Oil and Gas News Briefs
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LNG market ‘likely reached bottom,’ analyst says

(Bloomberg; Aug. 22) - It’s bargain time in the liquefied natural gas market. After prices plunged to their lowest on record for this time of year, traders say buyers from Japan to India have started to snap up cargoes in anticipation of a pickup in winter demand. Procurement for the colder season is only expected to intensify over what’s left of the summer. “We have likely reached bottom,” Sanford C. Bernstein & Co. analysts including Neil Beveridge said in a report.

The price rout can be traced to last winter, when mild weather dented demand for heating fuel in much of the northern hemisphere. To make matters worse for producers, which are adding LNG supply at a record pace, consumption for summer cooling in the past few months wasn’t strong either. A market in contango — higher future prices — is pushing some traders to consider storing LNG on tankers to sell later at a better price.

Cargoes for early September delivery to North Asia were bought at between high-$3 to low-$4 per million Btu, while October shipments are currently priced around the mid-$4 level, according to traders. While an uptick in prices at this time of year is normal, prices are still less than half of where they were at the same time last year. Another sign that demand is picking up can be spotted in the shipping market. The cost of chartering an LNG carrier on a spot basis east of Suez is at the highest since January.

New supply from plants in the U.S. and Australia will likely curb bigger gains in price. A record 35 million tonnes of LNG capacity will be added globally next year, according to Bernstein. The U.S. alone will add about 17 million tonnes in the next two quarters, said Leslie Palti-Guzman, president of GasVista, an energy consultant in New York.

U.S. Export-Import Bank will vote on loan to Mozambique LNG

(Reuters; Aug. 22) - The U.S. Export-Import Bank said on Aug. 22 its board intends to vote on a $5 billion direct loan for a liquefied natural gas project in Mozambique, the bank’s biggest export financing deal in years. The government export lender said it has notified Congress of the transaction, which will be ready for a final board vote in 35 days. The loan would support U.S. exports of goods and services for the engineering, procurement and construction of the onshore LNG plant and related facilities.

Over the five-year construction, the financing could support 16,400 U.S. jobs among suppliers in Texas, Pennsylvania, Georgia, New York, Tennessee, Florida, and the

District of Columbia, the bank said. U.S. work to supply the project, however, face competition from financing offered by foreign export credit agencies. The project would be the single biggest deal since EXIM's full lending powers were restored in May with confirmation of three new board members. That ended a drought of nearly four years in which the bank could not approve deals over $10 million due to a fight in Congress.

The bank said the Mozambique project would begin to develop the Rovuma Basin, one of the world's most extensive untapped gas reserves, in a major boost to Mozambique's economy. The project, led by Anadarko and partners from Japan, India, and Thailand, is estimated at over $20 billion with construction to start and first gas expected in 2024. Anadarko has agreed to sell itself to Occidental, which has agreed to sell Anadarko's Africa's assets to Total, which will take over as lead of the Mozambique project.

Analysts expect escalating trade war will delay U.S. LNG projects

(Bloomberg; Aug. 23) - Liquefied natural gas may have dodged the latest round of Chinese tariffs on U.S. goods, but plans for new American terminals to ship the fuel abroad are under threat as the trade war escalates. Tellurian, which is looking to build in Louisiana, and other developers will probably delay final investment decisions on multibillion-dollar U.S. LNG projects to 2020 from this year as the tensions complicate negotiations with potential Chinese gas buyers, according to Bank of America.

The trade dispute is intensifying as roughly a dozen companies look to become part of the so-called second wave of U.S. LNG export terminals expected to start up in the next few years. Smaller developers, like Tellurian, face intense competition from deep-pocketed oil giants like ExxonMobil, Qatar Petroleum, and Shell, which didn't need to sign long-term contracts before greenlighting their projects. A collapse in global LNG prices amid a glut of supply from the U.S. and Australia is also pressuring the industry.

"We see delays as likely given current pricing headwinds, no resolution yet on the U.S.-China trade war, and minimal contract announcements in recent months," Bank of America analysts reported Aug. 23. A Tellurian spokeswoman said the company is still targeting an investment decision this year. An analyst with U.S.-based investment bank Cowen pointed to other Gulf Coast projects likely to delay their investment decisions. "There's increased competition from players that don't really need third-party financing. China definitely didn't make it easier," Cowen analyst Jason Gabelman said Aug. 22.

Producers see marketing opportunity for 'greener gas'

(Wall Street Journal; Aug. 22) - Some shale drillers want consumers to know that their natural gas was sustainably fracked. Many of the companies behind the U.S. shale boom are stepping up efforts to reduce greenhouse-gas emissions, toxic wastewater and other environmental impacts tied to fracking, amid mounting investor pressure over climate change. Drillers such as Southwestern Energy and BP are seeking to monetize those investments by marketing their gas as a cleaner fuel, akin to fair-trade coffee.

"It's not so much about what we produce, but how we produce it," said Mark Boling, a former executive at Southwestern, which last year reached a deal for gas touted as responsibly produced, selling it to utility New Jersey Natural Gas. In Texas, BP is testing blockchain technology that would allow its gas to be tracked through the supply chain, enabling customers to know when they are buying BP-fracked fuel. The oil giant is investing in technology to limit methane leaks, and it is part of an industry initiative to cut average methane emissions to less than 0.25 percent of gas sold by 2025.

Some environmental groups say regulation, not green marketing, is the way to ensure sustainable practices. Unlike fair-trade standards or federal rules that govern organic labeling, there is no widely accepted industry definition for responsibly fracked gas. Part of the demand for greener gas is being driven by utilities, which are looking for more information on the gas they purchase as they seek to satisfy growing consumer demand for cleaner energy. Richmond, Va.-based Dominion Energy launched a procurement process this year for gas deemed to have been responsibly sourced.

Houston company goes after LNG-by-truck business in Mexico

(Houston Chronicle; Aug. 22) - Houston liquefied natural gas company Stabilis Energy is eyeing the industrial and wealthy city of Monterrey for the location of its first liquefied natural gas plant in Mexico. Stabilis entered into a pair of deals Aug. 21 that not only extend the company's reach south, but also lay the groundwork to build a plant that can receive natural gas from the Eagle Ford Shale of South Texas, supercool the gas to LNG and then haul the fuel on tanker trucks to customers in remote sites.

In the first deal, Stabilis bought Diversenergy, an LNG marketing company based in Spring, Texas, that has several customers in Mexico. Under the second deal, Stabilis formed a joint venture with CryoMex, a subsidiary of the Monterrey industrial conglomerate Grupo CLISA. Using its 120,000-gallon-per-day liquefaction plant in the Eagle Ford town of George West, Texas, Stabilis has sold LNG as a fuel for drilling companies, sand mines and other customers in South Texas over the past four years.

Distributors have bought a growing amount of LNG from Stabilis and used trucks to haul the LNG across the border where it is used by factories, mines and industrial-scale greenhouses that lack gas pipeline access. Stabilis estimates that over the next five years such customers will consume up to 3 million gallons of LNG per day, about 250 million cubic feet of gas. In the cross-border market, LNG sold by tanker truck in Mexico fetches a higher price than it would get in the U.S. but is cheaper than diesel in Mexico.

Australia taking over title from Qatar as No. 1 LNG exporter

(CNBC; Aug. 23) - Qatar will lose its title as the world's largest exporter of liquefied natural gas within the next year, as Australia ramps up production on a slew of multibillion-dollar export projects. "Australia and Qatar continued to jostle for the title of the world's largest LNG exporter over the first five months of 2019," the Australian government said in a recent report.

Australia exported more LNG than Qatar in November 2018 and April 2019. But now the U.S Energy Information Administration says Australia is on track to consistently export more LNG than Qatar, as recently commissioned projects such as Wheatstone, Ichthys and Prelude ramp up production. Prelude, Shell's floating LNG facility in a remote field northeast of Broome in Western Australia, shipped its first LNG cargo to customers in Asia in June.

The 1,600-foot-long production and storage facility was the last of eight LNG projects that came online in Australia between 2012 and 2018. The new facilities have pushed Australia's export capacity from 2.6 billion cubic feet per day in 2011 to more than 11.4 bcf per day in 2019. And while Australia ramps up, Qatar is not expected to remain idle. The country plans to boost its LNG capacity by early 2024 to 110 million tonnes a year, up from around 77 million tonnes a year. That works out to about 14.5 bcf of gas a day.

World 4th-largest container ship operator promises no Arctic shipping

(American Shipper; Aug. 23) - CMA CGM, the fourth-largest container ship operator in the world, said its ships will not traverse Arctic waters as part of a pledge to protect the region's environment. The promise from the France-based company comes as the region undergoes major climatic change, resulting in thinner ice and making for easier sea navigation. The world's superpowers are eyeing the Arctic for oil and mineral exploration, as well as more use of the Northern Sea Route along the coast of Siberia.

The Yamal LNG project in Russia's Siberia will have 15 ice-breaking tankers by next year. Last year China declared itself a "Near-Arctic" state as it outlined its own policy for use of the Northern Sea Route. The world's largest shipping company, Maersk, made its Arctic splash last year by sending a small container ship on a voyage between Russian ports carrying a load of frozen fish, the first transit of a container ship across the Northern Sea Route. Maersk said the sailing was just a trial of Arctic shipping.

High North News reported that China's COSCO Shipping plans up to 14 vessel transits of general cargo ships along the Northern Sea Route. CMA CGM is charting a different path. CEO Rodolphe Saadé will sign a French-sponsored agreement that aims to leave the Arctic region alone. As part of that, Saadé said none of the company's 500 ships will use Arctic waters for navigation, "despite the major competitive advantage this route represents for shipping companies." CMA CGM also plans to use cleaner-burning liquefied natural gas to power its future ships, planning a fleet of 20 such ships by 2022.

Another LNG project in Louisiana applies to FERC

(S&P Global Platts; Aug. 20) - Privately held Commonwealth LNG filed with U.S. regulators on Aug. 20 its formal application for authorization to build a liquefied natural gas export terminal and feed gas pipeline interconnect in Cameron Parish, Louisiana. The project, proposed at 8.4 million tonnes per year, is among a dozen or so LNG terminals being pursued in the U.S. with the expectation they will come online by the mid-2020s, a time when global supply could face a shortage based on forecast demand.

There is uncertainty in the market about the number and size of projects that will make it to the finish line, given the cost to build, the competition for buyers and, more recently, the impact from the ongoing trade war between the U.S. — the biggest supplier of new capacity — and China, which is expected to be the world's biggest importer of LNG within a decade. Commonwealth LNG had been in the pre-filing process with the Federal Energy Regulatory Commission since 2017. It wants to start exports in 2024.

Houston-based Commonwealth, a subsidiary of an investment vehicle owned by businessman Paul Varello, is proposing to use six small-scale liquefaction units, each capable of producing 1.4 million tonnes per year of LNG. Commonwealth expects to build significant portions of the trains and storage tanks offsite in modular fashion. This approach is becoming more common among second-wave U.S. developers to shorten construction time, cut costs, and find offtakers willing to underpin project financing.

Permian gas pipeline developer seeks early review from FERC

(S&P Global Platts; Aug. 21) - Tellurian on Aug. 20 asked federal regulators for permission to start early review for a 625-mile, 42.5-inch-diameter gas pipeline that would run from the Waha Hub in West Texas to Gillis in southwest Louisiana. The Permian Global Access Pipeline, at 2.3 billion cubic feet per day, would link burgeoning Permian Basin production to the fastest-growing U.S. gas market, in Southwest Louisiana, where petrochemical, industrial, and LNG export demand is rising, the developer said in its pre-file application to the Federal Energy Regulatory Commission.

The project is one of several pipelines Tellurian has proposed to link prolific shale gas production with U.S. Gulf Coast markets and the developer's planned Driftwood LNG export terminal in Lake Charles, Louisiana. The in-service date for the pipeline is targeted for the second half of 2023 or the first half of 2024. The company anticipates filing a complete application at FERC in October 2020 with the goal of receiving approval around mid-2022.

In its request to enter pre-filing, Tellurian stressed the economic benefits of providing an outlet for associated gas resulting from production of crude oil. The project would deliver gas that would otherwise be vented or flared, reducing greenhouse gas and particulate emissions. The new pre-filing request comes as three major Permian pipeline projects totaling 6 bcf a day have reached a final investment decision within the past two years.

Egypt targets 3 bcf a day by year-end from new gas field

(Reuters; Aug. 21) - Natural gas production at Egypt's Zohr field, the largest gas field in the Mediterranean, has increased to 2.7 billion cubic feet per day, Egypt's petroleum minister said on Aug. 21. In February Egypt's petroleum ministry said the field's production was 2.1 bcf per day. The government aims to raise output to 3 bcf by the end of the year. Minister Tarek al-Molla said production is four months ahead of schedule.

Zohr was discovered in 2015 by Italy's Eni and began producing in late 2017. It holds an estimated 30 trillion cubic feet of gas. Eni controls 50 percent. Kremlin-controlled Rosneft owns 30 percent, while BP and Mubadala Petroleum each have a 10 percent stake in Zohr. Higher output helped Egypt become self-sufficient in gas in late 2018.

Closure of Europe's biggest gas field will affect trading hub

(Bloomberg; Aug. 22) - A decision to close Europe's biggest natural gas field is starting to raise concerns about the impact on the region's biggest trading hub for the fuel. The Dutch Title Transfer Facility has grown into Europe's largest gas market in the past few years, surpassing the U.K., partly because of the scale of flows converging in the Netherlands. A plan to shut down production at the Groningen field in the northeast corner of the Netherlands will make the nation dependent on imported gas.

That's prompting questions about how the trading hub will work in the future, said Annie Krist, CEO at GasTerra, a venture between Shell, ExxonMobil, and the Dutch state that manages the field, which produced more than 5 billion cubic feet of gas a day at its peak in 2013. "If we don't have Groningen's flows, how is it going to be?" After earthquakes caused by the earth settling as gas drained from the Groningen reservoir, the Dutch government has ordered the field to shut down gradually by 2030.

Five years ago GasTerra handled more than a fifth of all the gas produced in Europe. It's already been forced to adapt to output constraints at Groningen when tremors damaged nearby buildings. But shutting down completely is a bigger step. The giant Groningen field has been fueling Europe's energy needs, and the Dutch budget, since

1963. But intensive gas production has generated a series of earthquakes, affecting inhabitants in the region and damaging the image of gas as a source of energy.

Low LNG prices hurt synthetic gas project in India

(Bloomberg; Aug. 20) - A global glut in natural gas is threatening to undermine a $4 billion investment by India's Reliance Industries aimed at boosting profits at the world's largest oil refining complex. The project made all the sense in the world when energy magnate Mukesh Ambani's conglomerate announced in 2012 its plan to convert petroleum coke, or petcoke, one of the cheapest and dirtiest refinery byproducts, into gas needed to power the massive Jamnagar complex on India's West Coast.

Then it hit about three years of delays, while global gas markets crashed amid growing supplies of liquefied natural gas cargoes from the U.S., Australia, and Russia. The 10 synthetic gasifiers that make up the Reliance project are now finally commissioned, but the imported LNG they're meant to displace has fallen from about $15 per million Btu in 2012 to less than $5. That price slump has reduced the project's viability, according to a person with knowledge of the company's finances.

Reliance predicted in 2014 that the project would boost refining margins by as much as $2 a barrel. Mumbai-based brokerage Centrum Broking now sees a margin boost of about $1.30 to $1.50 a barrel by the 2021-2022 fiscal year, according to a July 21 report by analysts Probal Sen and Akshay Mane. "It's not the most conducive environment to bring the petcoke project on stream," said Somshankar Sinha, head of India equity research at Jefferies Financial Group.

Keystone XL oil pipeline wins important ruling in Nebraska court

(Bloomberg; Aug. 23) - TC Energy's long-delayed 1,200-mile Keystone XL oil pipeline to move 830,000 barrels per day of Canadian oil to U.S. Gulf Coast refineries cleared a legal hurdle as the Nebraska Supreme Court ruled that regulators' approval of the route through the state was valid. The court found there was sufficient evidence to support the Nebraska Public Service Commission's decision that an alternative route for the pipeline was in the public interest, according to a ruling released on Aug. 23.

The ruling removes a key roadblock to construction of the US$8 billion pipeline, which has been on the drawing board for a decade. But challenges remain: the project is still tied up in a legal battle in Montana over its Army Corps of Engineers permits, and TC Energy, formerly TransCanada, said it has missed the window for starting major construction this year. The company has yet to officially declare it will build the pipeline.

Keystone XL also faces scrutiny amid the U.S. presidential election. Democrat Elizabeth Warren has said permits for the line and the similarly controversial Dakota Access oil pipeline should be revoked. Just four days after he took office, President Donald Trump issued a memo inviting TC Energy to reapply for a permit that had been rejected by President Barack Obama. "We believe TC Energy must wait to sanction the pipeline until it knows whether or not President Trump can hold onto the White House," said Katie Bays, a co-founder of Washington-based Sandhill Strategy.

Higher prices cut into U.S. crude oil exports

(Wall Street Journal; Aug. 20) - U.S. oil prices are trading at the smallest discount to global prices in more than a year — a reversal that is crimping domestic exports and could lead to a storage buildup of crude. Two new pipelines have started transporting oil from the prolific Permian Basin of West Texas and New Mexico to the Gulf of Mexico. That has eased a bottleneck, which has pushed the price of West Texas Intermediate — the U.S. price benchmark — closer to the global price of Brent crude oil.

The difference between WTI and Brent fell to $3.53 a barrel Aug. 19, its lowest since July 2018, according to Dow Jones data. It had been around $10 much of the past year. Although the new pipelines have supported domestic oil prices temporarily, they have already started limiting U.S. exports as the WTI discount shrinks and the two prices converge. Lower exports have contributed to a buildup in domestic oil inventories, an alarming trend that traders say could exacerbate fears of excess supply if it continues.

"Nobody really wants the barrels when they're $3 cheaper than Brent," said Bob Yawger, director of the futures division at Mizuho Securities USA. "It could get ugly long term." Analysts have in recent weeks already been worried that softening demand and steady production will lead to a glut of crude and lower prices. U.S. crude exports averaged about 2.4 million barrels a day during the three-week period ended Aug. 9, down from an average above 3 million barrels between the start of May and mid-July.

International investors leaving Canada's oil patch

(Bloomberg; Aug. 22) - Capital keeps marching out of Canada's oil industry with Kinder Morgan's sale of its remaining holdings on Aug. 21 adding to more than US$30 billion of foreign-company divestitures in the past three years. Calgary-based Pembina Pipeline is snapping up Kinder's Canadian assets and a cross-border pipeline in a US$3.3 billion deal. For Houston-based Kinder the deal completes an exit from a country that has frustrated more than a few companies — from ConocoPhillips and Shell to Marathon.

The drumbeat of exits, rare for such a stable oil-producing country, adds an extra layer of gloom for an industry that accounts for about a fifth of Canada's exports. The energy sector — centered on Alberta's oil sands — has struggled to rebound since the 2014 crash in global oil prices, with capital spending declining for five straight years and job cuts pushing the province's unemployment rate above 6 percent.

The situation isn't likely to improve any time soon, with new pipelines bogged down by legal fights. The lack of market access has weighed on Canadian crude prices for years, sending them to a record low late in 2018. "If they thought things were getting better in Canada, they might hold on, but they don't see things getting better," said Laura Lau, who helps manage more than C$2 billion at Brompton Corp. in Toronto. "The pipeline situation is getting worse." In addition to a shortage of pipeline capacity, the oil sands are often viewed as a higher-cost play that produces a lower quality of heavy crude.