Oil and Gas News Briefs
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Kuwait signs 15-year deal to buy LNG from Shell at 11% of oil price

(Bloomberg; Dec. 24) - Kuwait Petroleum has signed a 15-year liquefied natural gas import deal with Shell to help the oil-exporting nation meet growing domestic energy demand. The sales-and-purchase agreement with Shell International Trading Middle East will start in 2020, the companies said Dec. 24 in an emailed statement. Shell has supplied Kuwait with the fuel since 2010.

While Kuwait Petroleum is working to boost its domestic natural gas production, the country has a "pressing requirement" to secure gas supplies in the meantime, the company said. LNG will help meet Kuwait's domestic demand for power to run air conditioners during hot summer months and cut the amount of crude oil burned to make electricity instead of being exported for profit.

The contract will cover 2 million to 3 million tonnes of LNG a year, priced at 11 percent of a Brent crude benchmark, a source said, asking not to be identified because terms of the deal are private. At 11 percent of the Dec. 22 price for Brent ($65), the cost of the LNG would be $7.15 per million Btu. The 11 percent price link is less than past ranges in most global deals of 12 to 15 percent. "The big issue for Kuwait is they burn a lot of oil, most of their power generated is from oil, and so importing LNG for them is cheaper and frees up oil for export," said Robin Mills, CEO of Dubai-based Qamar Energy.

Fitch expects LNG oversupply to last 'several years'

(UPI; Dec. 22) - Liquefied natural gas markets will likely be oversupplied for the next few years, leaving funding for new projects at a premium, notably for Russia, Fitch Ratings said. "The LNG market is likely to be oversupplied for several years due to additional LNG capacity being commissioned in the United States, Australia, and elsewhere, potentially resulting in depressed spot prices until demand catches up," the ratings agency said Dec. 22.

The United States has pushed more shale gas into the market as LNG, hoping to eat into Russia's market share in Europe. Australia, meanwhile, aims to advance further into the energy-hungry Asian market with gas from its multiple new projects. Russia's Novatek, meanwhile, set its foot into the global sector when it sent its first shipment to the market in early December from its Yamal LNG plant in the Arctic — and the company already is planning a second Arctic LNG plant.

Novatek could secure funding support from partners not already targeted by U.S. sanctions against Russia and by establishing partnerships with companies in Saudi Arabia and India, Fitch said. But securing long-term sales contracts will be challenging as the field gets more crowded with sellers, and Russia will be at a disadvantage for financing because of Western sanctions. Bankers in China provided funding for Novatek's Yamal project, but there's no guarantee Beijing will continue to help.

China's gas demand could intensify seasonal price swings

(South China Morning Post; Dec. 22) - China's self-inflicted heating crisis this winter signals deeper seasonal price swings that might be a boon for liquefied natural gas traders. The arrival of a price-depressing glut of the fuel is no longer seen as inevitable. Instead, China's surging winter heating needs will create larger summer-winter splits in the global LNG market and exacerbate price swings. That is what has happened this year, as the cost of spot cargoes has nearly doubled since June.

It is yet another effect of China's quest for cleaner skies, as policies forcing homes and factories to switch from coal to gas have reduced smog in Beijing while creating shortages of the heating fuel in frigid northern cities. Companies with LNG to sell are positioned to benefit, said Kerry-Anne Shanks, an analyst at Wood Mackenzie. "We see a market developing that's quite strong in the winter, and in the summer is loose. … It plays to the strengths of portfolio players who have flexibility to deliver supplies."

"Conventional wisdom said there would be a tsunami of new LNG coming that would force down LNG prices," said Graeme Bethune, CEO of consultant EnergyQuest. "Instead, moves by China are boosting prices. The question going forward is how much of these elevated prices are due to secular reasons and how much is due to seasonal demand." Rising demand from China, as well as emerging markets spurred by lower prices, means that a glut of LNG may be smaller and end sooner than earlier forecast.

China's November LNG imports up 53% from a year ago

(Bloomberg; Dec. 23) - China's imports of liquefied natural gas in November surged 53 percent to a record as the nation scrambles to meet fuel shortages amid peak winter demand and the government's drive to cut coal use. LNG imports rose 53 percent from the same month last year to 4.06 million metric tons, according to data posted Dec. 23 on the website of the General Administration of Customs. Shipments in the first 11 months of the year are up 48.4 percent. Pipeline gas imports advanced 27.4 percent.

The world's largest energy user is facing a winter supply crunch after demand surged this year amid President Xi Jinping's fight against smog, which has focused on cutting the use of coal in favor of cleaner-burning gas. Parts of the country started facing shortages just two weeks into winter, with Hebei and Shandong provinces in the north and central Hubei reporting gas supply shortfalls last month and curtailing supplies to businesses and factories in order to keep homes warm.

Year-to-date, LNG imports were 33.13 million tonnes, compared with 26.15 million in the same period of 2016, pointing to 2017's imports setting a full-year record. The National Development & Reform Commission, China's top economic planner, last week reiterated its call for gas suppliers to speed up LNG imports to meet demand.

China exceeds coal-conversion target, but work unfinished

(Reuters; Dec. 25) - China's Ministry for Environmental Protection said it had completed coal-to-gas and coal-to-electricity projects for 3.9 million households, exceeding a target of 3.1 million houses for 2017 in northern regions. The project has left some rural villages in the cold, however, the ministry said Dec. 24, as local officials were unable to finish projects before the winter heating season began on Nov. 15.

As many as 3,704 villages had not completed switching residents from coal stoves to either burning natural gas or to electrical heat as of Dec. 24. That accounts for 16 percent of the total amount of the project, the ministry data showed. As a result, these villages need to keep burning coal. China began an ambitious program earlier this year under which millions of households and some industrial users are switching away from coal for heating, as Beijing tries to clean the tainted air in northern China.

But the program has led to widespread shortages of gas, sent LNG prices soaring and left some residents freezing in their homes and factories shuttered. The statement from the ministry was the first acknowledgement of the consequences of the move.

Shell readies floating LNG project to start Australia production 2018

(CNBC; Dec. 24) - Displacing as much water as five aircraft carriers is just one eye-popping statistic that attempts to illustrate the sheer size of the world's largest vessel. Construction on Shell's huge floating liquefied natural gas structure began in 2012 and was finished in July by Samsung's Heavy Industries in South Korea, before being towed to Australia. Now the floating facility sits at its first location, Shell's Prelude gas field, around 125 miles north of the Western Australian coast.

In 2018, the 1,602-foot-long facility, called Prelude, will begin its job of extracting and processing gas at sea. Prelude is as wide as the wings on a Boeing 747. The gas is to be pumped from below the seabed to the floating platform, where it will be supercooled to a liquid. LNG carriers will then pull up alongside and fill their tanks for deliveries. Despite its ship-like appearance, Prelude is not really a boat, as it needs to be towed.

Its ability to produce and offload LNG to large carriers removes the need for long pipelines to land-based processing plants. However, the increase in cheap gas because of U.S. shale technology has left some questioning the current value of an expensive offshore facility. At full operation, Prelude will be capable of producing 3.6 million tonnes per year of LNG and more than 45,000 barrels a day of condensate and liquefied petroleum gas. Shell has never disclosed how much the project will cost, but industry analysts told Reuters that its price would sit between $10.8 billion and $12.6 billion.

China will help fund Russian-led venture to build gas line in Pakistan

(The Express Tribune; Pakistan; Dec. 21) - As Russia faces trouble in financing a $2 billion North-South gas pipeline project in Pakistan in the face of sanctions slapped by the United States on Russian companies, China's Silk Road Fund has committed to help finance the venture, a Pakistani government official said. Encouraged by the pledge from the Silk Road Fund, Pakistan, and Russia are now set to sign a project implementation deal Dec. 21 for the 700-mile pipeline.

Russia and Pakistan two years ago signed an understanding for the North-South pipeline that would run from coastal Karachi, where liquefied natural gas imports would be offloaded, to inland Lahore to meet the growing fuel demand of power plants. Russia nominated its state-owned RT Global Resources for project execution.

Moscow agreed to lend $2 billion to Pakistan, which, in turn, would award the pipeline-laying contract to RT Global Resources without taking bids. Pakistan was to contribute 15 percent equity, with 85 percent funding to be provided by the Russian company. However, RT Global Resources is under U.S. sanctions, sparking trouble for the project. Now, in a bid to start work without any further problems, Chinese companies will become partners in building the line to move 1.2 billion cubic feet a day.

Pakistan wants to trade stockpile of dirty fuel oil for LNG imports

(Bloomberg; Dec. 20) - Pakistan's drive to tackle its polluted skies has left it with a problem: It has more dirty fuel oil than it wants. The solution? Swap it for shipments of cleaner liquefied natural gas. The top oil marketing firm in South Asia's second-largest economy, Pakistan State Oil Co., is exploring whether it can take delivery of imported LNG in return for supplying fuel oil abroad, sources said. The government-controlled company has almost 8 million barrels of the crude residue stockpiled.

Pakistan is joining the ranks of China and India in efforts to combat deadly smog from choking their cities while meeting burgeoning demand for cheap energy. It plans to add new gas- and coal-fired power plants before elections in 2018 and switch off oil-based generation by 2019, Prime Minister Shahid Khaqan Abbasi said earlier this year. That'll drive the country to export a record amount of dirty fuel, also known as furnace oil, this fiscal year, according to Muhammad Saad Ali, research head at Intermarket Securities.

"Pakistan has an oil glut with new gas-fired power plants starting and demand dropping in the winter season," Ali said. "They need to get rid of that first."

Kinder Morgan ready to start work on $1.7 billion Texas gas line

(Houston Chronicle; Dec. 21) - Houston's Kinder Morgan said Dec. 21 it is ready to move forward with its $1.7 billion gas pipeline from West Texas to the Corpus Christi area after signing up producer Apache as a major customer. The project, expected to be in operation by October 2019, is meant to capitalize the ongoing shale boom in the West Texas Permian Basin. While companies are primarily drilling for oil, there is also a lot of associated gas produced from the shale rock — even more than initially projected.

The goal is to ship the gas to industrial and port hubs near Corpus Christi and Houston, where the gas can be sent to power plants for electricity generation, delivered to liquefied natural gas export terminals, or to Mexico, which is increasingly importing more U.S. gas for power generation. The 500-mile line is 50 percent owned by Kinder Morgan with the other 25 percent slices belonging to Houston's Targa Resources and DCP Midstream, a joint-venture between Houston's Phillips 66 and Calgary-based Enbridge.

Construction is expected to start in the first quarter of 2018. As part of its deal as an anchor customer, Apache has the option of buying a 15 percent stake from Kinder Morgan. Apache said the line is needed to move gas from West Texas and will complement Apache's Alpine High fields in southwestern Texas. The pipeline is one of more than 15 proposals to expand or construct pipelines that will traverse Texas from the Permian Basin to the Gulf Coast ports. Most of the lines are for crude or gas liquids.

B.C. Supreme Court overturns gas pipeline approval

(Natural Gas Intelligence; Dec. 22) - The British Columbia Supreme Court has made an example of a Calgary company and a small gas pipeline project to teach industry and regulators a lesson that they must pay attention to indigenous rights. The Dec. 15 ruling overturned the B.C. Oil and Gas Commission approval for a 24-mile, 12-inch-diameter line that Rockyview Resources wants to install in the northern Horn River Shale region.

The Fort Nelson First Nation persuaded the court that the company and commission had failed to conduct proper community consultation and neglected caribou habitat conservation. The court said the oil and gas commission was "unreasonable" and “intransigent” in its dealings with the First Nation. The modest addition to the pipeline grid had been approved as a routine item that did not significantly change the area or increase environmental disturbance accumulated over decades of industry activity.

In a statement on the court ruling, the commission pledged to focus more tightly on environmental issues and work on improved indigenous consultation. At the time the lawsuit began about a year ago, Fort Nelson leaders emphasized that the action should not be misinterpreted as an attempt to drive industry away from northern B.C. shale gas. Rockyview Resources has not disclosed its next steps after the court ruling.

U.S. oil output could hit record 10 million barrels a day in 2018

(Reuters; Dec. 20) - When oil prices climbed toward $60 a barrel this fall, U.S. shale producers hedged more barrels during the quarter than in at least three years, which could help propel the country to record oil production next year. More than 144 million barrels were added to hedges after global oil markets rallied by as much as $13 in the quarter. Hedging at higher prices helps producers lock in profits for their future sales.

The hedging volume should guarantee that total U.S. production exceeds 10 million barrels per day in 2018, which would be a new record. Traders said growth next year will likely exceed government forecasts, heralding a record year that could pressure prices in the near term. For oil traders, hedging data from shale companies serves as a leading indicator of future supplies.

“After a slow start in the first half of 2017, U.S. oil producers sped up hedging activities for their 2018 production in the third quarter amid the rebound in oil prices,” Citigroup analysts said last week. According to a Reuters analysis of hedging by the 30 largest U.S. shale firms, most rushed back into hedging in July through September. Citigroup said the third-quarter hedge ratio — the percentage of output where shale companies have locked in future sales — for 2018 jumped from 12 percent to 27 percent.