Oil and Gas News Briefs
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Platts forecasts China's LNG demand growth will slow

(S&P Global Platts; Jan. 30) - China's LNG demand growth is expected to continue rising in 2019 in line with its industrial and residential gas use, but the pace of growth is set to slow as domestic gas production and pipeline imports pick up. The slowdown in China's economic growth is a factor, too, but one with small impact on gas consumption, which is more responsive to fuel-switching, according to S&P Global Platts Analytics.

The government's resolve to boost gas pipeline connectivity and storage capabilities will help ease distribution bottlenecks and winter shortages, reducing China's dependence on LNG to meet peak winter needs. However, despite these bearish factors, China, the world's second largest LNG importer, will remain the biggest contributor to global LNG demand growth, with Platts forecasting its consumption will exceed Japan's by 2022.

China's gas demand is forecast to rise 11.4 percent on the year to almost 10.9 trillion cubic feet in 2019, less than the previous forecast of 16.6 percent, according to a China National Petroleum Corp. report. More than half of that demand growth will be met by domestic gas, which is forecast to grow 6 percent in 2019 as state-owned PetroChina builds its shale gas output. That means an additional 525 billion cubic feet of imported gas would be needed to match consumption in 2019. With pipeline imports expected to increase by 175 bcf, the remaining 350 bcf will likely be LNG imports, Platts said.

U.S. LNG buyers dealing with slower demand growth in Asia

(Reuters; Jan. 30) - Surging production of U.S. liquefied natural gas and slower demand growth in Asia this year could leave companies that have committed to long-term purchase contracts struggling to find markets. Several European and Asian utilities have signed up to long-term deals for U.S. LNG that last 10 to 15 years. When they signed up five years or so ago, the buyers were confident Asia could soak up any extra supplies produced by the U.S. LNG industry, which at the time was still under construction.

But forecasts for Asian demand have been reined in despite strong growth in China last year, while U.S. LNG output is expanding. U.S. capacity is expected to hit 65.2 million tonnes a year by late 2019 from 36.8 million in 2018. "You've seen some European utilities getting into the U.S. and I'm not sure it's going well. There are some contracts where they probably wish they hadn't," said David Cox, of London Energy Consulting.

Analysts at IHS Markit and Wood Mackenzie expect China's LNG demand growth to slow to 15 to 20 percent this year, as the country eases up on its push to switch to gas from coal for heating. As a result some U.S. offtakers that had planned to sell into Asia are now pinning their hopes on Europe. Meanwhile, some buyers in the Asian market have already been offloading their commitments to buy U.S. LNG, including Australia's Woodside Petroleum, GAIL (India) and Indonesia's Pertamina. Japan's Toshiba paid $800 million to get out from under its long-term contract to take U.S. LNG.

U.S. gas producers start to dial back amid weak prices

(Wall Street Journal; Jan. 27) - Some of the companies responsible for flooding the U.S. with natural gas are dialing back on drilling amid worries that supplies are outpacing demand and potentially sending already depressed prices into a tailspin. Pittsburgh-based EQT Corp. on Jan. 22 became the latest big producer to say it will spend less on drilling this year than it did last year, aiming to maintain its present level of gas output rather than increase it. Gulfport Energy outlined a similar strategy earlier in the month.

It's a major shift in an industry not known for tapping the brakes and follows a chorus of investors urging shale drillers to stop boosting production while prices are low. "Growth is a disease that has plagued the space, and it needs to be cured before the sector can garner long-term investor interest," said Matthew Portillo, exploration and production research director at Tudor, Pickering, Holt, a Houston investment bank. "The industry has been under significant shareholder pressure to change the way it allocates capital."

Natural gas prices have fallen by more than a third since heating-season highs reached in mid-November. Gas futures for February delivery lost 8.8 percent last week, settling at $3.178 per million Btu on Jan. 25. It took a superlative year of demand growth, courtesy of exports and electricity generators, to absorb record U.S. gas production last year. There are doubts, though, that enough new demand will materialize this year. The growth-at-all-costs mind-set has been a hard habit to break for shale producers.

LNG imports by Middle East nations dropped 37% last year

(Bloomberg; Jan. 30) - The Middle East was a bright spot for global liquefied natural gas demand in 2015. But now imports have fallen so much that it could take a decade to recover. Last year's 37 percent slump and the prolonged negative outlook is in contrast to the region's two-year LNG demand surge that outpaced global demand growth, according to Bloomberg New Energy Finance and ship-broker Poten & Partners data.

There are only five LNG importers — Egypt, Kuwait, Jordan, the United Arab Emirates, and Israel — in the Middle East. Bahrain is expected to join the group this year. But new gas finds in Egypt and the U.A.E. have reduced the need for LNG imports, and

Jordan has increased its imports of cheaper pipeline gas. “Domestic gas resources have been the main reason for LNG imports being subdued,” said Fauziah Marzuki, a senior associate at Bloomberg. Locally produced “gas will always be preferred over imports.”

Egypt, the region’s biggest LNG buyer in 2016 and 2017, will halt imports this year and may resume exports thanks to surging domestic gas supplies from the giant Zohr field. Jordan will rely more on pipeline gas from Egypt, trimming its need for LNG. For the global market, growth in Asia will more than offset declines in the Middle East. Even Kuwait, the region’s biggest importer, barely registers in global terms. Its imports are less than Asia’s smaller buyers such as Thailand, Bangladesh, and Pakistan.

Oman Trading company makes first LNG delivery to Bangladesh

(S&P Global Platts; Jan. 29) - Oman Trading International is set to deliver its first cargo of liquefied natural gas to Bangladesh this week, three months ahead of the scheduled start of its long-term supply contract with state-owned Petrobangla, a senior official in Bangladesh said. The LNG is coming from Nigeria. The contract calls for Oman Trading to deliver 1 million tonnes of LNG per year for 10 years.

The price is 11.9 percent of the three-month average of Brent crude oil plus 40 cents per million Btu. At current prices of around $60 per barrel, that would work out to about $7.54 per million Btu. Petrobangla also gets LNG under a 15-year contract with Qatar, at 2.5 million tonnes per year, though at a higher price of 12.65 percent of the three-month Brent average plus a constant of 50 cents per million Btu.

Tokyo Gas looks to invest in overseas LNG projects and renewables

(Reuters; Jan. 29) - Tokyo Gas will target investment in overseas infrastructure projects in liquefied natural gas and renewable energy to boost its offshore earnings, its chief executive said. The country's biggest city gas seller and major buyer of LNG plans to leverage its links with foreign partners or team up with other Japanese companies to chase deals, CEO Takashi Uchida said.

"We want to make an aggressive investment in Southeast Asia and North America this year to expand our LNG value chain," Uchida said. Under a three-year plan that kicked off last April, Tokyo Gas plans to spend 260 billion yen ($2.4 billion) to boost earnings from abroad to 20 percent of its operating profit in the 2020-2021 fiscal year. In the year to March 2018, earnings outside of Japan accounted for 5.8 percent of operating profit.

Tokyo Gas is eyeing LNG import terminal projects in the Philippines and Vietnam. The company also wants to seek deals in renewable energy, such as offshore wind power, Uchida said. In addition, in an effort to diversify supply sources and reduce costs, Tokyo Gas last year signed non-binding contracts to buy LNG from Anadarko Petroleum's Mozambique project, Shell's LNG Canada project and Sempra Energy's Energia Costa Azul LNG project in Mexico. "Given the soft LNG market, we were able to win those new deals that were more beneficial to us than the existing contracts," Uchida said.

European demand for LNG expected to grow mid-decade

(S&P Global Platts; Jan. 28) - Europe is again set to absorb the global market's surplus liquefied natural gas supply over the next few years, but from 2021 will likely need the LNG to offset declining domestic gas production, industry officials said Jan. 28. Europe — with its tradable hubs and well-established gas infrastructure — is often considered the market of last resort for an oversupply of global LNG, with the recent spike in LNG imports on weak Asian demand in recent months evidence of that balancing role.

However, Europe is likely to need LNG to be able to supply customers early in the next decade. "Europe will not just play the balancing role," head of LNG at Austria's OMV Elena Sidorochkina said at the European Gas Conference in Vienna. "Europe will become more dependent on LNG," she said. Vice president for gas and LNG at consultancy Wood Mackenzie Massimo di Odoardo agreed the LNG dynamics in Europe would change in the next decade. "Europe might well be the backstop in the next few years, but after 2020 it will have genuine LNG demand," di Odoardo said.

The growth in global LNG supply in the next few years — mostly from the United States — could outpace demand growth in Asia, officials at the conference said. But by 2021 Europe may need extra gas given the decline in domestic output from the Netherlands, the U.K., and Norway. An additional 2.5 trillion cubic feet of supply to Europe could be needed by 2025, with LNG imports to compete with Russian pipeline gas.

Japanese gas utility will make small LNG deliveries to China

(Reuters; Jan. 30) - Japanese city gas supplier Shizuoka Gas has signed a binding agreement with China's Clean Energy to deliver small volumes of liquefied natural gas from its Shimizu terminal in western Japan, the company said Jan. 30. Shizuoka Gas will transport the LNG in insulated tanks that allow for shipment by truck, rail and container ship. This is the first term deal for a Japanese LNG importer to resell such tanks of the fuel overseas, said Edmund Siau, an analyst at energy consultancy FGE.

Under the agreement, Shizuoka Gas will supply 1,600 metric tonnes of LNG a year — less than 800 million cubic feet of natural gas — for three years from 2019 to 2021 to Clean Energy, a fully owned subsidiary of China's Dalian Inteh Holdings. Shizuoka Gas said it has been seeking further utilization of its terminal since 2017 when it first sold gas from the reloading facility. At 1,600 tonnes of LNG, the volume is the equivalent of about one-quarter of a fully loaded oceangoing LNG carrier.

Transporting LNG by tanks is usually done on trucks for small-scale distribution and occurs within small or isolated markets, FGE's Siau said. "As some buyers are facing an oversupplied situation, they are looking for diversion or reselling cargoes, and China is one of the potential markets, though China's demand is weak at this moment," said an LNG trader familiar with the Japanese market.

South Korean shipbuilders anticipate new LNG orders from Qatar

(Reuters; Jan. 27) - South Korea's presidential office said Jan. 28 that Qatar's energy minister has outlined plans during a bilateral summit for Doha to order 60 new liquefied natural gas carriers. The energy minister, Saad Sherida Al-Kaabi, who also serves as deputy chairman of Qatar Petroleum, said he expects cooperation with experienced South Korean shipbuilders on constructing the LNG carriers, according to the statement from the presidential office. Financial details of any orders were not disclosed.

QP officials recently visited Hyundai Heavy Industries, Daewoo Shipbuilding and Marine Engineering, and Samsung Heavy Industries to check their capacities to build super-sized LNG carriers. TradeWinds, a global media outlet specializing in shipbuilding and shipping industries, reported on Jan. 24 that Qatar officials also visited shipbuilders in China and Japan to assess their capabilities.

Qatar announced last year that it would expand by 43 percent its LNG output capacity by 2023, which would necessitate adding a significant number of carriers to its delivery fleet. Anticipation for a big order is growing among the Korean shipbuilders as they have already won massive orders for LNG carriers from Qatar. They swept the 45 LNG carriers Qatar ordered from 2004 to 2007. Back then Daewoo Shipbuilding took 19, Samsung Heavy Industries 18 and Hyundai Heavy Industries eight.

South Korean shipyards look to fill up with LNG carrier orders

(Bloomberg; Jan. 28) - The world's biggest shipbuilder sees China's cleanup of its smoggy skies as lifting the prices for vessels this year. As China prioritizes dealing with the smog that has famously blanketed Beijing and other big cities, the world's second-biggest economy is increasingly turning to liquefied natural gas as a replacement for coal for heating and other purposes, boosting imports of the cleaner fuel.

South Korea's Hyundai Heavy Industries expects orders for LNG carriers to lead to demand for new ships, CEO Sam H. Ka said. "Our slots for LNG carrier construction are pretty much filled up until 2021." Surging demand for LNG in China, as well as in smaller emerging economies, has spurred energy explorers to focus on investments in gas projects. The demand for LNG carriers is a bright spot for a shipbuilding industry that has struggled to win orders since crude oil prices slumped in 2014.

Qatar plans to order about 60 new carriers, more than doubling its fleet, Qatari Minister of Energy and Industry Saad Sherida al-Kaabi said. Rising demand will benefit the world's top three shipyards — all based in South Korea — Hyundai's Ka said. LNG carriers are the most expensive commercial ships and take the longest time to build. "As more and more slots get filled with LNG carrier orders, it's going to enable shipyards to raise prices for all types of vessels," said Shinyoung Securities analyst Um Kyung-a.

LNG industry could develop a futures market in shipping rates

(S&P Global Platts; Jan. 28) - LNG shipping is set to grow into a liquid market in the future similar to the oil shipping sector, but the evolution could take time, senior industry officials said Jan. 28. The cost of LNG shipping became a big issue in the final quarter of 2018 as rising prices made it uneconomic to move higher volumes of liquefied natural gas from Atlantic Basin suppliers to Asian buyers. Spot-charter rates rose to as high as $190,000 per day in the fourth quarter of 2018 from $40,000 a day a year ago.

Patrick Dugas, head of LNG trading at French major Total, said the price spike was a short-term "event" and not a "structural" issue. There are currently around 520 LNG vessels in operation globally. "I'm not sure the market was actually short of capacity," Dugas said at the European Gas Conference in Vienna on Jan. 28. But, he said, it is clear the LNG shipping market will continue to evolve. "In a few years there will be a shipping futures contract."

Pointing to the well-evolved oil shipping market, Dugas said there is no reason why a futures market would not be developed in LNG shipping. "It would become part of a trading tool, for traders to hedge their positions," he said. The head of gas analysis at the International Energy Agency, Jean-Baptiste Dubreuil, said at present LNG carriers are "a small fleet and the market is not liquid." He also noted that LNG carriers come with a much higher price tag than oil tankers, making the economics different.

Total turns away from long-shots to focus on less risky plays

(Reuters; Jan. 28) - Total is launching its biggest exploration campaign for years in 2019 as part of a turnaround plan that is ditching the company's focus on risky long-shots in favor of areas known to contain commercial levels of oil or gas. The French major aims to drill 23 wells this year in waters off Mauritania, Senegal, Namibia, South Africa, Guyana and Brazil, said Kevin McLachlan, senior vice president for exploration.

McLachlan said 2019 would be Total's largest program in years. The 23 wells planned represent about a trebling of the levels of 2017 and 2016 and is higher even than the 20 wells drilled in 2013, before the oil-price crash. The new game plan is to concentrate efforts on emerging and mature basins, which offer a greater chance of success. Most of the wells Total aims to drill this year will target known giant fields, he said.

Total is moving away from its higher-risk, higher-reward strategy of targeting frontier areas that have not been commercially exploited, an approach that yielded scant rewards and saw Total fall behind rivals. "We were spending a lot of money in frontier," McLachlan said. "Now we want balance." Total has broken ranks with some rivals in recent years and largely ignored the rush to U.S. shale. It is looking to get more from conventional resources, particularly in Africa where it has the biggest industry presence.

CNOOC and partners strike largest gas discovery in U.K. since 2008

(Reuters; Jan. 29) - Total and partners including China National Offshore Oil Corp. (CNOOC) have made a significant new gas discovery off the coast of Britain at the North Sea Glengorm prospect, with recoverable resources estimated at around 250 million barrels of oil equivalent. Total said further drilling and testing would be carried out to appraise the resources and productivity of the reservoir.

The discovery is close to existing infrastructures operated by Total and offers tie-back possibilities, the company said. It also presents upside potential with several other prospects identified on the same block. "Our official estimate is that there still remains between 10 billion and 20 billion barrels-plus to be recovered, so there is every chance of yet more significant finds," said Andy Samuel, CEO of Britain's Oil and Gas Authority.

Kevin Swann, senior analyst at Wood Mackenzie, said Glengorm is the largest gas discovery in the U.K. since Culzean in 2008. "This was third-time lucky for CNOOC at Glengorm. Technical problems saw it try and fail to drill the prospect twice in 2017, so persistence has paid off," Swann said. CNOOC holds a 50 percent stake and is the operator, while Total and Euroil, a subsidiary of Italy's Edison, each hold 25 percent.

Germany faces daunting task in closing down coal power plants

(Bloomberg opinion column; Jan. 28) - Policy decisions about climate change are among the toughest a government can make: Any change in direction is practically guaranteed to displease the stakeholders. A commission set up by the German government to work out how the country will phase out coal called for ending the fuel's use by 2038. Energy companies, labor unions and environmentalists are all unhappy. The Jan. 27 report from Coal Commission tried to address all the conflicting interests.

Germany is No. 3 in the world in renewable power capacity after China and the U.S. It is the global leader in solar capacity per capita and No. 4 in wind power per capita. Yet 22.5 percent of its power in 2018 came from brown coal and another 12.8 percent from hard coal. In 2016 coal accounted for 28 percent of Germany's total carbon dioxide emissions and about 70 percent of the power industry's emissions. Although the use of coal is diminishing, it's not happening fast enough for environmentally aware Germans.

But even going as cautiously as the report suggests could cause significant upheaval. The commission proposes compensating consumers for any economic damage and keeping subsidies for the power industry past 2020, when they're meant to expire. It is considering compensation for closing coal plants. The practicalities of restructuring the energy industry, already hard hit by the decision to close down nuclear power and the need to ensure that miners and consumers don't suffer, make the task daunting.

TransCanada wants to sell majority stake in LNG Canada gas line

(The Canadian Press; Jan. 29) - TransCanada said it has hired RBC, one of Canada's largest banks, to help it sell as much as a 75 percent stake in the C$6.2 billion Coastal GasLink pipeline project that will supply gas from northeastern British Columbia to the LNG Canada liquefaction plant in Kitimat, B.C. The Calgary-based company said it is following through with its intention announced in November to reduce its interest in the 416-mile, 48-inch-diameter gas pipeline project to between 25 and 49 percent.

The RBC news is contained in a 16-page response by TransCanada to a challenge now being heard by the National Energy Board on the jurisdiction of the provincial regulator over the pipeline. B.C. resident Mike Sawyer argues that because TransCanada will operate the pipeline and its Nova Gas Transmission system in Alberta together, they form a single pipeline that crosses the Alberta-B.C. boundary and therefore must be regulated by the federal government.

TransCanada said the purpose of Coastal GasLink is to move gas entirely within the province and therefore provincial approvals are sufficient. If the National Energy Board rules in favor of the challenger, TransCanada would have to apply to the NEB and undergo a new process to win federal approval. The pipeline is controversial among some environmentalists and First Nations' hereditary leaders. Shell-led LNG Canada has started site work in Kitimat in anticipation that the project and pipeline go ahead.

Alberta changes formula for mandatory oil production cutbacks

(Calgary Herald columnist; Jan. 28) - Small companies like Jacknife Oilfield Services that work in Alberta's heavy-oil fields have largely stood behind the province's plan to cut production in hopes of boosting prices. But the unintended consequences from the government intervening in the energy market are surfacing. Companies like Jacknife are warning jobs could be lost in the coming weeks due to the way the cuts are calculated.

“People will lose their jobs,” warned Kurt Muller, general manager at Bonnyville-based Jacknife, which employs over 80 people and transports crude for Canadian Natural Resources. Last week Canadian National — an advocate for government-mandated curtailment — distributed a letter, warning that changes to the way the cutbacks will be calculated for February means the company will have trim a bigger share of production.

The province said in December it would temporarily restrict output by 325,000 barrels a day, starting Jan. 1. Initially, the cut was based upon the best six-month average of a company’s output. At the end of December, Alberta changed the formula, basing future reductions on a company’s best month between November 2017 and October 2018, benefiting players that made “significant recent investments” while hitting others harder.

The issue is a sensitive one for the government and the oil patch as curtailment has been a divisive issue for the industry. The problems underscore just how complicated it is for government to finesse markets by turning down the oil tap to bolster prices.