Oil and Gas News Briefs
Compiled by Larry Persily
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Novatek says China will help raise money for Arctic LNG project

(UPI; Nov. 1) - Russian independent gas producer Novatek said Nov. 1 it reached an agreement with a Chinese bank to help proceed toward its second liquefied natural gas project in Russia's Arctic. Novatek said it signed a memorandum of understanding with the China Development Bank to cooperate on steering capital toward LNG. "Our strategy envisages a rapid growth of LNG production using international financing sources," Leonid Mikhelson, chairman of the Novatek board, said in a statement.

Novatek, the largest privately owned gas producer in Russia, leads the $27 billion Yamal LNG project, the first in Russia's Arctic. Its initial cargo is expected before the end of the year. Along with partners French major Total and China National Petroleum Corp. (CNPC), Novatek is looking toward gas markets in the Asia-Pacific. The Yamal LNG project will have the capacity to produce about 17.5 million tonnes of LNG a year.

Novatek said it has signed a strategic cooperation agreement with CNPC that outlines implementation of its second gas project, named Arctic LNG-2, including development of infrastructure and trading mechanisms. "We believe our strategic cooperation agreement will further enhance our mutual relationship as well as open up new opportunities for both companies … with the enormous opportunities in the Chinese market," Mikhelson said.

PetroChina on long-term path to boost its natural gas output

(Bloomberg columnist; Oct. 30) - The world's biggest gas giant has been hiding in plain sight. Despite some of the world's largest reserves of natural gas, PetroChina is still viewed through the lens of oil. That's overdue for a change. Oil production in the nine months through September fell 5.2 percent while gas climbed 4.5 percent, the company said Oct. 30. Third-quarter oil flow of 224.3 million barrels represented about 60 percent of the total when set against gas output of about 152.1 million barrels of oil equivalent.

The trend toward gas at PetroChina has been underway ever since the company's 2000 initial public offering, when crude made up more than 90 percent of its output. In recent quarters the trend has been accelerating, though. Extrapolate the recent pace of change from oil to gas and it's easy to see PetroChina join Gazprom, Repsol and perhaps Shell in the club of companies mainly dependent on gas rather than oil.

PetroChina should be particularly keen to pump more of its own gas because it does poorly from imports. Net losses from selling imported pipeline gas and LNG totaled 17 billion yuan ($2.6 billion) in the nine months through September. The company has ample assets to accomplish this shift. Its proven and developed reserves amount to about 41 trillion cubic feet of gas. Include undeveloped reserves and the figure rises to 79 tcf, close to twice Shell's 41 tcf gas reserve base.

Retiring CEO says Chevron didn't do its homework on LNG projects

(The West Australian; Oct. 29) - Chevron's departing head has told Wall Street the $US17 billion cost overrun at the company's Gorgon LNG project in Australia taught the U.S. oil and gas major it needed to do more homework before starting mega-projects. Chevron CEO John Watson told investment analysts Oct. 27 that it was now clear that Chevron should have done additional engineering work and more thoroughly checked planning for the project before going ahead with construction in 2009.

"It's a complex project on Barrow Island and if you miss a few things you're going to incur some additional costs," he said. "We have to verify every single aspect of these projects in advance, because we're on the hook for them, regardless of the kind of contract that we sign." Watson said Chevron had a different mindset a decade ago. The project was to cost US$37 billion when approved, with the first LNG planned for 2014. The most recent cost estimate, four years ago, indicated a 46 percent overrun to $US54 billion. Gorgon started exporting LNG in March 2016.

Watson, who has led Chevron since 2010, made the comments at his last presentation to Wall Street analysts before he retires in February. A year ago, Chevron announced a 17 percent cost increase to $34 billion for its second Australia LNG project, Wheatstone. At the time, Chevron's chief financial officer said the main reason was the late arrival of modules from Malaysia but, like Gorgon, a lack of engineering before a final investment decision was a significant factor. Wheatstone's first LNG cargo is now being loaded.

Coal-producing province warns of China's overreliance on gas

(Reuters; Oct. 30) - China's top coal-producing province Shanxi called on local authorities to ensure natural gas supplies during the winter and not to "blindly" push ahead with the central government's coal-to-gas policy, state-owned news agency Xinhua reported Oct. 30. "Authorities should guarantee gas supply before setting coal-to-gas conversion tasks ... and ensure a minimum three-day volume of gas storage in the local region," said a statement by Shanxi Development and Reform Commission.

The statement highlights growing concerns that the country's insufficient pipeline and gas storage capacity could cause power outages during the peak winter-demand season. “The task of ensuring stable supply for gas is tough, as gas demand is growing rapidly amid an official policy to switch from coal to gas,” said the Shanxi development commission in the statement cited by Xinhua.

China’s central government has vowed to improve air quality this winter in 28 smog-prone northern cities. Its plans include the elimination of a total of 44,000 coal-fired industrial boilers and replacing coal-fueled household heating with gas or electricity in millions of residences. Shanxi must get rid of 969 industrial boilers and switch 390,000 households to gas heating by the end of October, according to a statement issued in August by China’s Ministry of Environmental Protection.

Asian coal demand is up, as are prices, but there is a downside

(Reuters columnist; Oct. 27) - Coal as a scarce commodity seems somewhat preposterous given that it remains one of the most abundant mineral resources on the planet, but the coming years may see a deficit in seaborne markets for the polluting fuel. The reality is that coal, particularly in Asia, will remain a bedrock of energy supply for at least the next decade. With the exception of India, most major coal importers in Asia have increased purchases this year, with China boosting imports by 13.7 percent in the first nine months of 2017 compared to 2016, all of which is helping to drive up prices.

What is different about this coal price cycle is that the additional demand hasn't resulted in more investment in supply, and may not even attract investment if prices remain elevated. Coal's reputation as a major contributor of man-made climate change has made it difficult for would-be coal miners to obtain financing. Even if a coal mine can secure money and regulatory approval, public opposition and protests can make life difficult, especially in more developed coal-producing countries like Australia.

And while the ensuing higher prices will no doubt be welcomed by coal miners, they are a double-edged sword. Thermal coal prices above $80 a tonne will make competing fuels such as liquefied natural gas more appealing to buyers, as well as boosting the attraction of renewables. Coal's advantage in Asia has been it was cheap and abundant, and both of those long-standing assumptions are now being challenged by market dynamics.

South Korea’s coal imports set record in October

(Reuters; Oct. 30) - South Korea’s coal imports will hit a record in October as nuclear reactor outages bite into energy supply and the country braces for the imminent start of the peak winter demand season. Shipping data in Thomson Reuters Eikon showed that South Korea’s September coal imports hit a record 11.3 million tonnes, and several trading sources said the October figure will be around 12 million tonnes.

Rodrigo Echeverri, head of bulk commodity analysis at merchant Noble Group, a major trader in physical coal markets, said at a major industry event last week that "Korea ... had issues with nuclear generation in 2016 and 2017." Having to step in to replace nuclear power meant that "Korean (coal) imports are headed on track to grow by 9 million to 10 million tonnes in 2017," to almost 110 million tonnes, he said. The higher demand is also a result of the looming peak-demand winter season in North Asia.

Thermal coal prices are reacting to the tighter demand picture, with benchmark Australian spot cargo prices from its Newcastle port last settling at $97.10 per tonne, up more than a third from its 2017 low in May. For similar reasons, South Korea's imports of liquefied natural gas have also soared since summer. Asian spot LNG prices have jumped by two-thirds since March to $9 per million Btu.

India's top court bans dirty fuels in area surrounding New Delhi

(Bloomberg; Nov. 1) - A ban on dirty fuels in areas around one of the world's most polluted cities is set to spur sales for India's natural gas retailers. India's top court last week banned the use of petroleum coke and furnace oil in areas around the capital New Delhi, which is battling alarming levels of air pollution that is risking human health. The ban, which takes effect Nov. 1, is set to increase sales at India's city gas distributors as they seek to convert to cleaner gas small businesses that use cheaper but dirtier fuels.

"We have zeroed in on more than 100 industries that can be quickly converted into gas users," said E.S. Ranganathan, managing director of Indraprastha Gas. The company, which supplies compressed and piped gas in Delhi and suburbs, expects to add much as 30 percent, about 5 million cubic feet a day, to its industrial sales in six months.

A ban on the two cheaper fuels in Delhi has been in effect since 1996, according to the environmental nonprofit Centre for Science and Environment. The latest court order banned the use of petcoke and furnace oil in parts of Haryana, Uttar Pradesh and Rajasthan states that surround Delhi. While the ban bolsters the use of gas, a lack of officials to enforce it could be a challenge, said K. Ravichandran, senior vice president at credit assessor ICRA, the Indian unit of Moody's Investors Service.

Mitsui shifting its trading focus from crude oil to LNG

(Financial Times; UK; Oct. 29) - Mitsui & Co, one of Japan's largest trading companies, is shifting the focus of its energy operations from the traditional crude oil business to liquefied natural gas, on the back of growing Asian demand for cleaner fuels. "We're not that keen on liquid, we are now shifting more to gas," said Tatsuo Yasunaga, CEO of Japan's second-largest trading house by market capitalization. His comments come as gas demand is expected to grow faster than oil or coal in energy markets.

Demand for LNG elsewhere in Asia is expected to continue to increase, especially with China shutting down more of its coal-fired power plants and electricity generation by gas expected to rise. Government policies in other countries, as well as concerns over nuclear power, are expected to drive gas consumption growth over the medium to long term. “Beyond 2020 we have seen lots of opportunities, and demand will be increasing significantly. Now we have to prepare the supply side,” Yasunaga said.

Japan’s consumption of crude oil and oil products has continued to decline. According to the U.S. Energy Information Administration, this is due to falling industrial output, mandatory blending of ethanol into transportation fuel, more fuel-efficient vehicles and an aging and declining car-driving population. LNG has become the government’s primary fuel of choice for power generation due to lower emissions compared with coal and oil. Yasunaga said Mitsui’s shift to LNG was “not about duty but about business.”

Osaka Gas wants to increase its LNG resale business

(Reuters; Nov. 1) - Osaka Gas plans to increase its resales of liquefied natural gas to third-parties to 3 million tonnes a year by 2020, an executive said Nov. 1, a move that would create more liquidity in Asia’s emerging gas markets. Most Asian LNG is supplied under fixed-term contracts that include restrictions that do not allow an importer to resell cargoes. But amid an oversupply that has emerged the past two years, LNG producers have come under increasing pressure to allow the fuel to be traded more freely.

Osaka Gas, Japan’s second-biggest city gas supplier, started reselling LNG in 2006 as one of a few buyers able to do so, and it has been pushing to increase its resale volumes. It sold 1.1 million tonnes of LNG to third-parties in the year ended March 31, 2017, a company spokesman said. “We will be targeting overall annual trading volumes of around 10 million tonnes in mid- to long-term, of which we would target 3 million tonnes for resale,” president Takehiro Honjo told reporters Nov. 1.

Resale volumes are set to expand as producers like Malaysia’s Petronas bow to buyer pressure to change existing contracts, and because of the emergence of new supplies from the United States that come without destination clauses. Osaka Gas is one of two Japanese companies that have each signed 20-year liquefaction contracts for about 2.3 million tonnes of LNG a year from the Freeport LNG project under construction in Texas. The facility is scheduled to ship its first cargo next year.

November start-up expected at Cove Point LNG plant in Maryland

(Platts; Oct. 30) - Dominion Energy on Oct. 30 said it expects to begin production next month at its Cove Point LNG export terminal on the Maryland shore, as buyers in Asia look for greater access to growing U.S. supplies. Dominion did not say exactly when it would ship its first cargo. "The Cove Point Liquefaction construction is effectively complete, and the facility is going through its advanced-commissioning phase," CEO Thomas Farrell said.

Cove Point has long-term agreements with GAIL India and ST Cove Point, which is a joint venture of Japan's Sumitomo and Tokyo Gas, to supply output from the facility. Since those agreements cover substantially all of the LNG capacity from the facility, Dominion has said it is unlikely it will be shipping any spot cargoes. Cove Point will have an annual capacity of 5.25 million tonnes of LNG. Dominion is adding gas liquefaction and export capabilities to its underutilized 1970s' LNG import terminal.

Once in operation, Cove Point will be the second U.S. exporter of LNG produced from shale gas. Cheniere became the first in February 2016 from its plant in Sabine Pass, La. While four other facilities are under construction, a dozen more are pending before U.S. regulators but have faced challenges securing long-term customer contracts amid persistent fears of a global LNG supply glut through early next decade.

First cargo leaves Chevron's Wheatstone LNG plant for Japan

(The West Australian; Oct. 31) - The first liquefied natural gas shipment from the Chevron-led Wheatstone project in Pilbara, Australia, set sail on Oct. 31. Chevron said the Asia Venture was bound for Japan to deliver the gas to JERA Co., one of the $US34 billion project's foundation buyers. Wheatstone is the sixth of eight projects in a $200 billion Australian LNG construction boom now in its final stretch. The last two under construction are Shell's Prelude floating LNG project and Ichthys, led by Japan's Inpex.

Wheatstone is Australia's first third-party gas hub, enabling future development of vast gas resources off Western Australia, said Chevron Australia managing director Nigel Hearne. At full capacity, Wheatstone's two trains are expected to contribute about 6 percent of the Asia-Pacific region's future LNG production, delivering 8.9 million tonnes per year. The second train is expected to come on line in six to eight months.

Wheatstone is a joint venture between Australian subsidiaries of Chevron (64.14 percent), Kuwait Foreign Petroleum Exploration Co. (13.4 percent), Woodside Petroleum (13 percent) and Kyushu Electric (1.46 percent). JERA is a partner in an 8 percent stake. JERA is a joint venture launched in 2015 between Chubu Electric and Tokyo Electric to procure fuel supplies.

Sellers will need to offer short-term, flexible LNG contracts, S&P says

(Sydney Morning Herald; Oct. 29) – Australia's liquefied natural gas exporters will face increased volatility as decades-old contracting structures change to short-term, flexible models. The nation's LNG sector will continue its expansion to become the biggest exporter on the globe, but significant change is needed to take advantage of an evolving gas market, according to S&P Global Platts latest report.

The longer-term contracts that have been the norm will change as buyers demand more flexible volumes, said S&P Global Platts LNG analyst Abache Abreu. It has shifted from a sellers' market, and buyers are now pushing market risks up the chain to sellers, he said. "The increasingly buyer-friendly characteristics of global LNG trading is adding further challenges to an exporter that has structured its business model around primarily destination-restricted, oil-indexed long-term contracts," the report said of Australia.

"The traditional ways of doing business, based on destination-restricted, oil-indexed long-term contracts, are disappearing, making room for enhanced flexibility and interconnectivity." One third of global LNG will be contracted outside of the long-term network, Abreu said. "Australian LNG suppliers' business success, or even survival, may also depend on their ability to expand their customer portfolios by offering more attractive terms, including shorter, more flexible and diversified supply contracts."

Petronas will drop resale restrictions from LNG supply contracts

(Nikkei Asian Review; Nov. 1) - Malaysian state-run oil and gas company Petronas "will observe" Japan's recommendation to do away with restrictions on their customers' ability to resell liquefied natural gas, the CEO told reporters Oct. 31. LNG producers use so-called destination clauses in contracts to limit the ability of buyers to resell the gas if they don't need it or can profit by diverting it to another customer. In June, Japan's Fair Trade Commission said such restrictions may run afoul of domestic anti-monopoly laws.

"We intend to do our best to observe the recommendations," Petronas CEO Wan Zulkiflee Wan Ariffin said. By restricting resale destinations, producers aimed to limit which countries could be in the LNG supply business. Lifting the restrictions would open the door for Japan's power and gas companies to embark on trading businesses, such as reselling surplus LNG to the rest of Asia, which could help stabilize their profits.

But Wan Zulkiflee said that parties should "look at [Petronas'] value proposition as a package." There is "a relationship between flexibility and ... price," he said, apparently hinting that prices would be higher for LNG contracts with no resale restrictions.

More details emerge of possible China investment in U.S. oil

(Reuters; Oct. 30) - China's state oil major Sinopec is evaluating two U.S. projects that could boost Gulf Coast oil exports and expand storage facilities in the Caribbean, two sources familiar with the matter said Oct. 31. U.S.-China energy trade is expected to feature prominently during President Donald Trump's visit to Beijing next week.

The sources said one of the projects could see Sinopec partnering with U.S. trader Freepoint Commodities and private-equity firm ArcLight Capital Partners. The trio is mulling building a pipeline to move shale oil from the Permian basin in West Texas to the U.S. Gulf Coast for export, the sources said. This project also includes construction of a terminal that could load 2 million barrels of crude onboard a Very Large Crude Carrier, they said. This would reduce a big item of logistics costs incurred for U.S. oil exports, making the oil more competitive in Asia, the sources said.

Sinopec and the U.S. firms have also been exploring an expansion of oil storage at Limetree Bay Terminals in St. Croix, U.S. Virgin Islands, and restarting an idled refinery at the same site, the sources said. Sinopec, which is Asia's largest oil refiner, ArcLight and Freepoint declined to comment. The investments could reduce China's trade deficit with the U.S., a source of tension between the world's two largest economies, while allowing Beijing to tap growing U.S. supplies as it seeks to diversify its import sources.

Trump's tough trade talk could be a challenge for U.S. LNG exports

(The Hill columnist; Washington, DC; Oct. 30) - With an oversupplied global market discouraging new entrants, forcing hopeful U.S. liquefied natural gas exporters to think outside the box, a special challenge comes from the somewhat erratic messaging and policy shifts of President Donald Trump's administration. The administration's ongoing assailment of the North American Free Trade Agreement provides a twist in the LNG narrative.

Global LNG markets have swung over the past five years from a supply-constrained environment to the well-supplied environment in place today. Worldwide LNG trade is expected to triple from 12 trillion cubic feet in 2015 to 31 tcf in 2040. So far this year, Mexico is the largest importer of U.S. LNG, accounting for roughly 25 percent of all delivered cargoes. Mexico's continued dependence on LNG is largely a result of falling domestic gas production and delays facing U.S. cross-border pipeline expansions.

In the midst of NAFTA negotiations, U.S. gas exports are in a curious spot. Mexico is unlikely to place import tariffs on U.S. gas, as it is becoming increasingly dependent on U.S. supply and has no other options aside from higher-cost LNG. Still, Trump's shifting trade policy pronouncements have left some scratching their heads — not just for the North America gas market but for U.S. hopes overseas. After high-profile handshakes with China and South Korea, other signals have been less friendly, including passing threats by Trump of a trade war with China or tearing up South Korea's trade deal.

Federal court again rejects challenges to LNG project approvals

(The Associated Press; Nov. 1) – A federal appeals court Nov. 1 upheld U.S. Energy Department decisions approving three liquefied natural gas export projects. The Sierra Club was seeking to overturn approvals of export terminals in Maryland, Louisiana, and Texas, contending the projects would increase air and water pollution and contribute to global warming. All three terminals are under construction.

A three-judge panel of the U.S. Court of Appeals for the District of Columbia said in a unanimous opinion that the Energy Department had fulfilled its legal obligations under the National Environmental Policy Act and other laws. The court said its decision was similar to one in August when it upheld approval of a different LNG terminal in Texas. Back in June 2016, the D.C. Circuit Court rejected a similar environmental challenge filed against Federal Energy Regulatory Commission approval of LNG export projects.

Charlie Riedl, executive director of the Center for Liquefied Natural Gas, an advocacy group that promotes gas exports, said he hopes the decision "will put an end to the unnecessary and costly challenges by Sierra Club that delay LNG projects." Nathan Matthews, a Sierra Club attorney, said expanding exports of gas produced by hydraulic fracturing inevitably increases air and water pollution.