Oil and Gas News Briefs
Compiled by Larry Persily
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Talks stall on new Russian gas pipelines to China

(Reuters; June 7) - Talks over new routes for natural gas supplies to China from Russia have stalled while Beijing rethinks the balance of its energy needs, including how much liquefied natural gas it might use, two Russian sources told Reuters. Gazprom, which is already building its first gas pipeline from Eastern Siberia to China — the 2,000-mile Power of Siberia line — was in talks over two more routes: the so-called western gas route and a pipeline into Eastern China from Russia's Pacific Island of Sakhalin.

"There are a lot of factors, and they (China) are not yet ready to take any decisions," a source familiar with the Russia-China energy talks said. A Gazprom source also said there were no developments on the two pipelines, whose combined capacity, if built, could provide an additional 1.4 trillion cubic feet a year in Russian gas supplies to China (almost 4 billion cubic feet per day). The Power of Siberia line, expected to be launched by the end of the decade or in the early 2020s, would carry up to 1.3 tcf a year to China.

Gazprom in May 2014 clinched the Power of Siberia deal after 10 years of painstaking talks with Beijing. As of this past spring, about 400 miles of the pipeline had been built, according to Russian news reports. "We don't see a room yet for (additional) pipeline gas from Russia to China (before 2035), except for the Power of Siberia contract," said Vladimir Drebentsov, head of Russia economics at BP. Almost 60 percent of China's gas imports arrived by pipeline in 2015, mostly from Turkmenistan, with 42 percent as LNG. Final numbers are not available for 2016, but LNG's share grew last year.

Mideast politics shows need for LNG supply diversity, TEPCO says

(Platts; June 8) - The current diplomatic crisis involving Qatar and some of its Middle Eastern neighbors supports the strategy of JERA Co., Japan's largest LNG importer, to diversify its LNG portfolio, an executive of Tokyo Electric said June 8. "What I feel following the recent [Qatar] affair is that you need to diversify your portfolio if you think about geopolitics, and that has been the key pillar of our strategy," Toshihiro Sano, president of TEPCO Fuel & Power, told a press conference June 8.

Not only should suppliers be diversified, but contract pricing needs to be, too, Sano said. He said he has not seen any impact on LNG markets from the moves by Saudi Arabia, Bahrain, Egypt, Yemen, Libya and the United Arab Emirates on June 5 to cut diplomatic ties with Qatar. But he added that if the situation continues the effect may be felt, especially in the spot market.

Sano said Qatari cargoes account for about 20 percent of JERA's supply portfolio, which totals about 35 million metric tons per year. Qatar exported 78.8 million tons of LNG in 2016, more than 30 percent of the total global supply of 257.8 million tons, according to Platts Analytics. In 2016, Qatar was the third-largest LNG supplier to Japan, sending about 12 million tons, or 14.5 percent of the country's overall imports, according to Japan's Ministry of Finance.

Diplomatic crisis could bolster Japan's LNG negotiations with Qatar

(Reuters; June 12) - Qatar's isolation by other Arab nations has dealt a strong hand to Japanese utilities in talks reviewing long-term gas contracts with the top LNG exporter, likely accelerating a shift to a more openly traded global market for the fuel. If Japan gets its way in the periodic contract reviews, the world's biggest buyer of LNG would likely import more short-notice supplies from producers such as the U.S., another step away from rigid deals that have run for decades toward a more active spot market.

At stake for Qatar are 7.2 million tonnes of annual liquefied natural gas sold in contracts that expire in 2021. The $2.8 billion a year in gas mostly goes to Japan's JERA Co., a joint venture between Tokyo Electric and Chubu Electric that is the world's single biggest LNG buyer. "Since the crisis emerged, the Japanese are sure not to renew all contracts and they will push very hard to get more flexible terms," said an adviser on LNG contracts, speaking on condition of anonymity due to the sensitivity of negotiations.

Qatar and Japan as seller and buyer will each account for nearly a third of the 300 million tonnes of LNG that will be shipped around the world this year. Any change in how volumes trade between them is sure to jolt an industry where practices in place since the 1970s are already being challenged. Three deals between Japan and Qatar are under a periodic review, potentially allowing for some adjustments, and, possibly, the buyers may decide to only partially renew the Qatari contracts when they expire.

Canada welcomes China's investment in oil and gas

(EnergyWire; June 9) - Canada's government is warming to the idea of greater Chinese investment in the oil sands, including China's state-owned enterprises, according to Canada's natural resources chief. China and Canada are also inching closer to a possible free-trade agreement that would send more Canadian energy resources across the Pacific Ocean to the world's second largest economy, bypassing the United States. The deal would include smoother trade in oil sands crude and liquefied natural gas.

The two governments made progress on a bilateral free-trade deal at exploratory talks held on the sidelines of the Clean Energy Ministerial gathering in Beijing this week, said

Jim Carr, Canada's minister for natural resources. Currently, Chinese companies can only hold non-operating minority stakes in Canada's oil sands projects, per a policy put in place by the previous administration. Things could change with new leadership under Prime Minister Justin Trudeau, Carr indicated to reporters during a conference call.

"We would welcome more investment from any nation interested in the oil sands," Carr said. "Chinese investors are no different from investors anywhere else. They look at cost, they look at prices, and they make their investment decisions." Carr cautioned that no official policy change had been issued. But he made clear that greater direct Chinese investment in oil sands developments is on the table during trade negotiations. He also reiterated Canada's determination to compete in the LNG export market.

Qatari LNG cargoes change course, prompting price increase in U.K.

(Bloomberg; June 9) - European energy markets started to feel the impact of the escalating diplomatic row in the Middle East after natural gas prices soared when tankers full of Qatari fuel abruptly changed course. Two ships bound toward Europe veered course June 8, taking them away from the Red Sea and Suez Canal, the transit route for gas into the Mediterranean Sea and a point of focus amid the Qatari crisis.

Front-month gas prices in the U.K. jumped 4 percent to $4.75 per million Btu, the most since January, after the tanker turnaround surprised traders. European traders count on Qatar, the region’s biggest liquefied natural gas supplier, to help refill storage depleted after the key winter heating season. The vessels may be sailing around Africa to Europe to avoid the Suez Canal, according to Paris-based cargo-tracking company Kpler.

The LNG tankers, the Zarga and Al Mafyar, turned around off the coast of Yemen, according to ship-tracking data on Bloomberg. Both ships were expected to go to the U.K., and sailing round the Cape of Good Hope would delay their journeys by five to 10 days, Kpler said. If, instead, the ships stay east of Suez, that would mean more Qatari gas left in the Pacific basin, pressuring Asian spot prices. And in one of the earliest signs of the effect on the market, Shell sent an LNG cargo from the U.S. to Dubai, after the United Arab Emirates banned Qatari ships from entering UAE ports.

Spot LNG price in Japan dropped to $5.70 in May; half of August 2014

(Reuters; June 9) - The average price of spot-market LNG that arrived last month in Japan fell to a seven-month low, official data showed June 9. The average price of spot cargoes was $5.70 per Btu, down 20 cents from the previous month, according to monthly data from the Ministry of Economy, Trade and Industry. That is largely in line with a decline in Asian prices due to a lack of significant new demand worldwide, while Papua New Guinea, Angola, Abu Dhabi and Russia added more supply to the market.

The ministry surveys spot LNG cargoes bought by Japanese utilities and other importers, but excludes deals linked to benchmarks such as the U.S. natural gas Henry Hub index. At $5.70, the May price was less than half the spot market average of $12.50 in August 2014.

U.S. LNG cargoes arrive in Poland, the Netherlands

(Platts; June 8) - The first two U.S. liquefied natural gas cargoes to reach northern Europe have landed in Poland and the Netherlands, marking a historic new chapter in the U.S. LNG export sector that began with the first Lower 48 deliveries to world markets in February last year. The Clean Ocean and Arctic Discoverer, both of which departed the Sabine Pass, La., export facility last month, arrived June 7 and June 8 at Poland's Swinoujscie port and the Dutch Gate terminal respectively, according to Platts.

Before this week, no U.S. LNG had landed in northwest Europe or elsewhere in northern Europe, which is trying to break away from its long-time dependence on Russian pipeline gas deliveries. The delivery to Poland was a spot-market deal done between Sabine Pass operator Cheniere Energy and Poland’s PGNiG. The cargo could be the first of many, with Poland positioning itself as an import hub for delivery to other eastern European countries.

The Polish import terminal began commercial imports in mid-2016 as part of the country's plans to reduce its dependence on Russian gas, which last year accounted for 89 percent of PGNiG's imports. The delivery to the Netherlands, meanwhile, was likely a replacement cargo for Statoil given that the company’s Norwegian Snohvit LNG facility has been down for maintenance since May 12.

The Philippines wants to build $2 billion LNG import operation

(Reuters; June 8) - The Philippines aims to build a $2 billion receiving and distribution facility for liquefied natural gas imports as it seeks to replace depleting domestic gas reserves that now produce only a fifth of its power, the country’s energy department said. Construction could be completed by 2020, or four years before the Malampaya gas field is depleted, Energy Secretary Alfonso Cusi said at an industry forum this week.

The Philippines' energy demand will triple by 2040, with electricity requirements anticipated to grow four times from 2015, Cusi said. The Philippines needs to step up power-generation capacity by 7,000 megawatts over the next five years to support a fast-growing economy and wants foreign investors to help, he added. Chinese and Japanese companies are among the foreign investors that want to help build energy infrastructure, including LNG import facilities, Cusi told Reuters in February.

The LNG project, which includes a 200-megawatt power plant, is among the investment opportunities up for grabs in the country's long-term energy plan, Cusi said. Several firms have expressed interest in building LNG facilities in the Philippines. In April, Philippine power producer First Gen said it was willing to work with the government to build a $1 billion LNG terminal to sustain its gas-fired power plants currently running on Malampaya gas. Shell, which operates Malampaya, has also been looking to set up a floating regasification facility to sell LNG in the Philippines.

Increasing LNG tanker traffic could jam up Houston Ship Channel

(Bloomberg; June 8) - A boom in liquefied natural gas exports from the U.S. Gulf Coast is raising the prospect of traffic jams at one of America's busiest ports. Weather delays from fog and storms are nothing new at the Houston Ship Channel, which links the prolific oil and gas fields of Texas and Louisiana to the rest of the world. But as more cargoes of LNG and petrochemicals head across the globe from newly built plants, the tanker bottlenecks are poised to get worse, according to Poten & Partners.

Sixteen months after the first cargo of U.S. shale gas headed overseas from Cheniere Energy's LNG terminal in Sabine Pass, La., the nation is on the path to becoming a net exporter of the fuel for the first time in decades. The surge has created the need for more and bigger roads, pipelines and waterways. And with more LNG capacity under construction and proposed for the Gulf Coast, even more ships are on the way.

"A lot of waterways in the Gulf aren't ready for prime time," said Gordon Shearer, a senior adviser at Poten & Partners in New York. "Everything is going into a very concentrated strip of coastline." The Calcasieu Ship Channel, which leads to the Port of Lake Charles in Louisiana, is another potential bottleneck for LNG tankers, Shearer said. Every gas export project has to undergo a suitability study by the Coast Guard, which takes weather and traffic into consideration, said Zach Allen, president of Pan Eurasian Enterprises, a Raleigh, N.C.-based tracker of LNG shipments.

New breed of advanced rigs drill faster, boost U.S. oil productivity

(Houston Chronicle; May 27) - On a drilling rig towering above cattle farms in Southeast Texas, Eric Williams was inside the cabin of the 16-story machine, twisting joysticks to guide sections of pipe that soon will feed oil into a second shale boom. Years ago, a worker doing the job would have stood outside on the rig floor, working a brake handle and knobs. Now he sits behind six computer screens and a complex array of controls, piloting the so-called super-spec rig, one of a new breed of drilling machines that are bigger and stronger than the ones that sparked the first U.S. shale oil bonanza.

They're part of the fleet of new technologies paving the way for a historic surge of oil that could break the nation's 1970 production record next year and further erode the decades-long grip the Organization of the Petroleum Exporting Countries has had on global oil markets. The U.S. oil and gas industry is well into its recovery and embarking on “a new cycle of expansion,” according to the recently released Texas Petro Index. The rig count is up 40 percent over the first quarter last year.

U.S. companies have found ways to wring more oil from the earth at a profit — even at low prices. Those include the super-spec rig owned by Patterson-UTI Energy. This particular $25 million machine, churning about 100 miles northwest of Houston, can force fracking fluid down a well with more than 100 times the pressure of a fire hose. It can drill a well in less than 10 days, shaving more than a week from the average time in 2010. Patterson-UTI and its competitors have dispatched hundreds of these upgraded super-spec rigs to oil fields in Texas, Oklahoma and North Dakota in recent months.

Increase in U.S. oil exports help hold down global prices

(Wall Street Journal; June 7) - American oil exports are emerging as a disruptive new force in global markets. The U.S. exported 1 million barrels of oil a day during some months so far this year — double the pace of 2016 — and is on track to average that amount for all of 2017, according to a Wall Street Journal analysis of data from the U.S. Energy Department and the International Trade Commission.

In another era, a domestic glut and prices currently hovering under $50 a barrel might have caused companies to slow their drilling. But since Congress lifted a ban on oil exports at the end of 2015, shipments out of Texas and Louisiana have skyrocketed, taking the fruits of the U.S. fracking revolution to new markets. U.S. exports are a new factor helping to tamp down global prices and keep them between $45 and $55 a barrel.

Exports represent a relief valve for U.S. drillers, who are ramping up production at a pace to surpass 10 million barrels a day, a new record, by next year if not sooner. The U.S. is benefiting in part from a decision by OPEC to temporarily reduce output. A major reason why exports are rising is that U.S. oil has been selling at a discount of about $2.50 a barrel to the international benchmark, Brent, for much of this year. That spread makes it profitable to ship U.S. oil to farther flung locales. If U.S. oil’s discount to Brent gets bigger, American cargoes will ramp up. If it shrinks, less U.S. oil will go overseas.

Construction could start Sept. 1 on $7.4 billion oil sands pipeline

(Vancouver Sun; June 8) - Kinder Morgan’s schedule for the $7.4 billion Trans Mountain oil pipeline expansion to the British Columbia coast shows construction is to start as early as Sept. 1. The detailed schedule was filed with Canada’s National Energy Board, one of 157 conditions that must be met for the Houston-based company to begin construction. It shows land clearing on some portions of the 713-mile pipeline route will begin in September. Pipeline construction will start as early as October in Alberta.

The first detailed look at how construction is to unfold comes as legal and political fights to stop the project continue over concerns of an oil spill and increased oil sands emissions. Kinder Morgan declined an interview on June 8 on its construction plans and scheduling, and any delays it may face. The project would twin the existing pipeline and nearly triple capacity to 890,000 barrels a day, providing a conduit for bitumen from the Alberta oil sands to the coast and opening new markets in Asia.

The project has federal and provincial regulatory approval, and the backing of Canadian Prime Minister Justin Trudeau, but there are more than a dozen legal challenges by First Nations, municipalities and environmental groups. A new coalition government that is expected to take power in British Columbia within a month has said it will do everything in its power to stop the project. That includes possibly joining the legal challenges from First Nations, and potentially denying provincial permits.

Global cruise line signs deal for two LNG-fueled mega-ships

(Ship Technology.com; June 2) - STX France has signed a memorandum of understanding with MSC Cruises to construct two liquefied natural gas-powered mega-ships, each with 2,760 staterooms and capable of carrying 6,850 guests. The deal also includes options for two additional vessels. The new ships will be part of MSC Cruises' World Class series of vessels.

The ships will be 1,080 feet long and 154 feet wide, at 200,000 gross registered tonnes. Delivery of the vessels is planned for 2022 and 2024, while the options are expected to be delivered in 2025 and 2026. MSC Cruises, with headquarters in Switzerland, operates worldwide, including in the Mediterranean, Caribbean and South America. STX has shipyards in France and Finland.