Oil and Gas News Briefs
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December 28, 2017

Gazprom says Siberian gas line to China will start up December 2019

(OilPrice.com; Dec. 27) – Russia's Power of Siberia natural gas pipeline to China will start pumping fuel by late December 2019, Gazprom's CEO Alexei Miller said Dec. 27. Two-thirds of the 2,500-mile pipeline has been laid, Miller said. Gazprom has a 30-year contract to supply China National Petroleum Corp. with 1.3 trillion cubic feet of gas per year via the new pipeline. Its completion is among Gazprom's top priorities for next year, according to plans approved by the company last week. A late 2019 start-up would be more than a year behind the original schedule.

China's gas demand is growing at a fast rate and, according to a recent report by Eurasia Daily, the Siberian line is essential to help solve future gas shortages in the north of the country. This winter, northern China is experiencing a gas shortage due to colder than usual weather, and local authorities have had to enact restrictions on gas consumption. China's gas demand surged through the first 11 months of 2017, up 19 percent year-on-year. Domestic production has not come close to keeping pace, leading to increases in liquefied natural gas imports and pipeline gas imports.

The Power of Siberia project, including gas field development costs in Siberia, gathering lines and other infrastructure, has been reported at more than $50 billion.

Putin says LNG export projects help 'ensure the future of Russia'

(Financial Times; London; Dec. 27) - Leonid Mikhelson, CEO of Novatek, Russia's largest privately owned gas producer, beamed with pride when President Vladimir Putin this month hailed the company's $27 billion Yamal liquefied natural gas project as an "extremely important step" for the country. Putin said the export project "ensures the future of Russia, the future of its economy." Putin's remarks were a competitive warning to producers in other countries that have been quicker to the global LNG market.

Yamal LNG "is one more confirmation of the status of Russia as one of the world's leading energy powers," Putin said. "Of course, the number of such promising projects needs to be increased." Russia is now aiming for a 15 to 20 percent share of the market that has been dominated by producers in Qatar, Australia, and now the United States. Before Yamal, Russia's one LNG terminal had about 4 percent of the global market.

“Starting from today, the number of people who have never heard of us will decrease dramatically,” Mikhelson said. There are plans for a second LNG project nearby in the next few years. Meeting those ambitions will not be straightforward. Western sanctions restrict overseas financing, giving potential foreign partners a cause for concern. And there is a long list of rival LNG projects in other countries. “Securing long-term contracts and funding new LNG projects in these circumstances is a challenge,” Fitch Ratings said in a recent report, adding that sanctions made it “even more of a challenge for Russia.” Russia was late to the LNG game but hopes it can catch up fast.

China moves past South Korea as world’s No. 2 LNG importer

(Reuters; Dec. 25) - China will become the world’s second-biggest liquefied natural gas importer this year as it overtakes South Korea, shipping data in Thomson Reuters Eikon showed. It’s a huge boost to Asia’s emerging spot market as Chinese buyers rely much more on short-term purchases than their counterparts in Japan and South Korea.

Shipping data shows that China’s LNG imports will have risen by more than 50 percent in 2017 compared with 2016, to about 38 million tonnes. Import-dependent Japan and South Korea will have taken about 83.5 million tonnes and just over 37 million tonnes by the end of the year, respectively. Analysts expect China’s LNG imports will rise further.

“We are expecting to see even higher surges in winter demand over the next three to four years as the Chinese government pushes more broadly its gas-for-coal drive,” said Wang Wen, Beijing-based analyst with consultancy Wood Mackenzie. Beyond virtually doubling Asian spot LNG prices since June to $11.20 per million Btu — the highest since 2014 — China’s rapid demand growth has changed the structure of the market.

LNG trading has been dominated by long-term contracts with fixed monthly volumes supplied at prices linked to the oil market. Such deals have been preferred by Japan and South Korea, which meet all their need through LNG imports as it gives them security of supply and prevents price volatility. China is different. It has significant domestic gas reserves and also brings in supplies via pipeline from Central Asia. This means its utilities may order more LNG only when they require gas at short notice — such as in winter — bringing a sudden spurt of purchases to the spot LNG market.

Chinese government, suppliers point fingers over gas shortage

(Reuters; Dec. 21) - When an inspector from a local environmental protection bureau visited a small village in China’s Shandong province in October to check on a gasification project, she said village officials became tearful in lamenting how far behind schedule they were. For years, the village has been haunted by pollution from nearby coal mines and chemical plants. The village had been rushing to finish installing new gas boilers for residents as they ditched their old coal stoves, the inspector told Reuters.

The boilers are part of an ambitious program under which millions of households, and some industrial users, are switching from coal to gas for heating as Beijing tries to clean the tainted air in northern China. But poor coordination among government bodies and gas producers, and miscalculations in demand, have sent gas prices soaring, left many residents freezing in their homes, and shuttered factories. Where there is gas supply, it cannot reach homes in some cases as the pipelines have not been installed.

Local officials and fuel suppliers have started to point fingers. “If we had better coordination with the government and started to prepare for this winter, we would not have such a big problem today,” a PetroChina official said. On Dec. 25, the Ministry of Environmental Protection published an infographic on its social media WeChat account, blaming suppliers for the shortage. The post, titled “Revealing the truth about the gas ‘crisis’”, said the crisis was partly due to the delayed opening of Sinopec’s Tianjin LNG terminal and less supply from China National Petroleum Corp.’s Central Asia pipeline.

China investigates companies for overcharging for natural gas

(Reuters; Dec. 25) - China’s National Development and Reform Commission said on Dec. 26 it launched an anti-monopoly investigation into 17 natural gas suppliers on Dec. 20. In a statement China’s state planning agency said it was investigating whether the companies might have broken antitrust laws amid surging gas prices driven by Beijing’s efforts to switch millions of households from burning coal to using gas for heating this winter in an ambitious drive to cut pollution.

The NDRC said PetroChina’s gas-sales unit Qaqing was one of the companies under investigation without identifying the others. The commission also said it had already punished four Chinese utilities for overcharging on heating fees and natural gas prices. The four were fined a total of 540,000 yuan ($82,430) for raising natural gas prices without approval from the central government, the commission said.

About one-quarter of U.S. LNG in November went to China

(Bloomberg; Dec. 25) - China’s imports of liquefied natural gas from the U.S. jumped last month as the country snatched up a record volume of the fuel to meet surging demand for winter heating and industrial use. Shipments from the U.S. totaled 407,325 metric tons in November, up from nothing the same month a year earlier and 57 percent from October, placing one of the world’s newest LNG sellers as the third-biggest supplier to China, behind leaders Australia and Qatar at a combined 2.3 million tonnes.

“U.S. exports are ramping rapidly up, while China is the fastest-growing importer,” said Kerry Anne Shanks, a Singapore-based analyst at Wood Mackenzie. “LNG trade between the two countries will continue to grow.” China is struggling with a winter gas shortage after demand surged amid President Xi Jinping’s fight against smog, which has focused on cutting the use of coal in favor of the cleaner fuel. About half a dozen U.S. cargoes landed in China last month, carrying about 19 billion cubic feet of gas.

China’s rising need has helped push spot LNG prices to $10.90 per million Btu, the highest in three years, according to industry publication World Gas Intelligence. “The U.S. has benefited from a temporary gap that has arisen this year with Chinese gas demand surging,” said Sophie Lu, an analyst at Bloomberg New Energy Finance in Beijing. “Since October, China has accounted for a quarter of U.S. shipments of LNG exports, especially buying uncontracted volumes from the spot market.”

Korea Gas earns first profit from Australia LNG investment

(Yonhap News Agency; South Korea; Dec. 26) - South Korea's state-run Korea Gas Corp. said Dec. 26 it has collected the first profit from its investment in a liquefied natural gas plant in Australia. KOGAS in 2010 clinched an agreement for a 15 percent stake in the Gladstone LNG project, which started up its two liquefaction trains in 2015 and 2016.

The $US18.5 billion project can produce almost 8 million tonnes of LNG per year, most of which is under long-term contract to KOGAS and another partner, Malaysia’s Petronas. Australia-based Santos is the operator, and France’s Total also holds a stake. KOGAS said it has earned a profit of $24 million from the project, though it has faced challenges due to low prices for LNG and Australia’s new regulation of gas exports. The Gladstone LNG plant produced 5.52 million tonnes of LNG in 2017.

FERC sets schedule for Louisiana LNG project applicant

(Platts; Dec. 26) – Though Houston-based LNG hopeful Tellurian told regulators in April that it wanted to start construction of its liquefied natural gas terminal in Louisiana in the second quarter of 2018, the Federal Energy Regulatory Commission on Dec. 22 said it would issue its final environmental statement for Driftwood LNG in the last quarter of 2018 and a project authorization decision by January 2019. A Tellurian spokesperson said the timeline would delay the possible start of production from 2022 into 2023.

Tellurian has proposed an LNG export terminal near Lake Charles, La., estimated at up to $16 billion, with capacity to produce as much as 26 million tonnes of LNG per year. Driftwood would be the company’s first entry in the LNG market. Tellurian holds exploration leases in Australia and the U.K., but no U.S. gas acreage. The company is among the several proponents that talk of adding more LNG export capacity to the U.S. Gulf Coast, where one terminal is in operation and three more under construction.

Tellurian has decided to buy producing assets in Louisiana that could provide access to gas supplies for Driftwood customers, according to Platts. The company is also looking to build a gas pipeline from the Permian Basin in West Texas to the Gulf Coast. To help finance construction of its LNG project, Tellurian, founded in 2016 and with a market capitalization of $2.2 billion on Dec. 26, has offered equity interest in a holding company that would include its LNG operations. The company applied to FERC in April 2017.

Commercial cargoes start at Pakistan's second LNG import terminal

(The Express Tribune; Pakistan; Dec. 27) - Pakistan's second liquefied natural gas import and regasification terminal has started receiving commercial cargoes. "The terminal is operating at the designed capacity of 600 million cubic feet per day," terminal operator Pakistan GasPort Consortium said Dec. 26. With the start-up of gas supplies to consumers from the terminal, there have been fewer power outages and increased gas availability for domestic, commercial, and industrial consumption, the operator claimed.

The terminal represents an investment of about half a billion dollars by the Pakistani consortium in the jetty and marine works; by Norway's BW Group in the floating receiving, storage, and regasification unit; and by Fauji Oil Terminal and Distribution Co. in the pipeline from the jetty to the national gas grid. Xinjiang Petroleum Engineering Construction Co. led a Chinese consortium that built the terminal. Pakistan's first LNG import terminal has been operating since 2015.

Cold snap drives natural gas to $35 per million Btu in New England

(Bloomberg; Dec. 26) - Nothing like a cold spell to boost the nation's natural gas demand — and cost. Forecasts now indicate this week's winter-cold outbreak will be stronger than anticipated, with Chicago seeing sub-zero readings. In New England, natural gas spot-market prices more than tripled to the highest in over three years and turned the region into the world's priciest market.

Total U.S. gas consumption jumped 31 percent to 115.7 billion cubic feet on Dec. 26 from Dec. 22. That's the most ever for this time of year in PointLogic Energy data back to 2007. Not only have more homes converted to gas from oil in Connecticut through Maine, but the region's generators are more reliant on gas to produce electricity than anywhere else in the country.

"Gas prices for tomorrow are extremely volatile and high," said John Borruso, director of natural gas trading at Con Edison Energy in Valhalla, N.Y. "This is truly a gas demand driven event because the temperatures are so cold and it's still December." Gas for next-day delivery on Enbridge's Algonquin city gate in New England, including Boston, settled at $35.35 per million Btu on the Intercontinental Exchange on Dec. 26. The broader gas market doesn't seem worried. Gas futures for January delivery fell 0.9 percent to settle Dec. 26 at $2.643 on the New York Mercantile Exchange.

Russia bans foreign-flagged oil and gas tankers in its Arctic

(The Independent Barents Observer; Norway; Dec. 26) – The State Duma, the lower house in Russia's legislative assembly, adopted amendments Dec. 20 to ban foreign-flagged petroleum shipments in the Russian Arctic. In addition to crude oil, oil products and liquified natural gas, the law also applies to coal. The law takes effect Feb. 1, 2018.

The new law requires that shipments of oil, gas and coal extracted from Russian onshore or offshore territory and loaded aboard vessels for transit along the Northern Sea Route must proceed under Russian flag. The Northern Sea Route includes vast parts of the Arctic coast from Europe's eastern edge to the Bering Strait, and provides a shorter alternative route for seaborne traffic between European and Asian markets.

However, there is a loophole in the new law to enable key stakeholders to continue their ongoing shipping operations with foreign-registered vessels if the contracts were signed before Feb. 1, 2018. The exception is important for Russia's Yamal LNG project, which started operations earlier this month. A fleet of 15 ice-class LNG carriers are being built for the project, and these ships all operate under foreign flags. China is a major partner in Yamal and provided billions of dollars in financing for the Russian-led Arctic venture.

India passes China as world's largest LPG importer in December

(Reuters; Dec. 26) – India is set to surpass China as the world's biggest importer of liquefied petroleum gas this month as a drive to replace wood and animal dung fires for cooking boosts the nation's LPG consumption. Shipping data from Thomson Reuters Eikon shows LPG shipments to India will reach 2.4 million tonnes in December, pushing it ahead of top importer China, at 2.3 million tonnes, for the first time.

India's LPG purchases have surged from just 1 million tonnes a month in early 2015 on the back of a government program to bring energy to millions of poor households relying on open fires. "The growth in India is amazing. The fact that they have grown from 140 million subsidized household connections in 2015 to 181 million now is very impressive," Ted Young, chief financial officer at Dorian LPG told Reuters. With a fleet of 22 tankers, U.S.-based Dorian is one of the world's biggest LPG shippers.

LPG, a mixture of propane and butane, is used for cooking and transport, as well as in the petrochemical industry. The global market is similar in size to liquefied natural gas, at about 300 million tonnes traded a year. India's average monthly imports in 2017 of 1.7 million tonnes are still well behind China's 2.2 million tonnes, but it has jumped ahead of Japan. A surge in U.S. shale drilling, which yields LPG as a byproduct of oil and natural gas output, means American LPG exports have started to appear in India. Eikon data shows the first regular U.S. LPG shipments to India began in early 2017.