

Oil and Gas News Briefs

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Exxon, Rosneft work toward decision on Russia LNG project

(Reuters; May 3) - ExxonMobil is pushing ahead with efforts to develop a \$15 billion Far East liquefied natural gas project with Rosneft despite being forced to exit some joint ventures due to Western sanctions against Russia. Exxon two months ago invited companies including China National Petroleum Corp. (CNPC) to bid for construction work by October, sources said. A final investment decision is due in 2019, sources said.

The project would use gas from the Sakhalin-1 venture, which has produced oil for Exxon, Rosneft and other partners since the 1990s. The LNG plant's initial output would be 6 million tonnes a year. Western sanctions forced Exxon to exit some joint ventures with Rosneft in late February, but LNG is not part of the sanctions.

CNPC's engineering subsidiary is preparing to bid for engineering, procurement and construction contracts for the supporting facilities, such as storage tanks, pipelines and utilities, a source said. Chinese companies, banks and shipyards are all muscling into LNG work, typically the preserve of Western, Japanese, and South Korean players.

For example, Chinese investment is pouring into African floating LNG projects, import terminals, tankers and land-based plants such as the \$12 billion invested in Russia's Yamal LNG facility. The loans drum up business for China's shipyards and engineering firms and give state-backed companies an upper hand in gas supply negotiations. As an alternative to building a new plant in the Russian Far East, Exxon-Rosneft has also considered feeding gas from their Sakhalin-1 fields into a possible third production unit at the 9-year-old Sakhalin LNG plant run by Gazprom, a Rosneft rival.

Cheniere will decide on 3rd train at Corpus Christi within weeks

(Reuters; May 4) - Cheniere Energy said May 4 it plans to make a final investment decision soon whether to build a third liquefaction train at its Corpus Christi LNG export facility in Texas. "We've recently announced the bank group arranging the project financing and are working diligently on the process with them in anticipation of being able to make FID (final investment decision) in the next few weeks," CEO Jack Fusco said in an analyst call after the release of Cheniere's first-quarter earnings.

Even before making that final investment decision, the company said it has already achieved the first concrete pour on the third production train at the plant. Cheniere is

building two liquefaction trains at the Corpus Christi site with in-service dates in the first half and the second half of 2019. The company also is adding a fifth train at its Sabine Pass, La., LNG terminal which started operations in February 2016. The additional train at Sabine and the two under construction at Corpus Christi each are large enough to handle 700 million cubic feet of gas a day, or more than 5 million tonnes of LNG a year.

Cheniere is already the biggest buyer of natural gas in the United States, consuming more than 3.1 billion cubic feet per day, and is on track to become the second biggest LNG operating company by capacity in the world in 2020, behind only Qatar Petroleum, according to data from energy analysts at Wood Mackenzie. Cheniere's purchases represent about 4 percent of total projected U.S. gas production of 81.1 bcf per day. The company is also considering adding a sixth train at Sabine Pass.

Global LNG trade up 10% in 2017 to 290 million tonnes

(U.S. Energy Information Administration; May 2) - Global trade in liquefied natural gas increased by 3.5 billion cubic feet per day to 38.2 bcf in 2017 (about 290 million tonnes of LNG per year), a 10 percent increase from 2016 and the largest annual increase in history, according to the 2018 Annual Report on LNG trade by the International Group of Liquefied Natural Gas Importers. In 2017, there were 19 LNG-exporting countries and 40 importing countries. Malta became the newest country to begin LNG imports in 2017.

Strong growth in LNG trade was supported by new liquefaction capacity commissioned in Australia, the United States, and Russia, which collectively added five liquefaction trains (a combined capacity of 3.4 bcf a day). The world's first floating liquefaction plant, Malaysia's PFLNG Satu (0.2 bcf a day capacity), was also commissioned in 2017.

LNG exports from Australia and the United States accounted for more than three-quarters of the increase in global LNG exports in 2017. Asia led the growth in imports, accounting for 74 percent of the increase in 2017. China had the largest growth in LNG imports globally, an increase of 1.5 bcf (46 percent) year on year. China became the world's second largest LNG importer in 2017, overtaking South Korea, as government policies promoting coal-to-gas switching led to a record growth in natural gas imports.

Chinese and Japanese shippers team up on Russia LNG cargoes

(Nikkei Asian Review; May 4) - Chinese and Japanese marine transport companies are partnering to open an Arctic Ocean route for liquefied natural gas shipments to Asian markets, a move that promises to cut transport time by more than half. The tie-up between Japan's Mitsui O.S.K. Lines and China Cosco Shipping is partly aimed at sharing risk, as sailing the icy route comes with many unknowns.

On March 27 the LNG carrier Vladimir Rusanov loaded up at the Yamal export terminal in Russia's Arctic. The 981-foot-long icebreaking vessel is 50-50 owned and operated by the Japanese and Chinese partners. In the winter, the Arctic is covered in ice too thick for the carrier to navigate. At that time of year, it transports LNG through ice-free waters to a transshipment base in Europe. In summer, when the ice thins, the tanker can carry loads from Yamal via the Bering Sea directly to Asia, breaking ice as it goes.

The main benefit of the Arctic route is a drastic reduction in shipping time to Asia. For the usual route, tankers head out from Yamal, sailing into the Atlantic, through the Suez Canal, and on to Asia. The trip takes about 35 days. Traveling through the Arctic and the Bering Sea cuts the time to 15 days. A key challenge is the lack of information on water depths in the Arctic Ocean, which increases the risk of vessels running aground. Cosco has teamed up with Mitsui O.S.K. to share the risk and investment cost, as well as to take advantage of the Japanese company's experience in maritime LNG transport.

India's first floating LNG import terminal to start operations late 2018

(Platts; May 2) - India's first floating liquefied natural gas storage and regasification terminal could begin importing LNG in the fourth quarter of this year on the country's west coast, the project developer, H-Energy Gateway, and operator, France's Engie, said in separate statements this week. The Norwegian-flagged ship, the GDF Suez Cape Ann, which is under long-term charter with Engie, arrived May 2 at Jaigarh Port in the western state of Maharashtra to start setting up.

It marks the first deployment of floating gas import infrastructure in India, which has lagged neighboring Pakistan and Bangladesh in installing floating LNG receiving terminals, as it already has a network of onshore LNG terminals. India is the world's fourth-largest LNG importer, though its onshore LNG terminals have remained underutilized due to relatively high gas prices and a lack of pipeline connections.

It remains unclear whether H-Energy has lined up buyers for its gas, and it may remain largely dependent on spot sales, traders said. The Suez Cape Ann has a capacity of 4 million tonnes of LNG per year. H-Energy is the energy arm of Mumbai-based real estate company Hiranandani Group. In 2017 India recorded a modest increase in LNG imports of just 1.2 percent due to the effects of higher LNG prices.

Sri Lanka approves investment in Chinese-run LNG import terminal

(Reuters; May 4) - Sri Lanka's state-run investment body has approved a \$500 million liquefied natural gas import plant by China Machinery Engineering Corp. near a Chinese-controlled port and industrial zone, the development strategies minister said May 4. The Board of Investment approved the investment. Minister of Development

Strategies Malik Samarawickrama said the terminal will be built in Hambantota, where China Merchants Port Holdings controls a Chinese-built port on a 99-year lease.

The port is near the main shipping route from Asia to Europe and likely to play a major role in China's "belt and road" initiative. Chinese control of Hambantota, as well as a plan to acquire 15,000 acres (23 square miles) to develop an industrial zone nearby, has raised fears that it could also be used for Chinese naval vessels. The Sri Lankan government has said the agreement bans usage of port for military purpose.

Sri Lanka has been working toward developing LNG imports to provide a cleaner option to oil for power generation. The country is also working with Indian and Japanese partners to develop an import facility.

U.S. grid operator will look at whether it is too dependent on gas

(The Hill; Washington, DC; April 30) - The largest electric grid operator in the U.S. announced April 30 it will study the future risks of too much reliance on one energy source as coal plants retire and markets move toward natural gas. The initiative by PJM Interconnection on energy-grid reliance is building off a 2017 report that found: "The system could remain reliable with the addition of more gas and renewable resources, but that 'heavy reliance on one resource type' raises potential resilience risks."

The first phase of the latest analysis will look at fuel vulnerabilities. PJM president Andy Ott said the analysis is a "proactive approach" to determine future grid stability needs. "It is a legitimate question as we look forward in time and these trends continue," Ott said. "Are we overdependent or increasingly dependent on one fuel infrastructure?"

The question comes as coal plants continue to struggle to survive in the U.S. and the energy market trends toward natural gas. "In 2008, 5 percent of total electricity was natural gas — today it's in 20 to 30 percent range," Ott said. "It will continue to climb. We don't have a problem now. In fact, we're more diverse than we've ever been, but at some point in the future we may be overdependent on one pipeline."

Steep discount to U.S. prices drove Alberta oil producers to cut back

(The Canadian Press; May 3) - Canadian Natural Resources said it choked back its heavy-oil production by about 17,000 barrels per day in the first quarter to avoid selling at low prices it blames on a shortage of pipeline capacity out of Western Canada. The company said it is now gradually ramping up output from its heavy oil wells in northern Alberta as the discount being paid for Western Canadian Select grade oil has narrowed in comparison to New York-traded West Texas Intermediate.

Fellow Calgary-based oil sands producer Cenovus Energy last week reported that it had also reduced heavy-oil output in the first quarter for the same reason but was bringing production back on stream. Oil sands crude was selling at a US\$17.55-a-barrel discount to U.S. crude on May 3 after trading at around a US\$30 discount earlier this year.

Uncertainty continues to plague proposed new pipelines. The Keystone XL project from Alberta to Texas has been delayed, the future of an expanded Trans Mountain line from Alberta to Vancouver is in doubt, and a routing dispute has emerged over Enbridge's Line 3 export pipeline replacement project to deliver Canadian oil to a hub in Wisconsin.

Pipeline constraints help push down Canadian gas to a nickel

(Calgary Herald columnist; May 4) - The discount affecting Alberta energy prices has struck again, this time touching the country's largest oil and gas producer. But it isn't just pipeline problems crimping prices that caused Canadian Natural Resources to throttle back some oil production during the first three months of the year. Feeble prices in Alberta also led the company to shut in some natural gas production, yet another sign of the headwinds confronting the country's energy sector.

If companies don't have the ability to get their product to market efficiently through pipelines, they have to make a tough decision to sell at a discount — or not produce it in the first place. While the oil differential between Canadian and U.S. crude has stabilized in the past month, the same isn't true for beleaguered gas prices in Alberta. In fact, they have been getting worse. Spot prices at Alberta's AECO pricing hub closed at just five cents per 1,000 cubic feet on May 3, a whopping C\$3.48 behind the U.S. benchmark.

Pipeline constraints, seasonal maintenance and surging gas output in Western Canada are all contributing to a compounding problem. "Essentially, gas has reached the point where it's at a similar predicament to oil. We have exceeded capacity out of the basin," said Ian Archer, a gas analyst with consultancy IHS Markit. Pipelines are essentially full today and while operators such as TransCanada have proposed expansions to increase shipping capacity out of the province, major additions are at least two years away.

New oil export terminal to open next year in Texas

(Wall Street Journal; May 2) - New U.S. crude oil export facilities on the Gulf Coast may help the world's troubled business of the big tankers that transport oil. A trio of American energy logistics firms is preparing to build a terminal at the Port of Corpus Christi in Texas capable of handling very large crude carriers, or VLCCs, adding to a

flurry of activity for U.S. oil exports that reached a record 2.3 million barrels a day last week.

Buckeye Partners, Phillips 66 Partners, and refiner Andeavor formed a joint venture to build the facility at the South Texas Gateway Terminal, a major transit point for U.S. energy exports. Phillips 66 and Andeavor will be the launch customers for shipping oil out of the terminal, with two deep-water docks capable of berthing VLCCs, along with 3.4 million barrels of storage. The terminal is scheduled to kick off operations next year. The project will add capacity to a booming U.S. crude export trade.

Tanker owners are hoping the growing U.S. exports will boost an international crude transport market that has remained in a slump this year. Freight rates for VLCCs recently slumped to near record lows, industry analysts said, with a glut of ships pushing daily rates to an average \$6,000, far from the break-even rate of around \$22,000. "There's a lot of bleeding out there, and there is more to come this year," said one Singapore broker, noting daily rates stood at \$26,000 in the same period last year.

New North Sea oil field could prolong role of Brent benchmark

(Wall Street Journal; April 30) - A North Sea oil field named after a 19th century Norwegian prime minister could soon spark a shakeup in the Brent crude benchmark that prices oil around the world. The widely used benchmark risks losing relevance amid declining production from the oil fields that it is priced off. Other oil benchmarks are clamoring for its role, including in China and Dubai, while the U.S. oil gauge, West Texas Intermediate, is gaining more currency abroad as American crude is exported.

The Johan Sverdrup field, about 87 miles west of Stavanger, Norway, is due to start up in 2019 and could offer Brent a lifeline by boosting the volume of crude used to price it and making it more reflective of the wider market. Initial peak production is estimated at 440,000 barrels a day, according to field operator Statoil. Brent is "absolutely relevant, but there has definitely been pressure on the benchmark over the past few years," said Bjornar Tonhaugen, senior vice president for oil markets at consultancy Rystad Energy.

The inclusion of Sverdrup would help prolong Brent's role as the global benchmark, Tonhaugen said. The 30-year old benchmark represents about 1 percent of global oil output, and that small slice is used to set the price of the multitrillion-dollar Brent futures market. About two-thirds of the world's oil is priced off Brent — prices that influence costs for electricity generated by oil and the fuel in people's cars.