

Oil and Gas News Briefs

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Long-term LNG buyers ‘annoyed’ at lower prices for new customers

(Reuters; April 9) - Buyers in the world’s largest liquefied natural gas markets are concerned upstarts are winning better deals than traditional customers that helped underwrite the industry. New importers in the Middle East and South Asia could be getting cheaper LNG than established users in North Asia, said Hiroki Sato, a senior executive vice president with JERA Co., one of the world’s biggest buyers of the gas.

Sellers may be sweetening deals to lock up fresh customers as new projects, made possible partly by long-term commitments from buyers in countries including Japan and South Korea, flood an oversupplied market, he said. JERA’s wariness over how new importers are being courted highlights the growing pressure on sellers trying to manage old relationships while winning new customers in a market tilted in favor of buyers.

“Japan and some other Asian countries are traditional foundation buyers for many LNG projects, but substantial demand is now coming from emerging markets,” Sato said in an email April 7. “I am afraid their price may be cheaper than ours. Who supported the greenfield projects? We traditional buyers have a right to the cheapest price.” Many Japanese customers and other big buyers signed supply deals between 2012 and 2014 when prices were at their peak. Those contracts require them to buy gas at a higher percentage of the price of crude — known as oil indexation — than newer agreements.

Last year, Pakistan State Oil Co. agreed to import Qatari LNG at 13.4 percent of the price of oil, while Japan’s Chubu Electric, Kansai Electric and Tokyo Electric all reached deals in 2012 with Qatar at 14.9 percent of oil, according to Bloomberg New Energy Finance. “These foundation buyers are annoyed that low-credit buyers in emerging markets are getting better deals than them,” said Kerry Anne Shanks, an analyst at Wood Mackenzie in Singapore. “But it is a function of when the deals were signed.”

LNG capacity build continues; 115 million tons under construction

(Platts; April 5) - Global LNG trade in 2016 reached a record 258 million metric tons, up 5 percent from 2015, according to the International Gas Union’s 2017 World LNG Report published April 5. LNG trade had expanded by an average of only 0.5 percent a year over the previous four years, the IGU said. Short- and medium-term trade grew slightly in 2016, to 28 percent of total trade.

The increase in overall LNG trade can be attributed to a significant rise in new supply, said the IGU, owing to the start of exports from the U.S. Gulf Coast and several projects

in Australia. Total global liquefaction capacity was put at 339.7 million metric tons per year in 2016, an addition of 35 million tons over 2015. The IGU estimates that 115 million tons of new capacity was under construction as of January 2017, indicating that LNG supply will continue to rise rapidly in coming years.

The report noted a significant demand boost in China, which increased its imports 35 percent to 27 million tons. However, the report also noted that some markets, including Japan and South Korea, may have passed peak demand.

Exxon will market surplus capacity from Papua New Guinea LNG

(Reuters; April 7) - ExxonMobil is marketing 1.3 million tonnes per year of mid-term liquefied natural gas volumes from its \$19 billion Papua New Guinea LNG plant, reflecting overproduction and an increase in gas reserves. The two-train plant, which opened in 2015 with a nameplate capacity of 6.9 million tonnes a year, produced 7.9 million last year, making it possible to offer the excess for sale, Stephen McCusker, vice president of PNG Marketing at ExxonMobil said at a gas conference in Japan.

The move is also possible as ExxonMobil PNG, operator of the joint venture, said in February that a study showed that the likely technically recoverable gas from all Papua New Guinea project-partner fields is 11.5 trillion cubic feet, up a quarter from an earlier assessment of 9.2 tcf. The LNG plant's main long-term customers are top global buyers JERA Co. at 1.8 million tonnes a year, Osaka Gas at 1.5 million, Taiwan's CPC with 1.2 million, and China's Sinopec at 2 million tonnes. The PNG project sells the remainder as spot and short-term supplies to those four and other customers, ExxonMobil said.

U.S. LNG developer offers \$8 fixed-price contracts

(Reuters; April 6) - Japanese buyers of liquefied natural gas have shown cautious interest in an offer from a proposed U.S. LNG project developer to deliver liquefied natural gas at a fixed price starting in 2023, wary of locking themselves into a price that may eventually work to their disadvantage. Tellurian Chairman Charif Souki — who pioneered the first U.S. Gulf Coast LNG exports as head of Cheniere Energy when it started construction of its project at Sabine Pass, La. — stirred things up at the Gastech conference in Japan, offering cargoes delivered to Japan at a flat \$8 per million Btu.

That goes against four decades of building liquefaction plants worth billions of dollars and selling LNG on the basis of long-term, fixed-volume contracts linked to the price of oil. Though LNG importers are pushing for lower prices and better terms, even some of the most aggressive buyers seemed taken aback by the flat rate. "Fixed prices are a gamble," said JERA Co.'s chief fuel transactions officer Hiroki Sato. "If you hear now

that you can buy LNG for Japan at \$8 in 2023, everybody would probably say it's cheap. But ... actions based on predictions rarely work out. That is how it works in the world."

Despite his wariness, Souki "is a genius (for) throwing a stone in the pond and creating a ripple. I don't know how I evaluate that or if it is good or bad," Sato said. During supply shortfalls, LNG prices can run up rapidly. Asian spot prices were over \$20 in February 2014, but with the recent global surplus are now trading below \$6. Souki's offer covers an initial 7 million tonnes a year from Tellurian's proposed LNG project in Louisiana, though the company has not applied to the Federal Energy Regulatory Commission for authority to build the plant or obtained full export approval from the Energy Department.

LNG plant on Chesapeake Bay plans start-up late this year

(The Calvert Recorder; MD; April 7) - Dominion's \$3.8 billion liquefied natural gas export project on Chesapeake Bay is on schedule to wrap up in late 2017. "We are 84 percent complete and on schedule for a late-2017 commercial operation date," Bob McKinley, Dominion's vice president of the Cove Point construction, said during a presentation to reporters April 5.

The facility will be capable of sending out 280 billion cubic feet of gas as LNG a year, said Mike Frederick, Dominion's vice president of LNG operations. The plant's output is fully subscribed under 20-year contracts. An LNG import terminal was built at the Lusby, MD., site in the 1970s, but has been mostly unused of late due to the huge boost in U.S. gas production through fracking of shale deposits. The number of import cargoes landed at Cove Point LNG dropped from 78 tankers in 2005 to two in 2016.

Nigeria LNG starts talks with buyers as contracts near expiration

(Reuters; April 6) - Nigeria LNG has begun talks with potential buyers on new contracts for output from three of the six production units at its liquefied natural gas terminal, a senior official from the African company told Reuters. Contracts for gas supplies from Trains 1, 2 and 3 — which together produce 9 million tonnes of LNG a year — are being discussed, said the official who requested anonymity. Output from the trains is coming off long-term contracts by 2022 and will go back into the market.

"We started to remarket today," the official said April 5. Initial responses from buyers have been positive, he said. "There are some who are guaranteed to buy," though he provided no further details. Nigeria LNG is a venture between state-owned Nigerian National Petroleum Corp., Shell, Total and Eni. Its Bonny Island LNG plant on Nigeria's southern coast has six trains with a total capacity of 22 million tonnes a year. Nigeria exported about 8 percent of the world's LNG in 2015.

Canada extends export license to 40 years for small-scale B.C. project

(CKNW Radio; Vancouver; April 6) - The backers of what could be B.C.'s first LNG export terminal are one step closer to getting the controversial project underway. The National Energy Board has approved a 40-year export license for the \$1.8 billion Woodfibre LNG project at Squamish, about 40 miles north of Vancouver. The license grants the company the right to export 2 million metric tons of LNG per year.

The project was granted a 25-year export license in 2013. However, regulatory changes in 2015 extended the maximum term to 40 years, prompting the company to re-apply. In its decision, the National Energy Board rejected a submission from critics including the group My Sea to Sky arguing that granting the permit could lead to a shortage of gas for Canadian consumers over the long term.

Woodfibre was granted federal approval in March 2016, and received the final green light from investors in November. The Squamish First Nation granted the project conditional approval in June 2016, contingent on 25 conditions. The Singapore owner of Woodfibre LNG has said construction will start this year, with the first output in 2020.

Shipyard will deliver 2 more ice-class tankers for Yamal LNG this year

(Reuters; April 3) - South Korea's Daewoo Shipbuilding expects to deliver two more ice-class tankers this year to transport liquefied natural gas from Russia's Yamal LNG project, a company spokesman said April 3. Daewoo Shipbuilding & Marine Engineering has an order to build 15 ice-class tankers for the Yamal project in the Russian Arctic. The first tanker made a test docking at the Sabetta port on the Yamal Peninsula last week. The construction cost for each tanker has been reported at about \$300 million.

A Daewoo spokesman said all of the tankers for Yamal are due to be delivered by 2020, including the two more that will be delivered this year. The Yamal LNG project, which is scheduled to start production in October, is owned by Russian gas producer Novatek, Total, China National Petroleum Corp. and China's Silk Road Fund. The plant is expected to produce a total of 16.5 million tonnes of LNG a year from three production trains, with the second and third trains to come online in 2018 and 2019.

Exxon looking at new design for floating LNG production unit

(The Australian; April 5) - BHP Billiton and Woodside Petroleum's desire to use the remote Scarborough gas field to feed an existing onshore liquefied natural gas plant at Karratha, in Western Australia, could be encountering resistance after field operator

ExxonMobil stepped up studies of a cylindrical floating LNG production unit that could shave \$1 billion or more from offshore development costs. Exxon contracted Norwegian designer Sevan Marine to step up its studies for the gas field, discovered in 1979.

ExxonMobil, 50 percent owner of the Scarborough field, had considered a traditional ship-shaped floating LNG production unit, rather than piping the gas to a shore-based plant for liquefaction. Scarborough is about 140 miles offshore, in water almost 3,000 feet deep. The Sevan design would place a processing plant atop a 260-foot-tall floating cylinder 350 feet in diameter, capable of making 4.6 million metric tons of LNG per year. Woodside and BHP each own 25 percent of Scarborough.

The cylindrical design of the hull would be in lieu of a rotating turret built into a ship-shaped LNG production platform to handle rough seas. Sevan CEO Reese McNeel said the cylindrical unit would cost less and provide more stability in rough seas. "Australia is probably the region where it makes the most sense because ocean conditions in cyclone areas is where expensive turrets are needed for a ship-shaped vessel. Our cylindrical and geostationary concept is very competitive since no turret is required."

Israel-to-Europe gas pipeline possible by 2025

(Reuters; April 3) - European and Israeli governments gave their support April 3 to moving forward with a Mediterranean undersea pipeline to carry natural gas from Israel to Europe, setting a target date of 2025 for completion. The planned 1,248-mile pipeline aims to link gas fields off the coasts of Israel and Cyprus with Greece and possibly Italy, at a cost of up to \$6.4 billion.

"This is an ambitious project, which as the Commission we clearly support, as it will have a high value in terms of security of supply and [supply] diversification targets," said European Climate and Energy Commissioner Miguel Arias Canete. Israel has discovered more than 31 trillion cubic feet of gas offshore, with some studies pointing to an additional 77 tcf waiting to be tapped. Along with the European market, it is exploring options to export to Turkey, Egypt and Jordan. Cyprus' Aphrodite gas field holds an additional 4.5 tcf, and Cypriot waters are expected to hold more reserves.

Israeli Energy Minister Yuval Steinitz said the pipeline could be completed in 2025, "but we will try to speed up and shorten the timetable." A feasibility study has been completed, with a final investment decision expected by 2020, said Elio Ruggeri, chief executive of IGI Poseidon, the project owners. IGI Poseidon is a joint venture between Greece's DEPA and Italian energy group Edison.

Poland looks to Norwegian gas, LNG to replace Russian gas by 2022

(Reuters April 6) - Poland's drive to replace Russian natural gas imports with supplies piped from Norway and shipments of liquefied natural gas in five years will reduce prices, an official at gas network operator Gaz-System said. Warsaw, which has faced disruptions in Russian supplies in the past, does not plan to extend a long-term delivery deal with Russia's Gazprom on its expiration in 2022.

Instead, Poland wants to increase LNG imports and build a pipeline from Norway through Danish territory and under the Baltic Sea to replace the annual Russian gas imports of up to 360 billion cubic feet per year. "The diversification of gas supplies ... and sources will definitely have an impact on a fall in prices for the market participants," said Pawel Jakubowski, director at Gaz-System's development division.

Gaz-System, which is working with Denmark's Energinet.dk on building the 200-mile Baltic pipeline, expects to sign binding agreements by the end of the year with firms taking the gas. Installation of a floating LNG import terminal would be a backup plan. Poland opened its first onshore LNG receiving terminal a little more than a year ago.

Lack of quorum holds up action at FERC

(National Review; April 6) - Without a quorum, the Federal Energy Regulatory Commission can't approve energy infrastructure projects expected to create thousands of jobs. The Trump administration has been slow to nominate candidates to some of the 600 or so significant positions in the executive branch, including the three empty spots on the five-member FERC, which has been short of a quorum since President Obama's appointed chairman, Norman Bay, resigned on Feb. 3.

This doesn't mean FERC shuts down entirely; inspections, safety reviews, audits and all the traditional duties of its staff continue even when it lacks enough commissioners for a quorum. The legalese determining what staff may do is complicated, but the upshot is simple: The less controversial a decision, the more likely that the staff can legally make it. FERC needs a quorum of commissioners to vote on bigger matters, however, including gas pipelines and liquefied natural gas projects.

For example, Enbridge wants to build a new pipeline to transport Appalachian shale gas to high-demand markets in Canada and the Midwest, including Ohio, Michigan, Illinois and Ontario. The 255 miles of 36-inch pipeline, plus related facilities, could handle 1.5 billion cubic feet of gas per day. The \$2 billion project was originally set to be completed this autumn. But without a quorum, FERC can't give the project final approval. And the vacancy problem is set to get worse soon: Commissioner Collette Honorable's term expires June 30, leaving the administration with four FERC seats to fill.

Federal proposal could restrict foreign vessels in oil and gas work

(EnergyWire; April 7) - Federal regulators say they plan to reinterpret a long-standing shipping law to cover offshore oil and gas activity, in a move that pits energy interests against the powerful domestic maritime industry. Shortly before President Trump's inauguration, U.S. Customs and Border Protection issued a public notice that said it intended to change how it interprets the Jones Act, which requires that shipments between any two U.S. ports use U.S.-built, -owned, -flagged and -crewed vessels.

The agency intends to revoke or modify 30 or more rulings and interpretations issued since 1976 that said the Jones Act did not apply to vessels involved in laying offshore pipeline and conducting other work involving specialized oil and gas equipment. The rulings said items such as marine risers, structural components, and even chemicals and cement used in offshore wells, were "vessel equipment" rather than merchandise and thus could be transported on foreign vessels for work in U.S. coastal waters.

Now, the agency said, it intends to revoke and rewrite those decisions to make Jones Act restrictions apply to the specialized vessels. The comment deadline has been extended to April 18. This week, the American Petroleum Institute issued a report that said changing the rulings would keep foreign-flagged subsea construction, reel lay and heavy-lift vessels out of the U.S. Gulf of Mexico, dramatically reducing activity and costing tens of thousands of jobs. The maritime industry disputed the report, and said the change would help protect U.S. jobs and industry.

Russian shipowner will use LNG to fuel oil tankers

(Natural Gas World; April 3) - Shell has signed an agreement with Russia's state-owned Sovcomflot to supply liquefied natural gas to fuel the first Aframax crude oil tankers in the world to be powered by LNG, the companies said April 3. The four tankers will carry crude and petroleum products in northern European waters. The ice-class, dual-fueled tankers are scheduled to come into operation starting the third quarter of 2018. Aframax tankers are sized to fit through the Panama Canal before its expansion last year.

The United Nations International Maritime Organization decision last year to implement a sulfur emissions cap in 2020 is among the reasons fleet operators are switching to LNG as a virtually sulfur- and particulate-free fuel. The global LNG supply overhang is a reason companies such as Shell are looking for new sources of demand for their commodity. Sovcomflot is the largest maritime shipping company in Russia.

Marine, trucking industries in British Columbia look to natural gas

(Business in Vancouver; April 4) - It may be a few years before any company starts exporting liquefied natural gas from British Columbia to Asia, but B.C. producers are

finding a small but growing domestic market for LNG and compressed natural gas in the trucking and marine transportation sectors. Last month, BC Ferries received its second LNG-fueled ferry from a Polish shipyard. Seaspan Ferries will add two more LNG-powered ships to that number.

Meanwhile, more trucking fleets and public transit authorities have been making the switch from diesel to natural gas when they replace buses. That's a big benefit for Westport Fuel Systems, which has supplied the natural gas engines for those buses. BC Transit now has 74 buses running on compressed natural gas, and another 46 are expected to be on the road by 2018. TransLink has 45 CNG buses on the road, with another 51 expected to arrive by the end of this year.

As of 2012, gas accounted for just 3 percent of the world's transportation fuel, said the U.S. Energy Information Administration, which estimates that will grow to 11 percent by 2040. The B.C. government is encouraging utilities like FortisBC and Pacific Northern Gas to develop domestic markets for LNG and CNG in transportation. It recently amended its greenhouse-gas reduction regulations to allow utilities to offer more incentives to the marine sector to switch vessels to LNG and invest in fuel storage.

[Power line developers look to bring renewable energy to cities](#)

(Wall Street Journal; April 6) - What if the wind sweeping down the plains of Wyoming could be harnessed to generate enough electricity to power Los Angeles? It soon could, thanks to a \$9 billion wind farm and electricity superhighway backed by billionaire Philip Anschutz — one of a series of transmission line projects that private investors are bankrolling to bring renewable energy from America's hinterlands to its urban centers.

Near Rawlins, in rural Wyoming, crews are prepping land near the state line with Colorado so they can build a 3,000-megawatt wind farm, which could be the largest ever constructed in the U.S. Crucial for moving all that renewable power to market is the proposed 730-mile transmission line to deliver the electricity to a point near Las Vegas. From there, the power can flow into Southern California's grid.

Anschutz isn't the only wealthy investor pumping money into power lines in an effort to bring green energy to big cities. The Ziff family, whose fortune is from the glory days of magazine publishing, also is partly funding a green-power project between Oklahoma and Tennessee. Altogether, these and other merchant-transmission projects could cost upward of \$17 billion. Backers hope their efforts will be propelled by President Donald Trump's support for large-scale infrastructure. But transmission lines have some of the same issues as pipelines, and the power lines have encountered some local opposition.