Oil and Gas News Briefs
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July 21, 2016

Japan's trade investigation could lead to LNG contract renegotiations

(Bloomberg; July 20) - Japan's probe into whether the resale restrictions in most of its liquefied natural gas contracts violate fair-trade laws may lead to the renegotiation of more than $600 billion worth of deals that run until almost the middle of the century. The world's biggest buyer of the fuel holds contracts for at least 1.46 billion metric tons of supply between next year and 2040, according to Bloomberg New Energy Finance.

Removing contracts that either don't bar the resale of LNG cargoes or that originate in countries which traditionally don't restrict reselling leaves about 1 billion tons linked to contracts that may include the limitation, worth $628 billion at last year's average price. Japan's Fair Trade Commission is in the early stage of investigating if destination clauses impede competition laws, and it may announce a finding as early as this year. LNG suppliers use resale restrictions to prevent buyers from becoming the competition.

Contracts may be renegotiated if the restrictions are found in violation, as happened last decade in Europe, reported BMI Research. "Every contract … would have to be inspected to see if the Fair Trade Commission findings apply," said Hiroshi Hashimoto, of the Institute of Energy Economics, Japan. The contracts are being reviewed as the bargaining power of LNG buyers strengthens amid a global glut and could quicken the shift by Japan's buyers from importers into international sellers. "If destination clauses are found illegal, it will give Japanese buyers more bargaining power to renegotiate existing contracts for flexibility," said Lu Wang, an analyst at Bloomberg Intelligence.

ExxonMobil offer for Papua New Guinea gas assets a smart move

(Reuters; July 19) - ExxonMobil's bid to buy a junior natural gas explorer in a remote Pacific country shows the rare corporate ability of planning a deal at the bottom of the commodity cycle that holds the promise of long-term returns. ExxonMobil has offered at least $2.2 billion for InterOil in order to obtain the smaller company's gas assets in Papua New Guinea. In doing so, the world's biggest listed oil company has trumped an offer from Australia's Oil Search, which was backed by French major Total.

At first blush the logic for the deal may seem somewhat lacking, given the sole use of InterOil's gas fields would be to supply a liquefied natural gas plant, and the last thing needed in the market is more of the fuel. The outlook for LNG prices is also constrained for the foreseeable future, as the market will have to absorb a surge in supply from new projects in Australia, the United States and the potential for more from East Africa.

So why would ExxonMobil bother buying InterOil's stake in gas fields in Papua New Guinea, especially when the company already operates an LNG plant in the country? It's that existing plant that holds the key. The best option for ExxonMobil to expand its plant is to acquire sufficient reserves to justify building a third liquefaction train. InterOil's Elk-Antelope field holds at least 6 trillion cubic feet of gas. It's also high-quality gas, and the cost of doing business in Papua New Guinea is less than in neighboring Australia.

This means ExxonMobil's bid, if successful, could underwrite expansion of its Papua New Guinea LNG project on a timeline that could deliver its first cargoes just as the global surplus of LNG is expected to disappear in the mid-2020s.

U.S. LNG no longer a bargain for Japan

(Nikkei Asian Review; July 19) - The Panama Canal now allows wider liquefied natural gas carriers to pass through, making it possible for U.S. shale gas to more easily make its way to Japan. But U.S. LNG is becoming pricey and no longer promises to help Japan cut its energy bills. Japan once pinned its hopes on U.S. LNG, and utilities, gas companies and trading houses rushed to invest in LNG projects. At the time, Japan's LNG costs were hitting record highs after the 2011 Fukushima nuclear plant disaster, and the promise of cheap U.S. shale gas was almost too good to be true.

Japan, however, finds itself in a bit of a pinch. "It is now cheaper to buy LNG from Southeast Asia and Australia than from the U.S.," a Japanese energy company representative said. A few years back, U.S. LNG prices were expected to be nearly half those of Southeast Asia, but now U.S. prices are nearly double Asian spot prices. It's because prices for Southeast Asian and Australian LNG are linked to oil prices, which have fallen, while U.S. natural gas prices have been rising of late.

In the summer of 2014, oil prices began to crash, taking Southeast Asian and Australian LNG prices along with them. Now, two years later, U.S. LNG is no longer competitive, even with the new Panama Canal savings. Some market watchers say it is pointless to import U.S. LNG unless oil prices climb above $60 per barrel. The question, though, is one of long-term demand. Japan imported 88 million tons of LNG in 2014. According to the government, the country's LNG demand is expected to drop to about 65 million tons by fiscal 2030. Given sluggish Chinese demand, the market is likely to remain glutted.

French company puts African LNG project on hold

(LNG World News; July 18) - French utility and LNG player Engie has put on hold its plans to build a liquefied natural gas export plant on the west coast of the Kribi region in southern Cameroon. The project includes a liquefaction plant with a maximum capacity of 3.5 million metric tons per year for export. Engie had been developing the project in partnership with Cameroon's state-owned oil and gas company Société Nationale des Hydrocarbures since 2008.

The two companies completed basic engineering design of the Cameroon LNG project in early 2016. However, the project — estimated to cost as much as $5 billion — has been shelved due to "unfavorable" market conditions. "As evidenced across the world, prevailing market conditions are not conducive to developing medium/large LNG liquefaction projects today. As such, the project has been paused ahead of the next phase of development," an Engie spokeswoman said.

Cameroon has proven gas reserves estimated at more than 5 trillion cubic feet, according to Engie's website. The Cameroon LNG project, which was also designed to produce liquefied petroleum gas for sale in the domestic market, included a 170-mile subsea gas pipeline connecting a series of offshore gas production platforms to the onshore LNG plant. In 2012, Engie and the state oil and gas company signed a term sheet of preliminary commercial agreements to buy gas from upstream operators.

B.C. is years away from LNG exports, if ever, says analyst

(CBC News; Canada; July 16) - Another delayed liquefied natural gas export project in British Columbia has some wondering if the hopes for a new industry in the province are in trouble. An analyst with Global Sustainability Research said delays are partly due to a worldwide glut bringing down LNG prices around the globe. David Hughes believes market conditions won't be favorable for LNG in B.C. for at least five years, if ever.

"I wouldn't hold my breath, at least not for the next few years anyway," Hughes said in an interview with CBC. Earlier this week, LNG Canada, an international partnership of four energy companies led by Shell, indefinitely delayed its final decision for a proposed LNG plant in Kitimat B.C., citing low prices. "While the gas production in North America has gone up, production in the rest of the world has gone up even more," Hughes said. "So it looks like gas prices ... are going to remain low for the foreseeable future."

A downturn in the global energy market makes Canadian-produced LNG unprofitable in Asian markets, Hughes said, adding that there are further issues complicating Canada's potential sale of LNG to China as that country is investing in its own energy sources. That includes alternative energy such as solar and wind, but also coal. "They've also made a deal with Russia … [for] pipeline gas from Russia at fairly low cost." Russia and Australia both have an advantage in selling to Asia due to proximity, Hughes said.

Sempra wins federal approval to expand Louisiana LNG export plant

(San Diego Union-Tribune; July 18) - The U.S. Department of Energy on July 18 gave a green light to expansion of Sempra Energy's Cameron LNG facility in Hackberry, La. The increase in export authorization will allow two additional liquefaction trains, producing almost 10 million metric tons of LNG per year, bringing the plant's total capacity for five trains to 25 million tons a year. Sempra already has received approval from the Federal Energy Regulatory Commission to expand the facility. The first phase of the project, at $10 billion, is scheduled to start operations in 2018.

"Essentially, we have all the major permits and licenses for the Cameron expansion," said Octavio Simoes, president of Sempra's operations. Japan's Mitsui and Mitsubishi and France-based utility ENGIE have partnered with Sempra on the Cameron project, signing 20-year contract commitments to take delivery of LNG. Sempra has not announced a date to start construction of the expansion project.

In a separate deal, Sempra wants to build a similar plant in Port Arthur, Texas, working in conjunction with Australia's Woodside Petroleum. Commercial operation could start between 2022 and 2023. Due largely to the growth in hydraulic fracturing and horizontal drilling, the amount of gas in the U.S. has boomed in recent years. Instead of importing LNG, the U.S. has pivoted into becoming a world exporter.

Former energy minister warns Algeria could run short for gas exports

(The North Africa Post; July 16) - Algeria's natural gas production and export capacity is facing dim prospects with estimates that the North African country could be a net importer of liquefied natural gas in two decades, warned the former Algerian energy minister, Nordine Ait-Laoussine. He said politics and bureaucracy are contributing to the demise of the energy sector by crippling Algeria's potential to attract investments.

In May, the Oxford Institute for Energy Studies issued a report "Algerian Gas: Troubling Trends, Troubled Policies" pointing to the depletion of Algeria's gas and declining export capacity. "Algeria would be left with only … (530 billion cubic feet per year) to export by 2030. In lower-production or high-demand (local demand) scenarios, it will cease exporting all together, therefore importing gas beyond any such a point," the report said. Algeria in 1964 was the first nation to export LNG. In 2015, Algeria exported almost 1.5 trillion cubic feet of gas: 572 bcf as LNG and 882 bcf by pipeline.

The demise of Algeria's oil and gas export capacity is largely due to increasing domestic energy needs and falling investments, notably following the Ain Amenas attack on a BP oil extraction plant that left dozens killed by terrorists. Algeria continues to be heavily dependent on hydrocarbon revenues, while little seems to be done to diversify the economy. The new minister of energy and mining opted for increasing production to address falling revenues, a move that risks further depleting gas reserves.

Developer wants to build LNG export facility offshore Louisiana

(Bloomberg; July 17) - Fred Jones is hoping that turmoil in natural gas markets doesn't sour his new venture. Jones is CEO of Delfin LNG, which has applied to build the first modern floating natural gas liquefaction plant in the U.S. He's doing so as new LNG export projects are primed to flood the market, slashing spot prices and making buyers less interested in signing long-term contracts that underpin ventures like his.

Jones expects the market to rebalance in the early 2020s, when Delfin would come online, anchoring its floating liquefaction vessels about 50 miles south of Louisiana, where they would receive shale gas piped from onshore. The company expects federal approval early next year. Jones said lenders are more comfortable funding floating liquefaction plants like his project because they can be moved if market conditions change and liquefaction services at the location are no longer profitable.

But many investors don't see FLNGs as a proven technology, said Rafael McDonald, global director of gas and LNG for consultancy IHS Inc. The first modern FLNG vessel left a South Korea shipyard in May and is expected to start producing offshore Malaysia for Petronas later this year. Many lenders want to see FLNGs perform for a few years before they'll feel comfortable, McDonald said. And with the market oversupplied, only projects at the low end of the cost curve with well-funded partnerships that can handle price risk will move forward, Sanford C. Bernstein & Co. analysts said in a July 8 report.

In role reversal, U.S. is sending LNG to the Middle East

(Financial Times; London; July 18) - For the U.S. to sell gas to the energy-rich Middle East might seem like sending coal to Newcastle, but it has started to happen as the American shale revolution upends the global flows of resources. Two cargoes of U.S. liquefied natural gas from Cheniere Energy's Sabine Pass plant in Louisiana have been delivered to Kuwait and Dubai in recent months to meet the growing demand for energy.

This reversal of the well-established flows of hydrocarbons from the Middle East to the U.S. reflects the boom in American gas production caused by the development of previously uncommercial shale reserves, and the soaring demand for energy in economies from the Gulf to North Africa. "We're in a time of huge change in LNG shipping routes," said Ted Michael of Genscape, a market data provider. "The old order is being overturned, and we haven't seen the dust settle yet."

Many Mideast countries have large gas resources but have not had the investment they need to bring their reserves into production. Countries with fast-growing economies have been forced to took to gas imports for power generation and industrial uses. Their rising demand coincides with a wave of additional supply reaching markets as new LNG export projects in Australia and the U.S. start up. Those additional supplies are depressing prices, making LNG a more attractive fuel for power generation, and low-cost floating regasification plants have made it easier for countries to become importers.

Shell LNG tanker will be first for expanded Panama Canal

(Bloomberg; July 18) - The first liquefied natural gas tanker to travel through the newly expanded Panama Canal locks will be carrying U.S. gas, the Panama Canal Authority said July 18. Shell's Maran Gas Apollonia vessel is scheduled to pass through the canal linking the Atlantic and Pacific oceans on July 25 after loading up with liquefied natural gas at the Cheniere Energy plant in Sabine Pass, La., according to the authority, which oversees the canal's operations.

BP's British Merchant LNG tanker is expected to become the second to pass through the canal the following day and a third tanker is slated for early August, the agency said. The ships will become the first to take advantage of a multibillion-dollar expansion that widened the canal enough to handle massive LNG tankers. Its opening stands to increase the potential for U.S. shale gas exports, which began just five months ago, by cutting shipping costs and times to the West Coast of Latin America and to Asia.

"The fact that three companies have booked passage means that it's viable and it's working more or less the way the canal authority hoped when they set up the tolls," said Jason Feer, head of business intelligence at Houston-based ship broker Poten & Partners. "I wouldn't be surprised if one of those goes to Asia." BP's tanker will carry gas from Trinidad to an import terminal on Mexico's west coast.

Gorgon plant to resume LNG production 'shortly'

(Platts; July 20) - Chevron is to restart production at the Gorgon LNG plant on Barrow Island off Western Australia shortly, a company spokesman said July 20. "Start-up activities are underway on Gorgon Train 1 with production to recommence shortly," the spokesman said. The facility was unexpectedly shut down and evacuated July 1, after a minor gas leak was detected in a low-pressure flare system. Construction, meanwhile, continues on the second and third liquefaction trains at the new plant.

The facility loaded its delayed second cargo by July 3 aboard the LNG carrier Marib Spirit, and it was delivered to the Dapeng LNG terminal in China's southern Guangdong province, according to S&P Global Platts trade flow software cFlow. Another four cargoes were initially scheduled for loading in July; all four vessels are currently idled in the Asia Pacific. The Gorgon project shipped its first LNG cargo in late March but was then forced to shut down due to a problem with the propane refrigerant circuit.

Hawaiian Electric cancels plans to buy LNG from B.C. plant

(Vancouver Sun; July 19) – The Hawaiian state utilities commission rejection of a merger between the state's largest electric utility and a Florida energy company has scuttled a deal to supply liquefied natural gas from British Columbia. In May, FortisBC announced it had signed an agreement to provide LNG to the Hawaiian Islands. It would have required an additional expansion to its Delta gas liquefaction facility, across the river from Vancouver, already undergoing a $400 million expansion to meet demand.

But Hawaiian Electric announced July 19 it had withdrawn from the LNG contract with Fortis and also its plan to upgrade one of its power plants to use gas as a move away from oil. The cancellations followed an announcement that the utility and Florida-based NextEra Energy had terminated their deal after Hawaii's Public Utilities Commission rejected NextEra's $4.3 billion purchase of the utility over concerns that it was a risk to ratepayers and vague in its commitment to the state's renewable energy standards.

The B.C. government had touted the deal as an example of the potential to export LNG. While more than a dozen LNG projects have been proposed for the B.C. coast, leading projects are languishing with continued delays as result of low energy prices, reduced capital spending and a worldwide oversupply of LNG. The Hawaiian Electric deal with Fortis for 800,000 metric tons of LNG per year was small compared to major projects, but it would have meant an $800 million expansion at the Delta plant.

B.C. community expects economic slump with LNG delay

(Terrace Standard; Terrace, BC; July 18) – Community leaders in Terrace, B.C., population 11,000, are anticipating a slump in economic activity in the wake of LNG Canada's decision to indefinitely delay its proposed liquefied natural gas project in nearby Kitimat. One developer has already put the brakes on a project planned for the city. "It's going to be tough on everyone and I'm sure the region is feeling it," said Kitselas chief counsellor Joseph Bevan. "It's disappointing in so many different ways."

LNG Canada partners announced July 11 they are postponing a final investment decision that was planned for later this year, citing market conditions. Terrace Mayor Carol Leclerc said the delay was understandable, though she remains optimistic that the region is still in line for future investment. "I definitely think it's disappointing because I think it's going to happen, just people are hoping for sooner rather than later," she said.

The developer of a potential Motel 6 said he won't move ahead with the project until the Canadian energy industry picks up. "We would like to start construction, but we have to wait for if the business economy improves in Terrace [and] especially in Saskatchewan as well," said landowner and Saskatchewan developer Joseph Tesar. "Our plans and blueprints are ready to go, so we are ready except for the economic conditions."