

Oil and Gas News Briefs

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June 13, 2016

LNG plants will run below capacity until demand comes up to supply

(Bloomberg; June 9) - Liquefied natural gas plants will run below capacity and investment in new projects will be delayed as demand struggles to catch up with a record jump in production, according to the International Energy Agency. Annual LNG demand is forecast to increase by 5 trillion cubic feet from 2015 through 2021, which isn't enough to absorb almost 6.7 tcf of new capacity set to become operational during that time, the IEA said in its Medium-Term Gas Market Report 2016 published June 8.

"The oversupply situation in LNG markets that emerged in 2015 is worsening in 2016 and will not substantially improve until 2019, at the earliest," the IEA said. Australia and the U.S. will account for 90 percent of an unprecedented 45 percent jump in LNG capacity during the six-year period, just as demand stagnates or falls in Japan and Korea, the biggest buyers of the fuel. Billions of dollars in investments in new production facilities were made when commodity prices were higher and demand outlooks brighter.

Even as demand rises in China and emerging Asian nations, this won't be sufficient to balance the market, especially in 2017 and 2018, according to the IEA. While utilization rates at export plants will slip to below 90 percent of capacity in 2018 before recovering, they probably won't reach the 96 percent level of 2011. For new LNG projects, that will mean returns on investments will be "low for some years," the IEA said.

Floating LNG processors looked better at \$15 gas

(Bloomberg; June 9) - It's longer than three soccer fields, heavier than two aircraft carriers and powerful enough to chill gas into liquid colder than the surface of Jupiter. And its maiden voyage couldn't have come at a worse time. The world's first modern vessel for producing liquefied natural gas was ordered by Malaysia's Petronas in 2012 when LNG traded for more than \$15 per million Btu. It was launched last month, with prices down by about two-thirds. Shell faces a similar problem with its version of a floating LNG plant, which will be several hundred feet larger than the Petronas ship.

"At \$15 and above you can do anything, so everyone went and did everything," said Trevor Sikorski, a natural gas analyst for Energy Aspects in London. "Now all these projects start to come online at the same time, and all of a sudden you have all this supply and now your margins are next to nothing." The plight of the PFLNG Satu, as Malaysia's first vessel is known, reflects the struggle facing all producers. Projects

approved years ago when energy prices were high are coming online now, adding to a global supply glut that has pushed spot LNG down to \$4.62 per million Btu this week.

“LNG projects take four to five years to get delivered,” said Prasanth Kakaraparth, Wood Mackenzie’s LNG supply analyst for Southeast Asia. “By the very nature of these long delivery periods, they get hit quite a bit by these commodity cycles.” Petronas, Malaysia’s state-owned energy company, is betting the cycles will even out over the long run. PFLNG Satu will produce about 1.2 million metric tons of LNG annually for the next 20 years from the Kanowit gas field, located about 112 miles north of the coast of Borneo. “We are taking a long-term view for this project,” Petronas said.

Expansions, efficiencies could reduce costs for new Australia LNG

(Reuters column; June 9) - Conventional wisdom in the liquefied natural gas sector is that no new projects will be built for several years, given that the vast cost can't be reconciled with the current low prices. This view has led some in the industry to predict the market will flip back to a structural shortage sometime in the early to mid-2020s, once again sending prices soaring as new supply takes so long to be built. Cancellation or deferment of investment decisions on several projects looks to prove the point that no new LNG will be coming to market once the plants under construction are completed.

The wave of LNG capacity building in recent years has seen eight projects being built in Australia, with five now operating and the remaining three nearing completion, and five in the United States, the first of which has starting shipments. This has helped drive LNG from a deficit to a surplus, with the decline in Asia spot prices from a high of \$20.50 per million Btu two winters ago to a record low of \$4 in April. The era of mega-LNG projects appears to be over, at least for now.

But Saul Kavonic, a senior analyst at Wood Mackenzie, said Australian LNG producers could boost volumes if demand warrants. They could do it by de-bottlenecking existing plants to improve production efficiency. Or boost capacity with expansions, which he said typically cost about 30 percent less than new projects. Or they could commit new gas to existing projects to allow them to continue operating beyond their expected life. There are substantial volumes of LNG that can come to the market in the coming years at considerably lower prices when compared to the huge cost of developing new plants.

Korea’s pledge to close coal-fired power plants could boost LNG

(Platts; June 8) - Stressing the urgent need to reduce emissions, South Korea's energy minister June 8 said the government will shut down aging coal-fired power plants and strongly promote cleaner fuels by using gas-fired power plants for electricity generation. "The government has decided to close down aged coal-powered power plants accused

of air pollution and fine-dust emissions," South Korea's Minister of Trade, Industry and Energy Joo Hyung-Hwan said in a speech at the Future Energy Forum in Seoul.

About 10 coal-fired power plants — in operation for 40 years or more — will be the first to close, Joo said. "As the shutdown of coal-fired plants can affect the country's power supply, natural gas-fired power plants would produce more electricity to avoid any possible electricity shortages," he said. "The country's reliance on LNG in its fuel mix for power generation is expected to rebound on the back of the government's plans to shut down aged coal-powered power plants," said Yoon Dong-Jun, CEO of Posco Energy.

South Korea is coping with higher concentrations of fine dust in the air, sparking public health concerns. Fine dust refers to particles that are smaller than 10 micrometers and have been known to cause various respiratory problems while also affecting the body's immune system. Coal-fired power plants are responsible for more than 10 percent of fine-dust emissions, according to the energy ministry.

Panama Canal Authority expects an LNG tanker almost every day

(Bloomberg; June 8) - Panama said it expects 20 million tons of liquefied natural gas to pass through its canal annually once the newly widened waterway is opened this month. That's almost a tanker of gas a day. "The canal opens the possibility for that gas to reach Asian markets in a more competitive way because the Panama Canal route is the shortest," Manuel Benitez, deputy administrator of the canal authority, said June 8. "We've seen that many very large gas carriers have already made reservations."

The \$5.3 billion expansion of the canal is set to be inaugurated June 26, allowing it to handle the kind of massive tankers that transport LNG. Its debut is fortuitous for U.S. gas producers, as the shale boom has sent domestic supplies surging and drillers are looking to get their fuel to markets abroad. The expanded canal will help U.S. gas producers by cutting the shipping time to markets in Asia, according to Skip Aylesworth, who manages \$1.5 billion in holdings at Hennessy Funds in Boston.

The LNG volume projected by the Panama Canal Authority represents about 8 percent of global trade and is equivalent to nearly 300 ships a year. Regardless of talk of U.S. gas moving from the Gulf Coast to Asia, prices in Asia are not currently high enough to create a large arbitrage opportunity for the trade, said Madeline Jowdy, director of global gas and LNG at PIRA Energy Group in New York. "Most of the LNG produced in the U.S. will remain in the Atlantic Basin for the foreseeable future because of the price collapse and the sheer amount of volume that is going to be appearing in Asia."

Argentina on track to buy 90 LNG cargoes this year

(Reuters; June 8) - A flotilla of 21 fuel tankers from Europe, the Caribbean, Brazil and the United States is steaming toward Argentina as it ramps up imports of petroleum distillate and liquefied natural gas to record levels this year, according to its government and Thomson Reuters data. A long way from regaining its energy self-sufficiency lost in 2010, the South American country has bought 49 cargoes of LNG so far this year and will buy 90 in all, a spokesman for the Energy Ministry told Reuters this week.

According to the results of tenders seen by Reuters, major oil and gas companies are competing for a lucrative slice of market share during a years-long "transition" period that will last until Argentina boosts its oil and gas output significantly by developing vast new shale reserves. "Investment in exploration has resumed, but it will take a while to see results," said energy consultant Roberto Brandt. "Argentina will be a net gas importer at least during the coming 10 years."

Argentina tried to limit costly LNG purchases to about 25 cargoes a year since it inaugurated its second regasification plant in 2010, only to end up purchasing more than planned to meet growing shortfalls. The new, market-oriented government of President Mauricio Macri has said gas imports will rise by some 13 percent this year. It is working to avoid power cuts caused by higher-than-expected demand in a cold South American winter, stagnant domestic gas output and limited gas supplies from Bolivia.

Shell exec says U.S. natural gas prices will stay low for decades

(Bloomberg; June 10) - For months, banks including Citigroup have talked about a massive oversupply in the global market for liquefied natural gas. The head of natural gas at Shell, one of the world's biggest LNG producers, would beg to differ. "There isn't really yet the kind of oversupply that people talk about," Maarten Wetselaar, Shell's gas and new energies director, said June 10. For proof, he said, look at Europe, where gas demand gained last year and LNG imports from overseas were little changed.

Europe is where an LNG cargo lands if there are no other buyers. The absence of more Europe-bound shipments is a testament to the "genuine LNG buyers" mopping up new LNG supplies from exporters including the U.S. and Australia, Wetselaar said. Emerging markets and increasing demand from countries including India, Egypt and Pakistan are helping keep a glut at bay. However, Citi analyst Anthony Yuen said last month that not even recent signs of potential new demand will "trump the massive LNG oversupply."

Bloomberg New Energy Finance says a global surplus will persist to 2025, with supplies exceeding demand by 29 percent in 2020. Though he disagrees with the oversupply numbers, Wetselaar said the U.S. gas market will continue to be plagued by "really low" prices for decades. "You have a very large inventory of gas that can be produced at sort of below \$4 to \$4.50" per million Btu, he said. "Who knows what happens when you start to export a lot of LNG, you start doing a lot more gas to chemicals, you start exporting gas to Mexico — the market dynamics can start to push it up," he said.

First Nation leader says LNG projects would create local jobs

(CBC News; June 3) - Ellis Ross, chief councillor of the Haisla Nation near Kitimat, said he hopes LNG development in British Columbia goes forward so that the people of his community can find jobs and stay connected to their home. "First Nations always connect themselves to where their ancestors came from. We're no different," he said.

People in his community, especially young people, experienced prosperity for the first time thanks to work on proposed LNG projects. "They got a taste, for the first time, of good-paying jobs, the ability to go out and get a mortgage and buy a truck," he said. But he fears that if the LNG export projects proposed for the coastal region stall, the First Nation members will not have a future in traditional Haisla territory.

"That's exactly what I've been trying to work against," Ross said. "They've had to leave my territory. They've had to go to Prince George for mining, or they've had to go to Alberta or Vancouver or wherever there's a good-paying job." Ross is attending the Nation2Nation Community Forum in Kitimat, "to showcase the Haisla Nation and District of Kitimat's support for economic development." The Haisla Nation supports efforts to build an LNG plant in Kitimat, though other First Nations oppose the projects.

LNG hopeful reaches out to gain First Nation support in B.C.

(Globe and Mail; Canada; June 8) - An Australian company is reaching out to the Lax Kw'alaams First Nation in hopes of winning support for plans to export liquefied natural gas from the aboriginal group's backyard in northern British Columbia, near Prince Rupert. Land located across the bay from the Lax Kw'alaams reserve is an ideal spot to build an export terminal, Perth-based Woodside Petroleum says.

Woodside's Grassy Point LNG project is collecting comments from five aboriginal groups — the Lax Kw'alaams, Metlakatla, Gitxaala, Kitselas and Kitsumkalum. The project is seeking approval from the B.C. Environmental Assessment Office to build the terminal on provincial land at Grassy Point, 20 miles north of Prince Rupert. The Lax Kw'alaams and Metlakatla say the land is part of their traditional territory. The company produced an Aboriginal Consultation Plan that it filed this spring with the B.C. regulator.

Industry observers are watching in particular for reaction from the Lax Kw'alaams because the band council fought last year against Pacific NorthWest LNG's plans to build a terminal at Lelu Island, 10 miles south of Prince Rupert. Critics say the Pacific NorthWest LNG project poses a risk to juvenile salmon habitat on Flora Bank, a sandy area next to Lelu Island. Woodside is hoping the Lax Kw'alaams will be receptive to

Grassy Point LNG. It is one of 20 proposals to export LNG from Canada's West Coast; none of the projects have reached a final investment decision.

U.K. fracking opponents may challenge approval in court

(The Guardian; London; June 10) - Anti-fracking campaigners in the U.K. have claimed that a decision to allow energy companies to drill for shale gas in Yorkshire could be challenged in court. The fracking firm Third Energy was given permission last month to carry out test drilling at a site in Kirby Misperton in Ryedale, North Yorkshire, about 200 miles north of London, even after locals opposed the application.

Friends of the Earth and a local group, Frack Free Ryedale, have written to the county council, asserting the decision could be illegal. They have warned that their letter could be followed by an application to the courts to have the decision overturned. After a two-day meeting at the county hall in Northallerton, councillors voted 7-4 to approve the fracking operation near Pickering. The move was hailed by the government and the fracking industry as a "fantastic opportunity."

The decision, which will allow fracking in the U.K. for the first time in five years, was made despite thousands of objections from residents and campaigners. The approval prompted fears around the country that other fracking sites would be given the green light. In a letter sent to the Yorkshire authority this week, the campaigners argue that the authority did not put enough weight on the potential impact on global warming of burning the gas extracted at Kirby Misperton.

Companies will start to complete unfinished wells with oil at \$50-\$60

(Bloomberg; June 9) - Continental Resources is fracking again. The almost doubling of oil prices in the past four months to more than \$50 a barrel is enough for Continental to dispatch fracking crews to unfinished wells in the Bakken Shale, where the Oklahoma City-based driller is the largest operator, CEO Harold Hamm told Bloomberg on June 9. Those wells had been left uncompleted as swooning crude prices last year forced explorers to halt projects to conserve shrinking cash flows.

Most Bakken shale drillers will start completing their backlogs of unfinished wells when crude reaches the \$55 to \$60 range, Peter Pulikkan, a Bloomberg Intelligence analyst, said in a note on June 9. At the end of 2015, there were 4,290 uncompleted wells in the U.S., and almost 30 percent of them were confined to two shale regions: the Bakken in and around North Dakota and the Permian in West Texas and New Mexico, according to data compiled by Bloomberg Intelligence.

Hamm said the oversupply of crude that crushed oil prices and pushed dozens of U.S. explorers into insolvency has disappeared. Supplies will fall short of demand by as much as 2 million barrels a day next year, adding impetus to the ongoing crude rally, he said. By the end of 2016, West Texas Intermediate crude could hit \$70, he said. Oil needs to exceed \$60 before the company Hamm founded and controls as majority stakeholder would deploy rigs to drill fresh wells, the billionaire wildcatter said.

Energy companies support corporate tax cuts in Australia

(Financial Review; Australia; June 6) - Grant King, CEO of Australian gas, electricity and LNG producer Origin Energy, said a lower corporate tax rate is crucial to getting future projects off the ground. "In this industry it often takes five to 10 years to build something and then 20 years to get a return," King said at the Australian Petroleum Production and Exploration Association conference on June 6. Origin is a partner in the \$24.7 billion Australia Pacific LNG Project, which shipped its first cargo in January.

"The tax rate does affect the economics and affects the investment decision," King said. The Australian government has proposed a plan to cut the corporate tax rate, but the opposition party opposes the rate cut as a gift to businesses, while the resources industry said a failure to cut rates could hinder further investment in the industry. As proposed, the measure would take 10 years to reduce the tax rate on large businesses.

King said energy companies are making decisions today based on tax changes down the track. "The certainty ... is actually really important for investment decision making because right now if companies are planning the next round of investments, knowing the tax environment and having confidence does affect the economics," he said. Roy Krzywosinski, outgoing head of Chevron in Australia, said tax cuts are "a positive signal for investors and customers."