Oil and Gas News Briefs
Compiled by Larry Persily
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Spot, short-term LNG sales could hit 43 percent of market by 2020

(Anadolu Agency; Turkey; Oct. 10) - The LNG supply wave is in its infancy and a large increase of spot and short-term deals will be seen in the near future, said Anne-Sophie Corbeau, an LNG expert and research fellow at King Abdullah Petroleum Studies and Research Center in Saudi Arabia. Corbeau, talking at an energy conference in Istanbul, said 150 million tonnes of new LNG supply a year would enter the market between 2015 and 2020, a 50 percent jump in capacity. "This will change the LNG market completely."

The problem for LNG suppliers is that the market is completely different than anticipated when they made investment decisions. "First of all demand in Asia is weak, while it was expected to be a bottomless sink for LNG supplies. Also, oil prices and gas prices are much lower than what people anticipated when they took the decision to invest in these LNG plants," Corbeau said. "Buyers want more flexibility; they no longer want to commit to 20-year long-term contracts because they have no certainty on future LNG demand."

The share of spot and short-term LNG sales in global trade could reach 43 percent by 2020, compared to 28 percent in 2015, she said. "Considering that LNG capacity is increasing 50 percent, we are going to see much more flexible LNG supplies. This could fundamentally change the way LNG is bought and traded, and also threaten existing long-term contracts which have … represented the backbone of the LNG business model." If prices are too low, some U.S. liquefaction capacity could be shut in, she said.

LNG projects to recover costs before paying Australia's resources tax

(Sydney Morning Herald; Oct. 11) - Just five percent of oil and gas projects operating in Australia are paying anything toward the federal government's royalty-like tax structure designed to share the wealth generated by the nation's resources with the public that owns them. As pressure builds for a parliamentary inquiry into the profits-based petroleum resources rent tax, a Fairfax Media report shows that just eight out of 149 resource projects currently generating revenue paid a cent in the tax in 2014-15.

While political opponents have called for an inquiry, Australia's Petroleum Production & Exploration Association defended the industry. The tax "was never intended to be paid by all projects at all times,” said APPEA CEO Malcolm Roberts. "It is a super-profits tax, so it only applies when projects achieve super-profits," he said. The tax is one of several paid by the industry. “The combination of company tax, state and federal royalties and the resources rent tax adds up to more than 50 cents in every dollar of profit,” he said.

Australian Tax Office data shows the industry, now dominated by LNG projects, last year had revenues of $25 billion. But the resources tax, based on profits rather than a flat royalty, allows companies to write off exploration and other capital costs against revenues before paying the tax. The tax office calculates the industry’s total carry-forward expenditure has risen to $187 billion — meaning, effectively, that the sector can pocket sales of $187 billion before paying the profits tax. Resource tax expert Diane Kraal, of Monash University in Melbourne, said the profits-based tax will not deliver any significant revenue "in her lifetime" if it is not overhauled.

Low-cost Qatar positioned to compete with new LNG suppliers

(Gulf Times; Qatar; Oct. 11) - Qatar’s reign as the world’s largest liquefied natural gas exporter may end in 2017 as liquefaction capacity in Australia builds and new supplies from the U.S. begin to kick in. But Qatar is taking an “aggressive” stance in Europe to mitigate the risks, according to Arab Petroleum Investment Corp. Several factors have historically provided Qatar with a competitive advantage over its rivals, and may yet do so again in the market battle with new suppliers, Apicorp said in a recent report.

“New LNG supplies from Australia have already started to eat into Qatar’s monopoly in Asia and new supplies from the U.S. will challenge Qatar’s dominance,” the report said, highlighting that the proportion of Qatari LNG into Japan, South Korea and China fell 3.6 percent in 2016 as Australia increased its share in the three countries by 8.4 percent. Qatar is facing a new reality where Asian importers have more options, while low prices and more supplies in Europe mean that Qatar will need to offer more flexible contracts.

As a lot-cost producer, Qatar is able to offer more competitively priced contracts, ensuring a steady stream of revenue, Apicorp said. At present, more than 80 percent of Qatar’s LNG production is committed for 2016-20 as part of supply purchase agreements, providing revenue stability. “The country is well positioned given its $250 billion sovereign wealth funds and its low production costs,” the report said.

Japanese utilities’ joint venture buys coal-trading business

(Reuters; Oct. 11) - Japan's Jera Co., a fuel joint-venture of Tokyo Electric Power and Chubu Electric Power, said on Oct 11 it plans to buy the coal-trading business of French state-controlled utility EDF to expand its global business. Terms of the deal were not disclosed, but Jera and EDF Trading, EDF's wholly owned subsidiary, aim to decide details by the end of December, Jera said.

"We'll be able to create a truly global trading operation by integrating EDF's coal trading platform and expertise in Europe and Jera's operation in Asia," Izumi Kai, general manager at Jera, told a news conference. Jera, the world's biggest importer of liquefied natural gas, may be able to expand its trading operation in LNG and electricity in the future if the Japanese company can gain EDF's expertise, Kai said.

The acquisition will include EDF Trading Australia, which owns 7.5 percent of the Narrabri coal mine in Australia, and Amstuw, which operates the Rietlanden coal terminal in the Netherlands. Despite mounting pressure on coal worldwide due to environmental concerns, Jera expects to secure trading volume of 30 million tonnes a year in Europe and the Middle East and 20 million to 30 million tonnes in Japan and the rest of Asia. "We'll benefit from economies of scale," Kai said.

Indonesia expects domestic gas demand to grow, plans LNG imports

(Jakarta Post; Oct. 10) – Pertamina, Indonesia’s state-owned oil and gas company, is preparing to meet most of the nation’s future gas demand by stocking up on LNG commitments with foreign suppliers. Although oil will remain the fuel of choice, demand for gas is expected to grow 3.8 percent a year until 2030 with the majority of growth coming in the power sector. More demand also is expected in the fertilizer, refinery and mining industries. Demand could more than double to 10 billion cubic feet a day.

With growing demand, Indonesia is expected to suffer a gas deficit of 2.5 bcf per day by 2020 and 4.07 bcf per day by 2030. To help ease the deficit, Pertamina plans to build an LNG supply portfolio of just under 4 million metric tons per year from both domestic production and deals made with LNG importers, said Pertamina’s LNG Vice President Didik Sasongko Widi. Indonesia’s gas production in 2015 averaged 7.25 bcf a day, with about 3 bcf a day leaving the country as pipeline and LNG exports. Indonesia has been an LNG exporter since 1977.

“If our gas supply is low, our economic growth will also be low. We will need a lot of natural gas by 2020, so we have already started stockpiling LNG commitments. We believe that it will be needed, so we are taking that risk,” Didik said at a press briefing on Oct. 7. Pertamina has already signed agreements with Cheniere Energy for 1.5 million metric tons of LNG per year starting in 2019 from the company’s export terminal under construction in Corpus Christi, Texas, and from other suppliers for a similar volume.

Citi Research report says India’s LNG demand could double by 2020

(Live Mint; India; Oct. 12) - India, the world’s fourth-largest liquefied natural gas importer, could see its demand for LNG jump in the next four years, driven by a glut in the global market and increasing demand from India’s power and fertilizer sectors. India’s import capacity is expected to double to 45 million metric tons per year from 22 million tons currently, according to an Oct. 5 report by Citi Research. The demand for the fuel could double from fewer than 16 million tons a year to 30 million tons by 2020.

One of the key reasons for the boost in demand will be the revival of gas-based power generation in India as a result of the lower LNG prices brought on by the worldwide supply glut, which has driven down prices to the lowest in years. The report noted that two gas-fueled power plants that have been shut down since 2013 could restart as the economics have now turned favorable.

Refineries, petrochemicals and small industries could also add to the increase in LNG demand. India’s Oil Minister Dharmendra Pradhan launched the Gas for India campaign last month, targeted at promoting gas use in the country. The campaign will educate citizens on the various benefits of using gas as the preferred fuel, in a bid to raise the share of gas in the country’s energy basket to 15 percent from the current 6.5 percent.

FERC clears 2nd unit at Cheniere LNG plant to start export production

(Argus Media; Houston; Oct. 12) - The Federal Energy Regulatory Commission on Oct. 12 authorized Cheniere Energy to place a second liquefaction unit into full service at its Sabine Pass LNG export terminal in Louisiana. The plant’s first two trains — three more are under construction — are scheduled to resume operations late this week or next after a four-week shutdown to repair a flare that was not functioning properly.

After Sabine Pass goes back online, the second production unit can start filling tankers for Gas Natural Fenosa. The Spanish company has a 20-year deal for up to 3.5 million metric tons of LNG per year beginning in September 2017. But under pre-commercial arrangements, Gas Natural can buy a lower volume as soon as Train 2 successfully completes testing and works as per design specs. Gas Natural will pay a liquefaction fee of $2.49 per million Btu plus 115 percent of the cost of feed gas for its LNG cargoes.

Shell has its own 20-year deal for up to 3.5 million tons of LNG per year from Train 1 beginning in November, and in May started taking pre-commercial cargoes from that unit. It’s paying $2.25 per million Btu for liquefaction plus 115 percent of the cost of feed gas into the plant. Each of Cheniere’s five trains at the $20 billion project is designed to produce about 4.5 million tons per year. Gas Natural and Shell have take-or-pay contracts, essentially use-or-pay deals, that require them to pay the full liquefaction fee to Cheniere even if they elect not to take the full quantity of LNG under the contract.

Opponents still fight against waterfront LNG fueling depot in Tacoma

(KOMO TV; Seattle; Oct. 11) - Protesters asked the Tacoma City Council on Oct. 11 to block a proposed $275 million liquefied natural gas production, storage and fueling facility on the city’s tide flats. Opponents don't believe Puget Sound Energy's assurances that the plant will be safe, and they are hoping that the city, the port and the state will reverse their decisions and not allow the project to go forward. The company says it already has permits and is ready to begin construction in the next few weeks.

"Absolutely scares me," said Steven Storms, chemical engineer who lives just up the hill from the proposed site on the Blair Waterway. Puget Sound Energy says it has done plenty of federally required studies, which show anything that happens at the plant will stay at the plant. "Anything that would happen on the site in Tacoma would be contained to the site," said Grant Ringel with Puget Sound Energy. "Not to surrounding businesses at the port and certainly not travel as far as any neighborhoods in the area."

The facility in particular would target the marine fueling business, and already has signed up to provide LNG for TOTE’s two roll-on, roll-off ships that move freight to Anchorage. TOTE is converting the ships to run on the cleaner-burning fuel. The facility also would be available to help the region meet peak gas demand during the winter.

Norwegian government proposes larger draw on savings account

(Reuters; Oct. 6) - Norway will dip further into its sovereign wealth fund next year to support the recovering economy, but ministers facing a tight race in 2017 elections warn the end of oil's "golden age" would mean spending curbs in the future. Prime Minister Erna Solberg and Finance Minister Siv Jensen said they aimed to spend 225.6 billion crowns ($28.1 billion) from the $888 billion savings fund in 2017, about 3 percent of its value. That is more than the 205.6 billion crowns, or 2.8 percent, proposed for this year.

"We must create new jobs, new opportunities. The golden age of the oil industry is over. It is challenging," Jensen told public broadcaster NRK. Plunging prices for crude oil — Norway's main export, earnings from which have built the world's biggest sovereign wealth fund — and a corresponding drop in investment by oil firms since 2014 have pushed economic growth to a seven-year low and unemployment to 20-year highs.

The government will make its first ever net withdrawal this year from the 20-year-old wealth fund, though Solberg said on Oct. 5 that guidelines for spending from the fund may be tightened in future. Current rules say an average 4 percent of the fund's value can be spent each year, but economists have warned that ultra-low global interest rates and other conditions mean it is unlikely the fund can earn returns of that magnitude in future.

Drilling cutback helps boost U.S. natural gas prices 38% for the year

(Wall Street Journal; Oct. 12) - A long period of low oil prices has saved motorists money at the pump, but languishing crude prices could drive up heating bills. That’s because the nation’s natural gas supply is closely connected to oil drilling. Low crude prices have led U.S. oil producers to idle more than 1,000 drill rigs over the past two years, resulting in a big decline in so-called associated gas, a byproduct of oil drilling.

Since September 2015, associated-gas production in the Marcellus Shale region, the country’s fastest-growing gas-producing area, has fallen by nearly 9 percent, or about 2.5 billion cubic feet a day, according to energy data firm Platts Analytics Bentek. That drop-off is enough to fuel roughly 13 million U.S. homes daily, and one reason monthly heating costs are poised to rise. Natural gas heats about half of all U.S. homes while another third are heated by electricity, which is increasingly generated by burning gas.

Gas for November delivery closed at $3.237 per million Btu on Oct. 11, up 38.5 percent for the year and at the highest level since December 2014. Prices have rallied 11.4 percent this month alone. Jeff Moore, a Platts Bentek analyst, said he expects it won’t be long before prices top $4, or twice the levels of last winter. “That’s not even a bold call in my opinion if we have a cold winter,” Moore said. Rising-price forecasters point to a growing number of power plants that have ditched coal and switched to gas, higher volumes of gas exports to Mexico via pipeline and overseas as LNG and forecasts for a cold winter.

Activists shut off flow on 5 cross-border U.S.-Canada oil pipelines

(Reuters; Oct. 12) - All it took was a pair of bolt cutters and a few climate activists to carry out an act of sabotage on North America's massive oil and gas pipeline system. For an industry increasingly reliant on gadgets such as digital sensors, infrared cameras and drones to monitor security and check for leaks, the action illustrated how vulnerable pipelines are to low-tech attacks. Climate activists on Oct. 11 broke through fences and cut locks and chains simultaneously in several states and turned off the pipelines.

All they had to do was twist giant valves on five cross-border pipelines that together can send 2.8 million barrels a day of oil to the United States from Canada — equal to about

15 percent of daily U.S. consumption. The activists did not damage the pipelines, which operators shut down as a precaution for checks before restarting. "You're not manning these things on a permanent basis, it's not viable," said Stewart Dewar, of Senstar, an Ottawa-based company that authored a 2012 paper on pipeline security. There are thousands of valve stations, often protected by just a chain link fence and padlocks.

The Oct. 11 action, supported by the Vermont-based Climate Disobedience Action Fund, was held to draw attention to climate change and to support opponents of the proposed Dakota Access Pipeline. Critics say the oil line could rupture and sour drinking water for the Standing Rock Sioux Tribe in North Dakota. Several pipeline operators and safety experts said shutting off valves was extremely dangerous and that activists underestimated the risks. The Association of Oil Pipe Lines, an industry group, said it recognized disagreements exist about energy policy, but that the protest went too far.

Appeals court denies injunction to stop Dakota Access oil line

(Wall Street Journal; Oct. 11) - When members of the Standing Rock Sioux tribe began staging protests in a remote corner of North Dakota in August, few people could have foreseen that the effort would hold up a nearly 1,200-mile oil pipeline or force a reassessment of longstanding federal policy with Native American tribes. But last month, as the number protestors against the Dakota Access pipeline swelled into the thousands, federal agencies decided to effectively overrule a judge by withholding a permit needed to cross the Missouri River, halting construction on a section of pipeline.

An appeals court on Oct. 9 reaffirmed the federal court ruling denying the tribe’s motion for a temporary injunction to stop work. The tribe had argued that the Army Corps of Engineers did not adequately consult with it to protect historical sites. On Oct. 11, the pipeline developer, Energy Transfer Partners, praised the appeals court ruling and said it freed the company to build the pipeline within 20 miles to the east and west of the Missouri River. Energy Transfer said it also expects to soon receive Army Corps’ approval for the river crossing, the final approval needed to complete the pipeline.

The Corps said it hopes to conclude its review of tribal issues soon. Meanwhile, federal agencies are holding talks with the tribe about how infrastructure projects that traverse Native Americans’ ancestral lands are approved, opening the door to a reassessment of how the government handles projects that run through traditional tribal territory and require federal permits. It has energized an opposition movement that came together swiftly this summer, aligning hundreds of tribal groups against the $3.8 billion oil line.

Oil sands pipelines gain support from some First Nations

(Calgary Herald; Oct. 7) - Forty British Columbia aboriginal groups have quietly submitted supportive letters as Kinder Morgan and Enbridge try to overcome controversy while seeking approval for their proposed oil sands pipelines, according to a Postmedia analysis. The letters appear to challenge the recent claim by a coalition of North American Native leaders, which said there is “unprecedented unity” among First Nations against the proposed megaprojects.

A lot of money is at stake. Financial statements indicate that more than $9.3 million has already been distributed to some of these supportive aboriginal groups the past two years — a fraction of the expected payoff if one or both of the pipeline projects get federal approval. “As the old saying goes, we’re open for business,” said Chief Fred Seymour of the Tkemlups te Secwepemc First Nation in Kamloops, B.C., which recently received $3 million from Kinder Morgan.

The two companies said they can’t release details of the support because of confidentiality agreements. However, aboriginal opposition is strong in B.C., especially among northern coastal nations that are contesting Enbridge’s Northern Gateway proposal to build an oil line from Alberta to Kitimat. North Vancouver’s Tsleil-Waututh Nation is among a significant group of aboriginal and environmental groups challenging Kinder Morgan in court. That project would end at an export terminal near Vancouver.

OPEC sets production record as some members boost output

(Wall Street Journal; Oct. 11) - OPEC pumped a record amount of oil last month, the International Energy Agency said on Oct. 11, and officials from three of the cartel’s member countries say they plan to raise output in the near future. The increased production shows how much work the Organization of the Petroleum Exporting Countries must do to achieve production cuts it agreed to last month in an attempt to end a crude glut that has depressed prices for two years.

OPEC’s Secretary General Mohammad Barkindo said on Oct. 11 that officials will meet late this month to discuss implementing the cuts, and OPEC officials said they are meeting with non-OPEC members including Russia to coordinate output cuts. Russia this week signaled a willingness to go along. “Now the real work starts,” the IEA, which advises industrialized nations on energy policy, wrote in its monthly report. The market — if left to its own devices — may remain in oversupply through the first half of 2017, IEA said.

OPEC boosted its output by 160,000 barrels a day to a record 33.64 million barrels a day in September, IEA said. OPEC last month agreed to bring its output down to a maximum 33 million barrels a day. But the agreement exempted Libya, Iran and Nigeria from near-term cuts, and they are presenting a challenge by boosting output at a time the cartel wants to collectively pull back. Further increases from the four “would suggest that bigger cuts would have to be made by others, such as Saudi Arabia,” IEA said.