

Oil and Gas News Briefs

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October 28, 2019

China wants to adopt new pricing index to cut costs of LNG imports

(Bloomberg; Oct. 26) - China became the world's biggest gas buyer last year. Now it wants to start setting its own price. That's because its gas importers have been paying often higher rates influenced by events unrelated to China's supply and demand — from European weather to Mideast conflicts. So like it has done for oil, gold and iron ore, producers, distributors and financial exchanges in China, the world's top commodities market, want prices that better reflect their fundamentals and in their own currency.

"We've been taken advantage of by foreign firms," said Xu Tong, a deputy general manager of distributor Beijing Gas Group Co. Domestic price indexes will "reduce premiums significantly," he said. China's gas demand has boomed in recent years as the government has pushed industrial and residential customers away from coal. But domestic production of gas hasn't kept pace with the growth in consumption. Imports, meanwhile, surged almost 32 percent last year, exposing China to global pricing.

The government sets the price for gas imported by pipeline from Central Asia but does not regulate the price that importers pay for liquefied natural gas. For those imports, China mostly pays in U.S. dollars at prices based mainly on oil or gas benchmarks set in the U.S. or Europe. The pricing structure can run up losses for Chinese companies that resell imported LNG at lower domestic rates. PetroChina, the top oil and gas supplier, has chalked up \$34 billion of losses since 2011. An LNG futures contract built around the spot price in northeast Asia is gaining traction but is not yet heavily traded.

Use of LNG carriers for floating storage on the rise

(Bloomberg; Oct. 24) - The number of liquefied natural gas carriers identified as floating storage appears to be peaking, tightening the market for shipping and adding to a global LNG supply overhang. The phenomenon happens when LNG tankers loaded with cargoes either travel slower than usual to their destination or wait at sea for a buyer. Some of the floating storage can be traced back to Qatar's decision to send out more cargoes ahead of maintenance work on its liquefaction facilities.

The result is making it more expensive for traders to charter a vessel on the market in the Atlantic Basin. It's another sign that abundant supplies of gas are weighing on prices across Europe, where storage sites are more full than usual after slack demand earlier in the season. Data intelligence company Kpler estimates that as many as 28 vessels worldwide are behaving as floating storage this week, up from 19 last week.

Bloomberg has also included vessels in its count that are taking long voyages, such as skipping a shorter route through the Suez Canal or have been on the water for longer than 20 days.

Last year about 30 vessels were considered to be serving as floating storage in mid-November. The rise of floating storage comes as the LNG markets are oversupplied and demand is muted. "There's no point to go there to sail in circles," said Jason Feer, global head of business intelligence at Poten & Partners in Houston. "From a trading point, then everybody knows you are desperate."

U.S. natural gas going to LNG export terminals passes 7 bcf a day

(S&P Global Platts; Oct. 24) - The amount of natural gas taken out of the U.S. pipeline grid for export as liquefied natural gas has recently broken above the 7 billion cubic feet per day mark on the back of low U.S. Henry Hub gas benchmark pricing and rising production levels in the country, an analysis by S&P Global Platts showed.

Data from S&P Global Platts Analytics showed that LNG feed gas levels in the U.S. moved above 7 bcf per day for the first time late last week. The majority of the feed gas was delivered to Cheniere Energy's Sabine Pass, Louisiana, export terminal with the facility still accounting for more than half of feed gas in the country despite four other LNG export facilities now up and running, though they are still ramping up toward full production. Meanwhile, two more export facilities are under construction.

U.S. gas output has continued to increase, having climbed above the 92 billion cubic feet per day recently after having averaged 80 bcf a day in 2018 and 73 bcf in 2017, the data showed.

Texas LNG developer pledges land for endangered species

(Houston Chronicle; Oct. 23) - The U.S. Fish & Wildlife Service gave a nod of approval to Annova LNG's proposed export terminal at the Port of Brownsville, Texas, after the Houston-based developer pledged to set aside more than 1,400 acres of land and enact several other measures to help preserve the endangered ocelot and jaguarundi. Annova is waiting on a decision on its application from the Federal Energy Regulatory Commission. The plant would produce up to 6 million tonnes of LNG per year.

An Oct. 21 biological opinion issued by the U.S. Fish & Wildlife Service may have put the project one step closer to approval. Agency officials determined that the terminal — located a few miles away from the U.S./Mexico border — "will not likely jeopardize the continued existence" of the ocelot and jaguarundi, endangered wildcats whose only

presence in the United States is in the Rio Grande Valley. Annova is one of three LNG export terminals proposed in Brownsville, a couple miles north of the Rio Grande.

The favorable opinion is contingent on seven conservation measures that Annova LNG has accepted. In addition to creating a 185-acre wildlife corridor on its nearly 800-acre property, the company has pledged to dedicate 1,250 acres for ocelot and jaguarundi conservation. In addition to creating the three wildlife preserves, Annova has agreed to fund a program to improve ocelot habitat on private ranches, fund a graduate student fellowship to study the cats, build wildlife crossings, require a 25 mph speed limit on its property, and install lighting that minimizes impacts to the ocelot and other species.

Sempra, Mitsui will work together on two LNG export projects

(Houston Chronicle; Oct. 28) - San Diego utility company Sempra Energy and Japanese industrial conglomerate Mitsui have entered into a memorandum of understanding to expand a liquefied natural gas export terminal in Louisiana and another in Mexico's Baja California. The two companies are part of a consortium building three liquefied natural gas production units in the first phase of development at the Cameron LNG export terminal in southwest Louisiana.

Under the memorandum, the companies have agreed to help each other build two more production units in a Phase 2 expansion at Cameron. Sempra and Mitsui also agreed to help each other develop an LNG export terminal at the 11-year-old Energia Costa Azul import terminal along the Pacific Ocean south of Tijuana. Mitsui has agreed to buy up to one-third of the capacity of Cameron's Phase 2. The Japanese company also agreed to buy up to 1 million tonnes of LNG per year and invest in the Costa Azul expansion.

Cameron LNG sent out its first cargo in late May. The shipment was classified as a commissioning cargo, used to stabilize production and test equipment during an LNG plant's start-up. Sempra owns 50.2 percent of Cameron LNG. Its partners include French energy company Total, Mitsui, and Japan LNG Investment — a joint venture of Mitsubishi and Nippon Yusen Kabushiki Kaisha. At full production of three trains, Cameron LNG will be able to make nearly 12 million tonnes per year.

Sempra delays decision on LNG export project in Mexico

(S&P Global Platts; Oct. 24) - Sempra Energy's IEnova unit said Oct. 24 it would delay a final investment decision on its planned Energia Costa Azul liquefaction project on Mexico's Pacific Coast until the first quarter of 2020. The announcement, made during the company's third-quarter 2019 earnings call, postpones the FID by at least several

months as the company irons out details of the engineering, procurement and construction bidding process, its offtake contracts as well as regulatory permitting.

"We continue to advance on all three fronts," IEnova CEO Tania Ortiz Mena said. The last major hurdle in the permitting process, he said, is a gas export permit required from Mexican regulators. The company has applied for the permit and is waiting on a decision. The company said it is not expecting any major challenges in the construction and permitting process for a gas pipeline to supply the terminal since its planned path runs parallel to existing pipes. Costa Azul opened as an LNG import terminal in 2008.

IEnova signed heads of agreement in November 2018 with Total, Mitsui, and Tokyo Gas for the full export capacity of Phase I of the Energia Costa Azul LNG project. If finalized, those agreements should result in 20-year sales and purchase agreements. All three prospective customers are also in discussions with IEnova for equity stakes in the project. Phase I of the project includes a single liquefaction train expected to produce 2.4 million tonnes per year of LNG. The project is targeting start-up in 2023.

Clearing under way for gas pipeline to LNG Canada plant

(BC Local News; Oct. 23) - Preparations for construction of TC Energy's Coastal GasLink pipeline are ramping up across northern British Columbia, including clearing for a construction camp near Burns Lake that will accommodate up to 600 workers. The camp is about 120 miles due east of Kitimat, B.C., where Shell and its partners are building the LNG Canada project, planned for start-up in 2024. Crews from the Burns Lake camp are scheduled to start laying pipe next year for the line to feed LNG Canada.

Elsewhere, almost 500 workers have already moved into three work camps in two other areas along the 416-mile pipeline route, TC's public affairs manager Kiel Giddens told a meeting of the Regional District of Bulkley-Nechako, which encompasses Burns Lake, on Oct. 10. Construction of the pipeline will begin in the third fiscal quarter of 2020.

"Crews mark and identify the pipeline location and the topsoil is removed and stored. The ground is then prepared for equipment to travel on and backhoes dig the trench for the pipe. The crews line up the pipe, a machine bends it to the contour of land. The pipe is examined with X-rays and it's coated with anti-corrosion materials and then lowered into the trench. The soil is later returned to the trench and the pipeline is buried and the land prepared for reclamation," Giddens explained to his audience.

Analysts forecast big jump in global LNG regas capacity by 2023

(Kallanish Energy; Oct. 24) - Global liquefied natural gas regasification capacity is expected to grow by 36 percent by 2023 to reach 60.8 trillion cubic feet a year, says a

new report by analytics firm GlobalData. The U.K.-based firm said this week that Asia will drive more than half of this growth in import capacity, led by India, Pakistan, and China. India continues to dominate global regasification capacity additions and capital spending, and the country alone will add 2.7 tcf of new capacity to the markets.

“In Asia, a total of 47 terminals are expected to contribute new-build capacity of 8.2 tcf by 2023,” said oil and gas analyst Adithya Rekha at GlobalData. Further new-build LNG regasification installations will come from Europe, which ranks as the second-largest region for new capacity with a total of 10 planned and announced terminals. These would add some 2.1 tcf regas capacity by 2023, GlobalData estimates.

Though global LNG import capacity continues to grow at a solid pace, capacity does not equal actual trade. According to the International Gas Union 2019 annual report, regasification terminals operated at about 40 percent capacity in 2018.

Sinopec predicts continued growth in China’s gas demand

(S&P Global Platts; Oct. 24) - State-owned Sinopec expects China's natural gas demand to increase by 82 percent to 18 trillion cubic feet in 2030, up from almost 10 tcf in 2018, driven by continued industrial upgrading and urbanization. "City gas still has a lot of space for development in China," a company official said at an LNG conference in Beijing last week. City gas demand is likely to experience rapid growth over the next 10 to 15 years, driven by consumption growth for heating and the public sector.

This growth will be supported by China's growing urbanization and urban gasification, which is expected to exceed 70 percent within the next decade, up from 59.7 percent and 50.9 percent at the end of 2018, respectively, of customers using gas. Demand from the industrial sector also will be the key driver of China's natural gas demand, driven by environmental policies and the expansion of industrialization. China's gas consumption from the industrial sector was around 3.9 tcf in 2018, accounting for nearly 40 percent of total gas consumption in the country, Sinopec data said.

Almost half of China’s gas is imported, and the country has over 50 million tonnes of LNG (2.4 tcf of gas a year) tied to long-term contracts with only 5 percent set to expire in the next five years, according to Platts Analytics. But high costs are a problem. "Many gas power plants are generating electricity at a loss, and some of them have suspended operations because of negative margins," a market source in Guangzhou said.

Ship-to-ship LNG fueling depot proposed at Port of Vancouver

(Vancouver Sun; Oct. 23) - The Port of Vancouver is expected to become home to the first LNG ship-to-ship refueling facility on North America's West Coast. The British Columbia government, the Vancouver Fraser Port Authority and gas distributor FortisBC are studying options for the facility, hoping future cargo ships and cruise ships will be powered by natural gas instead of heavy bunker fuel or diesel.

Officials with the province and the Port of Vancouver said the exact location of the proposed facility has not been decided. It would be a full-service jetty that would fill up smaller refueling vessels, which would in turn fuel oceangoing vessels. A good bet for location is the Fortis gas liquefaction plant on Delta's Tilbury Island in the Fraser River, which already uses trucks to fuel up B.C. Ferries vessels and two Seaspac cargo ferries. The province is contributing \$25,000 to a study to examine the competitive, environmental and social impact of LNG marine refueling, also known as bunkering.

A statement from the Premier's office said Fortis is partnering with WesPac to develop a full-service jetty on Tilbury Island, across the river from downtown Vancouver. WesPac, meanwhile, lists among the major projects on its website a proposal, still in the pre-application phase, for a marine jetty right next to Fortis's existing LNG production and storage facility on a brownfield site previously home to the Northwest Hardwood Mill.

Canada intends to spend oil pipeline revenues on clean energy

(The Canadian Press; Oct. 24) - The Canadian government expects to get \$500 million a year out of the expanded Trans Mountain oil pipeline and is promising to spend it all on cleaner sources of energy and projects that pull carbon out of the atmosphere. Finance Minister Bill Morneau told The Canadian Press in an interview this week that the expanded oil sands pipeline is a crucial piece of the puzzle of financing the country's transition to a clean-energy economy.

"We purchased it (the pipeline) for a reason," Morneau said. "We now see how it can help us accelerate our clean-energy transition by putting any revenues that we get from it into a transition to clean energy." The government bought the pipeline for C\$4.5 billion in 2018 to overcome opposition by the British Columbia government to the expansion project. Construction on the expansion is supposed to be done by mid-2022. Eventually, Morneau said the plan is to sell it back to the private sector, and all of the revenues from the sale will go to clean-energy development and other climate change action projects.

On the federal level, the New Democratic Party and Green Party think the expansion should be cancelled. Morneau said construction on the pipeline is under way and the decision to go forward has been made. The pipeline runs from near Edmonton, Alberta,

to a marine terminal in Burnaby, B.C. The expansion will almost triple the line's capacity to 890,000 barrels per day.

Russia strengthens energy ties with Nigeria

(S&P Global Platts; Oct. 24) - Russia is looking to strengthen its ties with Africa's largest oil producer with a focus on reforming Nigeria's downstream oil and gas sector, the Russian energy minister said Oct. 23. Alexander Novak said the two countries, which already collaborate through the OPEC/non-OPEC production accord and the Gas Exporting Countries Forum, are looking to "widen and deepen" their energy cooperation.

"I am convinced that the experience, capabilities and modern technologies of Russian companies can be used to further develop the country's [Nigeria's] oil and gas sector," Novak said. The countries also put out a joint statement during the Russia-Africa Summit in Sochi saying there will be an agreement on a joint venture between the Nigerian National Petroleum Corp. and Russia's Lukoil focused on the refining sector in the West African country.

Nigeria is in urgent need of investment to revamp its ailing refining sector with Africa's biggest oil producer dependent on imports to meet its local fuel needs due to inadequate domestic refining capacity. Nigeria and Russia have also agreed "to revive and solidify" a venture between for gas infrastructure development in Nigeria, the statement added.

Russia still hopes for energy partnerships with Mideast countries

(OilPrice.com analysis; Oct. 24) - Russian President Vladimir Putin pried loose a couple of energy investment deals from Saudi Arabia on his latest visit to the region Oct. 14-15, but their total value reached only hundreds of millions of dollars, not the billions Russia had hoped for. He also picked up an investment from the United Arab Emirates during his Middle East trip. Although overall the results were modest, every such economic agreement lays the groundwork for more in the future.

Moscow has been trying to strengthen its partnerships with the cash-rich Gulf states since striking a deal three years ago with the Organization for the Petroleum Exporting Countries, which later grew into the "OPEC+" coalition to raise global oil prices. Russia also wants stronger ties with the Middle East to boost its stature in the region and obtain energy-project financing that Western sanctions have blocked. Saudi Arabia, however, has been dragging its feet on investments because Russia is an oil and gas competitor.

Russia embraced the OPEC overture because it wanted to see falling oil prices stabilize and thought it could obtain geopolitical and investment benefits from the arrangement. Now Riyadh hopes to extend OPEC+ for a decade or more, but Moscow refuses to commit to such a timeframe. Russia wants to be able to pull out of the agreement if shifting geopolitical and economic circumstances mean that it would be better off on its own again. But it will have to weigh if it's worth losing its partnership with Saudi Arabia over. After all, Moscow is still hoping for multi-billion-dollar Saudi energy investments.