Oil and Gas News Briefs
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Japanese utilities sign 3-year LNG supply deal with Malaysia

(Reuters; Oct. 25) - Malaysian state energy company Petronas has signed a three-year liquefied natural gas supply agreement with JERA Co., with smaller volumes and for a shorter period than its previous deal with the biggest LNG buyer in Japan. JERA, the fuel-purchasing joint-venture between Tokyo Electric and Chubu Electric, will buy 2.5 million tonnes per year from Petronas starting in April 2018, the companies said Oct. 25.

JERA is currently in the middle of a 15-year contract with Petronas that expires in March for 4.8 million tonnes per year. The new deal's shorter duration and smaller volume, along with changes to the destination clause that restricts where the cargoes could be resold by JERA, highlight the turbulence in the LNG market the past few years. Buyers have gained the upper hand as growth in new supplies, mainly from Australia and the U.S., has exceeded demand and depressed prices to less than half their 2014 peak.

Petronas, the world's third-biggest LNG exporter, is looking to sell its rising output after start-up of Train 9 at its Bintulu export terminal and also its first floating LNG production unit. Petronas officials said in May they were open to shorter-term LNG contracts and smaller cargo sizes to entice buyers. "New demand terms and conditions are becoming a norm," said Ahmad Adly Alias, vice president of Petronas' LNG Trading & Marketing. Neither Petronas nor JERA disclosed pricing terms of the latest deal.

Novatek may build transfer terminal to help move Russia's Arctic LNG

(The Independent Barents Observer; Norway; Oct. 24) – Novatek, Russia's second biggest natural gas producer, signed a cooperation agreement Oct. 23 with the regional government of Kamchatka to build a liquefied natural gas shipping terminal on the peninsula's eastern coast, facing the North Pacific. It is intended to serve as a reloading terminal, where LNG from ice-class carriers moving out from Novatek's LNG plant in the Arctic would be transferred to conventional tankers to finish the delivery.

"The terminal will allow us to optimize our transport logistics, more efficiently deliver LNG from the Arctic, stimulate the development of the Northern Sea Route and create a hub for deliveries of LNG to consumers in the countries of the Asian-Pacific region," said Novatek CEO Leonid Mikhelson. The company's Yamal LNG project is expected to load its first cargo next month. Novatek also proposes to build a second Arctic gas liquefaction plant to boost its position in the global marketplace.

Russian news agency TASS reported that Novatek is ordering more ice-class LNG carriers — in addition to the 15 ordered from a South Korean shipbuilder for the Yamal project. Specifications for 15 more ships were handed this week to Zvezda, a newly expanded shipyard near Vladivostok, TASS reported. The ships would serve Novatek's proposed second LNG facility, Arctic LNG-2. The expanded Zvezda yard — known for work in nuclear submarine repairs — is set to become Russia's largest civil shipbuilder.

Thailand plans to double regas capacity for growth in LNG imports

(Reuters; Oct. 25) - Thailand expects a seven-fold increase in the amount of liquefied natural gas it imports via long-term contracts over the next couple of decades, with domestic gas production dwindling as demand is set to rise, a government official said. The Southeast Asian country's LNG imports via long-term contracts will likely climb to 35 million tonnes a year by 2036 from 5.2 million tonnes now, said Porrasak Ngamsompark, acting director for the LNG management bureau at the energy ministry.

To hit that target, Thailand is planning to double its annual regasification capacity to 20 million tonnes from the current 10 million in the next 10 years, Ngamsompark said Oct. 25 at Singapore International Energy Week. "In the near future, we will (target) Thailand to be the LNG hub for the Association of Southeast Asian Nations, which means we will need the infrastructure," he said. Thailand is aiming to make 70 percent of its LNG purchases via long-term contracts, with the rest in the spot market, Ngamsompark said.

Thailand uses gas for more than two-thirds of its power generation, but has become increasingly reliant on LNG imports as its domestic fields are being depleted. The country, which currently has long-term contracts with Qatar, Shell, BP and Petronas, is looking to broaden its sources for the fuel. Thailand is in talks to buy LNG through long-term contracts from Mozambique's proposed Rovuma Area 1 offshore project, led by Anadarko, but Ngamsompark said a decision on the project isn't expected until 2018.

Louisiana LNG developer says it can deliver gas to Japan at $6

(Platts; Oct. 23) – LNG hopeful Tellurian's new financing model can deliver U.S.-produced liquefied natural gas to Japan at $6 per million Btu — $2 lower than it had claimed earlier this year — company vice chairman Martin Houston said Oct. 23. The new sales pitch from the developer of the proposed Driftwood LNG plant in Louisiana comes after its previous offer of a delivered price of $8 to Japan fell flat with no takers amid an LNG market that has become more liquid and averse to long-term contracts.

Tellurian Chairman Charif Souki in May said the company was making the innovative marketing pitch, offering 7 million tonnes of LNG for five years for deliveries starting in

2023 at a fixed price of $8 per million Btu. But the company found no takers. Souki, the former CEO of Cheniere Energy, who is credited with opening up the U.S. LNG export trade with a plant at Sabine Pass, La., is now testing new business models to develop additional U.S. export capacity in the absence of long-term customers.

The new business model gives the buyer an equity stake with an offtake capacity of 1 million tonnes for $1.5 billion payable over a four-year period, Houston told reporters at the Singapore International Energy Week conference. Driftwood LNG would have a capacity of 27.6 million tonnes of LNG per year and is expected to cost about $18 billion for the terminal and pipeline. Tellurian is planning to prove commercial viability by the first half of 2018, with construction targeted to begin shortly after and an in-service date in 2022. The company applied to the Federal Energy Regulatory Commission in March.

Tellurian said its new plan reduces project costs by transferring some financing risk to buyers such as large utilities in Japan or portfolio traders that can raise money at lower rates than Tellurian. The $6 offer includes the cost of gas to the plant, pipeline tariffs to deliver the gas to the plant, liquefaction, loading and transport to Asia, Houston said.

Indonesia strikes deal to buy Qatari LNG at $7.16

(The Jakarta Post; Oct. 23) – Indonesia’s Maritime Affairs Coordinating Minister Luhut Binsar Pandjaitan said the country has reached a deal to buy liquefied natural gas from Qatar at a price of $US7.16 per million Btu. The Qatari LNG will be used to supply power plants in North Sumatra that were jointly developed by state-owned electricity firm PLN and a Qatar state-owned company.

Indonesia has been an LNG exporter since 1977, and in 2016 was the world’s fifth-largest supplier of the fuel. But rising local demand for natural gas, coupled with aging gas fields and a limited pipeline system between the nation’s 14,000 islands and 260 million residents, pushed the country a couple of years ago to start importing limited quantities of LNG. The country’s director general of oil and gas said this past summer that new domestic gas production could reduce the need for LNG imports.

Regardless, Indonesia’s state-owned oil and gas company Pertamina has signed deals to take LNG from Australia’s Woodside Petroleum starting in 2019, U.S.-based Cheniere Energy starting in 2018 and ExxonMobil in 2025.

Decision on small LNG project in British Columbia delayed to 2018

(Reuters; Oct. 24) - A construction decision on a small-scale liquefied natural gas export terminal in British Columbia has been pushed back to 2018, as Woodfibre LNG works to make its C$1.6 billion ($US1.3 billion) project competitive amid weak market prices.

The Vancouver-based company, backed by Indonesian billionaire Sukanto Tanoto's RGE Group, had planned to start construction this year. The LNG plant, on a former pulp mill site north of Vancouver, would have capacity to make 2.1 million tonnes of LNG a year.

"We're definitely moving forward, but the reality is that we still have some issues to resolve before we can say: 'We're in and this is actually happening on this timeline,'" said spokeswoman Jennifer Siddon. Woodfibre is a relatively small project, but has long been touted as the best hope for seaborne exports of Canadian gas. While multiple projects have been proposed for British Columbia, none have moved to construction.

Siddon said front-end engineering was complete, and that the company would move to the next stage of engineering, procurement and construction with Houston-based KBR. After a decision to proceed, construction could take three years. Meanwhile, Woodfibre is seeking help from both the provincial and federal governments to give it a competitive advantage. Governments could help with tax breaks on electricity and relaxing import tariffs on fabricated steel components, she said. "It's a challenge right now. And much of why projects aren't getting built here … comes down to competitiveness."

World's largest LNG import vessel will go to work in Turkey

(Bloomberg; Oct. 24) - Turkey is getting a giant helper to avoid last December's natural gas shortages. The world's biggest specialized vessel to receive imported liquefied natural gas — a cheaper and quicker solution than a land-based facility — is on its way to help with imports of the fuel mainly used for heating and power generation. The floating storage and regasification vessel, the Challenger, as long as the Eiffel Tower, is expected to arrive from South Korea this month and start work in Turkey by year-end.

Last winter, a cold snap gripped the region, including Iran, where Turkey gets some of its gas. That meant Turkey could not get hold of enough fuel to meet its booming gas demand, and the grid asked private power plants to reduce fuel demand by as much as 90 percent. A first floating storage and regasification unit, the Neptune, arrived in December to complement two onshore LNG terminals at Aliaga and Marmara Ereglisi. The Challenger is owned and operated by Japan's Mitsui OSK Lines.

"We expect Turkey to import more than last winter, and last winter they increased demand," said Gyorgy Vargha, CEO of MET International, a Switzerland-based energy trader that moves LNG mainly in southern Europe. Turkey was among the fastest-growing markets for LNG imports in the first half of the year, according to Bloomberg New Energy Finance. The 1,132-foot-long Challenger can store enough LNG to cover more than a day's gas demand in Turkey.

Oregon LNG project opponents sign up to intervene at FERC

(Herald and News; Klamath Falls, OR; Oct. 21) - Crystal Houser was one of some two dozen individuals to sign up as an intervenor on Oct. 19 against the proposed Jordan Cove LNG project's natural gas pipeline at a session led by project opponents in Klamath Falls, Ore. The 235-mile pipeline would start from a hub near the Oregon/California border and connect to a proposed liquefied natural gas production, storage and export facility in Coos Bay, Ore.

The workshop, organized by Rogue Climate based out of Phoenix, Ore., paired local and regional volunteers with residents looking for a way to voice their concerns about the project. "We live in an area where we're subject to a lot of inversion layers and our air quality already doesn't meet government standards a lot of the time, so I'm thinking a compressor station is only going to make things worse," Houser said, referencing a proposed gas compressor station slated for the pipeline about 25 miles southeast.

"I'm concerned about the clear-cutting, I'm concerned about the deer and elk migration," Houser said. "Just all along the board, I don't want it." Lupe Garcia, of Rogue Climate, was among volunteers who helped residents get signed up as intervenors before the Federal Energy Regulatory Commission in an effort to gather more public input on the issue. "Intervening — it gives you more legal standing in the court of law," Garcia said. FERC denied the project last year; the developer has reapplied to federal regulators.

Opponents warn LNG projects are contrary to B.C. low-carbon policy

(Globe and Mail; Canada) - British Columbia's New Democratic Party-led government is facing a controversy as environmental groups warn that a liquefied natural gas project led by Shell will derail the province's efforts to transition to a low-carbon economy. The project, LNG Canada, would be a massive endeavor. The proposal calls for spending up to $40 billion to develop a gas pipeline, liquefaction plant and marine terminal to export the fuel from Kitimat in northwestern B.C. to energy-thirsty markets in Asia.

Premier John Horgan and Energy Minister Michelle Mungall toured the Kitimat site Oct. 21. The NDP formed a minority government in July after striking an alliance with the BC Green Party led by Andrew Weaver, who opposes LNG plants. The new government believes B.C.'s fledgling LNG sector "has an important role to play," Mungall said Oct. 21. "Despite the changes in the marketplace, we believe there is still an opportunity for B.C.'s LNG industry in the long term." Shell has targeted next year for a decision.

The NDP emphasizes that LNG projects must meet conditions, such as working in partnership with indigenous groups and respecting the province's commitments to fight climate change. Critics say LNG Canada would seriously undermine the province's targets to reduce greenhouse-gas emissions by 2050. But LNG Canada is touting the global benefits of LNG exports, hoping the B.C. government will take a worldwide view of the project's environmental impact, such as reducing pollution in coal-burning China.

B.C. First Nation raises totem pole at site of canceled LNG project

(CBC News; Canada; Oct. 23) - Members of the Tsimshian First Nation have raised a new totem pole on Lelu Island in northwestern B.C. to assert their stewardship over the land and celebrate the cancelation of a controversial liquefied natural gas project. "[We] made a stand to show Canada that our blood is still on the land and that we are here forever," said Gwishawaal (Ken Lawson), a house leader of the Gitwilgyoots, one of the nine allied tribes of the coast Tsimishian.

He made the declaration as the Prince Rupert Port Authority patrolled nearby waters monitoring the ceremony, a reminder that who the land belongs to remains a point of contention. Though Gwishawaal and other Tsimshian members say they hold decision-making authority over the island's future, the Prince Rupert Port Authority says that power belongs to them.

The tension over land ownership played out over the past two years as Malaysia's oil and gas giant Petronas made plans to construct an LNG export facility on the island, receiving approval from the provincial and federal governments and from the leadership of several First Nations. Gwishawaal took a lead role in construction of an occupation camp on Lelu Island in opposition to the project, citing the risk to salmon and ocean life. All that became moot in July when Petronas announced "shifts in the energy industry" and weak economics had prompted them to abandon the project.

Japanese LNG developer warns Australia about export restrictions

(The West Australian; Oct. 20) - The federal government should be careful of curbing LNG exports because of the potential long-term damage in overseas markets, warned the Australian head of INPEX Corp., the Japanese oil and gas company that is the lead shareholder and operator of the Ichthys LNG project nearing completion in Australia. Seiya Ito said "loudly announced" export restrictions to deal with a gas shortage on the country's East Coast could dent the confidence of Japanese buyers in Australia's image as a stable LNG supplier.

"I know that governments should deal with this, but the restriction of LNG sounds like a little bit unstable supply source and it is not good for Australia," Ito said. "I always mention to stakeholders in Canberra that be careful to deal with a local issue. … (It) means that some of the potential (LNG) buyers, long-term buyers will think that, well, maybe it's not a good idea to buy from Australia on the long-term basis. It hasn't come to that point yet, so just a warning."

Ichthys, at a construction cost of $US37 billion, is due to start producing next year, with full capacity of 8.9 million tonnes of LNG per year. Ito said he saw Australia as among the lowest sovereign-risk nations in the world for what is Japan's biggest overseas investment. "We made a pretty good decision. And, luckily, we found a gigantic gas field in Australia." Not that developing Ichthys has been trouble-free. Like most of the Australian mega-LNG projects of the past decade, Ichthys is more than a year behind its original schedule and $3 billion over the budget when it was sanctioned in 2012.

Cold winter could erode stockpiles, drive up U.S. natural gas prices

(Wall Street Journal; Oct. 23) - After nine years of booming U.S. natural gas production, this winter could be one of the rare instances when supply and demand conspire to drive up prices. Those expecting prices to rise have had plenty to point to on the demand side of the equation: Scores of industrial plants have sprung up to take advantage of cheap fuel, the U.S. has become a major exporter of gas, and coal plants are closing in favor of environmentally friendlier and more flexible gas-fired generators.

The supply side has been just as dynamic, though. The recent boom in oil drilling in shale basins such as the Permian has unlocked cheap gas almost as a byproduct. New pipelines will make it easier for the fuel to reach market. U.S. gas output is seen rising for the eighth month in a row in November to a new record. Even so, this winter could see prices go up. The heating season, which runs roughly from November through April, could deplete underground gas storage faster than supplies can replenish the stockpile.

The "injection season," which unofficially ends in two weeks, is when storage is built up. The U.S. Energy Information Administration reported Oct. 19 that gas in underground storage stood at 3.646 trillion cubic feet, or 4.7 percent less than the same week a year ago. That isn't a huge difference, but it might be if this winter is extra cold, as some climatologists predict. Analysts at The Natural Gas Supply Association, American Gas Association and Barclays Capital all have noted the possibility of a frigid winter.

Western Canadian gas producers struggle with very low prices

(CBC News; Oct. 26) - Natural gas prices have slumped for several years in Western Canada but hit a new low this summer. On a few occasions, prices fell to zero — and then turned negative. Essentially, companies would have had to pay money to get rid of the gas they produced. Commodities analyst Martin King did a double-take when he first saw the minus sign in front of the gas price. He even picked up the phone and made calls to ensure it wasn't a mistake.

"It cost more to get it out of the ground then to buy it on the spot market," said King of GMP FirstEnergy following a talk to the oil and gas industry in Calgary on Sept. 25. He has followed prices for nearly 25 years. "It's a very, very unusual situation. I've never seen anything like it." The steepest temporary price crashes were due to pipeline maintenance, which cut off some storage options and caused supply to back up. But, overall, prices have been falling due to oversupply. Western Canada gas at the Alberta hub sold for about $3 per million Btu in May but dropped to less than $1 this week.

For an industry already struggling, this summer was exceptionally tough and the winter may be just as bad. Producers are hoping for a cold winter in North America to create more demand. "(But) you can't rely on weather, which is inherently unpredictable," said King. "At the end of the day, Canada just needs more options for gas." Those options have shriveled recently as companies halted proposals to build major liquefied natural gas export facilities on the West Coast. While some LNG projects are still in the planning phase, there are few other options for Western Canada's prolific gas reserves.

Southeast Asian oil demand will continue growing, IEA says

(Reuters; Oct. 23) - Southeast Asian demand for oil will keep growing until at least 2040 as emerging nations in the region rely on the fossil fuel to transport their rapidly growing populations, ship goods and make plastics, the International Energy Agency said on Oct. 24. Oil usage in the region will expand to about 6.6 million barrels per day by 2040 from 4.7 million now, with the number of motor vehicles increasing by two-thirds to about 62 million, the agency said in its report.

A global push to replace combustion engines with electric-powered vehicles to fight climate change has raised concerns in the oil industry that demand could peak in 10 to 20 years. But oil will continue to meet about 90 percent of transport-related demand in Southeast Asia, especially for trucks and ships, Keisuke Sadamori, the IEA's director of energy markets and security, said at the Singapore International Energy Week. Oil demand from the petrochemicals sector will also grow substantially, Sadamori said.

Meanwhile, Southeast Asia's overall energy demand is expected to climb nearly 60 percent by 2040 led by power generation, as rising incomes in the region spur more people to buy electric appliances including air conditioners, the IEA said. Coal will account for almost 40 percent of the growth while renewables will quadruple by 2040 to become the second largest source of electricity after coal, overtaking gas, the IEA said.

Saudis focused on holding down global oil inventories

(Reuters; Oct. 24) - The world's top oil exporter Saudi Arabia is determined to reduce inventories further through an OPEC-led deal to cut crude output, raising the prospect of prolonged production restraint once the pact ends to prevent a build-up in excess supplies. Saudi Energy Minister Khalid al-Falih, speaking during an investment conference in Riyadh, said Oct. 24 the focus remains on reducing the level of oil stockpiles in industrialized countries to their five-year average.

The Organization of Petroleum Exporting Countries, plus Russia and nine other producers, have cut output by about 1.8 million barrels per day since January. The pact runs to March 2018, but they are considering extending it. "We are very flexible, we are keeping our options open. We are determined to do whatever it takes to bring global inventories down to the normal level which we say is the five-year average," Falih said.

The market has been concerned that once the supply-cut deal comes to an end, producers will ramp up output, causing prices to fall. But Falih raised the prospect of continued restraint to prevent this. "When we get closer to that (five-year average), we will decide how we smoothly exit the current arrangement, maybe go to a different arrangement to keep supply and demand closely balanced so we don't have a return to higher inventories." The benchmark international oil price has recovered from below $30 a barrel at the start of 2016 to trade above $57 on Oct. 24.

Oklahoma balances budget with new taxes, but no change in oil taxes

(EnergyWire; Oct. 24) – Oklahoma Gov. Mary Fallin and the leaders of the state House and Senate have reached a deal to balance the state budget — without changing the state's tax regime for oil and gas production. The plan, which still must be approved by both chambers, would raise taxes on motor fuel, cigarettes and alcoholic beverages to help cover an estimated $215 million shortfall between the state's expenses and revenue for the current fiscal year.

The deal leaves in place a controversial 2014 tax change that benefited the oil industry, which critics have said contributed to Oklahoma's fiscal problems. Legislators in 2014 expanded and made permanent a reduction in the state's 7 percent tax on gross oil production, lowering the rate to 2 percent for the first three years of a well's life.

Democrats and a group of small oil producers have argued that the tax break should be rescinded. They said it has contributed to a string of budget deficits that have decimated state services and left the state starved for revenue. However, the state's larger oil producers oppose any change in the tax rate.