Oil and Gas News Briefs
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February 15, 2018

Russia's Novatek, Saudis sign cooperation agreement on LNG

(Bloomberg; Feb. 14) - Russia's largest non-state gas producer Novatek and Saudi Aramco have signed a memorandum on cooperation, Russian Energy Minister Alexander Novak said Feb. 14. The companies have been discussing Novatek's proposed Arctic LNG-2 project, which targets production start-up in 2022-2023. A full agreement could be signed later this year, Novak said. Russia and Saudi Arabia are seeking ways to amplify the success they've had working together to manage the global oil market by reaching other energy agreements, including one on liquefied natural gas.

The nations need to boost energy cooperation, Saudi Arabian Energy Minister Khalid Al-Falih said in Riyadh at an earlier news conference with his Russian counterpart. Saudi King Salman asked for the cooperation, he said. Russian President Vladimir Putin has made it a priority to expand the nation's LNG industry. Novatek in December started shipments from Yamal LNG, the country's second liquefied natural gas export terminal. The Saudi energy minister visited Yamal for its first cargo. The proposed Arctic LNG-2 plant would be built just east of Yamal, with capacity of up to 20 million tonnes a year.

Saudi Arabia is interested in buying LNG to free up for sale more of its own oil that it currently uses as fuel for its power stations. Russian companies are interested in building the LNG regasification terminals in Saudi Arabia that will be needed to accommodate higher import volumes, Novak said earlier this month. Russia also has made a formal proposal to build two nuclear reactors in Saudi Arabia, Novak said.

Korea Gas goes to arbitration over Australia LNG contract

(Reuters; Feb. 12) - A move by Korea Gas to seek arbitration over terms of a liquefied natural gas contract with an Australian exporter could herald a shake-up of the region's LNG market as other buyers follow suit, analysts and experts said. Asian buyers have so far resisted taking on producers over pricing or what they see as restrictive clauses in long-term contracts, some stretching out for decades, but abundant supplies look to be driving a change of heart.

Changes to contract provisions, particularly on pricing and those prohibiting buyers from reselling cargoes, could lead to a surge in LNG trading, echoing the European experience after a wave of arbitration cases five to 10 years ago. Most of Asia's LNG is supplied under long-term deals that ensure buyers get steady supplies, while producers obtain a stream of revenue. Before 2014, when LNG supplies were tight, buyers were willing to sign up to terms that offered little flexibility.

But with LNG more abundant due to new production coming online, Asian buyers are demanding better terms. The decision by state-run KOGAS to enter court-administered arbitration with Australia's North West Shelf joint venture over pricing is the first known case in the Asia/Pacific region. "Producers will be watching how the likes of the Chinese national oil companies, JERA (of Japan) and KOGAS choose to navigate upcoming price-review opportunities," said Saul Kavonic, of energy consultancy Wood Mackenzie. "Threats to renegotiate existing contracts … will damage their (the buyers') reputation for contract sanctity and impede their ability to underpin new supply projects," he said.

Australia LNG supplier says Korea Gas owes it money

(Reuters; Feb. 13) - Australia's Woodside Petroleum on Feb. 15 lashed out at Korea Gas over a dispute with the South Korean company, saying KOGAS owes it money for an expired liquefied natural gas contract from the North West Shelf Project in Australia. CEO Peter Coleman of Woodside Petroleum, operator of the NWS Project, said in an analyst call: "North West Shelf's view is that KOGAS owes the North West Shelf money, not the other way around."

Reuters previously reported that state-run KOGAS, one of the world's biggest importers of LNG, and the North West Shelf LNG export project were in arbitration over the pricing of a mid-term supply contract. Coleman said the arbitration, under which contract counterparts agree to a neutral arbiter to resolve disputes outside formal legal courts, was over a supply deal that expired in 2016.

The LNG contract was for about eight cargoes a year over a couple of years. "It's just about price ... every contract has this in it, that you renegotiate prices," Coleman said. "A buyer is taking a view that we fundamentally disagree with ... and is inconsistent with the way other buyers have treated these price discussions," he said. Arbitration cases tend to be confidential. That the dispute is going to arbitration is a sign of how some buyers have been pushing for contract concessions in the oversupplied market.

Global LNG market waits to see what China does next winter

(Bloomberg; Feb. 13) - China's wintertime liquefied natural gas buying spree sent prices to three-year highs, left European import terminals largely idle and pulled in ships halfway around the world from Louisiana to the Pacific region. What will China do for an encore? As the growing trade in LNG connects gas markets around the globe, buyers and sellers from Munich to Houston to Singapore find themselves trying to divine the future of the world's biggest energy user.

China President Xi Jinping's push to banish urban smog by replacing coal-burning furnaces boosted LNG demand last year. The biggest question is whether it happens again next winter. "China has always been a wild card in the LNG market and will remain so for the future," said Uwe Bode, managing director of Munich-based PGNiG Supply & Trading. China overtook South Korea as the world's second-biggest LNG importer in 2017. The coal-to-gas conversions lifted global LNG prices and stretched the nation's gas supply to its limits, leaving some citizens in the cold this winter.

The nation switched almost 6 million households to gas or electric heat in 2017 and plans to convert 4 million more households this year. What's critical will be LNG storage, said Bart Riemens, head of long-term gas trading and LNG at Axpo Trading. Unlike Europe and the U.S., China lacks facilities to store the fuel in summer when prices are typically cheap for use to meet winter needs. China plans to double its gas storage capacity by 2020, but it will still be at just 12 percent of U.S. storage capacity.

Growing LNG demand creates opportunity for new projects

(Reuters; Feb. 13) - Soaring demand from China, India, and Southeast Asia is sucking up an LNG supply glut previously expected to last years, creating opportunity for new production from East Africa to North America. Asia's LNG market has been saturated since 2015, following a global supply build-up that began in the early 2000s. But China's coal-to-gas conversion effort and economic growth across Asia has added to demand.

"The tight market is going to continue simply because demand is growing and expected projects have been delayed," said Jun Nishizawa, a senior vice president at Japan's Mitsubishi. Nishizawa cited construction delays at Cameron LNG export terminal in Louisiana, in which Mitsubishi has a stake, and Freeport LNG in Texas. In Australia, the Ichthys project led by Japan's INPEX has seen several delays and cost overruns.

This tightening potentially opens the way for new projects for the first time in years. Now companies are returning as prices have improved. "The entire Asian LNG market will increase. It will stimulate more producers to take the risk to develop projects to get into Asia," said Jarand Rystad, CEO of consultancy Rystad Energy. Anadarko is getting close to a final investment decision as it lines up buyers for its Mozambique gas. Other projects and expansions are planned from West Africa to Papua New Guinea.

One risk to new projects, though, are price disputes between buyers and sellers, with importers demanding cheaper and more flexible terms. Poten and Partners, an energy brokerage and consultancy, said this week a "dearth of commitments" from buyers to long-term contracts would make it hard for developers to finance new capacity.

Woodside may develop offshore Australia field to feed Pluto LNG

(Bloomberg; Feb. 13) - Australia's Woodside Petroleum finally got what it wanted from ExxonMobil. And it only cost $744 million. As far back as 2013, Exxon planned to develop a floating liquefied natural gas venture for the Scarborough field offshore Western Australia. Woodside had a different idea. After buying into the project in 2016, it tried to convince the world's largest publicly traded oil company to send the gas onshore to the Woodside-led Pluto LNG plant, which started up in 2012.

With no sign of an agreement, Woodside said Feb. 15 will buy Exxon's 50 percent stake, gaining control of Scarborough. The purchase may accelerate development of the remote gas project to help feed an expansion of the Pluto LNG plant and meet demand from Asia, Woodside CEO Peter Coleman said. The Scarborough project includes a pipeline and a second Pluto LNG train, according to a company presentation. A final investment decision is due 2020, with production scheduled to start in 2025.

For Exxon, Scarborough's once-promising 8 trillion cubic feet of gas fell out of favor with the energy giant as more profitable, less risky LNG opportunities arose in places like Papua New Guinea and Mozambique. Still, the company remains wedded to the floating-production model, as ships built to process and export crude are linchpins of Exxon's plans to harvest massive offshore crude discoveries in Guyana.

BP and partner move closer to developing offshore Africa gas field

(Reuters; Feb. 12) - BP and Kosmos Energy have moved closer to approving development of the Tortue natural gas field offshore Mauritania and Senegal after the two West African countries agreed to split production from the cross-border field. Dallas-based Kosmos said Feb. 12 it expected to make a final investment decision on the project in 2018, with first gas expected in 2021. BP has previously indicated it expected to reach an investment decision on the project toward the end of this year.

The Greater Tortue Complex, which straddles the maritime boundaries of the two countries, is estimated to hold more than 25 trillion cubic feet of gas. The field's output is expected to be exported as liquefied natural gas. Kosmos said the agreement provides for development of Tortue through cross-border unitization, with a 50-50 initial split of resources and revenues, and a mechanism for future equity redeterminations based on actual production and other technical data.

Energy companies are pushing further west from the waters off established African producers such as Angola, Nigeria and Gabon. However, in a region where maritime boundaries are often poorly established, the move into new, untapped territory carries the risk of inflaming tensions between neighbors.

Norway ships more LNG to Asia to profit from higher prices

(Bloomberg; Feb. 11) - Asia's rapacious thirst for liquefied natural gas is sucking supplies from surprising places. China, Japan, and South Korea are paying top dollar for the fuel. The pull is so strong that Norway's Statoil, which usually exports most of its LNG to Europe, is shipping a rare cargo to the Far East — and it plans to send more. Asia gets most of its LNG from Australia. Malaysia, Papua New Guinea, and Indonesia.

Statoil's tanker, the Arctic Aurora, due in South Korea this week, shows how the LNG market is becoming global, with more cargoes traveling long distances from the Atlantic to the Pacific region as China leads a landmark shift to burning gas instead of coal. For Statoil, it's a chance to squeeze a little more profit from its gas production that is already near full capacity.

"What we've seen in Asia is strong prices," said Peder Bjorland, Statoil's head of natural gas. As well as shipping LNG from its Arctic plant, which produces about 40 cargoes a year, Statoil buys and sells LNG in the market. But "it doesn't help to have strong prices if you don't have the shipping capacity. It's been difficult to get hold of spot vessels," Bjorland said. Rising transport costs can reduce the gains from sending cargoes to Asia. With shipping capacity increasingly scarce, tapping those profits hasn't been that easy, Bjorland said. Still, Asian demand is driving market rates higher, he said.

LNG exports to start this year at three more U.S. terminals

(Houston Chronicle; Feb. 14) - The U.S. is soon expected to become a dominant player in the global market for liquefied natural gas as companies build massive Gulf Coast terminals to serve overseas markets. Officials, executives and consultants at the S&P Global Platts LNG conference in Houston agreed that the shale gas boom in West Texas and other basins across the country has begun to transform LNG into a global commodity by shifting trade patterns and longstanding business models in the world.

"We're going to have too much gas with nowhere to go," said Renato Pereira, vice president of business development and marketing for Houston's Tellurian, one of several Gulf Coast LNG hopefuls. The interest in LNG exports has intensified amid an ongoing renaissance in U.S. energy production. In West Texas, energy companies have found cheap and effective ways to tap the rich Permian Basin, creating a steady supply of affordable oil and gas for Gulf Coast refiners and exporters.

Steven Winberg, the U.S. Energy Department's assistant secretary for fossil fuels, said there are six projects under construction in Texas, Louisiana, Georgia, and Maryland that will support LNG exports of more than 10 billion cubic feet per day. Cheniere's Sabine Pass facility in Louisiana, now the nation's only LNG terminal in operation, has already shipped more than 800 billion cubic feet of gas since it began exports in early 2016, with three more U.S. terminals set to begin exports this year.

Growing U.S. LNG traffic pushes capacity at Panama Canal

(Platts; Feb. 14) - As the market embarks on a second year of record level LNG supply from the Atlantic Basin and strong competition from Asia for those volumes, a potential choke point is emerging: The Panama Canal. The canal can transit just one LNG vessel a day, laden or ballast, and only during daylight hours. The transit restriction will be in place until October 2018, when capacity is expected to double to two vessels a day.

In the first quarter of last year, canal utilization rates registered around 45 percent. By the fourth quarter, it was 66 percent. In December, when margins on U.S. LNG shipments to Asia broached $5 per million Btu, the rate hit 81 percent. Meanwhile, U.S. LNG export capacity is continually being added. After having ramped up a fourth export train at Cheniere Energy's Sabine Pass, La., terminal in the fourth quarter, the terminal at Cove Point, Md., will begin production by the end of the first quarter. And by the fourth quarter, a second Gulf Coast export facility could begin generating cargos.

Exceptions to the canal transit rule have been reported: In December, the Panama Canal Authority reported an instance of two laden LNG carriers in the canal on the same day, but this is no way to manage a complicated portfolio. For buyers faced with downstream obligations during a seasonal peak, delays at the canal could prove disastrous. Concerns about the canal could impact the next generation of final investment decisions for U.S. projects.

TransCanada looks at expanding gas capacity to eastern markets

(Globe and Mail; Canada; Feb. 11) - TransCanada is mulling expansion of a major pipeline to ship more natural gas from Alberta to Ontario, a move that could help Canadian producers snatch back market share from U.S. rivals as the prospects for overseas sales of liquefied natural gas grow dimmer. TransCanada confirmed it is discussing the potential revival of dormant capacity on its cross-country system with prospective shippers, although a spokesman said it has yet to determine key details.

Concerns over finding markets for fast-rising gas production in Western Canada have grown more acute in recent months as hopes fade for a major LNG industry that would allow the fuel to be shipped from the British Columbia coast to overseas destinations. Shell is expected to decide later this year whether to build a $40 billion LNG export plant in Kitimat, B.C., provided it can secure exemptions from new federal duties on imported steel modules. Similar proposed large-scale LNG projects in B.C. have not panned out.

The Alberta-to-Ontario pipeline network historically shipped the lion's share of Western Canadian gas production east. But volumes have collapsed amid competition from low-cost U.S. shale gas in eastern markets, forcing TransCanada to idle segments of the historic line. "That infrastructure is all there and it's something we want to leverage," Tracy Robinson, TransCanada's senior vice president and general manager of Canadian natural gas pipelines, said at a conference in Calgary last week.

Indian, Japanese partners invest in LNG terminal for Sri Lanka

(Economic Times; India; Feb. 11) - Petronet LNG, India's biggest importer of natural gas, and its Japanese partners will invest US$300 million to set up Sri Lanka's first liquefied natural gas import terminal near Colombo, Petronet CEO Prabhat Singh said. The Indo-Japanese partnership will set up a floating LNG receiving facility off the island's western coast, with a planned capacity of about 2.6 million tonnes per year.

Petronet will hold 47.5 percent stake, while Japan's Mitsubishi and Sojitz will take a 37.5 percent stake and 15 percent will be held by a Sri Lankan entity, Singh said. "We are in the process of signing a memorandum of understanding with the Sri Lankan government for setting up the LNG terminal," he said. "Once it is signed this month, some project-related studies will be done before beginning work on the terminal."

The LNG terminal is the second such facility proposed for the Indian Ocean island nation of more than 20 million people. Sri Lanka plans to build a new 300-megawatt gas-fired power plant and convert an existing oil-fired plant to burn gas.

Iran reportedly cancels deal with Norwegian partner for LNG project

(Marine Link; Feb. 11) – Iranian Oil Minister Bijan Namdar Zangeneh said the agreement signed with a Norwegian company to build Iran’s first liquefied natural gas export facility has been annulled. A report said the deal with was canceled following criticism of the terms by some members of Iran’s parliament. In October 2017, Iran signed a contract with the Norwegian company to build and operate a floating LNG unit in the Persian Gulf to produce, liquefy, store, and transfer LNG to tankers for delivery.

Critics accused the Iranian oil ministry of signing a deal against the country’s interests and setting an unacceptably low price for gas sold to the venture. The consortium, IFLNG, is a joint venture of Norway’s Hemla Vantage and Iran’s Kharg Gas Refining.

Rising U.S. oil output could trigger OPEC’s nightmare scenario

(Bloomberg columnist; Feb. 10) - The latest surge in U.S. oil output will probably hasten the country's rise to the top of the producer pile. More important, it's starting to look as though at least half of OPEC's nightmare scenario for 2018 — a surge in U.S. shale output — is coming true. A slowdown in demand growth is the other half of the nightmare. Last week's avalanche of releases from the U.S. Department of Energy showed daily oil production above 10 million barrels a day for the first time since 1970.

The production surge shown in the monthly data is unprecedented. Output rose by almost 850,000 barrels a day between August and November. It makes the first shale boom of 2014-15 look sluggish. The U.S. is close to becoming the world's largest producer of crude and condensate — a form of light oil extracted from gas fields. It's pretty much level with Saudi Arabia output and is closing on Russia's 10.95 million daily barrels. That could be passed by the end of the summer, according to Citigroup.

The consequence is that OPEC and friends' worst fear has come to pass: Rising crude prices are spurring a U.S. production revival. Their horror scenario is that this shale surge goes hand-in-hand with a slowdown in oil demand growth, triggered by the price rise — though there's little sign of that happening yet. Economic forecasts remain strong and that ought to underpin another big increase in the thirst for oil this year. But any signs of global demand growth slipping could cause ministers some sleepless nights.

Growing U.S. oil output could exceed global demand

(Wall Street Journal; Feb. 13) - U.S. shale oil producers are churning out crude at a record pace that could overwhelm global demand and reverse the oil market's fragile price recovery, a top energy-market observer said Feb. 13. U.S. shale production is growing faster in 2018 than it did even during the boom years of $100-a-barrel oil prices from 2011 to 2014, said the International Energy Agency in its closely watched monthly report. The difference this time: Oil prices are about 40 percent lower.

The situation is "reminiscent of the first wave of U.S. shale growth," when a flood of U.S. oil built up a global glut that sent prices crashing over four years ago, said the Paris-based IEA, which advises governments and corporations on energy trends. Shale producers "cut costs dramatically" during the nearly three-year-long industry downturn, the IEA said. They then took advantage OPEC's decision to cut its own output, which helped prices rise from the low $40s to over $70 a barrel as recently as late last month.

"All the indicators that suggest continued fast growth in the U.S. are in perfect alignment," the IEA said. The result is that U.S. oil output has surpassed 10 million barrels a day and is now higher than Saudi Arabia. The IEA said the U.S. could catch up with Russia this year, the world's biggest producer at 11 million barrels a day. Led by U.S. shale, crude output from non-OPEC nations is expected to outpace the growth in global oil demand in 2018, the IEA said. That is an important data point for oil traders.

Industry returns to offshore projects with smaller size, lower costs

(Reuters; Feb. 14) - Penguins, Shell's latest oil and gas development in a remote corner of the British North Sea, epitomizes the new doctrine for deepwater projects — keep it cheap and simple. Shunned during the oil price crash of 2014-2016, deepwater projects are being embraced again, a challenge to the surge in U.S. shale output. Penguins, the first new major deepwater project this year, will rejuvenate the 44-year-old field by drilling eight new wells and connecting them to a new production vessel.

Due for completion in 2021 at a cost of about $1 billion, Penguins will cost a fraction of the average of giant developments earlier this decade, producing a modest 45,000 barrels of oil equivalent a day. Like Shell, companies such as ExxonMobil, Total, and BP have in recent years radically changed the way they design offshore fields — deploying steel platforms out at sea — to make them simpler and faster to build, and able to challenge the economics of shale fields such as the Permian basin in Texas.

As executives gain confidence that their companies can make a profit with oil at around $50 a barrel, boards are set to approve more projects. Analysts at Bernstein expect around 40 new offshore projects to be approved in 2018, compared with 29 last year and 14 in 2016, when project numbers fell to the lowest since at least 1990. Leaner projects can be achieved by drilling simpler wells and connecting them to existing platforms and pipelines, or by swapping custom gear for off-the-shelf equipment.

Canada says it will prevent B.C. from blocking oil pipeline

(The Canadian Press; Feb. 12) – Canada's Natural Resources Minister Jim Carr said the government will not entertain any attempts by British Columbia to stall or stop the $7.4 billion expansion of the Trans Mountain oil sands pipeline. "If that is the goal of any province, we will take the necessary action to ensure that federally approved resource projects proceed," Carr said Feb. 12.

When asked if that includes taking B.C. to court, he said Canada has "all kinds of options" to exert its constitutional authority over interprovincial pipelines. Federal officials, ministers, and Canadian Prime Minister Justin Trudeau have been negotiating with Alberta and British Columbia for almost two weeks now, ever since B.C. launched a consultation asking its residents whether the province should ban any increase in flows through pipelines within the province pending further research on the impact of a spill.

"All British Columbia has tangibly done at this point is signal its intention to consult with the people of its province," Carr said. The Trans Mountain pipeline expansion was given federal approval in November 2016 and would triple capacity of a line that already runs between Edmonton and Vancouver. Alberta Premier Rachel Notley said Ottawa has to persuade B.C. to take the threat to limit oil flows off the table. "That is completely unconstitutional, it's a made-up authority, it's a made-up law, it's ridiculous," she said.