Oil and Gas News Briefs
Compiled by Larry Persily
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U.S. LNG exports add to global oversupply, hold down prices

(Wall Street Journal; Aug. 27) - More shale gas than ever is leaving U.S. shores. Unfortunately for the country's beleaguered natural gas producers, global prices for the fuel have never been lower. Gas prices in Europe and Asia have plummeted this year to historic lows in the midst of reduced demand, the trade dispute with China and brimming gas storage facilities in Europe. The biggest driver of falling prices, though, has been the U.S. gas flowing into global markets as liquefied natural gas.

"It was inevitable," said Ira Joseph, head of gas and power analytics at S&P Global Platts. "There is simply too much supply coming into the market." The price decline has eliminated some of the allure for liquefying cheap U.S. gas and shipping it abroad. The more global prices fall, the better the chance that U.S. LNG terminals will reduce their intake, which has helped keep domestic gas prices from collapsing completely this year.

U.S. gas futures for September delivery settled Aug. 26 at $2.225 per million Btu, down 25 percent from this time last year despite the surge in exports and record consumption at U.S. power plants to make electricity for air conditioning. The benchmark price in Asia has fallen to as low as $4.11 per million Btu this summer, down from more than $11 a year ago, according to S&P Global Platts. A widely used European price has dropped to nearly $3 from $9 a year ago. Those prices don't leave much margin for U.S. sellers.

In July, U.S. LNG exports consumed about 6 billion cubic feet of gas per day, equal to roughly 7 percent of total U.S. production. Last week a record nine LNG cargoes left U.S. terminals. Analysts expect demand from LNG facilities to take about 12 percent of total production by next summer as new facilities start up and existing plants boost their capacity. But if those projects are delayed because of low prices overseas or if existing LNG plants slow down, the domestic market could be swamped, sending prices lower.

Wood Mackenzie says China's shale gas production 'challenging'

(OilPrice.com; Aug. 28) - China is set to double its natural gas production by 2040, but challenges in developing shale gas resources have led to a lower production outlook and expectations of more imports in the long term, Wood Mackenzie said Aug. 28. China's annual domestic gas supply is forecast to double to almost 11.5 trillion cubic feet in 2040, said Wood Mackenzie's Xueke Wang. Yet this latest forecast for 2040 is almost 1.4 tcf less than the previous outlook, mostly dragged down by lower forecasts for shale and coal-bed methane gas, Wood Mackenzie said in its recent research.

“The long-term growth of coal-bed methane and shale production looks to be challenging,” Wang said in a press release. China’s biggest producers have started to tap more tight oil and gas wells recently, aiming to increase oil and gas production at the world’s largest crude oil importer. As part of a government push to boost domestic supply, China National Petroleum Corp. and Sinopec are raising investments to increase oil and gas production and accelerating drilling at tight oil and gas formations.

Shale gas accounted for 7 percent of China’s gas production in 2018, Wood Mackenzie estimated. Analysts expect that challenging geology, insufficient infrastructure and low well productivity will cause China to badly miss its own shale gas production target for 2020. “The overall reduction in China’s gas production outlook calls for greater need for imports in the long term despite a more modest demand growth rate,” Wang said. “This should drive China’s growing appetite for LNG and influence global gas spot prices.”

Northern Sea Route across Russia ice-free this month

(The Barents Observer; Norway; Aug. 28) - The Arctic shortcut that connects Asia and Europe across Russia is open and ice-free and shipping appears smooth — even for vessels without ice-class standards. The last pieces of frozen water vanished in mid-August and ice-data shows that the entire route now is free of ice. That includes the East Siberian Sea, the area that normally has the longest-lasting ice sheet.

August-October is peak season for Arctic shipments. But the number of ships in the area still remains low. Figures from Russia’s Northern Sea Route Administration shows that 94 vessels the last week of August were sailing in the waters between the Bering Strait and Novaya Zemlya archipelago. The majority of the ships are on the western part of the route, in areas where ice vanished in July. Only about 30 vessels were located in waters east of the Kara Sea. Almost half of all the ships are tugs and support and service vessels, most of which are involved in oil and gas-related activities.

Of the vessels now sailing on the more than 3,400-mile-long sea route are about 20 tankers, several of them bringing oil from the terminal of Novy Port, while others are liquefied natural gas carriers serving the Yamal LNG project. The latter includes the Nikolay Urvantsev, the newest ice-class carrier on its maiden trip through Arctic waters. The 980-foot-long ship was officially handed over by South Korea shipyard Daewoo Shipbuilding & Marine Engineering to owner Mitsui O.S.K. Lines in July.

China imposes 5% tariff on U.S. crude, raises tariff on propane

(Reuters; Aug. 26) - Amid the escalating China-U.S. trade war, Beijing on Aug. 23 retaliated with tariffs on about $75 billion worth of U.S. goods including imposing a 5 percent tariff U.S. crude oil starting Sept. 1. China, the world's biggest crude importer, has sharply lowered its U.S. oil imports from a record high hit last year as U.S.-China trade tensions have escalated. Chinese customs data showed imports in the first seven months fell 63 percent year on year to about 126,000 barrels per day.

China also imposed an additional 5 percent tariff on U.S. propane starting Dec. 1, which adds to the 25 percent levied since Aug. 23, 2018. Chinese firms process U.S. propane into petrochemicals such as propylene. Imports last year were worth an estimated $2 billion. China has imposed a 10 percent duty on U.S. liquefied natural gas since fall 2018 and then raised it to 25 percent in June. Imports of LNG in the first seven months shrank 84.6 percent from the same period last year, according to Chinese customs. China also has imposed punitive tariffs of 25 percent since June on U.S. methanol.

Expansion would allow 580 LNG carriers a year at Sabine Pass

(S&P Global Platts; Aug. 26) - Sabine Pass LNG received a positive environmental assessment from the Federal Energy Regulatory Commission for a marine berth expansion project at its export terminal in Louisiana. The project would allow the developer to accommodate an additional 180 LNG cargoes annually, increasing the terminal's total capacity to 580 LNG carrier loadings per year.

In the Aug. 23 environmental assessment, FERC staff determined that adding a third berth would not have major environmental impacts if the developer complies with recommended construction and mitigation measures. The Cheniere Energy subsidiary proposes to build the new berth at the existing Sabine Pass LNG terminal in Cameron Parish, Louisiana. The terminal currently has a single marine basin with two berths.

Sabine Pass LNG said the expansion would help minimize delays caused by bad weather or ship traffic and would allow for optimal LNG production by removing bottlenecks from LNG loading and marine constraints. The Sabine Pass terminal shipped its first cargo in February 2016. Cheniere earlier this summer gave the go-ahead for construction of a sixth liquefaction train at the site, which will give it a capacity of 27 million tonnes of LNG per year, among the world's largest terminals.

Corpus Christi LNG wins approval for commercial service at Train 2

(S&P Global Platts; Aug. 28) - Cheniere Energy received the go-ahead Aug. 28 from federal regulators to begin commercial service on the second liquefaction train at its

LNG export terminal near Corpus Christi, Texas. Cheniere has been ramping up feed gas deliveries to the plant over the past week to boost production. The primary offtakers for Train 2 are Spanish utilities Iberdrola and Naturgy (formerly Gas Natural Fenosa), Indonesian state-owned oil-and-gas firm PT Pertamina, Australia's Woodside Energy, and utility Electricite de France, S&P Global Platts Analytics data show.

A third train is under construction at the site with each train at 4.5 million tonnes annual capacity. All six of the export facilities that make up the first wave of major U.S. LNG terminals are now producing LNG, though the last two have yet to load an export cargo. A dozen or so other export facilities — the so-called second wave — are actively being developed for start-up in the early to mid-2020s.

Cheniere shipped its first LNG cargo from Sabine Pass, Louisiana, in February 2016. Shipments began at Dominion Energy's Cove Point terminal in Maryland in March 2018 and at Cheniere's Corpus Christi project in December 2018. Sempra Energy's Cameron LNG in Louisiana exported its first commissioning cargo in May. Kinder Morgan's Elba LNG in Georgia began production in July, while Freeport in Texas started up earlier this month, though neither has shipped out a cargo yet.

U.S. supplied 60% of Brazil’s LNG this summer

(S&P Global Platts; Aug. 27) - Since the start of June, a period that is considered the dry season, the U.S. has been the main LNG supplier to Brazil, accounting for 60 percent of the shipments to South America's largest economy, according to S&P Global Platts Analytics data. Brazil has imported the equivalent of 41 billion cubic feet of gas since the beginning of June, of which 24 bcf was from the U.S., the data show.

The remaining 17 bcf was split between five other countries — Equatorial Guinea, Trinidad & Tobago, Cameroon, Norway, and Nigeria. During the ongoing Southern Hemisphere winter, Brazil's Southeast-Midwest hydro reserves have dropped 7 percentage points over the past three months to 40.4 percent of capacity on Aug. 27.

Reduced hydroelectric power and lower global liquefied natural gas prices contributed to the increase in LNG imports, which are coming at a time of low LNG prices. "The LNG price in June dropped to $4.60 per million Btu from $7.20 in May," Brazil’s energy ministry said.

Wisconsin shipyard will build 1.5-million-gallon LNG barge

(WorkBoat; Aug. 22) - Fincantieri Bay Shipbuilding, of Sturgeon Bay, Wisconsin, has been awarded a contract to build a 340-foot-long, 5,400-cubic-meter liquefied natural gas tank barge for Polaris New Energy. The barge will be used for the coastwise transportation of LNG, carrying almost 1.5 million gallons, equal to about 120 million cubic feet of natural gas. The contract includes options to build two sister barges.

NorthStar Midstream, a company of funds managed by Oaktree Capital Management, recently formed Polaris New Energy, focused on the transportation and distribution of LNG along U.S. coastal and inland waterways. Pushed by a connected tug, the barge will initially run along the East Coast, providing LNG bunkering services to NorthStar customers. The barge will take on LNG from the new liquefaction and loading depot in Jacksonville, Fla., built through a partnership between NorthStar and Pivotal LNG. The Florida facility can produce 120,000 gallons a day and store 2 million gallons.

"The construction of this barge will expand our ability to solve the logistics behind delivering LNG to our customers," Tim Casey, executive president of LNG for NorthStar Midstream, said in a statement. "As domestic natural gas continues to rise, LNG has quickly become both a clean and competitively priced fuel alternative."

Germany may add up to four LNG import terminals

(Houston Chronicle; Aug. 26) - Germany is expected add four liquefied natural gas import terminals over the next four years, significantly increasing Europe's capacity to receive LNG and potentially opening a large market for U.S. gas exports. The projects, expected be completed by 2023, come as Germany has come under intense pressure from the U.S. government for its partnership with Russia's Gazprom to develop the Nord Stream 2 pipeline, which would move Russian gas under the Baltic Sea to Germany.

Germany, Europe's largest economy, buys more than a third of its imported gas from Russia. When Nord Stream is completed, Russian imports could easily double. The Trump administration, which has criticized Germany as "captive" to Russia, is promoting U.S. LNG as an alternative to Russian gas and as a way to reduce the geopolitical leverage that Russia holds by controlling so much of Europe's energy supply.

The four import terminals could receive 635 billion cubic feet of gas per year by 2023, about 13 million tonnes of LNG, which would boost Europe's import capacity by nearly a third, according to GlobalData, a London analytics firm. Final investment decisions of the four projects are expected later this year. More than 20 LNG import terminal operate across the 28-nation European Union. U.S. LNG exports to the European Union have increased by nearly five times over the past year.

India plans to build its sixth LNG import terminal

(S&P Global Platts; Aug. 27) - India plans to build a new floating liquefied natural gas import terminal with a capacity to handle 1 million tonnes per year. The floating LNG terminal will be India's sixth import facility to date and is in line with expectations of high gas demand in the eastern region of the South Asian country in coming years on the back of increasing urbanization and industrialization. It will be built at the port city of Krishnapatnam in Andhra Pradesh state by 2022, oil ministry officials said Aug. 27.

"We have plans to scale up the initial capacity to 3 million or 5 million tonnes later on," Bharat Petroleum (BPCL) Chairman D. Rajkumar said on the sidelines of an industry event Aug. 26. BPCL will hold a 74 percent share, while the remaining 26 percent will be held by Petronet LNG, India's state-run LNG company. India has been promoting the use of natural gas as cleaner than oil or coal, and it aims to increase the share of gas in its overall energy basket to 15 percent by 2030 from the current 6.2 percent.

The Indian government has also been working to build a national gas grid and construct almost 9,000 miles of additional gas pipeline network, mainly in the east.

India will review long-term LNG deals at ‘appropriate time’

(Reuters; Aug. 26) - India will look at reviewing the pricing of its long-term liquefied natural gas supply contracts at an “appropriate time” amid the fall in spot-market prices, Oil Minister Dharmendra Pradhan said at a natural gas event in New Delhi on Aug. 26. The spot price of imported LNG into Japan, one of world’s biggest importers of the super-cooled fuel, has more than halved in the past year, dropping under $4 per million Btu before inching back up.

This has led buyers in Japan and China to request delays in taking cargoes under their long-term contracts, generally linked to oil prices and significantly more expensive than depressed spot LNG prices. Other countries also are considering reducing their contracted cargoes, as many long-term deals allow some variance in delivery volumes. Pradhan did not say how the pricing reviews would be conducted but maintained that standing long-term LNG contracts would be honored.

India’s biggest gas importer, Petronet LNG, said earlier this month that it would consider renegotiating its long-term LNG supply deals if spot prices remain weak for a prolonged period. Petronet has contracts to buy 7.5 million tonnes of LNG annually from Qatar and 1.44 million tonnes from ExxonMobil’s share of the Gorgon project in Australia. The company is buying the gas at oil-linked prices, currently $8.25 to $9.50 per million Btu. Petronet renegotiated an Australian supply deal in 2017 and one with Qatar in 2015.

Opponents turn out at hearing on Tacoma LNG project

(KING5 TV; Seattle; Aug. 27) - A public hearing drew a large crowd to Tacoma, Washington, on Aug. 27 to hear comments about Puget Sound Energy's new liquefied natural gas production and storage terminal. The hearing was held by the Puget Sound Clean Air Agency, the group holding the last key permit needed to finish construction of the plant. "Please, I just ask you humbly to deny this permit," one woman said. Opponents fighting to stop the plant argued against continued investment in fossil fuels.

The terminal's plans have been scrutinized by an environmental impact statement dating back to 2013. Last year the Clean Air Agency began analyzing the plant's projected greenhouse gas emissions, from the extraction of the gas all the way to when it's burned. The $310 million LNG plant, storage tank and fuel-loading depot will likely be online by 2021, a company official said, assuming it receives its last permits. The terminal would fuel the maritime industry and provide peak-demand backup for utilities.

The effort to stop the plant is led by the Puyallup tribe. "This is a worldwide problem and if we don't do something now, we are not going to have a chance to do something later," tribal member Patricia Gonzalez said at the meeting. "You have a duty to protect our best interest, and our best interest is being out on these waters and fishing," tribal member Dakota Case told the agency.

Canadian oil and gas producers enjoy a week of good news

(Calgary Herald; Aug. 23) - Back-to-back pipeline announcements from TC Energy are prompting celebrations from oil and gas producers in Canada that believe the legal win for the Keystone XL oil pipeline and changes to the Nova natural gas pipeline system will provide relief to the beleaguered industry. Both announcements came in the same week that Ottawa announced construction would soon begin on the Trans Mountain oil pipeline expansion from Alberta's oil sands to an export terminal on the West Coast.

Earlier in the week TC Energy, formerly known as TransCanada, reached an agreement with the Alberta government and gas producers to change how it operates the Nova gas transmission system, the province's largest gas pipeline network. TC Energy will change the way it allocates space on the system when lines are down for maintenance, resolving its two-year fight with a majority of gas producers in the province. Producers had accused TC Energy of cutting their access to storage sites during pipeline maintenance, resulting in wild swings in prices and creating market volatility.

The new deal will help stabilize gas prices and lift the sector that is currently fetching half the price realized in the United States — $1.16 per million Btu in the spot market, compared with $2.28 in the U.S. The gas line and Keystone XL oil line announcements serve as a double dose of optimism for Canadian oil and gas companies, which have in recent years seen their share prices plummet to all-time lows amid pipeline delays and domestic commodity prices regularly trading far lower than international prices.

Alberta wants private sector to take over oil-by-rail tank car leases

(Calgary Herald columnist; Aug. 27) - The Alberta government last week extended the province's oil production curtailment program into 2020. The program, which started Jan. 1, is intended to hold enough supply off the market to help boost prices. Next on its to-do list is to unload the government's crude-by-rail contracts to the private sector. Under the former government's C$3.7 billion initiative, the province was supposed to take the first of 4,400 leased rail tank cars last month to move oil out of the province.

The new government, which took office after elections in April, wants to shift these contracts to private companies, hiring CIBC Capital Markets to help with the divestment process. "We should have a better idea of the path forward in early fall, hopefully in September. The data room is still open, there are still companies reviewing those bids," Energy Minister Sonya Savage said in an interview. "There is a lot of interest."

As much as the industry would like higher prices for its oil, not all like the idea of the province getting involved in the transport business. Imperial Oil has said the province should not be in the private-sector business of leasing rail cars. But the industry needs every available option to move more oil out of Alberta. The government estimates oil production exceeds takeaway capacity by about 150,000 barrels per day. It's critical to get more rail cars rolling and increase production, said Beaver Drilling CEO Kevin Krausert. The lack of takeaway capacity has cut deeply into the price for Canadian oil.

Some oil sands producers don't like switch to contract carrier

(Bloomberg; Aug. 28) - Enbridge's plan to contract space on the Canadian segment of its Canada-U.S. Mainline oil pipeline system is drawing the ire of producers that argue it will give too much power to U.S. Midwest refiners. ConocoPhillips and Canadian Natural Resources are the latest companies to object to Enbridge's proposal that would require shippers sign long-term contracts. The plan would create uncertainty for oil sands producers that use the Mainline to access other lines downstream, the companies said.

It could lend an advantage to some of the largest refiners in the Midwest, such as BP and ExxonMobil, which source crude on the Mainline, said Mike Walls, an analyst at Genscape. "Producers are concerned that if a relatively few large refiners in the U.S. control a large portion of the mainline space, their access to customers will be limited as well as their ability to get to more diverse markets like the Gulf Coast," Walls said. The plan favors shippers that own their own refineries, which gives them a ready market for their oil, as opposed to other producers that would have to take more market risk.

Enbridge wants to reserve as much as 90 percent of space on the Mainline for companies with multiyear contracts, charging them whether they ship oil or not. The current common-carrier system allows shippers to nominate the amount they want to ship each month and space is rationed when volumes exceed capacity. The Mainline, with capacity to move 2.8 million barrels a day, has seen heavy rationing the past year and a half as surging production has run into pipeline bottlenecks. Enbridge is holding an open season to sign up shippers and wants to start the new system in 2021.