Oil and Gas News Briefs
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LNG glut leads buyers to renegotiate deals, but it can't last forever

(Forbes columnist; Aug. 11) - Welcome to the largest, steepest, most prolonged drop in prices the liquefied natural gas industry has ever faced. Since the giddy highs of LNG prices a few years back, prices have collapsed by more than two-thirds. And structural LNG oversupply is only beginning, which will see spot LNG prices remain depressed through to early next decade. There is still plenty of under-construction LNG supply capacity to come online, without enough demand to meet it.

LNG supply will be curtailed where the marginal cost is highest: U.S. LNG and the coal-seam gas projects in Australia. These projects have to spend big dollars every year to keep plants full. U.S. LNG capacity will feel the brunt of the curtailment, as LNG prices won't cover production costs. For the first time in the industry's history, new LNG plants are being deliberately run below capacity. The overcapacity will hold down global prices.

This will place increasing tension on legacy LNG contracts, signed at relatively higher oil-linked prices. There will be an unprecedented level of pressure on contract sanctity as buyers try to renegotiate better terms. Meanwhile, buyers are reluctant to sign new contracts, which are becoming shorter, smaller and more flexible. While there is a lot of extra LNG around now, about 10 new liquefaction trains could be needed by 2025.

With many supply sources chasing this future market share, cost will be king. High-cost greenfield projects will remain little more than ideas on paper. The elephant in the room will be Mozambique gas, which could displace a lot of competing volumes. Meanwhile, buyers will take advantage of the glut to improve their position, but it may well come back to bite them in the future. Any buyer threats to renegotiate existing contracts now will impede their ability to underpin new supply projects when they need to in the future.

Petronas CEO explains decision to cancel LNG project in B.C.

(The Edge, Malaysia; Aug. 10) – Petronas CEO Datuk Wan Zulkiflee Wan Ariffin talked with Malaysian news magazine The Edge about the company's decision last month to cancel its liquefied natural gas project in British Columbia. He called it a "negative final investment decision." The action came after the company and its partners had spent years designing, engineering and permitting the LNG plant, marine terminal and pipeline from the gas fields — all together spending more than $1 billion on the preliminary work.

While working through government permit conditions, Petronas looked at “how we could bring down the costs … but the market was very, very challenging,” the CEO said. “Today, the market is very weak, so that is why we decided not to proceed with the project. We are disappointed with the market conditions, but this is something I have mentioned in the past. We go through a very stringent sanctioning process and … before we proceed with a project, it must be commercially viable.”

Petronas and its partners, however, continue to produce gas from their leases in Western Canada, with output at about 500 million cubic feet a day, all of which is being sold into the North American market.

Nuclear restarts coming slower than expected in Japan

(Interfax Global Energy; Aug. 11) - The slower-than-expected pace of Japan’s nuclear restarts means the country will need more liquefied natural gas than previously thought, the Institute for Energy Economics, Japan said late last month. However, this is unlikely to worry a country that is already long on LNG supply.

The institute’s latest forecast, Economic and Energy Outlook for Japan through FY2018, anticipates just 10 reactors being in operation by the end of March 2019 — seven less than the number it expected would be operational by March 2018 in its previous outlook, published in December 2016. That previous figure was particularly ambitious given that just three reactors were operational when it was published.

Japan shut down all its nuclear power reactors as a safety precaution after the 2011 meltdown at the Fukushima Daiichi reactors caused by flooding from a tsunami. The country’s power plant operators have struggled to restart the nuclear stations amid new, tighter safety rules and public opposition. Japan operated almost 50 power reactors before the shutdown.

LNG imports for Australia ‘an absurd proposition’

(The Guardian; Aug. 10) - As Australia ramps up to become one of the world’s biggest liquefied natural gas exporters, skyrocketing local gas prices are driving one company to consider building an LNG import terminal, highlighting an apparently absurd situation for local gas users. Australian electricity supplier AGL said Aug. 10 it is moving closer to building a $A250 million LNG import terminal about 50 miles south of Melbourne.

“This project will enable access to the world market for gas, injecting some much-needed competition into the Australian market and help ease the tight gas supply,” said Richard Wrightson, AGL executive general manager. “If all goes to plan,” he said, construction could start in 2019 and imports would arrive 2020-2021.

Commentators have pointed to Australia importing gas while becoming one of the world's biggest LNG exporters. "This is on the same level as Saudi Arabia building an oil import terminal. It is the most absurd proposition," said Bruce Robertson, of the Institute for Energy Economics and Financial Analysis. "But in today's crazy gas market where we pay so much more than our customers do in Asia, it sort of makes sense."

The high local price for gas is being driven up by huge LNG export terminals in Queensland buying up local supply and shipping it overseas. The exports are locked in under long-term contracts linked to oil prices. The contracts have resulted in Australian gas sometimes being sold for less to overseas customers than to local customers.

Winds and currents help to clear Russian Arctic of older, thicker ice

(Reuters; Aug. 11) - Russian shipping in the Arctic is benefiting from winds that are driving the oldest and thickest sea ice toward North America, further opening a remote region that is thawing amid global warming, scientists say. The thinning Russian ice could help liquefied natural gas tankers, due to start exports from Russia's Yamal Peninsula in late 2017, navigate the icy route to Asia for more than the LNG project's planned six months of the year, they said.

The shifts in the age of the ice, driven by prevailing winds and currents, are helping Russia. U.S. National Oceanic and Atmospheric Administration maps show that almost all the ice near Russia in winter is now only a year old and typically up to about 6.5-feet thick, with older and more jagged ice concentrated toward North America. By contrast, in 1985, ice older than five years was found across the Arctic Ocean, NOAA data show. Old ice can build up into hull-tearing ridges perhaps 65-feet thick.

"The old ice is like a bar of butter straight out of the freezer, hard as rock. The new ice is like warm butter, you can put a knife through it," said Robert Corell, a U.S. Arctic expert at the Global Environment & Technology Foundation. "Russia will benefit most," he said, because the younger ice will allow ships including LNG tankers to travel more of the year to Asia. The Yamal LNG project is having a fleet of tankers built to deliver its output, but is currently planning to make the voyage east to Asia just six months a year.

Thailand's state energy group looks for small stakes in LNG projects

(Reuters; Aug. 10) - Thai state energy group PTT's July purchase of a stake in a liquefied natural gas production plant operated by Malaysia's Petronas will be its model for securing natural gas in the future, its chairman told Reuters. Thailand plans to triple its LNG imports by 2022 as its domestic gas output dwindles, and the strategy it is adopting is similar to Japanese utilities such as Tokyo Gas and Osaka Gas that are taking small stakes in Australian gas developments to lock up supplies.

In July, PTT Global LNG, took a 10 percent stake in a Petronas liquefaction plant for $500 million. That was after PTT signed a 15-year LNG purchase agreement last year with the Malaysian state oil and gas company. "Investments will follow a similar model of starting with a long-term purchasing agreement, and then jointly investing in a liquefaction plant," PTT Chairman Piyasvasti Amranand told Reuters. "In the past, PTTEP would produce. Now we are investing more in 'midstream' capacity."

Thailand imports about 5 million tonnes of LNG per year, according to government data, with 70 percent used for power generation. Last year, policy makers targeted annual imports of 17.4 million tonnes by 2022. PTT Group, with nearly $15 billion in cash, is better placed for acquisition than its peers such as Petronas and Indonesia's Pertamina. Its biggest overseas investment is offshore Mozambique in southeastern Africa, where it holds an 8.5 percent stake in an LNG export project being developed by Anadarko.

India commits to develop biofuels as alternative to fossil fuels

(Reuters; Aug. 10) - India will soon announce a new policy to promote biofuels as part of efforts by the world's third-largest emitter of greenhouse gases to cut imports of fossil fuels like oil, gas and coal, a government minister said Aug. 10. The government aims to develop a biofuel economy worth 1 trillion rupees ($15.6 billion) in the next two years, Oil Minister Dharmendra Pradhan told a conference on renewable energy.

India's top three state-owned oil companies have pledged a combined $2 billion to fund research to develop biofuel technologies, and the government has pledged to guarantee a return on their investments, Pradhan said. "The roadmap to lower crude oil imports is connected to biofuel," he said. India, the world's third-biggest oil consumer, aims to cut its oil imports 10 percent by 2022. India needs private investment in the sector, but also needs to reduce the cost of production, said Indian Oil Corp. chairman Sanjiv Singh.

New Delhi also plans to lower its carbon footprint by raising the use of natural gas in its energy mix to 15 percent in the next three to four years, up from 6.5 percent currently. Energy consumption in India is expected to grow as the government aims for economic growth of 8 to 9 percent this fiscal year, up from 7 percent in 2016/17.

India’s growth in coal consumption slows down

(The Financial Post; Canada; Aug. 9) - Within the wild energy market of the world’s second-most populous nation, predictions are proving tricky. India had been projected to become a carbon-belching behemoth, fueled by thermal power plants demanding ever more coal for decades to come. Now, some analysts say that may not happen. In the past two years, the growth in coal consumption has eased to its slowest pace in two decades, even with the economy growing at a steamy 7 percent annual pace.

Factors at play include fast progress in adding renewable energy capacity and new measures to improve energy efficiency. By washing coal before it's burned, power plants now burn less to produce the same amount of power. Thermal power plants have been running below full capacity for years and as of June were operating at only 57 percent of total capacity, the lowest ever. India is the world's third-largest carbon emitter and relies on coal-fired plants to produce most of its energy. With a population of 1.3 billion and a fast-industrializing economy, its energy needs had been forecast to soar.

"India's future coal demand could actually be near flat," said Tim Buckley, the Asia energy finance director for the Cleveland-based Institute for Energy Economics and Financial Analysis. "The technology-driven changes are happening faster than predicted." A similar correction is under way in China, where officials and analysts have had to walk back earlier predictions that its annual coal needs would peak in 2030. Instead, the International Energy Agency says China's coal use topped out in 2013.

New Egyptian law will make it easier to import Israeli gas

(Haaretz; Israel; Aug. 9) - After years of delays and uncertainty, Egypt could be on its way to becoming a major market for Israeli natural gas exports after President Abdel Fattah al-Sissi signed legislation Aug. 8 forming a gas regulatory authority and permitting private-sector companies to import gas. Egypt, along with Turkey, is one of two regional markets that could buy large quantities of gas from Israel's Tamar and Leviathan offshore fields, though none of the deals in the past have panned out.

But the new Egyptian law should make it easier for deals to go through. David Stover, CEO of Houston-based Noble Energy, the operating partner in the Tamar and Leviathan fields, hinted as much last week. "The [Leviathan] team continues to progress on new contract discussions with customers in Israel, Jordan and Egypt. I'm confident that the gross 1.2 billion cubic feet per day of Leviathan Phase 1 capacity will be mostly filled," he told analysts Aug. 3.

Egypt's new regulatory authority and law are expected to pave the way for private-sector companies to import and distribute gas using Egypt's pipeline network, activities currently monopolized by the government. After a string of major discoveries led by the giant Zohr offshore field, Egypt will end many years of gas shortages and once again become gas self-sufficient by the end of 2018. Nevertheless, imported Israeli gas could be a key part of the equation.

Increase in gas liquids worries Permian investors

(Wall Street Journal; Aug. 9) - Investors helped turn the West Texas Permian Basin into America's fastest-growing oil field, but their confidence is cracking over whether drillers can keep production rising. Questions mounted last week after Pioneer Natural Resources reported that its Permian wells are producing more gas and gas liquids such as propane than expected. That worried investors, who care a lot more about oil. The issue for Wall Street is whether the Permian — with nearly half the rigs drilling for oil in the U.S. — will continue apace or will fall short of investors' expectations. "The Permian is going to have some growing pains," said Scott Hanold, of RBC Capital Markets.

Most wells produce natural gas as a byproduct alongside oil, and that gas output tends to rise over time. That is because as a reservoir is depleted, its pressure drops and gas vapors separate from liquid — reaching the "bubble point" at which gas production accelerates. Pioneer last week indicated that some of its Permian wells are reaching this point sooner than it anticipated. "Why everyone's so concerned is that it could mean at some point in the future, that oil declines are steeper than what the company and the investment community thought they would be," said Ben Shattuck, research director at consultancy Wood Mackenzie. "It raised that big question mark."

Some skeptics have long suspected that the ultimate recoverability rates of oil from tightly packed U.S. shale rocks might be lower than many drillers were forecasting.

British Columbia looks to join fight against oil sands pipeline

(The Canadian Press; Aug. 10) - The British Columbia government wants to join the legal fight against the expansion of the Trans Mountain pipeline, warning the company behind the project that it cannot begin work on public land until it gets final approval from the province. The province has hired former judge Thomas Berger to provide legal advice as it seeks intervener status in legal challenges against the federal government's approval of the project to move more Alberta oil sands production to the B.C. coast.

The newly installed New Democratic Party-led government opposes the project, which was supported by the province's former government. Premier John Horgan promised in this spring's provincial election to use "every tool in the toolbox" to stop the $7.4 billion project by Trans Mountain, a subsidiary of Kinder Morgan Canada. First Nations and municipalities have filed legal challenges against the expansion to triple the capacity of the pipeline and increase the number of tankers in Vancouver-area waters seven-fold.

B.C. Environment Minister George Heyman said increased tanker traffic is not in the public's best interests. "Not for our economy, our environment, or thousands of existing jobs. We will use all available tools to protect our coastal waters and our province's future." Trans Mountain has said construction is set to begin in September, but Heyman said only three of eight environmental management plans required for work to begin have been accepted and it is unlikely the others will get approval before September.