

Oil and Gas News Briefs

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S&P report warns new LNG projects face financing challenges

(Platts; Oct. 17) - Cheap, abundant natural gas supplies, combined with forecasts of growing global liquefied natural gas demand early next decade, are not enough to ease the uncertainty facing the next wave of U.S. LNG export projects, S&P Global Ratings said Oct. 17, citing high construction costs and the challenges in securing long-term sales contracts. The fear is that as developers along the U.S. Gulf, Atlantic and Pacific coasts seek creative ways to finance their projects, they will be open to shorter deals with smaller quantities and more flexible terms, raising concerns about their ability to repay debt as contracts come up for renewal more often, S&P Global Ratings said.

There are six U.S. LNG plants under construction, with more than a dozen others proposed, though almost no final investment decisions have been announced over the past 18 months and some have delayed decisions into 2018 or beyond. Few firm purchase agreements have been announced for the undecided projects.

"The repayment of project finance debt is from cash flow generated by long-term LNG offtake agreements with investment-grade companies," the S&P report said. "However, these contracts are increasingly difficult to procure. ... The credit quality of new facilities could suffer if project-finance structures are used but backed by shorter-term agreements (which introduce re-contracting risk) and/or merchant sales (and associated market risk), or include revenue counterparties that we rate below investment grade."

"This isn't to say that liquefaction facilities will no longer be built in the U.S.," S&P Global Ratings said. "However, the nature of these facilities could change. For example, we expect to see a greater number of smaller, more modular units, and potentially shorter-term contracts up to five years in length."

Japan, India will work together toward better LNG deals for buyers

(Reuters; Oct. 17) - Japanese Trade Minister Hiroshige Seko and India's Oil Minister Dharmendra Pradhan on Oct. 18 signed a memorandum of cooperation in Tokyo on working to establish a liquid, flexible and global market for liquefied natural gas. It comes after India said last week it would work with Japan to make long-term LNG import deals more affordable for its price-sensitive consumers as they try to secure better prices and concessions from suppliers.

The world's biggest LNG buyers, all in Asia, are increasingly clubbing together to secure more flexible supply contracts in a move that shifts power to importers from producers in an oversupplied market. The accord was signed at the annual LNG Producer-Consumer Conference in Tokyo. The two nations agreed to cooperate in areas including boosting efforts for more flexible LNG contracts, and exploring possibilities for establishing reliable LNG spot-price indices reflecting true LNG demand and supply.

They also agreed to exchange information and explore possible cooperation on joint measures against market disruptions; to exchange information on policies related to areas such as LNG procurement, supply diversification, market deregulation and promoting open gas infrastructure including LNG regasification terminals, underground gas storage and pipelines; and to enhance cooperation to encourage other importing and exporting countries to join efforts to establish a well-functioning LNG market.

LNG customers reluctant to sign contracts in buyers' market

(Bloomberg; Oct. 18) - The billionaire evangelist of U.S. liquefied natural gas exports is finding himself in some surprising conversations these days. Charif Souki, who co-founded the only company shipping America's shale gas to foreign buyers, said when he flies to Asia or South America to promote sales for his new firm, no one is interested. Instead, they come back with a counter-proposal. They'd like to be his partner.

"Nobody is keen to sign contracts," he said in an interview in Oxford, England. "Even the people who kind of think they should are afraid to do it." The reaction is partly due to a worldwide glut of LNG, but it's also an effect of Souki's own actions. The company he started, Cheniere Energy, changed the way LNG is traded globally. Instead of the bilateral deals that spanned decades and included a fixed destination, the first wave of U.S. LNG terminal developers created flexible contracts where buyers pay a tolling fee to reserve capacity at the terminals and pay for the gas only if they take the cargoes.

After being ousted at Cheniere, Souki started another LNG developer, Tellurian, and is discovering buyers are so emboldened that they want to rewrite how deals are done. Executives with other U.S.-based developers have recounted similar discussions. Even companies in Russia are feeling the shift. Novatek CEO Leonid Mikhelson told reporters that the company is open to different types of financing and shorter-term, more flexible supply deals as it moves forward with its proposed Arctic LNG 2 project scheduled to start by 2023. "Today, it's the buyers' market," he said.

Japan embarks on public-private effort to build LNG demand in Asia

(Platts; Oct. 18) - Japan has announced a \$10 billion public-private initiative to support expansion of Asia's liquefied natural gas markets, as the world's largest LNG consumer

aims to develop new demand centers to help absorb growing global supplies. The initiative will provide financial support to projects that supply LNG to Asia or create new demand in the region, which accounts for more than 70 percent of global consumption, Japan's Minister of Economy, Trade and Industry Hiroshige Seko said Oct. 18.

As part of the initiative, the ministry will provide training through public and private funding for 500 personnel over the next five years, for LNG producers and consumers, Seko said at the LNG Producer-Consumer Conference held in Tokyo. "Japan will continue to work toward developing liquid LNG markets in Asia, seek specific actions toward creating LNG demand by new LNG utilization measures such as LNG bunkering, and contribute to building international consensus on the benefits of LNG," Seko said.

The combination of contractual over-commitment for LNG supplies, slowing domestic demand growth and downstream market deregulation is encouraging Japanese LNG stakeholders to support demand growth in other Asian markets. "Efforts by LNG producers are also essential in expanding demand for LNG. ... I would like to request LNG producers to think harder on ways to improve the attractiveness of LNG, including proposals of more rational and flexible trade conditions," Seko said.

China could overtake U.S. as world's No. 1 natural gas consumer

(Bloomberg; Oct. 18) - China is in a "golden age" for natural gas that will make it the world's biggest user of the fuel sometime between 2040 and 2050, according to analysts at Sanford C. Bernstein & Co. The nation is poised to outpace the United States, the current No. 1 consumer of natural gas, as well as all other countries over the next two decades, Bernstein said in an Oct. 17 research note. China has led the growth in global oil demand for much of the past 20 years.

The boom in gas demand underscores the Chinese government's intent to shift the world's second-largest economy away from dirtier fuels like coal and oil to help clean the air in its smog-choked cities. Gas demand through the end of August was up 18 percent from the previous year, according to government data. "China's gas market has entered a new golden age," Neil Beveridge, an analyst at Bernstein, wrote in the report. "Government policies to stimulate gas demand growth are starting to pay dividends."

Use will probably continue to surge over the next few years, Beveridge wrote in the report, and should reach more than 10 trillion cubic feet in 2020, up from 7.3 tcf last year. Demand could grow to about 21 tcf by 2040 and then surpass the U.S. sometime between 2040 and 2050, according to the projection. Asia's gas demand is expected to double to 42 tcf a year by 2025, according to Bernstein. Several factors are behind the surge, including economic growth, urbanization, environmental factors and a boom in U.S. shale gas supply. The major risk to future demand is the possibility that renewable power sources will take a larger slice of the global energy pie faster than now expected.

India will use some of its U.S. LNG to restart fertilizer plants

(Bloomberg; Oct. 18) - India's biggest gas utility plans to use much of the liquefied natural gas it will get from the U.S. to restart three idled fertilizer plants, according to sources. State-run GAIL India plans to supply the factories in Eastern India with more than a third of the LNG it has contracted to buy from the U.S., the sources said. The facilities were shut down starting in 1990 after they had become unviable. The company will connect them by pipelines to take the imported gas from coastal import terminals.

Prime Minister Narendra Modi's cabinet last year approved policies to help revive the plants as part of a plan to make the world's second-most populous nation self-sufficient in the production of urea, which can be made from gas and used as agriculture fertilizer. The country's fertilizer sector has overtaken power producers as India's biggest user of natural gas. A joint venture of top state-run companies is investing 175 billion rupees (\$2.7 billion) to revive the plants.

The facilities will be able to produce a combined 3.9 million tons of the nitrogen fertilizer a year by the second half of 2020. Each of the plants would require almost 90 million cubic feet of gas per day, the sources said. GAIL has found itself with a surplus of LNG and is seeking buyers for the 5.8 million tonnes per year of U.S. LNG it has contracted to start taking next year. The company has been able to divert about 60 percent of that volume to overseas customers through various deals, but still needs buyers for the rest.

Petronas CEO calls on LNG buyers, sellers to talk sustainable pricing

(Upstream; Oct. 18) - Malaysian state-run oil and gas company Petronas is calling for more collaboration between liquefied natural gas producers and buyers. The company, which claims to be the world's third-largest LNG producer, wants sellers and buyers to work together to encourage growth and sustainability of the industry. "Today, players are canceling and delaying projects in tandem with the LNG prices," Petronas CEO Wan Zulkiflee Wan Ariffin said at the LNG Producer-Consumer Conference in Tokyo.

"Without sufficient investments, both buyers and sellers face an uncertain future in terms of business sustainability and energy security. All parties need to engage in early collaboration to ensure favorable market conditions and to encourage investment," he said. "While current market dynamics are not encouraging conversations about sustainable gas pricing, it is in our interest ... to bring this up," Zulkiflee said.

"Although buyers' considerations remain in our best interests, the current market volatility necessitates the security of demand. This is imperative for the producers to continue investing to support the upstream and LNG value chain in a timely manner." The comments come after Petronas earlier this year canceled its Pacific NorthWest LNG project in Canada in a move that it blamed on the prolonged downturn in prices and unfavorable market conditions.

India wants to push ahead with Mozambique LNG project

(The Indian Express; Oct. 18) - India and Mozambique agreed Oct. 18 to expedite development of the giant Rovuma gas field, which would be used to feed a proposed liquefied natural gas export plant. Indian Oil Minister Dharmendra Pradhan, who is in Tokyo to attend the LNG Producer-Consumer Conference, met his Mozambique counterpart Leticia Klemens to discuss development of the gas field.

ONGC Videsh, the overseas arm of state-owned Oil and Natural Gas Corp., holds 16 percent stake in Mozambique offshore block Rovuma Area 1. Oil India has a 4 percent stake, while India's Bharat Petroleum holds 10 percent. Area 1 is spread across almost 4,000 square miles in the northernmost part of the basin. The area's recoverable resource is estimated at 75 trillion cubic feet of gas. Lead partner in the proposed LNG project is Anadarko, with Japan's Mitsui and Thailand's PTTEP also holding stakes.

Area 1 represents one of the largest gas discoveries in offshore East Africa and has the potential to become a large LNG-production hub. Anadarko has said the initial development would include two liquefaction trains. The venture continues working to secure long-term sales agreements with customers. "We expect to take final investment decision once the sales-and-purchase agreements are in place," Anadarko said in July.

First tanker arrives at Wheatstone LNG to start loading

(Platts; Oct. 16) - Chevron's Asia Venture tanker arrived at the Wheatstone LNG facility in Western Australia early Oct. 16 to prepare for loading the project's first LNG cargo, a Chevron spokesman said. The tanker had been held offshore the port of Dampier since late last month, according to S&P Global Platts trade flow software cFlow. Chevron, the lead Wheatstone partner, announced production start-up Oct. 9, adding that the first cargo was scheduled for shipment in the coming weeks following several delays.

At full capacity, the two-train facility will supply 8.9 million tonnes of LNG per year for export to customers in Asia, Chevron said. The facility is located 8 miles west of Onslow, and processes gas from the Chevron-operated Wheatstone and Lago offshore fields about 125 miles away. The \$34 billion project is a joint venture between Chevron (64.14 percent), Kuwait Foreign Petroleum Exploration Co. (13.4 percent), Australia's Woodside (13 percent), and Kyushu Electric (1.46 percent), together with PE Wheatstone, part-owned by Japanese utilities' joint-venture JERA Co. (8 percent).

Cove Point LNG to start up by end of the year on Chesapeake Bay

(Reuters; Oct. 17) - Virginia energy company Dominion Energy said Oct. 17 that its \$4 billion Cove Point liquefied natural gas export facility in Maryland was about 96 percent complete and is expected to enter service by the end of the year. "We can't say exactly when it will happen but it is on track to be in service on schedule by the end of the year," Dominion spokesman Karl Neddenien told Reuters.

Once in service, the project will be able to produce about 5.25 million tonnes of LNG per year, equal to about 700 million cubic feet of natural gas per day. The output is under contract to GAIL India and Japanese trading company Sumitomo, which will sell the LNG to Tokyo Gas and Kansai Electric. For its feed gas, Sumitomo in 2013 agreed to buy 350 million cubic feet of gas per day for 20 years from Cabot Oil & Gas production in the Marcellus shale in Pennsylvania and West Virginia.

Dominion's Cove Point project is adding liquefaction and export capabilities to its underused 1970s LNG import terminal on Chesapeake Bay.

Novatek plans to add small fourth train at Yamal LNG

(Reuters; Oct. 17) - Russia's Novatek plans to expand the Yamal LNG project by one more train with a capacity of 1 million tonnes of liquefied natural gas per year, the company's head, Leonid Mikhelson, said Oct. 17. He told a briefing in London that the first liquefaction train at the Russian Arctic project will start producing by year-end, while the other two trains will be launched in the third quarter of 2018 and first quarter 2019.

The first three trains each will be capable of producing 5.5 million tonnes of LNG per year. The smaller, fourth train is scheduled to go online by the end of 2019, Mikhelson said, boosting Yamal's total capacity to 17.5 million tonnes per year. The three-train project is estimated at \$27 billion. Partners include Novatek, France's Total, China National Petroleum Corp. and China's Silk Road Fund.

Exxon 'bullish' on natural gas demand

(Dow Jones Newswires; Oct. 17) - The world's biggest oil companies defended their giant bets on natural gas at a major energy conference, saying demand will soon emerge for the huge supplies of fuel they are bringing to the market. Robert Franklin, ExxonMobil's vice president in charge of gas and power, said natural gas demand is rising in China, where imports of liquefied natural gas are up 40 percent in the past year. He said he believed India would follow China's lead soon.

"If I'm bullish about gas generation in China and India, then I'm bullish about natural gas," Franklin said at Oil & Money, a major energy conference in London. Exxon and its rivals invested over \$700 billion in gas projects from the U.S. to Africa to Australia from 2007 to 2016, unleashing huge new quantities of gas. Exxon and Shell both say they produce more gas than oil now, and the same will be true for BP within a decade — much of it going out as liquefied natural gas, which can be sent around the world like oil.

The flood of supply has depressed LNG prices and raised uncertainty about where all the gas will be consumed. Many countries don't have the infrastructure to import the fuel or the money to build what they need. The urgency was underscored when the event devoted an entire day to talk about gas. In addition, gas producers that underestimate renewables growth do so at their peril, said Otto Waterlander, a senior partner at McKinsey and Co. The industry has consistently bet renewable energy would grow more slowly than it has. "Let's be a bit more cautious on what's coming next," he said.

[U.S. LNG 'will upset the apple cart' of world energy politics](#)

(New York Times; Oct. 16) – A growing supply of U.S. liquefied natural gas from the Gulf Coast is descending on global markets, adding to a broader glut and lower prices. The U.S. was supposed to be a big LNG importer, not a world-class exporter. Then the frenzy of drilling in shale gas fields created a glut far larger than domestic demand could possibly consume. Companies that spent billions of dollars to build import terminals suddenly had useless facilities until they spent billions more to convert them for export.

The switch will remake the global gas market for decades to come. Experts predict that the transformation will weaken Russia's dominance over European power markets, help clean the air in cities across China and India by replacing coal and eventually providing cheaper and cleaner fuel to African villages. The full dimensions of the wave, including its impact on the environment and climate change, are hard to predict.

Experts point to Mexico as an example of how transformative gas can be in only a few years. As the U.S. shale boom accelerated, Mexico imported as much cheap gas as possible, replacing its dirtier-burning coal and oil products. Now more than a quarter of the country's electricity is powered by U.S. gas. The gas has improved air quality, helped Mexico reach goals to reduce its carbon footprint and freed capital to invest in more exploration and production of oil, which is more valuable on world markets.

"This bulge of LNG is going to completely upset the apple cart of world energy politics and the global competition of fuels that is still hard for people to comprehend," said Amy Myers Jaffe, an energy security expert at the Council on Foreign Relations.

LNG suppliers slow to revise restrictions in long-term contracts

(Reuters; Oct. 18) - Global liquefied natural gas suppliers are taking time to revise destination clauses in supply contracts for Japanese buyers despite a ruling by authorities in Japan that the provisions are anti-competitive, industry sources said Oct. 18. The ruling by the Fair Trade Commission earlier this year that restrictions on reselling contracted LNG cargoes breach competition rules looked set to shake up the Asian market in much the same way as in Europe in the past decade.

The commission had urged buyers to revise existing contracts to remove the clauses as quickly as possible. A source at a Japanese buyer said the company is pushing suppliers to take the Japanese regulator's ruling seriously, but is having little success. He was speaking at an annual LNG conference in Tokyo. Producers see little need to engage in the discussion, said a gas executive at a major oil and gas company.

"There's no real energy around it. Everyone is willing to have a conversation but people are not pushing the issue," the executive said. He added that producers feel no need to be "knocking on the doors of buyers" to renegotiate contracts. LNG developers have typically insisted on long-term contracts for the expensive projects to convince banks to fund them. "The phase-out of this destination clause will surely take some time," said Keisuke Sadamori, the International Energy Agency's director of energy markets.

Gas pipeline developer asks FERC to overrule New York state

(Reuters; Oct. 13) - Constitution Pipeline said Oct. 13 that its proposed natural gas pipeline from Pennsylvania to New York could enter service as early as the first half of 2019 if it gets the necessary regulatory approvals. Constitution has asked the Federal Energy Regulatory Commission to overturn New York state's denial of a water quality permit that would allow it to move ahead with the project.

The New York State Department of Environmental Conservation denied a water permit for the 125-mile pipeline in 2016 for environmental reasons. The pipeline would move up to 650 million cubic feet per day of shale gas from Pennsylvania to New York. Constitution said New York failed to act within a reasonable period of time on its application and that such failure constitutes a waiver of the certification requirement.

Constitution's petition follows a FERC decision in September to overturn New York's denial of a water permit for a different project, the Millennium pipeline. In that case, FERC said the state failed to act within a year of Millennium's original application. The state filed a formal challenge to the FERC decision in the Millennium case Oct. 13.

FERC approves two gas pipeline projects totaling \$8.5 billion

(Reuters; Oct. 16) - Federal regulators Oct. 13 approved two big pipelines to move gas from the Marcellus and Utica shale formations in Pennsylvania, West Virginia and Ohio to the Mid-Atlantic. The Federal Energy Regulatory Commission approved construction of the 303-mile Mountain Valley pipeline that will move up to 2 billion cubic feet of gas per day from West Virginia to Virginia, and the 600-mile Atlantic Coast pipeline that will move up to 1.5 bcf of gas a day from West Virginia to Virginia and North Carolina.

The \$3.5 billion Mountain Valley pipeline is a joint venture between units of Pittsburgh energy company EQT, Florida energy company NextEra Energy, New York energy company Consolidated Edison, Washington, D.C. energy company WGL Holdings and Virginia energy company RGC Resources. EQT has said it plans to complete the Mountain Valley/Equitrans Expansion in late 2018.

The \$5 billion Atlantic Coast pipeline is a partnership between units of Virginia energy company Dominion Energy, North Carolina energy company Duke Energy and Georgia energy company Southern. The companies have said they plan to complete the Atlantic Coast project late in 2019.