Oil and Gas News Briefs
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LNG-buyers alliance seeks to expand membership

(Bloomberg; Feb. 26) - Japan's Jera Co. said it's in talks with other LNG buyers to create an alliance accounting for over one-third of global trade. Jera, a joint venture between Tokyo Electric Power and Chubu Electric Power, is seeking to cooperate with Korea Gas and China National Offshore Oil Corp. on liquefied natural gas procurement and investment, said Hiroki Sato, vice president of Jera's fuel-buying department. “If the alliance allows flexibility between members to balance their LNG import volumes, that is very attractive for buyers,” said James Taverner, a Tokyo-based analyst at IHS Inc.

A deal between the companies may lead to the creation of a potentially dominant bargaining alliance as buyers band together to take advantage of new LNG supply from Australia and the U.S. that is tilting negotiating power in favor of consumers. "We can work hard to lower prices by using our large volumes," Sato said Feb. 25. "The bottom line is we should work together to reduce costs in Japan, as well as the rest of Asia."

The deal would benefit smaller companies outside the group as lower prices would be passed on to other buyers, Sato said. The alliance members would also be able to swap or trade cargoes among themselves to help balance supply between their operations. Meanwhile, the global oversupply is continuing to drive down prices. Asian spot LNG prices fell below $5 per million Btu for the first time last month, extending its tumble from a high of $19.70 in February 2014. Cargoes under long-term contracts, traditionally linked to oil, may fall to $4.10 per million Btu by June, Credit Suisse said Feb. 5.

Low prices mean longer payback for $54 billion Gorgon LNG

(Reuters; Feb. 25) - The timing couldn't be worse for the first production of liquefied natural gas from Australia's $54 billion Gorgon project — the world's most expensive. LNG prices have collapsed, global demand is faltering and the first of what is likely to be a wave of competing shipments has just set sail from the unlikeliest of exporters, the United States. But with tens of billions of dollars invested, the oil majors behind Gorgon and other Australian LNG projects have little choice but to plough on.

"Even though LNG prices are depressed, Gorgon and other projects will run," said Neil Beveridge, senior analyst at Bernstein Research in Hong Kong. "But in terms of paying down that $54 billion capital charge, that's going to take an awful long time, if ever."

However, expectations that new export investments will wither due to weak prices are providing some hope for the industry. Global oil and gas investments are expected to fall to their lowest in six years in 2016 to $522 billion, following a 22 percent fall in 2015.

Even so, more LNG plants are coming on stream in Australia. At full capacity, the plants will add 53 million metric tons of LNG per year, equal to one-fifth of global production last year. Asian spot LNG prices have already plummeted to around $5 per million Btu — down almost three-quarters since peaking in 2014 — as the supply glut deepens and demand falters. David Hewitt, co-head of global oil and gas equity research at Credit Suisse, expects prices to fall to an "eye-watering low" around $4 this year.

That's bad news for Australian LNG projects, whose all-in delivered costs, including amortization, are estimated by Leonardo Maugeri, a Harvard University associate and former oil executive, at $15 per million Btu or more. Most of Australia's new LNG projects were planned at a time when the United States was expected to be a major importer of the fuel. Now, with so much shale gas production, the U.S. is becoming an LNG exporter. That, plus weakened demand from China and Japan, is hurting prices.

Reuters compiles updated list of Australia LNG projects

(Reuters; Feb. 25) - Australia has billions of dollars of liquefied natural gas projects coming online, with developers planning to add about 53 million metric tons a year of production by 2017, an increase that would make the country the world's top exporter. Reuters has compiled a **list of LNG projects in Australia**: Those in operation; plants under construction; proposed expansions of existing plants; and projects in the proposal stage. The table includes the developers, the partners and their shares, construction costs, capacity, and dates of start-up or possible investment decision.

Developer stops $500 million LNG project in B.C.; cites lack of buyers

(Globe and Mail; Canada; Feb. 25) – Calgary-based AltaGas has halted plans to export liquefied natural gas from British Columbia’s north coast amid a worldwide glut of the fuel. AltaGas and its partners in Douglas Channel LNG fell short in signing sufficient long-term contracts with Asian buyers. The small-scale venture was looking to begin exports in 2018 from a floating facility near Kitimat, B.C. The partners included Japan’s Idemitsu, U.K.-based EDF Trading and Belgium-based shipping company EXMAR.

“Without a meaningful off-take agreement, the consortium can no longer continue the development,” AltaGas CEO David Cornhill said Feb. 24 in discussing the company’s fourth-quarter earnings. Douglas Channel LNG had been seen as one of the promising B.C. energy ventures when it received an export license in 2012. But the plan lost momentum when a key backer ran into financial trouble in 2013 and the project went under court protection from creditors. A new group led by AltaGas took control in 2015.

LNG prices in Asia have tumbled in the past year as a wave of exports has hit global markets amid weakening demand. The $500 million Douglas Channel plant would have liquefied gas from northeastern B.C. for delivery to Asia. The plant, built upon barges in the channel, would have had the potential to export about 500,000 metric tons of LNG per year — the smallest of more than two dozen LNG export projects proposed for Canada's East and West coasts. None have yet committed to start construction.

Canada has no reason to cheer over U.S. LNG exports

(CBC News; Feb 25) - There was a buzz among natural gas producers in Houston this week as the first exports of shale gas left U.S. shores on a ship bound for Brazil. A flashy video of the Sabine Pass LNG plant in Louisiana was shown at IHS CERAweek, the largest energy conference in the world. There were cheers from the audience and Energy Secretary Ernest Moniz called it a historic moment for the industry.

Meanwhile, back in Calgary, Canada's largest natural gas producer, Encana, said it lost more than $600 million in the fourth quarter of the year and was going to cut another 20 percent of its staff in the coming year. It's hard not to note the difference. The U.S. gas industry is suffering from the same oversupply and price problems as Canada but now it has more customers for its gas, while Canadian producers struggle with the same market access problem as their oil colleagues.

Canadian producers have one international buyer, the U.S., which is taking less every year, and there is no clear timeline for when Canada might start its own LNG exports. There are almost 24 proposals to build LNG plants on Canada's Atlantic and Pacific coasts, none of which have received a final investment decision. That's because they're so expensive and the global market is in such poor shape. "We don't think the world needs new liquefaction capacity until the end of 2023 or 2024," said Bob Ineson, an analyst with IHS Energy. "Or even longer than that. It's a challenge for everyone."

IEA chief says Canadian LNG could come to market after 2020

(Business News Network; Canada; Feb. 25) - There may still be hope for Canada to become a global liquefied natural gas exporter, just not until after this decade ends. In a report published Feb. 24, the International Energy Agency warned "securing investments for new export facilities in Canada remains a challenge, as global LNG markets are well supplied." Fatih Birol, executive director of the Paris-based agency, said the industry still could get off the ground in British Columbia, just not now.

"Our numbers show that there is room for Canadian LNG after 2020," he said. "I believe Canada can play a very important role in the Asian LNG markets, especially if they can continue to put pressure on the cost of production." Recent delays involving the two projects widely seen as frontrunners have cast doubt on the industry's prospects. The Shell-led LNG Canada project and Petronas-led Pacific NorthWest LNG have held off giving the green light for construction as prices in Asia have plummeted.

"In Asia, LNG prices only one and a half years ago were about $20 [per million Btu], they are today only $5," Birol said. Prices are exceedingly weak "because the demand is currently weak, plus lots of LNG is coming to market from the U.S. and from Australia through 2020," Birol said. Post-2020 is now the timeline even the most optimistic analysts are estimating when Canada's first LNG shipments could leave the B.C. shore. But, eventually, something will happen. "The world needs Canadian energy," Birol said.

Players wear 'No LNG' T-shirts at B.C. basketball tournament

(BC Local News; Feb. 23) - It was a wave of blue. Dozens of players and supporters wore bright blue T-shirts marked "No LNG" to the opening of the All-Native Basketball Tournament in Prince Rupert, B.C., on Feb. 7. Desi Collinson, point guard of the Skidegate Saints, said that after nearly pulling out of the annual tournament, his team decided a symbolic protest was the best way to counter the ongoing sponsorship by companies that want to ship liquefied natural gas through the Haida's territorial waters.

Several developers looking to build LNG export plants near Prince Rupert are major sponsors of the All-Native this year. "It's a mega-project that they're trying to plug into the coast here, and that's going to affect Haida Gwaii," said Collinson, who is concerned that pipelines could leak or rupture, pumping loads of methane into the environment.

The protest also had support from Haida hereditary chiefs, who sent a letter requesting the All-Native organizing committee find alternative sponsors. Committee board president Peter Haugen told CBC radio the tournament is not a political venue, and any LNG protests should stay off the court. Collinson said he and other players who oppose the projects have grown tired of seeing company banners in the stadium, hearing ads on the radio, even LNG-branded noisemakers in the hands of Haida fans. "They're imposing themselves on your home, and not only that, they're flashy about it," he said.

It would take a lot of LNG tankers to clear out U.S. gas oversupply

(Bloomberg; Feb. 24) - At least 163 tankers. That's how many cargoes of natural gas it'd take to wipe out the ever-expanding glut of the heating and power-plant fuel in the U.S. A mild winter and production still flowing out of America's shale formations have inventories swelling compared with previous years, dragging down U.S. gas prices even as the first export of LNG left Feb. 24 from Cheniere Energy's Louisiana terminal.

"Production keeps going and right now we are pricing in a natural gas-ageddon," said Phil Flynn, senior market analyst at Price Futures Group in Chicago. "How many tankers do we need to get rid of the glut?" In a testament to how massive America's natural gas supplies have become (they're near a seasonal record), it'd take at least 163 tankers the size of the Asia Vision, the vessel that loaded up more than 3 billion cubic feet of gas as LNG at Cheniere's docks, to bring U.S. inventories back to the five-year average. If you lined them up end to end, they would stretch about 30 miles.

The chances of this fleet suddenly showing up to whisk U.S. gas away are slim. Initial exports will be too small to make a dent in the U.S. supply surplus anytime soon, said Jason Schenker, president of Prestige Economics in Austin, Texas. "It's hard to find much of a bullish story," Schenker said. "We see low natural gas prices for the balance of this year." Natural gas was priced at $1.78 per million Btu Feb. 24 on the New York Mercantile Exchange — within pennies of the lowest price since 1999.

Yamal LNG developer says new financing expected soon

(Reuters; Feb. 26) – Russian gas producer Novatek said it expects to secure new financing for its Yamal LNG project soon from lenders in Asia, Europe and Russia. Western sanctions imposed over Moscow's role in the Ukraine crisis have made it harder for Novatek to raise funds for the Yamal project, which is under construction at a remote Arctic peninsula and scheduled to start producing liquefied natural gas in 2017.

"The project … will be getting financing in order to launch the first train on schedule in 2017," Leonid Mikhelson, Novatek chief executive, told a conference call organized for analysts Feb. 26. The company, co-owned by Gennady Timchenko, an ally of President Vladimir Putin, was placed under U.S. sanctions in 2014, soon after the final investment decision had been taken on the Yamal project in late 2013.

Novatek is the main shareholder in the project, whose capital expenditures estimate of $27 billion has not changed since 2013. France's Total and China National Petroleum Corp. each hold 20 percent of the Yamal project. China's Silk Road Fund has provided an $800 million loan to help finance the project as part of its agreement to buy a 9.9 percent stake from Novatek. Mikhelson said European credit agencies, Russian and Asian banks all would be involved in the financing.

Lithuanians look forward to U.S. LNG to take on Russian gas

(Wall Street Journal; Feb. 25) - Aboard the Independence, Lithuania’s floating LNG import terminal, Mantas Bartuska waits for a tanker to someday arrive with liquefied natural gas shipments from the U.S. Gulf Coast that many hope will transform Europe’s gas market. “Soon, hopefully, U.S. gas will come,” said Bartuska, CEO of the operator of the Independence, docked at Klaipeda. When the terminal set up shop in October 2014, it was met by cannons and music. “Nobody else, from now on, will be able to dictate to us the price of gas,” Lithuanian President Dalia Grybauskaite said that day.

“Like shale gas was a game changer in the U.S., American gas exports could be a game changer for Europe,” said Maros Sefcovic, the European Union’s energy chief. Many in Europe see U.S. entry into the market as part of a broader effort to challenge Russian domination of supplies and prices in this part of the world. Moscow has used its giant energy reserves as a strategic tool to influence former satellite countries, including Lithuania, one of the countries that now see a chance to break away.

Some are building the capacity to handle seaborne LNG, including Poland, which opened its first import terminal last year. In Bulgaria, which buys about 90 percent of its gas from Russia, Prime Minister Boyko Borissov said last month that supplies of U.S. gas could arrive via Greek LNG facilities, “God willing.” Deutsche Bank estimates the U.S. could catch up with Russia as Europe’s biggest gas supplier within a decade. Russia currently supplies about a third of Europe’s gas via pipeline.

Moody’s advises low prices could jeopardize Exxon’s top rating

(Bloomberg; Feb. 25) – ExxonMobil may lose its top-notch credit rating from Moody’s Investors Service as the oil-market collapse imperils cash flow needed to cover debt payments and investment in new discoveries. Seven of the other largest U.S. energy explorers also were put on notice or downgraded by Moody’s on Feb. 25 after the rating agency concluded crude prices will remain low for years. The Moody’s review featured a Who’s Who of oil and gas heavyweights, from Chevron to Marathon to ConocoPhillips.

The outlook for Exxon, which has held Moody’s top Aaa rating for more than 90 years, dropped to negative from stable, the rating company said in a statement. The move followed a warning earlier this month from Standard & Poor’s that its own rating on Exxon’s debt may be in jeopardy. “The negative outlook reflects our expectations of negative free cash flow and weak cash flow based leverage metrics,” Moody’s said.

“While the company is cutting its capital spending and operating costs in response to lower commodity prices, this diminished level of capital reinvestment could adversely affect ExxonMobil’s reserve replacement and production profile in the latter part of this decade,” Moody’s said. Rating firms have been downgrading drillers, explorers and even entire nations as the oil-price crash erases revenue relied upon to pay debts and fund day-to-day operations.

U.S. companies plan to cut oil production in 2016

(Reuters; Feb. 25) - U.S. oil drillers are finally beginning to buckle. For more than a year, producers found a way to keep pumping despite a worldwide slide in crude prices. The companies' latest projections, released in earnings reports in recent days, suggest gravity is finally taking hold. The surprising resilience of U.S. producers has been a key contributor to the 70 percent in crude prices over the past two years, with operators cutting costs and squeezing more oil out of fewer wells to stave off the reckoning.

Apache expects oil and natural gas production to fall as much as 11 percent in 2016, the company said Feb. 25, a day after Continental Resources projected a 10 percent cut and Whiting Petroleum a 15 percent reduction. Devon Energy forecast a 10 percent decline earlier in the month. EOG Resources is predicting a 5 percent cut. With crude prices near a 12-year low, drillers are deciding it's best to keep their barrels in the ground, heeding the advice this week of Saudi Arabia's Ali al-Naimi.

In comments at the IHS CERAWeek energy conference in Houston, Naimi told U.S. producers their only choices were to "lower costs, borrow cash or liquidate" to survive the downturn. "This is the fork in the road," Subash Chandra, a Guggenheim Securities analyst in New York, said in a telephone interview. "We know which direction we're going — we're going down — in terms of volumes. The only question is at what velocity we're going down that path."

Canada's export office pledges $750 million to help oil and gas sector

(The Canadian Press; Feb. 25) - Export Development Canada is earmarking $750 million to help support the country's struggling oil and gas sector. Mark Senn, regional vice president for Western Canada, said the assistance could take the form of loans or guarantees. Canada's self-supporting trade financing agency said it will focus its efforts on small and medium-sized firms, noting that is where the additional financial liquidity can be most effective in helping to sustain jobs and bolster the economy.

Senn said the agency will support companies that have a solid plan to survive the downturn and an interest in international sales. He said he expects the bulk of recipients will be in Alberta, but there are many firms elsewhere in the country suffering because of the oil price collapse. "We know there are many smaller companies across Canada with solid fundamentals that are financially stressed, and those are the companies that we can really help to make it through this period of lower oil prices," Senn said.

Terminal poised to ship first U.S. ethane cargo overseas

(Bloomberg; Feb. 24) – Pipeline-operator Sunoco Logistics Partners is poised to export the first U.S. waterborne ethane cargo “within a week,” according to Genscape. The company’s Mariner East 1 pipeline, which stretches from the Marcellus Shale deposit in western Pennsylvania to a terminal on the Delaware River near Philadelphia, boosted ethane deliveries Feb. 22, said Amanda Townsley, senior adviser of petrochemicals and LNG for Genscape, which is monitoring the line.

The jump in flows coincides with the arrival of the terminal’s first tanker, the JS Ineos Intrepid, at the ethane dock, she said. The ethane is contracted to go to Norway as feedstock at processing plants owned by Ineos Europe AG, and will ultimately be used to make products such as plastic. U.S. producers have seen prices for natural gas and liquids tumble as output from shale deposits outpaces demand. The 590-foot ship, built in China, went into service in 2015, targeting the U.S.-to-Europe ethane trade.

“The first ship at the ethane dock is exciting; this would be the first waterborne export from the U.S.,” Townsley, based in Houston, said in an interview. “It’s not a massive volume, so it’s not a game changer for the supply and demand balance, but it’s a big deal for producers in the area.” Marcellus producer Range Resources is contracted to ship ethane on the pipeline to the terminal, according to its website, and Ineos earlier announced it also has a long-term contract to purchase ethane from Consol Energy.

Hawaii wrong to reject LNG as bridge fuel to renewables, expert says

(Hawaii News Now; Feb. 25) - An independent energy expert said Hawaii’s governor and environmentalists are wrong to reject liquefied natural gas in the state's effort to convert 100 percent to renewable energy in 30 years. Hawaiian Electric and Hawaii Gas companies are proposing to bring LNG to Hawaii, saying it could decrease electricity bills anywhere from 14 to 30 percent. The governor and environmentalists say it’s a bad idea because LNG is still a fossil fuel, subject to price fluctuations in world markets.

"I think you need to put all the tools on the table, try to pick the most cost-effective way to get toward your goals as you can," said John Cole, who represented Hawaii electricity ratepayers for two years as consumer advocate followed by six years on the Public Utilities Commission. Cole, who is now a researcher at the University of Hawaii’s Hawaii Natural Energy Institute, said ruling out LNG is a bad idea.

Cole said besides being cheaper for consumers, LNG emits about 30 percent less pollution than current power-generation plants, so it's a good interim measure on the way to the state's statutory goal of meeting all its energy needs with solar, wind and other renewables by 2045. "If it can save some money along the way, in total, including paying back for any necessary infrastructure, can reduce emissions and help comply with regulations at a lower cost," Cole said.