Oil and Gas News Briefs
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Japanese utilities sell unneeded LNG into European market

(Bloomberg; May 26) - Japan's Jera Co., one of the world's largest buyers of liquefied natural gas, has agreed to sell some of the fuel it does not need to a unit of France's Electricite de France (EDF). Jera, a joint venture between Tokyo Electric Power and Chubu Electric Power, will sell as much as 1.5 million metric tons of LNG between June 2018 and December 2020, it said May 26. That could be about 20 to 25 LNG cargoes. The price will be linked to European gas market prices, according to the statement.

Jera's debut as a seller to Europe underscores how the oversupplied market has challenged traditional exporters that relied on steady, long-term demand from buyers in countries like Japan, the world's largest consumer of the fuel. Japan's new role as a middleman — with the new ability to resell the LNG it does not need — adds further pressure on LNG producers that are losing bargaining power because of the glut.

"This deal represents an entry point for Jera into the European market, at a time when the company's LNG contracts from the U.S. will be ramping up significantly," Michael Jones, a Singapore-based analyst at Wood Mackenzie, said by e-mail. "The demand outlook in Jera's home market remains uncertain, so EDF gives Jera the ability to offload some flexible U.S. volumes into Europe." Japan's LNG consumption is expected to fall to 72 million tons in 2020 and 62 million tons in 2030, compared to 85 million tons in 2015, according to data compiled by Japan and the International Energy Agency.

Japan may rely less on nuclear, more on renewables, coal, LNG

(Reuters; May 26) - Japan will cut its reliance on nuclear power when it releases an updated energy plan as early as next year, reflecting public opposition and a recognition that current policy is unrealistic, three sources familiar with official thinking told Reuters. The move is expected to boost the country's use of renewable energy, but will also likely cement its drive toward cheaper coal-fired generation following the 2011 Fukushima nuclear crisis and the shutdown of all the country's reactors.

Public resistance to nuclear has remained strong in Japan, and a target by the pro-nuclear industry ministry for nuclear to provide about one-fifth of the country's electricity provoked widespread criticism when it was finalized in 2015. At the same time, only two of the country's 42 reactors are currently operating following safety shutdowns, and the industry faces a raft of constraints including aging units and legal challenges.

Reducing the target for nuclear is likely to support Japan's controversial push into coal for power generation, with more than 40 new stations using the dirtiest fuel planned in the coming years, putting its emissions targets at risk. It may also mean more reliance on liquefied natural gas by the world's biggest importer of the fuel. LNG use surged in the aftermath of Fukushima and prices are expected to remain low for some time amid plentiful supplies, although it is still more expensive than coal.

Delinking of LNG and oil prices creates uncertainty in market

(Reuters column; May 26) - The price for spot cargoes of liquefied natural gas in Asia has broken its long-standing link to crude oil this year, a development likely to fuel tensions in an already unsettled market. Spot LNG sold at $4.65 per million Btu last week, down 35 percent from $6.90 at the end of last year. In contrast, global benchmark Brent crude pushed above $50 a barrel May 26, up about a third from the start of 2016.

The decoupling of oil and spot LNG prices is likely to be negative and positive for the industry, but the overall impact is likely to be heightened uncertainty for participants. Major LNG producers with long-term contracts tied to crude are most likely breathing sighs of relief as Brent breaches $50 a barrel and shows signs of having bottomed out. But given the ongoing weakness in spot LNG, buyers are likely to maximize purchases of spot cargoes while they try and vary the amount they take on long-term contracts.

Put another way, LNG buyers are likely to be annoyed at having to pay higher, oil-linked prices for long-term supplies when they can see cheaper cargoes on a spot basis. This dichotomy is likely to increase the pressure on producers to amend or renegotiate long-term contracts to make them reflect the realities of LNG markets rather than the oil market. However, producers will have little incentive to end oil-linked contracts, as this would cut their revenues substantially and expose them further to the glut of LNG.

Total looks to become major LNG supplier in Asia-Pacific

(Interfax Global Energy; May 27) - France’s Total plans to become a leading LNG supplier in the Asia-Pacific in the next decade, positioning itself for when the region’s LNG surplus is expected to evaporate as demand rebounds and new buyers emerge in Southeast Asia. Analysts say Total’s latest deal with Oil Search in Papua New Guinea is a logical next step for the French major, putting it in position to serve emerging growth markets from what could become one of the region’s lowest-cost producers.

"In recent years, Total has expanded its LNG position through mergers and acquisitions, particularly in the Pacific. Between 2009 and 2013, it made a number of acquisitions to enter LNG projects at the early stage before the scope was well defined, such as Ichthys [Australia], Yamal [Russia] and Papua LNG," said Saul Kavonic, a senior oil and gas analyst for Australasia at Wood Mackenzie. "What we're seeing now with this deal is [Total] further increasing its stake in the Papua LNG project." Ichthys and Yamal are under construction; Papua LNG is at the proposal stage.

Wood Mackenzie believes Papua LNG is a sound prospect. "We see Papua LNG as a viable project on a stand-alone basis. Both it and PNG LNG Train 3 [expansion at the ExxonMobil-led Papua New Guinea plant that started up in 2014] are among some of the lowest-cost pre-FID projects in the world," Kavonic said. As part of its deal with Oil Search, Total will secure additional stakes in Papua New Guinea gas.

[Global scientists urge Canada to reject Petronas-led LNG project]

(Globe and Mail; May 30) - A group of international climate-change experts is urging the Canadian government to reject a consortium's plans to build a natural gas liquefaction and export project on Lelu Island, near Prince Rupert, B.C., warning that the project would belch out emissions rivaling the volume of a large plant in Alberta's oil sands. The experts say the terminal would become one of the single largest emitters of greenhouse gases in Canada. Their letter also expresses skepticism about claims that cleaner-burning LNG would fully become a replacement for polluting coal in Asia's power plants.

Approving Pacific NorthWest LNG's proposal to build a gas export terminal "would make it virtually impossible for B.C. to meet its greenhouse-gas emission reduction targets, and would undermine Canada's international climate change commitments," according to the letter signed by more than 90 scientists and climate experts. The letter argues that emissions from the terminal would likely be much higher than amounts forecast by the consortium, led by Malaysia's Petronas.

The signatories include former NASA scientist James Hansen, Australian climate expert Tim Flannery, American science historian Naomi Oreskes and Canadian scientists David Suzuki, Lynne Quarmby and Danny Harvey. The project has been under review by the Canadian Environmental Assessment Agency since April 13, with a decision expected soon. Environment Minister Catherine McKenna has said she will take the decision to the Cabinet as soon as the review agency makes its recommendation.

[Oman increases income tax on LNG companies from 15% to 55%]

(LNG World News; May 26) - Oman has increased its income tax on liquefied natural gas companies, according to local media reports. The Times of Oman reported May 26 that the tax was raised from 15 percent to 55 percent in a joint meeting of the State Council and Majlis Al Shura, the country's Consultative Council.

Additionally, the newspaper said Oman approved a 35 percent tax on petrochemical firms and non-oil natural resource exports. The joint session voted 63 percent in favor of the petrochemical tax. The decision comes on the back of Oman's $11 billion (U.S.) budget deficit. Oman's revenue has been hit hard by the drop in oil and natural gas prices. To deal with its budget deficit, Oman has reduced subsidies on gasoline and diesel fuel, with similar cuts planned for electricity.

Oman's single natural gas liquefaction plant and export terminal is a joint-venture between the government (51.4 percent), France's Total, Japan's Mitsubishi, Mitsui and Itochu and Korea LNG. The plant's capacity is about 10 million metric tons of LNG per year. It started operations in 2000.

Second production unit starts up at Australia LNG plant

(Sydney Morning Herald; May 26) - Santos has started up on schedule the second production unit at its $18.5 billion (U.S.) liquefied natural gas project in Gladstone, Australia. The two-train plant started operations last October and has shipped out 32 cargoes since coming online. At full capacity, the two liquefaction trains are designed to produce up to 7.8 million metric tons of LNG per year. The project is fed with production from coal-seam gas fields through a 260-mile pipeline to the coastal plant.

The Gladstone project is the biggest investment in LNG for Santos, one of Australia's largest gas producers. RBC Capital Markets analyst Ben Wilson said bringing on the second LNG unit was "material" for growing Santos's cash flow and reducing its still-significant debt load as it "works to stabilize" its BBB- credit rating, the lowest investment grade. Santos holds 30 percent of Gladstone. Partners include Malaysia's Petronas, 27.5 percent; France's Total, 27.5 percent; and Korea Gas, 15 percent.

Cheniere plans September start-up at second Sabine Pass LNG train

(The Maritime Executive; May 26) - In a monthly report filed May 26, Cheniere Energy said it would commission the second liquefaction train at its Sabine Pass terminal in Louisiana in September. The first train began operations in February, with seven commissioning cargoes and commercial cargoes shipped as of early May. The plant's third and fourth trains are expected to come online in April and August 2017, respectively.

Cheniere plans as many as six trains at Sabine Pass, the first U.S. Gulf Coast LNG export terminal. The majority of its output is under long-term contracts with European, South Korean and Indian buyers. The new volumes of gas into Europe are expected to reshape the continent's energy market, which has historically received 30 percent of its gas from Russia. "It's the start of the price war between U.S. LNG and pipeline gas," Thierry Bros, an analyst for Societe Generale, told the Wall Street Journal in April.

Gazprom says it will sell record volume of gas in Europe this year

(Reuters; May 26) - Russia's Gazprom plans to export a record 5.82 trillion cubic feet of natural gas to Europe this year, the company's deputy chief executive Alexander Medvedev told reporters May 26. Gazprom generates over half its revenue in Europe, and falling prices have made its gas more attractive to European consumers. It has also tweaked long-term deals with European clients that have become more demanding thanks to rival sources of fuel, including liquefied natural gas from other countries.

Gazprom supplied about 5.61 tcf of gas to Europe in 2015, or about a third of the region's needs. Medvedev did not give an explanation for the expected record in 2016. Despite Gazprom's attempts to raise its deliveries to the lucrative European Union market, some European countries have been trying to wean themselves off their dependence on energy supplies from Russia.

Medvedev said Gazprom's average price for the year in Europe was expected to be $4.73 to $4.84 per 1,000 cubic feet. That price is broadly in line with average levels at Europe's main freely traded gas hubs in Britain and the Netherlands, showing how Gazprom has sweetened its sales pitch to encourage consumption, analysts said. Gazprom's prices had typically been higher than the average at European hubs. A wave of LNG exports threatens to undercut Russia's dominant market share in Europe.

Gazprom talks up price risk of U.S. LNG

(Platts; May 27) - LNG exports will be a loss-making enterprise at some point in the next 20 years "with 100 percent probability," a leading official at Russian gas giant Gazprom said this week, as the monopoly continues to speak out at the prospect of U.S. liquefied natural gas competing with its gas in Europe. Valery Nemov, deputy head of contract structuring and price formation at Gazprom Export, warned that U.S. Henry Hub prices could soar in the future, rendering U.S. LNG exports less profitable.

"We can assume that a scenario when the market is short and prices in the U.S. are at similar levels to those in Europe or Asia … and thus LNG exports from the U.S. would be loss-making," Nemov said in Gazprom's monthly newsletter published May 26. "That is likely to happen in the next 20 years, with 100 percent probability." He said the cost of feed gas for U.S. LNG is a "variable value" and could easily go "several times higher" than today's $2 per million Btu if supply cannot meet demand or supply is interrupted.

"Taking into account the fact that signed contracts have a duration of 20 years, we should not rule it out that the price can skyrocket at some point, as it has happened in the past, and remain at high levels for months if not years," Nemov said. Despite Gazprom's pessimistic view of U.S. LNG, American gas exports will have an important role to play in global markets, Nemov said. "What cannot be denied is that … the U.S. is becoming a cornerstone in the global supply and demand of LNG."

LNG delays hard on Haisla Nation and members looking for jobs

(Vancouver Sun; May 26) - The Haisla Nation, which supports two of the leading LNG projects in British Columbia, is in a waiting game as the projects are in limbo. Activity on the Shell-led LNG Canada project for Prince Rupert and the Chevron-led project in the Kitimat area, where the Haisla claim traditional territory, have slowed to a crawl. When, and if, the projects could go ahead is unclear. Like other proposed liquefied natural gas projects worldwide, they face setbacks because of a glut of gas supplies and low prices.

Haisla chief councillor Ellis Ross said community members who had high-paying LNG jobs during the ramp-up two years ago — including site clearing, road building, camp set-up and environmental work — have moved away to find work. They have no choice if they want to pay their mortgages, which they took on during the LNG ramp-up, he said. "It's kind of bitter-sweet. It's this waiting game," Ross said. The Haisla have about 1,700 members, 700 of whom live in the Haisla village, about 7 miles south of Kitimat.

In the past few years, everything has hinged on LNG, including independent power projects, with few other economic options for the region, Ross said. The prospective LNG projects brought the promise of not only jobs, but revenue streams, including from Chevron for the lease of Haisla land. But in 2015, Chevron announced it was "significantly" slowing spending on its Kitimat LNG project. Earlier this year, Shell said it was putting off a final investment decision on its project until the end of 2016.

New Brunswick will continue ban on hydraulic fracturing

(The Canadian Press; May 26) - A moratorium on hydraulic fracturing, imposed by New Brunswick's government in December 2014, will remain in place indefinitely, the province's energy minister announced May 26. "We have been clear we would not allow this activity to go forward unless our five conditions were met," Donald Arseneault said. "Creating jobs is our number one priority, but not at any cost. It is clear that our conditions cannot be satisfied in the foreseeable future."

The government's conditions include a plan for regulations and wastewater disposal, a process for consultation with First Nations, a royalty structure, and a so-called social license. Arseneault was responding to a report from the commission on hydraulic fracturing which was released in February. That hefty, three-volume document offered a long list of recommendations to follow if the government were to allow a shale gas industry to grow in the province.

Among its recommendations were a single independent regulator, a plan for wastewater disposal, a new strategy for environment and energy, and a new relationship with indigenous people. The previous government's decision to embrace the shale gas industry was polarizing in the province, where a series of public protests culminated in a violent demonstration in the fall of 2013 in Rexton that saw 40 people arrested and six police vehicles burned.

Opponents cite environmental risks of LNG export project in Georgia

(WTOC TV; Savannah, GA; May 26) - A group of Savannah, Ga., residents is worried about expansion of the liquefied natural gas import terminal on Elba Island. The Kinder Morgan energy company wants to add liquefaction and expand LNG storage capacity at the plant so that it can export the fuel. "Kinder Morgan and people who build these plants do a pretty good job of it, but the problem is natural disasters, human negligence and terrorists," said Citizens for Clean Air and Water President Clete Bergen.

The nonprofit group objected last time when El Paso Corp. — now owned by Kinder Morgan — proposed a similar project to send out LNG by truck, rather than the current plan to export larger volumes at sea. The $2 billion project would require six months to a year of construction, and thousands of truckloads per month to the construction site. The majority of those trucks would be hauling fill dirt and equipment, but activists say that's not the biggest concern. The LNG import terminal started operations in 1978.

"There's going to be these very dangerous-type chemicals being brought in for the refrigeration process. If they get into an accident, or whatever, and it spills over, some of those chemicals are lethal," Bergen said. Kinder Morgan is still in the permitting phase with the Federal Energy Regulatory Commission. But if approved, the company expects the LNG export operation to start up sometime in 2018. The LNG plant would include up to 10 small liquefaction units, with a total capacity of 2.5 million metric tons per year.

Kazakhstan says partners will spend billions to boost oil production

(Wall Street Journal; May 25) – Chevron and its partners are set to invest up to $37 billion to boost output at a Kazakhstan oil field that is among the world's costliest, the country's energy minister said May 25, a rare spending commitment during a prolonged oil-price slump. The investment in the field known as Tengiz would begin in 2017 and come on top of about $37 billion already spent by Chevron, the field operator, and partners state-owned energy firm KazMunaiGas, ExxonMobil and Russia's Lukoil.

Chevron's Chief Executive John Watson was recently in Kazakhstan and discussed the project with the nation's political leaders, according to the country's energy minister, Kanat Bozumbayev. Chevron said the consortium will announce the final investment decision for Tengiz at an appropriate time. "This rigorous review of the future growth project is ongoing," Chevron said in an emailed statement. The project is vital for Kazakhstan, which depends on oil for about half its state revenue.

Tengiz's output is currently about 500,000 barrels a day, and the expansion would boost output to about 760,000 barrels a day by 2021. Overall, Kazakhstan pumps about 1.6 million barrels a day, which is forecast to decline without help from expanding Tengiz. The investment would be among only a handful of large outlays by big oil companies during a nearly two-year-long slump in prices. Companies have been forced to delay or cancel about $270 billion in projects through March since oil prices began their slide.

Algeria's lack of success finding new oil poses long-term problem

(Bloomberg; May 23) - Algeria has more oil drilling rigs than the rest of Africa combined, yet production still isn't recovering after years of decline. It's no wonder Algeria remains one of the most vocal supporters of action to increase prices by curbing output at the OPEC meeting next month. OPEC has been hit hard by the decline in oil prices. Algeria, like other members, is rolling out economic reforms to deal with the consequences of the slump, which include the nation's first current-account deficit in more than a decade.

"In the short term, for sure, the only hope is for prices to rise" because Algeria has little flexibility on production, said Alexandre Kateb, chief economist at Algiers-based financial services company Tell Group. Decades after the discovery of Algeria's first major oil fields in the 1950s, the nation's exploration success rate has fallen to less than one well in five, according to data from state oil company Sonatrach Group. Last year, it drilled 149 wells and only made 22 minor finds. Crude output for the past two years has remained at about 1.1 million barrels a day, data compiled by Bloomberg show.

Algeria had 36 rigs drilling for oil last month, two-thirds of the total for the African continent, according to data from Baker Hughes. Algeria's income from oil and gas exports, which account for nearly 60 percent of the economy, has plunged by almost half since crude prices tumbled. While large currency reserves and low levels of foreign debt have helped the nation to weather the storm, a prolonged slump could threaten subsidies on housing and basic foodstuffs. Algeria's economy is "facing a severe and likely long-lasting external shock," the International Monetary Fund said May 19.