Oil and Gas News Briefs
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Chevron offers lower prices to win buyers for unsold Gorgon LNG

(Reuters; Feb. 1) - Chevron is sweetening its sales pitch to attract new buyers to the under-booked $54 billion Gorgon liquefied natural gas export plant off northwest Australia, hit by high costs as both LNG prices and demand have plunged. The move is a departure for Chevron, which has for years stuck to its ambitious asking prices, industry sources said, only yielding as global demand slumped and new supply gave buyers cheaper alternatives. Production at the giant plant is due to begin within weeks.

"Lousy" is how Chevron CEO John Watson last week described the global LNG market that Gorgon — the world's most expensive such venture — will sell into. Chevron faces a unique double-blow from record growth in gas supplies from Australia and the United States and from battered crude oil markets pushing LNG prices below Gorgon's high cost of production, according to analysts.

A scarcity of customers leaves Chevron on the hook for a quarter of its share of Gorgon's unsold volume this decade, leaving it few options but to dump supplies onto already depressed spot markets, industry sources said. Chevron needs more long-term buyers paying oil-linked prices, such as its five Japanese clients, to help guarantee earnings over the project's 40-year life. Since December, the firm has lined up two preliminary, 10-year deals with Chinese buyers for Gorgon, starting in 2019 and 2020.

The price of the deals, on which Chevron declined comment, are estimated at 12.2 to 12.3 percent of the price of a barrel of crude oil, plus a small fixed fee and a floor price, sources said. That compares with higher prices paid by Chevron's Japanese clients at 14.85 percent of oil for 25 years of supply, sources said. While contract differences between make direct comparisons tricky, an LNG negotiator said lower prices offered to China may open the door to price reviews between Chevron and its Japanese clients.

Gazprom could start natural gas price war to protect market share

(The Financial Times; London; Feb. 3) - With U.S. liquefied natural gas exports starting to hit the market this year, the Russian state gas giant could adopt the same strategy in the gas market that Saudi Arabia has done in oil — take on the competition and drive down the price. Analysts say that such a strategy may be economically rational for Gazprom. Already-low prices in the European gas market mean it could relatively easily push prices to a level at which it would be unprofitable to ship LNG from the U.S. — and in doing so defend its market share in a region that accounts for the bulk of its profits.

“Why would you concede market share to a higher-cost producer?” said James Henderson, Russian oil and gas specialist at the Oxford Institute for Energy Studies. “If I was an investor in U.S. LNG, I would be worried.” Just as Saudi Arabia is the big swing producer for the oil market with its ability to boost production, Gazprom is the main holder of spare capacity in the gas market. And just as Saudi Arabia has been unnerved by U.S. shale oil eroding its market share, Gazprom faces a similar prospect in gas.

The flood of cheap gas unleashed by the U.S. shale boom has prompted a wave of U.S. LNG projects in recent years. Like Saudi Arabia in oil, Gazprom is one of the lowest-cost gas producers. According to Henderson, the cost to Gazprom of delivering its gas to Germany is $3.50 per million Btu. Put those facts together, and it looks to make sense for the company to push down prices to keep U.S. LNG out of the European market. Gazprom executives have studied the economics of the price war approach and are discussing the issue, according to people familiar with the company’s thinking.

Gazprom looks to boost gas sales to Europe; dismisses U.S. LNG

(Bloomberg; Jan. 31) - Gazprom, the world’s biggest natural gas producer, is meeting investors in New York and London this week as it seeks to increase supplies to Europe to record levels while it dismisses the prospects of U.S. LNG exports to the region. The Moscow-based company, which provided 31 percent of Europe’s gas last year, plans to boost flows to the region by more than 2 percent this year, with further growth through 2018, according to its non-public budget obtained by Bloomberg.

That is more ambitious than public statements by the company. Russia has “the most competitive" gas price in the European Union, and Gazprom isn’t concerned about rivals in the region, including U.S. liquefied natural gas, the company’s deputy Alexander Medvedev told investors. Russia, which relies heavily on pipeline gas sales outside the former Soviet Union, has increased its dominance in Europe as crude’s 30 percent price decline over the past year has made Gazprom’s oil-linked gas prices more attractive.

The company held an annual investor day in New York for the first time since 2014 after last year seeking to woo bond and shareholders in Asia. The meeting in London is scheduled for Feb. 4. Russia needs a new marketing model in the European gas market to compete with LNG, especially amid a possible hike in LNG supplies from the U.S. after 2018, the U.K.-based Oxford Institute of Energy Studies said last month.

Marcellus Shale cuts into Canada’s gas sales to U.S.

(Alberta Oil Magazine; Feb. 1) - When Procter & Gamble first went looking for a place to make toilet paper, the company landed in Wyoming County, Pa., a northeastern part of the state that was rich in wood, water and workers. It was 1957. Today the plant is still P&G's largest. But since 2008, it's also been producing another of life's necessities. The plant, like so much of the state, sits atop vast stores of high-quality natural gas, a once-scarce resource that is literally overturning the balance of power in this rust-belt region.

Where the plant once drew in 13 billion cubic feet of gas per year from pipelines coming out of the U.S. Gulf Coast and Western Canada, it now pulls gas from the rock beneath its parking lot. That's bad news for Canadian gas producers, for whom a prolonged U.S. Northeast cold snap can mean the difference between breaking the bank and breaking even. And, as if the discovery of the massive Marcellus Shale wasn't bad enough, it's been accompanied by a rapid infrastructure build-out that's reversing pipelines, rewiring the electricity grid and forcing Canadian gas out of its main market, possibly for good.

For the first time since 1955, the U.S. is expected to become a net exporter of gas by mid-2017, due to decreasing Canadian imports and increasing exports to Mexico, according to the U.S. Energy Information Administration. Shale gas plays are solely to blame, and none more so than the mighty Marcellus. In the first 10 months of 2015, U.S. gas production was up 35 percent over the same period in 2008. Over that same time, U.S. imports fell 31 percent, with much of the drop in the key northeast market.

Canada's new climate-impact review adds to LNG project difficulties

(Bloomberg; Feb. 2) - A climate test that Canada has added to resource project reviews is being seen as one more obstacle holding back the nation's fledgling liquefied natural gas industry, including an LNG export project led by Malaysia's Petronas. Proponents of several LNG shipping terminals on the nation's Pacific Coast are set to decide this year whether to proceed with construction. One of the front runners, the already-delayed Petronas-led project, is now caught up in the additional government review.

Pacific NorthWest LNG is coming under new policies announced by Prime Minister Justin Trudeau's government last week, including more consultation and an assessment of carbon emissions tied to the facility and gas-field drilling. Trudeau, who took office Nov. 4, campaigned on overhauling such reviews to overcome environmental opposition that has dogged proposals, particularly oil pipelines. The climate test of greenhouse-gas emissions affects projects under review, not those already with approvals

"It's made a process that is already difficult even more difficult," John Stephenson, chief executive officer and founder of Stephenson & Co. in Toronto, said in a phone interview. "We're already, in the case of LNG, way behind the competition." The 20 LNG projects proposed for British Columbia are vying with supplies coming on stream from Australia and the U.S., as Asian demand slows and the oil slump lowers LNG prices and reduces companies' ability to fund major developments.

B.C. leaders go to Ottawa to argue their case for LNG projects

(Globe and Mail; Canada; Feb. 1) - B.C. Premier Christy Clark and four of her top cabinet ministers will press their case in Ottawa this week to keep the province's economic momentum going, including seeking support for liquefied natural gas export projects. The five B.C. politicians will be joined on the domestic trade mission by industry executives and First Nations leaders.

Meanwhile, Pacific NorthWest LNG still awaits a crucial decision from the Canadian Environmental Assessment Agency on its proposal to build a liquefaction plant and export terminal near Prince Rupert, B.C. The federal regulator is expected to rule by the end of March on the consortium's plans. If the agency approves the project led by Malaysia's state-owned Petronas, it will then be up to the federal cabinet to issue a final decision that factors in a wide range of implications such as climate change.

Ottawa outlined measures last week for greater environmental scrutiny over oil pipeline proposals, but uncertainty lingers over how the new hurdles will affect Pacific NorthWest LNG, especially taking into account carbon-dioxide emissions related to gas production and pipelines. "B.C. needs to get some firm answers out of Ottawa, specifically on the LNG file," said Warren Brazier, an energy lawyer at Vancouver-based Watson Goepel.

Alberta announces new tax-credit program to boost petrochemicals

(Bloomberg; Feb. 1) - Alberta will provide financial incentives for companies willing to invest in petrochemical facilities as the provincial government attempts to counter an oil industry downturn with the expansion of other sectors. The program will offer incentives worth $500 million for construction of plants using methane or propane to make such products as plastics, detergents and textiles, the government said Feb. 1. Investors will earn credits that can be used to pay royalties on gas production, or sold to producers.

"This program builds on the royalty review panel's recommendation for a value-added natural gas strategy to support further upgrading and production of higher-value energy products in Alberta," Energy Minister Margaret McCuaig-Boyd said in a statement. The program is the latest effort to revamp policies for the province's ailing oil and gas industry, including a royalty review announced last week, as well as new limits on carbon emissions and higher corporate taxes introduced last year.

The royalty review highlighted opportunities to spur investment in natural gas and gas liquids helped by a simplified, and in some cases, lower payment structure for producers, Premier Rachel Notley said last week. The Petrochemicals Diversification Program could generate $3 billion to $4 billion in new investment through the construction of two or three plants in Alberta, said the Industrial Heartland Association.

Australia LNG project owners go to court over state royalty

(The Courier Mail; Brisbane; Feb. 1) – Hundreds of millions of dollars in state government royalty revenue is at risk after the owners of a new liquefied natural gas export plant in Australia launched a court action claiming Treasury did not have the power to collect the money. After spending almost $25 billion on its project, Australia Pacific LNG has accused the Queensland state government of imposing a royalty regime that breaches the rules of natural justice and is beyond its power.

Industry sources said the case has likely been sparked by the collapse of oil and gas prices, which has dramatically reduced LNG profitability. APLNG, led by Australia-based Origin and ConocoPhillips, is asking the Supreme Court to throw out the Queensland royalty system imposed just days before the plant shipped its first cargo in January. The details of the case are confidential, but in its court documents APLNG said the government did not have the jurisdiction to make the decision to impose such a system.

“The making of the decision was an improper exercise of power,” the documents said. “The consequence of the (royalty) method is to impose a duty of excise on the production and sale of liquefied natural gas produced by the applicant’s project and on the value of that LNG, in contravention of the regulation and the power vested exclusively in the Commonwealth Parliament, and the decision is thereby contrary to law,’’ the documents said.

Poland files claim against Gazprom; seeks natural gas price cut

(Reuters; Feb. 2) - Poland's largest gas distributor PGNiG has filed a claim against Russia's Gazprom as part of an arbitration process in which PGNiG is seeking a cut in the price of gas from its main supplier. The distributor, Polskie Gornictwo Naftowe i Gazownictwo, did not give any details of its claim filed with Swedish arbitrators Feb. 1, but said the process did not exclude talks that could allow both sides to strike a deal.

PGNiG, Gazprom and Poland's energy ministry declined to comment. Gazprom's prices for Poland, which uses about 565 billion cubic feet of gas annually, have been among the highest in Europe and PGNiG has said it expects a discount. Gazprom and PGNiG have a contract that runs until 2022, under which the Russian firm supplies Poland with up to 360 bcf of gas per year. The contract allows for negotiation windows when the price can be reviewed.

Poland is trying to reduce its reliance on imported energy from Russia, but still more than a half of the gas it consumes is imported from its former imperial master. The dependency is even bigger in terms of oil. "Most probably, PGNiG wants Gazprom to change the price-setting formula in order to cut the price. There are political expectations that prices will be cut, no matter how realistic it is," an industry expert said.

Pakistan wants to become major LNG importer

(Bloomberg; Feb. 2) - A 75 percent drop in liquefied natural gas prices since 2014 is just what Pakistan needed. Prime Minister Nawaz Sharif's government is confident it will help end the nation's energy crisis by 2018. In three years, the South Asian nation plans to import as much as 20 million metric tons of LNG annually, according to Pakistan's Petroleum Minister Shahid Khaqan Abbasi. That's enough to feed about 66 percent of Pakistan's power plants. A fuel shortage has rendered half the nation's generators idle.

"When a customer comes to us asking for gas, we can say, yes, we will deliver gas to you on this date," Abbasi said. "Earlier we said there is no gas, goodbye." The plan to use LNG and build coal-fired power plants will help textile, fertilizer and steel producers boost output and spur growth. Pakistan will become one of the world's top five buyers of LNG should the plan succeed, Abbasi said. The nation started importing LNG at a floating facility last year, with two more terminals scheduled for start-up next year.

Power outages lasting 18 hours led to street protests in Karachi as recently as June. Pakistan is going all out for LNG "as it's become more affordable," Vahaj Ahmed, an analyst at Exotix Partners in Dubai, said by phone. LNG for delivery in Northeast Asia has dropped in price about 75 percent since 2014, according to data compiled by Bloomberg. The spot price is likely to trade between $4 and $5 per million Btu over the next four years, Goldman Sachs Group analysts wrote in a report dated Jan. 31.

China's gas demand needs to gain 14% a year to meet 2020 target

(Hellenic Shipping News; Feb. 1) - Following an average annual growth rate of 15.8 percent from 2009 through 2013, expansion in China's natural gas consumption slowed notably to 5.6 percent in 2014 and 3.6 percent in 2015. This slowdown contributed to an overall decline in China's LNG imports in 2015. However, despite the trends seen in 2015 and continued questions over the long-term outlook, the government still has plans to raise domestic gas consumption significantly.

China's gas consumption grew rapidly 2003 through 2013, though coal remains by far the country's dominant energy source at about 64 percent of energy use last year. Gas has increased from 4 percent of the nation's energy mix in 2010 to 5.7 percent in 2014. The growth in gas demand in China has eased, however, reflecting the slowing pace of growth in the economy and in power generation, the increased use of alternative energy sources, and the impact of high domestic natural gas prices.

However, there remains significant potential for growth in China's gas market. China aims to raise the share of gas in total energy use to 10 percent by the end of 2020, which would require average annual growth of around 14 percent over the next five years. If the targets for both gas consumption and domestic gas production are met, this would imply total gas imports of more than 75 million metric tons a year by 2020, up from 44 million tons imported in 2015.

Problem at Sakhalin LNG plant forces production cutback

(Platts; Feb. 1) - Russia's Sakhalin-2 LNG plant is operating at 50 percent of capacity following a power glitch last week, a spokesman for operator Sakhalin Energy said Feb. 1. "The company is taking all measures to reduce potential impact on the hydrocarbon deliveries schedule," the spokesperson said.

Sakhalin Energy informed long-term customers Jan. 28 that a force majeure had been declared because of a power outage at the liquefaction plant, sources said. By Jan. 29, production at the two-train facility had been reduced by 50 percent, which means an output reduction of six to seven LNG cargoes per month, according to Platts data.

Sakhalin Energy is a joint venture between Gazprom with a 50 percent stake, Shell with 27.5 percent, and Japanese trading houses Mitsui with 12.5 percent and Mitsubishi with 10 percent. The LNG plant, located on the southern coast of Russia's Sakhalin Island in the North Pacific, was commissioned in 2009. Production at the plant, which has a nameplate capacity of 9.6 million metric tons per year, has remained consistently above 10 million tons per year since 2012, according to Platts data.

Indonesia prefers onshore LNG project to offshore facility

(Jakarta Post; Feb. 3) - Japanese oil and gas giant INPEX has called on the Indonesian government to make a quick decision on the future of the Masela gas project, which has been in limbo as a result of a disagreement in its development plan. A spokesman said INPEX needs a quick and clear decision so it can decide on development of a liquefied natural gas export project to process gas from the Masela block. INPEX and its partner Shell proposed last year to build a floating LNG plant for the Masela block.

But Indonesia's maritime affairs minister has harshly criticized the offshore plan, saying it would not provide maximum benefits to the local economy. Uncertainty over development of the gas-rich Masela block could threaten the project, forcing the partners to conduct a completely new feasibility study, further delaying the project. An Indonesia official said switching to an onshore project could add a year to putting together a plan of development.

The Masela block is located in the Arafura Sea, just north of the border with Australian waters. INPEX holds a 65 percent stake, with Shell at 35 percent. Gas was discovered in 2000. The block is estimated to be able to produce 1.2 billion cubic feet of gas per day and 24,000 barrels per day of condensate for 24 years, according to figures from Indonesia's Energy and Mineral Resources Ministry. Under the existing development plan, INPEX and Shell expect the block to start producing in 2024 through 2048.

Oil-producing countries cut subsidies, risk political unrest

(Bloomberg; Feb. 2) - Nigeria's bid for concessionary loans from the World Bank and the African Development Bank is just the latest example of the havoc wreaked on oil-producing nations by the slump in crude prices. From Saudi Arabia to Venezuela, governments are abandoning largess and risking political unrest with measures that include lowering energy subsidies and cutting public-sector wages. With prices still falling, attempts to diversify from oil have taken on greater urgency.

“A decade of abundance has been brought to an end by the worst terms of trade shock in a generation," said Simon Williams, chief economist for central and eastern Europe, the Middle East and North Africa at HSBC Holdings in London. “There's no painless means to adjust to the losses they face or easy way to reduce their structural dependence on oil."

For example, Saudi Arabia has taken unprecedented steps to counter the drop in revenue, including watering down a long-standing social contract that offered citizens a subsidized cost-of-living in exchange for maintaining authority. The government has increased the prices of fuel, electricity and water, and is also planning to introduce value-added taxes. The central bank's net foreign assets fell by about $115 billion in 2015. Selling stakes in state-owned entities, including oil giant Aramco, is on the table.