prices for LNG have fallen by about 60 percent since September 2014 amid a global glut and as demand growth slows. Japan’s Jera Co., a joint-venture of Tokyo Electric Power and Chubu Electric Power and one of the world’s largest buyers of LNG, has said it will boost its share of supply from spot deals while reducing its reliance on long-term contracts. Woodside Petroleum, Australia’s top oil and gas producer, expects lower LNG prices as it renegotiates short-term contracts, CEO Peter Coleman said.

Papua New Guinea project looks to spot market to sell excess LNG

(Reuters; Aug. 23) – The ExxonMobil-led Papua New Guinea liquefied natural gas project is eyeing multi-year contracts for sales of spot cargoes to soak up excess production, co-owner Oil Search said Aug. 23. The unusual move for the LNG industry, dominated by long-term contracts, reflects strong output at the plant, which is producing 12 percent above its nameplate capacity of 6.9 million metric tons per year. The plant started operations in 2014.

The project sold eight spot cargoes in the first half of this year, beyond the 6.6 million tons per year locked in long-term contracts to customers in Japan, China and Taiwan. The project is in the process of having the proven reserves in its foundation gas fields recertified, which Oil Search is confident will result in a bigger reserve base that could underpin multi-year contracts for spot cargoes. Of the spot cargoes sold through June, six went to Japanese customers that like the PNG gas for its higher energy content.

ExxonMobil is the project operator, with a 33 percent share. Oil Search, which has been operating in Papua New Guinea since 1929, holds 29 percent. Australian, Japanese and Papua New Guinea companies hold the rest. Marketing is handled by ExxonMobil for all the partners.

LNG imports by Japan, South Korea and China dropped 5% in 2015

(U.S. Energy Information Administration; Aug. 24) - Japan, South Korea and China are the three largest importers of liquefied natural gas in the world, accounting for more than half of global LNG imports in 2015. Combined LNG imports in these countries averaged 18.2 billion cubic feet per day in 2015, a 5 percent decline from 2014 and the first annual decline in these countries' combined LNG imports since the global economic downturn in 2009, according to U.S. Energy Information Administration numbers.

Declines in LNG imports in these countries were only partially offset by increasing LNG imports elsewhere in Asia. Imports in India and Taiwan, the fourth- and fifth-largest LNG importers, respectively, increased slightly in 2015. However, most of the increase in imports came from emerging Asian LNG markets, such as Malaysia, Singapore, Thailand and Pakistan, the EIA reported.

In Japan, South Korea, and China, reduced demand for gas in the power sector, driven by slower economic growth and lower-priced competing fuels, resulted in reduced LNG consumption in 2015. Japan's electricity consumption has fallen for five consecutive years, and nuclear generation is gradually returning to service, likely reducing natural gas use for electricity generation. In Korea, government policies that favor coal and nuclear over gas for power generation led to more use of coal-fired and nuclear plants.

Australian construction contractor sues over claim on Gorgon LNG

(Petro Global News; Aug. 23) - An Australian construction firm has reportedly filed a billion-dollar lawsuit against Chevron for a cost dispute tied to the Gorgon LNG project. CIMIC Group told Reuters on Aug. 22 that it has begun court proceedings in the United States to seek up to $1.42 billion from Chevron and KBR Inc., the project manager at Gorgon. Further details about the proceedings have not been disclosed.

The dispute concerns a jetty that CIMIC was commissioned to build at the $54 billion Gorgon LNG project in Western Australia. CIMIC built the jetty as part of a consortium with Italy’s Saipem. According to Business News Western Australia, CIMIC claims that Chevron and KBR altered the scope of the work and conditions for the jetty project, forcing the construction consortium to conduct extra fabrication and transportation work.

CIMIC also claims that the contractors had to provide additional resources to complete the project due to weather-related challenges, Business News added. The jetty project was completed in 2014. Gorgon started LNG production earlier this year. According to Reuters, CIMIC issued a notice of dispute for the construction work in February after the firms disagreed about changes to the project. CIMIC said negotiations under the contract are continuing.

Texas county approves 10-year, 100% tax break for LNG plant

(The Facts; Texas; Aug. 24) - Brazoria County, Texas, commissioners have approved a 10-year, 100 percent property tax abatement for a proposed fourth processing unit at Freeport LNG's liquefaction project at its Quintana terminal. At the same meeting Aug. 23, commissioners approved a seven-year, 100 percent property tax abatement to Praxair for an argon, oxygen, nitrogen and carbon dioxide manufacturing facility it is considering building in Brazoria County.

Precinct 3 Commissioner Stacy Adams was the lone dissenting vote both times, saying he cannot support 100 percent abatements. "I'm not against abatements, I just don't want 10-year, 100 percent," Adams said. "I could have supported five years, and once they're producing we should have had a graduated scale. When a new business comes in there's a cost to the county, and taxpayers need to start receiving part of that income in year six rather than year 11."

Freeport LNG last year started the federal regulatory process to add a fourth train to the gas liquefaction plant and marine terminal that is under construction. The first of the three trains under construction is scheduled to start up in 2018. If it receives regulatory approval and decides to proceed, Freeport said the fourth train could start up by 2021. "The 10-year tax abatement is absolutely critical for Freeport LNG to attract our export customers and secure financing," said Freeport commercial director Lance Goodwin.

Tanzania president tells companies to speed up plans for LNG project

(Reuters; Aug. 22) - Tanzanian President John Magufuli ordered officials on Aug. 22 to speed up long-delayed work on a proposed liquefied natural gas export plant, saying implementation of the project had taken too long. BG Group, recently acquired by Shell, alongside Statoil, ExxonMobil and Ophir Energy, are looking at building a $30 billion onshore LNG export terminal in partnership with the state-run Tanzania Petroleum Development Corp. by the early 2020s.

But a final investment decision has been held up by government delays in issues relating to acquisition of land at the site and establishing a legal framework for the country's nascent hydrocarbon industry. "I want to see this plant being built, we are taking too long. Sort out all the remaining issues so investors can start construction work immediately," the president said. The government has acquired 5,000 acres for the project. Tanzania’s gas reserves are estimated at more than 50 trillion cubic feet.

Magufuli, a reformist who took office in November, has sacked several senior officials for graft and cut spending he deemed wasteful. The president's office said Magufuli issued the instructions for the LNG project to be fast-tracked during talks with Oystein Michelsen, Statoil's Tanzania country manager, and senior Tanzanian government energy officials. The president’s office did not provide a schedule for the project.

Researchers see LNG growth potential to fuel power plants in Africa

(Bloomberg; Aug. 19) – Sub-Sahara Africa holds the highest potential to become a niche market for liquefied natural gas to feed power plants as the world faces a growing surplus of the fuel, according to U.K.-based BMI Research. Ivory Coast, Ghana and South Africa are the most likely destinations for LNG in the region, the analysts wrote Aug. 18. As most of the countries have limited domestic consumption and infrastructure, integrated LNG-to-power projects could be an anchor for wider demand, BMI said.

“In the face of reduced offtake from traditional [LNG] buyers” in northeast Asia, sub-Sahara Africa holds potential as a new market, BMI said. "Government support through pricing and offtake agreements is crucial for long-term gas import growth.” South Africa created a gas industrialization unit in May that will initially focus on LNG imports as part of a gas-to-power program to add 3,126 megawatts of capacity by 2025. Ghana this year signed a deal for construction and operation of LNG storage and regas facilities.

Korea Gas may build LNG import terminal on Mexico’s Yucatan

(Interfax Global Energy; Aug. 23) – Korea Gas is banking on continued growth of the energy-hungry tourist industry in the Yucatán Peninsula in southeastern Mexico, experts have told Interfax Natural Gas Daily. The South Korea state-owned company has signed a preliminary agreement to build an LNG import terminal north of Yucatán’s capital, Merida.

The agreement, signed between KOGAS and the Yucatán government on Aug. 9, will entail building a regasification facility and associated pipeline infrastructure in Progreso, a fast-growing port city on the Gulf of Mexico. The agreement includes the construction of gas pipelines from Progreso to both Merida and Cancún, a Caribbean resort that attracts about 3.3 million tourists per year. However, KOGAS will only proceed with the project if there is sufficient gas demand from the region.

Regional energy demand is poised to soar, Juan Carlos Collado, a senior lawyer at Mexico City-based firm Huacuja Betancourt y Haw Mayer Abogados, told Interfax Natural Gas Daily. Collado said Cancún and the Riviera Maya — the stretch of Caribbean coastline on the northeastern Yucatán Peninsula — is the fastest-growing region in Mexico. Mexican authorities favor an LNG import terminal because building new pipelines to supply the region may increase end-user power prices, Collado said.

First U.S. LNG cargo arrives in China

(Platts; Aug. 22) - The first cargo of U.S. LNG to target the world's biggest LNG demand center in northeast Asia arrived Aug. 22 at the Chinese port of Yantian, according to cFlow, Platts trade-flow software. The Maran Gas Apollonia was the 19th cargo of LNG to load from the Sabine Pass export facility in Louisiana, but the first to reach northeast Asia since the plant loaded its first cargo in February this year.

The Shell-controlled vessel was previously expected to deliver into Latin America but changed course and headed for Asia in late July. Exports to the key markets of China, Japan and South Korea were made considerably more economical with the opening of the expanded Panama Canal last month. The Maran Gas Apollonia was the first LNG tanker to transit the newly expanded canal.

Previous cargoes from Sabine Pass have been sent to South America, the Mideast and South Asia, with most going to South America. Just two ships from the Cheniere Energy plant have so far made it to Europe — one to Portugal and one to Spain. But with start-up of the second train at the end of July, it’s expected that more Sabine Pass LNG will make its way to Europe. Spain's Gas Natural has a 20-year offtake agreement for LNG from Train 2. Shell has a contract to take 3.5 million metric tons a year from Train 1.

U.S. LNG volumes could create a futures market, Citi analysts say

(Bloomberg; Aug. 23) - A rapidly approaching future in which shale gas-filled tankers off the coast of Texas and Louisiana are sent all over the world could create a liquefied natural gas futures market in the U.S. for buyers, sellers and traders. Such an easily dispatched armada, which could begin to form next year, would link prices between the U.S. Gulf Coast and other markets like Japan and the U.K., providing the basis for a LNG futures contract, Citigroup analysts including Ed Morse said in an Aug. 22 note.

“What appears to be unfolding into next year is a seismic change in the functioning of the global LNG market,” Morse said in the report. “The U.S. Gulf Coast is likely to begin to emerge as a major, if not the major, gas trading hub in the world, with cargoes being lifted and awaiting direction.” The LNG industry is in the midst of transforming into a vibrant trading market after decades marked by staid dealing where buyers and sellers engaged in long-term contracts, with little spot trading.

Energy companies and merchants have ramped up spot trading in recent years, first to take advantage of high demand following Japan's nuclear shutdowns in 2011, and more recently to try to minimize losses on long-term buys in an oversupplied market. There are several key factors that support a trading hub developing on the Gulf Coast, Morse said. U.S. LNG exports will increase by 43 million tons a year in the next three years, or 18 percent of global trade last year, according to Bloomberg News. And unlike much of the world's LNG, buyers that take gas from U.S. export terminals are free to resell it.

B.C. natural gas minister believes LNG industry 'is going to happen'

(Business in Vancouver; Aug. 19) – B.C. Natural Gas Minister Rich Coleman said he remains bullish on the province's LNG prospects despite a string of setbacks and delays. "I don't think anybody should step back and say LNG might never happen," he said in an interview during a visit to Dawson Creek last week for a political fundraiser. "It's going to happen." Creating an LNG export industry was a key promise of his party in the 2013 provincial election. Since then, however, there has been little good news.

Prices took a nosedive in late 2014 due to a global LNG supply glut. Since mid-2015, the jobless rate in Northeast B.C. has climbed as oil and gas companies lay off workers. In February, the province recorded its first-ever $0 oil and gas land sale. Proposed LNG projects are increasingly marginal at the low prices. At least two of the 20 plants proposed for B.C.'s coast have been shelved. Meanwhile, Pacific NorthWest LNG, the presumed frontrunner led by Malaysia's Petronas, has been delayed by its federal environment review. Coleman said he expects a federal Cabinet decision in a month.

Northeastern B.C. towns hit hard by natural gas slowdown

(Business in Vancouver; Aug. 23) - A year and a half ago, unemployment figures for the Peace region in northeastern B.C. were so low they couldn't be reported. Today, the area has the highest unemployment rate in the province. Housing starts in Fort St. John and Dawson Creek have plummeted, and Fort Nelson is being hit with heavy job losses and businesses closures. It's mostly due to uncertainty in developing a liquefied natural gas industry. The region has expected to supply gas to export plants on the coast.

Northeastern B.C.'s unemployment rate climbed to 8.8 percent in July 2016 from 6.4 percent in July 2015, according to Statistics Canada. In March 2016 it hit 9.7 percent. In Fort St. John, new housing starts dropped to 68 this year from 250 in 2015's first half. In Dawson Creek, new housing starts fell to just three in 2016's first half from 36 in 2015's first half. The economic contraction is the direct result of a dramatic slowdown in the natural gas sector, hit by low prices and a global oversupply of LNG.

In June 2014, an average 27 oil and gas rigs were at work in B.C., according to the Canadian Association of Oilwell Drilling Contractors. In June 2016, there were just seven. Each rig employs roughly 20 workers directly and an additional 115 indirectly, according to the association. That's not counting all the retail and service jobs generated in towns. "Devastating" is how Fort Nelson Mayor Bill Streeper describes the impact that a stalling liquefied natural gas industry has had on his town.

TransCanada hopes rate cut will draw more gas line shippers

(Bloomberg; Aug. 22) - TransCanada is hoping that giving up a few cents on its natural gas main line tolls will go a long way in convincing energy producers to sign up for long-term contracts. The pipeline operator has lowered the rate it would charge companies to transport gas on its system from Alberta to Ontario on a 10-year term to 82 Canadian cents per gigajoule (about 60 U.S. cents per 1,000 cubic feet), down from a range of 85 to 90 Canadian cents, if it can lock in almost 1.9 billion cubic feet a day of volumes.

The added discount is part of a toll reduction of 40 to 50 percent from current rates that TransCanada is offering to attract more long-haul supplies under long-term contracts. "We're out working the street right now," Stephen Clark, TransCanada's senior vice president of Canadian and eastern U.S. gas pipelines, said Aug. 19. The company is pitching the offer to producers to build support ahead of a bidding process planned for the fall, he said. The intent is to better compete with U.S. shale gas coming to Canada.

A wave of U.S. supplies moving into Central Canada is threatening TransCanada's main line and Western Canadian gas producers that have long sought reduced pipeline rates as they try to retain their traditional market. Some of Canada's biggest producers have said they're considering doing deals with TransCanada. The long-term contracts being discussed would increase gas volumes from Empress, Alberta, to Dawn, Ontario, on the Canada-only main line and Great Lakes system, which dips into the U.S. before reaching Ontario. The changes would not affect tariffs for existing services.

Gas storage restrictions could pinch supplies in Southern California

(Bloomberg; Aug. 22) - California is looking at capping the amount of gas burned by power plants this winter, exploring the potential for liquefied gas imports and monitoring oil refiners' use of the fuel as a historic leak last year continues to threaten the state with gas supply shortages. The state needs to take such measures immediately to help avoid service disruptions during the winter heating season, the staffs of the state's utilities commission, energy commission and power grid operator said in a joint report.

While Sempra Energy plugged a massive gas storage leak near Los Angeles in February, use of its Aliso Canyon complex, California's biggest gas storage field, remains restricted. The state has warned that the restrictions could put the Los Angeles region at risk of short-term blackouts for as many as two weeks this summer. Sempra said earlier this month that it expects to start putting gas back into Aliso Canyon by the end of September.

"The actions identified in this winter action plan will reduce the risk, but will not eliminate it," the agencies said in the Aug. 22 report. While weather uncertainty and restricted use of the storage field still pose risks, energy conservation and other measures should help meet the region's needs, the agencies said. The report said Sempra has "indicated interest" in delivering liquefied natural gas to its San Diego Gas & Electric system from its LNG import terminal at Costa Azul, Mexico, but expressed concern that affiliate rules may prevent this. The agencies recommended investigating any such impediments.

Debt load at Exxon, Shell, BP and Chevron double 2014 level

(Wall Street Journal; Aug. 24) - Some of the world's largest energy companies are saddled with their highest debt levels ever as they struggle with low crude prices, raising worries about their ability to pay dividends and find new barrels. ExxonMobil, Shell, BP and Chevron hold a combined net debt of $184 billion — more than double their debt levels in 2014 when oil prices began a steep descent that eventually bottomed out at $27 a barrel earlier this year. Oil prices have rebounded since, but still hover near $50.

The soaring debt is a fresh reminder of the toll the two-year price slump has taken on the industry. Just a decade ago, the companies were hauled before Congress to explain "windfall profits," but now can't cover expenses with normal cash flow. Executives at BP, Shell, Exxon and Chevron have assured investors they will generate enough cash in 2017 to pay for new investments and dividends, but some shareholders are skeptical.

"Eventually something will give," said Michael Hulme, manager of the $550 million Carmignac Commodities Fund, which holds stakes in Shell and Exxon. "The companies won't be able to maintain the current dividends at $50 to $60 oil — it's unsustainable." The debt is piling up despite cuts of billions of dollars on new projects and current operations. Repaying the loans could weigh the companies down for years, crimping their ability to make investments elsewhere and keep pumping ever more oil and gas. "They are just not spending enough to boost production," said Jonathan Waghorn, co-portfolio manager in London at Guinness Atkinson Asset Management.