Oil and Gas News Briefs
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IEA forecasts gas demand growth rate will slow down

(CNBC; June 7) - The world's appetite for natural gas last year grew at the fastest pace since 2010, but that blockbuster growth is shifting into lower gear, according to the International Energy Agency. Global demand for natural gas surged by 4.6 percent in 2018, driven by strong economic growth, the transition away from coal-fired electric power and weather-related demand. Gas accounted for nearly half of the world's growth in energy demand with most of the higher use coming from China and the U.S.

However, the Paris-based adviser to energy-importing nations said that such an extraordinary growth rate is not sustainable. Over the next five years, IEA expects gas demand to increase by 1.6 percent per year on average, marking a return to levels seen before 2017, when growth suddenly gained steam. IEA chalks up the slowdown to forecasts for weaker economic growth, a return to average weather conditions and diminishing opportunities to switch from coal- to gas-fueled electric power plants.

Adoption of gas is the biggest contributor to the steady decline of coal-fired power in the U.S., while China, the world's second largest economy, is following a similar path as Beijing seeks to quickly improve the nation's air quality. Yet after surging 14.5 percent in 2017 and 18.1 percent in 2018, Chinese gas consumption is projected to rise by just 8 percent a year through 2024, owing largely to slower economic growth.

China's annual gas imports by pipeline are forecast to double to 3.5 trillion cubic feet by 2024 with liquefied natural gas imports to reach 3.85 tcf. The emergence of China and India as major buyers are the main drivers of the "profound changes" in the LNG market by 2024, said Keisuke Sadamori, director, energy markets and security, at the IEA.

China will open pipelines, LNG import terminals to third-parties

(S&P Global Platts; June 6) - China's decision to open up its oil and gas infrastructure to third-parties will pave the way for the breakup of energy monopolies in the country and the creation of national pipeline companies. Operators will be required to open their facilities to all eligible users in transparent tendering processes, and to separate their pipeline business from other segments such as production and sales, according to the new measures announced by China's National Development and Reform Commission.

"The move aims to break the monopoly of state-owned companies in the gas sector, and allow more participants to enter into the market," said a gas trader in Beijing. The liberalization measures include infrastructure such as oil and gas pipelines, LNG import terminals, and underground gas storage. It excludes special pipelines for oil and gas field production, refinery pipelines, and city gas facilities.

The new measures follow an announcement earlier this year of the government's plan to establish a national pipeline company. State-owned PetroChina and China National Offshore Oil Corp. are the companies most affected by the decision, as they own and operate most of the country's pipelines and LNG facilities. PetroChina is the biggest operator of oil and gas pipelines with more than 52,000 miles, according to its 2018 annual report. CNOOC is the biggest operator of LNG import terminals in China.

Credit Suisse says China’s pipeline reform will boost gas demand

(Bloomberg; June 4) - China’s pipeline-ownership reform is poised to spur competition in its natural gas industry, lowering prices and supercharging demand from the world’s top importer in years to come, said Credit Suisse Group. The government is creating a national pipeline operator from the assets of its three biggest oil and gas companies. The move — likely to happen before year-end — will break a monopoly that China’s state-owned giants hold over downstream users and result in natural gas prices falling 10 percent over 2020-2021, the bank’s analysts including Horace Tse said in a report.

Lower prices will revitalize China’s gas demand, according to Credit Suisse, predicting consumption growth of 13 percent in 2021. That outlook contrasts with Citigroup’s view that demand expansion will be strong for another three to four years then slow to about 4 percent after 2022. China’s gas demand has skyrocketed the past two years amid a state campaign that favors the cleaner-burning fuel over coal.

Falling prices following the reform will entice higher consumption from industrial users, which make up about 40 percent of national demand, according to Credit Suisse. The new national pipeline company will be “a game changer,” the analysts wrote. It will have major repercussions for China’s gas companies, however. Without direct pipeline control, top producer PetroChina will likely see declines in income and market share.

Amid U.S. trade fight, China looking to Russia for gas

(Nikkei Asian Review; June 7) - China's efforts to wean itself off U.S. energy is raising concerns that American producers will be left with a glut of liquefied natural gas and, consequently, investment delays in planned projects. China raised retaliatory tariffs on U.S. LNG to 25 percent on June 1 after Washington's recent decision to increase tariffs on most Chinese goods. The move, which could see a buildup of American LNG, casts fresh doubts about the country's energy export strategy.

China is looking for other sources, namely Russian. In April, state-owned China National Petroleum Corp. and China National Offshore Oil Corp. each agreed to buy 10 percent stakes in Russian Novatek's Arctic LNG-2 project. "These new deals further cement the Chinese-Russian gas relationship in a year when the first sales of Russian gas to China through Gazprom's Power of Siberia (pipeline) project begin," said Nicholas Browne, director of gas and LNG research at Wood Mackenzie.

In addition, Sinopec, Novatek and Gazprombank have signed an agreement for a joint venture to sell LNG to Chinese end users after Russian President Vladimir Putin's met with Chinese President Xi Jinping. Since major Chinese energy giants are state-owned, the political winds affect Beijing's energy purchases. Owing to trade tensions, Chinese companies are reluctant to invest in and sign long-term contracts with U.S. suppliers.

Energy companies warn Australia is short on policy stability

(Financial Times; London; June 3) - Energy companies warn that chaotic policymaking and overseas competition are threatening to cut short Australia's tenure as the world's No. 1 liquefied natural gas exporter. The companies say the government has failed to deliver coherent climate and energy policies, appears willing to intervene for the benefit of local industry over LNG exporters, and has failed to approve more gas exploration.

"Australia's policies are somewhat uncertain with calls for government intervention — that raises concerns," Ryan Lance, ConocoPhillips' CEO, said at Australia's largest oil and gas conference last week. "We are seeking clarity and stability to provide confidence around the viability of Australia investments." The country faces intense competition from the likes of the U.S., Russia, and Mozambique for investment from companies that prioritize stable energy policies and clarity.

Australia has $50 billion in LNG projects seeking final investment decisions in the next three years. "The lack of policy coordination at federal and state levels is a real concern for LNG producers and is making investment decisions more difficult," said Graeme Bethune, CEO of EnergyQuest, an Australia-based advisory firm. The lack of a national emissions policy encourages states to introduce their own. Meanwhile, moratoriums on gas exploration by state governments in New South Wales and Victoria are adding to a supply problem. That has prompted the Fraser Institute, a Canadian think-tank, to rank both states among the 10 least attractive locations globally for oil and gas investment.

World's top LNG exporter squeezed to meet domestic demand

(Wall Street Journal; June 6) – Australia's energy crisis is so severe that the country, the world's biggest exporter of liquefied natural gas, is thinking about imports to shore up supplies for manufacturers and avoid the threat of electricity blackouts. Contracts to sell LNG overseas as well as the shuttering of aging coal-fired plants make it a struggle to keep the country's generators running to meet peak demand. Some manufacturers have threatened to move overseas to escape a costly and unreliable energy supply.

Sydney, Melbourne, and other cities on the eastern coast have endured occasional blackouts, and analysts predict a widening shortfall of gas, raising concerns that manufacturers won't have enough to run food-processing factories or chemical plants. Those pursuing LNG imports include ExxonMobil and a billionaire entrepreneur who made his fortune shipping iron ore to China. Andrew Forrest, who in a decade built Fortescue Metals Group into the world's No. 4 iron-ore exporter, has said that a floating LNG import terminal costs a fraction of what would be required to build a pipeline connecting eastern Australia with offshore gas fields in the western part of the country.

Natural gas costs have roughly tripled in eastern Australia in recent years. Exxon said it is considering an import terminal near Melbourne, although it prefers to find new gas deposits or squeeze more from existing fields. Although the eastern coast is abundant in gas, primarily at coal fields, policy makers nearly a decade ago didn't ensure enough gas would remain at home when they approved plans for three LNG export projects.

Australia LNG industry tries to head off state's strict emissions policy

(Australian Financial Review; June 3) - Western Australia's state government and resources industry are quietly trying to negotiate an emissions-reductions plan to head off radical proposals from the state's environmental watchdog. Industry representatives are working with the government on announcing a range of climate change initiatives to curb emissions, particularly from the liquefied natural gas export industry.

They want something in place well before the state's independent Environmental Protection Authority issues its final guidelines later this year. Government and industry were alarmed when the EPA put out draft guidelines in March, calling for a policy of zero net emissions on all new projects with emissions of over 100,000 tonnes a year of carbon dioxide. The industry outcry led the state government to successfully pressure the EPA to withdraw the guidelines, pending further consultations with industry.

Western Australia Premier Mark McGowan was expecting to effectively bypass the EPA conditions at the state level by relying on a national emissions reduction plan to be announced by the new federal government. The LNG industry had received assurances from the federal government that it would receive special exemptions from national targets, given it is such a significant trade-exposed sector facing global competitors. Although EPA guidelines are not binding on a state government, the industry warned they would damage investor confidence and add to political and legal risks.

New Papua New Guinea prime minister says changes will be gradual

(Reuters; June 6) - The head of Papua New Guinea-focused energy firm Oil Search said he does not expect to make any significant concessions on a liquefied natural gas expansion deal the company and partner ExxonMobil hope to strike with the South Pacific nation's new leader. Commodity and energy firms with projects in the resource-rich archipelago have been closely watching the agenda of Prime Minister James Marape since his election by parliament last week on a platform of economic reform.

Marape on June 5 offered investors some relief — he said changes would be slow. Oil Search managing director Peter Botten told the Sydney Mining Club that the P'nyang field gas agreement, which has yet to be finalized, would resemble a deal already brokered on the Papua LNG project led by Total. "I am confident about that (but) I'm not 100 percent confident because I need to sit down with the government, as does Total as operator." The two projects would more than double the country's LNG export capacity.

Marape, a former finance minister, has promised he would be "taking back" the economy and revising resource-sector laws after the resignation of his predecessor, Peter O'Neill. Marape said he wanted to increase the amount of revenue flowing from resource projects, after years of underwhelming returns most notably from the $19 billion PNG LNG project, run by Exxon in partnership with Oil Search and others. But changes would be gradual, Marape said, and unlikely to take effect before 2025.

Thai power generator buys LNG, reportedly at 11-12% oil-index price

(Reuters; June 6) - Malaysia's state oil and gas company Petronas has been selected to supply state-run Electricity Generating Authority of Thailand (EGAT) with its first liquefied natural gas imports, a company spokesman told Reuters on June 6. Petronas has been selected out of 12 short-listed companies that also included Qatargas, Shell, Chevron, Total, and Japan's Marubeni.

Petronas and EGAT are still negotiating the terms of the contract but a source familiar with the discussions said price levels are in line with current market conditions at between 11 and 12 percent of Brent crude oil prices. At current $62 oil, that would be $6.80 to $7.45 per million Btu of gas. EGAT currently buys its gas from a state-owned unit of PTT, Thailand's sole gas supplier and LNG importer.

Thailand's largest power producer, EGAT, had expected to finalize contract terms by June and begin LNG shipments by September, a company official said in April. But this could be delayed pending a final decision by the Thai government, industry sources told Reuters. "The government has raised the issue of take-or-pay and has questioned EGAT what it can do if it cannot take the contracted volumes," one of the sources said.

Europe's gas production dropping, opening door to more imports

(S&P Global Platts; June 7) - European gas production — including Norway — is set to fall to just 7.13 trillion cubic feet 2024, the International Energy Agency said June 7, a drop of some 1.7 tcf from last year's levels. In its latest annual gas report, the IEA said the expected decline in European production was largely due to the accelerated cutback in output at the giant Groningen field in the Netherlands after stricter output quotas following years of earthquakes in the Groningen region.

"Domestic European production is set to fall at an average rate of 3.5 percent a year primarily driven by the Groningen phase-out in the Netherlands and declining production in the North Sea," Keisuke Sadamori, director, energy markets and security, at the IEA, said during a webinar. Falling indigenous gas production is making Europe increasingly dependent on imports, with liquefied natural gas and Russian pipeline gas entering Europe able to meet the growing import gap, the IEA said.

European gas import requirements are expected to increase over the forecast period to reach almost 11.9 tcf in 2024, according to the IEA's forecasts. "This structural decline in domestic production, combined with the expiration of several long-term pipeline contracts, opens opportunities for new sources of supply, including LNG," Sadamori said. Groningen production — which hit a recent peak of 1.9 tcf in 2013 — could be cut further to below 140 billion cubic feet as early as 2022, according to government plans.

Investment company pioneers U.S. LNG to Caribbean

(Bloomberg; June 4) - Wes Edens, a 57-year-old billionaire, is a creature of Wall Street. After stints at Lehman Brothers and BlackRock, he co-founded Fortress Investment, a private equity and hedge fund firm. His latest venture is selling liquefied natural gas cargoes to customers across the Caribbean, Central America, and West Africa. That's the objective of New Fortress Energy, which is already shipping the fuel to Jamaica from Florida. It's also planning to build an LNG export terminal in Pennsylvania.

Most U.S. LNG export projects are complex, multibillion-dollar plants that take years to construct. Edens plans to build smaller-scale facilities that can come online quickly and supply countries that historically have relied on oil for their power plants. New Fortress plans for an LNG hub in Jamaica where it can break up large cargoes for customers on the island and throughout the Caribbean. It also is building a power plant in Jamaica.

Edens' foray into gas started with Fortress Investment's ownership of the Florida East Coast Railway and its conversion to LNG from diesel. Unable to find a supplier willing to handle the small volumes it needed for its locomotives, the investment firm built its own production unit in Miami and gained authorization to export surplus LNG in insulated containers. The proposed $750 million Pennsylvania LNG terminal — larger than the firm's Florida facility — is planned to handle 2.15 million tonnes a year, less than one-tenth the size of Cheniere Energy's U.S-leading plant in Sabine Pass, Louisiana.

Sovcomflot CEO expects Arctic shipping will become routine

(Wall Street Journal; June 5) - The head of Russian shipping giant Sovcomflot expects sailings along the country's Siberian coast to become routine as the ice melts and operators look to save time and fuel for Europe-bound cargo. "The Northern Sea Route shipments are growing by geometrical progression," CEO Sergey Frank said in an interview at the Nor-Shipping conference in Oslo. "It's a question of time before all kinds of ships routinely cross it."

Arctic routes are drawing greater attention as the global climate warms and polar ice recedes, potentially opening new paths between Asia and Europe. The mostly frozen Northern Sea Route is considered a likely commercial lane because it already is used in warmer seasons to move part of Russia's extensive energy exports. The route runs close to the Arctic Circle from the Russian Far East to the Baltic Sea and is typically open from July to November.

Russia is promoting the lane as the shortest distance from Asia to Europe, and a possible rival for routes that now take ships through the Suez Canal. Cargo volumes along the route grew substantially last year as tankers with ice-breaking capability and liquefied natural gas carriers from the Russian Yamal LNG terminal moved through the region. Crude oil tankers account for about 45 percent of ship traffic on the NSR. State-owned Sovcomflot operates one of the world's biggest oil tanker and LNG carrier fleets.

Dubai operator wants to run Russia's Arctic ports

(Reuters; June 7) - DP World, one of the world's largest port operators, wants to run the ports that Russia plans to build along the Northern Sea Route in the Arctic to shorten shipping times between the east and west, its chief executive told Reuters. Russian President Vladimir Putin has made developing the route — which requires new ports and heavy icebreakers to move an increasing volume of goods — one of his priorities, with supporters dubbing the route the northern Suez Canal.

Dubai government-controlled DP World operates 78 marine and inland terminals worldwide. The firm agreed this week with the Russian Direct Investment Fund, Russian state nuclear firm Rosatom and Nornickel, one of the world's top nickel and palladium producers, on a joint project to pursue the integrated development of the Northern Sea Route. The deal is not legally binding and the parties will first study options for developing the route and may set up a joint venture later to develop freight transit.

“This is going to change the (economic) growth for Russia. Russia is creating the fastest route between the North Far East and Europe,” DP World CEO Sultan Ahmed bin Sulayem told Reuters at the annual economic forum in St. Petersburg. Novatek, Russia’s biggest private gas producer, is already using the route to ship liquefied natural gas to Europe and Asia, saving money and making its LNG competitive in the market. Novatek wants to use nuclear icebreakers to keep the route open year-round by 2025.

Novatek targets 80% of Arctic LNG-2 output for Asia

(S&P Global Platts; June 7) - Russia's Novatek expects to send about 80 percent of the production from its proposed Arctic LNG-2 project to the Asia-Pacific region, company CEO Leonid Mikhelson said June 7. "Our vision under the current marketing strategy is 80:20, naturally 80 percent [to go] to the Asia-Pacific region," Mikhelson told reporters on the sidelines of the St. Petersburg International Economic Forum.

Novatek expects to finalize the list of foreign partners for the project by the end of June and take a final investment decision later this year. The project on the Gydan Peninsula will have a total production capacity of 19.8 million tonnes per year. Start-up is planned for 2023-2025. Novatek is considering selling a "minimum 50 percent" of the output under long-term contracts, as was discussed with its strategic partner Total, Mikhelson said. Final decisions, however, will come after the consortium is fully formed.

Novatek has operated the Yamal LNG plant since 2017 and has already started work on a third LNG project, also to be built on the Yamal Peninsula. “This is a small project, [to be built with the use of] our own equipment, our own license. We hardly need a partner," Mikhelson said, adding that the project will be built near the port of Sabetta, where the Yamal LNG loading terminal is located. The third project, named Ob LNG, would have total output capacity of 4.8 million tonnes.

Michael Bloomberg pledges $500 million for anti-coal campaign

(The Hill; Washington, DC; June 6) - Former New York City Mayor Michael Bloomberg pledged on June 6 to donate $500 million to close the country's remaining coal plants by 2030 in an effort to help combat climate change. "I’m committing $500 million to launch @BeyondCarbon, the largest-ever coordinated campaign to tackle the climate crisis our country has ever seen," he tweeted. "This is the fight of our time."

According to its website, Beyond Carbon works with advocates "to build on the leadership and climate progress underway in our states, cities and communities to maximize the progress on climate change." The billionaire's investment in the Beyond Carbon initiative represents the largest ever philanthropic effort to reverse climate change, his foundation told The Associated Press.

A spokesman for Bloomberg told The New York Times that most of the money will be spent over a three-year period and will go toward lobbying efforts by environmental groups in state and city governments and public utility commissions. Some funding will go toward electing local officials focused on clean energy. According to the Times, more than 280 U.S. coal plants have shut down or announced they would shut down since 2010. Bloomberg's campaign hopes to close the other 241 plants by 2030.

No U.S. construction work on Keystone oil sands pipeline this year

(Calgary Herald; June 7) - Despite a favorable court ruling in the U.S. for its Keystone XL pipeline, proponent TC Energy will not begin construction on the project south of the border this year. The U.S. Court of Appeals for the 9th Circuit overturned a lower court injunction June 6 that prevented Calgary-based pipeline giant TC Energy — formerly TransCanada — from beginning construction on its 830,000-barrels-per-day pipeline, but the company has already lost the 2019 construction season from previous delays.

“There will be no mainline construction in 2019 in the U.S.,” TC Energy spokesperson Matthew John said. The company had previously warned on earnings calls that if it didn’t get relief from the injunction earlier this year, it would not be able to begin construction work on the C$8 billion pipeline between Alberta and Nebraska to move oil sands crude onto refineries in Texas and Louisiana.

TC Energy has been locked in a years-long legal battle with opposed landowners and environmental organizations to build the Keystone XL pipeline and continues to face other challenges. “We are pleased with the ruling. We look forward to advancing the project,” John said. However, the company is still awaiting a decision from the Nebraska Supreme Court over whether its permits to build the pipeline through the state are valid.

Enbridge takes state of Michigan to court over oil pipeline

(Calgary Herald; June 6) - Enbridge is taking the state of Michigan to court to ensure it can build an oil pipeline tunnel under straits that separate two of the Great Lakes. A feud between the Calgary-based pipeline giant and Michigan has escalated in recent months as newly elected Democratic Gov. Gretchen Whitmer wants Enbridge’s existing Line 5 shut down and Enbridge wants the state to honor a previous agreement that would allow a tunnel under the Straits of Mackinac between lakes Michigan and Huron.

Whitmer and Enbridge president and CEO Al Monaco exchanged letters in recent weeks and on June 6 Enbridge escalated its dispute by announcing it would be filing a suit in the Michigan Court of Claims "to establish the constitutional validity and enforceability of previous agreements." Enbridge signed agreements with Michigan in 2017 and 2018 under previous Republican Gov. Rick Snyder and committed to replacing Line 5, a 65-year-old oil and propane pipeline under the straits, with a US$500 million tunnel below the lakebed that would house a new Line 5 pipeline.

The company expects work could be completed by 2024 and has committed to decommissioning the existing Line 5 at that time. But Whitmer has repeatedly said she wants the existing Line 5 pipeline shut down earlier than that to protect the Great Lakes and reiterated that position to the Detroit News this week. The company announced earlier this week that it planned to proceed with work in preparation of building the tunnel this year, including underwater rock and soil sampling this month, deep-water rock and soil sampling next month. It expects to finalize its tunnel design next year.

Multiple indigenous groups interested in buying stake in oil line

(Calgary Herald columnist; June 5) - Interest from indigenous groups in buying the beleaguered Trans Mountain Alberta-to-British Columbia oil pipeline expansion project continues to grow. For a country struggling to get any pipelines built, it's a promising sign. The more interest, the more likely the development finally gets across the finish line — and the more opportunities it can provide to First Nations and indigenous groups.

On June 5, Alberta-based Iron Coalition announced its intentions to acquire a majority stake in the pipeline. Iron Coalition wants to acquire between 50 and 100 percent of Trans Mountain, an existing pipeline that ships oil from the Edmonton area to the coast. Environmentalists and some First Nations are opposed to its expansion. The Canadian government bought the line last year from Kinder Morgan for C$4.5 billion, intending to move ahead on the expansion and then sell the line back to the private sector.

The Western Indigenous Pipeline Group, representing First Nations along the route in British Columbia, has expressed interest in acquiring an ownership position. Another group chaired by Delbert Wapass, former chief of the Thunderchild First Nation in Saskatchewan, also wants to buy a majority share. Steve Mason, managing director for Project Reconciliation, said June 5 the group has more than 50 First Nations and communities interested in joining. He expects the number to double by the end of June.

Russia, Saudi Arabia not aligned on next move for OPEC+

(Bloomberg; June 5) - A year ago, Saudi Arabia and Russia reached a production-cutting agreement that set a new direction for the global oil market. This time around, however, Russian President Vladimir Putin has emphasized the differences between the two architects of the OPEC+ deal. He has reiterated the desire to continue cooperation but noted that his country is happy with a lower oil price than its Saudi allies and declined to say whether he supports an extension of production cuts.

"We have certain differences in opinion regarding the fair price," Putin said June 6, adding, "$60 to $65 a barrel suits us just fine" because Russia's budget is based on $40 crude. While Saudi Energy Minister Khalid Al-Falih clearly wants to prolong the group's curbs beyond their expiration at the end of June, his Russian counterpart Alexander Novak remains at best non-committal. Right now, they can't even persuade the rest of the group to agree on a date for the group's usual mid-year meeting in Vienna.

Diverging interests and surging market volatility are making their decisions difficult. "We need more time to work out a final position," Novak told reporters late June 6 after meeting with Falih. "Closer to the date of the meeting we'll understand better what actions to take." Novak told reporters at the St. Petersburg forum that trade wars and sanctions are creating uncertainties that prevent strategic planning. Russian oil policy is driven by long-term concerns about investment, not short-term prices moves, he said.

Opposition calls for investigation into Senegal gas deal

(Reuters; June 3) - A group of opposition politicians in Senegal has called for an investigation into two major offshore gas blocks run by BP after a report alleging fraud involving President Macky Sall's brother Aliou Sall. The British Broadcasting Corp. on June 3 published an investigation alleging that in a previously unpublished deal BP agreed to pay Timis Corp., a company run by Romanian-Australian tycoon Frank Timis, about $10 billion in royalties for its stake in the gas blocks.

The report said the early history of the acreage was mired by fraud involving Timis, who has mining and energy interests across Africa. The BBC alleged that Timis in 2014 secretly paid $250,000 to a company run by Aliou Sall called Agritrans. It said Timis also paid Aliou Sall $1.5 million in salary over five years for his work in Petro-Tim, the company originally given the blocks before Timis Corp. Aliou Sall denied receiving the $250,000 payment from Timis and called the BBC report "totally false."

BP said it "rejects any implication that it acted improperly in the acquisition of our interests in Senegal," and that it "conducted extensive and appropriate due diligence" before acquiring the license. Senegal's offshore oil and gas reserves have the potential to transform the impoverished West African country when they start flowing in the next decade. The blocks have caused controversy since 2012, when a previously unknown company called Petro-Tim was unexpectedly awarded the license despite no known track record in the industry. Soon after, Petro-Tim hired the president's brother.