Oil and Gas News Briefs
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Indian importer wants to renegotiate lower price for U.S. LNG

(Reuters; June 30) - India's importer of U.S. liquefied natural gas is trying to renegotiate prices with its U.S. supplier, sources said, possibly undermining plans by President Donald Trump to export more gas to the fast-growing Asian nation. Any new LNG sales to the nation of 1.3 billion people will depend on how GAIL India and Cheniere Energy, which operates an LNG terminal in Sabine Pass, La., deal with a long-term supply contract that GAIL signed in 2011, at an estimated value of $22 billion.

GAIL signed to take 3.5 million tonnes of LNG per year for 20 years from Cheniere, but is now asking to renegotiate the price. A commissioning cargo was sent last year, but supplies in earnest will likely start in 2018. "At current U.S. prices, the landed cost of the LNG (in India) is not very attractive," said a source on condition of anonymity. "We are trying a mix of options on pricing, and renegotiating is one of them," the source said. "My perception is that the talks with Cheniere … are not very likely to succeed."

The contract price is based on the cost of feed gas, plus 15 percent more for gas consumed at the plant, plus a liquefaction fee of $3 per million Btu. Add in shipping, and at today's U.S. gas prices the LNG would cost about $8.50 per million Btu landed in India. Spot-market prices are under $6. R.K. Garg, of Petronet LNG, India's biggest importer, said that at current oil prices, long-term LNG contracts are being offered at $6 to $7. Mangesh Patankar, with energy consultancy Galway Group, said GAIL is struggling to sell its contracted U.S. LNG to end-users that are demanding lower prices.

South Korea expresses interest in U.S. gas, including Alaska

(Bloomberg; June 29) - One thing became clear on the fourth day of the White House's Energy Week: South Korea is really into U.S. gas. In fewer than 24 hours, South Korea energy companies announced four non-binding partnerships with U.S. firms to explore opportunities in the U.S. gas business. State-owned Korea Gas will look at potential investments in proposed liquefied natural gas projects in Alaska, Texas and Louisiana, while SK Group signed an agreement with equipment supplier General Electric and Oklahoma-based producer Continental Resources to pursue shale gas developments.

"All these (LNG) projects are looking to find more long-term offtake in order to get the financial support they need to move forward," said Anastacia Dialynas, an analyst at Bloomberg New Energy Finance. South Korea "might even be pitting them against each other … to see who offers the best terms," she said. The state-owned Alaska

Gasline Development Corp. is looking for customers for its $45 billion LNG venture. The Texas and Louisiana projects that drew South Korea's interest are privately owned.

South Korea is one of the world's biggest importers of LNG and already has taken eight cargoes from Cheniere Energy's year-old Sabine Pass, La., terminal, where KOGAS has a 20-year contract for up to 3.5 million tonnes of LNG per year. South Korea is looking to transition away from coal and nuclear in favor of cleaner gas-fired electricity generation. Buying more U.S. gas also could help the country smooth geopolitical disputes over unbalanced trade, Korea Gas CEO Lee Seung-Hoon said June 25.

Korea Gas also is talking to Cheniere about the possibility of contracting for more capacity from two additional liquefaction trains the company is thinking of adding to its Sabine Pass terminal and its project under construction in Corpus Christi, Texas.

Korea Gas, Shell will look at LNG export project in Lake Charles, La.

(Houston Chronicle; June 29) - A South Korean gas company and Shell are considering throwing their weight behind yet another U.S. liquefied natural gas plant. Energy Transfer Partners announced June 29 that Korea Gas and BG LNG Services, a Houston-based subsidiary of Shell, are interested in working with the Dallas-based pipeline giant on its Lake Charles LNG export project in Louisiana. The project already has Department of Energy and Federal Energy Regulatory Commission approvals, but lacks an investment decision by its developers.

The three parties signed a non-binding memorandum June 28, agreeing to study the project's economics, engineering, procurement, construction, gas sourcing and marketing. The Lake Charles project is wholly owned by Energy Transfer and its entities, which want to build a liquefaction and export operation at the site of an existing import facility.

Freeport starts FERC process to add 4th liquefaction train in Texas

(Company press release; June 29) - Freeport LNG on June 29 filed with the Federal Energy Regulatory Commission to start the environmental review for adding a fourth liquefaction train at its terminal on Quintana Island, near Freeport, Texas. Construction started at the plant in 2014, with the first two LNG units scheduled to start up in 2018 and the third in 2019. "Freeport LNG anticipates being ready to commence construction of Train 4 by the end of 2018, with operations commencing as early as 2022."

The addition of a fourth train would boost the plant's capacity to more than 20 million tonnes of LNG per year. The LNG export operation is being built at the site of the underutilized Freeport LNG import terminal. Of the first three trains, Freeport has more than 13 million tonnes of capacity per year under long-term, use-or-pay contracts with Osaka Gas, Toshiba, the Japanese utilities joint-venture Jera Co., South Korea's SK E&S LNG, and BP. Toshiba, however, which is facing severe financial problems from its nuclear power plant business, is looking to sell off much of its U.S. LNG commitment.

French energy company will add U.S. LNG to its portfolio in 2018

(Reuters; June 28) - French gas and power company Engie expects to weather the festering oversupply in liquefied natural gas markets with its long-term deals kicking off in the next couple of years, a company official said. Global LNG production capacity has been outpacing demand as new supplies come online in Australia and the U.S., driving down Asian spot prices by more than 70 percent since 2014. "In the short term, the market is still oversupplied," said Didier Holleaux, Engie executive vice president.

"Fortunately, only a fraction of LNG globally is sold in the short-term market, a significant part of it is still on long-term contracts. ... We have new long-term contracts coming on stream in Asia next year and also the year after." Engie a few years ago locked in 20-year deals to supply Japanese utility Tohoku Electric and Taiwan's CPC Corp. from its contracted supply at the Cameron LNG project under construction in Hackberry, La. Production is scheduled to start up next year at the Sempra-led project.

Engie's commitment to take 4 million tonnes of LNG per year from Cameron will add to its global supply portfolio of 16.4 million tonnes per year. Drawing on its portfolio, Engie, previously known as GDF Suez, is in talks to supply gas to Thailand and Myanmar, and to build floating storage and regasification units to supply smaller volumes to power plants on Indonesian islands. It used to be that Japan and South Korea were the main drivers of LNG demand in Asia, Holleaux said. "Times are changing and we will adjust."

FERC starts public meetings on proposed LNG project in Oregon

(Jefferson Public Radio; OR; June 28) - A series of public meetings for the proposed Jordan Cove liquefied natural gas project began June 27 on Oregon's south coast. It was the first public meeting since the Calgary-based company Veresen refiled its permit application with the federal government. The company is proposing to build an LNG export terminal near Coos Bay in addition to the 235-mile Pacific Connector Pipeline that would connect the terminal to natural gas supplies in the mountain West.

The Federal Energy Regulatory Commission denied the permit last year. But the company and its backers believe they will get a different outcome under the Trump administration. More than 100 people attended the June 27 meeting, including

Clarence Adams, a landowner from Tenmile, in Douglas County. The route for the proposed pipeline crosses his property.

“Very discouraging to have to fight this thing over and over again. Once they lose, they should lose, period,” he said. “I’m not going to sell to them. They’re going to have to take me to court. It’s not about the money, it’s about the private property rights.” But others see Jordan Cove LNG as a potential boon for the economy. FERC will use the meetings to determine what will be considered in the project’s environmental review.

Shell’s floating LNG factory leaves shipyard for Australia

(Reuters; June 29) - Shell's Prelude floating liquefied natural gas production and storage facility has left a shipyard in South Korea for its destination offshore northwestern Australia, the company said on June 29. Shell's $12.6 billion Prelude project is expected to start operating next year, the company said after long delays since the oil major first decided in 2011 to go ahead with the world’s largest floating LNG investment.

Once the 1,600-foot-long, 242-foot-wide floating factory arrives in Australia in about a month, it will be secured to the seabed by mooring chains before it can be connected to the gas field and start operating, Shell said. Prelude was built by a Technip Samsung Heavy Industries consortium in the South Korean shipyard of Geoje. The floating unit — which does not include a propulsion system and will be towed to its work site more than 100 miles offshore — will be capable of producing 3.6 million tonnes of LNG and 1.7 million tonnes of liquids (more than 40,000 barrels per day) for export. Prelude is a joint-venture of Shell and Japan’s INPEX (17.5 percent) and Korea Gas (10 percent).

Russia’s Rosneft closes on $1.1 billion deal with Beijing Gas

(Reuters; June 29) - Russia's largest oil producer Rosneft said on June 29 it was targeting China's natural gas market after completing a $1.1 billion deal to sell 20 percent of its subsidiary Verkhnechyonskneftegaz to Beijing Gas. The deal, first announced last November, is part of a Russian drive backed by President Vladimir Putin to forge closer economic and political ties with China. The Rosneft subsidiary produces at an oil and gas field in Eastern Siberia.

Kremlin-controlled Rosneft, which aims to ramp up its natural gas sales as it squares up to compete with Russia’s dominant gas producer and exporter, Gazprom, said it hopes to access China's gas market. Separately, Rosneft vice president Vlada Rusakova said the company is looking at building a liquefied natural gas plant in Russia's Far East using its own resources and gas reserves if its partner declines to participate.

Rosneft and its partner ExxonMobil have talked about building an LNG plant in Russia's Far East together, using gas from the Sakhalin-1 oil project in which both firms have a stake. But Gazprom, which has its 8-year-old Sakhalin-2 LNG plant nearby, would prefer that Rosneft and Exxon send their gas to Gazprom's liquefaction plant rather than build their own facility. Rusakova said Rosneft could go it alone on an LNG project if Exxon declined to proceed.

Rosneft wants to start selling pipeline gas in Europe

(Reuters; June 30) - Russia's Rosneft, the world's top-listed oil producer, wants to supply gas in parts of Europe where Gazprom's pipeline gas is not present. If not, Moscow risks losing the market to U.S. liquefied natural gas, a Rosneft executive said. Gazprom, the leading global gas producer, enjoys a monopoly on gas pipeline exports from Russia, but lost its exclusive rights to export LNG when the government said Rosneft and Novatek, Russia's largest non-state gas producer, could sell overseas.

Rosneft, headed by Igor Sechin, an ally of President Vladimir Putin, has long been vying to get into the pipeline gas export business as it strives to grow globally. It now wants permission to export to the parts of Europe in which Gazprom does not operate. Rosneft already has a memorandum with BP, which owns a 19.75 stake in the Russian company, to trade up to 700 billion cubic feet of gas annually in Europe.

Rosneft vice president Vlada Rusakova, a former Gazprom executive, said the company wants to conduct "an experiment" in supplying gas to new markets "in coordination" with Gazprom. "We are not counting on a total lifting of export restrictions. This would be harmful for Gazprom, especially against the background of a difficult financial and economic situation at the company," she said. As part of the "experiment," Rosneft could supply gas to markets where Gazprom is not present, she said.

Europe likely to serve as 'clearing house' for surplus LNG

(Reuters' columnist; June 29) - It's probably not quite here yet, but the trend is unmistakable: The world is moving to a globally linked natural gas market, and the rise of liquefied natural gas is the key driver. Much of the increase in LNG capacity is because of the rapid boost at export plants in Australia and the United States, as both countries take advantage of abundant reserves of natural gas to muscle in on a market that until recently had been dominated by a few established producers and buyers.

Perhaps ironic that while the action on the supply side is an Australian and American story, the ultimate controlling player of the global market is likely to be Europe. This is because Europe is likely to act as a clearing house for surplus LNG, given it has excess regasification capacity and is able to use the fuel for a variety of purposes, from power generation to manufacturing to household heating. And there will be a surplus for some time. The world last year consumed 280 million tonnes of the fuel, with global capacity to make LNG at 340 million tonnes and a further 114 million tonnes under construction.

Europe is the likely candidate to act as a clearing house for surplus LNG because it is the only region that can effectively arbitrage between LNG and pipeline gas prices, given its connection to Russian pipeline gas. The continent is also best-placed to use market forces to find a price level for gas vs. competing fuels, given it still has significant coal-fired power as well as being a leader in renewables such as wind and solar.

Tanzania wants energy companies to renegotiate contracts

(Reuters; June 29) – The Tanzanian government submitted three bills to parliament June 29 that would allow it to force mining and energy companies to renegotiate their contracts, the latest in a string of moves that have alarmed foreign investors. It was not immediately clear how the proposed renegotiation of contracts would affect a proposed $30 billion liquefied natural gas project, or the troubled mining sector, which generates about 3.5 percent of Tanzania's gross domestic product.

Businesses have complained that President John Magufuli is unfairly squeezing them through a strict interpretation of tax laws, increased fines, and demands they rapidly list on the local stock exchange. Magufuli says the reforms will increase transparency and revenues and that the companies have not been paying their fair share of taxes. The bills, likely to be fast-tracked, cover natural resources contracts, sovereignty and amend existing laws, and would allow the government to renegotiate or dissolve contracts.

"This is unprecedented in terms of an escalation and an assault on the mining sector," said Ahmed Salim, of global advisory firm Teneo Intelligence. “This’ll have very severe consequences for foreign investment." Companies that could be affected include Shell, ExxonMobil, Statoil and Ophir Energy, which are looking to build an LNG export plant in partnership with state-run Tanzania Petroleum Development Corp. The parliamentary session has been extended for several days to allow lawmakers to study the bills.

Mississippi utility stops work on carbon-capture project at coal plant

(EnergyWire; June 29) - Southern Co. said it will stop all work on the carbon-capture portion of its $7.5 billion power plant in Kemper County, Miss., indefinitely suspending a project that coal backers in Washington had hoped would boost prospects for clean coal. The decision by Mississippi Power Co., the Southern Co. unit building the plant, came June 28, a week after the Mississippi Public Service Commission said the power plant should run on natural gas.

The massive plant, meant to gasify lignite coal, had an original price tag of $2.9 billion. It now stands at $7.5 billion and counting after multiple delays. The plant's marquee technology started development in the late 1990s when, at a research laboratory in Alabama, the Southern Co., Department of Energy and industrial firm KBR began to build a prototype to "gasify" coal: superheat it into its chemical building blocks. The challenge was engineering and designing the pieces and integrating the systems.

The plant has been running on natural gas for years, and each of its two gasifiers has successfully produced electricity from synthetic gas. But the utility has struggled to keep the complex systems running. That has delayed full start-up and added costs. Last week, state regulators sharply limited how much the utility can recover from customers, and directed the utility to come up with a settlement in 45 days. Meanwhile, the utility will burn natural gas and stop work on the coal syngas and carbon-capture systems.

TransCanada finding it hard to lock in customers for Keystone XL line

(Wall Street Journal; June 29) - Keystone XL is facing a new challenge: The oil producers and refiners the pipeline was originally meant to serve are not as interested in it as they once were. Delayed for nearly a decade by protests and regulatory roadblocks, Keystone got the green light from President Donald Trump in March. But the pipeline's developer, TransCanada, is struggling to line up customers to ship crude from Western Canada's oil sands to the U.S. Gulf Coast, sources said.

TransCanada remains committed to completing Keystone XL and believes it will prove profitable in the long term, sources said. But it may be years before the Calgary-based company recoups its full investment. To date, TransCanada has spent $3 billion, much of it on steel pipe, land rights and lobbying. Completed, the line would cover 1,700 miles from Alberta to Nebraska, where it would link up with existing pipelines that run to the Gulf Coast. Keystone XL still requires final approval from the state of Nebraska.

TransCanada has said it wants enough customers to fill 90 percent of capacity before it proceeds. It expects the line, which would carry up to 830,000 barrels of oil a day, to cost $8 billion. Construction could begin in 2018 and finish in 2020. But a lot has changed since TransCanada applied for a U.S. permit in 2008. Oil is selling at one-third the price. And in a world awash in low-price crude, Canadian oil sands production doesn't look as attractive as it once did. Even though it costs more, some shippers are choosing to move oil out of Canada by rail to avoid long-term pipeline commitments.

Pipeline delays push more Canadian oil into railcars

(Bloomberg; June 28) - Call it the pipeline pinch, or maybe the Keystone quagmire. While plans by Canadian oil producers to boost output are racing to fruition, construction of three pipelines to move that product to market, including the infamous Keystone XL, is lagging years behind. The end result: Producers have little choice but to move those extra barrels by train, which costs two to three times more than pipeline shipping. It's an unwelcome added expense as oil continues to sit below $50 a barrel.

"We're not going to see significant new pipeline capacity until late 2019 or 2020," said Nick Schultz, vice president for pipelines at the Canadian Association of Petroleum Producers. Pipelines in Western Canada, which holds the world's third-largest oil reserves, can move about 3.3 million barrels of crude a day, according to CAPP. Meanwhile, the area is expected to produce 3.92 million barrels a day this year and 4.2 million next year as a number of large oil sands projects come online.

The bottleneck adds urgency to the industry's calls for more pipeline capacity and may lend credence to its argument that the shortage hurts the nation's economy. Canadian producers have long lamented the dearth of pipelines to move their supplies to coastal ports, saying it leaves them able to export only to the U.S. and forces them to accept whatever price American refiners will pay. But delays to TransCanada's Keystone XL line, Enbridge's Line 3 to the Midwest and Kinder Morgan's project to move more oil to the British Columbia coast are forcing producers to rely more on railroad tank cars.

Canadian report sees solid demand for LNG as marine fuel

(Natural Gas Intelligence Daily; June 30) - Canadian gas producers can break into the liquefied natural gas business without waiting for stalled multibillion-dollar LNG export projects by fueling vessels instead of filling overseas tankers, according to government- and industry-sponsored research. Potential marine demand for up to 2.4 million metric tons per year of LNG, about 122 billion cubic feet of gas, as of 2025 has been identified by two studies of ships on Canada's Atlantic and Pacific coasts and the Great Lakes.

The research included 33 agencies and companies, led by the federal transport department and the Canadian Natural Gas Vehicle Alliance. The "medium" estimates of most likely Canadian LNG ship fuel demand foresee 298 vessels burning 1.35 million tonnes per year: 783,000 tonnes in the Atlantic and Great Lakes, and 570,000 tonnes on the British Columbia coast. In Canadian waters, carbon and particulate-emission regulations and taxation stand out as drivers of shipping fuel conversions.

"Realistic adoption-rate scenarios indicate that marine use of LNG could lead to significant demand creation," according to the report, "Liquefied Natural Gas: A Marine Fuel for the Great Lakes and Canada's East Coast," which was circulated this week. The marine industry is increasingly looking to LNG as a cleaner-burning fuel. "The early demand for LNG will come from ferries and other coastal traffic, but this will build quite rapidly to encompass other vessel types and a significant demand," the report said.