Oil and Gas News Briefs
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Japanese, European utilities in talks for joint LNG procurement

(Nikkei Asian Review; Jan. 1) - Tokyo Electric Power and Chubu Electric Power are in talks with about 10 European energy companies over possible joint procurement of liquefied natural gas, according to sources. The Japanese utility companies hope that joint procurement would allow them to obtain better fuel prices and lower the operating costs of their power plants. Such cooperation would also make it possible for companies to provide each other with LNG in times of shortages.

Tokyo Electric and Chubu Electric merged their fuel operations in July 2016 under Jera, a 50-50 joint venture. Jera is one of the world's largest LNG traders, shifting 40 million metric tons a year. It first contacted Centrica, the largest gas provider in the U.K., which operates under the British Gas brand. Others, including Electricite de France and German and Dutch utility companies, are also in talks with Jera. European utility companies import gas via pipelines and also buy LNG. Jera hopes to jointly procure LNG from multiple exporters in anticipation of winning lower prices for larger amounts.

Jera also wants to sell LNG that it takes from U.S. export plants to markets in Europe and elsewhere. The move is aimed at offsetting the expected fall in domestic LNG consumption as Japan's electricity demand shrinks and more nuclear power plants are put back online. For the European utilities, teaming up with Jera makes sense because the new joint venture has a strong presence in negotiations with gas producers.

Online LNG trading another change coming to global LNG market

(The West Australian; Dec. 29) - Peter Glass spent more than 20 years tapping relationships and contacts to help negotiate long-term LNG sales contracts for Woodside and Chevron. The Woodside-led consortium at Australia’s North West Shelf LNG project and eight Japanese energy utilities had jointly negotiated a 20-year supply deal, allowing the project to add two LNG trains in 1989 and a third in 1993 to the original plant. Now comes Damien Criddle’s start-up trading platform GLX that could revolutionize the global LNG market by auctioning spot cargoes online.

Glass said the long-term deal was crucial in providing the certainty for North West Shelf partners to expand. “Greenfield projects need certainty of revenue to be able to take the investment decision. … The parties basically split the risk. The buyers would take the volume risk and the sellers would take price risk.” The Japanese buyers took the volume risk by agreeing to buy almost 6 million tonnes per year of LNG for 20 years, giving the partners sufficient revenue certainty. The partners took the price risk. Sales volumes were predictable, but the revenue would fluctuate with oil prices.

Looking ahead, the vastly expanded global LNG industry will be selling into a market where almost every aspect of the traditional long-term LNG contract is under threat. Criddle, a commercial lawyer who spent nearly 20 years advising on LNG contracts, believes he is well placed to benefit from the changing market. With his GLX global LNG trading platform, a buyer or seller can initiate an auction. An hour of online bidding results in a binding deal. GLX expects to start trading late in the March quarter.

BP signs long-term contract for LNG deliveries to Thailand

(Platts; Dec. 30) - BP will supply Thailand's state-owned PTT with approximately 1 million metric tons of LNG per year over 20 years starting in 2017, the U.K.-based company said in a statement Dec. 30. This is PTT's second long-term LNG contract as it aims to meet growing consumption and decreasing pipeline supply from neighboring Myanmar. Natural gas accounts for almost 70 percent of Thailand's power generation, and about a quarter of that is imported via pipeline from Myanmar. But that supply has been declining as Myanmar diverts volumes to its growing domestic market.

BP will deliver the LNG from its global portfolio, including the Freeport LNG project under construction on the Texas Gulf Coast, where BP has a liquefaction tolling agreement for more than 4.4 million tons per year. The project is due to start up in 2018. BP also holds stakes in LNG projects in Australia, the United Arab Emirates, Indonesia, Egypt, Trinidad and Angola.

PTT currently receives LNG from Qatargas through a long-term agreement signed in December 2012 for the supply of 2 million tons per year for 20 years that started in January 2015. PTT also won approval in August 2015 from Thailand's National Energy Policy Committee for the purchase of 1 million tons per year from Shell over 15 to 20 years, but the contract has yet to be signed. To accommodate growing LNG imports, PTT is in the process of doubling the capacity of its import terminal.

New gas find in Papua New Guinea could feed LNG plant expansion

(The Australian Business Review; Dec. 30) - Oil Search and Santos have discovered $14 billion of natural gas in the Papua New Guinea highlands in a find that could underpin an addition to the liquefied natural gas plant which opened in that country in 2014. The find also has excited their partner, ExxonMobil, which operates the plant. The discovery, called Muruk, comes little more than a month after Santos bought into the prospect, making it a welcome piece of good news for the Australian company.

Papua New Guinea-based Oil Search and Santos both said the Muruk discovery is thought to hold about 2 trillion cubic feet of gas. Exxon, which is trying to secure more gas for PNG LNG, said of the new discovery: “We are excited by the results of the Muruk-1 exploration well, which confirms the presence of hydrocarbons in the same high-quality sandstone reservoirs as the Hides field that underpins the PNG LNG project,” said Steve Greenlee, Exxon’s head of global exploration. “Over the coming months we will work with our co-venturers to better determine the full potential.”

Separately, Exxon is trying to expand the PNG LNG plant by acquiring InterOil and its stake in the onshore Elk/Antelope field in Papua New Guinea, in which Oil Search and French major Total are also partners. The global oversupply of LNG is expected to dissipate by about 2023 and PNG’s onshore gas fields provide lower development costs and higher returns than other potential projects. The latest find makes it more likely that Exxon and its partners will add to the two liquefaction trains at the LNG plant.

Smaller, private Chinese companies could be growth market for LNG

(Wall Street Journal; Dec. 29) – A global oversupply of natural gas is prompting energy companies to court smaller Chinese customers, bypassing state giants such as PetroChina that have long controlled gas imports. To that point, several recent deals reflect a fundamental change in China’s energy sector. The government’s goal of boosting competition to facilitate a shift from coal to cleaner fuels has opened a window for private players. And Western companies need all the LNG buyers they can get.

In China, private companies are happy to scoop up LNG on a bet that the day for gas in China is bound to come. Chevron and France’s Total reached agreements this year to supply LNG to Hong Kong-listed gas company ENN Energy Holdings, for example. The Chinese company’s founder, Wang Yusuo, got his start selling gas canisters in the 1980s, and built a network of local pipelines. Today, ENN has nearly $5 billion in annual sales and is erecting its own import terminal in the manufacturing hub of Zhejiang.

In other deals, Chevron will sell LNG to JOVO Group, a South China private-energy company, and BP has agreed to sell LNG to power producer China Huadian Corp. for as much as half a billion dollars a year over the next two decades. To sustain the U.S. shale boom, companies must open new export markets, and tapping demand in China beyond the state-owned giants will be critical, investors say. “China is the sleeping giant here,” said a U.S. entrepreneur who wants to get into the LNG export business.

Aboriginal leaders support new site for LNG berths at B.C. project

(Financial Post; Canada; Dec. 28) - Aboriginal leaders in northwestern British Columbia cautiously welcomed reports that Malaysia’s state-owned oil and gas company Petronas is considering changes to its Pacific NorthWest LNG project near Prince Rupert to alleviate environmental concerns. Bloomberg News reported the company is in the middle of redesigning the project on Lelu Island to move the LNG carrier loading berths away from the important salmon habitat of Flora Bank to nearby Ridley Island.

Gitanyow hereditary chief Glen Williams said his group “always wanted” the project moved to avoid damaging the Flora Bank, which is a shallow, eel-grass covered embankment where juvenile salmon acclimate between fresh and salt water every year. Williams said Pacific NorthWest has yet to communicate potential changes to the project or a possible new location on Ridley Island with him or his legal team, but he welcomed the chance to discuss changes to the site.

“What they’re talking about is a few hundred yards across the street more or less,” said Gitwilgyoots hereditary chief Donnie Wesley, adding that he would want to see a full environmental assessment done for the new site. Ridley Island, the reportedly new proposed site, is already home to two docking facilities used for coal and grain exports at the federally owned Ridley Terminals.

Kuwait will start gas imports from Iraq

(The National; United Arab Emirates; Dec. 29) - Kuwait has agreed to start a long-delayed gas import deal with Iraq, the two countries announced during a visit of Iraq’s oil minister. The plans for a deal have dragged on for well over a decade, but have failed to come to fruition because of Iraq’s ongoing internal conflict and lack of infrastructure investment to convert the huge amount of gas it flares from its oil fields.

After meeting with Kuwait’s newly appointed oil minister, Essam Al Marzouq, Iraq Oil Minister Jabbar Al Luaibi said the two had agreed to form a joint committee to facilitate delivery of an initial 5 million cubic feet a day, with a plan to increase that gradually to 200 million cubic feet per day. Kuwait has struggled to meet its growing domestic demand for gas, importing more in recent years, especially liquefied natural gas. Last year, the shortfall covered by imports was about 500 million cubic feet per day.

Iraq’s gas development plans center mainly on the Basra Gas Co. a 25-year project 51 percent owned by the Iraq government’s Southern Gas Co., with Shell owning 44 percent and Japan’s Mitsubishi the remaining 5 percent. Despite having gas reserves of about 112 trillion cubic feet — 12th largest in the world — Iraq has been a net importer of gas, including via pipeline from Iran because of a long period of underinvestment.

Fiscal terms part of shutdown decision at Denmark’s largest gas field

(Copenhagen Post; Dec. 30) - Moller-Maersk Group has confirmed that starting in early January the company will slowly shut down gas production at the Tyra field in the North Sea. The field, which accounts for 90 percent of Denmark's gas production, has been in operation since 1984 and the facilities are approaching the end of their operational life. Maersk Oil has not been able to agree with the Danish state on fiscal terms, including tax allowances, for investments in reconstruction work of the old facilities.

Despite more than $140 million spent reinforcing the Tyra structures, Maersk said continued production would be unsafe due to new knowledge on storm-wave impacts, combined with seabed subsidence that has reduced the platform height over the water.

The field will be completely shut down at the beginning of October 2018. The Tyra field is operated by Maersk Oil on behalf of a partnership between Moller-Maersk (31.2 percent), Shell (36.8 percent), Nordsøfonden (20 percent) and Chevron (12 percent). The field's peak production came in 2004, at 550 million cubic feet per day. Production in 2015 averaged 150 million cubic feet per day.

U.S. natural gas prices on the rise, and expected to continue

(Bloomberg; Dec. 29) - U.S. natural gas prices are on track to cap their biggest fourth-quarter rally in 16 years, turning the fuel into the best-performing commodity of the year. And gas bulls are betting things will get even better. The biggest drop in U.S. gas supplies since a polar vortex sent temperatures plunging two years ago will keep prices of the heating fuel rising into the new year, according to eight out of 10 traders and analysts surveyed by Bloomberg.

Shrinking gas inventories threaten to boost prices of the fuel just as homes, businesses and power generators depend on it the most to keep warm during the winter. It marks a dramatic turnaround for a market that's been plagued by a glut of gas supplies since the shale boom touched off an unprecedented surge in U.S. production. Last week, the nation saw its biggest decline in natural gas stockpiles since February 2014.

Gas futures are up 3.8 percent so far this week, settling at $3.802 per million Btu Dec. 29 on the New York Mercantile Exchange. Prices had risen to the highest level in two years a day earlier.

Rising oil prices allow banks to extend credit for more drilling

(Reuters; Dec. 29) - U.S. shale drillers are set to ramp up spending on exploration and production next year as recovering oil prices prompt banks to extend credit lines for the first time in two years. The credit increase is small, but with major oil producers worldwide aiming to hold down production in 2017, U.S.-based shale drillers are looking to boost market share to take advantage of higher prices — and greater availability of capital will make that easier.

North America-focused oil and gas producers are expected to increase capital investments by 30 percent in 2017, according to analysts at Raymond James. Every six months, oil and gas producers negotiate credit with banks based on the value of reserves in the ground. Through the latest round of talks in the fall, 34 companies had their available credit lines raised an average of about 5 percent, or more than $1.3 billion, according to data compiled by Reuters.

The industry's available credit had been cut by 40 percent over the past three reviews as it suffered under a two-year oil price rout. "The 'animal spirits' seem to be coming back to the exploration and production market, albeit slowly," said Reorg Research analyst Kyle Owusu, referring to the human emotion that drives confidence. In addition to the increased borrowing base, lenders have extended loan maturities. Oil prices have risen by more than 45 percent this year, boosting the value of oil and gas reserves.

Industry waiting to see if higher prices prompt too much new shale oil

(Bloomberg; Dec. 28) - Shale oil companies are ready to play chicken with supply and demand again. Roiled by a year that began with crude prices at a 12-year low and ended with a surprise OPEC agreement boosting prices, U.S. producers are promising not to overreact — or overspend. But the temptation will be strong. A recovery in prices has already spurred drilling activity in the U.S. to its highest level since January.

If oil passes $70 a barrel, the U.S. could start pumping out an extra million barrels a day, offsetting much of the planned cut from OPEC, according to a Citigroup analysis. “There’s a real concern by industry that we could be in for another one of these price adjustments if we get carried away with development," said Harold Hamm, CEO of Oklahoma-based Continental. “They’re going to be disciplined going forward."

The U.S. now produces 8.8 million barrels a day, about half from shale. West Texas Intermediate has averaged almost $52 a barrel since OPEC’s announced cut last month. A climb to $60 could generate a 500,000-barrel surge in U.S. production and $70 would double that, Citigroup wrote in its report this month. While dozens of shale companies and oil field servicers went bankrupt in the aftermath of the price collapse, investors have rewarded survivors that emerged leaner and more efficient.

The issue for the global industry isn’t whether U.S. drillers expand their operations, but rather “how quickly does shale come on to tap those higher prices and then how quickly they push them back down,” said Peter Pulikkan, a Bloomberg analyst in New York.