Oil and Gas News Briefs
Compiled by Larry Persily
September 14, 2017

Exxon gains sales volume in exchange for lower LNG price

(Reuters columnist; Sept. 11) - ExxonMobil's deal to cut the price of liquefied natural gas supplied under long-term contract to an Indian buyer has largely been viewed as a bad outcome for producers. Certainly, the trade made by Exxon to supply more gas to Petronet LNG, but at a lower price, does seem to favor the utility. Exxon will increase the volume supplied from its share of the Chevron-led Gorgon project in Australia by 1 million tonnes a year to 2.5 million tonnes, but at a lower cost than agreed in 2009.

The revised deal has sparked market speculation that this is the first domino to fall, and that more renegotiations of long-term LNG contracts are likely. Up until now it has been extremely rare for these agreements to be amended, and so far it has only been in India, where a deal with top LNG supplier Qatar was reworked in 2015. Producers are probably nervous that major buyers in Japan, South Korea and China, which account for more than half of the global LNG market, will be tempted to seek better terms.

The Exxon-Petronet deal is a further sign that the era of long-term contracts with prices linked to moves in oil markets are going the way of the dinosaurs. The LNG trade is already moving toward spot and short-term deals, ranging from several months to a few years. While market observers have tended to focus on the lower price Exxon will receive, of perhaps greater importance is the fact that Petronet will buy 1 million tonnes more a year. In this light, Exxon's deal doesn't look bad. The U.S. giant is taking a hit on prices, but it is also clearing volumes that it may have had difficulty selling otherwise.

Bloomberg analysts say LNG market could hit supply deficit by 2025

(Bloomberg; Sept. 13) - The looming glut of liquefied natural gas that's stifling investment and weighing on prices may not be as big as feared, says Bloomberg New Energy Finance (BNEF). Demand growing at the fastest pace since 2011 has shrunk a forecast oversupply, Ashish Sethia and Maggie Kuang write in BNEF's Global LNG Outlook released Sept. 13. That means energy giants that have delayed investments in new projects may need to soon embark on a new slate of multibillion-dollar plants.

The glut is now looking smaller and ending sooner, according to BNEF's new analysis. Excess capacity is forecast to peak at 87 million tons in 2020, about 28 percent of total demand. BNEF's previous outlook in January pegged the excess at 131 million tons, or 48 percent of global demand. The market is now expected to tip into deficit by 2025 if no new export projects are developed, one year earlier than BNEF's previous report.

“Oversupply continues to look inevitable over the next several years, despite strong demand growth, but won’t be as serious as previously expected,” the report says. “Demand responding to low prices, slow ramp-up of export projects added in 2016 and delays in commissioning of new supply projects in Australia are contributing factors.” Meanwhile, the excess production capacity has discouraged buyers from signing the long-term contracts that are needed to help finance new projects.

BNEF forecasts that demand will rise 8.8 percent this year to 280 million tons and reach 479 million by 2030; China will be the world’s top importer by 2025; and spot prices will hold around $6 per million Btu until the mid-2020s if oil prices stay near current levels.

Removing resale restrictions will help make LNG a global commodity

(Platts columnist; Sept. 11) - The LNG sector has not been without its drama in 2017, with Hurricane Harvey, the Qatari diplomatic crisis and Australia’s decision to possibly limit LNG exports keeping the market on its toes despite significant export capacity expansions. But while there has been some fretting over possible supply disruption, it remains a buyer’s market, thanks to growing flexible volumes, slowing demand from LNG’s legacy markets in Asia and expiration of sizable long-term sales contracts.

It is this shift toward a more customer-focused market that has set LNG on the path to become a more fungible global commodity. The Japan Fair Trade Commission’s finding in June that LNG destination clauses are likely anti-competitive was a game-changing step toward a more flexible global market. It could mark the start of similar regulatory activity on resales across Asia, benefitting buyers with surplus gas under contract.

Significant volumes of LNG could burst onto the market as a result, boosting spot-sales competition. The Japanese ruling was well received in the Atlantic Basin — the European Union in July agreed to cooperate with Tokyo to phase out restrictions on resales, already illegal under EU law. The LNG supply outlook is staggering. More than 100 million tonnes a year of new liquefaction capacity is expected to come online 2017-2020, mainly from Australia and the U.S. Those hoping the market would rebalance by the mid-2020s had their hopes seemingly dashed by Qatar’s notice in July that it would expand its liquefaction capacity, already the world’s largest, by 30 percent by 2023.

Bangladesh will sign 15-year deal for Qatari LNG

(Reuters; Sept. 13) - Bangladesh will sign a 15-year deal with Qatar’s RasGas to import liquefied natural gas starting in 2018 as the South Asian country turns to the fuel to fill a domestic supply gap for power generation, officials told Reuters. The deal will be

signed Sept. 25 in Qatar, said Mohammad Quamruzzaman, managing director of the Rupantarita Prakritik Gas Co., a unit of Bangladesh's state-owned oil firm Petrobangla.

Under the deal, RasGas will supply 1.8 million tonnes of LNG a year for the first five years and 2.5 million tonnes a year for the next 10 after that, the Petrobangla officials said. The deal is Bangladesh's first LNG import agreement and will help to cover the country's domestic natural gas shortfall. The contract with the world's biggest LNG exporter underscores the rise of South Asia as a new market for the fuel. India and Pakistan also import LNG from Qatar.

The deal is for less than the 4 million tonnes a year Bangladesh agreed to take in a 2011 memorandum with RasGas, since it instead plans to buy more spot-market cargoes amid a supply glut that has lowered prices. Bangladesh's first floating storage and regasification unit is to be commissioned by April 2018. Its second is due by next October. Bangladesh is also looking to add two additional floating LNG terminals next year. Bangladesh, a nation of over 160 million people, could import as much as 17.5 million tonnes of LNG a year by 2025, Bangladesh's energy minister said last month.

Commodities traders make move to supply Pakistan with LNG

(Reuters; Sept. 12) - Commodities trader Trafigura said it plans to open a liquefied natural gas import terminal in Pakistan as traders move into developing infrastructure to meet emerging markets' appetite for gas. The terminal at Port Qasim in Karachi will include a floating storage and regasification unit, where LNG will be converted back into gas for feeding into Pakistan's pipeline grid, the Swiss-based company told Reuters. Trafigura did not give a date for when it would come into operation or a project cost.

Trafigura, one of the biggest independent traders of LNG, has already taken a minority stake in a separate Pakistani import project. On Sept. 11, it was also shortlisted by Bangladesh, a major new growth market for the fuel, to set up a terminal there in 2018. Floating terminals are faster and less costly to set up than traditional land-based units and offer commodity traders a route into new markets, helping to absorb a growing LNG surplus on international markets.

Nowhere is competition for market share among traders more intense than in Pakistan and Bangladesh. The countries have huge needs for gas but until now they have been largely unmet, hindering economic growth. Rival global commodities player Gunvor has already sealed two five-year deals to supply Pakistan with 120 LNG cargoes. It too is moving into infrastructure. In a private deal, Gunvor joined a consortium that is behind Pakistan's third LNG terminal that will be ready next year.

Swiss trading houses grab $10 billion slice of global LNG market

(Reuters; Sept. 12) - Swiss trading houses are muscling in on the global market for liquefied natural gas, until now the preserve of energy giants, and expect to grab a $10 billion share of the rapidly growing business this year. Trafigura, Gunvor, Vitol and Glencore are shaking up a decades-old system dominated by oil majors and state energy producers that sell LNG directly to large customers on long-term contracts.

The commodities traders plan 2017 shipments that will be more than triple the 2015 level. "The trade houses ... are not fringe players anymore," said Trafigura's head of LNG Hadi Hallouche. "In the next four or five years there will be a significant amount of supply contracts expiring and that will open up the market." In the short term, the Swiss traders may prove useful to producers by finding new buyers in emerging markets, easing a glut that the dominant suppliers helped to create.

The traders have set their sights on supplying not only the fastest-growing consumers like China, India and Pakistan but also the largest, such as power utilities in Japan and South Korea. Overall, the four Swiss traders expect to deliver over 25 million tonnes of LNG this year, about 8 percent of the global trade. "The days of producers having nice cozy 25-year supply deals with buyers won't disappear altogether," said David Fyfe, Gunvor Group's chief economist. "But what traders bring is a mechanism to absorb oversupply and find markets that traditional producers might not have considered."

India swaps 60% of U.S. LNG for other supplies

(Zeenews; India; Sept. 12) - State-owned GAIL India on Sept. 12 said it has swapped 60 percent of the 5.8 million tonnes per year of liquefied natural gas it has contracted to take from U.S. export terminals as it rearranges its supply portfolio in line with domestic demand. GAIL Chairman BC Tripathi said the company has sold a "major chunk" of the U.S. LNG via time swaps, destination swaps and shipping optimization.

Under the time-swap deals, the company will buy LNG from international companies this year and sell equivalent amounts of its U.S. volumes during 2018-19. It also has entered into deals to take deliveries of gas from suppliers closer to India, and in exchange releasing its U.S. volumes to buyers closer to the supply points in a move to cut shipping costs. Tripathi said some of the time-swapped volumes have started arriving in India but refused to give details.

GAIL has a deal to buy 3.5 million tonnes a year of LNG for 20 years from Cheniere Energy's terminal in Sabine Pass, La., and 2.3 million tonnes from Dominion Energy's Cove Point, Md., liquefaction plant. The company had contracted for the gas to meet the demand of India's growing economy, in particular the power sector. But electricity produced from imported LNG is not finding buyers due to cheaper alternatives including renewables, leading to stranding of significant capacity of gas-fired power plants.

Shell will help build pipeline to boost demand for gas in Nigeria

(Financial Times; London; Sept. 10) – Shell is joining forces with a Nigerian company to develop gas pipeline infrastructure in the country in a deal that highlights the push by the world's biggest energy companies to help build demand for gas in growing economies of Africa. Shell's Nigerian business has signed a $300 million agreement with Nigeria-based power provider Shoreline Energy to develop, market, and distribute gas around Lagos, the commercial capital of Africa's largest economy.

The deal is the latest example of global energy groups investing in terminals, pipelines and power infrastructure throughout Africa as a way to promote gas as the best solution to the continent's chronic shortage of electricity-generating capacity. Shell will help finance and develop a transmission and distribution pipeline network to generate revenues from a 20-year gas concession in Nigeria.

Oil and gas producers see Africa as a big part of their global effort to drive demand for gas as a cleaner, more efficient alternative to coal, diesel and oil in power generation, transport and industrial uses. Eni of Italy is investing in a gas terminal and pipeline to connect newly developed gas resources off the coast of Ghana to the local market, and Total of France is building a floating gas storage facility off Ivory Coast. Nigeria offers arguably the biggest opportunity because it holds the continent's largest gas reserves yet suffers from severe power-supply shortages due to inadequate infrastructure.

Papua New Guinea starts paying LNG project royalties to landowners

(Reuters; Sept. 13) - The Papua New Guinea government has started paying local landowners long awaited benefits from the $19 billion PNG LNG project, in a promising sign for energy giants ExxonMobil and Total that are looking to invest billions more in the country. The liquefied natural gas project, operated by ExxonMobil, has been exporting for more than three years with a 2 percent royalty set aside for landowners, but payments had been held up by disputes over who is eligible.

The royalty funds have been held in trust by the government while it vets landowners, a prolonged process that has triggered violent clashes over the past three years and threatened to disrupt PNG LNG operations. "Important progress has been made with the government of PNG commencing payment of royalties to relevant landowner groups around the PNG LNG plant near Port Moresby," ExxonMobil PNG said in emailed comments to Reuters on Sept. 13.

Progress on resolving the disputes comes as a relief for ExxonMobil, France's Total and their partners that are in talks to invest billions of dollars in new gas fields to double LNG exports from one of the world's lowest-cost projects. The government made resolution of the landowner issues a priority in a 100-day plan it set out after elections in

July. Identification of those eligible for royalties still needs to be resolved with property owners in the impoverished highlands, where gas is produced and piped to the plant.

Chubu Electric, Osaka Gas may join forces to enter Tokyo market

(The Japan News; Sept. 10) - Chubu Electric and Osaka Gas are considering joining forces to enter the retail energy market in the Tokyo metropolitan area, it was learned Sept. 9. By jointly tackling the huge market with high demand, the utilities hope to survive intensifying competition in the electricity and gas retail sectors, following Japan's full liberalization of the regulated gas and electricity markets, sources said.

The possible tie-up between the major power and city gas companies could accelerate reorganization in the energy industry. Chubu Electric, based in Nagoya, central Japan, and Osaka Gas, based in Osaka, currently collaborate in areas such as liquefied natural gas procurement. The companies are studying the possibility of setting up a new firm and exploring partnerships with companies outside the energy sector, aiming to offer value-added services to customers, the sources said.

Ohio gas production up to 4.3 bcf a day; moves to No. 6 in country

(Forbes contributor; Sept. 10) - Thanks to the Utica and even part of Pennsylvania's Marcellus shale plays, Ohio is now one of the country's major natural gas producing states. Despite low prices in the $3 range, producers in the Utica have added 10 rigs since early March to now total 29. The Ohio Department of Natural Resources reports that second-quarter gas production hit 4.3 billion cubic feet per day, up more than 16 percent from second-quarter 2016.

Five counties — Belmont, Harrison, Monroe, Carroll and Jefferson — accounted for nearly 90 percent of the state's output, with Belmont leading at 1.9 bcf a day. Looking forward, Ohio has more gas opportunities with new pipelines coming to the area. The $4.2 billion, 713-mile Rover pipeline finally started Phase 1 operations Sept. 1, and was already delivering 600 million cubic feet of gas per day. Rover's Phase 2 will lift the project to its full capacity of 3.25 bcf a day and could come online by early December.

Rover will ship Appalachia Basin gas to markets in the Midwest, Gulf Coast and Eastern Canada. With construction slowed by multiple delays and pressure from regulators, the gas market has been waiting for Rover's arrival. The Nexus pipeline, at 1.5 bcf a day capacity, has been approved by federal regulators and start-up is scheduled for next year. Out of pretty much nowhere, Ohio is now the sixth-biggest gas producing state.

Lawsuits challenge FERC-approved eminent domain for gas pipelines

(EnergyWire; Sept. 13) - Roanoke, Va.-based attorney Justin Lugar is representing 10 landowners in the path of the proposed Mountain Valley gas pipeline in an ambitious lawsuit that challenges the federal process for land acquisition through eminent domain. The 303-mile West Virginia-to-Virginia pipeline has also led Carolyn Reilly to unfamiliar territory. The southern Virginia resident saw her life upended when pipeline backers in 2014 unveiled plans to cut through 4 acres of the small farm she runs with her husband.

Reilly has signed on to work for Bold Alliance, the anti-pipeline group that sprang from opposition to Keystone XL in Nebraska. Just last week, Bold Alliance and more than 50 landowners, including Reilly, filed their own lawsuit against government officials and builders of the Mountain Valley proposal and the Atlantic Coast pipeline, a separate project proposed farther north in Virginia. Like Lugar and his clients, the 50 landowners are taking aim at the Federal Energy Regulatory Commission's delegation of eminent domain power to private companies that build pipeline infrastructure across the country.

"Those rights are given to the pipeline without any real assessment of whether the pipeline is serving a public use," said attorney Carolyn Elefant, who is representing the group. Both lawsuits — Elefant's in the U.S. District Court for the District of Columbia and Lugar's in the U.S. District Court for the Western District of Virginia — stem from rising tension between landowners and the backers of new pipelines that have stretched across the country to move gas from shale fields to markets. Another case challenges property takings for the Nexus gas pipeline in Ohio, which just received FERC approval.

Pennsylvania legislators continue fight over gas production tax

(EnergyWire; Sept. 11) - Pennsylvania legislators will return to the state capital Sept. 11 with a deadline looming to solve a budget deadlock that's lasted most of the summer. The outcome of the debate could have long-term impacts on the state's gas industry and environmental protection programs. Both the state House and Senate agreed to spend $32 billion in the 2017-18 fiscal year. But the state only brings in $30.2 billion annually, and the two chambers are far apart on how to pay for the increased spending.

The state Senate passed a bill in July that would borrow $1.2 billion and impose new taxes, including a levy on Pennsylvania's natural gas industry which does not currently pay a state production tax — only a per-well fee. The House hasn't passed a bill of its own, and there doesn't appear to be enough support to pass any of the plans currently pending, said Terry Madonna, a political science professor at Franklin & Marshall College in Lancaster, Pa. "They're literally back to ground zero," Madonna said.

The Senate's proposed gas production tax would raise about $80 million in its first year, but the gas industry is vehemently opposed to it. Gov. Tom Wolf has proposed a tax on the gas industry every year since he was elected in 2014. At the same time, the Senate

bill would also require the state Department of Environmental Protection to speed up permitting for gas wells, allow third-party contractors to review some permits, and set up a committee that could roll back state regulations on methane emissions from gas production. Environmental groups have threatened to block those provisions in court.

Pipeline expansions will help move Western Canadian gas to markets

(JWN Energy Group; Sept. 7) – Lacking the option of coastal liquefied natural gas export terminals, the expansion of North American gas pipelines will keep Western Canada's growing production from cratering regional markets in the next few years, said a pricing specialist with S&P Global Platts. Higher rig counts in British Columbia and Alberta are expected to boost Western Canada's gas output 19 percent by 2020, from just under 16 billion cubic feet per day currently to between 18.5 bcf and 19 bcf per day.

Ryan Ouwerkerk said pipeline projects will keep Canada's molecules moving to market. "These expansions are what is going to keep Canada in the mix within the production provinces but also into the U.S. market," he told an energy information session in Calgary on Sept. 7. B.C. gas producers this year have already felt the impact of limited sales options. "Prices have actually been crushed this year."

Ouwerkerk said expansions of Enbridge's High Pine and TransCanada's Tower Birch pipelines — both under construction — will add more than one billion cubic feet per day of capacity "deeper into the Alberta market." Into the U.S., he said the proposed Sundre Crossover expansion of the NGTL system would boost capacity by 360 million cubic feet per day to the Pacific Northwest in 2018, and the Alliance Pipeline is planning to increase capacity into the U.S. market by 500 million cubic feet per day by 2020.

BC Ferries will convert its two largest ships to run on LNG

(CBC News; Canada; Sept. 7) - BC Ferries is continuing its move toward liquefied natural gas with an upgrade of its two Spirit Class vessels. The operator has pulled the first of two ships from service for upgrades, which will be done in Gdansk, Poland. The ships will be converted to burn liquefied natural gas or ultra-low sulfur marine diesel. The Spirits are the two largest ships in the fleet. They're also its biggest fuel guzzlers — they ate up about 15 percent of BC Ferries' $100 million fuel bill last fiscal year.

"By converting to natural gas, we can cut that fuel bill in half. That's a significant benefit for the fare payer," said BC Ferries CEO Mark Collins. Upgrades to the Spirit of British Columbia will be completed by spring 2018. BC Ferries will then pull the Spirit of Vancouver for conversion next fall. "We're looking for another 20 to 25 years for these ships," Collins said.

Earlier this summer, BC Ferries introduced its three new Salish Class vessels, which also can burn liquefied natural gas. The new ferries were built in Poland at the same shipyard that will perform the upgrades on the Spirit Class ferries.

World's largest oil field services firm invests in production

(Reuters; Sept. 7) - The world's largest oil field services company, Schlumberger, is spending billions of dollars buying stakes in its customers' oil and gas projects — investing in the same ventures it supplies with equipment and expertise. The new business model gives Schlumberger a say in drilling decisions, oil field management and even the hiring of other Schlumberger units, the company has told investors.

It saves Schlumberger from bidding for each of the many jobs that typically require separate contracts on a large drilling project — effectively locking out the firm's competitors. The gamble could upend the service business model throughout the industry, as rivals including Baker Hughes say they are considering whether to adopt similar strategies. The model can supercharge profits on a given job but also ramps up risk, giving the firm more exposure to oil-price swings and losses if projects fail.

The downsides have some analysts questioning whether the firm is taking on too many speculative projects too quickly. Schlumberger already has taken hundreds of millions of dollars in write-downs or impairments on some of the joint-ventures, according to its financial filings. Despite early setbacks, Schlumberger has committed cash to growing the effort since its launch in 2011. Its investment was $2.6 billion as of June 30. Last year, it generated $1.4 billion in revenue. The company's investments had the firm co-managing about 230,000 barrels a day of oil and gas output at the end of 2016.

Minnesota says Enbridge should shut down aging oil pipeline

(The Associated Press; Sept. 11) - Enbridge has failed to prove the need for replacing its aging Line 3 oil pipeline across northern Minnesota and it might be better to just shut down the line, the Minnesota Department of Commerce said Sept. 11. In filings with the state Public Utilities Commission, the department said Minnesota and upper Midwest refineries have sufficient supplies of crude and little capacity for processing more of it.

It said Minnesota's demand for gasoline and other refined products appears unlikely to increase over the long term. And it said the proposal carries serious environmental and socioeconomic risks that outweigh any benefits to Minnesota. "In light of the serious risks of the existing Line 3 and the limited benefit that the existing Line 3 provides to Minnesota refineries, Minnesota would be better off if Enbridge proposed to cease operations of the existing Line 3, without any new pipeline being built," the filing said.

The proposal by Calgary-based Enbridge to replace Line 3, which was built in the 1960s to carry Canadian oil to its terminal in Superior, Wisc., has generated opposition from tribal and environmental groups. The preferred route cuts through the Mississippi River headwaters and lake country where Ojibwe bands harvest wild rice. Business and labor groups back the $7.5 billion project. The commission will decide whether to grant a certificate of need. Enbridge has said it needs to replace Line 3 because it has had to sharply restrict the volume to just over half its original capacity of 760,000 barrels a day.