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Compiled by Larry Persily
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Tax relief package for LNG likely to win approval in B.C. Parliament

(Vancouver Sun columnist; March 25) - British Columbia's New Democrats have crafted what will be necessary to put the province on a competitive level with rival jurisdictions for LNG development. On March 25, they introduced a package of tax relief and credits valued at $6 billion over 40 years — and it looks like they calculated correctly. In October, Shell and its partners made a final investment decision on the Kitimat-based LNG Canada project, predicated on B.C. upholding its side of the fiscal agreement.

This week's legislation completes the package — that also includes sales tax relief and low electricity rates — by repealing a special LNG income tax instituted by the previous provincial government. It also establishes a new tax credit for LNG projects pegged at 3 percent of the cost of gas that can be used to reduce a company's corporate income tax. Though the Green Party immediately opposed the legislation, when the roll was called at introduction all 80 New Democrats and Liberty Party members voted in favor.

The Liberals may have more to say after digesting other details of the project agreement, which runs to several dozen pages. When the bill reaches clause-by-clause debate at the committee stage, the Liberals may move some amendments to tweak the legislation. But no chance they will defeat it in the legislative assembly. Construction is already underway at the LNG Canada site with 600 people on the job. Government estimates say the project will account for 10,000 jobs at peak construction in 2021.

Shell and partner may add exports to Louisiana LNG import terminal

(Wall Street Journal; March 25) - Shell and Energy Transfer said they are pursuing plans to convert a liquefied natural gas import facility in Louisiana into an export terminal, a bet that the future of U.S. shale gas lies in selling it for higher prices in overseas markets. Shell and Energy Transfer said they are putting contracts out for bid to engineers and construction companies to reconfigure Energy Transfer's existing import facility in Lake Charles, La. The proposed export plant would have the capacity to ship 16.5 million tonnes of LNG per year, the companies said March 25.

The Anglo-Dutch energy giant and U.S. pipeline operator own equal economic stakes in the project and will decide together whether they should proceed with construction after the bidding and their analysis of the global LNG market. If they proceed, it would be the sixth underused LNG import terminal on the U.S. Gulf and East coasts to turn into an export facility. The Lake Charles terminal opened in 1982. The U.S. shale gas boom of the past decade essentially eliminated the need to run the import terminals.

Shell has already committed to a US$30 billion LNG export facility in British Columbia that will liquefy and move gas from Western Canada to markets abroad. Work is underway at the site in Kitimat, B.C. Shell staked the company's future on gas in 2016 with the $50 billion purchase of rival BG Group, a major player in LNG markets. Shell's bet is that gas will take market share from crude oil as global consumers seek cleaner alternatives and as electric vehicles begin to displace those with combustion engines.

Louisiana LNG hopeful says it will make decision by July 1

(Reuters; March 26) - Tellurian plans to make a final investment decision on its proposed $30 billion Driftwood liquefied natural gas export project in Louisiana in the by July 1, the company's chief executive said March 26. "We will likely move forward with the first phase of the project with about half a dozen customer/partners," CEO Meg Gentle said at the Bloomberg New Energy Finance Summit in New York. That would allow start-up in 2023 and completion of the full project in 2026.

At full build-out, Driftwood would produce 27.6 million tonnes of LNG per year. The first phase will likely comprise 16.6 million tonnes, Gentle said. Driftwood is one of a dozen proposed U.S. LNG export terminals that expect to reach a final investment decision in 2019, which together would produce about 146 million tonnes of LNG per year. Current U.S. export capacity is around 39 million tonnes, and new terminals under construction would produce an additional 44 million tonnes.

Unlike most proposed U.S. LNG export projects that will liquefy gas for a fee, Tellurian is offering customers the opportunity to meet their gas needs by investing in a full range of services from production to pipelines and liquefaction. Current partners include French oil and gas major Total, global LNG trader Vitol, General Electric, and India's Petronet LNG. Bechtel has a $15.2 billion contract to build the LNG facility. Pipelines, construction reserves, and other expenses comprise the rest of the project's cost.

Developer delays Louisiana LNG project decision to second-half 2019

(Reuters; March 25) - Liquefied Natural Gas Ltd., based in Perth, Australia, expects to make a final investment decision in the second half of 2019 on its proposed $4.4 billion Magnolia LNG export plant in Louisiana, the company's CEO said March 25. LNG Ltd. had hoped to make a final investment decision in late 2018, but the U.S.-China trade fight and current low LNG prices are making it difficult for developers to sign long-term deals with customers.

“The trade war put a general malaise on the industry for signing new deals. That coupled with historically low prices, and people don’t feel much urgency to sign long-term deals,” Greg Vesey, chief executive of LNG Ltd., told Reuters at the Bloomberg New Energy Finance Summit in New York. The project is one of a dozen U.S. LNG export terminals under development that expect to make a final investment decision in 2019, which would greatly expand U.S. LNG export capacity.

“When the trade dispute is settled it will send a message to the world that LNG deals can start getting signed again,” Vesey said. The Magnolia LNG plant, proposed for near Lake Charles, Louisiana, would be built with a series of up to four small liquefaction trains, each at 2 million tonnes of LNG per year.

First construction material delivered to Russia’s Arctic LNG-2

(LNG World News; March 27) - Russia’s largest independent natural gas producer and LNG plant operator, Novatek, has received the first shipment of cargo for its Arctic LNG-2 project at the Utrenneye field in Siberia. The nuclear-powered container ship Sevmorput, owned by Rosatomflot, arrived at the site March 26, Rosatomflot said in its statement. The ship is unloading pipes, metal structures, containers, and construction equipment. The second equipment delivery is scheduled for April.

The Novatek-led Arctic LNG-2 project is proposed for three liquefaction trains at 6.6 million tonnes annual capacity each. The liquefaction plant would be built off-site, towed to the location and set on the seabed atop gravity-based structure platforms. Novatek has already contracted for the onshore engineering and construction of the platforms. The project site is on the eastern banks of the Gulf of Ob, in the Gydan Peninsula. Production is due to start in 2023, dependent on Novatek and its partners making a final investment decision that is expected this year.

Italy’s Nuovo Pignone, which is part of Baker Hughes, a GE company, won the contract in December to provide turbo machinery for the project. The agreement provides for the supply of gas turbine compressors and generators for the liquefaction trains. Germany’s Siemens won a contract to provide feed gas compressors and boil-off gas compressors.

LNG trader warns of ‘incredibly’ oversupplied market

(Reuters; March 27) - Vitol Group’s head of liquefied natural gas trading said March 27 that the short-term outlook is bleak for LNG due to an “incredibly” oversupplied market, which could lead to some production shutdowns. “We had record imports of LNG into Europe. Three years ago we saw 63 cargoes in one month, in March we see 125 cargoes, April and May we expect 150 and 170 cargoes. This is really unprecedented," Pablo Galante Escobar, Vitol's head of LNG, said at a commodities summit.

"We said before that we expect a battle between the U.S. LNG and Russian pipelines. We believe that is happening now, but it is being joined by LNG from the Middle East and Africa that is not finding homes in Pakistan, Bangladesh, or China where the winter was mild but there are other factors, such as excess production," Escobar said at the event in Switzerland.

This week spot prices for LNG delivered into northeast Asia in May fell to $4.30 per million Btu as buyers are shunning cargoes and redirecting them to Europe, sources said. Lower-than-expected demand and a drop in prices in Asia have made Europe a top destination for LNG produced in the Atlantic basin since October, a drastic change from previous years. A number of Asian buyers, including Korea Gas and PetroChina, having been selling U.S. and Russian cargoes to Europe in the past several months.

Spot price for LNG in Asia falls below Europe

(S&P Global Platts; March 25) - A collapse in the Japan-Korea Marker Asian LNG price for delivery in May has pushed its value below the Dutch trading hub gas price for the first time since February 2015, opening the arbitrage for moving spot LNG cargoes from the Middle East to Europe rather than to longer-voyage destinations in Asia. It also means that the economics of U.S. LNG exports are rapidly deteriorating, with the possibility of a price-driven reduction in U.S. gas exports.

According to Platts assessments, the Japan-Korea Marker for May delivery was priced at just $4.43 per million Btu on March 22, down from a recent high of just over $12 in September 2018. The price has been falling sharply, driven by lower Asian demand due to a mild winter and healthy stockpiles. European gas prices have also been mostly on a bear run in the past few months, prompted by strong LNG imports, very mild weather, and robust gas stocks with the Dutch trading hub for May delivery at $4.87 March 21.

The low prices mean that the short-run economics of U.S. LNG have deteriorated to a modest $0.30 per million Btu premium over domestic sales, compared with an average of $1.90 in February. That's far from enough to fully cover the costs of gas, liquefaction, and shipping. This could trigger a switch from LNG exports to domestic sales, or holders of contractual liquefaction capacity at U.S. terminals might decide to continue taking gas since they have to pay for the reserved liquefaction capacity regardless if they use it.

Spot-market LNG in Asia more than $2 under contract prices

(S&P Global Platts; March 24) - The persistent downtrend of spot-market LNG prices in Asia is creating uncertainty over the pricing and risk management of future deals, industry sources said. The March 21 ratio of spot LNG prices relative to crude prices — or "oil slope" — for May cargoes was at 6.71 percent of the price of a barrel of oil, the lowest in nearly nine years and half the rate of some longer-term contract deals. Asian LNG prices are languishing at a 3-year low, with strong supply vs. slack demand.

Robust oil prices over $65 a barrel have created a huge disparity between long-term contract prices for LNG — the majority of which are linked to global crude prices — and spot-market prices, trading under $5 per million Btu last week. This is a major concern for buyers that typically procure forward cargoes linked to oil prices. "It's a huge risk to buy or to sell [on an oil-linked basis]," a Singapore-based trader said. Typical LNG term contracts priced at an average of 13.5 percent oil slope were charging $2.39 per million Btu more than the spot price for April cargoes — the widest spread in over 4½ years.

Amid the outlook for weak LNG prices, buyers are cautious of their price risk exposure and instead want to purchase based on spot-linked prices, a Singapore-based trader said. But sellers continue to show resistance, requiring an added incentive to trade on an LNG index-linked basis as spot prices continue to plunge. "End-users are confident that prices are falling now. So they want deals" that are linked to the Japan-Korea Marker (spot) prices, an Asian producer said.

India gas distributor resells U.S. LNG it does not need — at $4.30

(Reuters; March 27) - Full storage tanks of liquified natural gas in India have prompted GAIL India to sell a U.S. cargo bound for India to northwest Europe, industry sources said March 27. The sale of a cargo already on the water is the latest example of an oversupplied LNG market that has resulted in Asian spot LNG prices falling to an almost three-year low of around $4.30 per million Btu this week. It also signals that India's LNG demand, considered substantial compared to northeast Asia, is weaker than expected.

Europe has become a top destination this year for cargoes that cannot find a home in Asia because of high stockpiles and low delivery prices. The cargo on the Meridian Spirit, which loaded at the Cove Point, Maryland, plant March 20, was offered in a tender March 25 as it was crossing the Atlantic Ocean. It sold at about $4.30 per million Btu, sources said. The cargo will be delivered to Belgium's Zeebrugge terminal. GAIL has 20-year deals to buy 5.8 million tonnes a year of U.S. LNG, split between Dominion Energy's Cove Point plant and Cheniere Energy's Sabine Pass terminal in Louisiana.

Commodity traders add flexibility to LNG market

(Bloomberg; March 26) - With margins narrowing in the crude oil business, some of the world's biggest commodity trading houses are helping to reshape the energy industry with a drive into liquefied natural gas. Gunvor Group, Trafigura Group, and Vitol have moved a step beyond trading LNG, investing in ships and terminals handling the fuel. The result is handing utilities worldwide more flexibility to buy gas, encouraging them to make the leap away from more polluting coal.

The top three commodity trading houses active in LNG have more than doubled their delivered volumes over the past two years and took almost 9 percent of the global trade in 2018, according to data compiled by Bloomberg. Other traders such as Glencore and Koch Supply & Trading also are building expertise or looking to expand in LNG. There's now at least 800 people working in LNG trading and sales, up from no more than 150 or so a decade ago, according to Connexus Search.

By next year, LNG volumes will be more than triple what they were in 2000, making it the quickest-growing segment of the fossil-fuel industry, according to Shell. By buying from producers and selling to energy consumers, traders are bringing fresh liquidity to the market that makes it easier to arrange deals. They are also helping LNG develop as a spot market, giving new buyers without long-term supply arrangements confidence they can get hold of cargoes when needed. There were more than 1,400 spot cargoes delivered in 2018, triple the amount eight years ago.

Sempra moves away from tolling model to traditional LNG sales

(ICIS Market Information; March 26) – San Diego-based Sempra Energy, which is nearing completion of its Cameron LNG export plant in Louisiana, is moving away from the original tolling model of its first contracts and toward taking on the gas supply and transport risks and responsibilities, said Justin Bird, the new president of its LNG division. Under the tolling model, customers pay a fixed fee for liquefaction services at an LNG plant, plus the cost of the feed gas. And they arrange their own shipping.

"We're seeing the tolling model is not the current model," Bird told ICIS. Under the company's latest plan, Sempra could quote a single price for LNG delivered to the customer — the traditional way of marketing LNG. The company analyzed the risks of procuring gas for liquefaction and concluded that the risk was not much different from Sempra's current activity in trading gas and power, Bird said. "We spent a lot of time at Sempra thinking about that transition" away from the tolling model, he said.

The sales agreements for Sempra's proposed Port Arthur project in Texas are based on the all-in-one pricing model, with Sempra taking on the supply and transport risks. The Federal Energy Regulatory Commission in January issued its final environmental impact statement for the project. Bird said sales agreements at its other proposed LNG export project, Energia Costa Azul, on Mexico's Baja Peninsula, also are based on the sales-and-purchase agreement model, rather than tolling.

Mozambique plans sovereign wealth fund for LNG revenues

(Bloomberg; March 27) - Mozambique's government plans to establish a sovereign wealth fund to manage income from future natural gas production, President Filipe Nyusi said. The state will also allocate a fixed portion of revenue to the state budget to fund infrastructure development, poverty reduction and economic diversification, Nyusi said in a speech March 27 in the capital, Maputo.

Several companies are developing gas found years ago in deep waters off the coast of Mozambique, one of the world's poorest countries. The southeast African nation holds 100 trillion cubic feet of proven gas reserves, the third-biggest in Africa, according to the U.S. Energy Information Administration. "Savings will serve as a cushion for when gas prices are low," Nyusi said. The state should manage the funds to avoid effects like Dutch Disease, he said, referring to the phenomenon in which a commodity boom makes a country's currency more expensive and its other goods less competitive.

Italy's Eni is the lead on a floating liquefied natural gas production and export facility under construction with start-up of the $8 billion venture planned for 2022. Anadarko is planning to make a final investment decision by June on its $20 billion project, including an onshore LNG facility. ExxonMobil plans to make a decision on an even bigger LNG project by the end of the year. Anadarko and Exxon's projects will be the biggest private investments in Africa, said Standard Bank Group, a Johannesburg-based lender.

Shell's Prelude ships first condensate; no date for first LNG

(Reuters; March 25) – Shell on March 25 said it shipped the first condensate cargo from its Prelude floating liquefied natural gas project off northwestern Australia over the weekend. "This is another step toward steady state operations," a Shell spokeswoman said in emailed comments. Shell had hoped to start generating cash flow from Prelude in 2018 but has yet to start shipping LNG. Prelude was to have been the world's first floating LNG facility but was beaten by a smaller project by Malaysia's Petronas.

Shell declined to say when it expects the first LNG cargo. "The focus continues to be on providing a controlled environment to ensure Prelude will operate reliably and safely now and in the future," the spokeswoman said. Shell also declined to comment on a report in the West Australian newspaper that said one factor that has delayed LNG production is a problem with the arms built to transfer LNG from Prelude to tankers.

Prelude, designed to produce 3.6 million tonnes of LNG a year, is the last and smallest of eight LNG projects built in Australia since 2012, putting the country on course to overtake top LNG exporter Qatar's capacity. Prelude, at 1,600-feet-long, is the world's biggest floating LNG production unit and the biggest maritime vessel ever built.

Brazil fines Bolivia for failing to meet gas contract

(Reuters; March 26) - Brazilian state-run oil company Petrobras has fined Bolivia's state oil company YPFB after it failed to deliver natural gas volumes secured under a contract through the Bolivia-Brazil pipeline during 2018, a Petrobras executive said March 26. Marcelo Cruz, the executive manager of gas and energy at Petroleo Brasileiro, declined to reveal the value of the fine, citing confidentiality, but confirmed that it was a "relevant" amount. Cruz said the fine, which was paid last week, was aimed at offsetting possible losses for Petrobras, which ends up having to buy gas from other sources.

"At the moment it does not deliver the gas, I end up having to go to the market and buy LNG. On average, LNG is more expensive than Bolivian gas," Cruz said. "The spirit of the fine is this: to compensate for any losses that may occur." Cruz said YPFB had not been able to deliver the volumes Petrobras needed due to a reduction of exploratory investment in Bolivia in recent years, which has led to a drop in production. Bolivia's domestic needs have also grown, constricting gas supply.

Last year, Petrobras demanded an average of 918 million cubic feet per day of gas, while YPFB delivered 800 million, according to official figures. Due to Bolivia's difficulties, Cruz said the companies are negotiating a possible revision of the contract.

Australia could face domestic gas shortage by 2024

(Reuters; March 28) - Australia will face a gas shortage starting in 2024 unless new reserves are developed, pipeline capacity is increased or eastern states start importing liquefied natural gas, the country's energy market operator warned March 28. The Australian Energy Market Operator's (AEMO) annual gas outlook was more dire than in June last year, when it forecast no shortage before 2030. Since then, companies have cut their gas reserve and production estimates, AEMO said.

In the near term, government pressure on three LNG exporters in Queensland — led by Shell, Origin Energy and Santos — to boost gas supply to the domestic market has succeeded in averting potential shortfalls, AEMO said. "However, southern Australia's overall supply-demand balance for 2021-2023 remains very finely balanced, reflecting the ever-tightening integration of Australia's electricity and gas markets," AEMO's chief system design and engineering officer Alex Wonhas said in a statement.

Longer term, as gas output dwindles in the aging fields offshore Victoria that have long fed demand centers in Melbourne, Sydney, and Adelaide, more gas will be needed from Queensland in the north — which will require more pipeline capacity — or LNG will have to be imported. The report highlights the potential need for LNG imports with five projects in New South Wales, Victoria, and South Australia on the drawing board. The worries come at the same time as Australia is emerging as a global LNG export leader.

Northeast B.C. looks for economic diversification until LNG starts up

(CBC News; Canada; March 24) - For the past few years, the region around Fort Nelson in northeastern British Columbia has been struggling with a dormant forestry industry and a downturn in the natural gas sector. "Business is down, real estate values have decreased," said John Roper, acting mayor. "What I'm seeing is a loss of people [moving out], which I consider our most valuable asset."

Fort Nelson is looking at a number of projects that will ignite the economy in the future, including sending gas from the northern Rockies to the Shell-led LNG Canada export terminal under development in Kitimat, British Columbia. In the meantime, Fort Nelson is focusing on different ways to bring in money. "We're racking our brains trying to come up with different creative ways to get out of this recession," Roper said.

The city council is not the only one looking for new sources of income. "We were so involved in the development of gas for the past 20 to 30 years," said Curtis Dickie, chief of the Fort Nelson First Nation. "When the downturn happened, we felt it." That made economic diversification all the more crucial, he said. "We recently purchased the Fort Hotel, the oldest hotel in Fort Nelson, and we have the Liard Hot Springs Lodge just up the highway," Dickie said. "We're positioned really well to really participate in the tourism economy now and Indigenous tourism, I believe there is a space for that."

Reuters reports Saudis are targeting $70 oil this year

(Reuters; March 22) - Budget needs are forcing Saudi Arabia to push for oil prices of at least $70 a barrel this year, sources said, even though U.S. shale oil producers could benefit and Riyadh's market share might decline. Saudi Arabia, OPEC's de facto leader, said it was steeply cutting exports to its main customers in March and April despite refiners asking for more oil. The move defies President Donald Trump's demands for OPEC to help reduce prices as he tightens sanctions on producers Iran and Venezuela.

Officially, Saudi Arabia, which plans to raise government spending to boost economic growth, does not have a price target. It says price levels are determined by the market and that it is merely targeting a balance of global supply and demand. But even a price of around $70 a barrel would not balance Saudi Arabia's books this year, according to Jihad Azour, director of the International Monetary Fund's Middle East and Central Asia department in February. For that, he said, Riyadh needs oil prices at $80 to $85.

Saudi Arabia, the world's largest oil exporter, also wants to make sure it avoids a repeat of the 2014-2016 oil price crash below $30 per barrel, sources familiar with Saudi policy said. Saudi Arabia plans to reduce March and April oil production to under 10 million barrels per day — below its official OPEC output target of 10.3 million. A Saudi official told Reuters this month that despite strong demand from customers, state oil giant Saudi Aramco had cut its allocations for April by 635,000 barrels below requests.

Chinese oil majors increase spending to boost domestic output

(Bloomberg; March 24) - China's oil giants aim to spend the most in five years in pursuit of more energy output. But unlike global rivals investing in top-tier assets, the state-owned producers are trying to boost supply from fields that are either old and high-cost or new and challenging. China's big three — PetroChina, Sinopec and CNOOC — are raising their capital expenditure to about 517 billion yuan ($77 billion), up 18 percent from 2018 after President Xi Jinping ordered them to focus on raising domestic output.

Their spending plans contrast with global titans such as Shell and Chevron, who are keeping a tight grip on spending and returning cash to investors via dividends and share buybacks. Meanwhile, ExxonMobil is pouring money into world-class assets that will raise output in the coming years, including Guyana, Papua New Guinea, and Brazil, as well as the Permian Basin in West Texas. That's not the case for the Chinese producers, working mainly with costly wells and aging fields at home.

"Investors have sufficient reasons to question whether the increased spending may generate reasonable returns," said Laban Yu, a Jefferies Financial Group analyst in Hong Kong. "The companies may just be implementing the government's order, even if that means they produce oil at a high cost." The higher capex is likely to worry Sinopec investors, where the upstream business loses money, said a Morgan Stanley research note. "There is no question that those companies are under a lot of pressure to quickly grow production," said Sanford C. Bernstein analyst Neil Beveridge in Hong Kong.