Oil and Gas News Briefs
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Japan forecasts decline in LNG imports as nuclear plants restart

(Platts; July 25) - Japan's LNG import price over July-December is expected to average $6.60 per million Btu, compared with $6 in January-May this year, and will likely rise to $7.40 for calendar year 2017 on the back of higher oil prices, the Institute of Energy Economics, Japan said July 25. "There is a possibility that the gap between the long-term LNG price (linked to oil) and spot price (based on market conditions) will widen as we expect LNG spot price to remain depressed and to trade around $5 with more supply to be added to the market," the IEEJ said.

IEEJ projects crude oil prices at $47 to $50 per barrel the rest of this year. For 2017, Brent, West Texas Intermediate and Dubai oil prices are expected to rise to $55, $54 and $52, respectively. Regardless of oil prices, Japan's LNG imports are expected to total 82.2 million metric tons for fiscal year 2016-17 (April-March), down 6.2 percent year on year, and fall further to 70.9 million tons in fiscal 2017-18, according to IEEJ.

The estimates are based on the assumption that seven nuclear reactors will restart by March 2017, with an additional 12 reactors to restart in the next fiscal year starting April 2017, bringing to total 19 nuclear reactors up and running by the end of March 2018.

Osaka Gas looks to resell surplus LNG to German company

(Nikkei Asian Review; July 28) - Energy provider Osaka Gas looks to begin selling liquefied natural gas abroad as soon as 2018, seeking to profit from foreign markets hungry for the fuel as competition in Japan crimps the utility’s growth. Osaka Gas is working toward an agreement to sell LNG produced from U.S. shale gas to Uniper, a unit of German company E.ON. Uniper deals in energy trading and power generation.

The deal likely will involve a roughly 20-year contract under which Uniper would be responsible for shipping the gas from the point of production. As much as 800,000 tons of LNG would be supplied yearly, or one-tenth of the volume Osaka Gas currently buys. The LNG sold to Uniper would be exported from the Freeport liquefaction plant and loading facility under construction in Texas. Osaka Gas in 2012 signed a 20-year agreement with Freeport LNG for 2.32 million metric tons of LNG a year starting 2018.

That volume represents nearly 30 percent of current annual LNG imports by Osaka Gas. But the utility’s sales to its own customers are expected to grow only 1 percent or so per year until fiscal 2020. The company thus will need to resell as much as 30 percent of its contracted volume from the Freeport project to other energy companies.

The utility’s contract with Freeport LNG does not restrict such resales. Osaka Gas wants to develop a reliable way to sell surplus LNG it does not need.

Strengthening of LNG prices in Asia could be short-lived

(Bloomberg; July 26) - LNG’s surge is running out of gas. Liquefied natural gas in Asia, which was in such oversupply that prices in Japan fell to a decade-low in April, has risen by almost half in the past three months as production outages stifled supply, demand rose in places like China and India and a cold snap in Europe increased the need for the fuel. But the resurgence likely won’t continue, said analysts surveyed by Bloomberg.

Chevron restarted LNG production at its Gorgon plant in Australia July 22 after halting it twice this year because of malfunctions. And other new projects coming online in the second half of the year are expected to add supply and once again overwhelm global demand. “This is likely just a short-term uptick in spot prices,” said Gautam Sudhakar, IHS Markit’s Washington D.C.-based director of global LNG. “There is a lot more capacity coming into the market and ramping up in 2017. Supply growing faster than demand should prevent a strong uptick in prices,” Sudhaker said.

Meanwhile, demand has been stronger than expected in many Asian countries. China imported 11.5 million tons over the first six months of 2016, up 21 percent from the same period last year. India imported about 9.5 million tons in the first half of the year, up 45 percent. Spot LNG in Singapore rose to $5.65 per million Btu July 25, according to a Singapore Exchange assessment. That’s up 45 percent from April 18.

BP could make investment decisions on three projects this year

(Reuters; July 26) - BP will forge ahead with at least three more new projects this year, its CEO said, despite the oil major reporting a 45 percent drop in second-quarter earnings that prompted a cut in its 2016 investment budget to below $17 billion. The earnings results missed expectations, with analysts surprised by higher corporate charges, including administrative costs relating to Gulf of Mexico oil spill liabilities, and a lower contribution from BP's stake in Russian oil producer Rosneft.

Though BP chief Bob Dudley acknowledged that the global oil glut's impact on refining margins and revenue continues to make for a challenging environment, he said capital expenditure plans have been helped by a drop in costs. "We're going to choose our projects really carefully, and the cost reductions and re-engineering of the projects has really brought them down to what I think is a very attractive (price range)," he said.

Dudley said BP could make three more final investment decisions this year, having already signed off on expansion of its Tangguh liquefied natural gas plant in Indonesia and Atoll offshore gas project in Egypt. A gas project in India, the second phase of the Mad Dog deepwater oil field in the Gulf of Mexico and a Trinidad offshore gas project could all get the green light, he said. The Trinidad field was discovered in 1995. BP is a partner in the LNG export plant in Trinidad, which started operations in 1999.

Eni, Mozambique moving toward LNG investment decision this fall

(Reuters; July 25) - Mozambique's long-delayed offshore natural gas project with Italy's Eni could be approved within months, sources said, sparking LNG investments with the potential to transform one of the world's poorest countries into a major energy player. Mozambique made one of the world's biggest gas finds in a decade in 2010, but negotiations with lease holders Eni and U.S. firm Anadarko have dragged on for years due to disputes over terms and concerns about falling energy prices.

Eni has in recent weeks struck deals with contractors and Mozambique's government that could help it to make a final investment decision Oct. 31, sources said. Eni has previously said it expects to make a decision on an LNG project this year or next. Reserves in Mozambique's Rovuma Basin amount to some 85 trillion cubic feet. It is likely to take at least five years after FID before production begins. Anadarko's project is expected to lag Eni's and its final investment decision is unlikely this year, sources said.

Korea's Samsung Heavy said last week it was in exclusive talks with Eni to provide a floating liquefied natural gas platform as part of a consortium with France's Technip and Japan's JGC. Negotiations with Mozambique over tax terms and the funding of the national gas company have also made moved forward in the past two months, the sources said. Eni has already reached a deal to sell the gas to BP. The last major sticking point is how Eni will finance the $11 billion development, the sources said.

Weak global market could reduce LNG traffic through Panama Canal

(Financial Post; Canada; July 26) - The passage this week of two LNG tankers through the Panama Canal, including one that loaded up at Cheniere Energy's Louisiana terminal, marked a long-expected shift in global LNG shipping patterns, albeit one that comes amid a souring outlook for natural gas markets that has already hampered projects in the U.S. and British Columbia. Before the expansion, LNG carriers were forced to travel around South America to reach markets in Japan and South Korea.

"The way the global market has changed the last couple of years, and all of the supply that's coming on, its significance (canal expansion) is going to be less than what was thought at the time," said Robert Ineson, managing director for North American gas at IHS Energy. Demand for the product is waning in most Asian markets that were largely responsible for bringing about the initial surge of demand. The five largest markets in Asia have seen decreased imports of LNG for four consecutive years.

Ineson said the influx of new LNG supply capacity coming online coupled with tepid demand in Asia could significantly reduce LNG traffic through the canal compared to estimates a few years ago. “Our expectation is that the [price] differential between the Atlantic and Pacific basins will narrow to the point that you won’t see inter-basin trade at all,” he said. U.S. LNG export projects could be forced to run their operations at as little as half their intended capacity should the gas glut continue, Ineson said.

[B.C. hereditary chiefs want further review of LNG project]

(Vancouver Sun; July 26) - Hereditary chiefs from two First Nations in northwest B.C. have called on regulators to extend by four months a review of the Pacific NorthWest LNG project, proposed for near Prince Rupert. In a letter to the Canadian Environmental Assessment Agency on July 22, representatives of the Allied Tsimshian Tribes of the Lax Kwalaams and the Gitanyow Hereditary Chiefs said more time is needed to properly consult them as hereditary chiefs and address environmental concerns.

They argue consultation has taken place with band councils but not the proper land and aboriginal rights holders. This latest development challenges the assumption that band councils represent a First Nation on land titles and adds an issue to an environmental assessment that has been delayed several times. Just last month, the CEAA said the project, led by Malaysia state-controlled Petronas, had satisfied its information requests.

The agency will now finalize a draft report, after which the federal government will make a final decision, possibly by mid-September. An agency spokeswoman said the office will take the recent submissions into account. Robin Junger, a lawyer with McMillan in Vancouver who specializes in aboriginal and environmental law, said the development raises a question on consultation. In some cases, band councils may have the authority to speak on behalf of a First Nation, but generally that right rests with the collective group of people with a common language and culture. Only when the “collective” people has given authority to the band council can they speak on their behalf, Junger said.

[LNG industry’s lack of success in B.C. a lesson for Canada]

(Edmonton Journal columnist; July 22) – B.C. Premier Christy Clark once dreamed of wiping out her province’s debt and creating a $100 billion Prosperity Fund from the riches generated by an LNG industry. Clark figured exports to energy-hungry Asia would boost B.C.’s economic output by an eye-popping $1 trillion or so over 30 years and generate 39,000 full-time jobs annually over a nine-year construction period. The first LNG plant was expected to be operating by 2015, with two more to follow by 2020.

Sadly, none of this happened. B.C.'s LNG industry remains little more than a fantasy. None of the dozen-plus proposed LNG export plants are under construction. With LNG prices in the ditch, the odds of one being built anytime soon appear slim. Meanwhile, it's a different story next door. The U.S., which has been far more adept at approving and constructing LNG export capacity by converting underused import terminals into export facilities, is on track to become an LNG powerhouse in just a few short years.

The U.S. is set to become the world's third-largest LNG exporter by 2021. For its part, Canada remains little more than a bystander. No wonder there was little talk of LNG when Canada's premiers held their annual summer gabfest this week in Whitehorse, Yukon Territory. Instead, the leaders focused on everything from beer taxes and carbon pricing to marijuana legalization. Like Canada's endless debate over oil pipelines, the failure of B.C.'s LNG industry is a lesson in how Canada has squandered its chances. Instead of "can do," our national mantra has become "woulda, coulda, shoulda."

Puget Sound tribe loses appeal against Tacoma LNG plant

(The News Tribune; Tacoma, WA; July 22) - Puget Sound Energy's proposed liquefied natural gas production and storage plant at the Port of Tacoma, Wash., moved a step closer to reality this week when a state panel upheld a key permit. The state Shorelines Hearings Board rejected the Puyallup Tribe's appeal of a Tacoma city development permit that allows Puget Sound Energy to develop along the Commencement Bay shoreline, over objections that it would harm conditions in the Blair waterway.

The company plans to build a $275 million facility on 30 acres, taking natural gas by pipeline and super-chilling it into LNG for use by utilities at peak demand and for fueling LNG-powered ships. Puget Sound Energy already has a customer for the marine fuel — Totem Ocean Trailer Express, which will convert its two Tacoma-Alaska ships to run on LNG. The new Tacoma plant would store up to 8 million gallons of LNG on site, equivalent to about 660 million cubic feet of natural gas.

The Puyallup Tribe had argued to the state agency that the city permit for shoreline construction should be revoked. It said the city should have required testing of waterway sediment for pollution. The Shorelines Hearings Board's ruling, issued July 18, rejected those arguments. The board said the project "achieves no net loss of ecological functions." The tribe can appeal the ruling to the state court system. A company spokesman said Puget Sound plans to start site clearing this year.

New U.K. prime minister likely to promote shale gas development

(Bloomberg; July 24) - As Prime Minister Theresa May's new government prepares to take the U.K. out of the European Union, it's likely to promote one technology shunned by most nations on the mainland — fracking. May, her predecessor David Cameron, and newly appointed members of her Cabinet including former Energy Secretary Amber Rudd, have supported hydraulic fracturing of Britain's shale rock to reduce the nation's increasing dependence on gas imports.

Cameron's government planned to go "all out for shale," and the new Cabinet probably won't change its view as officials are set to decide whether to approve applications to frack by companies from Cuadrilla Resources to IGas Energy. Fracking has been banned or suspended in EU nations including France, Germany and the Netherlands, as well as in Scotland and Wales.

While May hasn't directly addressed shale gas in any major speeches, she heads a government stacked with fracking supporters. Home Secretary Rudd has pushed to spread the practice. Greg Clark, head of Business, Energy and Industrial Strategy, was in charge of fracking applications when he was Secretary of State for Communities. He said he would take away the power of county councils to make fracking decisions if they can't stick to timelines because shale development is a matter of national importance.

U.S. natural gas prices on the rise

(Barron's; July 23) - U.S. natural gas prices have made big gains since the end of winter, and they may have more room to run. A steamy summer and growing gas exports have boosted demand, while low oil prices have caused production to decline. That's cut into the glut of gas left in storage at the end of winter — and means that stockpiles will likely begin this winter heating season less bloated than last year, setting the stage for longer-term price increases.

Wells Fargo Securities recently lifted the price it expects gas to reach next year to $3.12 per million Btu, up from $3. Natural gas settled July 22 at $2.777 on the New York Mercantile Exchange. That's up 19 percent from the start of the year and 69 percent from its low in early March, when the warmest winter on record left stockpiles at record levels. Hot weather that had air conditioners humming and fallout from the oil bust prompted a big rally in June, and the surplus of gas in storage has shrunk significantly.

The Energy Information Administration said it expects record volumes will be burned for power generation this month and next, as the fuel builds on the lead it established over coal last year as the country's top source of electricity. Though some, including the EIA, warn that rising prices could tip power plants back toward coal, the agency expects gas to account for 34 percent of U.S. electricity this year. Meanwhile, exports to Mexico are up 35 percent to 3.5 billion cubic feet a day, and LNG exports are small but growing.

Canadian pension funds considering stake in Mexican gas lines

(Bloomberg; July 25) - At least two groups that include Canadian pension funds are planning to submit bids this week for a minority stake in TransCanada's Mexico pipeline business valued at about $2 billion, people with knowledge of the matter said. Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Borealis Infrastructure have formed a consortium to make an offer for the stake of as much as 49.9 percent of the business, according to the sources who asked not to be identified.

And pension fund investment manager Caisse de Depot et Placement du Quebec's new Mexican joint venture, CKD Infraestructura Mexico, also is preparing to make a proposal for the pipeline stake, sources said. At least three other suitors are exploring bids, they said. "We are in the process of seeking passive investors to take a minority stake in our Mexico natural gas pipelines business," TransCanada spokesman Mark Cooper said July 25. "We will not provide any further updates or respond to speculation."

Mexico represents a unique opportunity for the Canadian pension funds, which have a long history of investing in infrastructure assets around the globe. In addition to the Caisse joint venture in the country started last September, Canada Pension and Ontario Teachers' Pension Plan teamed up with a local partner in June to make their first investment in Mexican infrastructure, a toll-road operation.

U.S. activists target Canada's Energy East oil sands pipeline

(Financial Post; Canada; July 26) - The big U.S. green group that led the assault against the unsuccessful Keystone XL oil pipeline is firing its opening salvo July 26 against the Energy East oil line, joining other opponents. New York-based Natural Resources Defense Council is holding a press conference to talk about its report on the "potential harm if it [Energy East] goes forward to communities (including those that depend on fishing), iconic species (including whales), special places and the climate."

In a news advisory, the NRDC paints Energy East as even worse than Keystone XL. Both pipelines were proposed by Calgary-based TransCanada. Keystone, which was rejected by the U.S. government, would have piped Canadian oil sands production to the U.S. Gulf Coast. Energy East would move that same oil more than 2,800 miles across Canada to the East Coast for export.

The NRDC's website features a fundraising campaign with a photo of celebrity and anti-oil sands activist Robert Redford with his arms crossed and the headline: "Let's Ban Tar Sands Tankers." The group wants the U.S. to ban tankers carrying oil sands production from transiting or unloading along the East Coast.

Global oil inventories hard to accurately measure

(Wall Street Journal; July 24) - The historic fall in oil prices has created a pile-up of inventories, much of it stashed in tanks in the U.S. and other industrialized countries that are committed to disclosing the latest tally, but millions of barrels of oil are flowing to locations outside the scope of industry trackers. Some countries, such as Russia and China, choose not to report their oil-storage volumes. And traders and oil companies that park supertankers have no obligation to make public their supply.

This makes for more cryptic and volatile oil markets. How much crude is in these locations, and how quickly it can be resold into the market, can affect oil prices. Singapore, home to one of the world's busiest ports and the Asian headquarters of many big oil-trading firms, is one country befuddling analysts. The waterways surrounding the island nation have become home to one of the world's biggest oil-storage sites. But it is unclear how much oil is in the tankers anchored there.

At the beginning of July, 23 supertankers capable of holding 43 million barrels of oil were anchored for a month or more in the Singapore straits, according to Thomson Reuters, up from 15 ships at the start of the year. But no official count of the oil exists. Thomson Reuters and others offer estimates based on the reported level of a vessel's waterline. Yet a number of ships are likely carrying fuel oil, a refined product used in shipping. Others may be carrying seawater. With little hard data on storage, analysts piece together inventories using a patchwork of public information and guesswork.

U.S. oil-by-rail volumes fall to half 2014 level

(Wall Street Journal; July 25) - The U.S. oil-train boom is waning almost as quickly as it began. Rail became a major oil hauler after companies began unlocking new bounties from shale formations, with volumes rising from almost nothing in 2009 to more than a million barrels a day by 2014. But those numbers began falling after oil prices started tumbling two years ago, and aren't projected to recover anytime soon. In April, just 430,000 barrels of oil rode the rails each day, according to the latest federal figures.

Some of the decline came from a drop in oil production, but oil and rail executives say the drop-off may be permanent. "At least some portion, and it could be a pretty large portion," of the rail business won't return, said Union Pacific CEO Lance Fritz. More pipelines have begun reaching North Dakota and other shale regions, giving producers a cheaper way to move their oil to market, cutting into the rail business. Also, a string of fiery oil-train derailments have prompted new and expensive regulations.

Regulators have mandated new safer tank cars, and older tank cars are being phased out — adding to costs. The changes are evident in North Dakota, once the epicenter of crude-by-rail. EOG Resources, one of the first oil companies to see potential for trains to relieve pipelines, opened its first rail loading terminal in Stanley, N.D., in 2009. But that terminal hasn’t loaded a train in over a year. “New pipeline infrastructure has been put in place to move significant volumes of oil to market,” an EOG spokeswoman said.