Oil and Gas News Briefs
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December 8, 2016

Mozambique says contract changes will help make LNG project viable

(Reuters and Interfax Global Energy; Dec. 7) - Mozambique has approved changes to contracts with Anadarko and Italy's Eni to allow the companies to sell the government's share of gas from proposed Rovuma Basin LNG projects. "The government opted to relinquish its right to receive in-kind its quota of gas as well as the gas production tax. The aim is to turn the projects viable," a government spokeswoman said Dec. 6.

"The concessionaires commit themselves to a joint-sale of liquefied natural gas in order to offer huge volumes and get better prices," the spokeswoman said. The contracts cover Anadarko's Dolphin Tuna project and Eni's South Coral project. Eni is expected to make a final investment decision this month; Anadarko's decision is expected next year.

The decrees approved by the Council of Ministers update exploration and production contracts awarded a decade ago for the two blocks. The original contracts were drafted assuming oil would be found, and the contracts have been updated to promote gas and LNG development. The government confirmed that it wants the Anadarko-led consortium to pay the petroleum production tax of 6 percent in cash rather than in-kind.

The new agreements will help "obtain financing," the spokeswoman said. State-owned oil and gas company ENH plans to finance its minority stake by taking loans from its partners and repaying them from its share of the profits. Raising the debt was always going to be a challenge in a frontier market, but today's environment — with oil prices and LNG demand low — is especially tough. Mozambique is effectively bankrupt after the government guaranteed $2 billion in debt to quasi-state-owned maritime security companies that it cannot pay back, which has made lenders even more cautious.

LNG expansion may save money over newbuild in Papua New Guinea

(Bloomberg; Dec. 7) - In a country that offers producers some of the cheapest natural gas in the world, liquefied natural gas project developers are still looking for ways to reduce costs. The Total-led LNG project proposed in Papua New Guinea may instead export its gas via an expansion of ExxonMobil's existing PNG LNG facility to avoid the expense of building a new plant, Prime Minister Peter O'Neill said.

While the cost of developing the country's gas resources are about half those of neighboring Australia, building a multibillion-dollar liquefaction plant may not be viable in an era of low oil prices, he said Nov. 7. "We need to continue to maintain a competitive edge in our country by maintaining cost levels that will ensure the project gets off the ground," O'Neill said. "If there are areas where we can save costs including sharing the infrastructure there already in the current LNG project, we are quite happy to go along."

A global LNG supply glut has pushed prices down by more than 60 percent in the past three years, raising the question of how quickly more LNG supplies will be needed. Buyers have shied away from long-term agreements that have historically helped fund new projects. The PNG LNG project, operated by ExxonMobil, began production in 2014 with a capacity of 6.9 million metric tons per year. Exxon is also set to become a major shareholder in the Total-run venture due to its impending takeover of InterOil. Total said it hasn't ruled out a separate greenfield LNG development, and needs to explore the economics of instead supplying gas to an expansion of Exxon's LNG plant.

Japanese LNG buyer may partner on sales with Qatari company

(Reuters; Dec. 5) – One of the world's largest buyers of liquefied natural gas is considering diverting cargoes originally planned for domestic consumption in Japan to instead help a Qatari company develop new demand centers as the industry explores more ways to absorb a global oversupply of LNG. Tokyo-based Jera Co. signed an agreement last month with Qatar's Nebras Power to invest in overseas power plants.

Jera sees an option in potentially diverting cargoes it receives from state-owned Qatargas, said Hiroki Sato, a senior executive vice president with Jera. Qatargas also would sell its own LNG to the new power plants. "If you invest in a project together there are no winners or losers — just partners," Sato said Dec. 2. "By increasing partnerships, we are developing the entire industry." Jera is a joint-purchasing venture of Tokyo Electric Power and Chubu Electric Power.

LNG producers are taking stakes in downstream assets like pipelines and power plants to secure demand in an industry where Northern Asian spot LNG prices have fallen more than 60 percent from a peak in February 2014 amid a glut. Those same producers would benefit by allowing buyers, such as Jera, more flexibility to resell cargoes because it will make the market more efficient and stimulate demand, Jera chairman Hendrik Gordenker said Dec. 1. Japan is expected to have an LNG surplus by the end of the decade and companies are looking to find customers for their excess cargoes.

Japanese LNG importer buys first cargo from Louisiana plant

(Reuters; Dec. 8) - Japan's Jera Co., the world's biggest importer of liquefied natural gas, said Dec. 8 it made its first-ever purchase of LNG from the Lower 48 U.S. states, as part of its goal to diversify supplies. Jera, a fuel joint-venture between Tokyo Electric Power and Chubu Electric Power, said it bought the LNG from Cheniere Marketing but did not give pricing details. Cheniere Marketing’s parent company operates the first LNG export plant built on the U.S. Gulf Coast.

LNG loading at the Sabine Pass terminal in Louisiana into the LNG carrier Oak Spirit was completed Dec. 7. Industry sources said this is likely Japan's first import from the Cheniere project. The vessel, which will pass through the Panama Canal, will arrive at Chubu Electric's Joetsu LNG terminal in early January, a Jera spokesman said. Chubu Electric in 2014 signed a short-term contract with Cheniere to buy 700,000 metric tons of LNG from the Sabine Pass project July 2016 through January 2018.

"Going forward, Jera will establish an LNG procurement portfolio that can flexibly respond to changes in the business environment by increasing its procurement ratio of LNG that is free from destination restrictions, through projects such as the Freeport LNG project in the U.S.," Jera said in a statement. The Freeport terminal is under construction in Texas, and scheduled to open in 2018.

Gulf Coast LNG hopeful delays investment decision, maybe until 2018

(Argus Media; Dec. 6) - The U.S. Gulf Coast Magnolia LNG export project has pushed back its planned final investment decision to 2017 and possibly into 2018. Magnolia, which would be built near Lake Charles, La., had planned to make an investment decision this year. The delay is another sign that low oil prices and an oversupplied market have weakened the economic prospects of U.S. LNG exports.

The developer behind Magnolia LNG, Australia's Liquefied Natural Gas Ltd., said it now hopes to sign enough long-term capacity deals to make an investment decision in 2017, but some of that work may spill into 2018. The Magnolia project would include four smaller liquefaction trains, with a combined capacity of 8 million metric tons per year. Magnolia hopes to sell all the capacity before making an investment decision.

The project has its construction and export permits, but slumping prices since mid-2014 have made it difficult for U.S. LNG export projects to secure customers needed to obtain financing. The developer expects to fund 70 to 75 percent of the project cost with loans.

Petrochemical plant incentives will cost Alberta $500 million

(Financial Post; Canada; Dec. 5) – Alberta will hand out $500 million in royalty credits to two pipeline companies planning to build propane-to-plastics plants in Alberta, but an economist warned that credits are an expensive way to create jobs. Alberta Energy Minister Marg McCuaig-Boyd and Economic Development Minister Deron Bilous announced the subsidies for two petrochemical plants Dec. 5 to diversify the province’s energy industry and encourage the construction of more downstream projects.

The government will give Calgary-based Pembina Pipeline and its Kuwait-based partner Petrochemical Industries $300 million in credits to build a facility by 2021 that will turn propane into propylene and then into polypropylene, which is used to make plastic items like cups. The plant is estimated to cost of $3.8 billion to $4.2 billion. The province is also giving Inter Pipeline, also based in Calgary, $200 million to build a $1.85 billion propylene facility that is expected to break ground next year.

The projects are expected to create 245 direct permanent jobs in Alberta, and an additional 1,225 indirect permanent jobs. University of Calgary economics professor Trevor Tombe called the subsidies “a pretty expensive way to create employment.” For the direct jobs, he said, “You’re looking at over $200,000 per job in subsidies.” Tombe, who has been an outspoken critic of the program since it was announced in April, said, “If these facilities make sense, then they wouldn’t need these subsidies.” The provincial government, however, said the province has to lure petrochemical projects to Alberta from Texas and Louisiana, where existing incentive programs are already in place.

Domestic prices in Australia higher than LNG export netback

(Australian Business Review; Dec. 6) – East Coast Australia natural gas producers are making more money selling into domestic spot markets than selling their gas as LNG, with domestic prices rising to levels necessary to compete with export sales. Consultants EnergyQuest said the short-term LNG netback price — the LNG price less the price of liquefaction — at the Wallumbilla hub in Queensland slipped below the spot price of gas in Adelaide, Brisbane and Sydney during the third quarter of 2016.

EnergyQuest said spot prices in Adelaide rose to near $9.50 per million Btu and Sydney just under $8. The LNG netback at Wallumbilla was about $6 as Australian LNG projects on both sides of the country ramp up and put more supply into the global market that doesn’t need it and isn’t willing to pay too much. This means LNG producers are prepared to divert gas planned for export to domestic users. Three East Coast LNG plants have opened in the past two years, with three underway on the West Coast.

“There will be significant interplay between the LNG plants and the domestic market, with Queensland Curtis LNG in particular able to act as a swing producer into the domestic market when domestic prices are high,” said EnergyQuest managing director Graeme Bethune. “This quarter we have seen the LNG netback price at Wallumbilla trend below all of the (domestic) short-term trading market prices for the first time.”

Mexico a booming market for U.S. natural gas

(CNBC; Dec. 3) – As President-elect Donald Trump confronts major policy issues with Mexico over tighter immigration controls and possibly renegotiating the North American Free Trade Act, there's something already flowing across the border that is proving its weight in gold to both countries. Vast amounts of U.S. natural gas, a product of the shale revolution, is being shipped in increasing volumes to feed Mexico's burgeoning gas demand.

In the wake of its 2013 energy reforms, Mexico has been reshaping its oil and gas sector, with much of its energy needs being met by U.S. producers. Last year, Mexico's Energy Ministry set a goal to triple its gas imports from the U.S. over five years as part of a plan to bolster its own energy infrastructure. Citing that demand growth, the U.S. Energy Information Administration said this week that U.S. pipeline capacity south of the border was 7.3 billion cubic feet per day — and that could double within a few years.

"The expansion of the U.S. cross-border pipeline network into Mexico has been driven primarily by strong growth in Mexico's natural gas demand in the power sector, declining domestic production and the lower prices of U.S. pipeline gas compared with more expensive liquefied natural gas imports," the EIA wrote in a blog post on its website. Just from the Eagle Ford shale formation in Texas alone, gas shipments to Mexico are projected to hit 3.4 bcf a day by 2020, according to a Texas state report last year.

India wants LNG buyers to join hands for better contracts

(The Financial Express; India; Dec. 6) – India, the world's fourth-largest buyer of LNG, wants liquefied natural gas importers like Japan and South Korea to join hands for more "equitable" deals on the fuel. India and Japan in 2013 set up a multilateral group of LNG buyers to push for lower prices and New Delhi is now seeking other importers to join up.

"A number of large Asian LNG buyers including India could benefit by joining hands and thereby bringing in more equitable trade deals," said Oil Minister Dharmendra Pradhan. After joining ranks with Japan, India is keen to rope in South Korea and possibly also China in the buyers' club. "We have also seen that LNG contracting mechanism is changing with short-term contracts growing and replacing long-term contracts," he said adding that analysts believe it will be a buyers' market for a while.

India wants to turn an oversupply of LNG to its favor as it seeks to increase its use of natural gas in its energy mix to 15 percent from the current 6 percent in an attempt to reduce its dependence on crude oil imports and reduce pollution.

U.S. exchanges plan to launch market for LNG futures contracts

(Wall Street Journal; Dec. 6) - Two U.S. exchanges plan to launch derivatives that could make it easier to trade liquefied natural gas, potentially revolutionizing the market in the way that Brent and West Texas Intermediate benchmarks did for oil, sources said. The moves by CME Group and Intercontinental Exchange come as increasing shipments of LNG from the U.S. and elsewhere have helped create a spot, or short-term market, for the commodity.

A spot market makes it easier to launch futures contracts, which would attract a wider pool of investors while offering the sort of real-time prices currently available in oil, gold and other major commodities. Companies and investors use futures markets to speculate on the price of a commodity and to hedge risk against turns in the market.

Currently, buyers and sellers mainly agree to long-term LNG contracts priced off oil, gas that is piped, and price reporting agencies' data. There is no global benchmark for LNG. "You're seeing an evolution toward more market-based (LNG) pricing, but there hasn't been that real consolidation … yet," said Jason Feer, head of business intelligence at consultancy Poten & Partners. Companies have tried before to create LNG pricing benchmarks with limited success. But industry analysts say that the chance of success is greater with an increasingly large spot market.

Gas producers, processors plan major spending in B.C.'s Montney

(Business in Vancouver; Dec. 5) - Despite the weaker global outlook for liquefied natural gas, northeastern B.C.'s Montney region is still banking on significant growth for the new year. "In 2017, all major companies are looking at accelerating budgets to be in the excess of $4 billion," said Colin Griffith, executive director of the Northeast BC Resource Municipalities Coalition. Natural gas liquids and the North American gas market are driving the investments in the rich shale gas region.

Seven Generations Energy plans to increase its Montney-area operations by about 50 percent, spending up to $1.6 billion in 2017 compared with between $1.05 billion and $1.1 billion in 2016. The increase will be invested in the operation of nine rigs drilling about 100 wells in the Montney area. Tourmaline Oil is looking to expand on properties recently acquired from Shell Canada with capital spending of $1.35 billion in 2017. The company is upping its rig program to 17 from 12 and plans to drill 300 wells.

In the past year, three processing facilities have been announced in the Montney area, collectively worth about $2.3 billion. Encana, Spectra Energy and Crew Energy are all building processing plants to handle production of the Montney's natural gas liquids. "In terms of Canada's future growth in gas production, the Montney is a huge part of it," said geoscientist David Hughes. "The price of gas in North America will likely go up, so selling gas to North American markets will be more attractive and LNG less attractive."

Crowley’s Florida LNG facility scheduled to open first-quarter 2017

(Florida Times-Union; Dec. 5) - A million-gallon liquefied natural gas storage facility and liquefaction plant capable of producing up to 200,000 gallons of LNG per day (about 16 million cubic feet of natural gas) were opened for public view Dec. 5, highlighting that the Jacksonville area is becoming more prominent in the LNG industry. The facility is under construction and projected to become operational by the end of the first quarter in 2017. The complex will produce LNG fuel for Crowley Maritime, based in Jacksonville.

Crowley has two ships being built that will run from Jacksonville to Puerto Rico, fueled by LNG. “When we contemplated deciding to go with LNG, the issue we faced a couple years ago was that if you’re going to run a ship, you need a gas station; there was no gas station in Jacksonville,” said John Hourihan, senior vice president and general manager of Puerto Rico services for Crowley. “This is the gas station.”

The facility will produce the LNG, which will be delivered by tanker trucks to marine terminal docks where the Crowley ships will be fueled. The entire project is estimated to cost about $100 million.

Lawsuits unlikely to stop oil sands pipeline, say legal experts

(Vancouver Sun; Dec. 1) - Court challenges by First Nations against Kinder Morgan’s $6.8 billion Trans Mountain oil sands pipeline could slow down the expansion but are not likely to scuttle the project, legal experts said. There are already seven challenges of the National Energy Board approval filed at the Federal Court of Appeal — four from First Nations. More are expected now that Prime Minister Justin Trudeau’s government has given its approval to the 700-mile line to move production to the coast for export.

First Nations’ challenges are considered to hold more heft than those from cities and environmental groups because aboriginal rights are entrenched in Canada’s constitution and mounting court cases have increased Canada’s need to consult and accommodate First Nations. “It could slow things down – that’s really the extent of it,” University of B.C. law professor Gordon Christie said of the First Nation legal challenges. “The kinds of arguments they are making, they don’t have, at this point, what counts as a veto.”

If the courts ruled the First Nations were not adequately consulted, the government and company could pay a penalty with compensation for First Nations, Christie said. Blocking the project with an injunction “is a high threshold to meet,” said Robin Junger, co-chair of the McMillian law firm’s aboriginal and environmental practice in Vancouver. University of Saskatchewan law professor Dwight Newman said he couldn’t rule out an injunction, but it was unlikely. If the courts ruled there had not been adequate consultation, the most likely remedy would be for consultation to take place, he said.