Oil and Gas News Briefs
Compiled by Larry Persily
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Tokyo Gas signs flexible 15-year LNG supply deal with Petronas

(Reuters; March 14) - Tokyo Gas said March 14 it had signed a heads of agreement for a long-term buy of liquefied natural gas from a unit of Malaysia's state oil-and-gas firm Petronas, with flexible destination clauses that are in line with the Japanese antitrust regulator's ruling last year. The shorter duration and smaller volumes in the new deal, along with changes to the so-called destination clauses that restrict where the cargoes can be taken or resold, highlight the changes in the LNG market in the past few years.

Buyers have gained the upper hand as growth in new supplies, mainly from Australia and the United States, has exceeded demand and depressed prices. The deal would be the first long-term agreement for Tokyo Gas since the Japan Fair Trade Commission's ruling last June that declared restrictive destination clauses to be anti-competitive. The commission said destination clauses that prevent buyers from reselling or trading in LNG is "likely to be in violation" of the nation's Antimonopoly Act.

Tokyo Gas, which has been procuring LNG from Malaysia's Satu Project since 1983, has agreed to buy Malaysian LNG for up to 13 more years at 500,000 tonnes per year in the first six years and up to 900,000 tonnes per year in the remaining years. The pricing was not disclosed. Tokyo Gas has three long-term contracts with Malaysia: One that expires this month and two more, smaller contracts that expire in 2024 and 2025. Malaysia was Japan's second-largest LNG supplier in 2016, at almost 15 million tonnes.

Small-scale Cameroon floating LNG project goes online

(Reuters; March 12) - Norwegian shipping firm Golar LNG on March 12 said liquefied natural gas production had started at its floating LNG production platform in Cameroon. The $1.2 billion West Africa venture is the world's second working example of the nascent technology; a similarly sized floating LNG production and storage vessel went to work offshore Malaysia in late 2016. Russia's Gazprom has purchased the entire output of 1.2 million tonnes per year from the Cameroon project for eight years.

The deal was agreed in late 2015 between Golar, which supplied the technology, and Gazprom Marketing and Trading, along with Cameroon's state-run Societe Nationale des Hydrocarbures and Perenco Cameroon. Golar gave no indication when the project would begin exports; it had been scheduled to start deliveries in the second half 2017.

As the cost of land-based LNG plants has risen sharply, Golar pioneered the conversion of aging LNG tankers into giant refrigerators capable of chilling gas into its liquid form for shipment around the world. By starting up the plant in Cameroon, Golar is removing uncertainty about the risks associated with squeezing equipment into a fraction of the space of an onshore plant, shipping analysts and industry sources said. Success in Cameroon could speed up Golar's progress in Equatorial Guinea, where an investment decision on a floating LNG project was delayed after Chinese banks pulled out last year. Other projects in Africa could also adopt the technology, analysts said.

Eastern Mediterranean could become gas export hub

(Wall Street Journal; March 13) - Big oil companies are pushing into Mediterranean waters off Israel, Lebanon and Egypt after years of U.S. diplomacy helped break open a political logjam around giant Middle Eastern natural gas discoveries. ExxonMobil, Shell, Total of France, and others are planning to invest in gas exports and exploration in the Eastern Mediterranean. Their prospects were buoyed by a landmark contract last month between U.S., Israeli, and Egyptian firms that breathed new life into the regional market.

Shell is in talks with investors in gas fields off Israel and Cyprus to supply its Egyptian liquefaction facility, according to people familiar with the matter. If the deal advances, it would allow Israel to quickly export some of the extensive reserves of gas found in the Mediterranean Sea west of Haifa by relying on the existing LNG plant. Italy's Eni and Total last month announced a discovery off Cyprus. The two oil giants are also working together to explore in disputed waters off Lebanon. Exxon, too, is set to explore nearby.

Total gas reserves in the waters off Israel, Cyprus, and Egypt are estimated at 125 trillion cubic feet, according to Wood Mackenzie, the U.K.-based consultant. The activity comes after years of diplomacy aimed at knitting together the economies of once-hostile nations such as Israel, Egypt, and Jordan, and developing the region as a gas hub to lessen Europe's dependence on Russian gas. A breakthrough occurred in February when Houston-based Noble Energy and its partners signed a $15 billion agreement to supply gas from two Israeli gas fields — Tamar and Leviathan — to an Egyptian firm.

Shared reservoir a challenge for Australia LNG projects

(Bloomberg; March 13) - After a decade planning the world's largest floating LNG plant, Shell's gas supplies could get tapped by a competitor first. Shell and Japan's INPEX are both targeting gas from a connected reservoir in Australia's Browse Basin, 125 miles off its northwest coast, according to consultant Wood Mackenzie. Meeting its start-up date this month would give INPEX's Ichthys LNG project an edge over Shell's Prelude LNG.

"The difference between Prelude starting six months before vs. six months after Ichthys could be a few percent of their reservoir stake," Wood Mackenzie analyst Saul Kavonic said. "That is a material amount." The two projects, both due to start this year at a cost of more than $50 billion, took different approaches to tapping remote fields. Prelude represents Shell's big bet on floating LNG technology, which liquefies the gas at sea before it's loaded on tankers for shipment, eliminating the need for pipelines to shore.

Ichthys is estimated at $37 billion to produce 8.9 million tonnes of LNG a year. Prelude is maybe half as costly and will produce 3.6 million tonnes. The gas from Ichthys will be piped 550 miles to an onshore plant near Darwin for liquefaction and export. While the projects draw from separate fields, they may share gas at a reservoir called Brewster, according to a report by government-operated Geoscience Australia. Gas at the top of the Ichthys field may be in contact with the Prelude block, said John Davidson, founder of Hobart-based Exploration and Production Consultants. The companies may have already agreed on a process to divide up any gas flowing between the projects, he said.

Louisiana LNG hopeful wants to become gas producer, too

(Wall Street Journal; March 8) - Tellurian is in talks to buy Chesapeake Energy's Louisiana drilling fields as it seeks to become a gas producer as well as an exporter of liquefied natural gas, according to sources. Chesapeake, a pioneer of the shale boom, has been selling off some of the vast holdings assembled by its late co-founder Aubrey McClendon as it struggles with low energy prices and a mountain of debt it took on to lock up drilling rights for swaths of land.

Tellurian is the latest venture by Charif Souki, who developed the first LNG export terminal on the U.S. Gulf Coast as founder of Cheniere Energy. The Sabine Pass, La., terminal opened two years ago. Souki's new company, which has few assets, has said it is looking to acquire drilling fields near a coastal site where it plans to build an LNG export facility to sell fuel overseas. Chesapeake's Louisiana fields, in the Haynesville shale, are valued at about $2 billion, according to Jefferies analysts.

The talks to purchase Chesapeake's fields could fall apart and there is no guarantee of an agreement. Tellurian has also held talks with other producers with Haynesville assets to acquire more acreage, sources said. Souki founded Tellurian in 2016 after being ousted as CEO of Cheniere in 2015. In addition to trying to buy gas reserves, Tellurian is waiting on regulatory approval, customers, and financing for its LNG project.

Japanese companies plan to invest in LNG imports for Bangladesh

(Reuters; March 13) - Summit Power International said March 13 it had signed a memorandum of understanding with Japan's Mitsubishi Corp. and subsidiary Diamond Gas International to develop a $3 billion LNG-to-power project in Bangladesh. Under the plan, subsidiary Summit Holdings and the Japanese firms agreed to develop an integrated liquefied natural gas onshore receiving terminal with regasification capacity of up to 1.5 billion cubic feet per day at Matarbari, Moheskhali, in the Bay of Bengal.

They also agreed to develop two 1,200-megawatt gas turbine combined-cycle power generators, high-voltage transmission lines and the import of LNG to fuel the plants. Summit Power is the largest independent power producer in Bangladesh, representing about 21 percent of the country's private power market last year, the company said. With up to 30 percent of the more than 160 million residents lacking access to electricity, Summit hopes to invest in projects to meet that increase in demand. Bangladesh expects to start up its first LNG import terminal this spring.

Gas exporters group favors oil-linked LNG prices

(Bloomberg; March 13) - The debate over how to price liquefied natural gas is settled, at least for exporters that want oil-indexing to prevail. LNG prices have to be linked to oil to keep expected revenue predictable, with some $8 trillion of investments in new LNG production needed by 2040, said Yury Sentyurin, the new head of the Gas Exporting Countries Forum, an industry group of sellers. Many buyers, however, are opting for different formulas used in the U.S. and Australia, which are emerging as top exporters.

"Consumers should understand the peculiarities which producers face," Secretary General Sentyurin said. "Security of investment and supply can only be on the basis of long-term contracts closely connected to oil prices so we could plan further investments into crucial infrastructure." Continued expansion of supply is needed to meet global demand that is forecast to grow at an average of 1.6 percent per year until 2040, Sentyurin said. Members of the exporters group include Russia, Iran, Algeria, and Qatar.

Gas demand will continue to be driven by power generation, chemicals, fertilizers and ship bunkering, the group said.

U.S. LNG could affect global market the same as shale oil

(Reuters columnist; March 12) - Crude oil is likely to spring to mind if one is asked to name a commodity where the United States is disrupting the market by becoming a swing producer and challenging traditional trade flows, especially in fast-growing Asian markets. But it's increasingly likely that the United States is about to play the same role in liquefied natural gas, as it ramps up production in an already well-supplied market.

Most of the new LNG capacity built the past few years was in Australia and was done under the old industry model where long-term offtake contracts, often linked to crude oil prices, allowed for the financing of billions of dollars of capital investment with extended payback terms. The model has been somewhat different in the United States, with far less of the upcoming production committed to buyers, meaning more LNG will be sold at spot prices linked to U.S. benchmark natural gas prices plus liquefaction costs.

This is where the role of the United States in LNG starts to look eerily similar to the role its shale oil producers are playing in crude oil markets. Traditional oil exporters, such as Saudi Arabia and Russia, have found it tougher than expected to push oil prices higher, mainly because customers, especially in Asia, have been able to turn to alternative suppliers, such as the U.S. Just as shale as roiled oil markets, it is likely U.S. shale gas will have the same effect, at least until demand growth eliminates the supply surplus.

B.C. pension fund holds small investment in U.S. LNG exporter

(Vancouver Sun columnist; March 13) - While British Columbia continues to wait — and wait — for its first big liquefied natural gas export project, the province's public-sector pensions have quietly been investing millions in a rival LNG exporter based in the U.S. Gulf Coast. Cheniere Energy, operator of one LNG terminal in Louisiana and nearing completion of a second in Texas, reported the increased stake late last month.

"B.C. Investment Management Corporation grew its position by 37.6 percent during the fourth quarter," Cheniere disclosed in an investment filing. "BCIMC now owns 109,417 shares valued at $5,894,000 after buying an additional 29,925 shares." BCIMC manages pension investments for public servants, teachers, college instructors, university professors, municipal workers, and others in the public sector in the province.

The Cheniere investment, while accounting for only a tiny fraction of the $135 billion in assets managed by the corporation, looks like a good bet in terms of anticipated returns. Cheniere took the plunge into the LNG export market in 2011, and had its first production train up and running in Sabine Pass, La., two years ago. The second terminal in Corpus Christi, Texas, is scheduled to start up this spring.

Exxon expects to resume paying corporate tax in Australia in 2021

(Reuters; March 13) - ExxonMobil said March 14 it is likely to resume paying corporate tax in Australia in 2021 after recouping billions of dollars in investments made in the country in the past decade. The company was grilled at an Australian Senate hearing on tax avoidance, after having paid no tax since 2013 despite reporting billions of dollars in income from operations in the country. The hearing is part of a broader inquiry in corporate tax avoidance in resource-rich Australia.

“The only reason we’re not paying tax at the moment is because we just invested A$21 billion ($16.5 billion),” ExxonMobil Australia Chairman Richard Owen told the panel. The company said it is in a tax-loss position in Australia as it recovers the cost of investing heavily in new gas production in Bass Strait and the huge Gorgon liquefied natural gas project off Western Australia, both still ramping up. It expects to start paying A$600 million a year in corporate tax in 2021, the company’s tax manager, Stuart Brown, said. Gorgon is unlikely to start paying petroleum resource tax until the mid-2030s, he said.

ExxonMobil is undergoing an Australian tax audit regarding one inter-company loan. But even if the Australian Taxation Office prevails in the dispute, it would have a “very, very small impact on our tax losses,” Brown said. The government won a big case against Chevron last year over a contested tax bill of A$340 million ($267 million) stemming from a related-party loan at an abnormally high interest rate that lowered the oil giant’s taxable income in Australia. The Senate is due to issue a final report by the end of May.

Australia’s oil-and-gas tax structure criticized as too low

(Brisbane Times; March 12) - An Oxford University expert said Australia would be $90 billion better off if it adopted European-style resource taxes, arguing the government has given up collecting a meaningful amount of revenue from its valuable resources. In a submission to a Senate inquiry, Oxford Institute for Energy Studies academic Juan Carlos Boue warned that unless Australia "radically overhauled its fiscal regime," it would have the second-lowest government take from oil and gas in the world.

Australia is on track to eclipse Qatar as the largest exporter of liquefied natural gas by 2020 but is expected to only earn $600 million in 2018 — the same amount of revenue the government earns in beer tax. Australia allows LNG developers to recover capital costs before higher tax rates kick in, and companies have poured almost $200 billion into LNG export plants in recent years. Carlos Boue, a former industry consultant, said Australia had an effective tax rate of 21 percent on gas, falling below the 35 percent or more taken by North Sea nations of Denmark, the Netherlands, Norway, and Germany.

Australia’s 30-year-old petroleum resource rent tax has been criticized for its generous uplift concessions that let companies offset the cost of exploration and claim tax credits for decommissioning plants in the future. It has come under increasing pressure as domestic gas prices climb while multinationals ship record levels of LNG to overseas markets. Australia has been reluctant to consider an alternative royalty of 10 percent on all exports, believing it would discourage marginal projects from getting underway.

Iran wants to keep oil around $60 to contain U.S. shale

(Wall Street Journal; March 11) - OPEC is breaking down into two camps after more than a year of unity. On one side is Saudi Arabia, which wants oil prices at $70 a barrel or higher, and on the other is Iran, which wants them around $60. The split is driven by differing views over whether $70 sends U.S. shale companies into a production frenzy that could cause prices to crash. At stake is the Organization of the Petroleum Exporting Countries' production limits, which are helping the oil market's months-long recovery.

Iran wants OPEC to work to keep oil around $60 a barrel to contain shale producers, Oil Minister Bijan Zanganeh told The Wall Street Journal in a rare interview. "If the price jumps [to] around $70 … it will motivate more production in shale oil in the United States," Zanganeh said. Shale producers are more nimble than big OPEC producers, using techniques that allow them to increase or decrease production depending on the oil price. Saudi Arabia has played down shale's ability to upset the market.

"I don't lose sleep that shale is going to come and overwhelm us," Saudi Energy Minister Khalid al-Falih said in January at the World Economic Forum in Davos, Switzerland. Concerns about shale output will likely dominate OPEC's meeting in June in Vienna, officials said. No longer crippled by Western sanctions, Iran needs an oil price of only $57.20 a barrel to balance its budget, according to the International Monetary Fund. The Saudis need about $70 a barrel to cover record national spending.