Oil and Gas News Briefs
Compiled by Larry Persily
August 8, 2019

Oil could drop $20 to $30 if China buys Iranian crude, bank says

(CNBC; Aug. 5) - Crude oil prices could sink by as much as $30 a barrel if China decides to buy Iranian crude in retaliation for the latest U.S. tariff measures, according to Bank of America Merrill Lynch. “While we retain our $60-a-barrel Brent forecast for next year, we admit that a Chinese decision to reinitiate Iran crude purchases could send oil prices into a tailspin,” a BofA Merrill Lynch Global Research report said Aug. 2, warning that prices could sink by as much as $20 to $30 a barrel in that scenario.

The Chinese Ministry of Commerce has threatened countermeasures after President Donald Trump threatened to slap a 10 percent tariff on $300 billion of Chinese goods. Trump’s decision Aug. 1 floored oil markets and sent crude plunging 8 percent — the most in four years. Analysts warn that “oil volatility is set to rise again” as markets wait for a Chinese response to the U.S. tariff threat, which could include buying Iranian oil. Increased supply from Iran would add to an already well-supplied global market.

However, a Chinese move to purchase Iranian oil in defiance of U.S. sanctions could be a double-edged sword. “Iran would welcome any opportunity to increase its production whether or not it breaches the terms of the U.S. sanctions, but the strategy would introduce China to a partner over which it doesn’t have an enormous amount of control,” said Edward Bell, director of commodities research at Emirates NBD. BofA Merrill Lynch analysts said the latest round of U.S. tariffs could reduce global oil demand by 250,000 to 500,000 barrels per day, adding to worries about a demand slowdown and price drop.

Low spot prices push Japanese utilities to seek LNG contract reviews

(Reuters; Aug. 7) - An inexorable decline in spot market prices for liquefied natural gas is pushing utilities in Japan to be more aggressive in price reviews built into traditional long-term contracts linked to oil prices, lawyers and analysts said. The utilities are also looking to buy more LNG on the spot market, where prices are hitting three-year lows of around $4 per million Btu, about half the average contract import price for buyers in Japan, the world’s biggest importer of the fuel for power generation and industrial use.

The tougher stance marks a shift for Japanese utilities, which have long favored stability of supply over price, partly because they’ve been able to pass on costs to consumers. But liberalization in Japan’s energy markets means the utilities are losing customers to new entrants and need to cut costs. “Given the gas and power markets liberalization and intensifying domestic competition in Japan,” utilities need to buy LNG at competitive prices, said Thanasis Kofinakos, head of Wood Mackenzie's Asia-Pacific gas and LNG consulting. "Price-review negotiations are becoming more intense," he said.

According to reports, Japan's second-biggest city-gas company, Osaka Gas, is in arbitration with ExxonMobil's LNG project in Papua New Guinea after failing to get a reduction in prices during a price review. But even if Osaka Gas succeeds in getting a lower price, it is unlikely to be more than 5 percent below the contract price, said one gas executive who has been involved in many LNG price reviews. "The last company you want to take on is Exxon," he said. Arbitration is risky and also expensive, costing as much as $15 million, said one Singapore-based lawyer who handles LNG contracts.

New coal-fired power plant will displace LNG imports in Japan

(S&P Global Platts; Aug. 6) - The recent startup of Tohoku Electric's new coal power generation plant, Noshiro Unit 3, in Akita Prefecture is expected to displace some of the utility's spot-market liquefied natural gas requirements, LNG traders said Aug. 5. The facility has a power generation capacity of 600 megawatts. It could displace about 100 million cubic feet of gas consumption per day, equivalent to one LNG cargo per month, according to S&P Global Platts Analytics.

The facility started trial operations Aug. 1 and will gradually increase output, with commercial operations due to commence in March 2020, Tohoku Electric said in a statement Aug. 2. Since the facility's start-up, Tohoku Electric has not been consuming as much natural gas, an LNG trader said.

U.S. natural gas falling toward $2 per million Btu

(Bloomberg; Aug. 5) – U.S. natural gas futures are sliding toward $2 per million Btu, a level that hasn't been breached in three years, as fading summer heat and maintenance on the largest U.S. export terminal — Sabine Pass, Louisiana — leave the market struggling to absorb a barrage of growing supply from shale basins.

Though U.S. gas exports have climbed to a record and power plants are burning more of the fuel than ever, the demand boost has been no match for soaring output from shale basins. Underground gas storage is filling up at a faster pace as the weather cools, erasing concern that a supply crunch will emerge during the winter heating season. Gas for September delivery fell 5.5 cents, or 2.6 percent, to $2.066 per million Btu on the New York Mercantile Exchange on Aug. 5.

Gas was also pressured lower by a broader decline in energy and agricultural commodities as the U.S.-China trade war escalated, with Beijing responding to

President Donald Trump's tariff threat by letting the yuan tumble to the weakest level in more than a decade.

Despite denials, China most likely partner for East Timor's gas project

(South China Morning Post; Aug. 3) - Geopolitical tremors were felt in the region when reports surfaced that East Timor's state-owned energy company was considering a US$16 billion loan from China to develop an offshore oil and gas field. Many saw it as the latest example of China's growing diplomatic and economic clout in the 17-year-old nation of 1.3 million people, which lies just 310 miles off the northern coast of Australia.

East Timor denied the reports, which had claimed the Export-Import Bank of China would help finance its US$50 billion Greater Sunrise project following the withdrawal of Shell and ConocoPhillips. Despite the denial, experts said the country has few options other than to turn to China for a project vital to its struggling economy. Greater Sunrise holds estimated gas reserves of 5.1 trillion cubic feet and up to US$12 billion worth of oil. Putting public money into the project could mean draining Timor's sovereign wealth fund, said La'o Hamutuk, a nonprofit that monitors the country's economic development.

Shell and ConocoPhillips recently sold their stakes in Greater Sunrise back to Timor Gap, the country's national oil and gas company. La'o Hamutuk said international financial institutions are reluctant to bankroll the work, which they see as risky and challenging. This has left East Timor in search of support. China has already spent millions on new infrastructure projects in East Timor. Observers suggest China is the only likely partner for the project. Tao Duanfang, an analyst at the Center for China and Globalization in Beijing, agrees: "Who could fund this kind of project other than China?"

U.S. LNG exports to reach 52 million tonnes next year

(Seatrade Maritime News; Aug. 5) - The U.S. continues its move into the top tier of liquified natural gas exporters, becoming the world's third-largest provider. The U.S. Energy Information Administration reports that U.S. terminals shipped 4.7 billion cubic feet of gas per day as LNG in May 2019, overtaking Malaysia as Australia and Qatar continue in the No. 1 and No. 2 positions.

LNG exports to Europe have grown greatly since late 2018 and comprised nearly 40 percent of U.S. LNG sales in the first five months of 2019. Since last November, four new liquefaction trains have come online with a combined capacity of 2.4 bcf per day (roughly 18 million tonnes per year of LNG). They are Sabine Pass Train 5, Corpus Christi Trains 1 and 2, and Cameron Train 1. Additional units coming online this year will include the first trains at Freeport LNG in Texas and Elba Island LNG in Georgia.

Looking further ahead, the agency's economists see additional trains coming online at Cameron, Freeport and Elba Island, with total U.S. exports averaging 6.9 bcf per day (52.5 million tonnes a year) by 2020.

FERC chairman too political, according to Politico report

(Politico; Aug. 5) - Interviews with more than a dozen current and former Federal Energy Regulatory Commission staff and industry officials reveal widespread worries about the direction of the independent agency under Chairman Neil Chatterjee, according to a Politico report Aug. 5. The concerns relate to the potential for the agency to turn into a political tool of the Trump administration. It's become so politically charged that one Republican state regulator turned down a potential appointment to a vacant FERC seat after being approached by an interlocutor for the White House, sources said.

"The current state of discourse in Washington made me question whether I would be able to influence our national energy policy, or effect any change for that matter," the state regulator said. Sources pointed to Chatterjee's public Twitter battles and his ridicule of news articles critical of him at FERC meetings. Chatterjee also recently lent support to the Trump administration's energy agenda, tweeting his support for "freedom gas" — the administration's name for U.S. gas exports.

"The tweets about the freedom gas, freedom molecules and all that crap — that in my view is him [saying]: 'I'm working for the administration here. This is what I care about,'" said one former senior staffer. Other critics say the chairman has instituted a top-down management style they say prioritizes feedback from political allies and appointees over the findings of career staffers at the agency. Chatterjee called that criticism "unfair."

U.S. sets daily record in gas consumption for power generation

(U.S. Energy Information Administration; Aug. 5) - The U.S. likely set a new daily record of 44.5 billion cubic feet of natural gas consumption by electric power plants on July 19, according to S&P Global Platts. U.S. power-sector gas consumption exceeded the previous record of 43.1 bcf — set on July 16, 2018 — on five days in July. Higher-than-normal temperatures and relatively low gas prices contributed to increased gas consumption by electric generators.

Higher electricity demand for air conditioning during a heat wave from July 15 through July 22 drove the increased power generation, especially from gas-fired generators. Relatively low prices have also led to higher gas-fired generation this summer. According to Natural Gas Intelligence, spot prices at the Henry Hub in Louisiana averaged $2.31 per million Btu in June and July, 19 percent lower than during the same period last year. Spot prices elsewhere in the country have been even lower.

Australia will take another look at reserving gas for domestic needs

(Reuters; Aug. 6) - Australia, the world's largest liquefied natural gas exporter, will consider forcing gas producers to reserve some supply for the domestic market, the government said Aug. 6 as it looks for ways to cut energy bills for households and manufacturers. Resources Minister Matthew Canavan and Energy Minister Angus Taylor said they would review a range of policies, including gas reservation, pipeline access, and price transparency to come up with options by February 2021.

Australia's government has long resisted calls for domestic gas reservation on the view that interfering in the market could distort prices and deter new production in the long run. However, following a tripling in wholesale gas prices over the past five years after the start-up of liquefied natural gas exports from eastern Australia, the government has come under pressure to boost domestic supply and cut prices.

"Past approvals of large gas export projects have not adequately considered the impact on the domestic gas market. … We cannot afford to repeat these past mistakes," Taylor and Canavan said in a joint statement. The government two years ago introduced a controversial Australian Domestic Gas Security Mechanism, which requires the resources minister to decide each year whether to limit LNG exports from Queensland state to avert any local shortage. So far it has not used that trigger.

Italian firm gets a share of Russia's Arctic LNG-2 project

(MarineLink; Aug. 5) - Italian oil and gas industry contractor Saipem reached a deal on Aug. 2 to participate in a joint engineering venture for a liquefied natural gas project in Siberia. The subsidiary of Italy's Eni said it reached an agreement with TechnipFMC to participate in the Arctic LNG-2 project, led by Russia's Novatek. The TechnipFMC contract provides for exports to start in 2023, Novatek said in May. TechnipFMC was formed in 2017 by the merger of U.S.-based FMC and French firm Technip.

The overall contract will cover engineering, procurement, construction, and commissioning of Arctic LNG-2, planned for three liquefaction trains at 6.6 million tonnes each annual capacity. Novatek is planning to make a final investment decision on the project later this year. Total project cost has been reported at between $20 billion and $25 billion. Saipem is designing and building the concrete gravity-based structures for the project. The liquefaction units and other facilities will be built on top of the structures, which will be constructed offsite and towed to the project location. Saipem's share of the work is worth approximately $2.5 billion.

Indonesia may keep LNG cargoes off the market due to low prices

(S&P Global Platts; Aug. 5) - Indonesia's Donggi Senoro LNG terminal is considering a reduction in its spot-market sales for the rest of the year due to low prices, reversing a previous decision to boost sales outside its contracted volumes, an official said. The move comes as spot prices have fallen to a multi-year low on the back of new supply from Australia and the U.S. S&P Global Platts' Japan-Korea Marker for September LNG cargoes was at $4.175 per million Btu on Aug. 2, down from $10.10 a year earlier.

Donggi Senoro originally planned to produce 43 cargoes in 2019, of which 32 are dedicated for long-term buyers and the remaining 11 cargoes were planned for the spot market, operations director Kurniawan Rahardjo said on the sidelines of the Gas Indonesia conference in Jakarta last week. The company has sold six of the 11 uncommitted LNG cargoes on the spot market but may hold back from further spot sales if LNG prices remains low, Rahardjo said.

Donggi Senoro has a nameplate LNG production capacity of 2 million tonnes per year. It has long-term delivery commitments to three buyers — Japanese utilities Chubu Electric and Kyushu Electric and state-owned Korea Gas. If the long-term buyers do not take a cargo, then the gas is available for sale on the spot market.

Indonesia's gas exports are falling for lack of upstream investment

(S&P Global Platts; Aug. 6) - Indonesia's natural gas exports, including pipeline gas and liquefied natural gas, are expected to fall to a two-decade low in 2019, marking the furthest it has dropped since peaking in the late 1990s. The country is faced with depleting gas fields and the lack of new upstream projects. The decline underscores Indonesia's diminishing role as an LNG exporter to Asian markets despite having one of the world's largest gas reserves.

It also highlights the challenges faced by the Southeast Asian country in meeting future domestic gas demand growth as projects flounder from a lack of investment. Indonesia's gas exports are projected to fall by about 25 percent from 2018 to 2019, according to its oil and gas regulator SKK Migas. This year's exports will be less than half of the approximately 4.4 billion cubic feet of gas per day it delivered in 2003.

Indonesia accounted for more than a third of global LNG in the 1990s, and as of 2014 it was still the world's fifth-largest exporter, supplying mainly to Japan, China, Taiwan, and South Korea, according to the U.S. Energy Department. But it has lost out to new suppliers like the U.S. and Australia. While Indonesia has attempted to reverse the decline with new exploration policies, any new projects could take years to come online.

Japanese company will add to floating LNG import terminal fleet

(Nikkei Asian Review; Aug. 6) - Mitsui O.S.K. Lines will more than double its fleet of LNG regasification ships — a low-cost alternative to onshore import terminals — to tap into a construction boom for gas-fired power stations in such developing regions as Southeast Asia. The Japanese maritime shipper will add six floating storage regasification units (FSRUs), bringing its total to 10 by 2025. This is part of plans to expand its LNG-related fleet to 110 vessels by 2025 from about 90 at present. The company is expected to invest upward of 100 billion yen ($940 million) for these efforts.

Southeast Asia, where demand for electricity is surging, is a hot market for power stations reliant on imported liquefied natural gas. There are "10 to 20 known (power) projects" in countries such as Thailand and the Philippines that might be accompanied by the floating import units, said Mitsui O.S.K. CEO Junichiro Ikeda.

After LNG is shipped by sea, it is returned to a gaseous state at onshore receiving terminals or, increasingly, at FSRUs before being transported to a gas-fired power station by pipeline. One advantage of the floating units is lower construction costs. They typically require only about a third of the investment needed to build onshore terminals. The vessels also take just one to three years to build — two to three years less than onshore terminals. This means countries can bring a power station online sooner.

Operators use chemicals to boost capacity of Canadian oil pipelines

(Bloomberg; Aug. 1) - U.S. refiners want more Canadian oil, and pipeline companies are finding ways to get it to them. Companies are adding capacity to their congested oil export pipelines from Canada even as plans for bigger expansions and new lines face delays. TC Energy will offer as much as 50,000 barrels a day of new capacity on its Keystone pipeline as early as next year by using chemicals, called drag resistance agents, to ease flows through the system from Western Canada to the U.S. Gulf Coast.

Enbridge, operator of the largest oil pipeline system, is using similar methods to add about 135,000 barrels a day of extra capacity to its system by early next year. The company begins an open season Aug. 2, allowing shippers to sign up for secure, contracted space on the Enbridge mainline system starting in July 2021. Rail exports are also ramping up and are forecast to reach half a million barrels a day, Tim McKay, present of Canadian Natural Resources, said Aug. 2.

The additional pipeline and rail capacity are helping lift prices for Canadian crude. Heavy Canadian crude for January delivery was about $20 a barrel below West Texas Intermediate futures on July 30, a big improvement over the $40-plus discount of last October when the situation became dire enough that Alberta’s government imposed mandatory limits on the largest producers.