Oil and Gas News Briefs
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LNG price crash leaves little revenue for Australian government

(Australian Broadcasting Corp.; July 21) - Australia's largest ever investment boom of $200 billion in LNG projects during the past decade has crashed spectacularly and left the federal government with little or no revenue to show for it. Australia's gas is now being exported to Asia at close to the cost of production, leaving investors with marginal returns and raising the prospect that some coal-seam gas projects may be mothballed.

"We are on the cusp of becoming the biggest … LNG exporter in the world," said energy analyst Greg Houston. But the collapse of LNG prices means there will be little or no financial benefit. "The crash is a slow-moving train wreck," Houston said. "The price has dropped by 75 percent. That's a huge financial hit to the people who have made this investment." Long-term contracts for the gas have been pegged to the price of oil, which has meant the recent steep fall in the oil price has also hit LNG exports.

"The drop in oil prices has really hit the economics of these projects hard, as it's happening right when they are starting up," said Wood Mackenzie analyst Saul Kavonic. At risk, Kavonic believes, are some of the coal-seam gas projects based at Gladstone, which could be forced to run below capacity or shut down. "There is no doubt that the current low oil prices are very inconvenient," said Origin Energy CEO Grant King. Origin is a partner in one of Australia's newest LNG plants fed by coal-seam gas.

The LNG boom has also been of little benefit to taxpayers, said Monash University's Diane Kraal. "In terms of revenue from tax, it's very minimal," she said.

Report says low oil prices will hold down LNG prices for years

(Engineering News; July 21) – Liquefied natural gas will play an increasingly significant role in the transition to a low-carbon world, though the market will become more volatile and risky, said PwC's strategy-consulting business Strategy&. In an analysis "Navigating the Transformation of the Gas Market," Strategy& said the "thirst" for gas would continue growing. "Although some slowdown in demand growth is expected as global economic conditions soften, particularly in China, LNG orders are not going to decline anytime soon."

It said the biggest demand gains could be expected Africa and Asia. But the report also said gas prices would be influenced by oil prices for several years. "If oil prices stay low, so will gas prices. Existing contracts linked to oil will have to be worked through first. But even if oil and gas are delinked after these contracts are concluded, inexpensive oil could psychologically have a dampening effect on all energy prices."

Meanwhile, Strategy& also warned that the global LNG market is about to become inundated with new supplies, with a supply glut to continue. Some producers would likely cut prices to defend market share against LNG imports. "LNG is a buyer's market right now, especially with a glut of natural gas on the market."

Indian buyer wants to renegotiate LNG contract with Gazprom

(Reuters; July 25) - GAIL India is in talks with Russia's Gazprom to delay and renegotiate a 20-year liquefied natural gas purchase deal undercut by low spot prices, sources familiar with the matter say, as weak demand at home forces GAIL to stall some contracted supply. Shipments under the deal, initially expected to start in 2018-2019, are linked to oil prices which are rising while LNG prices are expected to stay subdued for longer as major new production plants in Australia and the U.S. start up.

The price mismatch is injecting tensions into long-term LNG agreements, driving a wedge between buyers and sellers such as GAIL and Gazprom. GAIL is also trying to juggle a rapidly expanded LNG book after embarking on a buying spree between 2011 and 2013 when the fuel was scarce and prices hit new peaks. GAIL wants a meeting with Gazprom to discuss delaying the deal and revising its oil-linked price, sources said. At current oil prices, Gazprom's LNG will cost more than $7 per million Btu while spot cargoes fetch around $5, a big difference in a price-sensitive market like India.

By exploiting what GAIL sees as an inconsistency in its contract with Gazprom, GAIL hopes to revise key terms under the deal for 2.5 million metric tons per year, according to sources. Under the 20-year accord, signed in 2012, Gazprom said it would source its supply from the now-cancelled Shtokman LNG plant in the Barents Sea. Gazprom now aims to source supply from its global portfolio, including a share in the forthcoming Yamal LNG project in the Arctic, which GAIL claims constitutes breach of contract.

Exxon agrees to deal for Papua New Guinea gas assets

(Dallas Morning News; July 21) - ExxonMobil agreed July 21 to buy natural gas explorer InterOil Corp. for more than $2.5 billion. The deal expands Exxon's reach in Papua New Guinea, where InterOil holds a significant stake in the Elk-Antelope gas field. Exxon already operates a liquefied natural gas plant in Papua New Guinea, and integrating the additional reserves with that project could lower costs and make the gas more competitive in an oversupplied market.

While gas export projects globally are being delayed or scrapped amid a downturn in the energy industry, Papua New Guinea is seen as one of the most promising locations due to lower development costs and gas reserves that also include condensates, a type of light oil that adds additional revenue to a project. If the partners in the country's gas assets integrate their reserves, they could save $2 billion to $3 billion in capital costs, according to Oil Search, one of ExxonMobil's partner in Papua New Guinea LNG.

More than half of U.S. LNG through 2019 contracted to Asian buyers

(Bloomberg; July 21) - More than half of the liquefied natural gas leaving the U.S. over the next three years is contracted to Asian buyers. The U.S. is slated to bring online 42.9 million tons a year of LNG export capacity in the next three years, with 52 percent contracted to utilities and national oil and gas companies in Japan, South Korea, India, Taiwan and Singapore, a Bloomberg New Energy Finance analysis shows.

The U.S. is emerging as one of the largest suppliers of the heating and power-plant fuel in the world as shale drillers seek to eliminate a glut of gas at home. Five LNG export terminals are under construction across the nation, with more under consideration. While suppliers have targeted Asia as a prime market for U.S. cargoes, shipments have so far been delivered mostly to nearby South America. The recent Panama Canal expansion will cut the travel time and costs for cargoes bound for Asia.

More than half the LNG cargoes from Cheniere Energy's plant in Sabine Pass, La., that started operations in February have gone to Argentina, Brazil and Chile, said Anastacia Dialynas, a Bloomberg New Energy Finance analyst. Others went to Kuwait, the United Arab Emirates, Portugal and India. The first to Asia likely will be on its way later this month. Of the U.S. export capacity set to come online through 2019, about a third either isn't contracted or is held by project investors, Dialynas said. About 22 percent of the capacity is held by portfolio buyers such as Shell, which can send the gas anywhere.

Japanese utility signs 17-year LNG supply deal with Total

(Nikkei Asian Review; July 22) – Japan's Chugoku Electric Power has signed a deal to buy liquefied natural gas from French oil major Total for 17 years starting in 2019. The utility serving western Japan will receive 400,000 metric tons of LNG a year under the agreement. This marks the first LNG purchase deal between the two companies. The value has not been disclosed.

Hiroshima-based Chugoku Electric has been trying to diversify its power-source mix. With LNG prices low in tandem with cheap crude oil, the company saw an opportunity to secure a stable supply of natural gas at low cost. Total has been strengthening its LNG business lately, with a focus on Asia and other regions.

Chevron signs up another LNG customer in China

(UPI; July 21) - Chevron said it will start shipping liquefied natural gas to a Chinese business in 2018. Chevron said it signed an agreement with a Singapore holding company controlled by JOVO, a private energy company in China. Under the terms of the agreement, Chevron will deliver a half-million metric tons of LNG per year for five years, with first deliveries slated for 2018.

China is moving in favor of gas as a larger component of its energy mix. The government in April set a goal of raising gas to 6.3 percent of the country's total energy mix; gas last year represented 5.9 percent of total energy consumption. The latest LNG deal is at least the third for Chevron in the Chinese market since December, when it signed with China Huadian Green Energy for the delivery of up to 1 million metric tons of LNG per year over 10 years, starting in 2020.

Chevron operates Gorgon LNG in Australia, which started up this year, and is a partner in a second Australia project, Wheatstone LNG, which is set for start-up next year. The company did not announce where it would source the LNG for delivery to China.

Northeastern B.C. looks for other industries that could use its gas

(The Mirror; Dawson Creek, BC; July 20) - Northeast B.C. mayors and the province's natural gas ministry are looking for alternative markets for B.C. petroleum products after a string of bad news for B.C.'s stalled LNG export industry. Natural Gas Minister Rich Coleman and members of the Northeast B.C. Resource Municipalities Coalition have been in discussions about attracting investment in value-added industries that could use British Columbia gas, according to a July 19 news release from the coalition.

Those industries could include petrochemicals, plastics, methanol, gas-to-liquids and natural gas for transportation uses. "The coalition will be having further meetings with Minister Coleman … to examine opportunities to develop a sophisticated gas processing industry in the northeast, well beyond extracting natural gas liquids," Fort St. John Mayor Lori Ackerman said. The region is rich in natural gas resources, but lack of a market has held back investment in new production.

The coalition's statements come after major setbacks for B.C.'s LNG export plans. Earlier this month, Shell-led LNG Canada, a proposed export plant in Kitimat, announced it would not be making an investment decision this year as planned. A deal to export B.C. gas to Hawaii fell through. And Pacific NorthWest LNG, near Prince Rupert, the project many analysts say has the best chance of being built, won't have an answer on its federal environmental assessment until mid-September.

Businesses disappointed but still hopeful for LNG industry in B.C.

(Journal of Commerce; Burnaby, BC; July 20) - Industry stakeholders are disappointed but not surprised by an indefinite delay for one of British Columbia's biggest liquefied natural gas projects. The LNG Canada consortium, consisting of Shell, Korea Gas, PetroChina and Mitsubishi, recently announced it would delay its final investment decision on a proposed LNG project near Kitimat, B.C.

Keith Sashaw, president of the B.C. chapter of the Association of Consulting Engineering Companies, said the issue is complex, with proponents making decisions on projects that may last for 40 to 50 years. "Current conditions don't lend themselves to a decision to build, based on today's prices, but it could be a whole other set of circumstances in two to three years," Sashaw said. He also cited the difficulty in B.C. of gaining approvals for megaprojects as another stumbling block.

Sashaw said despite the Kitimat delay, there is still optimism in the industry. "It's not a definite no, and we're still hopeful there will be one or two plants forthcoming," he said. The LNG job prospects put forward by Premier Christy Clark and others a few years ago were "exaggerated," said BC Building Trades executive director Tom Sigurdson. "There was a false expectation that we'd have a debt-free B.C. and a prosperity fund. It just didn't come to fruition, and we're disappointed in that," he said.

B.C. plant operator looks for LNG customers to replace Hawaii

(Platts; July 21) - FortisBC is in talks with other possible customers for LNG from its Tilbury LNG facility in British Columbia, across the Fraser River from Vancouver, and may have to put a further expansion of the liquefaction plant on hold after a key contract with Hawaiian Electric was killed by the collapse of a proposed merger between the state's largest electric utility and Florida-based NextEra Energy, a Fortis representative said July 21.

The proposed contract with Hawaiian Electric was for the supply of 800,000 million metric tons of LNG per year from Tilbury starting in 2021. The expected deal had underpinned a proposal to further expand the LNG facility, which is already in the middle of a $400 million expansion project. But the contract with Hawaiian Electric was contingent on the merger approval.

A FortisBC spokeswoman said the additional expansion "is not planned unless there's further additional customers" for the LNG. The expansion under way will help the plant meet growing demand for marine and highway transport users, and from remote communities turning to LNG for power generation. The planned $400 million expansion to serve Hawaiian Electric would have substantially boosted the plant's capacity.

B.C. approves $120 million in credits for gas industry

(Vancouver Sun; July 19) – British Columbia has approved $120 million in tax breaks to 10 energy companies in exchange for continued spending on developing the industry's infrastructure in northeastern B.C., Natural Gas Development Minister Rich Coleman said July 19. The companies are expected to spend $185 million on 15 pipeline or road-building projects. The tax breaks, taken as deductions from gas royalty payments to the province, are under the Infrastructure Royalty Credit Program, first offered in 2004.

Companies have spent $2.7 billion on 300 authorized projects under the program, which runs through the end of 2018 at $120 million per year. Regardless of the credits, however, drilling activity in B.C.'s northeast has plummeted, according to the B.C. Oil & Gas Commission, as the industry is suffering through a period of low prices. Companies drilled 171 new wells to the end of June this year — the lowest mid-year figure since 1993 — compared with 280 for the same period in 2015.

Mitsui will operate floating LNG receiving station in Uruguay

(Nikkei Asian Review; July 22) - Japanese shipping company Mitsui O.S.K. Lines will begin operating an offshore liquefied natural gas receiving and storage unit in Uruguayan waters in 2018, seeking to develop a steadier source of revenue than its mainstay shipping business. The company signed a 20-year contract July 20 with a government-affiliated business in Uruguay. Mitsui O.S.K. will invest roughly $375 million and build a ship-like LNG receiving unit stationed about a mile from the coast.

The floating storage and regasification unit, or FSRU, will store liquefied natural gas delivered from the Middle East and the U.S. via LNG carriers. The unit will feed the gas to power stations and other sources on the mainland through a pipeline after returning the fuel to gaseous form. The floating terminal is expected to supply gas to Argentina and other neighboring countries as well. The FSRU's world-leading storage capacity will be about 50 percent higher than similar existing facilities elsewhere.

The higher capacity will let the plant deal better with the larger LNG carriers expected due to the expansion of the Panama Canal. Mitsui O.S.K. would become the first Japanese shipping company to operate an offshore LNG receiving and storage facility on its own. The shipper in 2013 invested in a facility off the coast of Tianjin, China, but the facility has been operated by a Norwegian company. Mitsui's mainstay shipping business is highly susceptible to the ups and downs of the global economy.

Samsung expects work order for floating LNG project in Mozambique

(Reuters; July 21) – South Korea-based Samsung Heavy Industries expects to receive an order this year from Italy’s Eni to build a floating LNG platform to process huge offshore gas reserves in Mozambique, a Samsung spokesman said July 21, a sign the long-delayed project is moving ahead. Samsung Heavy is in exclusive talks with Eni as part of a consortium with France's Technip and Japan's JGC in a project worth about $5.4 billion. Samsung's share would be worth $2.5 billion, the spokesman said.

"We expect the order in the second half of this year," a Samsung Heavy spokesman said. Mozambique made one of the biggest gas finds in a decade in 2010, offering the opportunity to transform one of the world's poorest countries into a major liquefied natural gas exporter. Eni is due to build an offshore processing plant, while U.S. firm Anadarko is planning a vast onshore development. But both projects have faced uncertainty, and investors are keenly awaiting long-delayed final investment decisions.

Samsung's announcement opens the door for Eni to make its final call this year, which would make Anadarko's development more likely to proceed, industry sources said. The projects could unlock as much as $30 billion of investment. Mozambique is mired in a deep debt crisis and gas investment is the most likely escape route after donors shunned the southern African country for hiding billions of dollars of state borrowing.

Union questions safety at Chevron’s Gorgon LNG plant

(Reuters; July 22) - Forced to shut its $54 billion Gorgon liquefied natural gas export plant twice in its first five months, Chevron now faces calls from union officials for a probe into the project’s safety. Chevron denies there have been any safety breaches at the plant in Australia but is under pressure to resolve problems that have limited exports to just two cargoes since starting operations in March. The Australian Manufacturing Workers’ Union has told Reuters it has formally requested access to the site.

“The AMWU wants to know why it failed, and what checks were carried out to ensure it met Australian standards,” said Steve McCartney, West Australian secretary of the AMWU. Chevron called the leak “minor,” although it did evacuate some workers. On July 20 the company said it expected to resume production shortly.

Chevron, which is counting on Gorgon to help it become an LNG leader in Asia, reported its first shutdown in April and was forced to shut again following a gas leak on July 1. In interviews with Reuters, site workers and industry sources familiar with operations at Gorgon said mistakes led to the first shutdown. The shutdowns have cost Gorgon more than $200 million in lost output, excluding repairs and other expenditures, one industry consultant estimated.

Higher oil prices may wipe out U.S. backlog of unfinished wells

(Bloomberg; July 22) - The number of dormant oil and gas wells in the U.S. stopped growing in the first quarter — and may all but disappear in the nation's biggest oil field should prices hold steady. As of April 1, there were 4,230 wells idle after being drilled, a figure little changed from January, according to an analysis by Bloomberg Intelligence. While some explorers have continued to grow their "fracklog" of drilled but not yet hydraulically fractured wells, others began tapping them in February as oil prices rose.

Crude in the $40- to $50-a-barrel range may wipe out most of the fracklog in the Permian Basin in Texas and as much as 70 percent of the inventory in its Eagle Ford play by the end of 2017, according to Bloomberg Intelligence analyst Andrew Cosgrove. But while bringing them online is the cheapest way of taking advantage of higher prices, the wave of new supply also threatens to kill the fragile recovery that oil and gas markets have seen so far this year.

Drillers that expanded operations in U.S. shale fields found that sidelining wells was the easiest way to cut costs when oil and gas prices plunged. Since then, these wells have been "just sitting around, basically waiting for a better price to come along," said Het Shah, an analyst at Bloomberg New Energy Finance.