

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Japanese buyers will take 60% of Australia LNG project output**

(Nikkei Asian Review; Sept. 7) – The fuel supply joint-venture between Tokyo Electric and Chubu Electric will begin buying liquefied natural gas from the Wheatstone LNG project in Australia, diversifying its purchases amid tensions in the Middle East. The procurement venture, known as Jera Co., gets more than 20 percent of its LNG from Qatar, its biggest supplier. But once the Wheatstone project goes into full production in 2018, Jera's purchases from Australia will surpass those from the Mideast nation. Wheatstone, in northwestern Australia, is set to begin shipments as soon as this month.

Jera is among the world's top LNG purchasers, acquiring 35 million tonnes in fiscal 2016. Tokyo Electric and Chubu Electric handed over their long-term LNG contracts to the joint-venture when it was established in 2015. Shipping LNG from Australia typically takes about 10 days, roughly two-thirds of the time to ship from Qatar. In addition to lower shipping costs, the shorter distance means the Japanese venture will be able to more easily and quickly adjust procurement flexibly depending on demand.

The Wheatstone project estimates annual capacity of 8.9 million tonnes, of which Jera will purchase 5.2 million tonnes (almost 60 percent) to supply to Tokyo Electric and Chubu Electric. Chevron leads the Wheatstone project. A 10 percent interest is held by PE Wheatstone, which is backed by Jera, Mitsubishi Corp., Nippon Yusen, and Japan Oil, Gas and Metals National Corp.

#### **Lacking longer-term deals, Angola sells LNG to spot-market trader**

(Reuters; Sept. 4) - Angola's sole liquefied natural gas export facility will begin filling carriers for trader Vitol later this year under a deal announced Sept. 4, a facility spokeswoman said. Angola LNG, which has steadied its output following lengthy outages in recent years, has guaranteed Vitol access to supply for the first time, part of a wider shift in which trading companies are taking a greater share of the LNG market. "The terms of this agreement are commercially confidential," a spokeswoman said.

In a global first, LNG from Angola has been entirely sold via competitive tenders into the spot market, in part because the plant's original plan of shipping LNG to the United States fell through following that country's shale gas boom. Concerns over the plant's reliability as well as limitations on feed gas supplies from offshore fields also prevented the Chevron-led project from locking in a mid-term LNG sales deal immediately.

Output from Angola LNG stabilized this year with production on track to hit up to 3.5 million tonnes in 2017 compared with 0.77 million tonnes in 2016. Though improved, it will still fall short of the plant's design capacity of 5 million tonnes a year. Vitol could use its Angolan volumes to help cover a 10-year obligation to supply South Korea's Korea Midland Power Co. with 400,000 tonnes of LNG annually, or to grow its share of the spot market. A 70-percent drop in spot prices since April 2017 and a growing supply overhang has given trading houses room to maneuver as flexible sellers.

### **Pakistan utility taking bids for 1 million tonnes LNG per year**

(Reuters; Sept. 5) - Pakistan utility K-Electric is seeking to buy about 1 million tonnes of liquefied natural gas annually to feed a new power plant, and is due to take bids from prospective suppliers Sept. 8, industry sources said. The Karachi-based power generator is seeking supply for its 900-megawatt, \$1 billion Ben Kasim Power Station that will start up in two phases in mid-2018 and the end of 2019.

The tender highlights the pace at which Pakistan is becoming a major LNG consumer, having already closed a string of massive import tenders that it awarded to trading house Gunvor and Italy's oil and gas producer Eni. Pakistan installed its first LNG import terminal in 2015 and, after some delays, a second terminal is due to come online in October, doubling annual import capacity to about 9 million tonnes. Two more terminals are expected to become operational in 2018.

A source said K-Electric expects to award the tender within a month of receiving bids via a binding Heads of Agreement with the winning supplier. The source declined to give the exact length of the contract, but said it would last for several years.

### **Shell wants to build gas demand so it can build more LNG plants**

(Bloomberg; Sept. 5) - Europe's biggest energy company is investing in projects to boost global gas demand and aims to continue feeding the market it is nurturing with new liquefied natural gas export plants. Shell is supporting the use of gas in heavy transport such as shipping and is also helping smaller and less creditworthy customers begin importing LNG, Maarten Wetselaar, the company's director of integrated gas and new energies, said at an event at Bloomberg's Sydney office Sept. 6.

As new LNG customers enter the market, that activity will open a window for Shell and others to develop new low-cost export plants. "As we develop the market, we'll need new supply. We will build new LNG projects to serve that market, but as for where, I would be wrong to tell you," Wetselaar said. Shell has potential LNG projects in nearly every time zone in the world, and the ones that can produce the cheapest fuel will get the investment go-ahead, he said.

LNG Canada, a project proposed for Kitimat, B.C. — for which Shell delayed its investment decision last year — is among the options, Wetselaar said. Those projects that can't meet the low-cost requirement may not be part of Shell's future, he said. "We have projects in Asia, Africa, in the U.S. and in Canada, and one thing for sure is that we can't build them all at the same time. ... We will need to sequence and potentially sell parts of these projects down as we move forward."

## **Short-term LNG trade boosts market share and changes Asia pricing**

(Financial Times; Sept. 6) - The derivatives market in Asian liquefied natural gas is finally taking off, as the world's largest importers look to diversify the pricing structures of their purchases by increasing short-term agreements. LNG is one of the few remaining commodities where buyers and sellers are locked into multi-year contracts, and the long-awaited market development comes as new supply projects have come online and the LNG price has fallen.

Tobias Davis, head of LNG brokering at Tullett Prebon, said, "[The Asian derivatives market] is becoming more liquid, enough to become a fair price indicator." Historically, a large portion of LNG sold in North Asia has been traded under long-term, fixed-destination contracts linked to oil prices. However, an increasing number of Japanese and Korean buyers are signing full or partial short-term contracts linked to LNG price indices, moving away from oil-linked pricing to a more locally derived price structure.

The shifts in the prized Asian market come amid wider changes in the LNG industry. Long the preserve of the largest energy groups such as Shell and Exxon, independent energy traders including Vitol, Gunvor and Trafigura are entering the sector, agreeing on relatively short-term deals with new pricing. Trading volumes of LNG derivatives linked to Asian prices have soared as more dealers and companies look to hedge short-term deals. Spot and short-term trade in 2016 rose to 28 percent of all LNG trades.

## **South Korea draft energy policy highlights LNG and renewables**

(Reuters; Sept. 6) - South Korea is lining up plans to lift its power-generation capacity by up to 10 percent by 2030, mostly using liquefied natural gas and renewable energy in an ambitious drive to cut decades of reliance on coal and nuclear plants. A draft policy unveiled by Seoul's Energy Ministry on Sept. 6 showed it hopes to meet rising demand in Asia's fourth-largest economy by adding 5 to 10 gigawatts to its capacity base — about 4.7 to 9.5 percent of current capacity — mostly from LNG and renewables.

The numbers highlight the challenge Seoul faces in meeting new President Moon Jae-in's campaign promises. Moon wants to generate 20 percent of Korea's power from

renewables by 2030, up from 5 percent now. Even if renewables take up all the new capacity outlined Sept. 6, other steps may be needed to meet the cleaner-energy goal.

“We are working on a plan to reduce nuclear and coal power generation gradually,” said Choi Woo-seok, director of the ministry’s electric power division. “But at the same time, we are seeking to expand the share of renewables and LNG for power generation to keep abreast with global trends.” The draft, which provided few details, is the first step in the ministry’s plans to flesh out a new energy policy by the end of October and finalize it by the end of the year. South Korea now produces nearly 40 percent of its electricity from coal, followed by nuclear at about 30 percent. The rest comes from LNG at about 20 percent, oil and others at 5 percent, and renewables the final 5 percent.

### **China halts coal imports at large port**

(Reuters; Sept. 6) - Guangzhou port, the largest coal hub in southern China, has halted foreign coal imports, said traders who use the port and said they had been informed of the shutdown by customs authorities and senior company officials. Traders said the move caught merchants by surprise and has been interpreted as a sign that Beijing is stepping up its campaign to cut pollution. China banned coal imports at small ports in July, but larger Guangzhou has 14 coal berths and can handle 60 million tonnes a year.

Chinese coal imports in the first seven months of 2017 totaled 110 million tonnes. “We were told by customs that the port has stopped accepting foreign shipments,” said one trader. “Starting this week, we will avoid using Guangzhou.” It wasn’t immediately clear how long the halt on imports would last, nor how many cargoes would be affected.

Another trader based at Guangzhou said his company has stopped booking supplies for October arrivals, despite increasing demand from utilities. “We still have a couple cargoes each of 60,000 tonnes on the way to Guangzhou port. If these cargoes cannot clear customs we probably have to return them,” the trader said. “The last time I saw a foreign cargo being allowed to unload was almost a week ago.”

### **Indian/Japanese venture will build LNG import terminal in Sri Lanka**

(The Economic Times; India; Sept. 6) – India’s Petronet LNG will build a liquefied natural gas import terminal in Sri Lanka in collaboration with Japanese and Sri Lankan companies. The Sri Lankan government issued a letter of intent to the Indian government Sept. 1, Petronet said in a statement.

“A joint venture of Petronet LNG along with Japanese and Sri Lankan companies will develop an LNG terminal in Sri Lanka to provide regasified natural gas to various power plants, domestic and transport sectors in Sri Lanka,” Petronet said. The capacity of the

terminal will be based on gas demand in Sri Lanka and is expected to be developed in two years after completion of initial formalities, the company said.

Petronet, controlled by state oil firms, is India's largest LNG importer. It operates two LNG terminals in India and is aiming to build one each in Sri Lanka and Bangladesh.

### **Cheniere resumes shipments from LNG terminal in Louisiana**

(Platts; Sept. 6) - Cheniere Energy was preparing Sept. 6 to ship its first LNG export cargo from its Sabine Pass terminal in Louisiana since Harvey came ashore along the Gulf Coast as a powerful hurricane almost two weeks ago. The Rioja Knutsen tanker was allowed to dock at the terminal in Cameron Parish after being held in a holding pattern with numerous other vessels in the Gulf of Mexico due to strong currents and high water levels in the Intracoastal Waterway that feeds the facility.

"We managed to sneak her in today, barely," said Daniel Dubois, chief dispatcher for Sabine Pilots, which navigates vessels along the channel. "We're probably not going to do another one until she sails. The conditions aren't exactly favorable." Extra tugboats were required to safely guide the Rioja Knutsen to the Cheniere dock, Dubois said.

The tanker would be the first to depart Sabine Pass since Aug. 24, the day before Harvey came ashore and delivered five days of strong wind and punishing rain to the Houston area, before moving on to East Texas and southwest Louisiana. According to S&P Global Platts' trade flow software, as of Sept. 6 three LNG vessels near Sabine Pass listed the terminal as their destination, while another three vessels farther out in the Gulf also listed Sabine Pass as their destination.

### **Company proposes undersea pipeline to move Iranian gas to India**

(Live Mint; India; Sept. 5) – An 800-mile undersea pipeline from Iran, avoiding Pakistani waters, could bring natural gas from the Persian Gulf to India at rates less than the price of liquefied natural gas available in the spot market, proponents of the pipeline said Sept. 5. Releasing a study on the Iran-India gas pipeline, India's former oil secretary T.N.R. Rao said gas imported through the \$4 billion line would cost \$5 to \$5.50 per million Btu at the Indian coast, cheaper than some domestic gas supplies. LNG imported by ship costs about \$7.50.

Rao, who is the chairman of the advisory board of South Asia Gas Enterprise — the firm wanting to lay the undersea line — said the pipeline can first travel to Oman, and then onwards to Porbandar in Gujarat, India's westernmost state and closest to Iran. "The cost of landed gas through an undersea pipeline will be at least \$2 cheaper than importing LNG, saving about \$1 billion annually," the study said.

The company wants the Indian government to support the pipeline and help buyers enter into contracts. The pipeline is planned to carry about 1.1 billion cubic feet of gas per day. The company said it could be built in two years from the date of necessary approvals and signed gas sale-and-purchase agreements. Under the proposal, the company would lay the pipeline to bypass the exclusive economic zone of Pakistan.

### **Gas will grow to become world's largest energy source, report says**

(LNG Industry; Sept. 5) - Oil and gas will continue as crucial components of the world's energy future, according to DNV GL's forecast of the energy transition. While renewable energy will grow its share of the energy mix, oil and gas will account for 44 percent of world energy supply in 2050, compared to 53 percent today. Gas will become the largest single source of energy, said the Oslo-based registrar and classification society for the maritime and other industries.

DNV GL's Energy Transition Outlook, a forecast that spans the global energy mix to 2050, predicts that global demand for energy will flatten in 2030, then steadily decline over the next two decades with improvements in energy efficiency. The fossil-fuel share of the world's primary energy mix will fall from 81 percent currently to 52 percent in 2050. Demand for oil will peak in 2022, driven by expectations of a surge in prominence of light electric vehicles, accounting for 50 percent of new car sales globally by 2035.

The stage is set for natural gas to become the largest single source of energy toward 2050, and the last of the fossil fuels to experience peak demand, which DNV GL expects will occur in 2035 for gas. However, the forecast also said gas will continue to play a key role alongside renewables in helping to meet future lower-carbon energy requirements. Major oil companies intend to boost the role of gas in their reserves, and DNV GL sees an accelerated shift by 2022 as companies decarbonize their portfolios.

### **Manufacturers say Australian natural gas prices still too high**

(Australian Financial Review; Sept. 3) - A softening in Australia's East Coast natural gas prices in recent weeks has not brought down prices to levels that manufacturers say are affordable, adding pressure to the federal government to slap limits on LNG exports for 2018. Sources close to gas buyers say that while the \$19-plus per million Btu prices offered to shell-shocked manufacturers in February-March are no more, offers of \$16 to \$17 for firm deliveries are still common, about triple the level of expiring contracts.

Those prices are still well above wholesale prices for Australian gas in key North Asian markets. That's left manufacturers fuming and calling for Canberra to act as soon as possible to trigger the Domestic Gas Security Mechanism (ADGSM) to cap exports and

make more gas available in the eastern and southern states. One major industrial buyer said it had seen little easing of prices. The company's most recent supply offer, from Origin Energy, was about \$14, on a 100 percent "take-or-pay" basis, with no flexibility.

"As long as domestic prices remain significantly higher than what we would consider an international benchmark ... we would see it as appropriate to trigger the ADGSM," said Ben Eade, executive director at Manufacturing Australia. "The downside risk of not having enough gas is just too great to experiment with." A government decision on triggering the mechanism, which would likely lead to caps on LNG exports from the 2-year-old Santos-led Gladstone LNG project, is expected this month.

### [U.S. natural gas exports to Mexico come up short due to Harvey](#)

(Bloomberg; Sept. 4) - Hurricane Harvey's crushing blow to the U.S. energy industry reveals just how dependent Mexico has become on natural gas from the U.S. The storm's wrath forced cross-border gas pipelines in Texas to shut down and prevented liquefied natural gas tankers from loading their cargoes. Mexican consumers, who are burning record amounts of gas from America's prolific shale basins, had no choice but to cut back as imports dropped 16 percent in a single day after Harvey hit.

After ending its state-owned energy monopoly four years ago, Mexico has supplemented dwindling domestic gas production with shipments from the U.S. As the two nations' gas markets become more intertwined, however, supply disruptions in the U.S. — whether from natural disasters or policy changes like President Donald Trump's threats to withdraw from the North American Free Trade Agreement — can send Mexico scrambling to find alternatives for American supply.

"Mexico has become more dependent on U.S. natural gas as they now rely on the U.S. for more than half of their supply," up from 25 percent in 2014, Jacob Fericy, an analyst at Bloomberg New Energy Finance, said Sept. 1. Because of storm-related cutbacks, Mexico's state-owned petroleum company asked consumers to use about 10 percent less gas last weekend. Mexico's appetite for gas is poised to grow even more, with the nation's demand expected to continue growing, according to the Energy Ministry.

### [Osaka Gas joins joint-venture to serve Tokyo service area](#)

(Nikkei Asian Review; Sept. 6) - Osaka Gas will reach into greater Tokyo via a city-gas production venture with Tokyo Electric and JXTG Holdings, the first expansion by a Japanese gas provider beyond its conventional service area since deregulation in the nation's gas retail market in April. The three companies intend to establish a facility in

the Kanagawa Prefecture city of Kawasaki to produce city gas from liquefied natural gas, investing an estimated 10 billion yen (\$91.6 million).

Osaka Gas will contribute gas production expertise for the facility, with operations targeted to begin in 2020. TEPCO appears likely to control 69 percent of the venture to be created to handle construction and operation of the facility, while JXTG and Osaka Gas will hold 16 percent and 15 percent, respectively. The annual capacity of 1.1 million tonnes initially will help fuel TEPCO's Shinagawa power station in Tokyo.

As Osaka Gas establishes its first city-gas production site in greater Tokyo, the utility also eyes eventual gas sales in the region. Japan's liberalized city-gas market has drawn few newcomers because the safety expertise needed is a barrier to entry, and gas and electricity companies have yet to expand gas businesses past their traditional areas. Osaka Gas appears driven by particularly intense competition in greater Osaka, where Kansai Electric entered gas retailing, nabbing more than 200,000 customers.

### [Interior says any EIS will need permission to exceed 300 pages](#)

(GreenWire; Sept. 6) - Citing a need to reduce paperwork, the Interior Department has imposed controversial new restrictions on the length of environmental studies. In an Aug. 31 memo, Deputy Secretary David Bernhardt directed that the department's environmental impact statements "shall not be more than 150 pages, or 300 pages for unusually complex projects." The memo said it is being issued in the "context of the department's overall effort to streamline the NEPA process."

Officials will need high-level approval to exceed the page limit. The memo also imposes a "target" of completing the studies required under the National Environmental Policy Act within one year. "The purpose of NEPA's requirement is not the generation of paperwork, but the adoption of sound decisions based on an informed understanding of environmental consequences," Bernhardt wrote, adding that studies "should focus on issues that truly matter rather than amassing unnecessary detail."

The main volume of the final environmental study of California's proposed WaterFix twin-tunnel plan for routing the state's water, for instance, exceeded 16,000 pages last December. These kind of super-long studies are relatively rare, generally involving the most complicated and highest-profile projects. More broadly, the memo gives Bernhardt the potentially far-reaching responsibility for overseeing the department's efforts to clear away "potential impediments" and "streamline" the environmental review process.

## **Lawsuit challenges FERC's authority to grant eminent domain**

(EnergyWire; Sept. 6) - Federal regulators are facing another challenge to how natural gas pipelines are typically approved and developed. A coalition of landowners and advocates Sept. 5 sued the Federal Energy Regulatory Commission for routinely granting the power of eminent domain to private companies that build pipelines across the country. They are focused on the proposed Mountain Valley and Atlantic Coast pipelines, which would carry West Virginia shale gas to Virginia and North Carolina.

More than 50 landowners and three advocacy groups — including Bold Alliance, which got its start opposing the Keystone XL oil sands pipeline — filed suit in the U.S. District Court for the District of Columbia and are seeking to block FERC from delegating eminent domain power to developers of the two proposed gas pipelines. They are represented by Carolyn Elefant, a former FERC lawyer and now solo practitioner who specializes in representing landowners against FERC and energy companies.

Elefant said FERC's longtime practice of granting eminent domain to pipeline builders to acquire land from holdouts along a pipeline route does not account for major changes in energy markets and regulation over the years. "With the deregulation of the natural gas industry, we are seeing many more unregulated players, and the role that pipelines play today is very different from the role they played in the '30s and '40s when Congress first gave them this authority," she said, noting that today's pipeline builders are taking advantage of more market opportunities rather than simply meeting public demand.

## **French government wants to ban all oil and gas drilling by 2040**

(The Associated Press; Sept. 6) - France's government is unveiling a law to ban all production and exploration of oil and natural gas by 2040 on the country's mainland and overseas territories. The move is largely symbolic, however, as France's oil and gas production represents just 1 percent of national consumption — the rest is imported. Current drilling permits will not be renewed, according to the draft bill obtained by The Associated Press. The bill is to be formally presented at a Cabinet meeting Sept.6.

The government claims such a ban is a world first. It is part of a larger plan to wean the country's economy from fossil fuels, to encourage clean energy and fulfil France's commitments under the Paris Climate Agreement to curb global warming. The bill, as explained by Environment Minister Nicolas Hulot, also includes a definitive ban on all shale gas exploration and extraction. Hulot had already announced in July that France will stop producing power from coal — now 5 percent of the total — by 2022.