

Oil and Gas News Briefs

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U.S. seeks to reassure China of support for LNG trade

(Financial Times; London; June 22) – President Donald Trump is engineering a sharp shift in U.S. energy policy by using natural gas exports as an instrument of trade policy, championing sales to China and other parts of Asia to create jobs and reduce U.S. trade deficits. The goal of the push is to help U.S. companies land LNG sales contracts in energy-hungry nations across Asia, including Japan and India.

Commerce Secretary Wilbur Ross and Energy Secretary Rick Perry have both in recent weeks stressed the Trump administration's desire to help find Chinese buyers for American LNG, shipped from multibillion-dollar terminals being built along the U.S. Gulf Coast. While there were no special restrictions on LNG sales to China in the Obama era, an executive with the first Gulf Coast LNG exporter, Cheniere Energy, said political disputes over energy policy in Washington had made potential Chinese buyers jittery.

To soothe nerves, the Commerce Department in May issued a statement that said the U.S. "welcomes China" as a buyer of U.S. LNG and "treats China no less favorably" than other countries with equivalent trade status. "The Chinese ... were looking for that sort of reassurance that the U.S., the president, supports U.S. energy exports," said a White House official. But while Trump wants to export more gas, analysts say the main limitation today is a glut of supply in the international market.

First Sabine Pass LNG cargo under 20-year deal heads to Korea

(Reuters; June 23) - Korea Gas early next month will receive its first liquefied natural gas cargo under a long-term supply deal with U.S. exporter Cheniere Energy. The cargo had been loaded at Cheniere's Sabine Pass export terminal in Louisiana and was ready to go as a ceremony was held June 25 to commemorate the shipment and start of the long-term contract. The LNG carrier is scheduled to arrive at the port of Tongyeong, South Korea, on July 2, said a source at Korea Gas said.

The 20-year deal, under which KOGAS signed up for 2.8 million tonnes of LNG per year from Cheniere, had long been expected to kick in this year, but its exact start was not known in markets. KOGAS five years ago was one of the first customers to sign up for capacity at Cheniere's Louisiana terminal, even before construction started. The first cargo under the long-term deal could weigh on spot LNG demand in Asia as it means KOGAS will likely have less need for spot supplies, said a Singapore-based LNG trader.

KOGAS imports about 30 million tonnes of LNG per year, mainly from Qatar. In January, South Korean gas and power company SK E&S took delivery of the country's first spot cargo of gas imported from the Sabine Pass LNG terminal.

Cheniere pursues Canadian gas to supply Gulf Coast LNG exports

(Upstream; June 21) – U.S. liquefied natural gas plant operator and exporter Cheniere Energy is in talks with more gas producers in the Montney shale play in northern Alberta and British Columbia to secure supply deals for its Gulf Coast liquefaction facilities, a company official said June 21. Chief commercial officer Anatol Feygin did not disclose the names or numbers of Montney operators Cheniere is speaking with, but said the company is in discussions with "many players."

Cheniere reported in February that it had struck its first supply deal with a producer in the massive Montney shale, but did not disclose the name of the producer or the volume of gas that would be delivered to its LNG plant and export terminal in Sabine Pass, La. Cheniere also is building an LNG export plant in Corpus Christi, Texas.

Feygin said the economics are better for Canadian producers to move their gas through existing pipelines to the U.S. Gulf Coast than to pay the costs of new pipelines to ship their gas to the British Columbia coast, should any of the proposed Canadian LNG export projects go ahead. "It's going to be nightmarish for them to build and fantastically expensive," Feygin told reporters on the sidelines of an LNG conference in Houston.

Eni will start low-price LNG exports to Pakistan in December

(The Express Tribune; Pakistan; June 23) - Italian energy giant Eni will start supplying liquefied natural gas to Pakistan in December this year to help fuel new power plants and tackle prolonged power outages. After negotiations this spring, the country's importer, Pakistan LNG Co., signed a 15-year supply deal with Eni pegged at 11.99 percent of the price of a barrel of crude — down from Eni's original bid of 12.29 percent. At \$50 oil, the LNG price would be \$6 per million Btu, just above today's spot-market.

In an earlier deal, when market prices were higher, Pakistan LNG signed a 15-year supply contract with Qatar at 13.37 percent of the crude oil price for cargo deliveries over a period of 15 years. Deliveries started this year; the country accepted its first LNG imports in 2015 under spot-market deals. Pakistan's 5-year deal with commodity trader Gunvor, signed earlier this year, was at 11.62 percent. The country plans to import one LNG cargo per month each under the Eni and Gunvor deals.

Russia's Novatek wants to become world leader in LNG production

(Reuters; June 23) - Russian gas producer Novatek aims to topple Qatar as the world's biggest exporter of liquefied natural gas as it gets closer to completing its first LNG project, a top executive said, battling away concerns about U.S. sanctions on the sector. The country's largest non-state-owned gas producer is expected to start exporting LNG from the first phase of its Yamal project in the Arctic toward the end of this year and may advance its final stage by six months, Chief Financial Officer Mark Gyetvay said.

But it would be Novatek's second large-scale LNG project, called Arctic LNG 2, that would transform the company, headed by Russia's richest businessman Leonid Mikhelson, into a top global producer within a decade. "We have huge ambitions to be just as large as Qatar is as one country, but as one company," Gyetvay said in London on the sidelines of an energy forum. When at full production, the \$27 billion Yamal project would be able to produce 16.5 million tonnes of LNG per year.

Qatar and Russia have long been rivals in global gas markets. Qatar is the world leader in LNG exports; Russia is No. 1 in pipeline gas exports. Russia's energy industry, however, has been hamstrung by European and U.S. sanctions over its annexation of Ukraine's Crimean Peninsula. Novatek said it could make a final investment decision on Arctic LNG2 by 2019. It would take about four projects each the size of Yamal and Arctic LNG2 for Novatek to surpass Qatar's production capacity.

Gazprom sees market opportunity in gas exports to U.K.

(Bloomberg; June 22) - Gazprom is in talks to ramp up natural gas sales in the U.K. as coal plants are shuttered and the nation's biggest gas storage site is closed for good. "We see an appetite from major players in the U.K. for additional volume of contracted gas," Deputy Chief Executive Officer Alexander Medvedev said in Prague on June 22, declining to provide further details on negotiations. "Our supplies to the U.K. increased substantially in the course of the past two years."

The world's biggest gas producer sees an opportunity to sell more of the fuel after Centrica announced it would close its Rough storage facility in the North Sea and the U.K. plans to stop using coal-fired plants by the middle of next decade. Medvedev expects Britain to increase its gas imports by 280 billion to 420 billion cubic feet a year by 2025. After opening an office in 1999, Gazprom has gradually expanded in the U.K. market through acquisitions. Earlier this year it became one of the largest retail gas suppliers to British industrial and commercial buyers.

While Britain's import needs are mostly met by Norway, it also receives Russian gas indirectly through pipelines on the European continent, which is typically cheaper than liquefied natural gas. Britain also faces falling domestic output from the North Sea that

will increase its reliance on foreign supplies. The U.K. Oil and Gas Authority estimates 78 percent of Britain's gas will be imported by 2035, up from about 50 percent this year.

U.S. natural gas exports to Mexico, overseas cut into stockpile

(Bloomberg; June 22) - A supply glut that has weighed on the U.S. natural gas market for most of the past two years may vanish before the winter, even if a sweltering summer fails to materialize. Inventories of the power-plant fuel may reach 3.4 trillion cubic feet by the end of October, the lowest since 2008 for the time of year, according to report from Bloomberg New Energy Finance. That's about 10 percent below the five-year average for the period.

Even as forecasts show unusually cool early-summer weather curbing gas consumption in the Eastern U.S., bullish traders may have cause for optimism. Exports of the fuel are heading to Mexico and overseas buyers at a record clip, siphoning off stored supplies, and production from America's shale basins has yet to recover to early 2016 levels after last year's price rout. Gas stockpiles dipping below the five-year average could bode well for a market rally in 2018.

"If we have low inventory and a normal winter, that basically sets up the stage for a bullish market in 2018," during spring and summer, when supplies are added to storage, Tai Liu, an analyst at Bloomberg New Energy Finance, said June 22. U.S. natural gas inventories totaled 2.77 trillion cubic feet as of June 16, about 8 percent above the five-year average, U.S. Energy Information Administration data show.

Mississippi regulators tell utility to run new coal plant on gas

(Wall Street Journal; June 21) - The future of a Mississippi power plant aimed at showcasing "clean-coal" technology is in doubt after state regulators June 21 issued an ultimatum to Southern Co., warning that they would not allow the company to pass on more of its ballooning costs to ratepayers. Mississippi regulators said they wanted the Kemper County power plant, which has already taken \$7.5 billion and seven years to build, to run using natural gas going forward, not coal.

The plant has primarily been running on gas since 2015 because the company has struggled to make the clean-coal technology consistently work. The regulators' action leaves Southern with a difficult decision over how to salvage its costly investment, including possibly having to write down part of the value of the facility. Ending the plant's clean-coal experiment would be a major setback for efforts to use technology to remove carbon dioxide emissions from coal plants.

“We are telling the parties to get a plan and get a settlement in 45 days that does not increase rates one penny,” said Mississippi Public Service Commission Chairman Brandon Presley. Earlier this month, Southern filed documents with the commission, proposing to pass on more of the cost of the facility to consumers. The facility, forecast to cost \$3 billion to build in 2010, was intended to burn lignite coal, capture 65 percent of the carbon dioxide output and send the gas to oil fields where it would be injected underground. The 582-megawatt plant can run on either natural gas or synthetic gas, but the technology to turn the coal into syngas to generate power has proved difficult.

Lack of pipeline capacity concerns New England power grid operator

(Wall Street Journal; June 19) - Natural gas has become the trendy power plant fuel in New England so quickly that it concerns the grid operator charged with keeping the region's lights on. On the coldest days, gas is in high demand for both heating homes and running power plants, taxing pipelines that supply the region. This was a major problem during a frigid winter several years ago, and gas demand continues to rise.

In 2000, gas-fired power plants represented just 18 percent of New England's system capacity, grid operator ISO New England said. Aided by low prices, gas grew to 44 percent by last year. “The markets have brought forward many new electric-generating units,” said Anne George, spokeswoman for the grid operator. “And for the most part, they have been gas-fired generation.”

Non-gas plants keep shutting down due to economic pressure: Massachusetts' last coal-fired plant just switched off, and one of three coal plants left in New England, in Connecticut, is slated to change to gas. The Pilgrim nuclear plant in Massachusetts is also scheduled to close. But gas pipelines have proved challenging to build in the area, and pipeline capacity hasn't expanded much. Peter Shattuck, of the Acadia Center, which supports clean energy, said New England should rely on backup oil to run power plants until more renewable energy comes in the 2020s. He doesn't favor gas pipelines.

Analysts downgrade oil companies on fear of lower prices

(Bloomberg; June 22) - Energy analysts are heading for the exits. A wave of equity analysts downgraded dozens of oil industry stocks June 21, a day after crude slipped into a bear market, falling more than 20 percent from its highest close this year. Analysts took an increasingly pessimistic view of the world's ability to soak up the global oversupply of petroleum. “This is like a falling knife — I wouldn't catch it right now,” Amrita Sen, chief oil analyst at London-based Energy Aspects, told Bloomberg TV.

“We’ve had people call us and say this is the worst they’ve seen sentiment in 20 or 30 years,” Sen said. New York-based investment bank Seaport Global downgraded 51 explorers and service providers, including Apache, Continental and Devon Energy, warning that oil could plunge below \$30 a barrel next year. Big Oil wasn’t spared either. Macquarie Capital in London cut its ratings for Shell, Chevron, Eni and BP, warning the companies may require “further, painful cost reductions” if prices keep slipping.

At Seaport Global, analysts led by Mike Kelly said crude prices need to fall to \$40 a barrel to force production cuts that would stabilize supply and demand. If not, the market faces a surplus of as much as 2.2 million barrels a day next year that will only get worse through 2020. “Something has to give to keep the market in balance,” the analysts said. Prices may fall back into the \$20s early next year and average \$35 a barrel in the first half of 2018, prompting “massive” cuts in U.S. drilling rigs, they said.

Public offering planned to sell stake in Israeli offshore gas field

(Bloomberg; June 22) - Delek Group will start a roadshow next week to sell a stake in a \$12 billion natural gas field off Israel’s shores, according to a person familiar with the matter. Israel’s biggest energy company, controlled by billionaire Yitzhak Teshuva, will meet with investors in Tel Aviv, London and the U.S. for the planned initial public offering of Tamar Petroleum, a special-purpose vehicle that owns 9.25 percent of the Tamar reservoir, the source said. Tamar is estimated to hold 10 trillion cubic feet of gas.

Delek has about 50 meetings scheduled in Israel, and is working with HSBC Holdings and JPMorgan Chase on the London and the U.S. legs of the roadshow, the person said. Delek plans to complete the initial public offering by the end of July.

Delek Drilling owns a 31.25 percent stake in the Tamar reservoir and is controlled by the Delek Group. Israel’s government forced Delek to sell its holdings in Tamar as part of a regulatory framework intended to promote competition and development of the country’s largest gas field, Leviathan, which is estimated at more than twice the size of Tamar, Israel’s second-largest field. Tamar has supplied the vast majority of the country’s gas since 2013.