Oil and Gas News Briefs
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‘Sellers are listening’ to Japan’s request for better LNG contracts

(Wall Street Journal; June 19) – Japan is testing its clout while trying to rewrite the rules of a saturated market for liquefied natural gas. Buyers are chafing at the premiums they have long paid for the fuel. The nation’s utilities are renegotiating contracts, questioning practices such as linking LNG prices to oil prices, and pushing back on restrictions that prevent them from reselling surplus cargoes. The moves are part of government-backed efforts to crack open an opaque, rigid market in which Asian buyers pay higher prices.

Japanese buyers and policy makers see an opening now as excess supply is driving prices sharply lower. “Now is our chance, and we have a window of three or four years to act,” before the balance of supply and demand might change, said Ken Koyama, a managing director and senior economist at Japan’s Institute of Energy Economics. “Sellers are listening to our requests,” said Hiroki Sato, vice president of fuel procurement at Jera Co., a joint venture between Tokyo Electric Power and Chubu Electric Power that is set to become the world’s single biggest buyer of LNG.

Sellers would do well to take note of Japan’s confidence, said Jonathan Stern of the Oxford Institute for Energy Studies. “It’s a flag in the ground,” Stern said, noting that the government-backed Japan Bank for International Cooperation will help fund shorter-term contracts based on spot prices, which are cheaper in an oversupplied market than oil-linked long-term contracts. “Japan will never again be paying vast amounts more for its gas … that could eventually transform the underpinnings of the entire LNG market.”

Petronas-led LNG project in B.C. likely to be delayed, IEA says

(Pipeline News North; Prince George, BC; June 17) - The International Energy Agency is expecting further delay of the proposed Pacific NorthWest LNG project near Prince Rupert, B.C. — one of several bleak pieces of news in the agency’s latest forecast of the natural gas market. The agency’s 2016 Medium-Term Market Report, released earlier this month, finds that low gas prices have failed to push demand enough, and that declining demand in China, Japan and Korea are “headwinds” for the industry.

The report is a sobering one for B.C.’s nascent liquefied natural gas industry, which has yet to see a positive final investment decision on any of the 20 proposed projects on the province’s coast. Too much capacity on the global market is bad news for Petronas-led Pacific NorthWest LNG, which looks unlikely to take a final investment decision any time soon, the Paris-based agency said. The project also is waiting for a federal decision on its environmental review, which is not expected until later this year.

“Many other planned projects, originally intended to take a final investment decision in 2015, were pushed back amid falling prices and deteriorating market conditions,” the IEA report said. “Pacific NorthWest LNG in Canada announced a conditional FID in mid-2015. However, FID has not been taken at the time of writing and the project seems likely to be delayed.”

Russia may allow Exxon and partner to sell gas to China

(Reuters June 17) - Russian Energy Minister Alexander Novak said June 17 that ExxonMobil's oil and gas project on the Russian Pacific island of Sakhalin may secure rights to export natural gas to China. ExxonMobil is an operator of the Sakhalin-1 offshore oil deposits being jointly developed with Russian state-owned Rosneft under a production-sharing agreement formulated in the 1990s.

The project's gas deposits have long been locked in due to a price row between the Sakhalin-1 partners and Gazprom, which has a monopoly to export gas. After meeting ExxonMobil’s CEO on the sidelines of the St Petersburg International Economic Forum, Novak said he had discussed with him three options allowing Sakhalin-1 to sell gas. Those include building an LNG plant with Rosneft, or selling the gas to the nearby Sakhalin-2 project, a joint-venture of Gazprom, Shell and Japanese partners.

“The third option is gas supplies to China," Novak told reporters. He said the 1990s’ production-sharing agreement may allow Sakhalin-1 to export gas by pipeline despite the Gazprom monopoly. Gazprom has built a pipeline from Sakhalin to the Russian city of Vladivostok near the Chinese border, also aiming to deliver gas via that route. But Gazprom has been reluctant to allow its competitors open access to the pipeline.

Pakistan talking with suppliers to increase LNG purchases

(Rigzone; June 16) - Pakistan's Ministry of Petroleum & Natural Resources, pressured by natural gas shortages and growing domestic demand, has commenced discussions with liquefied natural gas sellers to import more of the fuel to addresses the supply deficit in the South Asian country, local media Business Recorder said June 15. The ministry has opened talks with suppliers such as United Arab Emirates' Emirates National Oil Co., Malaysia's national oil company Petronas and Italy's Eni.

The effort is to relieve domestic consumers of low gas pressure and gas load shedding in the upcoming winter season. Pakistan's natural gas consumption grew 3.5 percent in 2015 to about 4.2 billion cubic feet of gas per day, but due to domestic producers’ inability to meet the growing demand the country plans to import up to 2.4 bcf a day by 2017. Pakistan opened its first LNG import terminal in 2015. Currently, Pakistan receives LNG supplies from Qatar and Swiss trading company Gunvor Group.

Russia sells gas to Germany at lowest price since 2004

(Bloomberg; June 15) - The world's biggest natural gas exporter isn't too concerned about a global glut. Gazprom is counting on falling European domestic production to boost its sales to a record and cement its 30 percent market share, Deputy CEO Alexander Medvedev said. After crude's 35 percent slide last year, the gas company's oil-linked prices are low enough to ward off competition from sources including U.S. liquefied natural gas.

"We've never suffered from euphoria," said Medvedev, who once compared U.S. shale gas production with the dot-com bubble. Europe will need to source more gas to 2021 as demand rises amid slumping domestic production, the International Energy Agency said last week. Though Gazprom managed to maintain its market share in the region over the past five years as North African supply declined, the period through 2018 "will be very different" amid competition from "large volumes of cheap LNG," the IEA said.

Meanwhile, lower oil prices and competition have helped drive down the price Gazprom is charging in Europe. Russian gas at the German border cost $3.99 per million Btu at the end of May, the lowest since September 2004, according to data from the International Monetary Fund.

Poland takes first delivery of LNG

(Bloomberg; June 17) - Poland has received its first commercial liquefied natural gas cargo, a milestone in the country's strategy to eliminate its dependence on Russian supplies. The tanker docked at the $760 million Swinoujscie terminal June 17, with 210,000 cubic meters of LNG from Qatar. The facility on the Baltic Sea will be officially named June 18 for late President Lech Kaczynski, during whose term the project was initiated in 2006.

Poland, which relies on Russian gas for two-thirds of its needs, will get its second LNG shipment later this month from Norway. The nation has proposed doubling the terminal's initial capacity of 5 billion cubic meters a year, or about a third of Poland's annual consumption, and building a pipeline to Norway for additional gas deliveries to completely cut its reliance on Russia. Poland also is seeking lower prices under its long-term contract with Gazprom that expires in 2022.

Gazprom, Shell will look at possible Baltic Sea LNG plant

(Reuters; June 16) - Gazprom and Shell signed a memorandum of understanding June 16 on construction of a liquefied natural gas plant on the Russian coast of the Baltic Sea. The memorandum says the companies will look into possibilities of building the LNG plant in the port of Ust-Luga with an annual capacity of 10 million metric tons a year. Gazprom and Shell are already partners in Russia's only LNG plant on the Pacific island of Sakhalin. That plant started operations in 2009.

Russian producer says its next LNG plant may look to spot market

(Reuters; June 17) – If it builds a second liquefied natural gas production and export plant, Novatek, Russia's No. 2 gas producer, would want to sell some of the output on the spot market, CEO Leonid Mikhelson said June 17. The Arctic LNG-2 plant, if it is built in the next decade, would be a follow-up to the Novatek-led $27 billion Yamal LNG plant scheduled to launch its first production train at the end of 2017.

"When implementing Arctic LNG-2, we will aim not to pre-sell all 100 percent of production but to leave a share for spot trading," Mikhelson told reporters at the St Petersburg International Economic Forum. Mikhelson, who owns a stake in Novatek along with partner Gennady Timchenko and France's Total, said Yamal's shareholders are showing "signs" of interest in the LNG-2 project, as are other investors.

U.S. energy secretary says move away from coal 'inevitable'

(Gillette News Record; WY; June 15) – U.S. Energy Secretary Ernest Moniz told governors in Jackson, Wyo., on June 13 that nobody had predicted how quickly low natural gas prices would upend the nation's coal industry. Speaking at the Western Governors Association, Moniz said the looming question for experts had been whether low gas prices would affect renewable energy industries — not coal. But hydraulic fracturing uncorked a surfeit of gas, upsetting the traditional energy market's fuel mix.

"Are low natural gas prices going to drive out renewables?" Moniz said of the conventional thinking. "The facts are, low natural gas prices have actually hit hard at coal and nuclear." Moreover, change came quickly. "No one predicted the speed we have seen," he said. The tide won't reverse, Moniz warned. "There is essentially an inevitability in this direction," he said of the move toward cleaner and low-carbon fuels.

Nevertheless, the Obama administration recognizes western governors' desire to advance carbon capture and storage projects. The association wrote key U.S. senators earlier this month, supporting the responsible use of carbon dioxide in enhanced oil recovery. “We are putting a strong emphasis on innovation in carbon capture and storage,” Moniz said.

Spending cutbacks put oil industry at risk of underinvestment

(Bloomberg; June 15) - Drillers forced to slash spending during the oil slump may soon be facing another hurdle: a funding shortfall of $2 trillion over the next five years. That capital crunch creates the risk for underinvestment, perhaps affecting the availability of reserves in the long term, according to a study published June 15 by the Deloitte Center for Energy Solutions. The global oil and gas industry has curbed capital spending "to a point below the minimum required levels to replace reserves," the report said.

"That is quite unusual," Andrew Slaughter, executive director at the Deloitte Center, said of the funding gap. "You’ve got to spend a lot of capital just to stand still, even without growth." In the midst of the worst oil-price downturn in a generation, producers have significantly cut costs. The global oil and gas industry has trimmed more than 350,000 jobs, while oil explorers slashed more than $100 billion in annual spending last year.

Now that oil has touched $50, some companies are considering ramping up operations. Still, the capital gap means "the outlook could be for lower reserve coverage than we’re used to," Slaughter said. Many companies will still need to strengthen their financial positions before any real capital gets spent. And with about $590 billion of industry debt maturing in the next five years, capex may not be the first priority, the report said. "It’s not like you can turn the tap on and make the capital flow," Slaughter said.

Polls shows Alberta supports oil pipeline expansion, B.C. opposes it

(Calgary Herald columnist; June 16) - British Columbians and Albertans have a large mountain range in common, but an oil pipeline and energy policies are creating a bigger divide between the neighboring provinces. An Angus Reid Institute poll on the proposed Trans Mountain oil pipeline expansion from Alberta to the coast highlights the divide. The survey shows 63 percent of Albertans believe the National Energy Board made the right decision approving the oil pipeline with conditions. Support in B.C. is 41 percent.

But opposition in British Columbia is much stronger and more deeply ingrained: Respondents from the coastal province are almost four times as likely as Albertans to say the country’s energy regulator got it wrong. About a third of B.C. residents feel that way, compared to only 9 percent in Alberta. “Imagine two neighbors in a boxing ring and they are in two very distinct corners,” said institute executive director Shachi Kurl.

“On the pipeline issue, nowhere is opposition higher than it is in British Columbia. When you contrast that to the feeling in Alberta, where support is very, very high … you’ve got two incredibly diverse and disparate points of view," the report said. The pipeline currently moves about 300,000 barrels of crude oil per day from the Edmonton area to an export terminal in Burnaby, B.C. The operator's expansion request to add several hundred thousand barrels a day of additional oil flow is waiting for a federal decision.

First Nations assembly declares opposition to TransCanada oil line

(Canadian Press; June 15) - The Assembly of First Nations of Quebec and Labrador has formally declared its opposition to TransCanada's proposed Energy East oil pipeline. A resolution adopted June 15 requests that Ghislain Picard, the assembly chief for the region, lead opposition to the 2,800-mile Alberta-to-East Coast pipeline. The resolution asserts that project poses "the very real risk of a toxic tar sands spill that could not be adequately cleaned up" and would "fuel catastrophic climate change."

The resolution calls on the federal and Quebec governments to fulfil their constitutional obligations "including completely overhauling the National Energy Board's review of the project in collaboration with First Nations." It's just the latest Quebec hurdle for TransCanada, which has already shelved plans for a tanker terminal at Cacouna, Que., due to concerns over beluga calving grounds in the Saint Lawrence.

A group of mayors from the Montreal area caused a national furor in January when they came out against the pipeline crossing their municipalities, saying the potential spill risks were too high. Meanwhile, a project supporter, Saskatchewan Premier Brad Wall, will be in Montreal on June 16 to meet Quebec Premier Philippe Couillard on a cross-country tour to advocate for building the $15.7 billion pipeline to New Brunswick.