Oil and Gas News Briefs
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Global LNG oversupply may dissipate sooner than expected

(Bloomberg; Dec. 4) - A liquefied natural gas glut that has been one of the industry's main talking points for four years now looks to be smaller than first thought. Unprecedented new volumes from multibillion-dollar plants starting in Australia, the U.S., and Russia have been a focal point for traders from Shell and Vitol to analysts at the International Energy Agency. But record-high Chinese LNG imports and increased demand in parts of Europe threaten to delay, diminish and shorten the oversupply.

LNG prices, already matching last winter's high, will be further supported next year, said Massimo Di-Odoardo, a Wood Mackenzie analyst who sees oversupply in 2019-2020 rather than previous industry expectations of a glut remaining well into the next decade. Others, such as Barclays, say the market is already recovering, potentially improving the outlook for new projects. "The oversupply will take a shorter period and will be less severe than anticipated," Di-Odoardo said. "Recovery post-2020 looks promising."

Chinese imports have helped push LNG spot-market prices in northeast Asia up 64 percent over the past three months, and the world's largest energy user has warned of strong demand this winter. As China battles air pollution with cleaner fuels and emerging markets such as Pakistan boost gas consumption, a supply deficit looms. That may come as early as 2020, Barclays said in a note Nov. 24. The "rebalancing" will be helped by just one new LNG project, in Mozambique, being sanctioned this year, and delays to major projects including Ichthys in Australia and Cameron in the U.S.

Australian investment bank says LNG oversupply could last to 2027

(Australian Financial Review; Dec. 6) - An ultra-bearish forecast by Macquarie of a decade-long glut in LNG and rock-bottom prices has been questioned by Woodside Petroleum and industry consultants who say demand growth is robust and a shortfall may emerge sooner than many anticipate. The Australia-based investment bank predicts global oversupply lasting until 2022 or even 2027 if the U.S., Russia, and Qatar push forward with more projects and fight for market share, ignoring economic drivers.

The rise of renewables and outperformance by LNG plants could extend the glut even further, the bank it said in a bleak assessment affecting Australia-based LNG producers Santos and Woodside. Macquarie said Woodside would face price cuts as its sales contracts are up for renegotiation the next few years. It envisages "difficult" negotiations between Woodside and its Pluto LNG customers, Tokyo Gas, and Kansai Electric.

"With the commencement of about 40 million tonnes a year of new volumes by 2019 from the U.S. alone, we do not see Woodside having much leverage in negotiations," Macquarie said. The bank lowered its long-term LNG price forecast to $US7.50 per million Btu. Escalating imports by China in recent months, plus growth from emerging users such as Pakistan, have averted a forecast oversupply this year despite surging supply from Australia. But next year will see further production increases, with the ramp-up of more production from Australia and the United States, the bank said.

Singapore-based Data Fusion rejects the glut scenario outright, forecasting only a "negligible" amount of oversupply will hit the market in 2019. Data Fusion's Tony Regan said new plants would be much slower to start up than many predict, while the strength of the demand recovery isn't being appreciated. He expects a supply deficit by 2021.

Russia's Yamal LNG plans to ship first cargo this week

(Reuters; Dec. 5) – Russia's Novatek started production Dec. 5 at the country's second liquefied natural gas plant, Yamal LNG, looking to ship its first cargo from the remote Arctic port of Sabetta on Dec. 8. Russia's No. 2 gas producer owns 50.1 percent of Yamal LNG. France's Total and China National Petroleum Corp. each hold 20 percent, while China's Silk Road Fund owns 9.9 percent. Yamal will join the 8-year-old Sakhalin-2 plant in Russia's Far East as the country looks to expand its presence in the market.

Novatek said it started production at Yamal's first train with two more trains to come online in 2018 and 2019, each at 5.5 million tonnes per year of output capacity. A fourth, smaller liquefaction train at 1 million tonnes is planned for the end of 2019. Novatek and its partners plan to deliver from Yamal year-round to Asian and European markets using ice-class LNG carriers and icebreaker escorts as needed.

Chinese banks put up more than $12 billion in financing for the $27 billion project, which also had the backing of Russian and European banks and the Russia's National Wealth Fund. Novatek's Chief Financial Officer Mark Gyetvay told Reuters in 2016 that Yamal's costs — production, liquefaction, shipping — were estimated at about $3 per million Btu.

"Even though an important milestone has been achieved, there are still risks associated with Yamal LNG performance and logistics," said Samuel Lussac, a researcher at Wood Mackenzie. The Arctic environment is harsh, and "Northern Sea Route transportation is in its early stages of development … its feasibility as an LNG delivery route is unclear."

Commissioning underway at LNG plant in Maryland

(Marcellus Drilling News; Dec. 6) – Virginia-based Dominion Energy announced Dec. 5 it has introduced feed gas into its $4 billion natural gas liquefication plant at Cove Point, Md. Feed gas is used for testing purposes and is the final step before the export plant goes into production later this month. Dominion said the feed gas will come from Shell, and Shell will take delivery of the LNG during testing.

When commissioning is complete and the plant at full operation, the single-train facility will be capable of making 5.25 million tonnes of LNG per year. The capacity is under 20-year contracts to a joint venture of Sumitomo and Tokyo Gas and GAIL (India). Construction of the liquefaction facility began in October 2014, following more than three years of federal, state and local permit reviews and approvals. Dominion added liquefaction and export capability to its underutilized 1970s' LNG import terminal.

Exxon-led LNG proposal in British Columbia closes local office

(BC Local News; Dec. 3) - Interest in building a liquefied natural gas industry in Prince Rupert, B.C., continues to scale back. The ExxonMobil-led West Coast Canada project (WCC LNG) announced it will close its Prince Rupert office by the end of the month. "With current LNG market conditions and economic uncertainties, WCC LNG will continue to assess its proposed project schedules and plans. During this time, and throughout 2018, WCC LNG will be moving at a slower pace," the project said Nov. 30.

Exxon and its Canadian subsidiary Imperial Oil are leaders in the project, estimated at $15 billion to $25 billion for the first phase of 15 million tonnes annual output. "WCC LNG remains interested in the development of an LNG project on Canada's West Coast and remains in the pre-application stages of the environmental assessment process," the WCC LNG email said. The project received its export license in 2013 and at one time had planned to complete engineering studies in 2017. WCC LNG is among the almost 20 such projects proposed for the British Columbia coast in the past several years. None have started construction.

CNOOC spends $10 million to charter LNG tankers for storage

(Reuters; Dec. 6) - State-owned China National Offshore Oil Corp. is spending $10 million to lease two tankers to store an emergency stash of liquefied natural gas amid growing concerns that China is facing a winter fuel crisis, a source with direct knowledge of the matter said. LNG tankers are not only among the most expensive merchant vessels to hire, but keeping the fuel superchilled is energy intensive and costly, much more expensive than putting crude on an oil tanker for later sale.

Also, market conditions mean the value of the LNG is likely to have fallen from its purchase price by the time CNOOC starts selling off the stored supplies. The move highlights the unusual methods being employed by the state major to plug shortages as China's campaign to convert millions of homes to gas heating from coal and to force factories to use gas boilers for the first time boosts demand. "It's like buying insurance to cover winter demand spikes," said the trading source with knowledge of the deal.

CNOOC, China's largest LNG importer, last year hired one tanker for a similar purpose, said the source. "CNOOC arranged (to lease the two tankers) months ago, anticipating the shortage will be severe this year." CNOOC leased the ships under a short-term deal roughly costing $10 million, or $40,000 a day, during China's heating season mid-November to mid-March, the source said. China's surge in gas demand has exposed inadequate infrastructure and domestic output much earlier than most experts expected.

China's switch to gas leaves some residents without heat

(Financial Times; London; Dec. 4) – Natural gas shortages are hitting north and central China as Beijing tries to hasten its shift away from coal rather than miss environmental targets this year. The situation has left some residents — mainly poor, urban migrants — without heat. Coupled with a cold spell over the past week, the shift away from coal has triggered shortages in gas supply in Hebei, the industrial province that rings Beijing, and as far south as Zhejiang Province, a center for light industry in the Yangtze Delta.

"It's definitely tight right now," said Zhou Xizhou, managing director for Asia gas and power at IHS Markit. Zhou said the government had dealt with the "low hanging fruit" of managing large pollution sources such as power plants, but was having a more difficult time addressing coal use by smaller businesses and residential neighborhoods. "This winter will be interesting for how severe the impact [of the coal control measures] will be. It will set the course for how they deal with it in the future."

A plan to address choking and politically unpopular air pollution involves switching small businesses off coal-fired boilers and to the power grid, and converting residences to gas heat. Villages in the mountains outside Beijing have been supplied with cleaner-burning coal briquettes, but in sprawling urban neighborhoods many residents have had to switch to electric space heaters. Some poorer migrants crammed into slums in the outskirts of the city are living with no heat at all. "It's cold! BRRR!" a migrant cleaning woman texted from an unheated farmhouse near the Beijing airport.

China's gas delivery shortage hits schools and hospitals

(South China Morning Post; Dec. 5) - Schools, hospitals and factories in northern China are bearing the brunt of a natural gas crunch as supplies fail to keep pace with soaring demand amid plunging winter temperatures. In a bid to reduce the air pollution caused by coal, Beijing has embarked on an aggressive campaign to encourage households and industry to switch to the cleaner fuel. But with millions of families relying on gas, a lag in infrastructure is preventing many northern cities from accessing enough supply.

On Dec. 5, authorities in the densely populated Hebei province issued an amber alert — the second highest in a four-tier system — indicating its gas supply was 10 to 20 percent below demand. As a result, supplies to commercial users in the province could be halted if there was insufficient gas to meet the demand from households. A hospital in the city of Baoding complained after being told by its supplier that it would be allowed less than 15 percent of the gas it needs on a daily basis.

"Once the limit is enforced … operations cannot be performed as usual, the lives of critically ill patients and newborns cannot be guaranteed," the hospital said in a letter to the government. The gas company later agreed to meet the hospital's needs. Jonathan Stern, a gas specialist at the University of Oxford in Britain, said China's infrastructure development has struggled to keep pace. "It is going to take a while to build probably more gas storage, maybe some more gas pipelines to get you over the winter period."

China relaxes ban on coal after public complaints

(South China Morning Post; Dec. 7) - China has relaxed its coal ban in northern cities designed to reduce air pollution amid a growing outcry from people left without a reliable energy supply as winter sets in. The government's initial restriction on burning coal led to millions of families being forced to convert to cleaner fuels, such as natural gas, for heating and cooking. However, delays in setting up gas pipelines and severe supply shortages have left many out in the cold.

In a "double urgent" letter, the Ministry of Environmental Protection told authorities in 28 cities to relax the coal ban at places where the conversion process had not been completed, People's Daily reported Dec. 7. The letter also called on local officials to ensure energy prices and supplies remain stable for people who had already switched from coal to gas or electricity. "Keeping people warm in winter should be the number one principle," the letter said.

It was unclear whether easing of the ban will apply to other cities. Beijing has stepped up its efforts to phase out coal to meet air quality targets, vowing to switch 3 million households in 28 northern cities to gas or electricity. But while coal has been banned in villages and communities, many residents have not been provided with an alternative. The education ministry said it ordered local governments to resolve the heating problem immediately after reports prompted an outburst of criticism on social media.

Editorial warns Chinese authorities gas supply is short of demand

(Reuters; Dec. 5) - Local authorities in China should not use a one-size-fits-all approach to implement the country's ambitious push to heat millions of homes with gas this winter, the official English language paper China Daily said in an editorial Dec. 5. The comment comes after two major gas-consuming provinces Hebei and Shandong cut supplies to factories last week in a dramatic step to ensure homes stay warm, just two weeks after China launched its bold experiment to switch the north to the cleaner fuel.

Liquefied natural gas prices in China, one of Asia's largest users of LNG, have soared to record highs as residential and industrial demand in the north has jumped after the government forced homes and factories to switch from coal as part of its war on smog that blankets the area in the winter. There have been reports that insufficient gas supplies have left some residents without any heat, the newspaper said.

"The 'gas-replacing-coal' campaign some local governments have launched should fully consider residents' needs and be tailored to local conditions," the editorial said. "They should not be advanced using a one-size-fits-all approach." The comments highlight central government concerns of unintended consequences of its push to switch to gas heating without sufficient infrastructure and supplies to meet the ramp-up in demand. Local authorities have "good intentions" of implementing the government's policy, but it shouldn't be at the cost of people's well-being and risk their health, the editorial said.

Cheniere charters more LNG carriers to supply winter demand

(Reuters; Dec. 5) - U.S. liquefied natural gas producer Cheniere Energy has expanded its shipping fleet with a flurry of vessel charters to keep up with Asian winter demand growth as LNG spot-market prices hit three-year highs, market sources said. Cheniere's Sabine Pass, La., terminal loaded 22 cargoes last month and more are expected as it ramps up its fourth production unit with more than half of all November volumes sold to China, Japan, or South Korea, according to ship-tracking data.

An 82 percent surge in Asian spot LNG prices this year, driven by robust Chinese demand, rising oil and coal prices and nuclear supply shortfalls in South Korea and Taiwan, has left LNG producers chasing to lock in sales. The world's biggest exporter, Qatar, entirely sold out of flexible winter LNG supply following a frenetic period of deal-making with term buyers in China and South Korea.

Cheniere, which is still bringing more new production to market, has chartered seven additional LNG carriers on spot markets as demand stretches its existing fleet, increasingly tied up in long-haul voyages, trade and shipping sources said. The charters span a variety of periods, from a single voyage to six months of employment, they said. A Cheniere spokesman confirmed the company now has 22 ships on the water.

Cheniere strikes multi-year LNG deal with Austrian utility

(Reuters; Dec. 6) - U.S. liquefied natural gas producer Cheniere Energy has struck a multi-year sales deal with the trading arm of Austrian utility OMV to ship the fuel to Europe, two industry sources said. The mid-term deal shows how bumper gas production from U.S. shale deposits liquefied for export is continuing to find buyers in Europe, where gas demand is enjoying a rebound after four years of decline 2011-2014.

As Europe seeks to wean itself off Russian piped gas, U.S. LNG offers an easy and potentially cost-effective alternative. The deal gives OMV a path to grow in northwest Europe's gas markets and allows it to make greater use of LNG infrastructure including the GATE import terminal in the Netherlands, where it owns capacity, the sources said.

The size, price and duration of the deal could not be confirmed. OMV and Cheniere declined to comment. Cheniere has sold production capacity from its Sabine Pass liquefaction plant in Louisiana to various European players; much of it under long-term contract but some under shorter deals. Europe's LNG import terminals, especially in the northwest, suffer from underutilization as global LNG supplies have gravitated to the most lucrative markets in Asia, where prices typically fetch wider premiums.

Japanese utilities' joint venture in talks with French LNG trader

(Reuters; Dec. 6) - JERA Co, the world's largest buyer of liquefied natural gas, is in talks to collaborate on the fuel with the trading arm of France's state-controlled utility EDF, a spokesman at the Japanese company said Dec. 6. The comment came after a Japanese regional daily, the Chunichi Newspaper, reported JERA is in talks to buy the French company's LNG operations.

"It is true that we, JERA, are considering wide-ranging collaboration on LNG with EDF Trading," spokesman Tsuyoshi Shiraishi told Reuters, declining to comment further. An agreement on LNG with EDF Trading would follow JERA's purchase of EDF's coal and freight trading business, which was completed a year ago. JERA is a joint venture of Tokyo Electric and Chubu Electric, formed to handle their fuel procurement operations. It is now getting set to take over their fossil fuel power generation businesses, too.

Philippines plans to award bid next year for first LNG import terminal

(Reuters; Dec. 4) - The Philippines is aiming next year to award the permit to build and operate the country's first facility for receiving and distributing liquefied natural gas, its energy secretary said Dec. 5. The project, estimated to cost $2 billion, comes as the Southeast Asian nation seeks to replace depleting local gas reserves that now produce about a fifth of its electrical power.

Dozens of domestic and foreign companies are looking to get a stake in the project, including investors from China, Japan, South Korea, and Russia, Energy Secretary Alfonso Cusi said. The government intends to initially allow only one LNG import facility, with state-owned Philippine National Oil holding a minimum stake of 10 percent.

"More than 50 (companies) have signified … their intent to participate in the project," Cusi said after issuing new regulations that he hopes will smooth development of the LNG sector in the Philippines. He said construction of the import terminal, with capacity of 5 million tonnes per year, will take about 30 months. The country's key Malampaya gas field is expected to be depleted in seven years. Operated by a unit of Shell, it fuels utilities producing about 40 percent of power for the main island and the capital Manila.

LNG proponent abandons plans for east side of Vancouver Island

(The Times Colonist; Victoria, BC; Dec. 2) - The Malahat Nation and Steelhead LNG are no longer exploring the possibility of a liquefied natural gas project in the Saanich Inlet on the east coast of Vancouver Island about 50 miles southwest of downtown Vancouver, B.C. Plans had called for construction of a floating liquefaction and export facility at a 1,300-acre site on industrial land owned by the Malahat First Nation. The proposed site was a former cement quarry with 3 miles of waterfront on the inlet.

Instead, Steelhead LNG, a Vancouver-based company that wants to get into the LNG business, has turned its attention to a different proposal at a different site, southwest of Port Alberni on the west side of Vancouver Island, about 75 miles from Saanich Inlet. Steelhead said it switched project sites to accommodate its hopes for a larger liquefaction and export operation. The renamed Kwispaa LNG project (formerly Sarita LNG) would be developed in partnership with Huu-ay-aht First Nations.

Concerns had been raised about environmental impacts at the Saanich Inlet location. Adam Olsen, a Green Party member of the provincial assembly for the area, said news of the project demise was cause for celebration. "For 27 months, the threat of a floating LNG plant hung over the Saanich Inlet. Despite the project's implausibility from the moment it was conceived, only this news … would give me comfort," Olsen said. "The project's economic case has always been dubious at best."

Developer and British Columbia city battle over oil pipeline project

(The Canadian Press; Dec. 4) - Kinder Morgan and the city of Burnaby, B.C., clashed in a National Energy Board hearing room Dec. 4 over the fate of local permitting for the controversial Trans Mountain oil pipeline expansion. The company argued at the NEB's Calgary headquarters that local political opposition to the $7.4 billion project has tainted permitting in the city and the process is now delayed requiring the NEB to step in and override local laws to sustain the federal government's decision that work go ahead.

"When unreasonable delay, which based on the evidence could continue into perpetuity, (it) must be seen as an outright refusal and unconstitutional," said Trans Mountain lawyer Maureen Killoran. The company has been frustrated at the lack of firm timelines, guidance and structure as it tries to secure permits for actions such as tree removal and fence installation ahead of construction in the city, she said. The project would move hundreds of thousands of barrels a day of Alberta oil to the coast for export.

Killoran said Mayor Derek Corrigan has created an atmosphere of opposition. Burnaby, however, said there's been no unreasonable or illegitimate delay, and that the company is to blame for the slow pace of permitting. The pipeline has to go through Burnaby, population near 250,000, to get to the marine dock. "Trans Mountain has failed to put in a minimally viable application that almost any experienced developer in the city of Burnaby or other major cities would have known to put in," the city's lawyer said.

U.S. producers ready to meet China's growing demand for plastics

(Bloomberg; Dec. 5) - China is upending the global plastics market. The world's biggest user of scrap has stopped accepting shiploads of other countries' plastic trash as it phases in a new ban. That's bad news for the recycling industry, as China has been a major consumer of salvaged materials it processes into resin that ends up in pipe, carpets, bottles, and other cogs of modern life.

But China has begun buying brand new plastic to replace all the recycled scrap — and that's great news for U.S. gas producers and chemical makers. The U.S. is the only country in a position to quickly fill the gap, said Jonas Oxgaard, an analyst at Sanford C. Bernstein & Co. That's because the U.S. has become the cheapest place in the world to make plastic, thanks to a fracking boom that has created a glut of natural gas, the main feedstock for plastics manufacturing.

Taking advantage of low gas prices, chemical makers have invested an unprecedented $185 billion to build new capacity in the U.S., according to the American Chemistry Council. Exporting high-value resins to China instead of cheap scrap could help chip away at the U.S. $250 billion trade deficit with the nation. For producers China's ban on importing scrap will boost demand for new plastics by enough to nearly absorb all the new U.S. polyethylene output coming online in 2018, said a report from Morgan Stanley.

U.S. wants 'to be in the mix' to supply Mideast with LNG

(Bloomberg; Dec. 6) - U.S. liquefied natural gas exports could find buyers in the oil-rich Persian Gulf as countries there look to meet surging demand for the fuel. U.S. LNG could be an additional source of supply to the region, Secretary of Energy Rick Perry and U.A.E. Energy Minister Suhail Al Mazrouei said Dec. 6 in Abu Dhabi.

"We want to be in the mix of LNG suppliers for the Mideast," Perry said. Gulf oil producers like Saudi Arabia and the U.A.E. rely on natural gas to power their industries, run household air conditioning units and support petrochemicals production. While the Gulf is rich in crude oil, its gas resources are concentrated in just a few countries. Qatar and Iran share the world's biggest gas deposit.

The U.S., flush with supply of gas and oil from cracking open shale deposits, already has one large-scale Gulf Coast LNG export facility with more under construction. Electricity use in the Mideast is rising about 6 percent a year, requiring increased gas supply, Mazrouei said. Even as more imports become available, the U.A.E. wants to wean itself off foreign gas. "We can achieve self-sufficiency by 2030," Mazrouei said. That can occur as more renewable energy projects come on stream, he said.