Oil and Gas News Briefs
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Cheniere wins first long-term U.S. LNG sales deal with China

(Reuters; Feb. 9) – Houston-based Cheniere Energy has signed a contract to sell liquefied natural gas to China National Petroleum Corp. from its Corpus Christi terminal under construction in Texas, moving Cheniere closer to a decision whether to expand the facility. CNPC will purchase about 1.2 million tonnes of LNG per year, beginning in 2018 and ramping up to the full volume in 2023, Cheniere said Feb. 9. The sales to China National Petroleum will continue through 2043, indexed to the U.S. Henry Hub gas benchmark price plus a fixed fee for liquefaction — which Cheniere did not disclose.

Since early 2016, Cheniere has operated the only U.S. LNG export facility at Sabine Pass, La. In addition, Cheniere is building a liquefaction plant and terminal at Corpus Christi and is looking to add a third liquefaction train to the plant. The China deal and a 15-year contract in January to sell 1 million tonnes a year to Swiss commodity trader Trafigura moves Cheniere closer to making a final decision on whether to expand Corpus Christi, analysts at financial services firm Cowen & Co said in a report. Cowen said the third train, at 4.5 million tonnes annual capacity, could cost about $2.5 billion.

Since starting shipments from its Sabine Pass terminal two years ago, 34 cargoes have landed in China — but not under long-term deals. The deal announced Feb. 9 is China's first long-term contract with a U.S. supplier. Such contracts are favored by exporters because they help them line up financing for expensive projects. The deal should move Cheniere to the top of the pack of companies competing to build the next generation of U.S. LNG terminals to meet potential supply shortfalls in the early 2020s, analysts said.

Feds order shutdown of Cheniere LNG tanks after leaks discovered

(E&E News; Feb. 12) - Federal regulators have ordered Cheniere Energy to shut down two of the five storage tanks at its liquefied natural gas export terminal in Sabine Pass, La., after multiple leaks were discovered in January. The Pipeline and Hazardous Materials Safety Administration announced Feb. 9 that it had ordered the shutdown at the facility, which in 2016 exported the first U.S. Gulf Coast LNG. PHMSA is allowing Cheniere to continue operations using three other LNG storage tanks at the site.

PHMSA is investigating a Jan. 22 incident in which workers discovered that LNG had been leaking into a containment ditch around a tank with four cracks ranging from 1 to 6 feet in length in the outer shell of the double-walled storage tank. Further inspection revealed that gas vapors were leaking from 14 points around the base of a second tank. Cheniere "cannot validate the exact source or amount" of leaked LNG and "cannot identify the circumstances that allowed the LNG to escape containment," PHMSA said in its order that called on the company to complete a thorough assessment of the problems before it seeks permission to resume use of the two storage tanks.

The order is the first public notice of the incident — more than two weeks after it took place. "To date, Sabine has been unable to correct the longstanding safety concerns," PHMSA wrote, noting that "unintentional release of LNG can result in a serious hazard to people and property." Natural gas is highly flammable and under certain conditions explosive. The Jan. 22 incident did not result in any injuries, fires, or explosions. Each of the five tanks at the site can hold up to 3.4 billion cubic feet of natural gas as LNG.

Congressional delegation critical of Russian LNG for New England

(Boston Globe; Feb. 9) - Liquefied natural gas is odorless, but Sen. Ed Markey, Rep. Seth Moulton and other members of the Massachusetts congressional delegation say something stinks about how Russian LNG is arriving in New England despite U.S. sanctions against the company that produced the fuel. The lawmakers are raising concerns after a tanker carrying LNG, including some from the newly opened Yamal plant in Siberia, unloaded its cargo at the Distrigas import terminal in Everett last week.

Another shipment containing some Russian gas is expected to arrive in Boston Harbor this month. Yamal's majority owner, a Russian company called Novatek, has faced U.S. sanctions since 2014. The sanctions were a response to Russia's destabilization of eastern Ukraine. But the sanctions did not address fuel imports from Novatek, just financing for Yamal LNG construction. Markey blasted the shipment in a letter Feb. 8 to Secretary of State Rex Tillerson and Treasury Secretary Steven Mnuchin.

Markey said the shipment may violate the spirit of the sanctions by providing revenue to Novatek. Moulton called the import of Russian LNG a "bad move, especially given how Russia has used natural gas supplies to exercise its influence and political will in Europe." The Treasury Department did not respond to requests for a comment. The Russian gas is being imported by Engie, a French conglomerate that operates the import terminal and typically gets LNG from Trinidad. A spokeswoman for Engie said the extra shipments are needed to meet high demand this winter in New England.

U.S. LNG exports detached from oil-linked contracts

(Bloomberg; Feb. 7) - If you're producing natural gas in the U.S., you're probably missing out on Asia's boom. That's because the liquefied natural gas export fortunes of most U.S. producers are pegged to the nation's benchmark gas price, which has slipped almost 9 percent since June. Meanwhile, companies like Oil Search, ExxonMobil's partner in its Papua New Guinea LNG project, sell most of their output to Asian customers linked to crude oil prices, which are up about 40 percent over that period.

About 70 percent to 80 percent of Shell's global LNG portfolio is priced off oil, Chief Financial Officer Jessica Uhl said last week. About two-thirds of BP's gas portfolio is oil-linked, CEO Bob Dudley said Feb. 6. It's a relic of LNG's early days, when the fuel competed against oil at power plants and lacked an international benchmark. The fundamentals of global oil-linked LNG prices and U.S. gas prices have deviated in recent years, as OPEC has cut output to tighten the oil market, driving up oil prices.

For example, at $70 for a barrel of Brent crude, LNG priced at 13 percent of oil — an increasingly common ratio — would cost $9.10 per million Btu. Meanwhile, U.S. Henry Hub gas prices are around $3 and liquefaction costs are around $3, pricing U.S. LNG at about $6 before shipping — generally below current oil-linked prices. Meanwhile, a slate of new LNG projects coming online and softer summer demand means spot-market LNG will drop to an average $5.90 this year in Singapore, BMI Research said. Though buyers tied to oil-linked contracts will not see the benefit of those lower prices, suppliers holding oil-linked contracts will enjoy higher LNG prices — but only if oil prices stay up.

Qatar's low costs will help it meet rising competition, report says

(Gulf Times; Qatar; Feb. 6) - Qatar remains well-placed to meet rising LNG demand in the face of competition for regional market share from the United States, Russia, and Australia due to its low production costs and spare capacity, BMI Research said in a recent report. "Amid increasing competition, Qatar will look for new export destinations in the region, targeting less established markets such as Pakistan, Thailand, and Bangladesh," the Fitch Group company said.

Qatar's export destinations are well-diversified, with Europe remaining a key trade partner. However, higher prices of liquefied natural gas in Asia, supported by growing demand in the region, will continue driving global export dynamics, the report said. As part of efforts to reduce pollution in urban areas, Asia's demand for cleaner-burning natural gas is set to increase in the coming years.

In July 2017, Qatar announced plans to raise its LNG production to 100 million tonnes a year within the next five to seven years. "Qatar remains well-positioned to continue being the biggest supplier of LNG to global markets supported by low production costs and the presence of necessary infrastructure. Also, Qatar's strategic location, giving the country access to potential export markets, will support Doha's ambitious plans and help expand its presence in Asia," BMI said.

Poland taking multiple steps to break 74-year gas supply from Russia

(Bloomberg; Feb. 7) - Russia's oldest natural gas buyer is ready to break up after more than 74 years. Poland, which relies on Kremlin-controlled Gazprom for about two-thirds of its gas, says diversification trumps potential price cuts it could leverage from Russia. To diversify, it is building a pipeline to access Norwegian gas. That comes after the eastern European nation in 2016 completed a liquefied natural gas import terminal to diversify away from the Russian gas it has been buying since 1944.

Poland's ruling Law & Justice Party has said since it came to power in 2015 that it would not renew a long-term contract with Gazprom that ends in 2022. In order to do that, state-controlled gas distributor PGNiG had to revive a project for a pipeline link to Norway first proposed about 20 years ago. The Baltic Pipe is on schedule, which is tight with a completion date of October 2022.

PGNiG gets 350 billion cubic feet a year under the Gazprom contract. It doubled its LNG purchases from Qatar this year to equal almost a third of that and also signed a mid-term deal for U.S. LNG. Its import terminal's annual capacity is set to rise 50 percent after 2020. In addition to imports, Poland produces more than 140 bcf a year of its own gas. In order to export any excess it may have post-2022, it's building links with neighboring countries including Slovakia, Lithuania, the Czech Republic, and Ukraine.

Turkey starts up second LNG import terminal

(Anadolu Agency; Turkey; Feb. 8) - Turkey has started operations at its second floating liquefied natural gas receiving terminal, with send-out capacity of about 700 million cubic feet of gas a day, Energy Minister Berat Albayrak announced Feb. 7. The vessel is docked at the Mediterranean province of Hatay. Turkey aims to cut its dependence on pipeline gas deliveries and will install floating LNG import terminals at ports close to regions with higher gas consumption, Albayrak said.

"We are minimizing investment costs for transmission and distribution lines, as well as transportation costs," he said. Turkey's first import project was launched off the Aliaga district of the western province of Izmir in December 2016, at a time when the country needed extra gas capacity to meet increased consumption due to cold weather at that time. That first unit also can send out about 700 million cubic feet of gas per day.

Turkey is also adding to its gas storage capacity. "Our target is to be able to store at least 20 percent of our annual gas consumption so that we can have more energy security," Albayrak said.

New $1 billion joint venture will trade coal and electricity in China

(Reuters; Feb. 6) - Six Chinese state-owned energy companies will form a joint venture to trade coal and electricity and invest in an electric transmission system to better connect Shanxi and Jiangsu provinces. The announcement follows the Chinese government's plans to streamline its state-owned coal industry by consolidating coal mining companies and encouraging coal companies to undertake more tie-ups with electricity, shipping and iron and steel firms.

China Coal Pingshuo Coal, Datong Coal Mine Group, Datang International Power Generation, Jinneng Group, Jiangsu Guoxin Investment Group and Shanxi Shentou Power will invest a total of 6 billion yuan (almost $1 billion) to form the joint venture named Sujin Energy Holding, said a Feb. 6 statement. The joint venture will invest in the operation of the Shanxi-Jiangsu ultra-high voltage electricity transmission project and trade in electricity, coal, and gas, according to the statement.

Shanxi is China's second-biggest coal mining province with output of 854 million tonnes in 2017, while the eastern province Jiangsu is the second-biggest electricity consuming region and imports nearly one-fifth of its power from other regions. China is promoting cross-region power transmission and power trade by improving transmission capacity from northwestern and southwestern China to crowded eastern regions, an effort to ease electricity pressure during peak periods and to alleviate wasted renewable energy.

Canada makes changes to improve regulatory process

(Calgary Herald columnist; Feb. 9) - In one day the government of Canada drastically reshaped the country's 60-year-old energy regulatory landscape. Goodbye, National Energy Board. Hello, Canadian Energy Regulator and the Impact Assessment Agency of Canada. The federal changes announced Feb. 7 to increase certainty for approvals of energy and other resource-related projects, while far from perfect, address some of the issues that have confounded the National Energy Board for more than a decade.

The National Energy Board will become the Canadian Energy Regulator. The chair and board of directors will be separate from the chief executive and hearing commissioners. This means the CER will not be in the position of judge and jury, as the NEB has found itself in recent years. A second part of the regulatory shift is the creation of the Impact Assessment Agency of Canada. The new agency replaces the Canadian Environmental Assessment Agency, though its mandate goes further. Some might say too far.

It will assess the impacts of projects encompassing economic, environmental, social, and indigenous issues. It is also where proponents of larger and designated projects will get an early indication of what's needed to get approval or, conversely, to decide — before too much time and money is spent — whether to walk away. Natural

Resources Minister Jim Carr said the new framework will provide more certainty, and earlier in the process. “It will be far more transparent and at a stage when heavy investment is required, proponents will know what the likelihood of success will be,” Carr said.

B.C. wineries caught in fight over oil pipeline with Alberta

(The Financial Post; Canada; Feb. 9) - In an ironic twist, British Columbia’s wine industry is looking to tap Asian markets after being banned in the Alberta market. The spat began in January when British Columbia proposed new environmental rules, seen by critics as a ploy to frustrate Kinder Morgan’s plans to connect Alberta’s oil sands to Asian markets by expanding the Trans Mountain pipeline to a B.C. export terminal.

Alberta Premier Rachel Notley moved swiftly to cancel negotiations to purchase hydroelectricity from B.C. and block the flow of B.C. wine across the Rockies as retaliatory measures. B.C. Premier John Horgan, who has said he won’t escalate the crisis with a ban on Alberta beef, is now eyeing other export markets, such as the U.S. and Asia, for B.C.’s prolific vineyards. “We’ve made it clear that we are going to be seeking new markets to replace any lost market we may have in Alberta,” Horgan said.

Caught in the crossfire are B.C. wineries. Jeff Harder, owner of Ex Nihilo Vineyards near Kelowna, said will he now promote more table wines to Asia to make up for the roughly 20 to 30 percent of his bottles typically sold in Alberta. He also hopes to sell more wine into Ontario and Quebec, where environmentalists already have begun a movement on social media in support of B.C.’s anti-oil stand. A handful of B.C. wineries are also trying to ease tensions with Alberta by organizing an event later this month in Vancouver to celebrate Alberta beef, pairing steak cuts with bottles of their own wine.

Another propane export terminal proposed for B.C. coast

(Globe and Mail; Canada; Feb. 7) - A Vancouver-based company is proposing to build a propane export terminal in the Kitimat area, saying it will be eager to move ahead if the Haisla First Nation grants permission. Pacific Traverse Energy applied this week for a 25-year export license from Canada’s National Energy Board, promising that "the project will only proceed with Haisla consent."

In an interview before the regulatory filing, Haisla chief councillor Crystal Smith said she and her colleagues on the elected council are supportive of the concept of propane exports. Separately, the Haisla council backs a joint venture led by Shell that hopes to build a facility to export liquefied natural gas from an industrial site in Kitimat. The safety and environmental risks in transporting propane and LNG are manageable, she said. Oil pipelines to the coast have encountered significant First Nation opposition.

In its NEB application, Pacific Traverse said it wants to export up to 46,000 barrels a day of propane. Already one terminal is being built on the B.C. coast to help export the growing volume of propane production from Alberta and British Columbia. Last year, Calgary-based AltaGas began construction on its $500 million propane terminal on Ridley Island in the Port of Prince Rupert. AltaGas expects to start operations next year. In addition, Calgary-based Pembina Pipeline gave the go-ahead late 2017 for a propane terminal near Prince Rupert, subject to environmental and regulatory approvals.

U.S. oil exports could climb to 4 million barrels a day by 2022

(Reuters; Feb. 7) - In the two years since Washington lifted a 40-year ban on oil exports, tankers filled with U.S. crude have landed in more than 30 countries, ranging from massive economies like China and India to tiny Togo. The repeal has unleashed a flood of U.S. shale oil, undercutting global prices, eroding the clout and seizing market share from OPEC. U.S. producers are making new customers out of some of the world's biggest oil-importing nations in Asia and Europe. At home, the export boom has filled pipelines and sparked an investment surge in shipping facilities on the Gulf Coast.

U.S. producers now export between 1.5 million and 2 million barrels a day, which could rise to about 4 million by 2022. Much of the flow will go to China. U.S. output is expected to account for more than 80 percent of global supply growth in the next decade, according to the International Energy Agency. Between 2010 and 2017, U.S. production rose from 5.5 million barrels a day to 10 million — approaching a record set in 1970 — as shale fields in west Texas and North Dakota lured investments.

Most forecasts show U.S. output growing about 500,000 to 600,000 barrels per day this year, said David Fyfe, chief economist at trading firm Gunvor Group in Geneva. The U.S. Energy Department is even more optimistic, now expecting growth to rise by 1.2 million — hitting 11 million by year-end. "The bulk of that growth will likely be exported," Fyfe said. U.S. producers are also displacing foreign oil at home. U.S. crude imports have dropped to 7.6 million barrels a day from a peak of 10.6 million in 2006.

U.S. oil exports averaged 400,000 barrels a day to China in January

(Reuters; Feb. 9) - Bit by bit, the U.S. oil industry is turning world markets inside out. First, sharp drops in U.S. imports of crude eroded the biggest market that producers like OPEC had relied on for many years. Now, surging U.S. exports — largely banned until just two years ago — challenge the last region OPEC dominates: Asia. U.S. oil exports to China have surged, creating trade between the world's two biggest powers that until 2016 just did not exist, and helping to reduce the nation's huge trade deficit with China.

The transformation is reflected in figures released in recent days that shows the U.S. now produces more oil than top exporter Saudi Arabia and means that America is likely to take over the No.1 producer spot from Russia by the end of the year. When U.S. oil exports appeared in 2016, the first cargoes went to free-trade agreement partners South Korea and Japan. Few expected China to become a major buyer.

Data in Thomson Reuters Eikon shows U.S. crude shipments to China went from nothing before 2016 to a record 400,000 barrels per day in January, worth almost $1 billion. Additionally, U.S. liquefied natural gas worth almost $300 million headed to China from the U.S. in January. The energy sales to China are still modest compared with the $9.7 billion of oil shipped by the Organization of the Petroleum Exporting Countries to China in January. But they are already cutting into a market dominated by the likes of Saudi Arabia and Russia, with the threat of much more competition to come.

Total and Japanese shipping company sign LNG refueling deal

(UPI; Feb. 6) - French supermajor Total said Feb. 6 it has made a deeper commitment to liquefied natural gas by chartering a refueling vessel for Europe-to-Asia trade routes. Total's marine fuels division signed a long-term charter with Japan's Mitsui O.S.K. Lines for a new bunkering vessel scheduled for 2020 delivery. The vessel, the first designed for large-scale bunkering operations, will be built in a Chinese shipyard and will serve cargo vessels in northern European waters, including those on Europe-to-Asia routes.

Bunkering is the ship-to-ship transfer of fuel. The as-yet unnamed vessel will be used specifically for French container shipping company CMA CGM, following a 10-year agreement signed with Total in December. Total's first agreement for LNG bunkering was signed with Brittany Ferries, a French passenger and freight shipper that will start to take supplies of the fuel in 2019. Beyond the chartering deal, Total and Mitsui signed a memorandum of understanding to work together on maritime LNG infrastructure.