Oil and Gas News Briefs
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LNG market needs better answer than rigid oil-linked contracts

(Reuters' columnist; Aug. 19) - The price of liquefied natural gas spot sales has ticked up recently in Asia toward $5 per million Btu amid tentative signs of some peak summer demand, but the problem remains that for many buyers their cost of supply is still too high. While the market focuses on spot prices to gauge the extent of oversupply, or the strength of demand, it's worth noting that the market for short-term sales is dwarfed by the far greater volumes procured under long-term, mainly crude oil-linked contracts.

This means that for many LNG buyers, the decline in spot prices is largely irrelevant. While spot prices have slumped by half this year with oversupply, the long-term contract price, which accounts for two-thirds of the global market, has fallen by a considerably smaller margin. South Korea paid an average $9.40 per million Btu for its LNG imports in July, only 6 percent less than the $10.01 in July 2018, according to customs data. Japan's imports cost an average $9.14 in June, down 7 percent from $9.79 a year ago.

The fact that both Japan and South Korea haven't seen much benefit from lower spot prices for LNG is largely a reflection of the higher cost of crude for much of the first half of 2019. It's therefore not surprising that LNG imports in both Japan and South Korea have been falling. For the first seven months of the year South Korea's imports were 22.9 million tonnes, down from 25.4 million last year. In Japan, imports for the first half were 38.6 million tonnes, a drop of 8.2 percent compared to the same period last year.

Reliance on long-term contracts for much of Asia's LNG is a concern. If suppliers are to sell all their production from new projects, they'll have to accept lower prices and flexible pricing, and by doing so risk undermining the economics of existing and new ventures.

LNG exports consumed 7% of U.S. gas production in July

(Houston Chronicle; Aug. 19) - U.S. liquefied natural gas exports have expanded to the point that they consumed 7 percent of total U.S. gas production in July, the U.S. Energy Information Administration reported Aug. 19. Gas deliveries to liquefaction plants reached 6 billion cubic feet a day last month as new export facilities continue to come online along the Gulf Coast.

"In the first half of 2019, two new liquefaction trains came online: Cameron LNG Train 1 in Louisiana in May and Corpus Christi LNG Train 2 in Texas in June," the report said. "Two new LNG export facilities — Elba Island LNG in Georgia and Freeport LNG in

Texas — plan to place their first trains in service in the next two months." Since 2017 the U.S. has exported more gas than it consumes, delivering more liquefied gas via tanker overseas and through pipelines to Mexico and Canada.

Industry pushes states to outlaw demonstrations near pipelines

(Bloomberg; Aug. 19) - After protesters disrupted construction of an oil pipeline in North Dakota, oil and chemical companies found a way to keep it from happening again. They made it a crime. The companies, whose Dakota Access project in North Dakota was targeted three years ago, lobbied state legislatures to effectively outlaw demonstrations near pipelines, chemical plants, and other infrastructure. Nine states have gone along so far, in some cases classifying the activities as felonies. More are considering measures.

The lobbying campaign, documented in state disclosures and other records reviewed by Bloomberg News, has raised concerns about corporate influence muzzling free speech. “Oil refiners, especially Koch Industries and Marathon Petroleum, orchestrated this unholy alliance of oil, gas, chemical, and electric utility companies to crush resistance to polluting industries,” said Connor Gibson, an investigator with Greenpeace.

Industry representatives portray their efforts as a necessary counter to the increasingly aggressive tactics of activists. Bills criminalizing trespassing near oil pipelines, gas processing equipment, and other designated “critical infrastructure” passed this year in Indiana, North Dakota, South Dakota, Tennessee, and Texas — building on similar measures previously enacted in Oklahoma and other states. Supporters are now pushing to create infrastructure protest laws in Illinois, Ohio, and Pennsylvania.

The model legislation is endorsed by the American Legislative Exchange Council, the conservative group backed by the Charles Koch Institute, which encourages state lawmakers to advance ready-made bills on topics ranging from gun rights to tort reform.

Delay could drive up costs for Papua New Guinea LNG projects

(Reuters; Aug. 20) - Oil Search has warned that costs for a $13 billion plan to double Papua New Guinea’s gas exports could rise if talks on possibly revising an agreement between the government and Total drag on beyond next week. Australia-listed Oil Search is a partner in Total’s proposed Papua LNG project and ExxonMobil’s 5-year-old PNG LNG project, which would expand its production. Together the two projects aim to double LNG exports from the impoverished Pacific nation to 16 million tonnes a year.

PNG Petroleum Minister Kerenga Kua last week suddenly set out to renegotiate a gas deal with Total, which the company had signed in April with the previous government.

Neither side has commented on the talks held last week in Singapore. Oil Search Managing Director Peter Botten said Aug. 20 that further talks are planned this week and next week with the aim of reaching an agreement by the end of August.

“It’s a dynamic environment at the moment,” said Botten, who was in Singapore during the talks. He declined to comment on what issues have yet to be resolved or say how confident he was a deal would be done by the end of next week. “Time is running out though.” The Papua LNG project has already lined up contractor bids for preliminary engineering and design work, but those are due to expire in September. The companies risk having to pull together new bids if delayed and could face higher costs, he said.

Proposed EPA rule on pipelines may be more style than substance

(S&P Global Platts; Aug. 16) - Even as industry welcomes the Environmental Protection Agency's latest proposal aimed at preventing states from blocking infrastructure projects, experts say the policy is unlikely to give gas pipelines the boost they want. The Aug. 9 rulemaking proposal would limit states' authority under the Clean Water Act to block pipeline construction if a project doesn’t meet state standards. The policy would shake up federal-state dynamics and appears destined for lengthy court battles.

However, the rule is unlikely to prevent states from denying pipeline developers critical water quality permits, several lawyers and energy analysts said. "There is a plausible case to be made … that this proposed rule is more of a victory for style over substance in terms of being able to effectively rebut recalcitrant state governments not interested in permitting new natural gas pipelines," said Rob Rains, an energy industry analyst.

Through the proposed rule, the EPA is advising states and tribes to adhere to the plain language of the Clean Water Act, which to the EPA means they have to decide whether to issue a project a water quality certification in a year or less regardless of extenuating circumstances often cited by state regulators. The EPA also says states should only consider impacts on water quality, not factors related to other environmental concerns.

The rule could make it incrementally easier for developers to sue states on unfavorable decisions on Section 401 applications, but it would not cut state politics out of the review process, said Katie Bays, an energy analyst and co-founder of research and consulting firm Sandhill Strategy. "Because the guidance does not remove the ability of the states to reject an application for a water quality certificate, they can still do that."

Production starts at Freeport LNG, first cargo expected within weeks

(Reuters; Aug. 20) - The Freeport LNG project in Texas started production at its first liquefaction train on Aug. 12 and aims to start commercial operation in the fall this year, Japan's Osaka Gas and utility joint-venture JERA said Aug. 20. Osaka Gas and JERA, a partnership between Tokyo Electric and Chubu Electric, will each lift half of the train's contracted capacity of 4.64 million tonnes a year after commercial production starts. Freeport said last week it plans to load the first cargo within the next couple of weeks.

Freeport has 20-year liquefaction tolling agreements with Osaka Gas and JERA for the Train 1 output. Under the deal, the companies will secure the LNG without destination restrictions, helping them diversify supply sources and price, as well as enhance procurement stability and flexibility. While production begins on Train 1, work continues on the second and third liquefaction trains, scheduled for start-up later this year and in 2020. Meanwhile, Freeport is looking at expanding and adding a fourth train.

Cameron LNG sends out first commercial cargo

(Houston Chronicle; Aug. 20) - The first production unit at the Cameron LNG export terminal in Louisiana has started commercial operations. San Diego-based Sempra Energy reported Aug. 19 that Train 1 at its Cameron LNG facility is exporting liquefied natural gas on a commercial basis. "We remain focused on safely achieving commercial operations of Train 2 and Train 3," Sempra executive Lisa Glatch said in a statement.

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

Louisiana LNG project completes financing, issues FID

(The Advocate; Baton Rouge, LA; Aug. 20) - Venture Global LNG has made a final investment decision to build a liquefied natural gas export facility about 50 miles south of Lake Charles, Louisiana, after the Virginia-based company closed on its latest round of financing, which included equity and debt. The Calcasieu Pass project is expected to cost $4.25 billion. The company said commercial operations will start in 2022, with a capacity of 10 million tonnes of LNG per year. Site work started in February.

Venture Global LNG has all of its permits and federal export authorization and has 20-year purchase-and-sales agreements with Shell, BP, Italy's Edison, Portugal's Galp, Spain's Repsol, and Poland's PGNiG. The developer raised $5.8 billion in financing for Calcasieu Pass and two other proposed LNG projects from Span's Banco Santander, Bank of America, JPMorgan Chase Bank, Royal Bank of Canada, Japan's Sumitomo Mitsui Banking Corp., and the Industrial & Commercial Bank of China. Other investors include Stonepeak Infrastructure Partners, which paid $1.3 billion for an equity stake.

Mexico disputes costs for Texas gas pipeline

(Wall Street Journal; Aug. 19) - In June, construction crews finished work on a 500-mile, $2.5 billion natural gas pipeline that runs under the Gulf of Mexico from South Texas to the port of Tuxpan in northeastern Mexico. Once it starts flowing, the pipeline will increase Mexico's capacity to import gas by 40 percent, fueling the power plants and industrial installations that drive the country's export-driven manufacturing economy. But the government of President Andrés Manuel López Obrador refuses to turn on the gas.

Instead, Mexico's state-owned power utility, the Federal Electricity Commission, or CFE, has pushed the pipeline's builders, along with two other private operators, into arbitration. The CFE is seeking nearly $900 million related to delays in construction of the marine pipeline, which was originally scheduled for completion in October 2018. The dispute is the latest broadside from the Lopez Obrador administration against privatization of the energy sector, which began under his predecessor.

Separate from the arbitration, the CFE also wants to reduce the capacity and usage rates it is charged under the take-or-pay contracts, and it has been holding weekly negotiating sessions with the pipeline companies. Even if it's resolved soon, the conflict has dealt a double blow to Mexico's economy by raising costs for industries that depend on gas-fired electric power and adding to persistent uncertainty over whether the Lopez Obrador government will honor contracts, economists and business groups said.

LNG developer rejects claim that it is struggling to find buyers

(The Squamish Chief; British Columbia; Aug. 19) - The dissolution of an agreement between Woodfibre LNG and a potential buyer in China has local activists crowing that the controversial project just north of Vancouver has taken a serious blow. However, a Woodfibre representative called those characterizations "wildly misleading." Company spokesperson Rebecca Scott said Woodfibre never considered the potential client a customer and that talks were "very preliminary."

Project opponents My Sea to Sky said the decision by Guangzhou to walk away from its heads of agreement with Woodfibre for 1 million tonnes of LNG per year for 25 years is proof that Woodfibre is struggling to find buyers. The Guangzhou agreement was widely publicized and then-premier Christy Clark was on hand for its official signing back in May 2016. The volume represented about half of the 2.1 million tonnes of liquefied natural gas the facility would produce each year. Woodfibre is expected to make a final investment decision soon on the project, estimated at just under C$2 billion.

The Guangzhou heads of agreement was not a deal, Scott said. Rather, it was an agreement to discuss the possibility of making a deal. “As with any business, we will continue to have discussions with various potential buyers for our LNG,” she said. “Some of them will progress and others won’t. This is the normal course of business for every company, including ours.” Just two months ago, Woodfibre signed a binding deal with BP Gas Marketing to take 0.75 million tonnes per year of LNG over 15 years.

LNG makes inroads into market share in Europe

(Reuters; Aug. 19) - Europe’s two biggest suppliers of pipeline gas, Norway’s Equinor and Russia’s Gazprom, have lost market share for the first time in at least four years amid a tripling in liquefied natural gas imports into the region over the past 10 months. LNG imports into Europe have jumped amid lower than expected spot demand from Asia, which has helped to send European gas prices to 10-year lows and filled European storages to multi-year highs.

Data compiled by Refinitiv showing changes in the market share of gas from Norway, Russia and LNG sources is the latest example of how LNG is transforming Europe’s gas market. The share of LNG in gas supplied to western and central Europe increased to 14 percent between October 2018 and August 2019 from 5 percent in the same period of 2017-18. The share of Norwegian gas dropped to 33 percent from 38 percent, a multi-year low, calculations by Refinitiv show.

Gazprom’s share was around the average of the past three years, edging down by 1 percent from the previous year to 32 percent. But it was the first year-on-year drop since 2014-2015, when Gazprom was hit by low demand in Europe. Despite its market share loss, Gazprom’s total gas exports to Europe rose as the region imported 9 percent more gas from October to August compared with the same period in 2017-2018. U.S. LNG into northwest Europe accounted for 2 percent of total gas supply into the region.

[Spain boosts LNG imports to cover for loss of hydroelectric power]

(Bloomberg; Aug. 21) - Spain is importing near-record levels of liquefied natural gas as persistent heat boosts air conditioning demand for electricity and depletes the amount of water available for hydropower generation. With global prices for LNG near their lowest in three years, traders may also be betting on a recovery by filling up storage sites in the nation, which account for almost a third of Europe's total capacity. Shippers are continuing to buy gas despite the tanks being almost full.

It's another example of how gas storage tanks are filling up across the continent to reach peak levels way before heating demand kicks in. That leaves a bigger-than-usual buffer for potential shocks in the winter, increases trading opportunities for when prices rise and raises questions about whether Europe can absorb all the gas that's flowing in.

Spanish gas demand increased 43 percent in the first 19 days of this month, compared with the same period last year. That's in part due to above-normal temperatures this summer and hydropower reserves about 17 percent below their 10-year median. Lower spot LNG prices allowed Spain to boost gas power use, contributing to considerable coal-to-gas switching. A lot of the increase in LNG imports was due to more cargoes from Russia, which has grabbed a 6 percent share of Spain's total gas supply.

[German owner will spend $30 million to convert container ship to LNG]

(Hellenic Shipping News; Aug. 17) - When German transport company Hapag-Lloyd starts converting the 1,210-foot-long container ship Sajir in mid-2020 to run on liquefied natural gas, it will be launching a pilot project that could pave the way for the entire shipping industry. Whenever the Sajir is in Hamburg, engineers will go on board to take measurements of the vessel and draw up plans. Converting the 15,000-container transporter will pose completely new challenges and cost an estimated $30 million.

Whether it is figuring out where to store the LNG on board, laying the additional piping systems or treating the fuel, all of these aspects make the conversion very complex and time-consuming for everyone involved. "By converting the Sajir, we will be the first shipping company in the world to retrofit a container ship of this size to LNG propulsion," said Richard von Berlepsch, managing director of fleet management at Hapag-Lloyd.

Starting Jan. 1, all ships worldwide will have to run on fuel with reduced sulfur content under new International Maritime Organization rules. Using LNG rather than heavy fuel oil reduces carbon dioxide emissions by roughly 20 percent, and sulfur dioxide and particulate matter by more than 90 percent. In mid-2020, the Sajir will go to a dockyard near Shanghai for three months to have its engine and auxiliary engines converted into a dual-fuel system. This will enable it to burn LNG as well as low-sulfur fuel oil.

Development picks up in anticipation of gas line in British Columbia

(Business in Vancouver; Aug. 19) - Nine months after the partners approved the start of construction on the C$40 billion LNG Canada liquefied natural gas project, Fort St. John, British Columbia, is seeing an uptick in commercial development and residential real estate values. The second-biggest city in northern B.C. is a key hub for construction of TransCanada's Coastal GasLink pipeline that will run 416 miles from the northern gas fields to the LNG terminal at Kitimat on the coast.

Anticipating the demand for services, Canadian Tire has launched an expansion project in Fort St. John. The project includes construction of a 126,000-square-foot store, to be complete by 2020. In the first half of 2019, Fort St. John has issued $28.8 million in building permits, double the pace at the same time last year. In the first half of this year, Fort St. John, population 20,000, saw 258 residential properties sell for a total of $85.4 million, reports the BC Northern Real Estate Board.

Mike Ellerington, a real estate agent with Re/Max Action Realty in Fort St. John, said he has not seen a rush of residential investors from out of town as work on the pipeline ramps up, but sales activity has been steadily increasing this year. "You have to remember, Fort St. John has been down since 2015," he said, suggesting local buyers and out-of-town investors are likely waiting for the pipeline work to begin in earnest.

Small-scale LNG plants serve growing market demand

(S&P Global Platts; Aug. 20) - Large-scale natural gas liquefaction and export facilities are helping to underpin the demand for U.S. gas. But there is a newer demand factor for all that gas: small-scale facilities sending LNG to otherwise little-tapped markets and finding new applications for the fuel. Small LNG plants, usually with production capacities of less than 1 million tonnes per year, are springing up across the U.S. to service niche markets, such as providing cleaner-burning fuel to oceangoing vessels, meeting peak utility demand and serving a growing export market in the Caribbean.

These small facilities can be built faster and cheaper than their behemoth world-class cousins. The smaller plants can be built almost anywhere, including near gas production or markets, and the LNG can be moved in 40-foot containers by truck or sea. One source of demand growth has come from the maritime industry, where LNG can be used to replace dirtier fuel oil and diesel. New International Maritime Organization rules to limit greenhouse gas emissions from oceangoing ships is helping drive demand.

Several small-scale LNG plants have started up in recent years to serve the bunker fuel and other markets. Florida's Atlantic Coast seems to be the preferred location, although at least one is on the Gulf Coast. Exports to Puerto Rico and Caribbean countries represent another growing market for LNG facilities in Florida. Recently, however, new small-scale projects have been proposed to serve other markets including manufacturing plants and to help meet utilities' peak-demand needs. A $310 million plant is under construction in Tacoma, and one is proposed for the Delaware River.

OPEC sees slight oil surplus in 2020

(Reuters; Aug. 16) - OPEC delivered a downbeat oil market outlook for the rest of 2019 on Aug. 16 as economic growth slows, highlighting challenges in 2020 as rivals pump more crude oil, building a case to keep up an OPEC-led pact to curb supply. In a monthly report, the Organization of the Petroleum Exporting Countries cut its forecast for global oil demand growth in 2019 by 40,000 barrels per day to 1.1 million and indicated the market will be in slight surplus in 2020.

The outlook due to slowing economies amid the U.S.-China trade dispute and Brexit could press the case for OPEC and its allies including Russia to maintain a policy of cutting output to support prices. Already a Saudi official has hinted at further steps to support prices. "While the outlook for market fundamentals seems somewhat bearish for the rest of the year, given softening economic growth, ongoing global trade issues and slowing oil demand growth, it remains critical to closely monitor the supply/demand balance and assist market stability in the months ahead," OPEC said in the report.

"The risk to global economic growth remains skewed to the downside," the report said. "Especially trade-related developments will need to be thoroughly reviewed in the coming weeks with some likelihood of a further downward revision in September." The report also said oil inventories in developed economies rose in June, suggesting a trend that could raise OPEC concern over a possible oil glut. Stocks in June exceeded the five-year average — a yardstick OPEC watches closely — by 67 million barrels.

Recession risk the single biggest factor driving oil prices

(Reuters columnist; Aug. 20) - Global oil consumption is falling at the fastest rate for almost five years as manufacturing activity and trade flows slip around the world and vehicle production tumbles. Demand in the top 18 consuming countries, each using more than 1 million barrels per day of oil, fell by almost 0.2 percent in the three months between March and May compared with the same period a year earlier.

Oil use is falling at the fastest rate since the third quarter of 2014, according to data submitted to the Joint Organizations Data Initiative. Falling consumption five years ago, combined with surging U.S. shale output and Saudi Arabia's refusal to cut production, led to the price slump in 2014-2016. This time around, consumption has also stalled, and U.S. shale output is surging again, but Saudi cutbacks have limited the price drop.

A sustained period of lower prices will be needed to curb U.S. shale production growth and make consumption more affordable to restore market balance. The adjustment is already underway, with the number of rigs drilling for oil in the United States down by almost 120, or 13 percent, over the past nine months. Production and consumption should rebalance by mid-2020. Recession risk is now the single biggest factor driving oil prices because it will determine whether recent price falls will be enough to rebalance the market, or whether a deeper and longer slump is needed.

Work restarts on oil pipeline from Alberta to B.C. coast

(Reuters; Aug. 21) - Construction has restarted on the Trans Mountain pipeline expansion, the company said Aug. 21, a year after the contentious project stalled because of regulatory delays. The expanded pipeline will nearly triple the flow of crude from Alberta's oil sands to the British Columbia coast to almost 900,000 barrels a day but is fiercely opposed by environmental and some indigenous groups.

Last year a Canadian court overturned the federal government's 2016 approval of the project on the grounds it had failed to adequately consult indigenous groups. That prompted Justin Trudeau's government to buy the pipeline to ensure the expansion is completed. After a new regulatory review Trudeau's government reapproved the pipeline in June, to the relief of the oil industry. The government plans to sell the line at some point in the future, with several Indigenous groups interested in a stake.

Work has restarted at the storage terminal where the pipeline terminates, and the marine terminal, where crude is loaded onto tankers, Trans Mountain said in a statement. Work will soon begin in communities along the pipeline's right-of-way in Alberta. Trans Mountain expects to receive all outstanding regulatory approvals and permits in remaining construction areas over the coming months and said if those approvals go to plan the project will be in service by mid-2022.