Oil and Gas News Briefs
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Tokyo Gas will push for lower LNG prices, better contract terms

(Reuters; July 13) - Japan's Tokyo Gas, the biggest city-gas supplier in the world's largest importer of liquefied natural gas, is in talks to renew supply contracts and will push to revise terms to get more flexibility and cut prices, an official said July 13. The push for better terms, a big concern among Japanese utilities after the 2011 nuclear disaster led to a surge in LNG imports and drove up prices, got a boost when Japan's antitrust regulator last month ruled restrictive supply contracts were anti-competitive.

"We have renegotiations under way, including price review," said Takashi Higo, senior general manager at the gas resources department of Tokyo Gas. "There will be tough negotiations (with suppliers) and it will take a lot of time," he told reporters at an energy conference. The Fair Trade Commission ruling that so-called destination clauses which restrict resale of LNG cargoes are anti-competitive is likely to lead to more trading by buyers in Japan and could prompt challenges to similar restrictions elsewhere in Asia.

Asian LNG buyers have long complained that destination clauses in contracts unfairly restrict trading of the fuel at times when it would make more economic sense for buyers to sell their unneeded supplies to other markets. Higo said Tokyo Gas has 12 supply contracts and is reviewing the terms to decide what action to take. Tokyo Gas has long-term deals for gas from Qatar, Brunei, Malaysia and Russia's Sakhalin LNG project, as well as five projects in Australia. The contracts expire between 2021 and 2039.

LNG price will be an issue as China pushes gas over coal

(Globe and Mail; Canada; July 10) - China has renewed an ambitious commitment to displace coal with cleaner-burning natural gas. A joint directive issued by 13 Chinese government agencies last week specifies that gas should rise to roughly 10 percent of total national energy use by 2020 and to 15 percent by 2030 — and offers specific plans to achieve that. “No matter from the domestic or global perspective, China must try its best to reduce coal consumption,” said Dong Xiucheng, deputy dean of the China University of Petroleum. “And we if cut coal consumption, we must have substitution.”

China had previously discussed broader and less ambitious targets, and the country’s gas-demand growth has slowed in recent years. Gas is currently just over 6 percent of the total energy mix. If China succeeds, it will raise its gas demand from 7.4 trillion cubic feet last year to about 12.7 tcf in 2020, according to consultancy Wood Mackenzie.

Backed by China’s powerful National Development and Reform Commission, the directive last week calls for strengthened pollution controls and a broad effort to encourage domestic use of gas. That includes building additional pipelines and shipping networks. “Previous plans and policies were comparatively less detailed,” Dong said.

But price is a problem. “LNG is just too expensive,” particularly for use in generating electricity, said Lin Boqiang, dean of the China Institute for Studies in Energy Policy at Xiamen University. “It is impossible to lower the gas price to a level that is competitive to coal,” said Huang Miaoru, senior manager for China gas and LNG at Wood Mackenzie. “That’s why we are saying that we need policy support for coal-to-gas switching.”

New South Korean president’s policies could boost LNG demand

(Financial Times; London; July 11) - South Korea’s shift from coal and nuclear toward renewables and liquefied natural gas for power generation could help soak up some of the world’s oversupply of LNG in the coming years. Newly elected President Moon Jae-in has put environmental protection at the heart of energy policymaking in response to mounting anxieties about air pollution and nuclear safety.

“From a country which looked like gas demand would drop because of the focus on coal and nuclear, we’re now preparing for an increase in coming years,” said Trevor Sikorski, gas analyst at consultancy Energy Aspects. “We are seeing a dramatic change in strategy.” South Korea generates two-thirds of its electricity from coal-fired power plants and nuclear reactors, with the government in recent years using tax incentives to create an abundant and affordable power supply from those sources.

The new government, however, has committed to stop construction of new coal and nuclear plants. Moon has said he would like to increase the share of power generation from gas to about 27 percent by 2030, up from 19 percent today. For renewables, the aim is to raise the share to 20 percent by 2030, from 5 percent. Following years of stagnant LNG demand growth in South Korea, a dip is still expected for the next few years as new policies take time to take effect. Global energy consultancy FGE now expects South Korean gas demand to grow 2.2 percent a year through 2040.

Spot-market pricing for gas will grow in importance, researchers say

(Platts; July 11) - European natural gas demand will barely register any growth from its current level of some 17 trillion cubic feet per year, industry research group Cedigaz said July 11, with consumption set to begin to decline post-2025. In its latest gas outlook report, Paris-based Cedigaz also said spot-market pricing would become a more significant factor in gas sales in the coming decades.

Cedigaz forecasts that Europe is the only part of the world where gas demand is stagnant, while predicting strong growth elsewhere. It sees only limited growth in European gas demand to 2025, and then a decline of almost 700 billion cubic feet a year by 2035. Nonetheless, globally, Cedigaz said gas demand would rise by 1.6 percent a year given the role of gas as a "key transition fuel toward an increasingly renewable-based, efficient and sustainable energy system."

China and the Middle East are expected to lead the way in demand growth, Cedigaz said. The largest growth is expected in China, India, Iran, the United States and Saudi Arabia. "The strong expansion of LNG supply and the abundance of both conventional and unconventional resources will help gas expand its role in the energy mix to the detriment of coal and oil." Cedigaz also said increased globalization of gas markets and diversification of supply meant spot pricing would be a "growing component."

Japan, EU sign agreement to work on new LNG pricing indices

(Platts; July 12) - The European Union and Japan have agreed to push for reliable liquefied natural gas spot-price indices as part of joint efforts to make LNG markets more liquid, flexible and transparent, in a memorandum of cooperation signed July 11 in Brussels. The move comes amid a growing global LNG supply glut, likely to increase buyers' demands for prices based on gas market fundamentals rather than the traditional oil-price link of long-term LNG contracts.

The EU and Japan, which together account for nearly half of global demand, agreed to explore possible cooperation "in establishing reliable LNG spot-price indices, reflecting the true LNG demand and supply." They also agreed to promote "physical and LNG-based financial trade." The memorandum was signed by EU Climate Action and Energy Commissioner Miguel Arias Canete and Japan's Minister for Economy, Trade and Industry Hiroshige Seko. The non-binding memorandum is to last initially for 10 years.

The EU and Japan also agreed to promote ending resale restrictions in LNG contracts, such as destination clauses, and making other contract terms more flexible. Weak demand has helped create a surplus in Japan, with buyers there looking to sell their LNG cargoes elsewhere. Platts Analytics' Eclipse Energy estimates that Japan is over-contracted by 15.7 million tonnes in 2018, growing to 16.9 million tonnes in 2019 before falling to 3.1 million in 2022. Flexible spot LNG transactions and short-term contracts are becoming more common as new suppliers emerge, the EU and Japan said.

Pakistan aims to boost LNG imports to 30 million tonnes by 2022

(Reuters; July 10) - Pakistan says it could become one of the world's top-five buyers of liquefied natural gas, with Petroleum Minister Shahid Abbasi predicting imports could jump more than fivefold as private companies build new LNG import terminals. Outlining Pakistan's ambitious plans — which, if fully implemented, could shake up the global LNG market — Abbasi told Reuters that imports could top 30 million tonnes a year by 2022, up from just 4.5 million tonnes currently.

That kind of jump would represent one of the fastest growth stories in the energy industry, but there are doubts whether Pakistan can achieve its ambitions, given the complexity and cost of expansion projects. "It's always possible, but it seems very difficult as they will need much more (regasification) capacity and downstream pipeline capacity," said Trevor Sikorski at Energy Aspects, a London-based industry market researcher. "Still, it is one of the key LNG growth markets, and its demand will help tighten up the market that has threatened to lurch into oversupply."

Abbasi said no one took Pakistan seriously after a decade of botched attempts to bring LNG to the country, but this has changed with construction of new LNG terminals and gas power plants. Prime Minister Nawaz Sharif has promised he will end the country's frequent blackouts. "Before, we used to go out to talk to LNG suppliers. Now they're coming to us," Abbasi said. Pakistan built its first LNG terminal in 2015 and a second terminal is due to come online in October, doubling annual capacity to 9 million tonnes.

Australia copes with energy shortages as LNG exports grow

(Wall Street Journal; July 10) - On a hot night in February, the world's No. 2 exporter of liquefied natural gas didn't have enough energy to cool its citizens. A heat wave pushed temperatures above 105 degrees around Australia's southern coastal city of Adelaide. Air conditioning demand soared as regulators called on a gas-fired power plant running at half capacity to crank up. But the operator said it couldn't get enough gas quickly to run its turbines fully. Regulators cut power to 90,000 homes to prevent a wider blackout.

Resource-rich Australia has an energy crisis, one that offers lessons for America as it prepares to vastly increase gas shipments abroad. Australia exported 62 percent of its gas production last year, according to the BP Statistical Review. Yet its policy makers didn't ensure enough gas would remain at home. As exports increased from new LNG facilities in eastern Australia, some state governments let aging coal plants close and accelerated a push toward renewable energy. That left regions more reliant on gas, especially when intermittent sources such as wind and solar were insufficient.

Shortages drove domestic prices earlier this year in some markets in eastern Australia to $17 per million Btu for smaller gas users. Spot-market prices have gone from below $1 in 2014 to roughly $7 today. In March, Australia's largest aluminum smelter cut its output and laid off workers because it said it couldn't secure enough cheap energy. The plight is less likely in America, which is experiencing a gas glut and is boosting exports.

Unlike Australia — which has plentiful supplies in its west but no pipelines to get them to its gas-starved east — the U.S. has a large pipeline grid, making it easier to move gas. Still, Australia's pains offer a case study in what can go wrong when expanding exports, said Michael Webber of the Energy Institute at the University of Texas at Austin. "There is always a risk that markets will behave in a different way than we anticipated."

Cheniere's Louisiana plant exported 50 bcf of gas as LNG in April

(Nikkei Asian Review; July 12) - The U.S. exported 197.6 billion cubic feet of natural gas as LNG from January through April, exceeding the total for all of 2016. April's exports alone were 50.6 bcf of gas, according to the U.S. Energy Information Administration. Cheniere Energy operates the sole liquefied natural gas export plant in the Lower 48, in Sabine Pass., La. The facility started operations in February 2016. Latin America and the Caribbean have received 44 percent of the exports, with Asia at 28 percent.

Cheniere has shipped to 23 countries. The shale boom has made the U.S. the world's top producer of gas. Work continues at Sabine Pass to add even more liquefaction capacity, and construction is underway at five other LNG export terminals in Louisiana, Texas, Maryland and Georgia. The U.S. will have capacity to export about 11 bcf of gas a day after 2020, making it the world's third-largest supplier, behind Australia and Qatar.

Shell sees promise in LNG as highway, marine fuel

(Bloomberg; July 11) - Shell, which last year spent more than $50 billion to buy gas producer BG Group, is looking to expand demand for the fuel in transport to ensure its output is consumed. Shell is studying developing a global network of liquefied natural gas supply hubs for vehicles and ships, Steve Hill, executive vice president for gas and energy marketing, said July 10 at the World Petroleum Congress in Istanbul.

When Europe's largest energy company acquired BG, it gained a 20 percent share of the global LNG market with production facilities from Australia to the United States. By developing supply hubs, Shell, which announced a ramp-up in clean energy investment July 10, could feed the heavy-truck and marine markets, increasingly important to LNG producers that traditionally serve the power sector.

"As the demand from transportation grows, that will become more important" than power generation, Hill said. "In the foreseeable future, over half of demand won't come from electricity but from heavy-duty transport, trucking for roads and marine, use in chemicals." Shell sees opportunities in LNG and biofuels for shipping, heavy freight and air travel, CEO Ben Van Beurden said in Istanbul as he announced plans to invest as much as $1 billion a year in Shell's New Energies division by the end of this decade.

[Opponents continue to protest LNG plant in Port of Tacoma]

(Seattle Weekly; July 10) - In circumstances that strongly echo the oil pipeline protests at Standing Rock in North Dakota, the construction of a $310 million liquefied natural gas production, storage and fueling facility in the Port of Tacoma has inspired a wave of indigenous response. Construction is underway toward start-up in 2019, but the Puyallup Tribe and others continue to fight against the project, citing environmental threats to Puget Sound and other local waters.

The opponents invoke the tribe's sacred connection to the waters that run off what the Puyallup call Mount Tahoma (Mount Rainier). Like the activists at Standing Rock, they call themselves water protectors. "For me, Standing Rock got me motivated," said Rachel Heaton, a leader of the Muckleshoot Tribe. "It got me involved. I came home and I saw the issues around me. It made us all start paying attention." In recent months, there has been continuous, vocal and visual opposition against the facility.

A walk from Seattle to Tacoma, organized by the Protectors of the Salish Sea, began July 7 and ended in Tacoma on July 9. Organizer Paul "Che oke ten" Wagner said the goal is to bring attention to a wide range of threats to Puget Sound. "We have to stop it," Wagner said of the LNG facility, which will draw on pipeline gas deliveries to produce LNG for marine fueling and utility demand peaks. "Standing Rock has lit a fire through all people and that fire is still alive and still burning," Wagner said.

[Saudi Aramco will spend $300 billion to boost oil and gas capacity]

(Bloomberg; July 10) – State-run Saudi Aramco — which plans what could be the world's biggest initial public stock offering — will invest more than $300 billion over the next decade to maintain its spare oil-production capacity and explore for more natural gas, CEO Amin Nasser said. The outlook for oil supplies is "increasingly worrying," with about $1 trillion in investments lost during the current industry downturn and fewer new deposits being discovered, Nasser said at a conference in Istanbul on July 10.

Some estimates suggest at least 20 million barrels a day of new output is needed over the next five years to offset rising demand and the natural decline of developed fields, he said. "There seems to be a growing belief that the world can prematurely disengage from proven and reliable energy sources like oil and gas, on the mistaken assumption that alternatives will be rapidly deployed," Nasser said. Petroleum will be at the heart of global energy for years, and the transition to alternatives will be "long and complex." The volume of conventional oil discovered around the world over the past four years is down more than 50 percent from the previous four years, Nasser said. "Investments in smaller increments such as shale oil will just not cut it." As for renewable energy, "the expectations for alternatives are through the roof." Aramco plans to spend $300 billion on projects over the next 10 years to maintain its oil production capacity and to boost exploration and output of conventional and unconventional gas, Nasser said.

International oil traders get into U.S. shale business

(Bloomberg; July 7) - The world's biggest energy traders are betting shale oil production is here to stay. European trading houses from Trafigura Group to Mercuria Energy Group and Vitol Group have invested in U.S. infrastructure and struck supply deals to secure flows of shale oil and gas. The agreements show the traders see long-term opportunities in an industry that has already upended global energy flows, particularly since the U.S. lifted a four-decade-old ban on oil exports at the end of 2015.

"Shale, barring a major environmental issue, has become the new reality," said Jean-Francois Lambert, a former commodity trade finance banker with HSBC Holdings and now an independent consultant. Shale oil and gas has transformed global markets. The production boom provoked OPEC into a market-share war that drove crude prices to below $50 today. Global trading houses reacted quickly to shale's impact on the market.

In early 2016, Geneva-based Mercuria, one of the five biggest independent energy traders, acquired a supply and marketing business from Enterprise Crude Oil that gave it access to more than 150 new counter-parties including producers in North Dakota, Wyoming and Colorado. It also invested in a petroleum and chemicals storage terminal on the Mississippi River in Mt. Airy, La. Trafigura, with trading operations in Geneva, unveiled an agreement this week with Plains All American Pipeline to take as much as 100,000 barrels a day of crude and light oil from the Permian, the shale play in Texas.

Without further OPEC cuts, Goldman Sachs sees oil falling below $40

(Bloomberg; July 11) - OPEC needs to "shock and awe" the oil market for prices to gain, said Goldman Sachs. The Organization of Petroleum Exporting Countries must increase its output cuts aimed at shrinking a global glut with little public announcement in order to jolt investors, the bank said July 10. Without such action and without evidence of sustained declines in inventories — and if U.S. drilling continues to grow — prices could slump below $40 a barrel, said analysts including Damien Courvalin and Jeffrey Currie.

Goldman is flagging the risk of a further drop in oil after the bank late last month cut its three-month forecast for U.S. benchmark West Texas Intermediate crude to $47.50 a barrel from $55. Subsequently, it acknowledged in a separate report that it had misjudged the commodities market this year. OPEC production and exports actually increased in June, driven by Libya and Nigeria that are exempt from the group's output curbs, while rising U.S. supplies and drilling activity have weighed on prices.

U.S. explorers put more rigs to work last week, reversing a one-week decline and reinforcing fears that OPEC will not succeed in its efforts to ease a global oversupply. "Given that the market is now out of patience … we believe that price upside will need to be front-end driven, coming from observable near-term physical tightness and signs of a U.S. shale activity slowdown on a sustained basis in coming weeks," the Goldman analysts wrote in their latest report.

Pennsylvania legislators reject gas production tax for 3rd year in a row

(EnergyWire; July 12) - Pennsylvania lawmakers adjourned July 11 without passing a plan to fund the state government, but they appeared poised to reject Gov. Tom Wolf's proposal to tax the natural gas industry for the third year in a row. Legislators passed a $32 billion budget for fiscal 2017-18 on June 30 but have not passed revenue legislation to fund it. Wolf allowed the spending plan to become law without his signature while legislators look for ways to raise the $2 billion in new revenue needed to close the gap.

So far, the Republican-dominated Legislature has avoided any new taxes and proposed a combination of fee increases, loans against future tobacco revenue and transfers from dedicated funds. Observers from both ends of the political spectrum say legislators should have learned from 2015 and 2016, when they failed to find a permanent solution. Wolf, a Democrat, was elected in 2014 after promising to restore funding for education and other state spending that had been cut under Republican Gov. Tom Corbett.

Wolf proposed a tax on gas drillers and by raising other state taxes. Pennsylvania's gas production has soared in the past 10 years, as companies use hydraulic fracturing and horizontal drilling to open up the Marcellus Shale. The state's output now ranks second in the United States, behind Texas. Wolf's latest proposal would impose a 6.5 percent tax on gas production, known as a severance tax, in addition to a drilling fee that the state already imposes. The gas industry has argued that drilling is one of the few bright spots in Pennsylvania's economy and that a tax would cost thousands of jobs.