# Oil and Gas News Briefs
# Compiled by Larry Persily
# April 25, 2019

## LNG oversupply forces producers to offer shorter, more flexible deals

(Reuters; April 23) - The world's biggest liquefied natural gas producers including Shell, Total, and Petronas are increasingly selling from their global supply pools instead of dedicated projects as buyers leverage an LNG surplus to force ever more flexible deals. This marks an accelerated shift from traditional long-term contracts that lock customers into taking regular volumes from specific projects under oil-linked pricing formulas.

The global oversupply that has pulled down spot LNG prices by more than 50 percent over the past half-year — to under $5 per million Btu last month — has producers succumbing to buyer demand for fuel on shorter notice and without sourcing or destination restrictions. Shell, holder of the world's biggest LNG supply portfolio, signed deals last year with Hong Kong's CLP Power, South Korea's SK E&S, and Panama's Sinolam LNG for deliveries that could come from any of its global projects, according to this year's annual report from the International Group of LNG Importers.

"Portfolio-selling enables higher margins through trading and optimization, facilitates marketing to take new project final investment decisions, and allows sellers to provide greater supply flexibility to customers," said Saul Kavonic, head of energy research for Australia at Credit Suisse. Spot and short-term trades comprised 32 percent of overall LNG volumes in 2018, up from 27 percent in 2017 and less than 20 percent in 2010. LNG supply is expected to grow this year by a record 40 million tonnes, which could increase spot volumes, though analysts expect the market to tighten in the 2020s.

## Russia considers tax breaks for Arctic oil and gas development

(Barents Observer; Norway; April 19) – Companies that invest in the Russian Arctic could get their tax burden reduced by as much two-thirds for the life of the project. "We have discussed a new system of investment preferences," Russian Deputy Prime Minister Igor Trutnev told reporters after last week's meeting of Arctic Commission officials in Finland. "We are looking at two alternative approaches: One with up to 15-year tax preferences that include zero tax rates on profits and property, land use, and extraction; and a second with two-thirds tax reductions for the whole project period."

Investments and tax benefits in the Arctic are at the top of the agenda for government officials. President Vladimir Putin has made clear that he demands unprecedented developments in the region by the time his term ends in 2024. According to Trutnev, the new investment preferences would be equally available over the entire Arctic. “The preferences will be made available for all projects in the whole region,” he said.

The deputy prime minister also said priority would be given to offshore oil and gas, onshore oil and gas and liquefied natural gas production. A bill on the tax issue is to be submitted by May, and the new legislation is to be adopted by Parliament after summer. Among the specific projects mentioned by Putin is the Northern Latitudinal Passage, a grand development to link the national rail grid with the Arctic seaport of Sabetta.

## Putin addresses opening of Baltic LNG plant

(Reuters; April 24) - Russia’s Novatek has officially launched its second liquefied natural gas plant as it aims to expand further in the LNG trade, CEO Leonid Mikhelson said April 24. Russia, one of the world’s top gas producers, aims to become a major player in LNG markets too. Russia has two LNG plants in operation: Gazprom-led Sakhalin-2 in the Far East and Novatek’s Yamal LNG, on the Arctic Yamal Peninsula.

Novatek, along with Gazprombank, has built a new LNG plant in the Baltic Sea port of Vysotsk but of a much smaller scale than Yamal LNG and Sakhalin-2. Vysotsk’s first line has a capacity of 660,000 tonnes of LNG per year, less than 5 percent the size of Yamal. Mikhelson said Novatek plans to expand the Vysotsk capacity, with the second train planned to produce more than 1.1 million tonnes of LNG per year. Novatek holds a 51 percent stake in Vysotsk with the remaining 49 percent held by Gazprombank.

President Vladimir Putin, addressing the Vysotsk opening via a video link, said the second liquefaction unit is expected to be launched at the end of 2020. “Russia will consistently build up its gas-liquefying capacities to carve out the niche that our country deserves in this field,” Putin said. LNG produced at the plant is aimed at the domestic market, and at Baltic, Scandinavian, and Northwest European markets, as well as for use in bunkering for marine transportation and motor fuel.

## China opens largest natural gas storage in central, eastern regions

(S&P Global Platts; April 23) - China's state-owned Sinopec has started sending natural gas imported through its Tianjin LNG terminal to the newly built Wen 23 underground gas storage in Puyang, northern Henan province, through its Ordos-Anping-Cangzhou gas pipeline, the company said on its website April 23. The storage facility, at 350 billion cubic feet of gas, is the largest in China's central and eastern regions.

The large-volume storage is set to boost Sinopec's gas supply optionality and flexibility in northeast China, a key LNG consumption center and driver of fundamentals and spot prices in the wider Asian LNG markets. The project is one of several underground gas storage facilities due to start up in coming years to meet China's growing consumption.

Gas is normally injected into storage during the offseason and then pumped out to meet demand during the peak winter season. China generally uses depleted or abandoned gas fields for underground storage, as they are more effective and economical than aboveground tanks. The Wen 23 storage was rebuilt from an exhausted gas field and put into operation in March. The Tianjin LNG terminal, which started operations in April 2018, has an annual transfer capacity of more than 140 billion cubic feet of gas.

## Thai power producer says it will buy the lowest-priced LNG

(Reuters; April 22) - State-owned Electricity Generating Authority of Thailand (EGAT) has narrowed its list of potential liquefied natural gas suppliers to 12 companies for importing up to 1.5 million tonnes per year as the government wants to boost competition in the country's energy sector. Of the companies, which include Qatargas, Shell, and Total, EGAT said it would select the firm that offers the lowest price.

EGAT, Thailand's largest power producer, expects to finalize purchase agreements by June and begin importing LNG cargoes by September this year, EGAT Director Viboon Rerksirathai said. Currently, EGAT buys its gas from a state-owned unit of PTT, Thailand's sole gas supplier and LNG importer. The EGAT move comes as Thailand joins other Asian countries such as China in buying more LNG.

## FERC moving through LNG applications on schedule

(S&P Global Platts; April 22) - The Federal Energy Regulatory Commission kept on pace with its reviews of major LNG projects last week, releasing final environmental impact statements for the Annova LNG project in Brownsville, Texas, and Gulf LNG in Mississippi. That was in addition to FERC's 3-1 votes on export terminal applications for Tellurian's Driftwood LNG in Louisiana and Sempra Energy's Port Arthur LNG in Texas.

The agency last year faced pressure from the LNG industry and U.S. lawmakers about its pace of review and approval. Since then, FERC has kept up with target dates for environmental reports. ClearView Energy Partners, in a note from the independent research firm, said FERC's project votes last week were in line with its expectations for seven more project approvals by the third quarter of 2019.

ClearView Managing Director Christi Tezak said she generally expects other projects to move through FERC in a timely manner, noting that by the time a project hits the final EIS, it's usually "pretty much done." Fred Hutchison, president of LNG Allies, a trade association, said April 19 he is optimistic that FERC will continue issuing environmental reports on schedule and will continue issuing orders for new projects.

## Louisiana LNG developer seeks FERC approval to start construction

(S&P Global Platts; April 19) - Venture Global LNG wants U.S. regulators to approve by the end of May the start-up of construction on two storage tanks that will serve its Calcasieu Pass LNG export terminal in Louisiana. The 10-million-tonne-per-year facility in Cameron Parish is among a dozen or so projects that are part of a second wave of U.S. liquefaction capacity that aims to feed growing global demand starting in the early- to mid-2020s.

The developer has been the most successful among this batch of projects in terms of securing long-term offtake contracts with LNG buyers. Its offtakers include Shell, Italy's Edison, Portugal's Galp, BP, Spain's Repsol, and Poland's PGNiG. While an executive has told S&P Global Platts that the company has made a positive final investment decision internally, Venture Global has yet to disclose whether it has obtained sufficient financing for construction of Calcasieu Pass. No current overall cost has been revealed.

It has a contractor, Kiewit, but analysts have questioned whether the agreement protects Venture Global against cost overruns. Since being granted Federal Energy Regulatory Commission approval in February to build Calcasieu Pass, Venture Global has been conducting site preparation to get the land ready for full construction. In a letter to FERC on April 18, the developer said it has satisfied the environmental conditions necessary to begin construction of the LNG storage tanks.

## Virginia-based developer makes plans for 3rd Louisiana LNG project

(Houston Chronicle; April 23) - Virginia-based Venture Global is revealing plans for a third proposed LNG export project on the Gulf Coast. Called Delta LNG, the project proposed for Plaquemines Parish, Louisiana, would have a peak capacity to produce 24 million tonnes of liquefied natural gas per year, according to documents filed with the Federal Energy Regulatory Commission. Venture Global last week filed a request to start permitting the LNG project along with an associated 287-mile pipeline.

If all goes according to Venture Global's plans, construction on the Delta LNG project could start as soon as late 2021 and the plant would be operating by November 2024. The company said it would file formal plans with FERC in November this year. This would be Venture Global's third LNG project proposal: It is close to starting work on the 10-million--tonne Calcasieu Pass project in Louisiana, and working to put together customers, permits, and financing for the 20-million-tonne Plaquemines LNG project.

Venture Global is headquartered in Arlington, Virginia, and has never built or operated an LNG terminal. The company has 20-year supply agreements for Calcasieu Pass with several customers, including the Shell and BP. However, the project's financing is not yet complete, reported energy research and news firm ICIS. Calcasieu Pass is scheduled to start shipping in 2022, while the Plaquemines project is expected to receive its final FERC authorization in August.

## Rio Grande LNG collects construction bids, environmental opposition

(Houston Chronicle; April 23) - NextDecade's proposed Rio Grande LNG export terminal at the Port of Brownsville, Texas, is taking two steps forward at the same time as environmentalists double down on protecting habitat for the endangered ocelot. The developer has received bids from two companies seeking to build the facility and is entering into an agreement that will help to deepen the Brownsville Ship Channel to accommodate LNG carriers. NextDecade announced April 22 it had received bids from engineering, procurement, and construction companies Bechtel and Fluor.

The Federal Energy Regulatory Commission is scheduled to take up Rio Grande LNG's application in July with NextDecade holding off on a contractor selection until after the FERC decision. Meanwhile, NextDecade and the Port of Brownsville plan to host an April 24 signing ceremony for a funding agreement to deepen the ship channel. Full details have not been disclosed but the port has a federal permit to deepen the ship channel from 42 feet to 52 feet.

However, not everybody in the Rio Grande Valley is on board for the projects. Rio Grande LNG and two similar projects proposed at the Port of Brownsville face stiff opposition from a coalition of shrimpers, fishermen, environmentalists, neighbors, and communities that cite environmental and safety risks. The Washington D.C.-based environmental group Defenders of Wildlife is expected to release a report this week, detailing how the LNG terminals would impact the ocelot and other endangered species.

## South Texas city continues opposition to LNG project

(KVEO TV; Brownsville, Texas; April 23) – Though the Federal Energy Regulatory Commission has released its final environmental impact statement for the Annova LNG project in the Port of Brownsville, Texas, the City of South Padre Island this week is renewing its opposition to construction about 7 miles away. "It's a pristine beach, it's a pristine area, the air quality is so much better," said Randy Smith, interim city manager.

"Our beaches are so beautiful, we want to make sure that we do everything we can to keep our natural habitat in its original condition," Smith said. Although the federal EIS said the project would not affect tourism such as boat tours or beachgoers in South

Padre Island, the city believes otherwise. “It's a whole gamut of stuff,” Smith said. “Where is the channel is going to be shut down? What effects it has on our industries? We need those questions answered at some time and point,” he said.

“There is so many unknowns that the city doesn't know yet,” Smith said. With the release of the final EIS, federal regulators are on schedule to decide on the project application mid-summer.

## Apache halts gas production due to low prices in Permian

(Reuters; April 23) - Oil and gas producer Apache said April 23 it temporarily halted production at its Alpine High assets in the Permian Basin in late March, curtailing output of about 250 million cubic feet of gas per day because of extremely low prices. Gas prices in the basin, spread across West Texas and New Mexico, traded in negative territory for more than two weeks earlier in April, largely due to a pipeline capacity shortage, forcing drillers to pay those with spare capacity to take unwanted gas.

Oil and gas pipeline construction in the Permian, the largest U.S. oil field, has not kept up with output, which has more than doubled over the past three years, making the country the world’s largest oil producer. Several new gas pipelines are in the works, but none are expected to enter service before late 2019. “We anticipate relatively wide and volatile natural gas price differentials in the Permian Basin until the Gulf Coast Express pipeline enters service,” Apache CEO John Christmann said.

Spot prices at the Waha hub — where prices for gas in the Permian Basin are set — fell to a record low of negative $4.28 per million Btu in early April. The gas last traded up at $0.318 on April 22. Apache has been slowing its activity in the Permian and shifting focus to other oil-rich assets. The latest production delay will have minimal impact to oil production at Alpine High, Apache said. It reiterated its guidance to produce 100,000 barrels of oil equivalent per day from its Alpine High assets by the end of 2019.

## Trump considering Jones Act waiver for U.S LNG deliveries

(Bloomberg; April 24) - President Donald Trump is considering waiving the requirement that only U.S.-flagged vessels can move goods from American ports to Puerto Rico or energy-starved areas in the Northeast, said sources familiar with the deliberations. The issue was debated during an Oval Office meeting April 22, following requests from Puerto Rico for U.S. LNG deliveries and pressure from oil industry leaders to ease the nearly 100-year-old Jones Act requirements, according to three sources.

Although top administration officials are divided on the issue, Trump is now leaning in favor of some kind of waiver, said two of the people, who asked for anonymity to discuss the private discussions. The move — which would be fought by U.S shipbuilding interests and their allies on Capitol Hill — has been promoted as essential to lower the cost of energy in Puerto Rico and ease the flow of U.S. natural gas to the Northeast, where there aren't enough pipelines to deliver gas from Pennsylvania.

But even inside the Trump administration, there are fierce defenders of the Jones Act, a 1920 law requiring that vessels moving cargo between U.S. ports be U.S.-built, -owned and -crewed. The law was originally designed to protect the domestic shipping industry and the country's maritime might, and supporters argue that it's just as essential today to ensure ships are made in the U.S. Any move to weaken or waive the requirements threatens the U.S. shipbuilding industry and the jobs tied to it, they argue. Puerto Rico is seeking a 10-year waiver to allow LNG to be delivered on foreign-flagged vessels.

## Qatar starts shopping around for at least 60 new LNG carriers

(The Peninsula; Qatar; April 22) - Qatar Petroleum has issued an invitation to tender to reserve ship construction capacity for an expanded LNG carrier fleet to accommodate its North Field Expansion Project, which will increase Qatar's LNG production capacity from 77 million tonnes per year to 110 million tonnes starting in 2024.

In addition to addressing shipping requirements for the expanded LNG supply, the tender covers shipping requirements for the LNG that will be produced by Ocean LNG (a 70-30 joint venture between Qatar Petroleum and ExxonMobil) from the Golden Pass LNG export project in Texas, which is under construction with a planned 2024 start-up.

"With this significant step, Qatar Petroleum embarks on another major LNG shipbuilding campaign expected to initially deliver 60 LNG carriers in support of the planned production expansion with a potential to exceed 100 new LNG carriers over the next decade," said Saad Sherida Al-Kaabi, Minister of State for Energy Affairs and president of Qatar Petroleum. "This tender, along with the recently released engineering, procurement and construction tender for four mega LNG trains planned as part of the North Field Expansion Project, constitute two monumental and historical milestones."

## Carbon-capture system still not working at Gorgon LNG

(Western Australia Today; April 20) - The state of Western Australia's premier has defended Chevron's actions following revelations that continuing failure of the carbon dioxide sequestration (underground storage) system at its Gorgon LNG project in the Pilbara has exposed workers to toxic chemicals. Doctors for the Environment Australia called the news "startling ... very, very worrying," and called for immediate state government action and a Health Department referral.

Since beginning operations at Barrow Island, about 50 miles off the northwest coast, Chevron has been unable to commission the system that was to reinject the carbon dioxide deep underground to comply with the conditions of its environmental approval. In addition to the CO2 that is separated from the gas stream, the reinjection is to include BTEX chemicals — benzene, toluene, ethylbenzene, and xylene — and mercury.

Due to operational problems in the plant's first two years, much of that gas has been vented into the air. The state will now allow Chevron to flare the gas farther away from the plant for up to 12 months as a stopgap until the reinjection system is operational. The union representing workers at Gorgon LNG have called for stricter government oversight, but Premier Mark McGowan deferred. "I met with the management of Chevron recently and they assured me they're trying to get the carbon capture and storage facility up and running as soon as possible ... hopefully later this year."

## Japanese power generator still building new coal-fired plants

(Japan Times; April 23) - With the integration of the thermal power plants of its parents Tokyo Electric and Chubu Electric completed on April 1, JERA has completed the last step of unifying the full value chain from upstream fuel and power trading to generation. JERA, a joint venture of the two utilities and the world's biggest liquefied natural gas buyer, now controls about half of Japan's power generation facilities. And this month it outlined goals to transform itself into a global leader in LNG and renewable energy.

Amid pressure to fight climate change, JERA's new president, Satoshi Onoda, said the firm will have to fulfill the responsibility of securing a stable power supply while curbing carbon dioxide emissions. Although the world appears to be taking a hard stance in recent years on coal-fired power generation, which emits nearly twice as much carbon dioxide as gas-fired power, Onoda said coal will still be an important energy source for Japan to ensure a steady supply.

The company will strive for a sharper reduction in coal than the government's target for 2030, which aims to reduce coal to 26 percent of total power generation from 33 percent in 2016. However, JERA is currently building new coal-fired power units at its Taketoyo plant in Aichi Prefecture and Hitachinaka plant in Ibaraki Prefecture, in addition to planning new coal-fired units at its Yokosuka plant in Kanagawa Prefecture. JERA also intends to boost its presence as a renewable energy player, especially overseas.

## OPEC, U.S. shale oil producers in a 'tug of war'

(Wall Street Journal; April 18) - Two sets of oil producers are fighting for dominance: the growing U.S. shale patch and the Organization of the Petroleum Exporting Countries. Investors are trying to figure out which side has the stronger hand. Oil prices are near

2019 highs, which could give the impression that OPEC, with its production cuts, is the dominant force. But output from U.S. shale oil producers has doubled from its level five years ago, and more supply coming later in the year could flood markets yet again.

Gordon Gray, head of oil and gas research at HSBC, calls OPEC vs. American producers a "tug of war." OPEC's aim is to prevent inventory buildup and keep prices at a higher level to balance its members' government budgets. OPEC and its allies, including Russia, agreed to cut output by a collective 1.2 million barrels a day for six months starting in January, helping prices to rise by a third this year to above $70 a barrel. It isn't clear whether the group will agree to extend the deal at its June meeting.

But don't count shale out. With three new U.S. oil pipelines set to open this year that will connect wells with the Gulf Coast, U.S. oil exports should surge in the second half of the year. Shale taps can be turned on and off faster than other producers, which has made it more difficult for OPEC to influence the oil market. Whether OPEC members hold the line on production cuts will depend greatly on their individual financial circumstances. For instance, this year Saudi Arabia needs oil prices to average above $73 a barrel to balance its budget. "The U.S. oil price needed for shale oil to be profitable is around $53 a barrel or above," said Roy Martin, an analyst at consulting firm Wood Mackenzie.

## Occidental makes competing offer for Anadarko

(Reuters; April 24) - Oil and gas producer Occidental Petroleum on April 24 made a $57 billion bid for Anadarko Petroleum, topping Chevron's $50 billion offer and setting up the first hostile takeover battle for a major oil company in years. The surprise $76-per-share bid comes after Occidental had been trying to woo Anadarko and had made two other proposals since late March. A deal would make Occidental the largest producer of oil in the West Texas Permian Basin, where production has boomed in recent years.

Occidental boosted the cash portion of its offer to 50 percent, up from two earlier offers. Chevron's offer comprised 25 percent cash and 75 percent stock. A deal would boost Occidental's production in the lucrative Permian to 533,000 barrels of oil equivalent production per day, the company said. "We've studied this very diligently," said Occidental CEO Vicki Hollub, adding the deal would boost cash flow and allow the company to raise its dividend over time.

"This is not a smart move on part of Occidental, given the difference of size between the two companies," said Raymond James analyst Muhammed Ghulam. "Chevron is much bigger and has the resources to combine the two companies, and has significant deep-water experience," Ghulam said, referring to Anadarko's deep-water Gulf of Mexico assets. Analysts say they expect consolidation as more as small oil producers have had to cut spending as investors press for higher returns and their stock prices languish.