Oil and Gas News Briefs
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March 16, 2017

Easing of power supply worries cuts into Japan's demand for LNG

(Nikkei Asian Review; March 15) - Import prices of liquefied natural gas in Japan are returning to normal after ballooning as much as 80 percent following the March 2011 Fukushima nuclear disaster, as energy conservation efforts and reactor restarts relieve pressure on the nation's power supply. By May 2012, all 50 reactors were offline, the first across-the-board shutdown in the nation since nuclear power became a base source of electricity. Japan lost a fifth of its installed generating capacity as a result.

More thermal power was needed to fill the gap. Plants that had been closed due to age were restarted at full capacity, feeding demand for fossil fuels including LNG, coal and oil. LNG supplied 40 percent of Japan's electricity. Japanese power companies typically import LNG under long-term contracts that track oil prices. But heavy demand led utilities to increase their buys on spot contracts, driving up prices to $18 per million Btu.

The decline has been just as dramatic. New LNG exports came online in Australia and the U.S., contributing to a global supply glut. Oil prices began sliding in late 2014, which rippled through LNG contracts. Reactor restarts at Kyushu Electric Power and Shikoku Electric Power eased concerns about power supply. In addition, users got serious about conserving power. Electricity demand in fiscal 2015 was down 5 percent from fiscal 2009. No immediate restarts are likely for most of Japan's other nuclear plants, but the growth of solar power and other renewables has eased worries about electricity supply.

Low oil prices upset expectation that U.S. LNG would be cheaper

(Nikkei Asian Review; March 11) - Expectations are high for U.S. shale-based liquefied natural gas, which has started flowing into Japan. Traders hope the unconventionally produced gas might become a game changer as it could help diversify suppliers and allow for more flexible terms. The problem? The product is not as cheap as expected. According to trade statistics, Japan imported some 210,000 tons of LNG from the U.S. in January. What caught the eye of energy traders was the high price of the gas.

All of the gas in question was produced by Cheniere Energy at its LNG plant in Louisiana and was priced 60 to 70 percent higher than the average price of other LNG that arrived in Japan that month. The gap is due to different pricing systems. The prices of Southeast Asian and Australian LNG are linked to oil prices. American LNG prices, by contrast, are linked to benchmark natural gas prices in the U.S. With weak oil prices, the crude-linked LNG came in much lower.

Traders had expected U.S. LNG prices to be higher than Southeast Asian and Australian supplies, but such a high premium was "beyond our imagination," one official said of January's cargoes. Shale gas was supposed to help Japan reduce its imported fuel costs, and utility companies and traders rushed to invest in U.S. LNG. It is ironic that shale gas imports not only failed to cut costs but rather increased them. But the problem may reverse course as oil prices bounce back.

LNG plant on Maryland shore on schedule for late 2017 start-up

(BayNet; Calvert County, MD; March 13) - The $3.8 billion project to expand an underutilized 1970s' liquefied natural gas import terminal on Maryland's Chesapeake Bay into an export facility is rolling toward completion, company officials reported. The plant's owner, Virginia-based Dominion, reports "the overall project — engineering, procurement and construction — stands at about 84 percent complete and remains on schedule to wrap up later this year." Work at the job site started in 2014.

"All of the major equipment has been set in place and now the focus is on completing the installation of piping, cable trays, cables and cable terminations," the company reported in its latest project newsletter. Dominion reports the on-site workforce is about 2,500. Start-up of the liquefaction plant in Lusby, Md., is scheduled for late this year.

The single-train LNG plant will have a capacity to liquefy about 750 million cubic feet of gas per day, smaller than the four LNG export plants now under construction on the U.S. Gulf Coast. Dominion reports the plant's entire output is covered by 20-year contracts with GAIL India and an affiliate of Japanese trading company Sumitomo.

Australian LNG project hit by another contractor dispute

(Financial Times; London; March 15) - A series of contractual disputes at the $37 billion Ichthys liquefied natural gas project under construction near Darwin are threatening further delays and cost overruns to Japan's largest single investment in Australia. U.K. engineering company Laing O'Rourke fired 800 workers on March 15 because of a dispute over unpaid work on the project that is led by Japan's Inpex, which is rushing to meet a revised deadline to start shipping gas by September.

"Kawasaki Heavy Industries, which leads this phase, has not paid Laing O'Rourke … for several months," the U.K. company said. The dismissal of workers building LNG storage tanks comes after Australian contractor CIMIC in January terminated its contract to build the site's power plant. "Ichthys has been plagued by challenges during construction," said Saul Kavonic, analyst at Wood Mackenzie. "It would be a Herculean feat for Inpex to get Ichthys properly started up by September.” Production capacity will be 8.9 million tonnes a year. Inpex is not directly involved in the disagreements between contractors.

JKC Australia, a consortium leading overall construction of the Ichthys onshore facilities, said the LNG tanks were 91 percent complete. Inpex said its target for production start-up is still the third quarter of 2017. Ichthys is already nine months behind schedule, but Neil Beveridge, an oil and gas analyst at Bernstein & Co., said other Australian LNG projects had fared worse with delays and cost overruns. Inpex holds 62.245 percent of Ichthys and France's Total 30 percent. The rest is spread among Taiwan's CPC Corp. and Japanese utilities Tokyo Gas, Osaka Gas, Kansai Electric, Jera Co. and Toho Gas.

Poland doubles volume under Qatargas LNG supply deal

(Reuters; March 14) - State-owned Qatargas has agreed to double the volume of liquefied natural gas it supplies to Poland's gas firm PGNiG to 2 million tonnes per year at a price that may have a positive impact on PGNiG's bottom line, the companies said. The agreement comes as Poland is struggling to reduce its reliance on supplies of Russian gas, while a deepening global gas glut offers opportunities to bring in cheap LNG from Qatar and elsewhere.

For Qatar, which faces competition from Australian and U.S. producers, supply deals into Europe offer a valuable option as Asia's gas-consuming economies rein in new deals in light of a growing supply overhang. The latest is a side agreement to a long term-contract PGNiG and Qatargas signed in 2009 for Qatargas to deliver about 1 million tonnes of LNG annually for 20 years starting in 2014. In 2009, PGNiG estimated the average price at about $10 per million Btu.

The price in the extension was not revealed, but PGNiG said terms were "satisfactory." A source said Qatar’s expanded deal likely came with a price discount, which PGNIG had been seeking after paying at the peak of the market the last time around. The agreement will extend the supply deal to 2034. The LNG will be supplied from Qatar Liquefied Gas Co., a joint-venture of Qatar Petroleum, ConocoPhillips and Mitsui & Co. Poland's LNG import terminal on the Baltic Sea started commercial operations last year.

Oregon hotel cancels dueling open houses on LNG project

(Mail Tribune; Medford, OR; March 10) - Backers and opponents of a gas pipeline and liquefied natural gas export facility in Southern Oregon have found rare common ground after a hotel in Medford cancelled their reservations for dueling open houses planned for the same evening. Jordan Cove LNG planned to share information with the public and take questions at an open house March 23 at a Ramada hotel. Opponents booked an adjacent room for an alternative open house to warn of the project’s negative impacts.

Late this week, both sides said, Ramada cancelled their reservations. They are looking for a new venue for the meetings. Jordan Cove LNG spokesman Michael Hinrichs said he was disappointed by the hotel's decision to cancel both open houses. He said there has never been a negative incident between supporters and opponents during 13 years of public meetings over the proposal.

Past meetings have attracted crowds in the hundreds, with most against the 232-mile pipeline and LNG plant that would affect hundreds of landowners and cross multiple waterways, including the Rogue River. The Federal Energy Regulatory Commission denied the project in March 2016, then reaffirmed the denial in December 2016, saying negative impacts to landowners along the route outweighed any benefits. Jordan Cove is trying again and is submitting information to FERC as part of a pre-filing process.

Global oversupply adds to woes for U.S. gas producers

(Wall Street Journal; March 14) - A glut of U.S. natural gas is turning into a world glut, hampering efforts by U.S. producers to export their way out of an oversupplied market. U.S. natural gas futures have declined 23 percent over the past two months. Shares of gas-production companies are among this year’s worst performers after a run of mild weather lowered heating demand. On March 14, futures for April delivery lost 7.7 cents, or 2.5 percent, to $2.996 a million Btu on the New York Mercantile Exchange.

Several factors have kept prices in check. The winter-heating season is passing soon, storage levels are higher than normal and production is likely to rise. Many investors were betting that new gas-fired power plants and record U.S. gas exports would help burn off much excess supply, but even a historic level of exports hasn't been enough to transform a market where weather and massive new supplies of gas from fracking have been the main drivers. “Investors right now across the board just hate natural gas,” said Pearce Hammond, an analyst at Simmons & Co. International in Houston.

Global prices have plummeted, down by half in some places in recent years. U.S. liquefied natural gas exporters can’t sell into a higher-priced international market and get higher revenues because international prices just keep falling toward the cheaper U.S. prices. Bernstein Research, Macquarie Group and energy investment bank Tudor, Pickering, Holt & Co. all are warning that oversupply may weigh on the global market for years. Supply is likely to increase by 44 percent from 2015 levels to 2020 and outpace new demand through the end of the decade, according to Moody’s Investors Service.

Boost in Permian oil drilling could drive down natural gas prices

(Bloomberg; March 13) - A drilling surge in America's hottest oil play may prove to be a pitfall for natural gas bulls. As explorers extract crude from the Permian shale in West Texas, they are also producing gas. A boost in the number of rigs in the basin is adding to the so-called fracklog, or the number of drilled wells waiting to be finished. That's a sign that gas output from the region will jump by about 25 percent over the next year, threatening to send gas prices below $2 per million Btu, said Tudor Pickering Holt & Co.

Gas is already this year's worst performer among major commodities, and the prospect of a torrent of supply from the Permian means 2018 may not be much brighter for gas bulls. Output from the basin would augment production from the Marcellus shale in Pennsylvania and West Virginia, which is expanding as new pipelines carry the fuel to major markets. U.S. natural gas futures for April delivery were selling at $2.99 per million Btu on March 14.

"It's a real risk that a year from now that prices could be below $2," said Brandon Blossman, a managing director at Tudor Pickering Holt in Houston. "You have this unfortunate confluence of Permian production ramping right into the teeth of a lot of new takeaway capacity in the Northeast." Gas production from the Permian may total 7.945 billion cubic feet a day in April, up 15 percent from a year earlier.

Opponents allege FERC rushed approval of gas pipeline

(EnergyWire; March 14) - Federal regulators last month rushed to issue decisions on major pipelines before their agency fell into a legal limbo, but their hustle has opened those projects to charges they were not fully vetted. Local and environmental groups opposed to the Atlantic Sunrise Project, a 183-mile, $3 billion venture by Williams Cos. is arguing that the Federal Energy Regulatory Commission failed to make critical environmental information available before it approved the project last month.

FERC approved the Atlantic Sunrise Project on Feb. 3, the last day of work for former Commissioner Norman Bay. Since then, the agency has been unable to make major decisions because only two of the five commissioner seats are filled, leaving it short of a quorum. Project opponents including the Allegheny Defense Project, Sierra Club and Lancaster Against Pipelines filed a rehearing request, asking that FERC withdraw its environmental review and reconsider its decision on the Pennsylvania pipeline.

Several of the issues they raise have been challenged repeatedly for pipeline projects. But the timing question is a new issue. The opponents said environmental information is missing from the final environmental impact statement presented for public comment and weighed by FERC officials. The groups charge that the rush to approve the pipeline shortchanged the review process. As an example, they point to a potential hazard from three underground fires in coal mines burning within a few miles of the pipeline route.

TransCanada strikes deal with Canadian producers to move more gas

(Financial Post; Canada; March 13) - Western Canadian natural gas producers could get a US$25 billion revenue boost under a pipeline deal struck with TransCanada, analysts said. The Calgary-based pipeline operator said March 13 that producers agreed to send an additional 1.5 billion cubic feet of gas per day between Empress, Alberta, and Dawn, Ontario, on the company's underutilized mainline over the next 10 years. In exchange for the additional gas shipments, producers will pay lower tariffs.

The move is intended to send more Canadian gas to the Southern Ontario market before competing pipelines from Pennsylvania are built and crowd Canadian gas out of the region. Analysts said the deal will save producers in Alberta and British Columbia billions of dollars of lost revenues from lower prices and a smaller share of the market. Cameron Gingrich, director of gas services at Solomon Associates, said Canadian producers would have lost a major market without the deal.

Lack of a deal would have caused Alberta's gas benchmark price to drop an average of 18 cents per 1,000 cubic feet and Western Canada production to fall by 1.1 bcf a day. TransCanada had previously failed to convince producers to send more gas down its underutilized line, but Gingrich said smaller producers had since learned that U.S. producers in Pennsylvania and Ohio were threatening their prices in Ontario and Alberta, prompting them to commit to the most recent proposal from TransCanada. The company will need to seek regulatory approval for the new tolling arrangement.

Alliance pipeline looks to move more Canadian gas to U.S. market

(Financial Post; Canada; March 14) - After inking a deal to send an additional 1.5 billion cubic feet per day of natural gas to Southern Ontario, Western Canadian producers are now considering sending another 500 million cubic feet per day to Chicago as proposed liquefied natural gas exports projects on the British Columbia coast are stalled. Alliance Pipeline, owned by two Calgary-based companies, Enbridge and Veresen, asked producers to commit to the additional volumes down its 2,391-mile pipeline to Chicago.

The Alliance pitch came the same day as TransCanada announced it had struck a deal with producers to send more gas through its mainline to Ontario. Alliance's proposal is being considered at a time when many Canadian producers are uncertain if LNG export projects proposed for the West Coast will get built after years of delays. Producers are looking for new ways to market their gas. The Alliance pipeline is already 90 percent full and the proposed expansion of 500 million cubic feet per day would boost the line's capacity to 2.1 billion cubic feet per day, with a planned operational date of late 2020.

Cameron Gingrich, director of gas services at energy advisers Solomon Associates, said TransCanada's deal was intended to preserve domestic producers' market share in

Toronto, while the Alliance proposal would grow Western Canadian producers’ market share in the U.S. Midwest. “This speaks to industry coming to terms with controlling its own destiny,” Gingrich said. The first segments of TransCanada’s mainline went into service in 1957. The Alliance line has operated since 2000.

Rising natural gas prices hurt manufacturers in Australia

(Australian Associated Press; March 14) - Critically short natural gas supplies are making local manufacturing difficult or even impossible, Australia's competition watchdog warned, as a gas "crisis" puts jobs at risk. As one of Australia's oldest brick manufacturers said it may shift production offshore due to soaring gas prices, Australian Competition and Consumer Commission Chairman Rod Sims warned March 14 that industrial gas users face serious problems as prices soar amid tightening supply.

Sims told the Australian Domestic Gas Supply Outlook in Sydney that many industrial users have no alternatives to gas. "How can these companies invest and plan with such high and uncertain gas prices and with considerable supply uncertainty," he said. "At worst, plants will close and jobs will be lost purely as a result of the current gas crisis. Australia often makes it hard to be involved in manufacturing. We are now making it extremely difficult if not impossible for some."

Brick maker Brickworks on March 14 announced it is considering a move overseas due to skyrocketing gas costs, while packaging company Orora accused liquefied natural gas exporters of holding manufacturers "hostage." Brickworks has seen gas prices at its East Coast operations surge 76 percent. Packaging company Orora's CEO Peter Dobney accused large LNG producers of prioritizing exports above all else. Sims said gas supplies have been hit by a trebling of demand due to Australia's growing LNG exports, and bans on new gas exploration and development amid local opposition.

Australian gas producers pledge to boost supply for local market

(Reuters; March 15) - Australia's top gas producers, led by ExxonMobil and Shell, agreed to boost supply to the domestic market to help avert an energy shortage following talks with Prime Minister Malcolm Turnbull. Australia is on track to become the world's largest liquefied natural gas supplier, yet its energy market operator has warned of a domestic gas crunch in 2019 that could trigger supply cuts and power outages.

"We are a massive gas exporter. It is utterly untenable, unacceptable for us to be in a position where domestic gas consumers ... cannot have access to affordable gas," Turnbull told reporters March 15 after the meeting. He said the producers had guaranteed to ensure that gas would be available for the national electricity market.

Australian manufacturers have long complained of tight gas supplies and soaring prices as producers have focused on supplying LNG plants locked into 20-year export deals. With the increased demand for gas, domestic prices have tripled. "That's apocalyptic as far as the cost structures of energy-intensive manufacturers are concerned," said Tennant Reed, policy adviser at the Australian Industry Group. Producers blame state drilling bans, uncertainty over Australia's climate policy and, more recently, potential increases in production taxes for deterring development of new gas fields.

Advocates push for Australia to boost taxes on gas production

(Sydney Morning Herald; March 14) – Japan is collecting more tax revenue from Australia's liquefied natural gas than the producing country's government, heightening concern that Australia is missing out on the wealth benefits of its gas export boom. Japan, which is the single-biggest buyer of Australian LNG, levies an import tax that will generate $2.9 billion over the next four years, according to research by the International Transport Workers' Federation, a member of the Tax Justice Network.

By comparison, Australia will not receive any petroleum resource rent tax from natural gas production in federal waters over the same period. Of the country's half-dozen LNG projects built in recent years, three will get their gas from fields offshore Western Australia. Because the resource rent tax allows project developers to recover their capital investment before the tax kicks in, receipts from the levy are several years off.

The Australian government is reviewing the resource tax, with a report expected in April. Advocates of a change in the tax regime said March 14 it was a "national scandal" that Australia's customer, Japan, could derive more financial benefit in revenue than the country that owns and sells the resource.