

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### Japan's LNG imports drop 14% in January

(Bloomberg; Feb. 18) – Japan, the world's biggest buyer of liquefied natural gas, said its imports fell the most in almost seven years in January as nuclear reactors have restarted and warm weather cut demand. Shipments to Japan fell 14.1 percent in January, the biggest drop since May 2009, to about 7.2 million metric tons from a year earlier, according to the Ministry of Finance. Since August, Japan has restarted three of its 43 nuclear reactors that were shut following the 2011 Fukushima nuclear disaster.

Also helping to reduce demand for LNG, the country has had warmer-than-normal temperatures the past three months, according to the Japan Meteorological Agency. In addition, Japan's electricity consumption has dropped to the lowest since 1998 amid a shrinking population and more energy efficiency. A decline in Japan's LNG imports may add to a global glut as new export projects start in Australia in the U.S. Prices for the fuel delivered to Northeast Asia have slumped to the lowest in at least five years.

"LNG imports will certainly decline this year as reactors are brought back online," said Junzo Tamamizu, managing partner of Clavis Energy Partners, a Tokyo-based consulting and advisory firm. The nation's increased use of solar power will also continue to reduce LNG consumption for power generation, he said. The government forecasts Japan's LNG demand to fall by about 30 percent by 2030 to 62 million tons from its peak in 2014, in large part due to the restart of more nuclear reactors.

#### Australian LNG producer says buyers delay new long-term contracts

(Bloomberg; Feb. 18) – Australian LNG producer Woodside Petroleum said Asian buyers are delaying signing new long-term supply contracts amid forecasts for a growing glut. "They're being very short-term and opportunistic, and very commercial," CEO Peter Coleman said Feb. 18 in Sydney. "There are no new long-term contracts being signed, or very, very few." Crude has fallen so much that LNG purchased under older long-term, oil-linked contracts are actually cheaper than spot deals, he said.

"Because of where the oil price has dropped to — I doubt any buyer had that in their outlook — it's providing a situation where spot is a bit higher" than many of the older long-term deals, Coleman said. "That will work its way out," possibly when oil gets to \$45 or \$50 a barrel, he said. It's a change from recent market conditions where spot purchases have been cheaper than cargoes bought under long-term deals. But that was

when oil prices were higher. Though spot-market LNG sales in Asia have been around \$5 per million Btu, an oil-linked contract at \$30 per barrel could come in under \$5.

Though the collapse in crude prices has narrowed the spread between spot and oil-indexed prices, the appeal of spot deals will increase as oil prices rise toward the end of the year, said Goldman Sachs analysts. One of Woodside's competitors, Australia-based Origin Energy, which is a partner with ConocoPhillips in an LNG project in Queensland, Australia, still sees growing demand in markets such as India, Pakistan and Malaysia. "We still feel LNG prospects are good," said Origin's Grant King.

### **Goldman Sachs cuts spot LNG price outlook in Asia to \$5.17 this year**

(Bloomberg; Feb. 15) - Slumping global coal and liquefied natural gas prices will be under further pressure as rising Indian coal production exacerbates a glut of power-generation fuel, according to Goldman Sachs Group. The prospect of higher coal output from India, which is forecast to overtake China as the world's largest importer of thermal coal, will likely cause a 10 percent contraction in seaborne trade of the fuel by 2020, the bank's analysts including Christian Lelong wrote in a report dated Feb. 15.

The oversupply of coal and gas and weakening electricity demand prompted Goldman to lower its price forecasts for coal and spot LNG in East Asia and Europe for the next three years. The first LNG cargoes from the U.S. this year will add to a wave of new supply, while the global coal industry is languishing as nations take steps to cut pollution and utilities face pressure to close aging power plants. The bank cut its price outlook for spot LNG in Asia this year to \$5.17 per million Btu and to \$4.63 for next year.

"The impact of rising production in Indian coal fields will be felt halfway around the world as newly commissioned LNG facilities in the Gulf of Mexico struggle to compete in a world awash with fuel," the report said. "Lower coal prices will drag LNG prices down via greater competition in the fuel mix."

### **Australian producer says low prices weigh on LNG investments**

(Reuters; Feb. 17) – Australia's Woodside Petroleum reported a halving in its underlying profit Feb. 17, and said deep uncertainty over oil prices was weighing on the prospects for its key growth project, a liquefied natural gas development off Western Australia. The country's biggest oil and gas producer said it was still unclear whether the oil price rout over the past year marked a short-term low or a fundamental shift in the market.

Woodside and its partners in the proposed Browse floating LNG project (estimated at \$21 billion U.S.) had planned to decide whether to go ahead with the investment in the second half of 2016. But Woodside would not confirm any date for the decision. "This is

not the time to be reckless at all with respect to capital deployment. And this is not the time to make bets the future is going to be rosier just simply because we hope it will be," CEO Peter Coleman told reporters.

Coleman also said the company had not lined up any customers for the gas, and while the project team had succeeded in cutting costs, much of those savings had been offset by the lower oil price outlook. "What's not clear to me today is are we in the middle of a fundamental structural change in the industry or is this just a short-term disruption, where we'll go back to long-term trends in a relatively short period of time," Coleman said. "It's with that sort of eye that we're looking at all of our investment decisions."

### **Korea Gas LNG imports were down 13.5% last year**

(Platts; Feb. 15) - South Korean state-owned Korea Gas Corp.'s imports of LNG fell 13.5 percent to 31.41 million metric tons last year, as the country's LNG demand dipped 10.6 percent, the company said Feb. 15. It marks the second consecutive year of decline in Korea's LNG imports. KOGAS imports in 2014 were down 7.6 percent from 2013 — it was the first time the company had reduced LNG imports since 2009.

"The decline in sales was attributable to an economic downturn as well as greater use of cheaper sources of coal and nuclear for power generation," a KOGAS official said. Of the 2015 total, sales to power generation companies dropped 14.5 percent, while sales to retail natural gas distributors for households and businesses fell 7 percent. KOGAS lowered city gas rates by more than 20 percent last year on lower LNG import costs.

The state utility said most of last year's supply was imported under 16 long-term and three medium-term contracts. KOGAS has contracts with producers in Qatar, Malaysia, Oman, Australia, Indonesia, Russia, Egypt and Brunei. KOGAS also plans to import 2.8 million tons per year from the Sabine Pass terminal in Louisiana starting in 2017 under a 20-year contract with plant operator Cheniere Energy.

### **Thailand looks to delay long-term LNG deals in favor of spot market**

(Reuters; Feb. 16) - Thai energy firm PTT is looking to delay its plans for long-term liquefied natural gas purchases from Shell and BP, given the availability of cheaper spot-market supplies, a senior company executive said. Energy prices have tumbled in the past year due to a global oil glut. As a result, spot LNG prices have dropped below prices for cargoes under long-term deals, prompting buyers, such as India's Petronet, to renegotiate contract terms or take more gas from the spot market.

Thailand's PTT wants to buy LNG in the spot market, where prices of \$6 to \$7 per million Btu are cheaper than long-term contracts, Noppadol Pinsupa, senior executive

vice president for PTT's gas business, said Feb. 16. PTT is in talks with BP and Shell to delay signing the deals, which are being reviewed by Thai authorities, Noppadol said. Thailand uses gas for almost 70 percent of its power generation and has become increasingly reliant on imports as demand rises and domestic production declines.

Last year, PTT won approval from the Thai energy regulator to buy a total of 2 million metric tons of LNG annually from Shell and BP under long-term contracts. The deals, if finalized, would have started up in April. Weaker-than-expected domestic demand, however, means Thailand will now need less imported LNG this year, Noppadol said. PTT already has a 20-year contract to buy LNG from Qatar that started last year.

### **World has changed since Australia won the rights to LNG conference**

(The West Australian; Feb. 13) - When Western Australia's premier announced with fanfare in 2010 that Perth had been chosen to host the 18th International Conference and Exhibition on Liquefied Natural Gas in 2016, oil and gas prices were on the rise and the Australian state was awash with excitement about an LNG boom triggered by the go-ahead of Chevron's multibillion-dollar Gorgon venture and several other projects.

But two months out from LNG18, expectations of a convention center-busting turnout and ebullient mood have been slashed by oil prices that have fallen below \$30 a barrel. The savage cost-cutting that has accompanied the price collapse is likely to hit delegate and exhibitor counts. The mood will be somber. Worse, a plethora of Western Australia LNG projects that were to attract delegates' attention is falling with oil and gas prices.

In addition, higher capital costs and delays are doing nothing for Australia as an industry destination-of-choice. The conference to highlight Western Australia's arrival as an LNG superpower will be tinged with the reality of lessons learned, not to mention challenges as developers face the unprecedented task of ramping up eight new liquefaction trains in the space of just two years. Profit returns for an industry that has always grappled with long investment-payback periods are in doubt.

### **Canada has gas, sees the market, but has its problems**

(Forbes column; Feb. 14) - Since 2005, Canada's proven gas reserves have increased 25 percent to 75 trillion cubic feet. And it has just started to develop its unconventional gas resources. Per the Paris-based Energy Information Agency update, Canada has nearly 575 tcf of "unproved technically recoverable" shale gas, a vast endowment that could just as easily transform the Canadian production outlook as quickly as it did in the U.S. Which means the country's gas export capacity will expand in the years ahead.

But perhaps surprising to some, Canada's gas production has been decreasing, down nearly 20 percent since 2005 to about 15 billion cubic feet per day, as U.S. shale gas production cuts into the need to import Canadian gas — leaving Canadian producers looking overseas, to liquefied natural gas markets. Meanwhile, much of Canada's shale gas is in remote regions. Without pipelines, processing and storage facilities, and other necessary infrastructure, the potential to export natural gas will be stymied.

In addition, a global gas (and oil) glut, sunken prices and weaker demand in Asia are casting doubt on the profitability of LNG from Canada. Moreover, from governments to aboriginal groups to local industries, such expansive LNG projects involve very complex and varied stakeholder interests. Thus, not only more expensive, the sheer newness and challenges of Canada's "greenfield" LNG projects makes them more controversial from a stakeholder perspective.

### **Shell closes deal on BG Group at a bad time in the LNG market**

(Nikkei Asian Review; Feb. 16) - Two European liquefied natural gas giants are joining up amid sinking prices, with the long-awaited start to U.S. LNG exports threatening to add to the industry's oversupply. The two movements in the opposite direction — a consolidation of suppliers and the launch of a new supply — darken the clouds of uncertainty surrounding the LNG market.

Shell completed its acquisition Feb. 15 of BG Group. BG was born in 1997 of the privatization and breakup of state-owned British Gas. The group has sites in over 20 countries, and draws three-quarters of its LNG customers from Asia. BG delivered 17.9 million metric tons of LNG in 2015, up 63 percent on the year. Shell is practiced in developing gas fields and distributing the product. Taking on BG will grow its reselling and other trading operations. The combined giant has the capacity to liquefy 33 million tons annually, compared to No. 2 player ExxonMobil's 22 million tons.

Yet the slump in oil prices is proving an unexpected hurdle for Shell. The company has said it will make \$33 billion in capital investment in 2016, a 30 percent drop from Shell and BG's combined 2014 figure. The prospect of U.S. LNG exports, hotly anticipated by Asian buyers, also puts the market at a historic turning point. Cheniere Energy plans to ship its first cargo as soon as this month from its new plant in Louisiana. European and South American destinations are first in line for the gas, but Asia could follow.

### **Cheniere Energy has hopes for LNG export business, but risks exist**

(Wall Street Journal; Feb. 17) - The first ship carrying liquefied natural gas from the Gulf Coast is expected to depart soon, marking the advent of the U.S. as a major exporter and the globalization of the once highly regionalized gas trade. But the debut of a shale-

gas-fueled export industry is raising questions if too many sellers are chasing too few buyers, deepening another boom-and-bust cycle. LNG prices have dropped 50 percent over the past year in Asia, the world's largest and traditionally most lucrative market.

The destination of the gas is likely to be South America, with Brazil's Petrobras in negotiations to buy the cargo, according to people familiar with the transaction. The Cheniere Energy export plant at Sabine Pass, La., is the first of five under construction in the U.S. to start making LNG. Cheniere was initially founded to import LNG to the U.S., but reinvented itself as an exporter after a boom in shale gas. It hasn't turned an annual profit in its 20 years in business and has high hopes for its new export business.

"This is going to be a tough business for the next five, six or seven years," said James Chanos, of Kynikos Associates. Demand in Asia, which buys 70 percent of the global supply, has stagnated. Cheniere insulated itself from a downturn in prices by signing long-term contracts for plant capacity. BG Group and Total each committed to 20-year deals that pay out guaranteed annual fees for processing gas, regardless of the amount of LNG they may want. Cheniere expects payments from BG this year of \$520 million.

But critics note that Cheniere's other contracted buyers are not blue-chip firms, and that its profit may be eroded by higher-than-expected costs for maintenance of facilities built in a wetland. The plant was built on ground so squishy that construction crews mixed cement into the soil and drove steel-reinforced concrete pilings 95 feet underground.

### **European Union wants to see terms of natural gas supply contracts**

(Reuters; Feb. 16) – The European Union made a push Feb. 16 for new powers to vet energy deals, taking on national governments in its drive to create a single gas market and curb reliance on Russia. Under the proposal, gas deals between any of the EU's 28 nations and sellers such as Russia would require prior approval. The EU also wants access to contracts, currently sealed by commercial secrecy, that account for more than 40 percent of a member state's annual gas needs or are "key to security of supply."

Both moves are likely to raise the hackles of big EU states. "To prevent gas supplies' crises, national policies are not enough," European Climate and Energy Commissioner Miguel Arias Canete told reporters. Baltic and southeastern European nations are among the most dependent on Russian gas. Germany, however, imports the highest volumes, for which it gets preferential prices from Gazprom. The EU said it is seeking transparency on contract volumes, duration and conditions, but not prices.

Germany is likely to oppose greater oversight of its energy deals. Arias Canete said the EU needs the new rules because while about a third of 124 energy-related intergovernmental agreements in Europe fail to comply with EU law, contesting them has proved difficult. Part of the proposal obliging regional cooperation to safeguard

security of supply is also sensitive at a time when a profusion of crises from migration to Britain's threat to leave the EU is challenging the bloc's unity.

### **B.C. government does not include LNG revenue in budget projections**

(Globe and Mail; Canada; Feb. 16) - British Columbia is edging closer to witnessing the launch of a liquefied natural gas industry, but the government will be patient before counting on LNG revenue, the province's Finance Minister said. "Though we have seen important and substantive progress in the development of an LNG industry in B.C., we have not included LNG projects in our revenue projections at this time," Mike de Jong said Feb. 16 during the government's annual budget speech.

Low prices in Asia and a looming supply glut have rendered uneconomic most of the 20 LNG projects proposed for the B.C. coast. Neither of the two leading proposals, Pacific NorthWest LNG and LNG Canada, has made a final investment decision, and neither is in a position to start exports before 2020. Despite the delays, the B.C. government announced creation of its long-awaited LNG prosperity fund in the budget speech, but opted to kick-start the account with up to \$100 million in general surplus funds.

Originally, the B.C. government sought to generate LNG revenue before earmarking money for the long-term legacy fund. Premier Christy Clark had talked of paying off the provincial debt and eliminating the sales tax. "Three years ago, there was a lot of LNG exuberance and projects were on the bubble of being viable. Now, the economics are clearly worse," said Matt Horne, associate director at the Pembina Institute, a clean-energy think tank. The finance minister, however, said the government remains confident despite setbacks in the industry. "It is not a question of if but when," he said.

### **Gazprom board wants to expand company's share of gas market**

(Platts; Feb. 17) - Gazprom is taking steps to increase its share of the global gas market amid uncertain demand and the onset of new LNG supplies from the U.S. and Australia. There has been speculation that Russia would embark on a market-share defense strategy — similar to that of Saudi Arabia with oil — in the face of impending exports of U.S. LNG. Gazprom's board of directors Feb. 16 approved an updated list of measures that it said were "aimed at increasing the company's share in the global gas market."

Gazprom has focused on its key European market over the past year. In particular, its sales to the lucrative Western Europe market have risen — in 2015 its exports rose by more than 10 percent to almost 4.6 trillion cubic feet — while its overall share of the European market rose last year to 31 percent. Russian gas flows to Europe so far in 2016 have been higher than the same period last year. The company said it was aiming for increased flexibility in its contracts with buyers as it looks to retain market share.

Gazprom also said it wanted to expand its sales opportunities in Asia and has started making moves toward the East, specifically China. "An increase in pipeline gas supply to the Chinese market is of strategic importance," it said. Russia has a number of deals in place for future sales to China. But with growing concern about China's gas demand, some analysts say volumes could be delayed or reduced. Gazprom also wants to build up its presence in the LNG trade, but has been slow to expand its production capacity.

### **Russians tour B.C. to warn of harm to salmon habitat from LNG plant**

(Alaska Highway News; Fort St. John, BC; Feb. 16) - A trio of Russian scientists and a noted conservationist are in the middle of a B.C. tour cautioning against building the proposed Pacific NorthWest LNG project on Lelu Island near Prince Rupert because of its potential harm to salmon habitat. The team comes from Sakhalin Island, the only place in the world with a liquefied natural gas production and export facility operating in a wild salmon estuary, according to the tour's press release.

Aniva Bay, site of the Sakhalin LNG plant, was once home to the third-largest pink salmon run in the world, but since the facility was built there have been sharp declines in the number of salmon there. "Sakhalin Island and Lelu Island have two things in common — wild salmon and LNG," Dimitry Lisitsyn, director of Sakhalin Environment Watch, said in a written statement. The Sakhalin plant is onshore, fed from offshore gas fields. The plant opened in 2009.

"We have a chance to help the people of the (B.C.) Skeena watershed protect one of the most famous and rich wild salmon sanctuaries in the world," Lisitsyn said. The tour kicked off in Prince Rupert on Feb. 12, and ends in Vancouver Feb. 18 with a press event hosted by the Union of B.C. Indian Chiefs. The tour follows the Feb. 10 federal draft environmental assessment report on Pacific NorthWest LNG, which said the plant will not hurt salmon habitat. Several First Nations have challenged the assessment.

### **Canadian regulators consider comments on Mackenzie gas pipeline**

(CBC News; Feb. 16) - If Imperial Oil wants seven more years to decide whether to build the Mackenzie Gas Project, then it should be forced in the near-term to build a liquefied natural gas plant to create a local supply of energy for the Northwest Territory's Beaufort Delta and parts of Nunavut. It was one of the comments received by Canada's National Energy Board after a three-month public comment period on whether to grant Imperial and its partners an extension to their certificate to build the Mackenzie pipeline.

If the board doesn't grant the extension, the long-delayed pipeline could face another environmental assessment. Russ Duncan, co-founder of Calgary-based airborne survey



company Sky Hunter, says an extension from the board should produce immediate benefits for the region. "The project [should] develop a portion of the gas reserves onshore and gather them to a common point as planned. At this point, the project or others could construct an LNG plant to provide the energy requirements of the area."

Duncan says LNG could be exported by water to western parts of Nunavut, in addition to supplying communities in the Beaufort Delta. "Sure, why not?" says Doug Matthews, a consultant and former director of the Northwest Territory's oil and gas division. "But the cost of developing a field, liquefying the gas and trucking to Inuvik, divided by the market size, would be a problem." Imperial has until March 8 to respond to the comments. An extension would keep alive the certificate for a pipeline to move Mackenzie Delta gas south to feed into the North American grid in Alberta.