Oil and Gas News Briefs
Compiled by Larry Persily
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Japan's biggest LNG buyer wants more contract flexibility

(Reuters; Aug. 8) - Japan's Jera, the world's biggest importer of liquefied natural gas, is raising the pressure on exporters to allow it to resell gas it has to take under long-term supply contracts. Most LNG contracts forbid importers from reselling their cargoes under so-called destination clauses. But, soaring supply, especially from Australia and the U.S., and slumping demand has importers unable to absorb their contracted volumes. As a result, they are seeking more flexibility, including reselling their surplus.

Jera, a joint venture between Tokyo Electric Power and Chubu Electric Power, took over the companies' fuel contracts last month, with an annual offtake totaling 40 million metric tons. Jera's Chief Fuel Transactions Officer Hiroki Sato said he does not want to have any further discussions involving destination clauses with producers. "I'm aiming to have destination clauses out of the discussions." Sato is keen to see Japan's big LNG importers join together to put pressure on exporters and extract more beneficial terms.

To strengthen Japan's negotiating position, he would welcome if Tokyo Gas and Kansai Electric merged LNG buying like Jera to further consolidate Japan's procurement. As opposed to the contracts from most new Australian projects, U.S. LNG is priced off domestic spot markets — without destination restrictions. Less than 10 percent of Jera's contracted supplies are completely destination free. The majority come with conditions such as profit-sharing of re-sold gas or an obligation to seek sellers' approval. To get more LNG without destination clauses, Jera plans to take more stakes in U.S. projects.

Petronas will conduct 'total review' of B.C. LNG project before FID

(Globe and Mail; Canada; Aug. 4) - Malaysia's state-owned Petronas said it expects to make up its mind whether to construct a liquefied natural gas plant and export terminal near Prince Rupert, B.C., after it studies a crucial ruling pending from the federal Cabinet. Petronas said it will start a comprehensive review of the Pacific NorthWest LNG joint venture when the Canadian Environmental Assessment Agency completes its report into plans to build the project.

Canada's environmental regulator is slated to post its final report by early October and, at the same time, announce the federal Cabinet's decision on the terminal to be built on Lelu Island in northwestern B.C. The timetable paves the way for the Malaysian energy giant and its partners to make a final investment decision by the end of 2016. Industry experts also say Petronas could delay that decision if it needs more time to scrutinize the Cabinet's conditions and the project's viability in a world of low LNG prices.

"Upon the finalization of the [environmental assessment] report, we need to conduct a total review of the proposed project prior to tabling it to the project's partners for a final investment decision," Petronas said. The weak state of the global LNG industry has cast doubt on all 20 proposals to export the fuel from British Columbia. Several industry observers say the Petronas-led project represents the best chance for the province to play a significant role in the global LNG market.

Indonesian banks assist with financing LNG plant expansion

(The Jakarta Post; Aug. 4) - For the first time in Indonesian history, a number of state-owned banks are teaming up to provide a hefty commercial loan for a major oil and gas project. On Aug. 3, BP and Indonesia's Upstream Oil and Gas Regulatory Special Task Force (SKKMigas) signed a loan agreement worth $3.74 billion with a consortium of international and domestic banks to partially fund expansion of BP's Tangguh liquefied natural gas plant in West Papua, which has been operating since 2009.

Domestic financial institutions involved in the agreement are state-owned lenders Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia and infrastructure financing company Indonesia Infrastructure Finance, all committed to jointly provide $100 million of the total loan. The Tangguh expansion project, estimated at about $8 billion, will add a third gas liquefaction train, with a production capacity of 3.8 million metric tons per year, bringing total plant capacity to 11.5 million tons a year.

Construction will start in October and the new unit is expected to start up in 2020. Up to 75 percent of the LNG produced by the expansion will be sold to state-owned electricity company PLN to support the government's electrification program. Among international lenders providing loans are Japan's Mizuho Bank, Bank of China, China Construction Bank and France's BNP Paribas. The expansion project will also receive loan facilities from the Japan Bank for International Cooperation and a number multilateral agencies.

Middle East, North Africa seen as growth market for LNG imports

(Bloomberg; Aug. 4) - Countries in the Middle East and North Africa led by Egypt, Kuwait and Morocco are boosting their liquefied natural gas import capacity, taking advantage of low prices to meet their rising energy demand. The region plans to add permanent terminals and temporary offshore receiving stations that will increase annual import capacity by 2 trillion cubic feet of gas as LNG by 2021, Saudi Arabia-based energy lender Arab Petroleum Investments Corp. said in a report.

That would more than double the region’s 1.4 tcf of annual import capacity at the start of 2016, according to a March publication of the International Group of Liquefied Natural Gas Importers, a Paris-based industry group. New output from Australia and the U.S. is adding to a global LNG supply glut, dragging down LNG spot-market prices to one-third of 2014 levels. Growing demand and a lack of cross-border pipelines in the region are making the Middle East and North Africa a growth market for the fuel.

The region will account for 6.5 percent of global LNG demand by the end of 2017, up from about 1 percent in 2013, according to Arab Petroleum Investments Corp. Lower prices should "incentivize new MENA (Middle East, North Africa) importers to do more to ensure they do not miss the opportunity to install import infrastructure and sign cheap and flexible LNG deals,” the investment corporation said. The region will invest about $10.3 billion in importing facilities in the “medium term” to meet growing demand.

Report says Eni is selling stake in Mozambique gas play to Exxon

(Reuters; Aug. 5) - Italian oil firm Eni has wrapped up long-running talks to sell a multibillion-dollar stake in its planned Mozambique liquefied natural gas development to ExxonMobil, two sources with knowledge of the matter said. "The deal is done but won't be announced for several months at Exxon's request," one of the sources said. Eni declined to comment, while a spokesman for Exxon said, "We do not comment on market rumors or speculation.”

The offshore reserves discovered by Eni in Area 4 are big enough to need a giant land-based LNG plant whose proximity to Asian and Middle Eastern growth markets makes it potentially a lucrative project. But talks to bring in a technically savvy partner with deep pockets like Exxon have dragged on due to differences over value, in light of falling oil and gas prices. In 2013, Eni sold 20 percent of its license to China National Petroleum Corp. for $4.2 billion but since then oil and gas prices have fallen by more than half.

However, last year Mozambique awarded Exxon three offshore exploration license blocks of its own just south of Eni's discoveries, giving a new dimension to development prospects. Eni has been reluctant to sell too much of its 50 percent stake in the Area 4 permit where as operator it has already found 85 trillion cubic feet of gas. But in recent weeks, Eni Chief Executive Claudio Descalzi has raised the possibility of selling up to a 25 percent stake, an increase from the 10 to 15 percent previously on offer.

Indian power generator says LNG costs still too high

(Bloomberg; Aug. 4) - State-run NTPC, India’s biggest power producer, is seeking to terminate a long-term supply contract for imported liquefied natural gas because it says the fuel is too expensive to be used in power generation, according to sources. The

New Delhi-based generator has written to state-run GAIL India, which supplies the imported fuel through its affiliate Petronet LNG, saying it has become impossible to honor the contract because NTPC is unable to sell the power it generates from the fuel.

NTPC signed a 20-year contract with GAIL in 2009 to buy about 70 million cubic feet of gas per day. The contract dispute highlights the country's difficulty in switching from coal to gas for power generation, undermining Prime Minister Narendra Modi's efforts to cut carbon emissions. Transportation costs and taxes offset the 27 percent decline in spot LNG prices in the past year, adding about $2 per million Btu to the cost for deliveries to NTPC's three largest gas-fired power plants in the northern part of the country.

"In India's power sector, gas will find it difficult to weaken the dominance of coal in the next few years," said Abhishek Kumar, an analyst at Interfax Energy's Global Gas Analytics in London. "Regasified LNG is still not cost-competitive with coal, after local transportation costs and taxes are taken into account. India needs to improve its gas-pipeline infrastructure substantially to boost the popularity of gas in the power sector."

Vietnam makes move to boost LNG imports

(Nikkei Asian Review; Aug. 4) – Government-owned PetroVietnam Gas set up a liquefied natural gas subsidiary Aug. 1 to import and distribute LNG in Vietnam starting in 2019. The new company, LNG Vietnam, is a joint venture involving three investors. Oil and gas producer and distributor PetroVietnam Gas will hold a 51 percent stake. Vietnamese private-sector conglomerate Bitexco will hold 39 percent and Japan's Tokyo Gas Asia 10 percent.

LNG Vietnam will manage "all LNG facilities in the country, to import, export and distribute products in order to meet domestic demand and trade with other countries in the region," according to the company's founding documents. Although Vietnam is currently self-sufficient in natural gas, the government plans to import and distribute LNG for power plants and industrial users to meet growing demand. The country early this year announced plans to build six LNG storage facilities by 2020.

PetroVietnam Gas predicts a supply gap, particularly in southeastern Vietnam, forecast at more than 200 billion cubic feet a year within the next four years. That is expected to rise to more than 500 bcf a year by 2025 as consumption outpaces domestic production. At present, a pilot LNG project is importing limited volumes. PetroVietnam is developing two LNG regasification terminals. VietNam Electricity, which consumes more than 80 percent of PetroVietnam's output, is building new gas-fired power plants.

Tacoma LNG plant faces multiple battles before construction can start

(Tacoma Weekly; Aug. 4) - Puget Sound Energy's planned liquefied natural gas facility on the Tacoma, Wash., tideflats is facing challenges from state regulators, possible legal challenges and rising calls for additional environmental review by citizens critical of the project. The company has most of the permits required to start construction of the $275 million facility to produce and store LNG for fueling container ships and other commercial transportation customers seeking lower-emission fuels.

Construction could start later this year if the remaining permits come through and legal challenges fail to stop the project. The facility could open in 2019. But the timeline could change. Washington Utility and Transportation Commission staffers and legal staff object to the company's request to avoid state regulation of its LNG rates to container shipping companies. And the Puyallup Tribe of Indians has sought more environmental review of potential run-off from the site leaking into waterways.

In another hurdle, a hearing on Puget Sound Energy's appeal of a lower court decision regarding the release of emergency response scenarios to the environmental group RedLine Tacoma won't reach a courtroom until early 2017. The city of Tacoma and a Superior Court judge have already determined the information should be released as public documents. The company contends that making the information public would make the plant vulnerable to terrorist attacks and should therefore remain secret.

U.S. gas consumption for power generation hits record high in July

(U.S. Energy Information Administration; Aug. 3) – U.S. consumption of natural gas for power generation, which has been very high throughout 2016, hit its highest daily level on record July 21, reaching 40.9 billion cubic feet per day. The daily power burn surpassed the 40 bcf threshold on three days in late July as widespread hot weather led to strong demand for air conditioning, according to the U.S Energy Information Administration.

July gas consumption for power generation averaged 2.7 bcf a day more than in 2015. No part of the Lower 48 states was immune to heat, as highs reached into the 90s throughout most areas of the country. Low natural gas prices and growth in gas power generation infrastructure are the main driving factors behind this summer's growth in gas consumption.

Crowley adds another customer for containerized LNG to Puerto Rico

(MarineLink.com; Aug. 4) - Crowley Maritime said its liquefied natural gas services group has been awarded a multi-year contract to supply containerized LNG from the U.S. mainland to Molinos de Puerto Rico, the Caribbean arm of Ardent Mills, a supplier of flour, wheat, corn and rice-based food ingredients. The contract includes both the supply and transportation of LNG.

The transportation of LNG from liquefaction facilities on the mainland to the Molinos' plant will be managed by Crowley, which will coordinate the transport of 40-foot containers, authorized by the U.S. Department of Transportation to carry approximately 10,000 gallons of LNG each to the company's Jacksonville, Fla., shipping terminal, where the containers will be loaded onto company-owned vessels for Puerto Rico.

Upon arrival, Crowley will deliver the LNG to the customer's facility. There, the LNG will be regasified and used for power generation. Molinos de Puerto Rico joins several other Crowley customers receiving containerized LNG, including a Coca-Cola bottler.

Alberta landowners lose out when producers stop payments

(Calgary Herald; Aug. 6) - Lana Bulger's barley and hay farm in southern Alberta is a sprawling expanse of green fields scarred by a dirt road that leads to a swath of cleared land where a natural gas well is surrounded by a steel fence. Like any other private landowner sitting on top of oil and gas fields in the province, Bulger had no choice but to allow drillers onto her property in 2006. The trade-off was the $3,300 payment every March from gas production revenues, compensating her for the land access.

This year, the check never came. Bulger has now joined 400 other landowners and counting who are demanding cash from Lexin Resources, a Calgary company that decided last fall to stop making lease payments. While Lexin is at the center of a rising number of complaints, the company is not alone. As sagging oil prices continue to leave Alberta in a recession, record numbers of landowners claim they have not been paid by resource operators — many of which have fallen short of their cash-flow needs.

The province's Surface Rights Board, responsible for recovering lapsed payments from oil and gas companies, has already received more than 1,200 applications from landowners seeking compensation this year. That's well above the record-breaking tally of 760 requests the board handled in all of 2015. The board estimates it will get 1,600 applications by the end of the year totaling more than $3 million in overdue payments. The company did not respond to requests for comment this week.