Oil and Gas News Briefs
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Cold winter may not be enough to lift U.S. natural gas prices

(Wall Street Journal; Oct. 8) - It is going to take a heck of a winter to ease the pain for natural gas investors and producers. Dragged down by a supply glut, U.S. gas futures recently suffered their longest losing streak since at least 1990, according to Dow Jones Market Data. The front-month gas futures contract fell 12 consecutive trading sessions through Oct. 2, a period in which it declined around 16 percent. Gas prices are down 30 percent from their levels of a year ago.

“We are viewing today’s selling as the beginning of a more sustained price decline,” trade advisory Ritterbusch & Associates told clients Oct. 7. Analysts with Tudor, Pickering, Holt & Co., an energy-focused investment bank, warned clients recently that gas might fall below $2 per million Btu before prices hit a floor. A chilly winter would boost gas prices, but mild weather could leave stockpiles bloated and cap prices.

“It is going to take a cold winter and more exports to keep gas prices out of the cellar,” said Rusty Braziel, chief executive of RBN Energy. Besides hoping for frigid weather to boost demand for the heating fuel, gas producers could help themselves by curtailing their output. That has created a dilemma for companies that rely on gas sales, such as those that drill in Appalachia, the country’s most prolific gas field. If they slow output, they risk ceding market share to rivals in other parts of the country where gas is a byproduct of oil drilling. But if they don’t cut back, they’ll continue to swamp the market.

Chinese look to replace LNG carriers lost to U.S. sanctions

(Reuters; Oct. 11) - China National Offshore Oil Corp. (CNOOC) is on the hunt for liquefied natural gas tankers to charter, several industry sources told Reuters, looking to replace ships it had previously hired that are linked to a Chinese company sanctioned by the U.S. for allegedly transporting Iranian oil. The company, COSCO Shipping Tanker (Dalian), is one of four Chinese firms tagged Sept. 25 in what it described as the biggest sanctions taken by the U.S. government since a crackdown on Iranian oil exports designed to put pressure on Tehran to abandon nuclear programs.

That move had already pushed global oil tanker freight rates to multi-year highs. Now demand by Chinese state giant CNOOC for LNG charters has caused freight rates for gas carriers to nearly double to $130,000 to $150,000 a day from about $80,000 late last week, shipbrokers said. "Vessel availability was already quite tight before this and now rates are all over the place," said one Singapore-based LNG shipbroker.

Speaking on condition of anonymity because of the sensitivity of the matter, the broker said he expects rates to keep rising amid limited availability as traders prepare to find ships to meet peak winter heating demand for the fuel in the fourth quarter. Several industry sources said CNOOC is seeking to replace six COSCO-linked LNG tankers.

LNG carrier charter rates jump to $130,000 a day

(Bloomberg; Oct. 11) - The cost of chartering a liquefied natural gas carrier on the short-term market has jumped the most since at least 2013. The day rate for a standard-size tanker East of the Suez Canal jumped 57 percent this week, as issues related to U.S. sanctions on units of China's COSCO Shipping Corp. start to hit as the heating season begins to boost demand. That comes on top of other factors limiting the number of ships available, including a typhoon in Japan and tankers used for LNG storage.

The skyrocketing rates, which have more than doubled in less than a month, show how U.S. sanctions on units of China's largest shipper are hitting global trade flows, having already fueled steep increases in oil tanker rates. "It is a super-tight market," said a spokesman at LNG carrier owner GasLog. Benchmark LNG spot shipping rates east of the Suez Canal jumped to $130,000 a day on Oct. 9, according to Fearnleys in London.

"We have been predicting for some time that the 2019-2020 winter would be a structurally short LNG shipping market. That's driven primarily by the increasing supply coming out of the U.S. this year," the GasLog spokesman said. "High European gas inventories are also leading to vessels either slow steaming or tankers idling around European terminals, exacerbating the tightness in the spot market."

U.S. sanctions on China drive oil tanker costs to 11-year high

(Wall Street Journal; Oct. 10) - The cost of moving oil around the world has hit an 11-year high as producers scramble to find new supertankers following a U.S. blacklisting of a major Chinese operator that has sidelined dozens of ships. "The market has gone bonkers by shock events like the COSCO tankers being blacklisted," said George Lazaridis, head of research and valuations at Greece-based Allied Shipbroking. "It's a bubble that could get bigger because of geopolitics before it bursts."

Shipping executives say the U.S. action last month over allegations that the Chinese vessels were tied to illicit shipments of Iranian crude has hit more than 40 tankers operated by a subsidiary of COSCO Shipping Energy Transportation, one of the world's largest tanker owners. Washington's move pushed Asian and European importers searching for tankers in a tight market to secure oil cargoes as winter approaches.

But with Iran and Venezuela oil exports also under U.S. sanctions and Saudi Arabian oil production still trying to recover from a missile attack, oil traders have been turning to the U.S. for crude. The longer distance to move cargoes from the U.S. to Europe and Asia compared with moving them from the Middle East has pushed daily charter rates for the big ships called very large crude carriers (VLCCs) to their highest level since 2008, according to Baltic Exchange data. A Singapore broker said rates for some VLCC cargoes from the U.S. Gulf Coast to the Far East were more than $120,000 on Oct. 10.

India plans $60 billion in spending on gas lines, LNG import terminals

(Reuters; Oct. 14) – India, one of the world's largest consumers of oil and coal, is planning to invest $60 billion by 2024 to build a national gas distribution grid and more liquefied natural gas import terminals in a bid to cut its carbon emissions, the oil minister said Oct. 13. India has struggled to boost its use of gas, which produces less greenhouse gas emissions than coal and oil, because many industries and towns are not linked to the gas pipeline network. Gas consumption growth was running at 11 percent in 2010 but growth slid to just 2.5 percent in fiscal year 2018/19.

Oil Minister Dharmendra Pradhan said at the India Energy Forum that companies will build new pipelines and LNG facilities to link all states mid-2024, when his government's term ends. "I am not talking about potential investment. This number relates to the projects that are under execution," he said. Prime Minister Narendra Modi has set a target to more than double the share of gas in India's energy mix to 15 percent by 2030.

India's biggest gas utility, GAIL, has said it is close to completing the 1,660-mile Urja Ganga pipeline project, connecting the eastern states of Bihar, West Bengal, Jharkhand, and Odisha. The pipeline will have capacity for about 560 million cubic feet of gas per day. "The Urja Ganga project ... will be ready by the end of 2020," Pradhan said on the conference sidelines. The minister said the government had started building a northeast gas grid to connect eight states in northeastern India, a region bordering Bhutan, Myanmar, Bangladesh, and China. He said the grid would be ready by 2023.

ConocoPhillips sells its northern Australia assets

(Bloomberg; Oct. 14) - ConocoPhillips agreed to sell its northern Australia business to Santos in a $1.4 billion deal that will boost the Australia-based oil and gas producer's position in the growing Asian liquefied natural gas market. Conoco will sell its operating interests in the Darwin LNG plant, as well as the Bayu-Undan, Barossa, and Poseidon gas fields. Santos has been expanding its position in the Australian oil and gas market, having acquired Quadrant Energy for about $2.15 billion in 2018.

Conoco is the second U.S. energy major to announce plans to sell down its interests in Australia after ExxonMobil in September said it would start a process to find a buyer for its Bass Strait producing assets off the coast of southeast Australia. “This transaction allows us to allocate capital to other projects that we believe will generate the highest long-term value to ConocoPhillips,” Conoco executive vice president and chief operating officer Matt Fox said in a statement. At 3.6 million tonnes annual capacity, the 13-year-old Darwin LNG plant is the smallest of the LNG production facilities in Australia.

Conoco is also operator of the Australia Pacific LNG export facility in Queensland, which is not part of the deal. Santos plans to sell 25 percent of Conoco’s interest in the Darwin plant to South Korean firm SK E&S as part of the agreement. The company is also in talks with the facility’s joint-venture partners, which include Inpex, Tokyo Gas, JERA, and Italy’s Eni, to sell equity in Barossa, which has been earmarked to back-fill the Darwin LNG plant once Bayu-Undan gas reserves run dry around the end of 2022.

Nuclear plant upgrades could boost LNG demand in Japan

(S&P Global Platts; Oct. 10) - Potential delays in the restart of some nuclear plants in Japan because of maintenance and security upgrades may provide an opportunity for the country to boost imports of coal and liquefied natural gas, according to analysts. Any potential boost to Japanese LNG imports will help support prices, as Japan has eschewed spot LNG purchases in recent months on stagnating demand and regional markets are oversupplied with cargoes from new projects in Australia and the U.S.

Japan's nuclear regulator has told the operators of several nuclear plants to "terror proof" their facilities, but the operators have warned that they could miss the deadlines to finish the work. The regulator said in a recent order that operation of the reactors could be suspended if the work was not completed on time. "Our electricity balances for Japan have been assuming that the work would be completed during routine refueling and maintenance,” but Kyushu Electric has announced it will shut three reactors next spring, S&P Global Platts Analytics said in a research note.

"The downward revision in nuclear output will clearly translate into higher demand for thermal fuels — both coal and gas will be impacted," the note added. A source at a Japanese utility said Oct. 10 it was too early to estimate the impact it might have on incremental demand for coal and LNG. By the end of 2022, 12 reactors are facing deadlines to upgrade safety requirements.

World’s largest LNG buyer works to balance its LNG portfolio

(S&P Global Platts; Oct. 11) - The world's biggest liquefied natural gas buyer, Japan's JERA, is continuously working to ensure it is in possession of a balanced LNG portfolio, top company official Hendrik Gordenker said in an interview with S&P Global Platts this week. Gordenker, who until April was JERA chairman and is now senior corporate vice president, also said the LNG industry should use the current period of "ample supply" to work to further develop the market and further commoditize LNG trading and sales.

JERA handles some 35 million tonnes per year of LNG — more than 10 percent of the global total — and its portfolio is comprised of a wide range of different contracts. "We need to have a balanced portfolio. It needs to be balanced in terms of duration," Gordenker said. "We want a mix of geographical sources and an appropriate mix of pricing — there are a lot of factors to take into account when building a portfolio."

The global market is currently "amply supplied," Gordenker said. "We should use this period to develop the markets [and to] develop price markers and deeper forward markets, so that in addition to being able to trade the LNG we can also begin to manage the risks and have a forward outlook on pricing." Japan's LNG consumption is decreasing, which he said was a product of improved technology, better energy efficiency and an increase in renewable power generation. That's a challenge for companies like JERA to predict how much LNG is needed. "There are a lot of uncertainties," he said.

Proposed LNG project in Quebec caught in climate-change debate

(CBC News; Oct. 11) - The debate over fossil fuels and climate change is lapping up against the shores of the Saguenay Fjord in the heart of Quebec. Just upstream from the Saguenay-St. Lawrence Marine Park — a protected area for the endangered beluga whale — two major, intertwined projects are in planning and evaluation stages. The Gazoduq project is to deliver Alberta natural gas through a proposed 485-mile pipeline extending from northern Ontario through Quebec's Abitibi and Lac-Saint-Jean regions.

The gas that comes down that pipeline would be liquefied by GNL Quebec at a plant in the Port of Saguenay. Its promoters say it would be among the greenest LNG plants in the world. Ships would carry the LNG from the terminal, down the Saguenay Fjord and to markets in Europe and Asia. At a combined cost of $14 billion, the pipeline and LNG plant would form Quebec's largest privately funded industrial project in decades.

But standing in the way are concerns over greenhouse gas emissions and demands for action in the face of the climate crisis. Saguenay Mayor Josée Neron feels the conflict. Her city is plagued by high unemployment and needs the jobs. However, GNL Quebec faces a challenge, Neron said. "People are in the streets talking about the environment," she said. Many along the pipeline route and on both sides of the fjord are not buying the jobs pitch. Adrien Guibert-Betez, an organizer of the opposition group Coalition Fjord, doesn't think there is anything the promoter can do to make the project acceptable.

First Nations see LNG as part of global fight against climate change

(Vancouver Sun; Oct. 9) - A group of British Columbia North Coast First Nations believes it's possible to support the export of liquefied natural gas while meeting Canada's climate-change goals. "I think there is a balance that can be reached, if we work together, where we can have the cleanest, greenest projects go ahead, at the same time addressing some of those (social) problems that we face," said John Helin, mayor of the Lax Kw'alaams band, based near Prince Rupert.

The Lax Kw'alaams, Metlakatla, Nisga'a and Haisla First Nations on Oct. 9 signed a memorandum of understanding as the Northwest Coast First Nations Collaborative Climate Initiative. Helin said they will work toward a "shared vision" with the provincial and federal governments to displace coal-fired electrical power generation elsewhere in the world with LNG produced in B.C. The Shell-led LNG Canada venture in Kitimat, B.C., is under construction, with a second project, led by Chevron, also possible.

The First Nations' plan is contingent upon nations finalizing implementation of an article of the Paris Agreement on climate to allow countries that cut emissions by displacing coal to share their emission credits with countries that produced the gas. "Our territories aren't in a bubble," said Haisla Chief Crystal Smith, "and aren't protected by what's happening in China and Japan. We need to have real solutions for the global impacts of (greenhouse-gas emissions), and that's what we … are working together to provide."

Melting Arctic heats up competition for energy resources

(Bloomberg; Oct. 11) - Melting ice is opening access to new energy resources faster than predicted, prompting a power struggle in the Arctic as the political and economic map of the world is transformed. That at least is one picture being drawn at this weekend's Arctic Circle Assembly in Iceland. The 7-year-old event is the largest annual forum for politicians, scientists, environmentalists, and others to talk about the Arctic, including climate change, security and the exploitation of new oil and gas discoveries.

The Arctic is emerging as a potential 21st century geopolitical flashpoint in the way transportation routes like the Suez Canal were in the 20^{th} century. China is calling itself a "near Arctic" power, and Chinese companies have invested heavily in natural gas projects in Russia's Arctic. South Korea, meanwhile, is building ice-hardened LNG supertankers to ship the gas at more than $300 million apiece. Asked if China might stop calling itself a near Arctic state in the light of U.S. opposition, Gao Feng, special representative for Arctic affairs in China's foreign ministry, said simply: "No."

That emerging new world order was mapped out Oct. 11 by Henry Tillman, who runs Grisons Peak, a London-based investment bank, and its research arm, China Investment Research. The Arctic is part of China's Belt and Road Initiative to reduce its trade costs and expand its influence. Not only is the Northern Sea Route through the Arctic much shorter than energy shipping lanes to Asia via the Indian Ocean and Suez Canal, there's also less political risk, Tillman said. There's nothing like the Strait of Hormuz in the Gulf, for example, where tension with Iran has escalated.

BP economist questions why Australia may import LNG

(Australian Financial Review; Oct. 10) - The prospect of liquefied natural gas import terminals in Australia at the same time as the country's LNG exports are booming shows something has gone badly wrong in East Coast gas markets, said BP group chief economist Spencer Dale. Dale told The Australian Financial Review National Energy Summit that the Australian gas environment — where the country is one of the world's fastest-growing exporters while at the same time juggling gas shortages and high prices in the local market — was completely disconnected to the rest of the world.

But Antoon Boey, executive general manager of gas markets for Jemena, a major gas and electric utility in Australia, said importing LNG for the domestic market is "not that absurd." He explained that most of the domestic gas in production or slated for production lies in Queensland's north, while most of the demand is far away in Sydney and Melbourne. "A pipeline would be very expensive especially to build because the geographic distances are so great," he said.

"Taking this into account, you could make the argument" that importing LNG closer to the demand center "is actually cheaper than a pipeline," Boey said. More domestic gas production could help, but local opposition to drilling in some regions is holding back new production. "At the moment there's an artificial constraint at the front end which causes some of the effects we're now seeing," Boey said.

California vineyard owner fights against temporary LNG operation

(The Weekly Calistogan; California; Oct. 10) – Pacific Gas & Electric is taking Calistoga vineyard owner Terry Gard to court to seize a portion of his land for a small liquefied natural gas storage and regasification facility. Since the beginning of the year, the utility has tried to reach an agreement with Gard, who steadfastly refuses to cede any of the property his family has farmed for generations. PG&E has now claimed eminent domain to secure a permanent easement of 1.4 acres. The utility says the property is needed for a project that will upgrade a pipeline to meet the region's growing demand for gas.

PG&E's counsel said in court documents that PG&E's final offer of $335,000 was delivered to Gard's attorney in June. Gard said PG&E's financial appraisal is "vastly underestimated," and he worries his property will be devalued by the LNG plant. Gard owns 63 acres that date back in his family to 1879. Along with not wanting to part with his family's property, he fears an LNG storage accident.

Gas is supplied to Napa Valley through a single pipeline built in 1930. The pipeline needs to be expanded due to the increase of commercial and residential demand. In addition, the utility is required to perform integrity assessments of its pipeline. During the work, the line will be shut down and LNG will be trucked in to feed gas into the system to maintain service. Construction on Gard's property needs to start March 1, 2020, and the work will take about two years, according to PG&E.

Hard times hit Fort McMurray in heart of Alberta oil sands

(Bloomberg; Oct. 11) - Dan Edwards has watched Fort McMurray, Alberta, turn into the insolvency capital of Canada from the warehouse of the Wood Buffalo Food Bank. Ten years ago about 2,000 people came by every month for jars of peanut butter and cans of soup. Now he and his staff help feed four times that. Before the clientele was mostly folks struggling to pay rents that shot up during the oil boom. Today it is often men and women who were living high before the bust. Sometimes, they pull up in shiny pickups.

"You never know who's going to walk through your door," said Edwards, the food bank's director. "Individuals that have degrees and education and skills — but the jobs just aren't what they were." Once the booming heart of the country's energy industry, the city of 75,000 in northeastern Alberta has become a showcase for debt troubles. Fat paychecks and generous overtime earlier this decade fueled big spending on custom pickups and million-dollar homes. With work drying up, the bill has come due.

Consumer insolvency filings in the district climbed 39 percent in 2018, the largest increase in Canada, federal data show. Claims against property, the first step in foreclosure, surged almost tenfold over the past three years, according to court records. The five-year slump that's cut oil prices in half since 2014 has been a driver in the bust. A crippling shortage of pipelines out of the oil sands make it worse, driving down price for the oil. Plans for new lines have been delayed by court challenges from opponents. Amid it all, companies have cut back on investments in new production — and jobs.

OPEC will consider more output cuts at December meeting

(Wall Street Journal; Oct. 10) - The Organization of the Petroleum Exporting Countries and its allies are considering deeper oil output cuts ahead of their December meeting, as producers confront a global crude glut and signs of weakening demand. OPEC is shifting its focus from the September attacks that resulted in a massive Saudi oil-production slowdown to worries over a possible worldwide economic deceleration and potentially weaker demand for crude.

“The narrative continues to be gloomy” regarding the global economy, OPEC Secretary-General Mohammed Barkindo said Oct. 10 at an energy conference in London. He cited the U.S.-China trade war and other geopolitical disputes, such as the U.K.’s protracted negotiations to leave the European Union. The Brent crude price, the global benchmark, has dropped 26 percent over the past 12 months. Barkindo said OPEC and its allies will make “appropriate, strong, positive decisions” to sustain prices when they meet Dec. 5.

OPEC on Oct. 10 downgraded its 2019 forecast for oil-demand growth for the fourth time in five months, citing factors including U.S.-China trade tensions and Brexit. It was the third consecutive month of reductions, as the cartel grapples with rising supply from non-OPEC countries such as the U.S. and fears of trade tensions and a recession.