Oil and Gas News Briefs
Compiled by Larry Persily
July 17, 2017

U.S. could be 2nd-largest LNG producer by 2022, says energy agency

(Reuters; July 12) - The U.S. could become the world's second-largest exporter of liquefied natural gas by the end of 2022, just behind Australia and ahead of Qatar, the International Energy Agency said. Global LNG export capacity will reach almost 23 trillion cubic feet of gas a year by the end of 2022, compared to less than 16 tcf in 2016, the IEA forecast in its annual report on gas markets. Australia would have capacity to export 4.16 tcf a year, followed by the U.S. at almost 3.8 tcf a year and Qatar at 3.7 tcf.

"By the end of our forecast period, the United States will be well on course to challenging Australia and Qatar for global leadership among LNG exporters," said the report by the Paris-based agency. However, all that new LNG capacity is being added to an already well-supplied market while demand is falling in some of the traditionally large importing nations, such as Japan, the IEA said.

Without a big boost in LNG demand, the market would have 6.7 tcf in excess annual capacity, the IEA said, putting pressure on prices and discouraging new upstream investment. Current low prices are already making it tough for exporters, as competition is loosening the typically rigid contracts that have dominated the long-distance trade. "This change will be further accelerated by the expansion of U.S. exports, which are not tied to any particular destination and so will play a major role in increasing the liquidity and flexibility of LNG trade," the IEA said.

Low spot-market prices push Bangladesh to cut back long-term deal

(Reuters; July 13) - Bangladesh is close to signing a twice-delayed long-term liquefied natural gas supply contract with Qatar, but it will take less gas than initially planned and instead will turn to spot-market cargoes available at lower prices amid a global supply glut. Bangladesh's deal with Qatar, the world's biggest LNG exporter, will be its first and will feed its import terminal starting up in 2018 that is designed to cover the country's domestic gas shortfall.

The turn to the spot market highlights the trend of gas buyers seeking more flexibility in their purchases rather than being locked into multi-year deals. Under the still pending contract, Bangladesh will buy less than the 4 million tonnes a year that it agreed to take in a 2011 memorandum of understanding with Qatar's state-owned RasGas, said Kazi Mohammad Anwarul Azim, manager of state-owned energy company Petrobangla's

LNG Cell. He declined to provide a specific volume, as the deal is still under negotiation.

Petrobangla is likely to ink a deal for about 2.5 million tonnes of LNG per year, a separate Bangladesh official said on condition of anonymity. Rupantarita Prakritik Gas Co., part of Petrobangla, last month posted a notice on its website looking for potential LNG suppliers for spot cargoes starting in 2018. Asian LNG prices have dropped 73 percent from their peak in 2014 to $5.45 per million Btu in part because of rising production from new export projects in Australia and the United States.

Japanese LNG buyers ask suppliers to drop destination restrictions

(Reuters; July 14) - Some sellers of liquefied natural gas have told Japan's JERA Co., the world's biggest importer of the fuel, that they could be open to removing destination restrictions from existing long-term contracts, a senior executive said on July 14. JERA contacted sellers after Japan's Fair Trade Commission ruled two weeks ago that new long-term contracts signed with Japanese buyers could not include restrictions that mandate where a cargo can be delivered and limit buyers from reselling excess gas.

Removing the destination clauses would radically alter the Asian LNG marketplace, as sellers have insisted on the limitation for years. However, amid a glut of new supply from Australia and the United States and slackening end-user demand that has left importers unable to absorb their current supply, buyers are demanding more flexibility in their contracts.

"We have already taken action to approach sellers," said Hiroki Sato, JERA senior executive vice president. "We still need further discussions on details, but it looks like this would be accepted." JERA, a joint venture between Tokyo Electric and Chubu Electric, recently began to contact its long-term suppliers. Sato did not say which sellers were contacted. JERA imports 40 million tonnes a year of LNG, including about 35 million tonnes under long-term contracts. Other Japanese buyers are also looking to change their contracts.

China predicts tripling its LNG import capacity by 2025

(Reuters; July 12) - China's annual receiving capacity for liquefied natural gas is expected to rise 8.6 percent a year to 100 million tonnes by 2025, China's state planner said, as the country ramps up investment to use more of the cleaner fuel. At 100 million tonnes, China’s import capacity would be about triple its actual LNG imports in 2016. Gas storage capacity is forecast to rise 17 percent a year from 2015 to 2025 to reach 1.4 trillion cubic feet, the National Development and Reform Commission said July 12.

The government office also forecasts pipeline capacity for natural gas imports to rise 7.6 percent a year from 2015 to 2025 to hit 5.3 tcf a year, more than triple 2016’s actual imports. The world's top consumer of oil and coal, China has embarked on a huge investment program to expand its LNG and pipeline infrastructure. The state planner recently said it would more than double the country's gas storage sites and encourage companies to buy LNG in an effort to counter climate change and fight pollution.

Tokyo Gas will look at distributing LNG for remote power stations

(Nikkei Asian Review; July 17) - Tokyo Gas is starting a project to deliver liquefied natural gas to Southeast Asian nations comprised of many far-flung islands. In energy-hungry Southeast Asia, a number of plans are underway to construct large LNG receiving terminals in such countries as the Philippines, Indonesia and Vietnam. The challenge is bringing LNG to remote islands dotting the region.

The Japanese company's idea is to install small LNG storage and power generation facilities on each island and have small LNG vessels make the rounds once a week or so, providing electricity to homes and offices there. Tokyo Gas has already started a feasibility study in the Philippines. Capital investment for each island is estimated at tens of millions of dollars. Using LNG for power generation, instead of fuel oil as is often the case now, is expected to result in lower electricity bills for island residents.

With support from Japan's Ministry of Economy, Trade and Industry, Tokyo Gas will study the commercial viability of the project through next spring. With its own gas fields estimated to dry up around 2022 or 2023, the Philippines is scrambling to build large terminals to import LNG from abroad. Tokyo Gas hopes to start its LNG-ferrying business by the time these stations are completed. The company plans to bring the business to other Southeast Asian countries as well.

Conoco and partners look at offshore field to feed Australia LNG plant

(Asian Oil & Gas; July 13) - Australia’s offshore oil and gas safety and environmental regulator has released for public comment ConocoPhillips’ proposal to develop an offshore gas basin and a 150-mile undersea pipeline to feed an existing onshore liquefied natural gas plant built more than a decade ago in Darwin, in northern Australia. The Barossa field is a joint-venture between ConocoPhillips (operator, 37.5 percent), South Korea’s SK E&S (37.5 percent) and Australia’s Santos (25 percent).

The development would include a permanently moored floating gas and condensate production, storage and offloading facility in the Timor Sea, and a pipeline to connect with an existing line that feeds gas from the offshore Bayu-Undan field to the LNG plant in Darwin. Gas from the Barossa field would help backfill supply from the Bayu-Undan field following its anticipated depletion next decade. At full production, the Darwin plant can make 3.6 million tonnes of LNG per year.

In 2015, ConocoPhillips, which holds a 57.62 percent stake in the Darwin LNG plant, estimated the Barossa project could cost at least $7 billion to fully develop. Comments on the Barossa development are due to Australian regulators by Sept. 13. Santos has said a final investment decision could come in 2018 or 2019.

Nigeria wants to get more involved in marketing future LNG projects

(This Day; Nigeria; July 9) - The Nigerian government has adopted a new approach to its participation in any future joint-venture liquefied natural gas projects in the country, wherein it would retain ownership of its share of the gas produced up until the point of delivery in the international market. Under the plan, the LNG plant would be paid a fee for liquefying the government share of produced gas, as well as the shippers that would be paid a transportation fee for moving the LNG to its destination.

“The intention … is for Nigeria to retain ownership of its gas up to the point of delivery into markets … where it is regasified at the export market regasification terminal. … The government therefore intends to move to a tolling arrangement with respect to exports of the government’s equity LNG from new projects,” a government document said.

“As Nigerian government entities become more experienced in gas marketing, it is expected the government entity will be able to retain ownership further downstream, gaining access to transport networks and selling directly to large consumers.” The new approach would differ from the current marketing structure for the Nigerian National Petroleum Corp., which shares ownership of Nigeria LNG’s six liquefaction trains with French, Italian and U.K. partners. There is concern, however, that the new structure for future joint-ventures could lead investors to shy away from new projects in the country.

IEA predicts 45% increase in Marcellus gas production by 2022

(Pittsburgh Business Times; July 14) - The United States will account for 40 percent of the world’s new natural gas production by 2022, according to an International Energy Agency report released July 14 — and the Marcellus Shale is playing a big role in that growth. The Paris-based IEA predicted that more gas will be pumped from fewer wells in the Marcellus, requiring fewer rigs, and leading to a 45 percent increase in production between 2016 and 2022.

The IEA study also said the U.S. will produce 31.4 trillion cubic feet of gas in 2022. That would be almost a 20 percent gain from last year’s gas production, according to federal statistics. The study forecasts that more than half of that production increase will be exported out of the country as liquefied natural gas.

Residents go to court to shut down gas field in The Netherlands

(Bloomberg; July 12) - Ebe Treffers's dog was antsy for hours before the boom sounded and the house began to shake, scattering dishes across the kitchen floor. Like other residents of the Groningen region near The Netherlands' North Sea coast, the retired art teacher was used to the subtle tremors caused by decades of production at Europe's largest gas field. But nobody was prepared for the magnitude 3.6 earthquake that struck after dark on Aug. 16, 2012.

Half a decade later, Treffers' claim for damages to his brick home, which he had to gut and retrofit with quake-resistant framing, is one of 80,000 that have been filed with the company tapping the field, a venture between Shell and ExxonMobil known as NAM. It took officials more than a year to start curbing output at the field to prevent what was once unforeseen from happening again, turning a major fuel exporter into a net importer nearly overnight. But even those cuts aren't enough for Treffers and others.

A court will hear objections from residents and environmental groups to a government plan to further reduce output — many want production stopped entirely. It's not clear when the court will issue a decision. Output peaked at almost 10 billion cubic feet a day in the 1960s but was down below 2.5 bcf a day last year. The state has set aside almost $1.5 billion to compensate residents, and the final bill will almost certainly swell. Thierry Bros, a senior research fellow at the Oxford Institute for Energy Studies, predicted that if the court doesn't shut down the field, locals will keep fighting until they force a closure.

Work starts on new gas line to ease tight supplies in eastern Australia

(Platts; July 13) - Construction has started on Australia's Northern Gas Pipeline, which will connect the Northern Territory to the eastern seaboard's gas market, the Northern Territory government said on July 12. The 385-mile, $US615 million project will, for the first time, connect the Northern Territory to the Eastern Gas Pipeline Grid, which spans across the states of Queensland, Victoria, New South Wales and Tasmania.

The pipeline, which operator Jemena has scheduled to flow first gas late in 2018, may bring some relief to the tight supply situation for eastern consumers and relieve some of the pressure on the region's LNG exporters that are bearing the brunt of public criticism for the region's tight gas supplies and high prices.

The Australian Energy Market Operator earlier this year warned that the East Coast could face gas supply issues in the next couple of years, which led to the federal government implementing restrictions on LNG exports from three plants in Queensland.

Oil industry prepares for low prices to remain through 2019

(Bloomberg; July 12) - Three years into the biggest downturn in a generation, oil bosses see the recovery slipping further from view. It could easily take until the end of 2019 for better times to return to an industry that's endured a longer slump than most expected, said Total CEO Patrick Pouyanne and Weatherford International head Mark McCollum. Executives at the World Petroleum Congress in Istanbul said they are still focused on repairing battered finances and resetting their operations to withstand low prices.

"In terms of the magnitude of damage this is by far the worst," McCollum said. It may take until 2020 for demand growth to accelerate enough, or for a supply gap to emerge that U.S. producers can't fill. "That's when pricing will begin to rise. Until then it feels very tenuous," said the head of the oil field service company. That's an enormous turnaround from the last World Petroleum Congress in Moscow in 2014, when people were speculating oil could rise as high as $125.

But the U.S. shale industry that triggered the slump to below $30 has survived and even thrived. Banks including Goldman Sachs Group and BNP Paribas are cutting their price forecasts for the years ahead. "Lower for longer is the new normal," Lorenzo Simonelli, CEO of Baker Hughes, said in Istanbul. ExxonMobil is debating which projects will be the most resilient as the price-slump continues, Stephen Greenlee, president of the company's exploration unit, said at the conference.

Market may be losing confidence in OPEC's effort, IEA says

(UPI: July 13) - Oil market investors are losing confidence in OPEC's effort to offset a worldwide supply glut, the Paris-based International Energy Agency said. The Organization of Petroleum Exporting Countries and a handful of non-member producers in January started implementing a deal to curb output to offset the oversupply strains that pushed prices below $30 per barrel in 2016.

Member states Libya and Nigeria are not participating in the deal, so they can steer oil revenue toward national security efforts. Iran is the only member state that has room for production growth so it can regain a market share lost to sanctions. Of the three, Libya and Nigeria are regaining ground rapidly, adding about a quarter-million barrels a day of new oil to the market. With oil prices lingering below yearly highs, an IEA report said those are just some of the factors rattling investors' nerves.

"Oil investors are going through a period of waning confidence with prices recently returning to levels not seen since early November," the IEA said. "Each month, something seems to come along to raise doubts about the pace of the (market) rebalancing process." By the IEA's estimate, it's not just three members undermining OPEC's efforts. Total compliance in the deal is at about 78 percent, down from May’s 95 percent. U.S. oil production, meanwhile, has proven more resilient to historically low prices than initially expected as operators in the shale basins become more efficient.