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KOGAS price arbitration case could set precedent for LNG market

(Platts; Feb. 22) - The liquefied natural gas market is holding its breath over a price-review arbitration case between Korea Gas, the world's second-biggest LNG buyer, and North West Shelf, Australia's first (1989) and biggest LNG exporter. The deal at stake, a 500,000-tonnes-per-year legacy contract that expired in March 2016, would seem insignificant: It's the equivalent of 3 percent of the plant's annual capacity of 16.9 million tonnes, and 1.3 percent of South Korea's total imports of 37.2 million tonnes in 2017.

However, this arbitration case is much more than a disagreement about pricing with plenty at stake — not only for KOGAS and North West Shelf, but for the LNG industry as a whole. It comes at a time when structural oversupply, growing market flexibility and downstream liberalization are threatening the traditional LNG business model — based on long-term contracts, oil-linked prices, destination restrictions and take-or-pay clauses — and gradually shifting risk up the supply chain from buyers to sellers.

In addition, it has arisen ahead of the expiration of several legacy long-term LNG contracts. Approximately 15 percent of global contracts are set to expire in 2018-20, and an additional 15 percent 2021-23. Buyers can either replace contracts with spot volumes or re-contract under more favorable conditions. The KOGAS pricing dispute could set a precedent and open the floodgates for future renegotiations and pricing reviews in the global LNG industry with potential implications for all its stakeholders.

"The contract allowed KOGAS to call for price renegotiation to reflect major changes in the LNG markets," a KOGAS official said. The two sides failed to reach an agreement before the contract expired in 2016 and have gone to court-administered arbitration.

Australian companies regain appetite for LNG projects

(Australian Financial Review; Feb. 23) - More than six years after the last decision to build a multibillion-dollar LNG project in Australia, new investment is being put seriously back on the table. Woodside Petroleum, Santos, and Oil Search are all jostling for position to get a share of the action and take advantage of rapidly growing Chinese gas demand and the opportunity to pick up expiring contracts in Japan. But after the harsh lessons of the past and in today's altered market, it should be different this time around.

With lead times of five years or more to bring on new LNG supply and not much less to develop offshore fields to feed existing plants, producers are always thinking ahead.

But efforts to advance projects over the past few years have been partly foiled by disinterest among buyers to new long-term contracts amid plentiful new supplies coming online. That is changing, after a dearth in new project go-aheads in the past two years and amid mounting recognition among buyers that a supply gap is indeed on the horizon.

"The appetite is definitely coming back into the business and we're being approached by buyers and also people seeking equity to move into projects," said Peter Coleman, CEO of Australia's biggest LNG player Woodside. His company last week said it would seek $2.5 billion in equity to support LNG expansion. "I think those who can see past the kind of the fog that we've had in front of us for the last couple of years are now starting to come out," Coleman said. But projects suffered $50 billion of cost overruns in Australia's last wave of LNG ventures. "Companies will enter this next phase of growth with greater awareness of what can go wrong," said Citigroup analyst Dale Koenders.

New LNG projects need strong balance sheets in changing market

(Reuters; Feb. 21) - If you were looking for signs that the liquefied natural gas merry-go-round is starting to spin a little faster, the announcement of a planned expansion in Papua New Guinea is ample evidence. ExxonMobil and Total are considering plans to double LNG exports from Papua New Guinea to about 16 million tonnes per year, their partner Oil Search said Feb. 20. While a final investment decision on the $13 billion expansion is still more than a year away, it's a clear sign that LNG producers believe the market is headed for a deficit and that large-scale projects are again viable.

The LNG industry's recent history has been characterized by periods of massive investment and capacity expansions followed by lulls amid fears of low prices caused by oversupply. The past decade has witnessed a rapid expansion with eight large-scale projects being built in Australia and six in the U.S., as well as others such as the Yamal venture in Russia's Arctic. While it's still likely that there may be some oversupply this year, and perhaps until the early 2020s, the market reality is that new LNG buyers in Asia and a surge in Chinese demand has eaten away most of the expected surplus.

This new dynamic hasn't gone unnoticed by LNG producers, which are starting to ramp up talk about new projects. However, all these potential projects are facing quite a different market than the last round of mega-developments that are now coming on stream. Buyers have made it clear they want flexible contracts. This makes it hard to secure the off-take agreements needed to secure funding for multibillion-dollar projects, meaning it's likely that those companies with strong balance sheets that they can leverage will enjoy greater chances of success in developing a new LNG plant.

Novatek wants Saudi Arabia as partner in Arctic LNG-2 project

(Reuters; Feb. 22) - Novatek is interested in Saudi Aramco joining the planned Arctic LNG-2 plant as a partner, the Russian gas producer's head Leonid Mikhelson said Feb. 22, highlighting growing ties between Russia and Saudi Arabia. The countries have been instrumental in implementing a global pact on cutting oil production by almost 1.8 million barrels per day. Novatek and its partners started producing liquefied natural gas at Russia's Yamal LNG project last year and now want to build a second facility.

Novatek is headed by Mikhelson, who is ranked as Russia's wealthiest man according to the Russian edition of Forbes. It plans to launch its second LNG project in the nearby Gydan Peninsula in 2022-2023. Novatek, Russia's largest non-state gas producer, and Saudi Aramco signed a memorandum on cooperation last week, without disclosing details. The $27 billion Yamal project when completed will have the capacity to produce 17.5 million tonnes of LNG per year. The second plant would be slightly bigger.

Qatar's LNG expansion an opportunity to grow its share in China

(Gulf Times; Qatar; Feb. 23) - Qatar, which is planning to build three new liquefied natural gas production trains to target the tighter global LNG market expected in the mid-2020s, could look to partner with companies that have strong relationships with Chinese buyers to bolster its position in that market, according to BMI, a Fitch company. Qatar's expansion offers substantial opportunities for oil majors to expand their gas portfolios and for Qatar to grow its exports to new markets, BMI said.

Qatar last year unveiled plans to develop three new LNG trains to reach an annual output capacity of 100 million tonnes, which would allow it to reclaim the title as the world's largest LNG producer. Qatar's plan is to proceed with development of three new mega-trains at 7.8 million tonnes each to add to its existing 77.1 million tonnes of annual capacity. A final investment decision on the expansion is being targeted for early 2020 with the hope that the new capacity will be ready starting in 2024.

Qatar has previously offered 30 to 35 percent equity in its LNG trains. ExxonMobil has a strong relationship, holding equity stakes in 12 of Qatar's 14 trains. ConocoPhillips, Total and Shell are also partners in Qatar's newer trains. Adding three new trains also offers the country an opportunity to expand its relationships with more international oil companies, and potentially those with established access to growing LNG markets. Qatar's position in China remains comparatively under-represented at about 18 percent, with Australia holding around 46 percent of the market.

China sets new record for LNG imports in January

(Reuters; Feb. 23) - China's imports of liquefied natural gas hit record levels in January, as the world's most populous nation rushed to shore up supplies ahead of another cold snap and this month's Lunar New Year celebrations. LNG imports totaled 5.18 million tonnes in January, compared with the previous record of 5.03 million tonnes set in December and up 51.2 percent from January 2017, according to data Feb. 23 from China's General Administration of Customs.

Purchases spiked to cover a surge in demand under Beijing's push to replace coal with gas for households and factories, prompting companies to pull in cargoes from suppliers as diverse as Nigeria, Angola, and Norway. Imports also were affected by the timing of the Lunar New Year, which fell in February this year rather than January as in 2017.

Earthquake causes temporary shutdown at Papua New Guinea LNG

(Platts; Feb. 25) - The Papua New Guinea liquefied natural gas facility and its gas production operations have been shut following an earthquake that struck in the country's highlands early Feb. 26. "As a precautionary measure and in order to assess any damage to facilities, Oil Search's production operations in the PNG Highlands are in the process of being shut down," the company said. ExxonMobil, the LNG plant operator, confirmed that the facility at Hides has also been shut down "to assess any damages to its facilities."

Oil Search, which holds 29 percent interest in PNG LNG, said that at 3:44 am local time Monday a 7.5-magnitude earthquake struck in the PNG Highlands, with a series of aftershocks. ExxonMobil holds a 33.2 percent stake in the LNG plant. In December, the facility produced at an annual rate of 8.6 million tonnes.

Trader expects stronger seasonal price swings in LNG market

(Bloomberg; Feb. 22) - The rollercoaster that pushes liquefied natural gas prices higher as demand jumps in the northern hemisphere winter is going into overdrive. After a winter in which a boost in demand from China pushed prices to three-year highs, spot LNG in northeast Asia has plummeted about 30 percent from its mid-January peak. Summer plunges and winter spikes are the order of the day, said Pablo Galante Escobar, head of LNG at Vitol Group, a commodities trading house active in LNG.

"Seasonality will be much more accentuated," Escobar said at the International Petroleum Week in London. "We'll have weak summers and strong winters, with China playing such a big role in the market." China, which boosted LNG imports 46 percent last year as it turned to gas to combat pollution from coal, lacks the storage that would help smooth out the swings in prices between winter and summer. Rising global output paired with limited summer demand might exacerbate seasonal price swings.

During the next two summers, there will be “a lot of pressure” on prices as more LNG arrives from Australia, the U.S., and Russia, Escobar said. Russia’s Yamal LNG, which started exporting in December, will also play a role in this, as tankers will be taking the shortest route to the Far East via the Northern Sea Route between June and November, setting summer/fall prices in the biggest consuming region. On top of that, Egypt’s plans to stop LNG imports this year thanks to booming domestic production will push the market into a “structural oversupply, particularly in the summer months,” he said.

Panama Canal looks to expand capacity to move LNG carriers

(World Maritime News; Feb. 21) - The Panama Canal Authority is working toward increasing the number of liquefied natural gas carriers that can transit the locks each day. The canal is boosting its capacity amid the anticipated growth of U.S. LNG exports. Pacific-bound trade is likely to increase LNG carrier transits through the canal by 50 percent by September, said Cheniere Energy, which owns the only liquefaction facility operating on the Gulf Coast — though several more are under construction.

When the expanded canal was inaugurated in June 2016, it opened up the waterway to 90 percent of the global LNG fleet and provided a much shorter route for U.S. Gulf Coast LNG exports to Asia. Since then, the canal’s expanded locks have transited more than 280 LNG vessels, and industry experts expect traffic to continue to rise steadily.

The canal offers one reservation slot per day for LNG vessels. However, two fully loaded vessels have transited the canal in a day when necessary and, according to Panama Canal Authority, two-ship days have become ever more frequent. “The Panama Canal is also offering more flexibility for LNG bookings. ... As expectations for growing LNG shipments materialize, the Panama Canal is already working toward significantly increasing the number of LNG vessels,” the canal authority said.

Seattle city council steps into Tacoma LNG plant controversy

(The News Tribune; Tacoma, WA; Feb. 23) - Seattle politicians are wading into the debate over a controversial $310 million liquefied natural gas production and storage facility that is being built on Tacoma’s Tideflats in Washington state’s Puget Sound. While construction is underway, members of the Seattle City Council have said more fossil-fuel infrastructure is bad for the region and will negatively impact people living in Seattle as well as those living near the facility, including members of the Puyallup Tribe.

They also said the LNG facility would have a disproportionate impact on tribal lands and that the tribe wasn't adequately consulted when the project was permitted. The Seattle City Council will consider a resolution at its Feb. 26 meeting that says it is "deeply concerned" about the expansion of fossil fuels. The resolution says the council is "specifically troubled by the proposed siting of a new LNG facility by Puget Sound Energy." The plant would serve maritime customers and peak-demand needs of utilities.

In a meeting Feb. 21, Seattle City Council members sat down with members of the Puyallup Tribal Council, who have been vocal in their opposition to the plant. It was the first time the two governments sat as co-equals at a council committee meeting, said Councilwoman Debora Juarez, who grew up on the Puyallup reservation and is a member of the Blackfeet Nation tribe. Juarez chairs the Seattle City Council Committee on Civic Development, Public Assets and Native Communities.

Late-winter cold could test Europe's gas markets

(Platts; Feb. 23) - A major cold spell — the first late-winter cold snap in Europe since 2013 — triggered by a rare meteorological event over the Arctic is set to test European gas markets in the coming weeks, with prices already rising and storage levels at dangerously low levels in certain countries. The so-called "Beast from the East" weather front is expected to see temperatures plunge across Europe to far below seasonal norms with gas demand set to soar.

The European gas market is relatively tight for the time of year, with storage stocks in several countries already at multi-year lows due to strong withdrawals already so far this month and during December on the back of below-average temperatures. And while spot gas prices in Europe of around $9.16 per million Btu are climbing and attracting sellers' interest, it could be too late for additional unscheduled LNG cargoes to reach Europe in time to mitigate the cold snap-driven demand.

The cold snap is set to peak Feb. 27 and 28, though it is expected to continue into early March, according to the latest forecasts from the Weather Company. The risk of storage reservoirs running dry differs greatly between individual countries, dependent on current stock levels and flexibility from other sources of pipeline supply.

Norway properly managed its oil-and-gas wealth, bank says

(Bloomberg; Feb. 21) - An abundance of oil and gas can be a curse if not managed properly. In academic circles it's called Dutch Disease, a term that was coined after the Netherlands suffered a decline in manufacturing following the discovery of major petroleum riches. Other countries have fared worse. In Venezuela and Angola, the discovery of black gold has depressed productivity and income. Catching the malady has long been a concern in Norway, western Europe's biggest oil and gas producer.

But after almost five decades of production and no major symptoms in sight, researchers at the central bank are ready to give the country of 5.3 million people the all clear. In fact, the discovery of oil has actually boosted productivity across the Nordic economy, according to a new 39-page Norges Bank working paper. The "value-added per worker in the economy increased with the oil boom, as there's learning by doing in the oil service industries that spills over to other industries," the economists said.

While Norway needed outside help to discover oil in the late 1960s, it has since transformed itself to become a global supplier of oil and gas technology, replacing less productive sectors. "Shipyards workers who used to be welders are today experienced in complex deep-sea technology," the report said. Norway has also helped shield the economy by putting large parts of its oil cash into a wealth fund, now worth $1 trillion. The fund serves as a piggy bank for future generations and a cushion in difficult times.