Oil and Gas News Briefs
Compiled by Larry Persily
July 6, 2017

Qatar’s LNG expansion could delay other proposed export projects

(Platts; July 5) - Qatar’s announcement that it will double the size of its proposed new development for the giant North Field to 4 billion cubic feet of gas per day and use much it for export will throw off course proposed liquefied natural gas projects elsewhere in the world. The LNG market already expects a glut of new supply, and it’s uncertain how it all will be absorbed. In 2017 alone, 42 million tonnes of new annual liquefaction capacity is expected to come on stream, primarily in Australia, the U.S. and Russia.

The 2017 additions will come on top of 42 million tonnes of additional annual capacity in 2015-2016, and a further 67 million tonnes coming in 2018 and 2019. The construction list then starts to run dry, as companies have delayed investment decisions amid weak market conditions. Overall global LNG capacity will have expanded from 304 million tonnes per year in 2015 to almost 460 tonnes by 2020 — a 50 percent increase in five years. The ongoing supply wave is expected to depress spot-market LNG prices.

The prospect of plentiful, cheap LNG is encouraging the construction of more import terminals, and demand is gradually expected to absorb the increase. But demand growth is not expected to erase the surplus until sometime around 2023-25, making the timing of new LNG capacity crucial — developers want to start up as the surplus erodes and prices recover. But the addition of more Qatari capacity could delay new projects by at least a couple of years and risk extending the supply glut further into the 2020s.

Qatari expansion plan looks to target growing competition in LNG

(Reuters; July 5) - Qatar's plan to boost its liquefied natural gas output by 30 percent is the opening shot in a price war for customers in Asia pitting the small Gulf state against competitors from the United States, Russia and Australia. Qatar, facing regional isolation in a diplomatic dispute with its Gulf neighbors, took energy markets by surprise July 4 when it said it would raise its LNG production to 100 million tonnes per year — equivalent to a third of current global supplies — within the next five to seven years.

It suggests the wealthy kingdom is preparing for a lengthy battle with Saudi Arabia, Egypt, the United Arab Emirates and Bahrain, which have imposed sanctions on Qatar over accusations it was aiding terrorism. Qatar's move will add gas to an already oversupplied market in a thinly disguised challenge to other exporters that are also raising their output. With low production costs and infrastructure already in place, Qatar is well placed to come out on top, analysts said. Flooding the market with more LNG will help defend its place as the world's top exporter, a position challenged by Australia.

"Qatar is losing market share, so it could be about becoming No. 1 again in LNG," said Neil Beveridge, senior oil and gas analyst at research and brokerage firm Sanford C. Bernstein. The main competitors challenged by Qatar's move are those that have yet to make a final investment decision for their project, especially in the United States. Chong Zhi Xin, at energy consultancy Wood Mackenzie, said Qatar's low-cost LNG expansion "is pushing a lot of new projects out of the market."

Qatar move is about protecting market and economic independence

(Reuters; July 4) - Qatar plans to raise its liquefied natural gas production capacity by 30 percent in an apparent show of strength in its dispute with Gulf neighbors that have imposed political and economic sanctions on Doha. The unexpected move came as Qatar appears to be preparing itself for greater economic independence should the dispute drag on with Saudi Arabia, the United Arab Emirates, Egypt and Bahrain. Its immediate effect will be to worsen a glut in the already oversupplied global LNG market.

The countries have severed diplomatic and transportation ties with Qatar, accusing it of supporting terrorism and courting regional rival Iran. Qatar denies the accusations. Qatar Petroleum's CEO said the firm would increase gas production from its giant North Field, boosting its LNG capacity 30 percent to 100 million tonnes per year.

With low production costs and LNG export terminals closer to buyers in Europe and Asia, the move means U.S. producers could struggle to sell their LNG — and projects that still need financing could struggle to find investors. Analysts said Qatar's move is partly to do with added competition in the market, mainly from Australia, the U.S. and Russia. "Qatar has one of the lowest LNG production costs in the world. It has followed an astute policy of maximizing value from market prices around the world," said Ajay Singh, an adviser at Japan Petroleum Exploration Co. "For Qatar, LNG is everything."

Exxon, Shell, Total reportedly look to invest in Qatari LNG expansion

(Reuters; July 5) - The West's three biggest energy corporations are lobbying Qatar to take part in a huge expansion of its natural gas production, handing Doha an unintended but timely boost in its bitter dispute with Gulf Arab neighbors. The chief executives of ExxonMobil, Shell and France's Total all met the emir, Sheikh Tamim bin Hamad al-Thani, in Qatar before the country announced plans on July 4 to raise its liquefied natural gas output capacity by 30 percent.

Company and industry sources told Reuters the CEOs expressed interest in helping Qatar with its ambition's plan to boost its capacity to 100 million tonnes of LNG annually — equivalent to a third of current global supplies — in the next five to seven years. An executive from an energy major looking into expanding in Qatar said the business opportunity is worth the considerable political risk. "There is only one policy here — you have to behave like a commercial corporation," the executive said.

Qatar, the world's largest LNG supplier and second biggest gas exporter after Russia, has some of the lowest production costs. Exxon, Shell and Total have invested heavily in Qatar, particularly in LNG. "The Exxon CEO was very keen to join the new gas capacity expansion and expressed willingness to invest," a source said. Exxon will be the largest foreign investor in Qatar in 2017, with most of its money going into LNG, representing 7 percent of its global portfolio, according to consultancy Wood Mackenzie.

Indian companies offer $11 billion gas investment in Iran

(Bloomberg; July 2) - An Indian consortium is willing to spend as much as $11 billion to develop a giant Iranian gas field and build the infrastructure to export the fuel so long as the Persian Gulf nation guarantees a "reasonable return" on the project, according to the company leading the group. ONGC Videsh Ltd. has offered to invest as much as $6 billion in the Farzad-B field and spend the remaining amount to build a liquefied natural gas export facility, said Narendra Kumar Verma, managing director of the overseas investment unit of India's largest explorer, Oil & Natural Gas Corp.

The group is seeking a return of about 18 percent and Indian companies are willing to buy all the gas exported from the project, Verma said. "We have given our best offer to them," Verma said. "We have told the Iranian authorities very clearly that some basic returns are necessary." The two countries had aimed to conclude a deal by February on developing the field, which India has said holds reserves of almost 19 trillion cubic feet. The consortium, which includes Indian Oil Corp. and Oil India Ltd., has been trying to secure development rights to the Farzad-B gas field since at least 2009.

ONGC Videsh and Indian Oil each own 40 percent interest in the Farsi block that holds the Farzad-B field, while Oil India has 20 percent. India, the world's fourth-largest LNG buyer, wants to lock up resources to meet growing demand and spur the use of cleaner-burning fuels. Iran, which is emerging from Western sanctions that stifled investment, already has signed a contract with Total and China National Petroleum Corp. to help develop the offshore South Pars project, the world's biggest gas field, for domestic use.

[Total signs with Iran for $1 billion investment in gas field]

(Bloomberg; July 2) - Iran has signed a formal contract with Total to develop its share of the world's biggest gas field — the first investment by a multinational energy company since international sanctions on Iran were eased last year. The 20-year deal with National Iranian Oil Co. — and China National Petroleum Corp. — to develop Phase 11 of the South Pars offshore gas field represents the "first of many" projects for Total in Iran, CEO Patrick Pouyanne said July 3 at a signing ceremony in Tehran.

Total will be operator of the project, with the first phase estimated at about $2 billion. Total's share would be $1 billion. Iran's Oil Minister Bijan Namdar Zanganeh put the full cost of the project at about $5 billion. It's "a big deal" for Iran and "will open the door for more companies to sign contracts," said Robin Mills, head of Dubai-based consultant Qamar Energy. Iran holds the world's largest gas reserves at 1,183 trillion cubic feet.

Total will have a 50.1 percent stake in the project with China at 30 percent and Iran at 19.9 percent. The deal is the first under Iran's new energy investment contract, which the government crafted to offer more attractive terms to international companies. Production is planned at 2 billion cubic feet of gas a day. Over the 20-year contract, Phase 11 will produce almost 12 trillion cubic feet of gas and 290 million barrels of gas condensate, said Ali Kardor, managing director of Iran's national oil and gas company.

[Gazprom says it will start pipeline gas deliveries to China in 2019]

(Reuters; July 5) - Russia's largest gas producer Gazprom will start supplying fuel to China through a new pipeline from Siberia on Dec. 20, 2019, Gazprom CEO Alexei Miller said after a meeting with China National Petroleum Corp. CNPC chairman Wang Yulin and Gazprom's Miller met during this week's visit to Moscow by President Xi Jinping and signed a China-Russia supplementary sale-and-purchase contract, the state-owned Chinese company said on its website July 5. It did not provide details.

The deal is the latest sign that Russia is strengthening its ties with China, a major gas buyer. The new 2,000-mile, multibillion-dollar pipeline is named the Power of Siberia, and has been in planning for years. The ceremonial start of construction was held in September 2014. CNPC said in its website posting that it has agreed to speed up construction of pipeline and market development, as well as gas processing plants and underground gas storage facilities in China to make sure the project starts on time.

The 2019 start date appears ambitious, analysts said, with pipeline volume at the start likely to be low as ramping up to full capacity would take some time. Russia needs to develop two new gas fields in order to fill the line. And it's possible Russia may have offered price concessions, said Massimo Di Odoardo, vice president of global gas and LNG at Wood Mackenzie. "Clearly this announcement is a big push to show the project is still alive. … We wondered if this big push could also include some concessions."

LNG buyers gain from Japan's move against resale restrictions

(Australian Financial Review; July 3) – A move by Japan to outlaw destination restrictions in long-term liquefied natural gas sales contracts has further shifted the balance of power in the oversupplied market toward buyers despite encouraging data from China on rising gas demand, experts say. Japan's Fair Trade Commission recommended last week that all new LNG contracts exclude clauses that restrict where cargoes can be sent, effectively freeing up shipments for resale.

The decision means destination clauses in LNG contracts are "on the path to extinction in Asia," said Bernstein Research, noting the region is following the path set in Europe a decade ago when that market was also suffering from oversupply. The firm expects China and South Korea to follow suit. Eliminating the resale restrictions, Bernstein said, would help end the practice whereby exporters can maintain different prices for the same product, resulting in premium prices being paid in Japan, for example.

Bernstein analyst Neil Beveridge said Japan was emboldened by the oversupply in the LNG market to take steps to outlaw the restrictions, demonstrating a "palpable shift in power from LNG sellers to buyers, given the glut of LNG." Buyers gradually gained the upper hand in the LNG market over the past couple of years as evidence grew that the oversupply would persist for the rest of the decade. Long-term sales contracts have become shorter, while some buyers have formed alliances to boost bargaining strength.

Bangladesh looks to LNG for phase-out of oil-fired generating plants

(Platts; June 28) - Bangladesh is set to start replacing oil products with liquefied natural gas in its power markets from 2018, as the government aims to substitute its short-term oil-fired rental power plants with new gas-fired facilities, a senior official with state-run Bangladesh Petroleum Corp. told S&P Global Platts on June 28. The replacement will lead to a gradual reduction in imports of refined products, with new gas-fueled power plants to play an increasingly important role in the country's electricity generation, said Sayed Mohammad Mozammel Haque, BPC's director for operations and planning.

Bangladesh targets taking its first LNG imports in early 2018 with demand for the fuel expected to reach nearly 9 million metric tons per year by 2022, according to Platts Analytics, mainly to supply growing gas consumption from the power sector, which accounts for 58 percent of the country's current gas demand. This percentage is likely to increase as Bangladesh looks to expand its gas-fired power generation capacity.

Bangladesh began expanding its oil-based generation capacity in 2010, amid a natural gas deficit caused by depleting upstream reserves and rapid industrialization, bringing almost 40 new oil-fired power plants online by the end of 2016. Currently, Bangladesh has over 50 operational oil-fired power plants.

China limits distributors' profits to help build more demand for gas

(Bloomberg; July 4) – China wants to use more cleaner-burning gas in place of the coal that's choking its skies. China has the ability to increase gas imports and is seeking to raise domestic gas production, but setting the price for gas is difficult. The challenge is that gas producers, importers and distributors need the government-controlled prices to be high enough to make money. Customers want low prices, but set the prices too low and the state risks threatening investment in future production and energy security.

"It's a balancing act for the government that requires on one side (lower prices) stimulating gas demand," said Miaoru Huang, a Beijing-based energy analyst for Wood Mackenzie. "On the other hand, it needs (higher prices) to ensure reasonable returns for upstream players and transmission and distribution companies that are needed to ensure sustained investment so China can maintain its growth in gas production."

The government raised prices a few years ago to encourage production and help cover the higher cost of imports. But that slowed demand growth. In 2015, the government cut wholesale prices. However, the final cost to industrial users was still higher because of large margins for distributors. So now the government is taking a knife to the middlemen that take the gas from the state-run giants and sell it to individual users. The government last month capped investment returns for gas distributors at 7 percent.

First U.S. shale gas LNG cargo to land in U.K. this week

(The Financial Times; London; July 5) - The U.K. is set to receive its first cargo of U.S. liquefied natural gas from the Gulf coast this week, as growing U.S. supplies of shale gas find new buyers in Europe. The LNG cargo from the Cheniere Energy export terminal in Sabine Pass, La., will arrive at the Isle of Grain terminal about July 8, according to industry sources. An LNG carrier chartered by France's Total is moving the gas to the coastal terminal east of London.

As Europe seeks to reduce its reliance on Russian pipeline gas, U.S. LNG could provide one alternative in the coming years amid greater focus on energy security. "Aside from pipeline gas, the U.K. and Europe have relied on LNG from Algeria, Nigeria and Qatar. The U.S. in time to come will provide another option," said Ed Cox, editor of Global LNG Markets at ICIS, which provides pricing information and market analysis.

The cargo comes as demand for spot trade in the global market is weak and Europe is the market of last resort. "We've been expecting the U.K. to take cargoes, it's just taken longer than expected," Cox said, adding that the Sabine Pass plant that opened last year had already sent LNG elsewhere in Europe, including Portugal and Spain.

Higher natural gas prices draw more drilling rigs back to Marcellus

(The Associated Press and The Financial Post; July 4) - Pennsylvania's moribund natural gas drilling industry, which has struggled with persistently low prices and a dearth of infrastructure to get its product to market, is showing signs of life. Producers drilled 397 shale wells through the first six months of 2017, more than twice the number they sank in the same period last year. About 20 additional drilling rigs are exploring for Marcellus gas. Fracking crews are suddenly in short supply.

While the pace remains much slower than it was during the boom years earlier this decade, when a drilling frenzy transformed sleepy towns into economic hotbeds, 2017 has produced a modest rebound and hope of better days ahead in the Marcellus Shale, the nation's largest gas field. "There's a cautious optimism out there right now," said David Spigelmyer, president of the Marcellus Shale Coalition trade group.

One big reason is that gas prices have recovered from 20-year lows, nearly doubling since last year. Drillers had been battered by several years of rock-bottom prices due to oversupply and inadequate pipeline capacity. The low prices were good for consumers, businesses and manufacturers that use gas, but cost producers billions and prompted some to stop drilling. Producers have also been encouraged by several big pipeline projects that will provide access to markets. Power companies, meanwhile, are rushing to build new plants to take advantage of cheap Marcellus gas, providing another outlet.

New Jersey rejects gas line project; company says it will reapply

(EnergyWire; June 29) - New Jersey regulators have denied the proposed PennEast pipeline, making it the latest gas pipeline from the Marcellus Shale to be thwarted in the Northeast. The New Jersey Department of Environmental Protection June 28 declared the PennEast case "administratively closed," saying the company had not furnished the additional details it requested in April and that it wasn't likely to do it soon. The 118-mile pipeline was planned to move 1 billion cubic feet a day of gas to a hub in New Jersey.

The $1 billion pipeline has been in development since 2014 and received final environmental approval from the Federal Energy Regulatory Commission in April. New Jersey environmentalists applauded the rejection, saying they hope the project is dead, but Pat Kornick, a spokeswoman for PennEast, said the company will reapply after it gets the last of its final federal permits.

"Following federal approval, PennEast simply will resubmit its permit application" to the state, she said. "After an approximately seven-month construction phase, PennEast anticipates the pipeline will be operational in second half 2018." The decision is similar to two gas pipeline rejections in the state of New York last year. The New York Department of Environmental Conservation denied the Constitution pipeline and

Northern Access 2016 project. Both started in Pennsylvania, and both failed to get water permits in New York.

Enbridge pulls application for New England gas pipeline

(Platts; June 30) - Lacking viable financing options, Enbridge has pulled its $3.2 billion Access Northeast Project in New England from Federal Energy Regulatory Commission review, saying it could be revived if the region develops policies that would support pipeline development to serve power plants. The project would have bolstered the Algonquin Gas Transmission pipeline system in New York, Connecticut, Rhode Island and Massachusetts, and expanded a liquefied natural gas storage facility near Boston.

Governors, the region's electricity grid operators and others have been pressing for more gas pipeline capacity to supply the region, which is increasingly reliant on gas-fired power plants. There have been winter price spikes, when generators compete for gas with homes and businesses that use the fuel for heating. The Enbridge proposal depended on New England states allowing regulated electric distribution companies to contract for pipeline capacity and then making the capacity available to power plants.

However, the Massachusetts Supreme Judicial Court and state utility regulators rejected the framework, saying that it violated state rules deregulating the electric utility sector. Although there are well-documented reliability and power price challenges in New England that could be addressed by increased gas pipeline capacity, the region lacks a consistent energy policy to support financing the pipelines, Enbridge, which owns Algonquin, said in a June 29 filing at FERC.

Falling oil price could cut billions from capital spending in Canada

(The Financial Post; Canada; June 29) - Oil's sharp price decline into bear market territory this week threatens $19 billion in anticipated capital spending by Canadian energy producers and could slow down industry activity, according to analysts. This week, West Texas Intermediate crude tumbled to its lowest intraday level since August 2016 to US$42.05 per barrel, well below the threshold necessary to spur new investment in many plays across the Western Canadian basin.

If current prices persist, they would take a bite out of producers' cash flows, which is the biggest driver of capital spending in the basin, said Jackie Forrest, director of research at ARC Energy Research Institute. WTI prices dropping to $43 per barrel for 12 months would see anticipated capital spending shrink to $23 billion from $44 billion at $53 oil, Forrest said.

“You would see about half as much drilling and activity associated with oil and gas if prices stay in this range over the course of 12 months,” Forrest said. “There is a scenario that oil prices do stay in this level and it’s something that companies have to be thinking about — can they survive these type of prices,” he said. Wood Mackenzie analyst Michael Hebert said that while costs vary from one formation to another, companies would funnel their capital into plays with the lowest breakeven prices.