Australia supplied 53% of China’s LNG in first 5 months of the year

Reuters; June 13 - Australia’s fast-expanding liquefied natural gas industry has this year been supplying the lion’s share of China’s growing demand for imports of the commodity, with appetite surging as Beijing shifts away from dirtier fuels such as coal. Australia supplied over 53 percent of China’s LNG imports during the first five months of 2019, shipping data in Refinitiv showed, up from about 40 percent in 2016 when a multibillion-dollar round of new Australian export projects started to ramp up.

With Shell’s Prelude facility delivering its first LNG this week from northwest Australia, that share is likely to increase further. Prelude’s start-up completes a $200 billion LNG construction boom that has put Australia on track to surpass Qatar as the world’s top exporter of the fuel. “China has emerged as the largest source of new LNG demand growth, and hence a focus for LNG marketing efforts for the next wave of Australian LNG volumes,” said Saul Kavonic, an analyst with Credit Suisse.

The export surge means Australia is well ahead of China’s traditional main suppliers of gas such as Malaysia, Qatar, and Indonesia, as well as the U.S. “The China-U.S. trade dispute has had an impact on LNG markets. The tariffs make U.S. LNG much less cost-competitive for Chinese buyers, so they have to consider other options,” said James Taverner of consultancy IHS Markit. However, headwinds in China’s economy could take the edge off demand for LNG. “Coal-to-gas mandates have moderated in line with affordability ... and weakening economic growth will weigh on demand,” Taverner said.

Japan’s Inpex takes step toward $18 billion LNG project in Indonesia

Reuters; June 16 - Japan’s biggest oil and gas explorer Inpex Corp. and the Indonesian government signed a basic agreement June 16 for development of Indonesia’s Abadi liquefied natural gas project. Inpex President Takayuki Ueda said the company, which holds a 65 percent stake, plans to submit a development plan within several weeks to the Indonesian government and aims to make a final investment decision within two to three years. The project has been estimated at $18 billion.

The agreement includes estimated costs, targeted project period and fiscal conditions, Ueda said without giving further details. The LNG terminal could start operations in the late 2020s. The remaining stake in the Abadi project, situated in the offshore Masela block, is owned by Shell, the world’s largest buyer and seller of LNG. But Shell is
moving to sell its stake in the Abadi project, industry, and banking sources said in May, continuing an asset disposal program that has raised more than $30 billion.

Construction was due to start in 2018, but in 2016 was delayed until at least 2020 after Indonesia directed a switch from an offshore liquefaction plant to an onshore facility to create more local jobs. In March 2018, Inpex began preliminary front-end engineering and design for the project with an annual LNG processing capacity of 9.5 million tonnes. If it goes ahead, this would be the second LNG project for Inpex, which is the lead in the $40 billion Ichthys development in Australia. That terminal went online last year.

**Weak LNG demand in Asia helps knock down prices to 3-year low**

(Reuters columnist; June 12) - Prelude owner Shell probably wishes it was selling its product into better market conditions. The 1,600-foot-long floating natural gas liquefaction factory shipped its first cargo from its position off northwestern Australia to a customer in Asia, Shell said June 12. When Prelude was conceived more than a decade ago, Shell was confident that Asia was the right market, given the region’s strong energy demand growth and the need for cleaner fuels than coal.

While the long-term prognosis may still be positive, 2019 is proving a tough year in the world’s biggest LNG market. Of the five largest importers in Asia, only China has seen any growth in demand in the first five months of the year compared to the same period in 2018. China’s LNG imports are up 22.6 percent from the same months last year, according to data compiled by Refinitiv. It’s worth noting that while this looks like robust growth, it’s about half of the 41 percent rate China achieved in 2018.

Growth in the world’s second-biggest buyer of LNG was overshadowed by declines almost everywhere else in Asia. Top buyer Japan and third-ranked South Korea are each down more than 10 percent. India’s imports slipped slightly in the first five months of this year and Taiwan’s also fell. The soft demand, coupled with the arrival of more LNG to the market from other Australian and U.S. projects, has driven spot prices to the lowest in more than three years. LNG for prompt delivery to China was at $4.25 per million Btu the week of June 10, its lowest since April 2016.

**Russia targets fivefold boost in LNG output by 2035**

(Nikkei Asian Review; June 13) - Russia aims to increase its liquefied natural gas output about fivefold by 2035 to capture around 20 percent of the global market. The country envisions up to 70 percent of its LNG exports by then going to the Asia-Pacific region, Energy Minister Alexander Novak told the Nikkei Asian Review in Moscow. He said the Russian government intends to strengthen its cooperation with Japan in funding and technology for the LNG and related sectors.
Japanese Prime Minister Shinzo Abe and Russian President Vladimir Putin are expected to discuss economic cooperation including energy when they meet in Osaka on June 29 on the sidelines of the G20 summit. Russia's current LNG output is about 28 million tonnes a year. This combines output from the Sakhalin-2 project, in which Japanese traders Mitsui and Mitsubishi participate, and the Yamal LNG project in the Russian Arctic. The plan is to boost the total, which now represents less than 10 percent of global demand, to between 120 million and 140 tonnes by 2035, Novak said.

Qatar and Australia each accounted for over 20 percent of the global LNG supply in 2018. Russia's goal is to rival these producers as well as the U.S. in LNG output. Russia is the main pipeline gas supplier to Europe, but is building up its LNG export capacity and Arctic shipping potential so that 60 to 70 percent of its exports will go to the Asia-Pacific region, Novak said. Russia hopes to attract Japanese technology, loans, and investments to its LNG sector, he said adding that Moscow welcomes foreign partners.

**Australian state of Queensland raises royalty rate by 25%**

(Reuters; June 11) - Australia’s Queensland state said June 11 it would raise its petroleum royalty rate to 12.5 percent from 10 percent in July, a surprise move coming at a time when the state is looking to encourage new natural gas supplies for the domestic market. The move will hit gas producers in the northeastern state, led by Shell, ConocoPhillips, Origin Energy, and Santos — all of which supply three relatively new liquefied natural gas export plants and also serve the domestic market.

ConocoPhillips, a partner in the $25 billion Australia Pacific LNG project in Queensland, said it was disappointed by the government's "surprise" 25 percent increase. The higher royalty is expected to raise an extra A$476 million (US$331 million) over the next four years, the state said in its budget released June 11. Royalties are paid based on value at the wellhead. The state said the higher royalty is in line with rates in the U.S. and Canada, where rates are between 12.5 percent and 30 percent of the wellhead value. The 10 percent rate in Queensland has been in place for about 10 years.

Gas from Queensland has become increasingly important for Australia’s southern states, where output from offshore fields has been falling and where bans on onshore drilling have held back new supply. The decision comes after the state promised to freeze it royalties on coal after the majority party was hammered in Queensland in a national election in May amid concerns that the party was opposed to coal mining.
Poland’s gas company signs up for more U.S. LNG

(Reuters; June 12) - Polish Oil and Gas Co. (PGNiG) signed an agreement June 12 with Venture Global to buy an additional 1.5 million tonnes of liquefied natural gas per year from the company’s second export terminal in Louisiana. Poland is seeking alternatives to buying gas from Russia, its historical supplier. Under the agreement, PGNiG would increase from 1 million to 2.5 million tonnes its annual LNG take from the proposed Plaquemines LNG project, with shipments to start in 2023. Venture Global does not yet have federal authorization for the project, nor has it taken a final investment decision.

The agreement raises PGNiG’s total commitment with Venture Global LNG projects to 3.5 million tonnes per year with 1 million tonnes already under contract from Calcasieu Pass, an LNG project under construction in Cameron Parish, Louisiana.

Report says Argentine LNG could find seasonal market in Asia

(Oil & Gas Journal; June 14) - Rising natural gas production in Argentina coupled with competitive LNG transport costs are expected to position the country as an emerging source of supply to Asia during peak demand periods, researcher Wood Mackenzie said. Global demand is showing increasing seasonality, and peak potential production in Argentina during the summer coincides with strong winter demand from utilities in Asia. This seasonal dynamic could attract Asian buyers, the global energy consultancy said.

Argentina’s liquefied natural gas would have lower shipping costs to reach Asian markets than U.S. Gulf Coast facilities, avoiding potential Panama Canal congestions and presenting an overall cheaper alternative to U.S. LNG, the report said. Supported by the huge Vaca Muerta shale play, Argentina’s production in the Neuquen basin will ramp up over the next few years with major-scale production expected to begin in 2024. Wood Mackenzie anticipates that annual LNG production volumes could potentially reach 6 million tonnes in 2024, rising to 10 million tonnes by 2030.

Argentina in May started loading its first LNG export cargo, using a floating liquefaction unit for surplus Vaca Muerta gas. The country’s oil and gas producer, YPF, has been looking at boosting its LNG capacity. A lack of underground gas storage close to demand centers in Argentina means that gas flow for LNG exports would be seasonal. Despite price challenges posed by the seasonal use of LNG plants, Wood Mackenzie estimates break-even for Argentina LNG at $8 per million Btu, delivered to Japan.

Exxon plans to drill 90 wells in Argentina shale play

(S&P Global Platts; June 11) - ExxonMobil said June 11 it will proceed with a long-term oil and gas development project on a block in Argentina, targeting the Vaca Muerta
The company plans to drill 90 wells to take production to 55,000 barrels a day of oil equivalent in five years from the Bajo del Choique-La Invernada block in the Neuquen Basin in the country's southwest, the company said in a statement.

As part of the project, it will build a central production facility and export infrastructure. ExxonMobil is the latest company to go from pilot to mass development in Vaca Muerta, one of the world's biggest shale plays. Development of the play is driving a recovery in the country's oil and gas production after years of decline, building a surplus that is leading companies like Argentina’s state-backed YPF, Shell, and Total to start exports.

ExxonMobil said that if this first development in the play is successful, it could take production to 75,000 barrels in a second phase. Exxon is working on the project in a 70/30 partnership with Qatar Petroleum. Argentina’s oil production rose 4 percent to 507,000 barrels per day in April year on year, led by a 64 percent surge in shale oil. Gas output increased 2 percent to 4.66 billion cubic feet over the same period, driven by a 107 percent surge in shale gas, according to the latest Energy Secretariat data.

**Philadelphia’s city-owned gas utility will partner on small LNG plant**

(WHYY; Philadelphia; June 13) - In a 13-4 vote, Philadelphia’s city council approved a $60 million liquified natural gas production facility in Southwest Philadelphia. Passyunk Energy Center will be a public-private partnership between city-owned Philadelphia Gas Works (PGW) and Liberty Energy Trust. PGW will approve design plans and run the facility, and Liberty Energy Trust will finance the construction. The project is estimated to earn between $1.35 million to $4 million a year in new revenue for PGW.

Supporters said the extra revenue will prevent the utility from having to raise rates on customers. But the plan has drawn protests from environmentalists who argue it further tethers the city to fossil fuels, contrary to Philadelphia’s plan to reduce its emissions by 80 percent by 2050. The plant would be capable of transforming about 10 million cubic feet of gas per day into 120,000 gallons of LNG, most of which would be sold as a backup to more polluting diesel fuel.

PGW currently liquifies gas at its Port Richmond plant and transports it to Passyunk for storage. The new plant will allow for everything to be done at one site. Labor groups have applauded the project, calling it a “win-win” for the city. But South Philadelphia resident Mark Quincy said his neighborhood, which is also home to a major oil refinery, neither needs nor wants another fuel plant. “South Philly has been forced to shoulder the burden of fossil fuel infrastructure in this city, and we’re getting the short end of the stick,” Quincy said. “We shouldn’t have to take on the impacts of another facility.”
**U.S. shale oil producers face economic, environmental challenges**

(Forbes contributor; June 13) - Oil production from the U.S. shale sector continues to accelerate at a record pace, but threats lurking beneath the surface could put the brakes on growth this year. The sector’s financial performance has been spotty — a problem made worse by falling oil prices. The flood of shale oil and gas is partly to blame for lower prices — U.S. producers are pumping a record 12 million barrels of oil a day and could hit 13 million by the end of the year, according to the Energy Department.

The bigger culprit, though, is not rising production but rising uncertainty about future demand. Trade disputes are making for skittish traders worried about a potential global economic slowdown that could undercut demand for oil and gas. Shale producers will have to tighten their belts if prices fall under $50 a barrel. Another uncertainty facing the industry is environmental regulations, specifically regulation of methane emissions. U.S. shale producers are flaring or venting unwanted gas at a record pace in some basins.

Together, the Bakken and Permian basins flare or vent about 1.1 billion cubic feet of gas a day. The associated-gas problem has attracted the unwanted attention of environmentalists. Meanwhile, capital efficiency is another area where the sector needs to improve. A report by Rystad Energy found that only 10 percent of shale oil companies had positive cash flow in the first quarter. Capital spending continues to exceed cash flow and investors are losing patience. The sector no longer has youth as an excuse.

**Norwegian wealth fund will shift from oil and gas to renewables**

(Wall Street Journal; June 12) - Norway’s sovereign-wealth fund is embracing renewable energy and winding down its fossil-fuel investments. The nation’s parliament voted June 12 to instruct its $1 trillion fund to pull an estimated $13 billion from oil-, gas- and coal-producing companies and move up to $20 billion into renewable-energy projects and companies, representing about 2 percent of the fund. Norway started the savings fund in 1990 to hold the country’s profits from North Sea oil and gas fields.

The fund, which has about 6 percent of its holdings in fossil-fuel equities, won’t pull investments from major oil companies but will divest from smaller energy exploration and production firms, according to a proposal from the Ministry of Finance. Norway’s sovereign-wealth fund is one of the largest in the world, investing in nearly 9,200 companies globally as of the end of 2018, according to government data. It has a stake in some 341 oil-and-gas companies, the largest share of which are based in the U.S.

The move comes as government pension funds face mounting political pressure to exit fossil fuels and realign their strategies around green businesses and clean energy to meet the goals of the Paris Agreement on climate change. While political forces helped
drive the divestment, Norway’s decision also reduces financial risk because the oil-and-gas industry is no longer as profitable — while renewables are in a growth phase, said Tom Sanzillo, of the international Institute for Energy Economics and Financial Analysis.

Alberta may hand over oil-by-rail contracts to private sector

(Reuters; June 11) - The Alberta government has started talks with the private sector about oil producers taking over crude-by-rail contracts signed by the province’s previous government, Premier Jason Kenney said June 11. The talks follow Kenney’s campaign promise to scrap the $3.7 billion crude-by-rail deals, which he has slammed as a poor value for taxpayers. “There are confidential conversations going on between our government and private-sector actors. Our strong preference is that the private sector take over those contracts,” Kenney told reporters in Calgary.

While talks are underway, the crude-by-rail program will not start up in July as originally planned by the previous government, said a source with knowledge of the situation. A lack of pipeline capacity has left oil bottlenecked in Alberta, adding to the price discount, or differential, on Canadian barrels versus U.S. oil. The discount cost Canadian producers as much as $50 a barrel at its worst last fall.

The record-level discount in late 2018 prompted Alberta’s government — before it was ousted from office in April 2019 — to order a curtailment in oil output and to sign deals to lease 4,400 rail tank cars to move Alberta crude to market. The program was meant to start moving 20,000 barrels per day next month, ramping up to 120,000 barrels per day by mid-2020. Rail is seen as a crucial conduit for Canadian crude in the absence of new pipelines, which have been delayed by regulatory and environmental concerns.

Arrival of pipeline segments gives hope to Alberta oil producers

(Calgary Herald; June 14) - A major rail line that runs through Calgary normally elicits little excitement. But on June 11, a train carrying hundreds of pieces of green-coated, wide-diameter steel pipe was the talk of the town and raised the oil patch’s hopes that the federal government is poised to approve the Trans Mountain pipeline expansion on June 18. “Something is definitely developing,” said Canoe Financial senior portfolio manager and director Rafi Tahmazian, who saw the pipe-laden carriages.

Pipes have been arriving at work sites for weeks where nearly a third of all the pipe needed for the project is now staged. Many in the oil patch believe a pipeline may finally get built, helping producers suffering steep discounts and lack of market access after years of delays to U.S.-bound Keystone XL pipeline and Enbridge’s Line 3 pipe across the Upper Midwest. If built, the Trans Mountain expansion will take 590,000
barrels per day of Alberta oil to the prized Asia markets via an export terminal in British Columbia.

The project, which suffered years of court challenges and regulatory reviews, was bought last year by the Canadian government for C$4.5 billion after its owner, Kinder Morgan, threatened to scrap the expansion. The new Crown owner said it does not have an updated construction schedule. It said about 30 percent of the pipe needed for construction has arrived, but said much of it was ordered before last year’s court ruling that overturned the project’s construction permits. The government has considered the issues raised by the court and is expected to announce its decision later this month.