Oil and Gas News Briefs
Compiled by Larry Persily
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Rising supplies, falling prices, new buyers drive LNG market changes

(Wall Street Journal; June 6) - One day in March, the tanker Rioja Knutsen, filled with liquefied natural gas, was traveling from the U.S. to Portugal. Suddenly, Mexico's power company offered a higher bid for the cargo. At the Bahamas, the ship abruptly made a starboard turn and headed south. How LNG is bought and sold in the world's scattered regional markets for the fuel is changing rapidly. Ships such as the Rioja Knutsen are stitching those regions together and a single global market is emerging.

This is already how nearly every other hydrocarbon, from oil to petrochemicals, is sold. As LNG joins the club, the effects will ripple through energy prices, company profits, the environment and geopolitics. In addition, a global oversupply of gas has producers working to develop new consumers all over the world. The result is growing flexibility in once-rigid LNG contracts and a convergence in prices long dictated by local factors.

Thirty-nine countries now import LNG, up from 17 a decade ago. Several more are expected to lift the total to 46 in the next couple years. The changes are contributing to rapidly narrowing regional price differences. In 2012, Asian spot prices for LNG were $5.74 per million Btu higher than gas prices in Europe, according to S&P Global Platts. So far this year, the spread has averaged under $1. At any given time, there are about 170 tankers filled with LNG on the world's oceans, up from 150 a year ago. At the heart of the changes is supply. Huge new discoveries in the U.S., Middle East, East Africa and Australia have expanded the amount of gas available for export.

Qatar's natural gas wealth fueled much of its neighbors' animosity

(Bloomberg; June 5) - Saudi Arabia's isolation of Qatar has been brewing since 1995, and that long history and likely lingering future is best explained by natural gas. Not only was that the year when the father of Qatar's current emir, Sheikh Tamim bin Hamad Al Thani, toppled his pro-Saudi father, it was also when the tiny nation was about to make its first shipment of liquefied natural gas from the world's largest reservoir. Qatar shares the massive offshore North Field with Iran, Saudi Arabia's hated rival.

The wealth that followed turned Qatar into not just the world's richest nation, with an annual per-capita income of $130,000, but also the world's largest LNG exporter. The focus on gas set it apart from its oil-producing neighbors in the Gulf Cooperation Council and allowed it to break from domination by Saudi Arabia. Instead, Qatar built its own ties with other powers including Iran, the U.S. and Russia. Qatar's sovereign wealth fund agreed last year to invest $2.7 billion in Russia's state-run Rosneft Oil.

"Qatar used to be a kind of Saudi vassal state, but it used the autonomy that its gas wealth created to carve out an independent role for itself," said Jim Krane, energy research fellow at Rice University's Baker Institute, in Houston. "The rest of the region has been looking for an opportunity to clip Qatar's wings." That opportunity came after President Donald Trump's recent visit to Saudi Arabia, when he called on "all nations of conscience" to isolate Iran. When Qatar disagreed, the Saudi-led retribution followed.

Saudi-led sanctions force Qatar to find new refueling ports for tankers

(The Financial Times; London; June 6) - Qatar is facing higher costs in selling its oil and gas to customers in Asia and Europe as attempts by Arab states to isolate the country are complicating shipments for the world's biggest exporter of liquefied natural gas. While Qatar's exports of crude oil, condensate and LNG are continuing, oil brokers and traders say Qatar has had to scramble to find new ports to refuel its vessels after the United Arab Emirates banned Qatari-linked vessels from its waters.

Fujairah, one of the smallest of the emirates, is home to the biggest shipping fuel hub in the Middle East and is normally a key stopping point for Qatari LNG and oil tankers as they sail out of the Persian Gulf. The Saudi Arabia-led sanctions have forced Qatar to book new refueling stops in Gibraltar, Singapore and other shipping fuel hubs, according to brokers, likely incurring higher costs and potentially slowing deliveries.

Disruptions have been limited so far, however, with Saudi Arabia, UAE, Bahrain and Egypt seen as unlikely to escalate the crisis by trying to disrupt the trade that has made Qatar wealthy. "We do not believe that the rift will immediately imperil regional energy security," said Helima Croft, global head of commodity strategy at RBC Capital Markets. "Egypt is unlikely to close the Suez Canal to Qatari tankers … at this point, efforts to disrupt Qatari shipments will likely have a marginal effect, absent further deterioration."

Exxon reports no LNG disruptions out of Qatar

(Reuters; June 6) - ExxonMobil said June 6 that production and exports of liquefied natural gas from Qatar have not been affected by diplomatic tensions in the Middle East. Saudi Arabia, the United Arab Emirates, Bahrain and Egypt on June 5 cut ties with Qatar, accusing it of supporting extremism. Qatar denies the allegations. The growing diplomatic rift has raised concerns about global access to Qatar's LNG, especially after some Persian Gulf ports said they would not accept Qatari-flagged vessels.

Exxon and Qatar have had development agreements for more than a decade, with Exxon helping Qatar to become the world's largest LNG exporter by investing in liquefaction plants, ships and infrastructure. Commodity traders have grown concerned that Qatari LNG could be barred from Saudi Arabia or from traversing Egypt's Suez Canal, though so far no limitations have been imposed. Maersk, the world's biggest container shipping line, said June 6 it can no longer transport goods in or out of Qatar.

Exxon said its production and export of LNG from Qatar has not been affected. A large portion of Exxon's Qatari production is under long-term supply contracts, meaning the company must supply gas from Qatar or some other source if deliveries are disrupted. Exxon is a partner in a dozen liquefaction trains in Qatar that total 61 million tonnes of annual LNG capacity — about one-fifth of global LNG capacity.

Rosneft, BP agree to cooperative gas marketing

(LNG Industry; June 5) - Rosneft announced it has signed an agreement with BP on strategic cooperation in natural gas, as well as a memorandum of understanding with BP for the sale and purchase of gas in Europe. The agreements were signed at the St. Petersburg International Economic Forum this week. The parties agreed to develop integrated cooperative efforts in gas and to jointly implement projects in Russia and abroad focused on exploration and production, LNG production, supply and marketing.

Rosneft and BP also reconfirmed their interest in cooperating in European gas marketing. Under terms of the agreement, Rosneft and BP Gas Marketing (a wholly owned subsidiary of BP) will enter into a long-term sales and purchase agreement for a supply of gas provided by Rosneft starting in 2019 to ensure delivery of additional Russian gas supplies to European markets. "Rosneft already is the largest independent gas producer in Russia and intends to further increase production levels in the coming years," said Rosneft CEO Igor Sechin.

"BP is pleased to expand its ongoing relationship with Rosneft through this agreement," said David Campbell, president of BP Russia. "Shifting to gas is one of the pillars of BP's strategy. It's important in order to meet the increasing demand for cleaner energy."

Shell on short list for Equatorial Guinea LNG offtake contract

(Reuters; June 5) - Equatorial Guinea has short-listed Shell and oil and gas traders Gunvor and Vitol for an offtake agreement at its Fortuna floating liquefied natural gas export terminal and expects to make a final decision by August, its oil minister said June 5. Fortuna FLNG would be Africa's first deepwater floating liquefaction facility, with production capacity of 2.2 million tonnes per year and an estimated start-up in 2020. Developers have targeted this summer for a final investment decision on construction.

"Our criteria for selection (of the preferred offtaker) is very simple — whoever gives more money. So, whoever provides the biggest cash and good terms" will win the contract to take and market the LNG, said Gabriel Obiang Lima, minister of mines and hydrocarbons. British oil and gas explorer Ophir Energy said in May it plans to borrow $1.2 billion from Chinese banks to back its development of Fortuna. The government of Equatorial Guinea is a partner in the project with Ophir, along with oil field services company Schlumberger and shipper Golar LNG.

Canada extends export license to 40 years for small LNG project

(CBC News; June 5) - Canadian regulators have approved a 40-year natural gas export license for the proposed Woodfibre LNG plant near Squamish, B.C. The $1.6 billion small-scale plant planned for the site of the old Woodfibre pulp mill about 30 air miles north of downtown Vancouver could be up and running in 2020. It would liquefy gas shipped by pipeline from northeastern B.C. for export to Asian markets. The developer in 2013 received a 25-year export license, but applied in February for a 40-year license after Canadian regulators increased the allowable term.

Woodfibre LNG is owned by Singapore-based Royal Golden Eagle. The venture secured federal and First Nations' environmental approval last year for the project to produce up to 2.1 million tonnes of LNG per year. The developer in February issued a contract for front-end engineering and design services for the plant. Site preparation has started to clean up the property, with a construction contract expected late this year.

Australian LNG producer signs deal to supply Indonesia

(The Australian Business Review; June 6) - Woodside Petroleum has struck a multibillion-dollar liquefied natural gas sales agreement with Indonesia's Pertamina, in what is likely to be the largest-ever single trade deal between Australia and its northern neighbor. Perth-based Woodside announced June 6 it had agreed to sell about 600,000 tonnes of LNG to Pertamina from 2022 to 2034. Woodside will have the option to boost that to 1.1 million tonnes a year from 2024 and extend the contract out to 2038.

It is Woodside's first long-term contract to Indonesia, which up until recently was a net exporter of LNG but its output has failed to keep up with rising domestic demand. Details of the deal are confidential. At current long-term prices, however, 1.1 million tonnes of LNG per year could be worth about $400 million a year to Woodside. The company, which has traditionally sold LNG to Japan, Korea and China, has been increasingly branching out into new markets in recent years.

Australia’s East Coast gas users paid average $10 in first quarter

(Australian Financial Review; June 6) - Fresh evidence has emerged of the supply shock hitting industrial users of gas on Australia’s East Coast, where shortages have driven up prices to levels some cannot afford. Short-term gas prices in the quarter that ended in March were double the levels of a year earlier, driving a 16 percent drop in the use of gas outside of power generation and to feed the new Queensland liquefied natural gas export plants, according to analysis from consultancy EnergyQuest.

"There is a large move away from gas and a real possibility of closures,” EnergyQuest CEO Graeme Bethune said. The drop in the local use of gas was seen most severely in Victoria and Queensland states, where industrial users have been warning that high energy prices would cause plants to shut down. Short-term gas prices averaged about $10 per million Btu in the first quarter, well above most contract prices and spot Asian LNG prices, according to EnergyQuest.

At the same time, LNG exports are flattening out, with slightly less gas exported from Gladstone in the March quarter than in the previous three months. EnergyQuest puts insufficient gas development at the core of the problem. While the federal government has responded to the crisis and is working to put in place a Domestic Gas Security Mechanism by July 1 that could forcibly limit LNG exports, domestic manufacturers are still worried prices won't fall to affordable levels.

Australian state wants tougher restrictions on LNG exports

(The Age; Victoria; Australia; June 6) – Victoria, Australia’s most densely populated state, population about 6 million, is pushing for tough restrictions on natural gas exports to protect local businesses and consumers that are being hit by soaring prices. To protect domestic customers, the government is demanding a new regime that imposes a cap on the amount of gas big producers can export. More than half of Australia's gas production is exported as liquefied natural gas, with two-thirds of that shipped to Asia.

Victoria Premier Daniel Andrews will use the Council of Australian Governments meeting on June 9 to argue that there is a major market failure, with local users facing higher prices for Australian gas than foreigners. His plea follows a decision by the federal government in April to restrict gas exports, but only when the government decides there is a risk to the security of supply. Victoria says the commonwealth's proposal doesn't go far enough, is not transparent and lacks clarity about enforcement.

The state of Victoria wants the cap to automatically kick in when gas prices are significantly higher for Australian customers than for foreign buyers, with monitoring and enforcement by the Australian Competition and Consumer Commission. The state government says the export cap should apply until prices return to a "fair" level. It also wants to set up a system of tradeable LNG export permits, and to tax the trade of those permits to pay for subsidies that could help companies reduce their reliance on gas.

LNG import terminal a possibility to meet local needs in Australia

(Reuters; June 7) - Australia's Victoria state is working with AGL Energy to study building a liquefied natural gas import terminal to beef up local gas supplies, even as the country is set to become the world's largest LNG exporter. Victoria Premier Daniel Andrews is under pressure to bolster gas supplies as the southeast Australia state looks to save manufacturing jobs threatened by soaring energy prices. Part of the problem, critics say, is that Victoria has barred all onshore gas drilling for new developments.

LNG exports from northeastern Australia have been pulling gas out of the domestic market, and the nation's energy market operator warned earlier this year that without new supply, the local market could face a shortfall by late 2018.To help avert gas and power cuts, the Victoria state government said it is studying the development of an LNG import facility with AGL, most likely a floating terminal.

"An LNG terminal would allow the eastern market to bring in lower-cost global gas or lower-cost gas from Western Australia," the government said in a statement. The state said it would be cheaper to transport LNG by ship to a terminal near a major demand center like Melbourne than transporting it by pipeline from South Australia or Queensland state farther north.

Louisiana may change constitution to allow longer-term tax breaks

(American Press; Lake Charles, LA; May 31) – The Louisiana House approved a proposed constitutional amendment May 30 that would allow local governments to negotiate payments in lieu of property taxes from manufacturers past the state’s current 10-year limit on industrial tax exemptions. If approved by the Senate and voters, the change would overcome court decisions that ruled against Cameron Parish taxing agencies giving a long-term tax break for a liquefied natural gas plant in Hackberry, La.

San Diego-based Sempra Energy has operated the Cameron LNG import terminal since it opened in 2009, with a $10 billion expansion underway to add liquefaction and export capability. Start-up is scheduled for 2018. Supporters of the constitutional amendment to allow negotiated payments in lieu of property taxes based on assessed value said the change would give authorities more freedom to negotiate taxes with new industries.

“The goal of this from day one has been to achieve a sustainable quality of life for the people of Cameron,” Parish Administrator Ryan Bourriaque said in January. “If that meant collecting less early, we were OK with that.” Under the long-term tax break rejected by the courts, the parish would have collected $503.5 million over 23 years instead of $1.5 billion based on full taxes. The parish tax assessor had opposed the plan on the grounds that it was unconstitutional. The Louisiana Municipal Association and economic development groups statewide support the constitutional amendment.

Higher prices could cut into natural gas share of U.S. power mix

(Platts; June 6) - Higher natural gas prices are expected to reduce the fuel's share in the U.S. power-generation mix, the Energy Information Administration said June 6. "The amount of U.S. electricity supplies from gas-fired generation is expected to decline this year in response to higher natural gas prices, as generation from coal, hydropower, wind and solar all increase," EPA acting Administrator Howard Gruenspecht said.

The agency forecasts power generation from gas to fall to less than 32 percent of total utility-scale generation in 2017 and 2018 from an average of 34 percent in 2016, due to higher prices. Electricity produced by coal-fired units would tick up from 30 percent of the generation mix in 2016 to 31 percent in 2017 and 2018, the EIA said. The agency, in its June Short-Term Energy Outlook, forecast full-year 2017 gas prices at an average $3.16 per million Btu and 2018 prices to average $3.41. Prices averaged $2.51 in 2016.

"Wind, solar, and other non-hydro renewables are expected to account for nearly 10 percent of U.S. electricity generation during 2018, as total generation by these energy resources continues to rise," Gruenspecht said. EIA expects full-year 2017 U.S. natural gas marketed production to average 78.68 billion cubic feet per day, a 1.8 percent rise over 2016. Production for full-year 2018 is forecast to average 82.43 bcf a day. The production gains reflect the better financial position for producers from higher prices.

Growing U.S. shale production could hold down oil prices

(EnergyWire; June 6) - The U.S. oil and gas industry continues to enjoy a revival, even as there is growing unease over the future direction of oil prices. Companies are using new technology, enhanced drilling efficiencies and easy credit to expand production. An index tracking the health of the oil and gas sector in Texas is up again, and companies hit by the 2014 oil price crash continue to shore up their balance sheets.

The U.S. is currently exporting more than 1 million barrels of crude oil per day, at the same time as U.S. refineries are pushing more refined products onto the global market. These trends, however, plus indications that global oil demand is not growing all that swiftly, are causing skepticism over Russia and OPEC's ability to reduce the world's oil glut and send oil prices back to the $60-per-barrel range by the end of the year.

It's been assumed that any growth in U.S. shale oil production would be outstripped by OPEC and Russia's removal of almost 1.8 million barrels a day from the market. Now some are questioning that assumption. "I am skeptical that OPEC production cuts will counter increases from other sources like shale," said Sandy Fielden, director of oil products research at Morningstar. "The only factor working in their favor would be a big increase in demand that soaked up excess supply. We are not seeing any evidence of large increases in demand from Asia or Europe yet," Fielden said. The analyst warned that U.S. oil producers may accidentally export themselves into another oil price plunge.