Oil and Gas News Briefs
Compiled by Larry Persily
November 23, 2016

Tokyo Gas will swap U.S. LNG for gas produced closer to home

(Nikkei Asian Review; Nov. 21) - Tokyo Gas and major British utility Centrica will start swapping liquefied natural gas cargoes next year in an arrangement designed to lower the costs of transporting the fuel to their respective customers. The deal will involve the Japanese city-gas company supplying U.S. LNG to Centrica, and the U.K. utility will provide Asian LNG to Tokyo Gas. Actual swap volumes will change depending on regional and seasonal demand.

Tokyo Gas in 2013 signed a 20-year contract for 1.4 million metric tons per year of output from the Cove Point LNG project under construction on Chesapeake Bay in Maryland. The Dominion Resources project is scheduled to go online in late 2017. Moving LNG from the East Coast to Japan requires a trip through the Panama Canal and across the Pacific Ocean. "Because tolls for the Panama Canal are expensive, bringing LNG [from the Cove Point project] to Japan may not make economic sense depending on fuel costs," said an official at a foreign consulting firm in Japan.

By swapping LNG that Centrica buys in Asia with LNG from Cove Point, Tokyo Gas could cut transportation costs by several hundred thousand dollars per shipment. Some of the LNG that Tokyo Gas will receive through the swap agreement with Centrica may be supplied to its partner utilities in Southeast Asia, depending on demand in Japan.

Resale restrictions on agenda at LNG conference in Tokyo

(Reuters; Nov. 23) - A Japanese regulatory probe into sales restrictions in liquefied natural gas contracts will be at the front of discussions as the industry's biggest buyers and sellers gather in Tokyo this week. Representatives from major LNG producers Qatar, Australia and Malaysia will meet at the annual conference with buyers from companies including Japan's Jera Co., the world's biggest buyer of the fuel, to find ways to address a market where supply capacity exceeds demand by one-third. The glut and its low prices are leading the industry to question how LNG is priced and how it is sold.

Adding to the disruption, the Japan Fair Trade Commission is examining whether destination clauses, long-time features of LNG sales contracts that restrict buyers from selling cargoes to third parties, are anti-competitive. The investigation could force the renegotiation of billions of dollars of existing contracts. Buyers in Japan, the world's biggest LNG importer, have long complained about destination clauses and will voice their displeasure again at the LNG producers and consumers conference on Nov. 24.

Japan's buyers are now overcommitted to contractual LNG cargoes as demand is dropping. They want more leeway to resell the spare cargoes but are prevented by the clauses. Producers have rebuffed the objections. But, they are having to reconsider that position because of increasing U.S. LNG exports, which do not carry the destination restrictions. "It's a buyers' market now. We are asking them (sellers) not to include destination restrictions as much as possible and we have made some progress on reaching an understanding," said Tokyo Gas Executive Officer Kentaro Kimoto.

It actually makes sense for Australian utility to consider LNG imports

(Reuters columnist; Nov. 21) - Sometimes the seemingly illogical makes sense. Take the case of Australia, which will soon become the world's top LNG exporter, but also may start importing the fuel at the same time. When the last of $180 billion in projects is finished, Australia will be capable of producing about 85 million metric tons of LNG a year. So it would seem extraordinary that it would have to import the fuel to meet domestic needs, but that is exactly what domestic utility AGL Energy is considering.

The company said Nov. 14 it would spend about $13 million (U.S.) on a feasibility study for an import terminal in the southeast of the country, home to most of the nation's gas-consuming industries and its largest retail market. The building of three new LNG plants on the northeast coast has dramatically altered the supply-demand balance. The three facilities will account for about 70 percent of East Coast gas demand by 2018, AGL said. This means a massive exploration and production effort is required to boost output by enough to meet the demand of the LNG plants.

It also means that domestic pricing will become more tied to global LNG prices as the plants buy up gas that would otherwise have been available to domestic markets, creating a potential shortage in about 2019. The best solution for easing southeastern Australia's looming shortage of gas would be to boost onshore production in Victoria and New South Wales, but politicians in both have effectively banned or placed moratoriums on much of the exploration and production sector. This mainly has been done to appease public opinion against hydraulic fracturing and coal-seam gas.

Enter AGL with a possible solution of building an LNG import terminal in the world's biggest LNG exporter. Overall, the seemingly illogical actually makes perfect sense.

Spot prices for LNG climb past $7 in Asia

(Nikkei Asian Review; Nov. 20) - Increased imports by South Korea and China have pushed prices for liquefied natural gas and coal to highs not seen in months. East Asia spot prices have climbed above $7 per million Btu, a level last reached in December 2015. The commodity has soared by more than 70 percent from lows reached this April.

An earthquake in September forced South Korea to suspend operations at four nuclear reactors. To compensate for the energy gap, the country is buying more LNG, research firm S&P Global Platts reports. China is also importing more LNG since the energy source is comparatively cheaper than liquefied petroleum gas and other fossil fuels, said Simon Flowers at Wood Mackenzie, a global energy consultancy.

Spot prices for coal are also going up. Export prices for Australian coal, which serves as a gauge for the Asian market, is currently topping $100 per ton — more than double from last January. Chinese authorities have been cutting excess output capacity in the country's domestic coal industry by restricting the number of days that mines can operate, pushing Chinese power companies to import more coal to replenish supplies.

Higher Asia spot prices for LNG could be temporary

(Nikkei Asian Review; Nov. 22) - Liquefied natural gas is fetching the highest prices in the past 11 months on the spot market in Asia, thanks to a confluence of demand-boosting factors. But with supply expected to outstrip demand, prices will likely come down next year. Asian LNG spot prices rebounded in April after having trended downward since the autumn of 2014. They topped $7 per million Btu in early November.

One major reason was the halting of operations at four South Korean nuclear reactors after an earthquake in September, said Mika Takehara of the Japan Oil, Gas and Metals National Corp. Korea stepped up use of fossil fuels to help fill the gap. This led to increased procurement of LNG on the spot market, contributing to the higher prices. Purchases by Taiwanese utilities likely also played a role. President Tsai Ing-wen, who took office in May, has pledged to end nuclear power generation in Taiwan by 2025.

Emerging economies in Latin America, the Mideast, North Africa and Asia have stepped up procurement to take advantage of low prices. But few experts see prices rising in a straight line. New LNG facilities are coming online in the U.S., Australia and Indonesia, adding as much as 100 million metric tons of annual output capacity. "LNG demand will be weaker next year than this year," said Hiroshi Hashimoto, of the Institute of Energy Economics, Japan. Spot prices will likely head lower and stay there for some time.

Israel gas field developers trying to pin down $4 billion in financing

(Bloomberg; Nov. 21) - The companies that own the rights to Israel's largest natural gas find are close to securing the $4 billion financing needed to develop the field, according to the chief executive officer of one of the partners. "The Leviathan financing agreements are in the final stages of negotiations," Delek Drilling CEO Yossi Abu said at a Tel Aviv conference on Nov. 21, referring to the offshore development with estimated reserves of 22 trillion cubic feet of gas.

With a large export contract already in hand, obtaining funds is the next step for the explorers looking to tap the Leviathan pool, led by U.S.-based Noble Energy and billionaire Yitzchak Teshuva's Delek Group. The companies have been in talks with banks since they cleared antitrust issues with Israel's government earlier this year. The partners signed a $10 billion long-term deal with Natural Electric Power of Jordan two months ago for gas deliveries by pipeline.

Plans to export more gas to the region are ongoing, said Yaniv Friedman, Abu's deputy. The Leviathan partners are trying to cinch deals for additional pipeline gas deliveries to either Turkey or Shell, which operates an idle liquefied natural gas plant in Egypt and could use the new supply. The companies would need to expand their production capacity to service those contracts, at an additional cost of about $2 billion.

Sri Lanka wants to move away from coal to LNG

(Gulf Times; Qatar; Nov. 20) - Sri Lanka is keen on importing liquefied natural gas from Qatar as part of governmental policy to shift to cleaner energy, Minister of City Planning and Water Supply Rauff Hakeem said. "In order to bridge the gap of our energy supplies, we want to move away from coal to LNG. There is a high priority being given to that." The Indian Ocean island nation has about 10 million residents.

"We have already identified two 300-megawatt LNG-fueled power plants that we plan to roll out," Hakeem told the Gulf Times on the sidelines of an investment forum hosted by Doha Bank in Qatar on Nov. 19. Sri Lanka's coal-fired power plants "have created a lot of environmental issues" for the local community, he said. The country imports oil and coal for its entire energy supply. Qatar is the world's largest LNG producer and exporter.

Australia government doesn't do as well from LNG as other countries

(Sydney Morning Herald; Nov. 22) - The governments of Nigeria, Indonesia and Malaysia — Australia's competitors in the oil and gas export sector — extract twice as much revenue from companies as a proportion of production than Australia's federal and state governments combined. An analysis, based on International Monetary Fund figures and global resource production numbers, found Australia was at the bottom of the pile when it comes to charging multinationals for selling its natural wealth.

For example, Malaysia took $20.2 billion in oil and gas-related revenues in 2014 — nearly three times the $7.3 billion that went to Australia's state and federal coffers in royalties, corporate taxes and the federal petroleum resource rent tax. That's despite Malaysia's annual production being only 30 percent higher than Australia's, where the resource rent tax is a profit-based tax and is not expected to generate significant revenues for years on the $180 billion in new LNG projects developed this decade.

"Most LNG projects in Australia have either only recently commenced production or are still under construction. Australia generally taxes … profitability. This recognizes that Australia is one of the costliest countries in which to explore and produce … and the need to attract significant sums of capital from private markets," the Australian Petroleum Production & Exploration Association said. The other difference is that the government in Australia is not an investor in oil and gas projects, while state-owned companies in Nigeria, Indonesia and Malaysia put up much of the capital.

Iran says 'substantial' spending needed to stop natural gas decline

(Platts; Nov. 21) - Iran will need to invest heavily in compression platforms at its giant South Pars gas field if it is to arrest falling gas and condensate production, the CEO of state-owned energy firm Petropars said Nov. 20. "Many phases of the South Pars gas field have entered the dropping region of production plateau. To overcome the production drop, compression platforms have been planned to compensate for the drop in reservoir pressure," Petropars CEO Hamid Akbary said at a forum in Dubai.

Studies have already begun for the compression platforms, and the first engineering, procurement and construction contracts are expected in 2018, he said. The required investments are "substantial," he added. This is the first time any Iranian official has spoken about production from South Pars falling naturally unless mitigated, Iman Nasseri, a senior consultant with Facts Global Energy, said at the Dubai conference.

Iran's condensate production has exceeded 610,000 barrels per day this year, with 561,000 barrels coming from the 16 operating phases at the giant offshore South Pars gas field in the Persian Gulf, Akbary said.

Sierra Club files complaint against proposed gas line into Michigan

(The Detroit News; Nov. 17) – A national environmental group has filed an antitrust complaint against Detroit-based DTE Energy over its proposed Nexus Pipeline to deliver natural gas from Pennsylvania and Ohio into Michigan, alleging the project will raise consumer energy prices. The Sierra Club filed the complaint against the planned 250-mile, $2 billion pipeline, proposed by partners DTE and Houston-based pipeline company Spectra Energy. The line would move up to 1.5 billion cubic feet of gas a day.

"DTE Electric has contracted to buy delivery of natural gas over the pipeline for use in generating electricity for resale to Michigan retail customers. When DTE Electric entered into this contract, at least six alternative sources of gas were available to transport the needed supply," the Sierra Club said. "All six offered transportation services at lower rates than Nexus. Nonetheless, DTE Electric contracted to buy gas from (the) proposed pipeline, despite the availability of these less-costly alternatives."

DTE defended the proposed Nexus Pipeline, saying it would bring "cleaner burning energy at affordable and stable prices to Michigan and Midwest consumers." The complaint was filed with the Federal Energy Regulatory Commission, U.S. Department of Justice and Federal Trade Commission. While the complaint focuses on alleged antitrust violations, Sierra Club officials in their press release also cited their environmental concerns over the fossil-fuel project.

Northern California tribes oppose Southern Oregon gas pipeline

(Times-Standard News; Eureka, CA; Nov. 19) - The Karuk Tribe announced its opposition last week to the 232-mile natural gas Pacific Connector Pipeline in an effort to protect the Klamath River in Northern California. The 36-inch diameter line would stretch from Malin, Ore., on the California border, to Coos Bay, Ore., to serve a liquefied natural gas plant and marine terminal proposed in the coastal community.

A second Northern California tribe, the Yurok, also opposes the pipeline, along with the Klamath Justice Coalition. “The Klamath is under extreme pressure and is currently stressed. It cannot even fathom having one more stressor like the pipeline which could explode, and anything that happens upstream in Oregon could flow downstream to us,” said Georgiana Gensaw of the Yurok Tribe.

The Federal Energy Regulatory Commission in March rejected the LNG project, but members of tribes along the Klamath are still worried the project could gain momentum as Veresen, a Calgary-based company, continues to look for public and commercial support as it seeks FERC reconsideration. “We call it the ‘zombie pipeline’ because the project seems to die and then comes back to life,” Gensaw said. “We won’t even benefit from this kind of project because the fuel will be exported from Coos Bay to Japan.”

Canada wants to mostly eliminate coal power plants by 2030

(Reuters; Nov. 21) - Canada will speed up plans to virtually eliminate traditional coal-fired electricity by 2030, the government said Nov. 21, a stance contrasting sharply with that of U.S. President-elect Donald Trump, who has pledged to revive the coal industry. Canadian Prime Minister Justin Trudeau a year ago ran on a platform to do more for the environment, and its coal-cutting plan would help it meet the emissions reduction targets of the Paris agreement, which the Canadian Parliament ratified last month.

Environment Minister Catherine McKenna said Canada's coal regulation — which will accelerate an existing timetable — will take into account the positions of provinces, some of which have resisted federal plans to counter climate change. The government will support with the Canada Infrastructure Bank public-private funding mechanism, according to McKenna's department, which did not disclose details. Four provinces still burn coal for electricity: Alberta, Saskatchewan, Nova Scotia and New Brunswick.

"Our goal is to make Canada's electricity 90 percent non-emitting by 2030," McKenna said. Meeting the target will be hard for some as the transition may be costly, even with federal help, said Joe Aldina, director for U.S. coal at PIRA Energy Group. But certain industries will likely benefit as provinces look for energy in new areas or further explore existing ones, he said. "British Columbia, Quebec and Manitoba have really significant hydro resources," he said. "I'd expect a mix of natural gas and renewables to benefit."