

Oil and Gas News Briefs

Compiled by Larry Persily

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Anadarko closes in on financing for Mozambique LNG project

(Reuters; May 18) - Anadarko Petroleum is seeking to raise a record \$14 billion to \$15 billion from banks and export credit agencies for its large liquefied natural gas project in Mozambique, sources said. Fast-growing demand from China and Southeast Asia is reassuring project developers sitting on huge untapped gas discoveries in Mozambique and elsewhere that the market is turning after three years of low prices. The full loan amount for the Mozambique project would be the largest ever in the LNG sector.

French bank Societe Generale, financial adviser on the \$20 billion Mozambique LNG project, has already received interest for \$12 billion in cover and direct lending from export credit agencies in China, South Africa, Italy, and Japan, one of the sources said. Those include the Export-Import Bank of China, Export Credit Insurance Corp. of South Africa, Italy's Sace, and Japan's Nippon Export and Investment Insurance. Societe Generale will start a global roadshow May 21 to test demand among commercial banks.

Export credit agencies typically provide large government-backed loans or insurance to support exports and domestic companies working in other countries. Asian and Chinese agencies have provided billions of dollars in loans and cover to Africa's largest energy and infrastructure projects in recent years. Anadarko has agreed to commercial terms including volume and price for 5.1 million tonnes per year of LNG from Mozambique, closing in on its target of 8.5 million tonnes to trigger a final investment decision. The project's initial capacity is planned for 12.88 million tonnes with possible expansions.

Novatek selects former Russian navy base for LNG transport hub

(Independent Barents Observer; Norway; May 18) – A Russian natural gas company confirms that its proposed liquefied natural gas transshipment hub will be built in Bechevinka, the abandoned navy compound on the Kamchatka Peninsula in Russia's Far East. It will cost up to US\$1.5 billion and have a capacity to handle as much as 20 million tonnes of LNG per year, Novatek Deputy Head Aleksandr Fridman told Interfax.

It will be a crucial component in Novatek's delivery plan for LNG produced in the Arctic. The company late last year started production at its Yamal LNG project and is aiming to construct at least one more Arctic gas project. Much of the gas is aimed at the Asian market, and Novatek and its partners are building a fleet of ice-class carriers able to sail

through Arctic waters. In Bechevinka the specialized tankers would offload the LNG to conventional carriers for delivery to markets making more efficient use of the ships.

Novatek in October 2017 signed a cooperation agreement with the regional government of Kamchatka to build the new terminal. Bechevinka was built in the 1960s as base for Soviet Pacific Fleet submarines. The base was abandoned in 1996 and the submarines transferred to another naval facility.

Japan receives first LNG cargo from Cove Point, Md., terminal

(Reuters; May 21) - Japan received its first shipment of liquefied natural gas from Dominion Energy's newly completed Cove Point, Md., export plant on May 21, adding another supply source for the world's biggest buyer of the fuel. The docking of the tanker LNG Sakura at Tokyo Gas Co.'s Negishi terminal is another marker of shifting global energy flows as the U.S. ramps up exports of gas and oil from shale formations.

The cargo is the first of 2.2 million tonnes of LNG a year that Japanese companies are purchasing under long-term contracts from the Cove Point plant. "The first cargo from Cove Point could not come at a more timely juncture for Japan in the light of trade tensions," said Nicholas Browne, senior gas analyst at energy consultancy Wood Mackenzie in Singapore. "U.S. LNG imports will reduce the trade deficit to an extent, while also helping Japan's politicians demonstrate they are doing their part," he said.

Tokyo Gas said the ship delivered more than 3.3 billion cubic feet of natural gas as LNG. The utility has a contract to buy 20 times that much gas each year from Cove Point LNG for 20 years. Kansai Electric Power has a smaller contract with Cove Point. Japanese buyers have been buying cargoes on a spot basis from Cheniere Energy's Sabine Pass, La., terminal, which exported its first gas in February 2016. Japanese buyers have imported a little over 1.4 million tonnes of LNG from Sabine Pass.

Ichthys imports cool-down cargo as part of commissioning process

(Platts; May 17) - The Ichthys LNG project in Australia has imported its cool-down cargo and is on track for commissioning in May, a spokeswoman for Japan's INPEX said. The company has a 62.245 percent stake in the US\$37 billion gas and condensate project which has been delayed several times. Ichthys has an LNG production capacity of 8.9 million tonnes per year and market participants expect its ramp-up to have a significant impact on market prices and volumes.

"Cool down" refers to cooling the tanks and pipes beforehand to smoothly proceed with start-up and it is a common procedure at new LNG plants. "In May the project is scheduled to complete the commissioning required for production start-up at the central

processing facility and subsequently will commence production from the wellhead," the spokeswoman said. Thereafter, the project will begin production and shipment of condensate, LNG and liquefied petroleum gas in sequence, INPEX said.

"Liquefied natural gas cargos will be shipped out in 2018. Specific timings will be determined on weather conditions and the sequence of production start-up activities going forward," the company added. Apart from INPEX, Total holds a 30 percent stake in Ichthys, while the remaining 7.755 percent is held separately by Taiwan's CPC, Toho Gas, Tokyo Gas, Osaka Gas, Kansai Electric, and Japan's gas-buying venture JERA.

Cameroon floating LNG plant exports first cargo

(Reuters; May 18) - A first-of-its-kind liquefied floating natural gas plant developed by Golar LNG off the African nation of Cameroon has exported its inaugural cargo, according to trade sources and shipping data. A successful start-up is a crucial test for Golar — an international LNG shipping company with 26 vessels — which aims to roll out similar plants in Equatorial Guinea with U.K.-based Ophir Energy and in Senegal-Mauritania with BP.

The first shipment from Cameroon was exported May 18 by Gazprom Marketing and Trading, which bought the project's entire output for eight years. Partners in the \$1.2 billion project include Golar and Cameroon's state oil and gas company. Golar converted an older LNG carrier to install gas processing and liquefaction components onboard. In addition to the gas, the project expects to produce 5,000 barrels a day of condensate.

China curbs natural gas deliveries to better prepare for next winter

(Reuters; May 18) - PetroChina, the country's top natural gas producer, has curbed supplies of the fuel to some industrial users in northern and western regions in the first sign of emerging tightness only two months after China endured one of its worst winter gas-supply crunches. To prevent another year of winter shortages, state-run PetroChina in early May started limiting deliveries and hiking prices for major customers, including gas distributors and inland liquefaction plants in some western provinces, sources said.

"Suppliers are managing the increases in demand, so that they won't be caught up in a serious supply crunch later in the year," said Chen Zhu, managing director of consultancy SIA Energy. China's natural gas consumption rose almost 14 percent in the first four months of the year to 71.1 million tonnes, according to Reuters calculations based on official data.

China operates more than 100 small liquefaction plants that source their feed gas from state producers PetroChina and Sinopec and supply LNG by tanker trucks to steel mills, glass makers and residential compounds that are not served by pipelines. An Inner Mongolia regional government official said a sweeping campaign to switch industries and household from coal to gas has led to a surge in the region's demand for the fuel.

China's first privately owned LNG import terminal close to start-up

(Reuters; May 17) - Chinese gas distributor ENN is seeking a commissioning cargo for the country's first privately owned liquefied natural gas import terminal, industry sources said May 17. The cargo is for delivery in the middle of June, a source said. ENN's Zhoushan terminal in China's eastern Zhejiang region with a capacity of 3 million tonnes per year, will likely start operations in two months, a company official told Reuters. "We are ... in the final stages now," the source said.

ENN has signed long-term deals including sales-and-purchase agreements with Chevron and Australia's Origin Energy and also has an agreement to buy LNG from Total. The deals total about 1.5 million tonnes per year of LNG. China overtook South Korea as the world's second-largest LNG importer in 2017 with deliveries of 38 million tonnes, 46 percent higher than the year before.

To meet the higher demand and to reduce their dependence on supply from state-owned companies, Chinese companies are building their own LNG terminals to import the fuel directly. Guangzhou Gas Group, a local government-backed gas distributor and a major supplier to Guangzhou province, plans to build a receiving terminal at the port of Nansha by 2020 with capacity to take 2 million tonnes per year. China's state-owned companies now operate terminals with over 50 million tonnes of annual import capacity.

Asian nations would prefer their own, local LNG pricing hub

(Bloomberg; May 16) - Benchmark prices for liquefied natural gas are set at a handful of major global trading hubs. But there's a problem for the world's four biggest consumers, all of which are Asian countries: The hubs are located thousands of miles away in the United States and Europe. Those faraway prices are often based on very different market fundamentals, so efforts are under way to create LNG hubs in Asia with their own benchmarks. It's not quite as straightforward as it sounds, however.

Japan, the world's biggest LNG consumer, is keen to establish itself as a trading hub. So is China, where a gas exchange is reportedly planned with support from the state energy giants and local government. Singapore, a trading center which consumes little LNG, wants to develop a local pricing benchmark. Then there's India, where the energy regulator is making moves to develop an exchange. Becoming a hub allows a country

to derive value from shifting between suppliers and customers, looking for the best price.

LNG prices can gyrate based on supply and demand in other regions, such as a cold winter in Europe or the U.S., which may have nothing to do with Asian markets. There are key requirements to creating a gas-pricing hub, said Yury Sentyurin, secretary general of Gas Exporting Countries Forum. Every Asian hub aspirant falls short on at least one of them. The criteria, he said, are a wholesale gas market, free and unregulated trade of the fuel, separation of transport and commercial activities for gas, large gas transportation network capacities, and a large number of market participants.

Report warns that U.S. LNG exports could boost domestic gas prices

(Bloomberg; May 16) - Environmental groups opposed to U.S. natural gas exports just found an unlikely ally in the Commodity Futures Trading Commission. The government agency that regulates futures and options markets reported that shipping gas overseas could raise costs for Americans. Domestic prices could rise as much as 20 percent due to the burgeoning industry that liquefies natural gas so it can be shipped around the world on tankers, according to a CFTC report released May 16.

In its study, the CFTC cited other assessments conducted by the American Petroleum Institute, the U.S. Energy Department and Deloitte consulting. The U.S. shale boom has bloated domestic gas supplies and ushered in a new era of American oil and gas exports. President Donald Trump has encouraged the development of more natural gas liquefaction and export plants, while groups such as the Industrial Energy Consumers of America have panned exports as a drain on the nation's resources.

"Estimates of U.S. LNG export levels and price impacts on domestic markets vary widely, but generally these estimates suggest that there is a potential for U.S. domestic natural gas markets to be influenced by global supply-demand factors," the commission said in its report. Already two U.S. LNG export terminals are shipping cargoes with four under construction and several more at differing proposal stages. By 2020, the U.S. could have the capacity to export more than 10 percent of its daily gas output as LNG.

Europe's LNG imports pick up as domestic gas production in decline

(Bloomberg; May 15) - Europe is starting to steal some of the limelight from China's booming liquefied natural gas demand as imports pick up after several lackluster years. Europe and China will be comparable in significance as importing regions in the coming years, said Andrew Walker, a vice president at U.S. exporter Cheniere Energy, citing data from Wood Mackenzie.

Whereas China needs the fuel mostly to replace dirtier coal, Europe needs it to offset declining domestic gas production. Europe's location may give it an edge over generally higher-priced Asian markets when it comes to attracting the increasing LNG volumes produced in the Atlantic. North America and Russia are seen providing most of the new supply from 2025 to 2030, according to a poll at the Flame conference in Amsterdam.

Declining production as well as the closing of coal plants in Europe are "a very big demand surprise," Venture Global LNG Chief Commercial Officer Tom Earl said at the gas conference. Though the usage rate of LNG import terminals in Europe was just 23 percent last year, things are looking up, said Arturo Gallego Diaz, head of LNG trading and operations at Centrica. Not to be left out, Russia, Europe's biggest gas supplier, sees higher demand for its pipeline gas undermining the region's efforts at supply diversification, said Gazprom's Sergei Komlev.

U.K. LNG import terminal looks to diversify its supply sources

(Reuters; May 18) - Britain's busiest liquefied natural gas import terminal, South Hook, is seeking to broaden its sources of supply as robust Asian demand diverts cargoes from Qatar — the world's biggest exporter and the terminal's majority shareholder. Volumes to the terminal, in which Qatar Petroleum owns a controlling stake, have halved so far this year from a year ago to 42 billion cubic feet of gas and amount to just 15 percent of 2016 volumes for the same period.

South Hook in Wales has been seeking to broaden the specification of its gas since January, a proposal that was approved May 17 by the Joint Office of Gas Transporters, which administers the rules for transporting gas in Britain. The terminal received approval to raise oxygen limits for gas it delivers to Britain's network, "allowing greater diversity of gas composition of future cargoes," according to its filing with regulators. Different gas projects produce gas with differing percentages of oxygen and methane.

The terminal, with ExxonMobil and Total as minor shareholders, has been importing LNG from Qatar since it was fully commissioned in 2010. With capacity of 15.6 million tonnes a year, it is one of the biggest in Europe. Strong demand in the past year from China, South Korea, and India has up-ended predictions of LNG trade flows. Qatari LNG has been much in demand in Asia while Atlantic-based cargoes have come to Europe.

Australian gas producers caught in local-vs.-export tug of war

(Platts; May 18) - Australian natural gas producers could find their stature in global LNG markets challenged as they get increasingly tangled in the complexities of domestic

supply obligations and rising oil prices that make their oil-indexed gas more expensive. LNG export curbs and proposals for higher reservation of gas production for domestic consumption mean that Australian oil and gas companies may have to pull back from global markets, dulling their competitive edge against rival producers such as the U.S.

The companies that are finding themselves on the receiving end of souring public opinion and sharper political backlash may find it difficult to balance domestic obligations and global ambitions at the same time. In recent months the Australian government has openly blamed Queensland's three large LNG projects — Gladstone LNG, Australia Pacific LNG and Queensland Curtis LNG — for causing gas shortages.

The Australian government last fall signed an agreement with East Coast LNG exporters to commit to a "good faith offering of gas to the domestic market on reasonable terms" and offering uncontracted gas cargoes to local buyers first before putting them on the spot market. The LNG operators have already reduced their planned exports for 2018. East Coast LNG projects were operating at about 81 percent of nameplate capacity due to the diversions and the region not having enough gas. In addition, gas buyers in Asia will be reluctant to sign new contracts if a producer is exposed to export curbs.

Japanese marine shippers join forces to use LNG

(Energywire; May 18) - U.S. liquefied natural gas exporters could be the major beneficiaries of a push by Asia's shipping giants to slash emissions from container vessels crisscrossing the open seas. Japan and South Korea have historically been the biggest importers of LNG, but the energy industry has largely written off future demand growth from the two nations because of their sluggish economies and shrinking populations.

Now hope is emerging out of Asia's busiest ports after an agreement by Japan's major shippers to use cleaner fuels to meet tightening emissions standards under the International Maritime Organization. The build-out of infrastructure that permits ship-to-ship transfer of LNG to fuel an ocean vessel could provide another market for LNG shipped from the coasts of Texas and Louisiana.

Japan's four corporate partners said they plan to establish two joint ventures that would both supply LNG ship fuel and expand its use in regional shipping. The four Japanese partners are Kawasaki Kisen Kaisha, Chubu Electric, Toyota Tsusho, and Nippon Yusen Kabushiki Kaisha. "Asia Pacific is projected to be the fastest growing market for LNG bunkering," according to a report by Seattle-based Coherent Market Insights.

B.C. looks to U.S. oil supplies in case Alberta cuts off flow

(The National Post; Canada; May 18) – In case Alberta’s government uses its new powers to restrict oil shipments to British Columbia, the coastal province is looking to get its oil from Washington state. B.C. Attorney General David Eby said May 18 the province’s first response would be to seek legal remedies to the law Alberta passed this week — which allows Edmonton to control the flow of oil, gas, and refined products out of the province in response to B.C.’s fight against the Trans Mountain oil line expansion.

But British Columbia’s secondary plan is to backfill any shortage of fuels such as gasoline and diesel from the United States. Eby said the provincial government is in discussions with suppliers in Washington in preparation. “There has been work done with Washington state in identifying additional reserves that we might be able to use in the unlikely event that Alberta actually attempts to use this unconstitutional legislation,” he said.

“The general consensus that the possibility of Alberta actually using this is highly speculative for a couple of reasons. They (Alberta) would have to get through convincing a court that they have the power to do this, which we don’t think they do,” Eby said. “Secondly, they’d have to grapple with the impacts on their own industry.” The British Columbia government cites environmental concerns in its opposition to expansion of the Trans Mountain oil pipeline from Alberta to a coastal export terminal.

B.C. government involved in three legal challenges to oil pipeline

(National Post; Canada; May 16) - The Trans Mountain oil pipeline expansion from Alberta to the British Columbia coast is facing a variety of court challenges, and the B.C. government is involved in all of them. It has filed a constitutional reference question in the B.C. Court of Appeal, asking if it can legally require companies to get permission from the province before increasing the flow of bitumen through a pipeline. If B.C. wins in court, it would effectively give the province a veto over the pipeline expansion.

The federal government has already announced it will intervene in the hearing to argue B.C.’s proposal violates federal jurisdiction. A second challenge is in the Federal Court of Appeal, where in 2016 several First Nations, environmental groups and the cities of Burnaby and Vancouver filed against federal approvals of the pipeline. The B.C. government joined the challenge as an intervenor last summer, following the election that brought the New Democratic Party and its partner, the Green Party, to power.

If the court rules there was inadequate consultation with First Nations — as it did in 2016 over Enbridge’s Northern Gateway oil pipeline — it could delay the project as more consultation would be needed. The third legal challenge is in the B.C. Supreme Court, where the Squamish First Nation filed a case last fall challenging the province’s environmental approval of the project, arguing there was inadequate consultation. The

B.C. government is defending itself in the case — putting it in the ironic position of defending its own approval of the pipeline at the same time it's fighting federal approval.

Hedging at lower prices causes some shale producers to lose out

(Wall Street Journal; May 17) - American shale drillers are still spending more money than they are making, even as oil prices rise. Of the top 20 U.S. oil companies that focus mostly on fracking, only five managed to generate more cash than they spent in the first quarter, according to a Wall Street Journal analysis of FactSet data. Shale companies have helped propel U.S. oil output to all-time highs, surpassing 10 million barrels a day and rivaling Russia and Saudi Arabia.

But the top 20 companies by market capitalization collectively spent almost \$2 billion more in the first quarter than they took in from operations, largely due to bad bets hedging crude prices, as well as transportation bottlenecks, labor and material shortages that raised costs. Many of the producers did better to start this year than at any point since 2014, when oil prices began a crash that the industry is fully recovering from only now. Still, the companies spent about \$1.13 for every \$1 they took in.

While many operators have positive net income this year, shareholders have begun paying closer attention as they seek to compel them to live within their means and produce stronger returns. Hedging played a big role in companies' underwhelming cash generation. Seeking stability after years of wild fluctuations in prices, many operators entered into derivatives contracts in late 2017 that effectively ensured they could sell some of their 2018 output for \$50 to \$55 a barrel. Now that prices have risen to more than \$70 a barrel, many are failing to capture the value of the rally.