Oil and Gas News Briefs
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LNG suppliers seek new markets to help boost prices

(Wall Street Journal; May 15) - Natural gas transported across the oceans has helped to displace coal in Europe's power plants and China's household cookers. Now, producers want it to become a fuel for cruise liners, container ships and trucks. In doing so, Big Oil hopes to boost demand to help drag liquefied natural gas prices out of the doldrums. LNG prices last month sank to a seven-year low in Asia as demand is failing to keep up with rising supply. Wood Mackenzie, a U.K.-based consultancy, expects the global gas glut will take years to clear, with 70 million metric tons of LNG uncontracted by 2021.

This downbeat outlook helps to explain why energy companies are continuing to seek new markets for LNG. Shell has signed a deal with cruise operator Carnival to provide LNG at major ports for the recently launched AidaPrima. Woodside Petroleum in April signed a five-year deal to supply Australia's first LNG-powered marine-support vessel serving offshore installations. "Companies are going to have to create new markets. We can't simply rely on buyers to supply it for us," said Peter Coleman, Woodside's CEO.

Analytics provider IHS Inc. said last year additional demand for LNG as a transport fuel could be critical in reducing oversupply. It forecast LNG demand in transport — where it is a relatively niche product — would grow to account for 10 percent of all traded LNG by 2030. Still, there are big challenges. Growth of LNG as a transport fuel is being held back by a lack of refueling facilities. But many say the market holds promise. Yoon Namgoong, principal researcher at Korea Gas, said LNG demand as a marine fuel is forecast to rise as high as 13 million tons a year in 2020 and 64 million tons in 2030.

KOGAS shows small boost in LNG imports after two years of decline

(Platts; May 12) - South Korea's state-owned Korea Gas Corp.'s LNG imports edged up 0.5 percent year-on-year in the first-quarter, as demand climbed 1 percent on a cold snap. KOGAS, the world's biggest LNG buyer, imported 9.82 million metric tons January through March 2016, up from 9.77 million tons a year earlier, a company official said May 12. It marks the first year-on-year quarterly increase since first-quarter 2014.

KOGAS has reduced its LNG intake due to weak demand amid an economic slowdown and mild temperatures, as well as greater use of coal and nuclear for power generation. The company's LNG imports fell 13.5 percent year-on-year to 31.41 million tons in 2015, marking the second consecutive year of decline.

KOGAS has contracts for 11.02 million tons a year from Qatar; 4 million from Malaysia; 4 million from Oman; 3.5 million from Australia; 1.7 million from Indonesia; 1.5 million from Russia's Sakhalin Island project; and 1 million tons per year from Brunei, among others, the company said. KOGAS also plans to import 2.8 million tons per year from the Sabine Pass terminal in Louisiana starting in 2017 under a 20-year contract.

April's average spot LNG price in Japan down to $5.80

(Reuters; May 13) - Prices of imported liquefied natural gas spot cargoes in April fell to their lowest since Japan's trade ministry started publishing figures more than two years ago, official data showed May 13. The average price of arriving LNG spot cargoes to the world's biggest importer fell by $1 from a month earlier to $5.80 per million Btu in April, according to the Ministry of Economy, Trade and Industry.

Demand in Asia remains low, while supplies from the U.S. and Australia are flooding global markets. The ministry surveys spot LNG cargoes bought by Japanese utilities and other importers. The April 2014 average spot price, as reported by the ministry, was $18.30 per million Btu, as markets were just starting to come down from winter-2014 record highs of $20 in the spot market. By April 2015, the average spot price to Japan was down to $7.90.

Fitch predicts convergence, but not single price, for global LNG sales

(LNG Projects; May 13) - The combination of U.S. LNG becoming a competitive alternative for buyers in Europe and Asia and the oversupplied global market will lead natural gas prices to converge at major hubs, weakening the link between liquefied natural gas and oil prices, Fitch Ratings predicts. Hub price convergence also would reduce the pricing power of regional gas suppliers, Fitch said in a May 13 statement.

Alternative supplies and alternative pricing will make it harder for traditional regional gas suppliers to tie natural gas prices to oil prices, something Fitch already sees happening in Europe as customer pressure has forced Norway's Statoil and Russia's Gazprom to increase the share of their pipeline gas sold under spot-market or hybrid-pricing contracts.

Though growing market competition will help to bring world LNG prices closer together, "the process is unlikely to result in one global market, due to infrastructure limitations and high transportation costs for LNG compared with oil," Fitch said. The ratings agency also noted that Europe is a more attractive market for U.S. LNG than Asia at today's low spot prices, due to the lower transport costs across the Atlantic than sending LNG tankers through the Gulf of Mexico and Panama Canal and across the Pacific to Asia.

First Nations go to U.N. to argue against LNG plant in B.C.

(The Associated Press; May 12) - First Nations leaders from British Columbia brought their fight against a proposed liquefied natural gas project to the United Nations May 12, saying the export terminal could threaten wild salmon habitat on their ancestral lands. The group sought the support of U.N. members for its demand that the Canadian government reject the Pacific NorthWest LNG project, led by Malaysia's Petronas. The B.C. government believes the project could generate more than 18,000 jobs.

In a statement, Murray Smith, a leader of the Gitwilgyoots Tribe — one of the Nine Allied Tribes of Lax Kw'alaams — expressed deep concerns about the threat the project poses to the wild salmon habitat. The project is proposed for just south of Prince Rupert, B.C., on Lelu Island at the mouth of the Skeena River. Opponents say it threatens wild salmon habitat on what is the second largest salmon bearing river in B.C.

The First Nations leaders' appearance at the U.N. came just two days after the Canadian government earned cheers at the 15th session of the Permanent Forum on Indigenous Issues, where Canada pledged to abide fully with the United Nations Declaration on the Rights of Indigenous Peoples. Canada’s Environment Minister Catherine McKenna has said a Cabinet decision on the environmental assessment covering the Pacific NorthWest project should be made by late June.

B.C. LNG hopefuls say First Nation collaboration can reduce delays

(The Canadian Press; May 11) - Aboriginal consultation must be the top priority for liquefied natural gas proponents in Canada, said a developer and a First Nation that have partnered on a plan to build an LNG facility on Vancouver Island. Steelhead LNG president Victor Ojeda and Malahat Nation CEO Renee Racette spoke to the Canada LNG Export conference in Vancouver on May 11 about minimizing the risk of costly delays through collaboration.

They made the comments as LNG backers in British Columbia try to coax often fiercely opposed First Nations to consider the economic promises of such projects. There are 19 LNG proposals in B.C., but even those with First Nations’ support still face significant problems including weakened Asian demand and slumping energy prices. Steelhead LNG, a young Vancouver-based company created to develop an LNG project, and the Malahat announced a mutual benefits agreement and long-term lease last summer.

The project would include floating liquefaction facilities in Saanich Inlet off Bamberton, about 25 miles north of Victoria. The Malahat bought the site in July 2015. The facility would be capable of producing 6 million metric tons of LNG a year and would be served by a new 80-mile pipeline from the B.C. mainland. A final investment decision from

Steelhead LNG is expected in 2018. However, Racette acknowledged in an interview after her speech that neighboring aboriginal groups staunchly oppose the project.

Colorado continues support for LNG export project in Oregon

(Route 50; Atlantic Media Publications; May 12) - Why would business leaders in Grand Junction, Colo., nearly 1,200 miles from the Pacific Ocean, support a liquefied natural gas export facility in Oregon? With U.S. natural gas prices stuck at 1990s levels and storage overflowing with cheap and domestically abundant gas (thanks to fracking and directional-drilling technology), energy companies and the communities that rely on them are increasingly eyeing overseas markets for new customers and higher prices.

Largely dormant gas plays in Colorado and elsewhere would be able to move gas to Oregon, where it could be liquefied and shipped to Asia. “All of a sudden there’s a pathway for the gas to flow west that’s not there now,” said David Ludlam, executive director of the West Slope Colorado Oil and Gas Association. But the Federal Energy Regulatory Commission in March rejected the application of Jordan Cove LNG to build its export terminal at Coos Bay, Ore. The company is seeking a rehearing at FERC.

Colorado officials are writing FERC in support of the project. “In denying the project, FERC will not only be denying the positive economic benefits to the development areas, it will also be denying the far-reaching benefits beyond the Pacific Northwest,” Colorado Gov. John Hickenlooper wrote. The state Legislature also has taken up the cause, with the Senate approving a resolution in support of Jordan Cove LNG.

Legal fight continues over proposed LNG plant in Tacoma, Wash.

(Fife Free Press; Fife, WA; May 12) - Legal challenges over the proposed liquefied natural gas production and storage plant at Tacoma’s tideflats at the southern end of Washington state’s Puget Sound continue to chug along. The Puyallup Tribe has sued to stop the small-scale plant, arguing that last year’s environmental review failed to properly address the plant’s impacts on the salmon-bearing waterway. The tribe worries that construction of the facility would churn up the soil at the Superfund cleanup site.

Meanwhile, a critic of the plant has found himself in court to gain information about the plant’s potential hazards and how the Tacoma Fire Department would respond to a fire or explosion at the plant. City officials were going to release the information, but Puget Sound Energy, the project developer, wants to block the release, arguing that making the plans public could make the facility a target for terrorist attacks.

Puget Sound Energy wants to build a $275 million LNG facility to produce 8 million gallons of fuel a year, which would be used by TOTE cargo vessels that travel from

Tacoma to Alaska, along with other customers and stored in tanks to use during extreme weather conditions. The company said the plant could be operational in 2019. The tideflats is already home to three oil refineries, oil train traffic, and a busy cargo terminal for container ships and other oceangoing deliveries.

OPEC says investment cutbacks are rebalancing global oil market

(Wall Street Journal; May 13) - Shrinking U.S. output and massive cuts to investment in new projects will reduce the global oil glut over the course of this year, the Organization of the Petroleum Exporting Countries said May 13, potentially pushing worldwide oil production lower than demand in 2017. OPEC forecast that production by countries outside the cartel will help rebalance a global market that has seen prices fall by more than half since 2014, even though OPEC has declined to rein in its own production.

OPEC said non-OPEC production will fall by 740,000 barrels a day from 2015 to 56.4 million barrels a day this year — 10,000 barrels less than it had previously predicted. Most of the decline will stem from cuts U.S. producers are making in unprofitable wells. OPEC forecast U.S. production this year will fall by 431,000 barrels a day from 2015 to 13.56 million. The rest of the predicted non-OPEC decline will come from production delays and lower investments in China, Mexico, the U.K., Kazakhstan and Colombia.

Overall, oil companies worldwide will cut their exploration and appraisal investments in 2016, 2017 and 2018 to $40 billion annually, half the average annual spending of 2012 through 2014, the group said. Meanwhile, output will be absorbed by rising global oil demand, which it predicted to increase by 1.2 million barrels a day from last year to 94.18 million barrels a day in 2016. As a result, the glutted oil market has started to even out, OPEC's data shows. Global oil oversupply halved to 950,000 barrels a day in April, compared with overproduction of 2.13 million barrels a day in 2015.

Iranian oil production growing faster than expected

(Wall Street Journal; May 12) - Iran's oil production has risen faster than expected, reaching levels not seen since before Western sanctions were tightened in 2011, but a global oversupply of crude is still shrinking, the International Energy Agency said May 12. The Islamic Republic ramped production up by 300,000 barrels a day month-on-month in April, hitting 3.56 million barrels a day, according to the IEA's closely watched monthly oil-market report. Iran's exports reached about 2 million barrels a day.

Despite the strength of Iran's rebound, global oil markets are moving closer to balance in the second half of the year as unplanned disruption to production in countries such as Canada and Nigeria are helping to run down a global overhang of crude inventories. Global oversupply will diminish to 200,000 barrels a day in the last six months of the year from 1.3 million in the first half, the IEA said. Production outside the Organization of the Petroleum Exporting Countries will decline by 800,000 barrels a day this year.

The IEA has maintained its forecast for global demand growth broadly at 1.2 million barrels a day for this year, but said the risks to future forecasts lay to the upside. “Any changes to our current 2016 global demand outlook are now more likely to be upward than downward, as gasoline demand grows strongly in nearly every key market, more than offsetting weakness in middle distillates,” the IEA said.

China starts work on second oil pipeline to import Russian crude

(Bloomberg; May 12) - China National Petroleum Corp., the country’s biggest oil and gas producer, will start laying a second domestic pipeline in June to allow for increased Russian oil supplies to flow to China’s northeastern city of Daqing. The project between the Chinese border city of Mohe and Daqing runs parallel to an existing spur off of Russia’s East Siberia-Pacific Ocean pipeline. The new 585-mile line has approval from the National Development and Reform Commission, China’s top economic planner, and is expected to be completed by October 2017, CNPC said in a statement May 12.

The energy relationship between the two neighbors — one of the world’s biggest oil producers next door to the biggest oil user after the U.S. — has continued to deepen since Russia started sending oil supplies to China from the spur off the East Siberia-Pacific Ocean pipeline in 2011. Imports of Russian crude last year jumped 28 percent, placing the country as China’s largest supplier on an annual basis after Saudi Arabia.