Oil and Gas News Briefs
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Global LNG trader cancels U.S. cargo but still has to pay the fee

(Reuters; Nov. 19) - Singaporean gas marketer Pavilion Energy has taken the unusual step of canceling the loading of a liquefied natural gas cargo from the United States but has agreed to pay for it, several industry sources told Reuters. The global LNG market is awash with new supply amid slowing demand in key countries such as China and Japan, leaving some traders with cargoes they have bought but are unable to resell.

"Pavilion Energy evaluated scheduling and other commercial matters, then took the decision not to lift the cargo," a spokeswoman for the company, which is owned by Singapore's sovereign wealth fund Temasek Holdings, said Nov. 19. She declined to provide further details of the gas cargo, which sources said Pavilion was supposed to load from the Cameron LNG plant in Louisiana in November. Pavilion has a long-term deal with Japan's Mitsubishi to buy LNG from the plant, operated by Sempra Energy.

Traders said several other buyers of U.S. LNG may also be considering paying for unloaded cargoes. U.S. producers typically sell their LNG at 115 percent of the cost of the gas that went into the liquefaction plant, plus a liquefaction fee of between $3 and $3.50 per million Btu, with a few buyers paying less. The liquefaction fee is a sunk cost in what is known as "take-or-pay" because it still needs to be paid even if buyers cancel the gas purchase, a risk known years ago when they signed the binding contracts.

In an oversupplied LNG market, traders would typically ship cargoes to European gas storage. But this year facilities in Europe are full. "LNG cargoes in Europe are trading at deep discounts due to high storage and limited slots available to receive these cargoes ... plus shipping rates are quite high," a Singapore-based trader said. "So canceling or not lifting U.S. cargoes is probably a way to minimize (the) loss," the trader explained.

China boosts coal-fired power capacity 4.5% in past 18 months

(Reuters; Nov. 20) - China raised its coal-fired power capacity by 42.9 gigawatts, or about 4.5 percent, in the 18 months to June, connecting new generating plants to the grid at a time when coal-power capacity in the rest of the world shrank, said a study published on Nov. 20. China also has an additional 121.3 gigawatts of coal-fired power plants under construction, U.S.-based research network Global Energy Monitor said in its report, nearly enough to power all of France.

China’s increase followed a 2014-2016 “permitting surge” by local governments aiming to boost economic growth, while formerly suspended coal projects also have been restarted, Global Energy Monitor said. In the rest of the world, coal-fired power capacity fell 8.1 gigawatts over the same period. To cut pollution and greenhouse gas emissions, China has promised an “energy revolution” aimed at dramatically reducing its reliance on coal. It cut coal’s share of the country’s total energy from 68 percent in 2012 to 59 percent last year, and researchers predict it will fall to 55.3 percent by 2020.

Coal consumption, however, has continued to increase in line with a rise in overall Chinese energy demand. Environmental groups have accused Beijing of relaxing its efforts on coal, pointing to remarks in October by Premier Li Keqiang, who urged China to make greater use of its coal “endowment” by building clean power plants. China approved new 40 coal mines in the first three quarters of 2019 and has continued to use so-called “green” financing to support coal-related projects. Though wind and solar power costs are now as low as fossil fuels, some in China worry renewables are unreliable, and there are concerns decarbonization will hurt the country’s coal regions.

Analysts expect U.S. LNG growth will slow down

(S&P Global Platts; Nov. 18) - Advancing new U.S. LNG export projects to ease the anticipated tightness in global supply in the early to mid-2020s will be challenging due to decades of low prices and developers' continued difficulty signing up long-term offtake contracts, Deloitte said in a global energy outlook issued Nov. 18. The view is largely in line with S&P Global Platts Analytics' expectations that U.S. liquefaction capacity growth will slow after next year, reflecting the uncertainty over when many of the projects that are to make up the second wave of American terminals will begin construction, if at all.

"A number of projects were sanctioned in 2019, both in the U.S. and internationally, but most were either brownfield or sold without long-term offtake contracts," Deloitte said in its 2020 oil, gas, and chemical industry outlook. "This is not an option for greenfield developers relying on project financing." Meanwhile, the surge in U.S. LNG capacity that began in 2016 from Cheniere Energy's Sabine Pass terminal in Louisiana will continue with more capacity coming online at additional units among the first wave of projects.

U.S. LNG deliveries have picked up significantly in recent weeks, averaging 7.8 billion cubic feet per day so far in November, Platts Analytics data show. However, the substantial increase has also weighed heavily on prices, with the Platts Japan Korea Marker, the benchmark price for spot-traded LNG in Northeast Asia, trading under $6 per million Btu for January deliveries, the lowest January price since Platts began listing the price in 2009. According to Deloitte, U.S. exports could hit 10 bcf a day in the next year or two. Platts expects U.S. LNG exports to hit 10.8 bcf a day in December 2020.

Oil majors unload assets to cut costs, focus on core projects

(Houston Chronicle; Nov. 18) - The Big Oil majors aim to unload about $27 billion in oil and gas assets worldwide in order to cut costs and focus spending on their core projects. ExxonMobil and Chevron are concentrating their oil and gas spending on West Texas' booming Permian Basin, as well as Guyana for ExxonMobil and Kazakhstan for Chevron, according to a new report from the Norwegian research firm Rystad Energy.

BP aims to sell some U.S. assets, including in New Mexico's gassy San Juan Basin, after spending $10.5 billion to buy the Texas shale assets of BHP. ConocoPhillips wants to sell its newer position in the Louisiana Austin Chalk for less than $1 billion. Exxon has the most for sale as it plans to divest $15 billion of assets by 2021. The company recently sold its Norwegian North Sea assets for $4.5 billion, but also for sale include Exxon's position in the U.K. North Sea for up to $2 billion, certain Gulf of Mexico assets, as well as additional assets in Australia, Malaysia, Vietnam, Nigeria, and Azerbaijan.

"While oil and gas majors increase their focus on core areas and divest mature assets and interests in geopolitically unstable regions, observers will be following closely to see … what other steps these energy giants will take to keep stakeholders interested amid rising climate concerns and geopolitical volatility," said Rystad analyst Ranjan Saxena. "The expected transactions mean some of the majors are poised to exit certain regions, giving regional players and independents a chance to buy into key fields and help keep them profitable through production-life extensions," Saxena said.

Germany stuck on compensation as it closes down coal plants

(Bloomberg; Nov. 19) - Discussions are faltering about how to shut down Germany's coal industry as company executives and government ministers struggle to agree over the politically charged issue of how to compensate industry for plant shutdowns. Ten months after Germany set out a road map to exit coal by 2038, officials and the main utilities remain at loggerheads over setting a price for closing down operations, according to at least five people with direct knowledge of the deliberations.

The government already missed a self-imposed target to have legislation ready in October and is unlikely to settle the matter before the end of this year, the sources said. A timely agreement on winding down coal plants is a crucial link in the government's moves to speed up reducing greenhouse gas emissions. It's also a key variable in the outlook for utilities. "It's no surprise that the talks are stuck in the trenches," said Guido Hoymann, Bankhaus Metzler & Co.'s head of equity research.

The utilities and government are fighting with an audience of shareholders, workers and the taxpayer all expecting a satisfying outcome to the talks, Hoymann said. Germany is shutting down its nuclear and coal power plants, which together generate about half the nation's electricity. Hard coal plants are required to enter auctions to win compensation, while lignite plants and the mines that feed them are, according to draft legislation, due to be closed in separate agreements with operators. The discussions are snagging on the price that the government will pay to compensate for shutting down coal operations.

Climate change debate could entangle gas projects, too

(Oilfield Technology; Nov. 18) - Following the European Investment Bank's announcement that it will end financing of fossil fuel energy projects at the end of 2021, Wood Mackenzie research director Nicholas Browne said, "The EIB's new financing criteria will make lending to gas projects very difficult. It highlights that gas is also increasingly in the spotlight of the climate debate." Despite the fact that gas burns much cleaner than coal, "gas and LNG may be better, but are they good enough?" he asked.

"Methane and carbon dioxide are lost to the atmosphere by creating LNG through a combination of vents, flares, liquefaction, regasification, and pipeline leakage. There is no consistent method of assessing the data through the value chain for how much gas is lost by the time it reaches a consumer," Browne said. "Media reporting and political scrutiny of this issue will intensify."

That presents a concern for the gas industry, he said. "This might increase the risk that the popular and political tide turns on natural gas like it already has on coal in most countries. If this does occur, it may slow the rate of growth of gas and LNG demand. In turn, this would be a major strategic challenge for companies that have identified gas as the key driver of future growth."

Shipping on Russia's Northern Sea Route continues to increase

(The Barents Observer; Norway; Nov. 15) - Russia's development of its Arctic shipping route is proceeding ahead of schedule. According to Rosatom, the state nuclear power company, shipping on the route this year had exceeded 26 million tonnes as of Nov. 15. That's an increase of more than 63 percent from the same period last year. Shipping volume could reach 30 million tonnes by the end of the year. It was 20 million in 2018.

The Northern Sea Route includes the waters between the archipelago of Novaya Zemlya and the Bering Strait, a distance of almost 3,500 miles. It offers shippers a significantly shorter route to and from Europe and Asia than through the Suez Canal. New Russian industrial projects in the Arctic are behind the growth. Most of the new cargoes are ships from the Yamal liquefied natural gas export terminal, operated by Russian gas producer Novatek, and oil from Gazprom Neft's Novy Port project.

According to Rosatom, which operates a fleet of nuclear-powered icebreakers, the growth in Northern Sea Route traffic is ahead of schedule. There's still a way to go before it hits 80 million tonnes a year, the 2024 target set by President Vladimir Putin.

Japan's Mitsui invests in LNG-fueled power plant in Thailand

(Reuters; Nov. 18) - Japanese trading house Mitsui & Co. said Nov. 18 it has decided to invest in a $1.6 billion project to build a 2.5-gigawatt, gas-fired combined cycle power plant in Rayong Province, Thailand. The project, due to start up in March 2023, will be 30 percent owned by Mitsui and 70 percent by Thai power company Gulf Energy Development. The two companies are already building a 2.5-gigagwatt gas-fired power station in Chonburi Province, which is due to start supplying electricity in March 2021.

The electricity from the Rayong project will be sold to state-owned Electricity Generating Authority of Thailand for 25 years under a long-term contract, Mitsui said. The feedstock gas will mainly come from imported liquefied natural gas, a Mitsui spokesman said. The decision comes after signing a project financing agreement with banks including the Japan Bank of International Cooperation, which will provide project financing of about $208 million. The loan is co-financed by the Asian Development Bank, Export-Import Bank of Thailand and private banks, covering about $1.36 billion, Mitsui said.

Expansion moves closer at Pluto LNG plant in Australia

(Reuters; Nov. 17) - Woodside Petroleum and BHP Group agreed on the tolling price for processing gas from the Scarborough offshore field in western Australia, in a significant step for developing the proposed LNG Burrup Hub. The breakthrough follows months of talks between the two companies over what to charge for processing gas from the field through Woodside's 7-year-old, single-liquefaction-train Pluto LNG plant. Woodside holds an 85 percent stake and BHP the rest in the $11 billion Scarborough gas project.

The agreement comes as Woodside races to get approvals from its partners for $34 billion of oil and gas projects and looks to reach final investment decisions over the next year at an oil project in Senegal as well as the Browse and Scarborough gas projects off Australia. It's a key milestone toward a go-ahead for development of the Scarborough gas resource and expansion at Pluto LNG, Woodside CEO Peter Coleman said Nov. 18. The final investment decision on Scarborough could come in the first half of 2020,

The regional LNG Burrup Hub aims to develop some 20 trillion to 25 trillion cubic feet of gross dry gas resources from the Scarborough, Browse and Pluto projects. Coleman has previously said that Woodside risks losing leases, potential customers and the best contractors if it fails to lock down its projects. Woodside did not disclose the tolling fee for processing feed gas at the Pluto LNG plant.

Two First Nations drop out of fight against oil pipeline expansion

(The Canadian Press; Nov. 15) - Two First Nations in British Columbia's Interior that had been part of a court challenge against the Trans Mountain oil line expansion have reversed course and signed deals with the Canadian Crown corporation that owns the pipeline. The Upper Nicola Band and Stkemlupsemc te Secwepemc dropped out of the federal appeals court litigation, leaving four B.C. First Nations in the case against the project to almost triple the line's capacity from Alberta to a coastal shipping terminal.

The Upper Nicola said in a news release with Trans Mountain on Nov. 15 that its deal represents a "significant step forward" toward addressing environmental, archaeological, and cultural heritage concerns. It said the agreement provides resources to support its involvement in emergency response and monitoring while also helping avoid and lessen impacts on the band's interests. The federal government bought the line last year so it could complete the expansion with plans to later return the line to private ownership.

A news release from the Stkemlupsemc te Secwepemc said its leadership determined an agreement could be a tool used as part of a larger strategy to protect its cultural, spiritual and historical connections to the land. "The conversations we had, understanding what their concerns were, seeing where we could address them, ultimately led to their decision to withdraw their participation in the Federal Court of Appeal," said Trans Mountain spokeswoman Ali Hounsell.

Few details known of Canada's $1.6 billion aid package for oil and gas

(The Canadian Press; Nov. 15) - Canada's C$1.6 billion bailout for Alberta's battered oil industry is well under way, but with little transparency about who is getting the money and for what. Almost $1 billion of the package of loans, guarantees, and government grants announced last December is in the hands of companies, but details are available for just a small fraction of the spending — and the industry said it has not helped much.

The Canadian government unveiled the aid package in December 2018 as the price of oil bottomed out amid ongoing struggles to get Canadian crude to market through clogged channels. Ben Brunnen, vice president of oil sands, fiscal and economic policy for the Canadian Association of Petroleum Producers, said Nov. 15 the funding was appreciated but "hasn't had a meaningful impact" to solve the biggest issue of long and complex review processes for new pipelines and political interference in planning.

There is not a lot of information about where the money has gone. Natural Resources Canada doled out $37 million of a $50 million commitment for nine projects that help oil and gas companies reduce their carbon footprints. Innovation, Science and Economic Development Canada announced $49 million each for two projects to help Alberta companies build facilities to turn propane into polypropylene, a type of plastic used in packaging and labels but not produced in Canada. The Business Development Bank of Canada has approved 892 loans totaling $207.5 million out of its $500 million commercial loan allotment in the aid package but provided no details about the loans.

Putin says Russia wants balanced, predictable oil market

(Reuters; Nov. 20) - President Vladimir Putin said Nov. 20 that Russia and OPEC have “a common goal” of keeping the oil market balanced and predictable, and Moscow will continue cooperation under the deal to cut back global supply. The Organization of the Petroleum Exporting Countries meets on Dec. 5 in Vienna, followed by talks with a group of other exporters, including Russia, known as OPEC+.

“Our (common with OPEC) goal is for the market to be balanced, acceptable for producers and consumers and the most important — and I want to underline this — predictable,” Putin told a forum on Nov. 20. Saudi Arabia’s King Salman said Nov. 20 that the kingdom’s oil policy aims to promote stability in global oil markets too.

In October, Russia cut its oil output to 11.23 million barrels per day from 11.25 million in September, but it was still higher than an 11.17 million to 11.18 million cap set for Moscow under the existing OPEC-led global deal. Putin told the forum that Russia’s oil production was growing slightly despite the supply curbs deal. “Russia has a serious impact on the global energy market but the most impact we achieve (is) when working along with other key producers,” he said. “There was a moment not that long ago when Russia was the world’s top oil producer — this is not our goal.”

Prices fall as U.S. natural gas production up 60% since 2008

(Forbes contributor; Nov. 19) - A 60 percent rise in U.S. natural gas production since 2008 has been the primary factor keeping domestic gas prices low. Since the shale boom took flight in 2009, monthly U.S. Henry Hub benchmark gas prices have averaged $3.39 per million Btu, as compared to $5.67 the decade prior. Yet, even with low prices and a gas-directed rig count that has plummeted by one-third this year, U.S. gas production has continued to rise to record highs.

Compared to $3.27 per million Btu last year, Henry Hub prices in 2019 have averaged just $2.71, while production this year has been 8 to 10 percent higher. In 2020, however, capital spending is expected to slow down, especially in Appalachia, which holds the Utica and Marcellus shale plays that account for nearly 40 percent of all U.S. natural gas output. Appalachian production growth in 2020 is expected to be at 2 to 3 percent year-on-year versus 8 to 9 percent growth this year.

Slower-growing 2020 production amid a burgeoning export business for U.S. liquefied natural gas could ultimately help lift prices.