Oil and Gas News Briefs
Compiled by Larry Persily
September 8, 2016

LNG not the golden child once expected

(Reuters; Sept. 8) - The liquefied natural gas industry has morphed from energy's golden child to black sheep in the past two years, with demand slumping just as supplies soars. And while low prices are a boon for consumers, the lack of demand and lowered revenue will threaten the efforts of companies to recoup investments in LNG export terminals in the United States and Australia. Further, future projects will have a hard time gaining investment approval.

Asia demand was expected to soak up this supply but the region has turned to cheaper fuels. LNG imports to Japan, the world's biggest LNG buyer, are down 5.3 percent in the first seven months of 2016. South Korea's imports in July dropped 15.2 percent from the same time a year ago. These numbers mirror the lackluster global LNG demand growth that Dutch bank ING said was only 1.5 percent over the past five years. At the same time, existing LNG exporters from the U.S., Australia, and Qatar plan to add a large amount of liquefaction capacity by 2020, a 50 percent increase from current levels.

"To maintain current LNG utilization rates, we need to see LNG demand grow at 7.6 percent between now and 2020," ING said Sept. 7. Once one of the hot commodities, Asian LNG spot prices almost tripled between 2010 and 2014 to over $20 per million Btu, attracting huge investment. But soaring output from Australia and the U.S., as well as the general commodities slump, pulled LNG prices back by almost 75 percent to under $5.50. Yet not all is doom and gloom. Sustained low prices along with spreading environmental awareness against the use of coal mean that LNG demand should rise.

S&P's says Qatar's low LNG costs allow it to remain profitable

(Gulf Times; Qatar; Sept. 4) – S&P's reaffirmed Qatar's AA rating and stable outlook, while acknowledging that medium- and long-term challenges to its competitive position in the liquefied natural gas market are likely to come from shale gas, Russia's pipeline to China, and increased pressure to delink LNG contracts from oil prices. "Nevertheless, Qatar has one of the lowest costs of gas production, $1.60 to $2 per million Btu, and so we expect state-owned Qatar Petroleum to remain profitable," S&P's said.

"Qatar's strategy has been to diversify into all major markets, adjusting the mix of destinations and contract types according to market needs," S&P's said. "Moreover, the majority of its gas exports are under long-term contracts, which provides some certainty regarding volumes sold." But the ratings agency also noted that LNG buyers under long-term contracts and other potential buyers may try to renegotiate “in an environment of persistently low prices,” just as India’s Petronet LNG succeeded at earlier this year.

Falling oil and gas prices and the Qatari government’s public investment have led to a deterioration of the nation’s fiscal balance, beginning in 2014, S&P’s said, expecting Qatar to show a deficit of about 5 percent of GDP in 2016-2019. Projecting a further decline in hydrocarbon income, S&P’s said it expects Qatar to finance fiscal deficits through debt (issued in domestic and global markets), rather than drawing upon Qatar Investment Authority assets, but not so much debt as to jeopardize its finances.

U.K. gas utility signs up for Qatari LNG through 2023

(The Telegraph; London; Sept. 5) – U.K. gas distributor Centrica has extended its contract to buy liquefied natural gas from Qatar through 2023 as it eyes fresh imports to the U.K. to replace dwindling North Sea supplies. The new deal, understood to be worth up to £2 billion ($2.7 billion), will see the energy giant buy up to 2 million metric tons of LNG each year starting January 2019 after its existing contract expires.

"With the decline in North Sea production and recent growth in global LNG supply, the U.K. is increasingly becoming an attractive destination for LNG," Centrica said. The energy giant first struck a three-year deal to buy LNG from Qatargas in 2011 before extending it with its current deal, which runs to December 2018. There is no obligation for the company to bring any of the LNG to the U.K. It could, for example, sell it to other countries in Europe. Centrica has imported 40 cargoes to the U.K. in the past five years.

The U.K. currently imports about half of its gas, but is forecast to increase to nearer two-thirds by the mid-2020s as North Sea gas fields are decommissioned. Last year, LNG accounted for 31 percent of the U.K.’s gas imports, with 92 percent of those from Qatar.

Japanese, French companies form venture to supply LNG as ship fuel

(Nikkei Asian Review; Sept. 7) - Japan's Nippon Yusen and Mitsubishi will partner with French energy giant Engie to supply liquefied natural gas as ship fuel in Europe starting this year, as a greener alternative to heavy oil. The trio Sept. 6 announced the business under the Gas4Sea brand. A dedicated storage vessel — the first of its kind — will supply the fuel to other ships. The operations will be based in Belgium's Port of Zeebrugge for the time being, refueling ships that make a stop there.

The International Maritime Organization in 2015 tightened environmental regulations for ships navigating the North Sea and Baltic Sea, requiring a 90 percent reduction of sulfur oxides content in fuel oil — the mainstay ship fuel — to a maximum 0.1 percent. Ships that travel through the waters now use low-sulfur fuel oil that is about 70 percent more expensive than regular fuel oil. LNG emits no sulfur oxides and is roughly the same price as normal fuel oil, so marine shippers would be able to cut fuel costs by switching.

For waters around the globe, more stringent regulations are to take effect as early as 2020, slashing the maximum-allowed sulfur content in fuel to 0.5 percent from the current 3.5 percent. Against such a backdrop, demand for LNG as a cleaner fuel is seen reaching 7 million metric tons in 2020, the equivalent of almost 1 billion cubic feet of natural gas per day. About 300 ships used LNG last year and the tally is expected to exceed 1,500 in 2020, according to the Japan Ship Technology Research Association.

Apache announces 2 billion barrel oil-and-gas field in Texas

(Wall Street Journal; Sept. 7) – Apache says it has discovered the equivalent of at least 2 billion barrels of oil in a new west Texas field that has the promise to become one of the biggest energy finds of the past decade. The discovery, which Apache is calling "Alpine High," is in an area near the Davis Mountains overlooked by geologists and engineers, who believed it would be a poor fit for hydraulic fracturing. It could be worth $8 billion by conservative estimates, or 10 times more, according to the company.

Apache started acquiring mineral rights in the area two years ago and subsequently discovered its potential. The company then quietly went about locking up more land in the field, believed to be up to 450,000 acres overall. Its position now exceeds 300,000 acres, or roughly two-thirds of the field. The company has begun drilling in the area and says the early wells, which produce more gas than oil, are capable of providing at least a 30 percent profit margin at today's prices, including all costs associated with drilling.

"This is a giant onion that is going to take us years to unveil and peel back," said Apache CEO John Christmann IV. "The industry dogma about this area, all the fundamental premises that most people had about it, were just wrong." It remains to be seen whether Alpine High delivers; some oil and gas discoveries touted as game-changers have historically produced less than advertised. The discovery is likely to transform Apache, currently the nation's sixth-largest independent energy company. The company plans to direct one-fourth of its capital budget this year to the field.

Malaysia continues with construction of petrochemical complex

(Reuters; Sept. 6) - Malaysia's state-owned oil and gas company Petronas is on track to get its $27 billion refining and petrochemical complex in the south of the country up and running in 2019, the head of the group's downstream operations said. Petronas has imposed heavy cuts on its spending to contend with low oil prices that have sent profits tumbling, but the company remains committed to the Refinery and Petrochemical Integrated Development Project it aims to turn into a regional oil and gas hub by 2035.

“By the end of the year we should have completed more than 50 percent of the complex and we’re on track to start operations in the first quarter of 2019,” said Md Arif Mahmood, Petronas’ downstream CEO. The project, launched in 2012 at Pengerang in the southern state of Johor, will include a 300,000-barrel-per-day refinery and petrochemical complex with combined chemical output capacity of 7.7 million metric tons a year. Other facilities include a liquefied natural gas import and regas terminal.

Past investment decisions will boost global oil production 9% by 2018

(Reuters; Sept. 5) - Never mind the drop in crude oil prices, huge spending cuts and thousands of job losses — the world's top oil and gas companies are set to produce more than ever for some time. While top oil companies struggle with slumping revenues following a drop of more than half in oil prices since mid-2014 after years of spectacular growth, their production has persistently grown as projects sanctioned earlier in the decade come online.

Overall production at the world's seven biggest oil and gas companies is set to rise by about 9 percent between 2015 and 2018, according to analysts' estimates. With an expected recovery in prices, increased production should boost cash flow and secure generous dividend payouts, which had forced companies to double borrowing during the downturn. "There are a lot of projects coming on stream over the next three years that will support cash flow and ultimately dividends," Barclays analyst Lydia Rainforth said.

And despite a drop in new project approvals, companies have throughout the downturn cleared a number of mammoth undertakings, while others have opted to acquire new production. Production is unlikely to drop even after 2020, and could post modest growth as companies continue to bring projects onstream, albeit at a slower pace, BMO analyst Brendan Warn said. Capital spending is set to drop from a record $220 billion in 2013 to about $140 billion in 2017 before modestly recovering, Barclays said.

Condensates could be in short supply in Asia in 2017, driving up price

(Reuters; Sept. 7) - Asia's market for condensate, an ultra-light oil, should outperform crude oil and liquefied natural gas markets in 2017 as demand from new end-users is expected to peak just as Middle East supply should tighten. An expected shortfall in Asian condensate supply of as much as 200,000 barrels per day will drive a rally in prices for next year, according to industry sources and Reuters estimates based on Asian condensate splitter capacities and traditional supply volumes to the region.

The start-up of Qatar's Ras Laffan 2 and Iran's Persian Gulf Star Phase 1 condensate splitters will tighten Middle East supplies by a total of 266,000 barrels per day in 2017, based on their combined consumption capacities for the fuel. As Mideast condensate supply dries up and demand spikes, Asian refiners are likely to turn to other light crude grades from the region and potentially even from the United States as a substitute.

This surge in interest may raise prices for Asian light crudes from Indonesia, Vietnam and Malaysia at a time when Asia is increasing its dependence on imports. Condensate is a type of light crude produced in association with natural gas. Splitters are oil refining units that break down the condensate into diesel fuel and naphtha that is mainly used as a raw material to make petrochemicals.

Northeastern B.C. anxiously awaits LNG project decision

(Alaska Highway News; Fort St. John, BC; Sept. 6) - Kristi Leer has spent nights worrying about LNG. As a businesswoman in the gas-producing region of Fort Nelson, B.C., Leer has gobbled up every piece of news she can find about Pacific NorthWest LNG — a large liquefied natural gas facility proposed near Prince Rupert that many see as the key to turning around the area's struggling oil and gas industry. She started Fort Nelson for LNG, an advocacy group to push the town's case to federal leaders.

She has created an online clock to count down until the federal government's decision on the project. "It's sleepless nights. We're all sitting and wondering what we're going to do. What if they say no? What if they say yes?" Later this month, the government is expected to deliver its environmental assessment decision on Pacific NorthWest LNG. The government faces pressure from both the hard-hit oil patch and also environmental groups that say the project is not in keeping with Canada's climate commitments.

Alan Yu, who programmed oil-industry radios before being laid off last year, said the decision would affect whether he stays in Fort St. John. "I moved to Fort St. John just over a year ago because of LNG," said Yu, who founded an industry advocacy group. "If it's not approved, I may have to consider moving. It's a big turning point." Fort St. John Mayor Lori Ackerman said having an outlet for the region's gas would bring investment to the town. "It gives us the ability to invest in the resources and add value to them."

Service industries and workers hit hard by oil-price crash

(Bloomberg; Aug. 31) - Summer hung heavy over the bayou in Loreauville, La., as Vance "Vic" Breaux Jr. walked across an empty parking lot into a cavernous open-ended warehouse where a 205-foot-long aluminum supply boat on order lay half-finished. Breaux Brothers Enterprises is finishing work on its only other active boat-building contracts, two for $12.5 million each. Generators and power tools are mostly idle, and employees, down to 30 from 90, no longer work Fridays.

The two-year rout in oil and gas markets is cascading into manufacturing. Equipment makers for energy companies plumbing fields from the Gulf of Mexico to North Dakota are firing thousands of workers or ceasing operations altogether. Revenue in some shops is down 80 percent. "In the last 15 years we had a five-year waiting list," Breaux said. "It's dropped to zero." With oil prices at half their 2014 peak, energy-dependent regions are watching bulwark industries implode.

Houston has lost 55,000 jobs in oil production, manufacturing and scientific and technical services. Oklahoma bled 37,300 jobs. Lafayette, La., in June posted the largest over-the-year decrease in employment in the U.S. As states hemorrhage high-wage jobs, drilling royalties and sales tax receipts declined by as much as 60 percent. The drop forced Louisiana to take out a short-term loan to pay its bills until income taxes are filed in April. Jermaine Ford, a director at South Louisiana Community College, has a wait list of more than 600 laid-off employees eager for retraining.

Enbridge purchase of Spectra would create 'FedEx' of pipelines

(Bloomberg; Sept. 6) - For pipeline companies, it may be easier to buy than build. Calgary-based Enbridge has agreed to purchase fellow pipeline owner Spectra Energy for $28 billion in stock. The largest-ever foreign purchase by a Canadian company, the combination will create the biggest energy pipeline and storage operator in North America. "We'll be the FedEx" of the pipeline business, said Greg Ebel, Houston-based Spectra's chief executive officer. "We ship, we pick up, we store product."

The takeover comes amid a wave of consolidation in the pipeline industry, after lower oil and natural gas prices have diminished demand for shipments and as building new projects becomes increasingly difficult because of local opposition. Protesters disrupted hearings on a proposed TransCanada oil sands pipeline in Montreal last week. Several arrests were made last week at a site in North Dakota where Energy Transfer Partners is trying to build an oil pipeline to Illinois.

"The environmentalists are out there, they're powerful, and they're trying to stop the gas pipelines," said Jay Hatfield, CEO of Infrastructure Capital Management, a New York-based hedge fund. "If you own one, that makes it that much more valuable." In March, TransCanada agreed to buy Columbia Pipeline Group for $10.2 billion. "Activity begets activity and I think that's what this may do," said Libby Toudouze, a partner at Cushing Asset Management. "As companies look to their future, they're thinking how can we be bigger, better, faster, stronger — and the quickest way to do that is to buy somebody."

Enbridge takeover could start consolidation of pipeline companies

(Bloomberg; Sept. 6) - Is the North American pipeline sector about to be consumed by merger mania? With Enbridge planning a $28 billion takeover of Spectra Energy, some investors say the industry is in store for more deals as pressure mounts on others to follow suit. The biggest pipeline deal of the year foreshadows a feeding frenzy as those companies that survived the collapse in oil and prices step up the hunt for bargains.

Enbridge’s deal would vault the Calgary-based company into North America’s largest energy pipeline and storage player. It could also mark the beginning of the "supermajor" era for the industry, according to Rebecca Followill, head of research at U.S. Capital Advisors, since it might “light a fire in the bellies” of the larger pipeline players, setting off a wave of consolidation that could accelerate through the end of 2016.

If Enbridge closes the deal to buy Spectra, it’ll lord over a network of pipelines stretching from the oil sands of Alberta to the coasts of southern Florida. It’ll be plugged into population centers from Seattle to Boston and from Houston to Montreal. “This is two successful companies thinking they’ll be even more successful together,” said Skip Aylesworth, who oversees the Hennessy Gas Utility Fund. "This is a good deal for shareholders. If you look at the maps and overlay them, they’re very complementary.”

Carnival Cruise Line orders three LNG-powered ships

(Miami Herald; Sept. 6) - Carnival Cruise Line is going green in a big way with two new mega ships slated for delivery in 2020 and 2022. The Miami-based cruise line said Sept. 6 that the vessels will be powered by liquefied natural gas, making them the first LNG-powered ships in North America. LNG is a much cleaner-burning fuel than diesel or oil, and has become increasingly popular among cruise lines that have adopted a more eco-friendly strategy. LNG also satisfies stricter maritime rules limiting emissions.

Two of the ships have been ordered with Finnish shipbuilder Meyer Turku at the company’s Turku, Finland, shipyard, where Carnival built 12 ships more than a decade ago. With capacity for 5,200 passengers each at double occupancy, the two new vessels will also be the largest for the cruise line, which already has a fleet of 25 ships. The agreement for the new ships is contingent upon several conditions, including securing financing.

In addition, Carnival Corp. also announced a memorandum of agreement with leading German shipbuilder Meyer Werft for a third cruise ship fully powered by LNG. The new ship for P&O Cruises U.K. will be built by Meyer Werft at its shipyard in Papenburg, Germany, with an expected delivery date in 2020.