Oil and Gas News Briefs
Compiled by Larry Persily
July 15, 2019

Asian LNG buyers getting more aggressive in price reviews

(Australian Financial Review; July 15) - Woodside, Oil Search, and Santos are facing what some say is the biggest threat ever to their liquefied natural gas export revenues as customer patience in Asia for paying above-market prices runs out. Buyers are not happy that their long-term contract prices are so much higher than spot-market prices. Evidence is growing that buyers in the top-tier markets of Japan and South Korea are prepared to act more aggressively than ever before in price-review negotiations to trim the large disconnect between their oil-linked contract prices and rock-bottom spot LNG.

The mismatch means most LNG contract prices are now more than double the spot price of around $4.50 per million Btu, leaving buyers ready to push hard for changes. Growing supply and weakened demand have beat down spot prices this year. "We've now got an extreme differential between spot and term prices," said Tony Regan at Nexant Energy advisers in Singapore. There is nothing to suggest the gap will close any time soon, he said. "You can understand why buyers are getting rather uncomfortable."

The Woodside-led Pluto and North West Shelf LNG projects in Australia have reviews of contract prices due this year, as does the Papua New Guinea LNG venture, in which Oil Search and Santos have stakes, and Origin Energy's Australia Pacific LNG venture, according to Citigroup. Korea Gas is already in arbitration with the North West Shelf venture in a bid to resolve a pricing dispute over an expired contract.

Meanwhile, Osaka Gas is said by one source to have entered an arbitration process with ExxonMobil-led PNG LNG, the first time ever for a Japanese player to take such a step, having always in the past relied on negotiating an agreement. "Japanese buyers are acting very aggressively for the first time," said Credit Suisse's Saul Kavonic.

Japan will fire up coal plants to meet summer power demand

(Reuters; July 11) - Japanese utilities will rely on the return of coal-fired power plants from maintenance shutdowns to meet peak electricity demand this summer, highlighting the country's dependence on the more polluting fuel instead of natural gas. Coal-power stations capable of producing 10,437 megawatts of electricity will be fired up in the next few weeks, according to a Reuters survey of power generators.

Coal remains the cheapest fuel for Japanese utilities as long-term contracts for cleaner-burning LNG have risen this year under their linkage to the price of crude oil, which is up 25 percent in 2019. As a percentage of generation units, Japan's gas-fired power capacity is nearly double that of coal. But utilities rely more on coal as a baseload, providing a continuous supply of electricity, while gas units are typically ramped up quickly to meet surges in demand.

Japan's average import price for LNG in May was $9.41 per million Btu, according to the country's trade bureau. Meanwhile, spot-market LNG prices dropped to $4.30 as of last week amid slowing demand. While long-term LNG contract prices are linked to oil, spot prices track actual market conditions, which currently shows an oversupply. Japanese utilities, however, are unable to dip into the cheaper spot LNG market because so much of their gas supply is under higher-priced, long-term contracts.

Low LNG prices amid oversupply present challenge for U.S. offtaker

(Bloomberg; July 11) - Six decades after British Gas imported the world's first seagoing cargo of liquefied natural gas from the U.S. — an experimental voyage in a converted World War II cargo ship — the company's successor is preparing to repeat the route, but with a whole new set of challenges. A global glut of LNG has caused prices to crash globally, a move most had not anticipated in 2013 when the U.K.'s Centrica signed a 20-year contract to buy LNG from Cheniere Energy's export terminal in Louisiana.

Gas prices in Europe have tumbled since the 2013 contract, presenting economic challenges to bringing U.S. LNG to Britain when the utility takes its first contractual delivery from Sabine Pass in September. "One of the big issues facing the industry is how to manage price risk and volume risk in long-term contracts because it costs a lot of money to develop LNG liquefaction," said Jonathan Westby, co-managing director of Centrica's energy marketing and trading unit. Centrica will need to pay fees regardless whether it takes the gas — or can make money on the gas. Under the terms of the deal, Centrica will pay Cheniere a liquefaction-capacity reservation fee of $3 per million Btu.

Since trading its first spot cargo in 2014, Centrica has transformed from a regional buyer into a global player, targeting 5 million to 6 million tonnes of LNG next year. It has built a diverse portfolio of long-term contracts with major producers and found customer demand in its European hub to the Middle East to Asia to the Caribbean. Signing up with Cheniere was a major milestone to kickstart Centrica's LNG business.

[Senators hear skepticism of Chinese investment in U.S. gas]

(Politico; July 11) - Senators and international energy experts warned July 11 that Chinese interest in investing in a proposed liquefied natural gas export facility in Alaska and other U.S. gas projects could increase U.S. economic dependence on the Asian nation. Any of the deals could provide China with ammunition in its trade dispute with the U.S., the analysts told the Senate Energy and Natural Resources Committee.

"We see how the Chinese Communist Party is leveraging American ... dependency on the Chinese economy and Chinese market access in a bid to bring the U.S. to heel and pressure the U.S. to back off," said Melanie Hart, director of China policy at the Center for American Progress, a liberal think tank. "Clearly [China] uses those levers strongly, and so we should be very cautious about allowing a Chinese state-owned enterprise to control that degree of decision-making and financial resources in an American project."

China's interest in the Alaska project is suspicious, Hart said, because the LNG would be more expensive than about 70 percent of the LNG China currently buys. "If it wasn't something that is feasible commercially, but it is something that the Chinese Communist Party is willing to invest in, that to me speaks to more interests than commercial ones in a deal." Her warnings echoed concerns from Sen. Joe Manchin, D-W.Va., about a similar $84 billion non-binding agreement for Chinese investment in West Virginia natural gas liquids — though like the Alaska project, China has not written any checks.

[Total completes its deal to buy LNG and invest in Louisiana project]

(Reuters; July 10) - U.S. liquefied natural gas developer Tellurian said units of French oil major Total have agreed to buy LNG from the company's proposed $30 billion Driftwood export project in Louisiana. Total will buy 1 million tonnes per year of LNG and invest $500 million in Driftwood Holdings, Tellurian said July 10. Total will also buy an additional 1.5 million tonnes per year from Tellurian's offtake volumes at Driftwood. The gas price will be on the Platts Japan-Korea Marker, an Asian LNG benchmark.

Tellurian said it plans to make a final investment decision this year whether to build Driftwood, which could enable the plant to start up in 2023. Driftwood is designed to produce as much as 27.6 million tonnes of LNG a year. It is one of about a dozen U.S. LNG export projects that have said they could make final investment decisions in 2019.

Unlike most proposed U.S. projects that will liquefy gas for a fee, Tellurian is offering customers the opportunity to invest in a full range of services from gas production to pipelines and liquefaction. Current partners include units of Total, global LNG trader Vitol, India's Petronet LNG, General Electric, and Bechtel, which has a $15.2 billion contract to build the liquefaction facility.

[S&P and partner launch electronic trading platform for LNG]

(Reuters; July 11) - Price agency S&P Global Platts and clearing house Intercontinental Exchange said on July 11 they are launching an electronic platform known as eWindow the liquefied natural gas market. Unlike oil, which has several liquid financial and physical trading platforms and exchanges, LNG markets are still evolving with companies jostling to lead the space.

Platts, a unit of S&P Global, uses the eWindow platform as part of its pricing process. The platform allows participants to directly key in their bids, offers or transactions, which then appear on a screen for others to see. It is aiming to launch the platform in a few months, said Ciaran Roe, global director of LNG at Platts. Currently, participating companies wanting to bid, offer, or transact do so manually through a Platts editor.

The pricing agency already uses the digital platform for its oil-price benchmarks and is extending it to its LNG price assessments, including the Platts Japan-Korea-Marker, which is fast becoming the benchmark price for spot LNG delivered into Northeast Asia. “As LNG markets continue to liberalize and new types of price agreements emerge between buyers and sellers of LNG, a range of hedging products are critical to allow the market to hedge risk and manage price exposure,” the agency said.

[Argentina returns to gas exports after 10 years as net importer]

(Oilprice.com; July 12) - Growing natural gas production from the Vaca Muerta shale play has recently helped Argentina to export its first liquefied natural gas cargo and to resume pipeline natural gas exports to its neighbors Brazil and Chile, the U.S. Energy Information Administration said in a report July 12. Argentina was a net exporter of gas between 1990 and 2007, but with declines in natural gas production from mature fields the country became a net importer in 2008.

Shale gas production from the Vaca Muerta formation has been steadily rising in recent years and has been the main contributor to the country’s production — it accounts for 23 percent of Argentina’s total gas production. The country in June shipped its first LNG cargo from the offshore Tango floating liquefaction unit, which has the capacity to produce 500,000 tonnes per year. Vaca Muerta has technically recoverable resources of 308 trillion cubic feet of gas and 16 billion barrels of oil and condensate, the EIA said.

Argentina could become a major supplier to Asian markets because its peak LNG potential in the southern hemisphere’s summer coincides with strong demand in Asia in the northern hemisphere’s winter, Wood Mackenzie said last month. Vaca Muerta has been one of the few bright spots in shale gas production outside the U.S., but it hasn’t come even close to replicating the U.S. shale revolution. Argentina’s LNG export growth will need additional investments in pipelines and liquefaction facilities, the EIA said.

Explorer plans to resume fracking in Britain

(Reuters; July 11) - British shale gas company Cuadrilla said on July 11 it would restart fracking at its Preston New Road site in Britain in the third quarter of 2019 and plans to use a thicker fracking fluid to help reduce earth tremors. Hydraulic fracturing involves extracting gas from rocks by breaking them up with water and chemicals injected at high pressure. Operations at the first well at the Preston New Road site in Lancashire where halted several times last year because of minor seismic events. British regulations demand work be suspended if seismic activity of magnitude 0.5 or more is detected.

Cuadrilla CEO Francis Egan said he hoped the use of a thicker fracking liquid would help to cut down on seismic events at the second well. “We have in effect increased the concentration of the fluid so essentially there is more sand and less water,” he said. “We may still have events reaching the 0.5 limit, but hopefully not as many.” Egan said the fluid alterations had been approved by Britain’s Environment Agency.

Cuadrilla and chemical firm Ineos, which has the largest shale gas license acreage in Britain, have called on the government to change seismicity regulations which the companies say have threatened to stall the industry’s development. The government has said it has no plans to change the rules. Fracking is opposed by environmentalists. Subject to regulatory approvals, Cuadrilla said it would complete the program of fracking and testing equipment at the second well by the end of November.

Permian shale oil producers scale back growth plans

(Bloomberg; July 12) - The promise of the Permian is shrinking. Producers in the nation’s oil-rich shale basins are dialing back growth plans in the face of a growing panoply of problems that’s killing their returns and keeping skeptical investors away. The constraints are pipeline capacity limits, reduced flow from wells drilled too close together, low natural gas prices, and high land costs.

But the most consequential is that shale-well production falls off at such a high rate — as much as 70 percent in the first year — that you need to keep spending cash on new wells just to maintain output. In the five years since oil fell below $30 a barrel from more than $100, a resilient shale industry brought the U.S. to the top of oil-producing nations. There are, however, problems. “You’re having to spend more and more every year to grow at a faster rate,” said Noah Barrett, an energy analyst at Janus Henderson.

“Companies routinely spent 120 to 130 percent of their cash flow, never generating positive cash flow or earnings,” Barrett said. In the early years, Wall Street was happy to fund shale growth, ripe for future returns. But as the fields aged, the returns never came and shareholders are now pushing for payback at the expense of additional oil growth. The U.S. will continue to see shale production grow, but the explosive surges of the past may be over, Barrett said. “The pace of production increases will slow.”

[IEA forecasts oversupplied oil market next year]

(CNBC: July 12) - The International Energy Agency expects an oversupplied oil market to return next year, despite the recent rollover of an OPEC-led pact designed to restrain any glut. The agency said the "main message" of its closely watched report is that oil supply in the first six months of 2019 had exceeded demand by 0.9 million barrels per day. "This surplus adds to the huge stock builds seen in the second half of 2018 when oil production surged just as demand growth started to falter," the IEA said July 12.

Neil Atkinson, head of the oil industry and markets division at the IEA, said in addition to the remainder of this year, the outlook for 2020 is also for "considerable oversupply because we are getting big growth from the United States and some other countries." OPEC and its allies, led by Russia, have kept 1.2 million barrels per day off the market since the start of the year. The energy alliance, sometimes referred to as OPEC+, last week renewed the pact until March to avoid an inventory build-up that could hit prices.

"The widely-anticipated decision by OPEC+ ministers to extend their output agreement to March 2020 provides guidance but it does not change the fundamental outlook of an oversupplied market," the IEA said. The energy agency said it expects a 2.1 million barrels per day expansion of non-OPEC oil supply next year, largely driven by soaring U.S. production. In a separate monthly report published by OPEC on July 11, the 14-member group said it also expected world demand for its crude to fall next year.

[Alberta joins court fight over B.C.'s attempt to block oil pipeline]

(Vancouver Sun; July 12) - Alberta will intervene in British Columbia's appeal to the Supreme Court of Canada to stop the Trans Mountain oil pipeline expansion across the westernmost province. In a news release July 12, Alberta said it will make its case for the high court to uphold the B.C. Court of Appeal's May 24 decision that ruled the federal government has sole jurisdiction over interprovincial infrastructure projects.

British Columbia wants the Supreme Court to affirm the province's proposed legislation — which the B.C. Court of Appeal ruled unconstitutional — that would restrict the flow of oil sands bitumen into B.C. on environmental grounds. "The B.C. Court of Appeal's unanimous decision was clear. B.C. does not have constitutional authority to block cross-provincial projects in the national interest," Alberta Premier Jason Kenney said July 12. The oil-producing province has been fighting its neighbor over the project.

"The actions of the British Columbia government not only target Alberta's economy by landlocking our energy resources, but also undermine our recent attempts toward co-operative federalism and free trade within Canada," Kenney said. B.C. Premier John Horgan has vowed to continue to fight against the Trans Mountain pipeline expansion. The project would nearly triple the capacity of the line from near Edmonton to Burnaby, B.C. to 890,000 barrels a day. British Columbia believes an oil spill from increased tanker traffic would be catastrophic.

Equinor joins Korean partners in 200-meagwatt wind farm venture

(CNBC; July 11) - Energy powerhouse Equinor (formerly known as Statoil) has formed a consortium with Korea National Oil Corp. and Korea East-West Power to develop a floating offshore wind project. In an announcement July 11, Norway-based Equinor said the consortium would undertake a feasibility study for the 200-megawatt project, which would be located off the coast of Ulsan, South Korea.

Pending the results of that study, construction of a floating offshore wind farm would commence in 2022 with the possibility of “power production start-up” taking place in 2024. Stephen Bull, senior vice president for the wind and low-carbon cluster of New Energy Solutions at Equinor, said the company was “very pleased to be member of the partnership involved in realizing the first floating offshore wind farm in Asia.” If the project goes ahead, it would be the world’s biggest floating wind farm, he said.