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China wants to renegotiate lower LNG price from Qatar

(Bloomberg; March 9) - China National Petroleum Corp., the nation's biggest producer of oil and gas, is seeking opportunities to renegotiate the pricing of its liquefied natural gas purchase contract with Qatar, CNPC Chairman Wang Yilin said in Beijing. CNPC's PetroChina unit, which has a contract with Qatargas to buy 3 million metric tons of LNG per year through 2037, is among the buyers taking advantage of greater bargaining power gained from a supply glut of natural gas and tumbling prices.

Qatar last year renegotiated its contract with India's Petronet LNG, resulting in a price cut of almost half. "We have always been looking at price renegotiation opportunities on LNG term contracts," Wang said. "We are seeking the proper time window of setting up a price renegotiation mechanism." Asian spot LNG prices are below $5 per million Btu, and the price for LNG in Asia under long-term contracts, which are traditionally linked to oil, may fall to near $4 in June, according to a report from Credit Suisse Group.

Rising demand for price renegotiation could unnerve LNG suppliers, said Neil Beveridge, a Hong Kong-based analyst at Sanford C. Bernstein & Co. PetroChina is "racking up losses on LNG (imports)" despite lower prices, he said. "With Petronet able to successfully renegotiate prices, CNPC is now looking to do the same," Beveridge said in an e-mail. "While each contract is different, this will certainly create nervousness among LNG suppliers that have spent vast sums of money building LNG capacity."

LNG industry may move more cautiously into mega-projects

(Bloomberg; March 7) - Chevron's Gorgon LNG project off Australia's northwest coast boasts the world's biggest carbon dioxide storage facility, a jetty more than a mile long and enough steel to build the Sydney Harbor Bridge four times. The cost: $54 billion. With Australia's largest resource development starting to produce liquefied natural gas this week, industry leaders and analysts say a venture this ambitious won't be replicated any time soon. Chevron said the first shipment is expected next week.

Oil's worst slump in a generation underscores the risk of investing in mega-projects like Gorgon. The venture with partners Shell and ExxonMobil has suffered from cost overruns, delays and bad timing. Oil and gas producers in the future will look to spread out their investments in phases, according to Australia's Woodside Petroleum. "The industry got too caught up in 'bigger is better,' and I think what bigger became was more complex and had more risk associated with it," Woodside CEO Peter Coleman said.

Worldwide, more than 90 percent of joint ventures costing $1 billion or more have hit snags or cost overruns, according to Ernst & Young. "One of the majors' key calling cards for many years has been 'we have the capital and technical know-how to develop the most challenged resources,"' said Singapore-based Angus Rodger with consulting firm Wood Mackenzie. "While certainly true, most of these projects subsequently failed to hit timing and budgetary targets, or anticipated returns on capital."

After Gorgon, mega-projects will remain "an important — and necessary — way forward for companies," Axel Preiss, Ernst & Young's global oil & gas advisory leader, wrote in an e-mail. "Market instability is, however, changing the way companies approach capital projects," prompting them to focus more on sharing the risk with partners.

Gorgon LNG could accelerate move toward growing spot market

(Reuters; March 8) - Chevron has started up its massive Gorgon LNG project in Australia and will soon be shipping more of the fuel into an oversupplied market, eroding producer revenues but also likely hastening the advent of a liquid Asian spot market. The $54 billion project, seen by many as symbolic of the era when high prices funded mega-projects of ever-increasing size, started production this week and may be the last new supply piece required to establish a truly global natural gas market.

While producers may struggle to profit from such projects at current low prices, a supply glut is seen as necessary to creating the liquid spot market that Asia still lacks despite being home to 70 percent of global LNG consumption. "LNG producers and buyers are becoming traders and aggregators. That means that we'll see more buyers selling and more sellers buying LNG," Chong Zhi Rin, an analyst at energy consultancy Wood Mackenzie, said at an industry conference last week in Singapore.

The global oversupply is not only giving buyers the upper hand but is also pushing the LNG market away from its traditional reliance on oil-linked pricing and long-term contracts. "Homeless LNG accounts for more than a quarter of expected supply through 2025," said Jason Feer of energy brokerage and consultancy Poten & Partners at the same event, with a good portion of those uncommitted cargoes expected by analysts to go into the spot market.

Economics have changed since Gorgon investment decision in 2009

(Wall Street Journal; March 8) - Six years ago, Big Oil was so confident in global energy demand that it bet tens of billions of dollars to turn part of a remote Australian island known for its breeding grounds of rare sea turtles into a vast gas-export hub. Now, the Chevron-led, $54 billion Gorgon LNG plant has become emblematic of how quickly the assumptions that underpinned giant energy bets worldwide have been shaken by falling energy prices. Chevron expects to send its first cargo to customers in Asia next week.

The plant is starting up as investors are more skittish about global LNG demand and the health of China's economy amid an oversupply of commodities. Many experts say Gorgon offers a scant return on the huge investment with energy prices at current levels. Oil prices were at around $60 a barrel — and rising — in September 2009 when Chevron, ExxonMobil and Shell signed off on the project's construction. That is roughly 60 percent above where oil prices sit now. LNG prices in Asia are half of a year ago.

"We're looking at a world of significantly lower returns compared to the old days of the LNG industry," said Michelle Neo, a Singapore-based analyst at energy consultancy FGE. In addition, Gorgon's cost overruns have undermined confidence in its returns. The project "is the poster child of rampant cost inflation gone wrong in the Australian LNG industry," said Neil Beveridge, a Hong Kong-based senior analyst at Sanford C. Bernstein. "If you look from the point when the investment decisions were taken … the project economics (for Australian LNG) are pretty marginal and have suffered," said Giles Farrer, a research director at consultancy Wood Mackenzie in London.

Japanese utility builds facility to reload, resell surplus LNG

(Bloomberg; March 7) - A facility on Japan's Pacific coast will be ready next month to ship liquefied natural gas abroad, as a global glut turns the world's biggest LNG buyer into a seller. Shizuoka Gas plans to complete a reloading facility at its Sodeshi terminal in April, said Hirotaka Kaneda, deputy general manager at the feedstock department. The utility, which buys about 1 million metric tons a year of LNG and distributes gas to about 300,000 customers in a prefecture southwest of Mt. Fuji, plans to resell as many two cargoes a year to neighboring countries such as China and South Korea.

The Sodeshi terminal would be the first Japanese facility to be regularly used to resell LNG cargoes, and its impending start is evidence of how a global glut of the fuel is reshaping the market. While bigger buyers such as Jera Co. and Korea Gas are banding together to demand more say in negotiations with suppliers amid a wave of new projects from Australia to the U.S., smaller companies such as Shizuoka Gas are seeking to take advantage of abundant gas by building reloading facilities.

"Several utilities and traders have visited our reloading facility to learn from what we are doing," Kaneda said, declining to name the visitors. Currently, only Kansai Electric Power has an LNG reloading facility in Japan, he said. For a smaller utility such as Shizuoka Gas, which bought 17 cargoes last year, reselling could significantly cut its average prices, Kaneda said. Japanese utilities are expected to hold a surplus of LNG under contract at least through 2019, according to a report from BMI Research.

[Petronas denies it gave approval deadline to Canadian government]

(Reuters; March 8) - The president of the Petronas-led proposed liquefied natural gas export terminal on Canada's West Coast has denied a newspaper report that it would walk away from the project if the federal government does not approve it by March 31. The company remains committed to the environmental process, including the government's new measures on upstream greenhouse-gas emissions, Pacific NorthWest LNG President Michael Culbert said in an emailed statement March 8.

Canada's National Post newspaper reported March 7 that Malaysia's state-owned Petronas was threatening to walk away from the project over the federal environmental review, which has dragged on from more than two years. The company also is frustrated by new climate-change measures the federal government introduced in January, including measuring the impact of upstream production on greenhouse gas emissions, the newspaper reported, citing an unnamed source.

Canada's Environment Minister Catherine McKenna is expected to release her final decision on the project later this month, assuming there are no further delays. A draft environmental assessment released last month found that the project would not cause major ecological damage to the region, but would likely harm harbor porpoise populations and have an impact on climate change. The project is proposed for Lelu Island near Prince Rupert. It received provincial environmental approval in 2014.

[Scientists come out against proposed LNG project in B.C.]

(Globe and Mail; Canada; March 9) - More than 130 scientists have signed a letter to Canada's Environment Minister Catherine McKenna, asking her to reject a "scientifically flawed" report on Pacific NorthWest LNG. Last month, the Canadian Environmental Assessment Agency said in its draft report that the terminal near Prince Rupert, B.C., for exporting liquefied natural gas could be built and operated without causing major ecological damage to Flora Bank and its juvenile salmon habitat near the Skeena River.

"A worse location is unlikely to be found … with regards to potential risks to fish and fisheries," according to the letter sent by biologist Jonathan Moore and other scientists. They argue that the regulatory agency disregarded science that was not financed by Pacific NorthWest LNG. "We urge you to reject the CEAA draft report," the letter from the coalition of scientists said. "The CEAA draft report for the Pacific NorthWest LNG project is a symbol of what is wrong with environmental decision-making in Canada. An obvious risk of a flawed assessment is that it will arrive at an incorrect conclusion."

McKenna is expected to make a decision on or around March 22, barring any further delays in the review process that began in April 2013. Malaysia's state-owned Petronas leads the LNG consortium that is seeking to export the fuel to Asia as early as 2020.

The draft report released Feb. 10 warns the Pacific NorthWest LNG project would likely harm harbor porpoises and contribute to climate change, but not damage salmon habitat. The 30-day public comment period on the report closes March 11.

New report says B.C. could earn $380 million a year from LNG project

(Globe and Mail; Canada; March 8) - The B.C. government's tax coffers would receive a huge lift if the Pacific NorthWest LNG project forges ahead, a new study shows. The fate of the liquefied natural gas project led by Malaysia's state-owned Petronas is uncertain. But the Conference Board of Canada said if the terminal near Prince Rupert is built, the B.C. government is positioned to rake in $85 million a year from an LNG tax and $294 million in annual royalty revenue from gas production over a 30-year period.

The venture is considered a frontrunner among 20 B.C. LNG proposals, but a glut of supplies on world markets has sent prices for LNG tumbling. Meanwhile, the Petronas-led consortium is awaiting a regulatory decision from the Canadian Environmental Assessment Agency. "We look forward to the conclusion of the public comment period of the draft report and, ultimately, a decision by the government of Canada on our project in due course," Pacific NorthWest President Michael Culbert said March 7.

The agency has received more than 1,400 comments since it asked the public Feb. 10 to provide feedback to the regulator's draft environmental assessment report. The comment period closes March 11. Gas producer Progress Energy Canada, which is owned by Petronas, provided funding for the Conference Board study.

Price will determine volume of U.S. LNG to Europe, says Wood Mac

(Natural Gas Europe; March 9) - Much has been made of Russia's ability to ward off U.S. LNG imports from its markets in Europe by cutting its price. But other factors are likelier to keep U.S. LNG out of the continent, Wood Mackenzie said March 9. "Our analysis shows that while Russia's export strategy is important, ultimately U.S. LNG export utilization will be influenced more by the price of other commodities: gas, oil and, particularly, coal, which will determine European spot prices through coal-gas switching in the power sector," said Wood Mackenzie researcher Noel Tomnay.

Low oil prices make Russian oil-indexed contract gas cheaper and buyers will maximize their off-take of Russian gas, Wood Mackenzie said. At low oil prices, customers' economic decisions would allow Russia to retain over 30 percent of the European market and threaten U.S. LNG export volumes. And if coal prices also remain low, European gas prices could fall to $3.85 per million Btu, cutting demand for U.S. gas.

New Marcellus gas production forecast climbs to 17.4 bcf a day

(Bloomberg; March 7) - America's energy explorers have become so good at pulling natural gas out of the ground that government forecasters are having a hard time figuring out how much they're producing. This month, the Marcellus Shale formation in the eastern U.S., the country's biggest gas play, will yield 17.4 billion cubic feet a day, the U.S. Energy Information Administration said March 7, citing new production data. That's almost 11 percent more than the agency forecast last month.

It's a blow for bullish gas traders who've been waiting for drillers to curb output and rescue the market from futures prices near a 17-year low. The agency's revision suggests that it may take longer than analysts had previously forecast to slow the flow from the Marcellus, a scenario that would keep the biggest gas stockpile glut since 2012 expanding and prices under pressure. The Marcellus is producing almost 20 percent of total U.S. gas flow.

The revision to the agency's data is "unusual," said Jozef Lieskovsky, a senior analyst at the Energy Information Administration in Washington. "We believe it is not only a story of higher productivity, but also choking existing wells, and increased production after new pipeline capacity came online."

Investment cutbacks could jeopardize Norway's future gas production

(Platts; March 8) - Norway is central to Europe's gas supply — its record production of 4.06 trillion cubic feet last year met 25 percent of the EU's total gas demand — and the government continues to reassure that exports will continue at current levels well into the future. In the first two months of 2016, Norway's exports to Europe hit a new record, 7 percent more than the same period in 2015. But with upstream spending plummeting, doubts are beginning to grow about Norway's ability to hold the flow at high volumes.

The challenges are many. As well as reduced investment due to the current low-price environment, they include high operating costs, a maturing asset base in the North Sea, and the fact that new gas reserves are in harder-to-access and more remote areas in the Arctic. Nevertheless, Energy Minister Tord Lien believes Norway could maintain current levels, provided there is sufficient investment. But therein lies the main problem as companies slash capital spending to cushion against significantly lower revenues.

In January, the Norwegian Petroleum Directorate said capital spending on Norway's continental shelf would fall 10 percent in 2016 to $15.3 billion. That follows a 17 percent plunge last year from record investment levels in 2013-2014. Eclipse Energy, a unit of Platts, forecasts Norway's annual gas output will fall gradually to about 3.2 tcf over the next five years before suffering a major decline to 1.8 tcf by 2027. The new resources Norway that plans to tap to maintain production are further north into the Arctic.

Petronas plans to put floating LNG facility into service this year

(Asian Oil and Gas; March 6) – The world's first floating liquefied natural gas facility officially received its name, PFLNG Satu, at a ceremony at the Daewoo Shipbuilding & Marine Engineering shipyard in South Korea on March 4. The all-in-one LNG production and storage vessel is owned by Malaysia's Petronas, and is scheduled to go into service later this year offshore the western end of Malaysia. At 1,180 feet long, it is smaller than Shell's 1,600-foot-long Prelude floating LNG facility, also being built in South Korea, but which is not scheduled to start up for least another year.

PFLNG Satu will be a game changer in the global LNG business as it paves the way for opportunities to monetize gas resources from remote, marginal and stranded fields that would otherwise be uneconomical to develop via conventional means, Petronas said. PFLNG Satu will be moored at Malaysia's Kanowit gas field, 112 miles offshore Sarawak, and will have the capacity to produce 1.2 million metric tons of LNG per year. Shell's Prelude will have three times the capacity, and will work offshore Australia.

Petronas had been working toward building a second floating LNG facility but has decided to delay that project due to lower profits last year and weak market conditions.

Kuwait contracts for $2.9 billion LNG import facility

(Business News Korea; March 7) - A South Korean consortium led by Hyundai Engineering has won a $2.93 billion order to build liquefied natural gas import facilities in Kuwait from state-run Kuwait National Petroleum Co., according to the Korean company. The consortium will build a regasification facility and eight LNG storage tanks in Al-Zour, 56 miles south of Kuwait City, the capital city of Kuwait.

It will be the country's first onshore LNG import and regasification terminal. Kuwait currently uses a leased floating import terminal to meet energy needs during peak power-demand months. Hyundai Engineering & Construction will be in charge of building the LNG storage tanks and coastal facility, while Hyundai Engineering will construct the regasification facility. Korea Gas Corp. will take charge of a trial run and training of staff. The consortium aims to complete construction by 2020.

Public hearings begin into TransCanada's west-to-east oil pipeline

(Montreal Gazette; March 7) - After months of political and legal wrangling, federal environmental hearings into TransCanada's controversial Energy East oil pipeline finally got underway in Lévis, Quebec, on March 7, with the company insisting it is cheaper, safer and more environmentally friendly to move oil by pipe than train. TransCanada's presentation was delayed about 30 minutes while protesters sang. They were booed by some members of the public who said they wanted to hear from the company.

"A pipeline will only help the tar sands industry grow and grow," said Monique Hains of Ciel et terre, an environmental group founded in 1995 representing about 75 members. "If this industry continues to grow, it's extremely dangerous for climate change, it's too much greenhouse gas." Participants were told by Head Commissioner Joseph Zayed that they had to be "courteous and respectful" and refrain from voicing their opinion, as the objective of the first phase of the hearings was to "obtain information."

The 2,850-mile pipeline would carry up to 1.1 million barrels of oil per day from Alberta and Saskatchewan to refineries in Eastern Canada, including Quebec's two refineries — the Suncor refinery in Montreal East and Valero refinery near Quebec City. The line would run 400 miles in Quebec and go under hundreds of lakes and rivers. "The alternative is transportation by train," said Louis Bergeron, vice president Quebec and New Brunswick for Energy East. "There are 36 times more people living near railways."