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Compiled by Larry Persily
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LNG developers look to U.S. Export-Import Bank for support

(S&P Global Platts; Aug. 30) - The U.S. Export-Import Bank could become a new source of support for U.S. LNG export projects working to secure long-term contracts and financing, industry officials said after recent discussions with the bank's leadership. Ex-Im Bank Chairman Kimberly Reed met by teleconference with U.S. LNG trade group officials Aug. 21 to discuss ways the bank could help boost domestic LNG exports.

Whether the bank can successfully expand its role hinges in part on getting attention from Congress to keep the bank fully operating past the end of September when its authorization expires. It's uncertain whether debate over a variety of proposed reforms and the scope of the bank could bog down in Congress, leaving the bank hamstrung once again. Only in May did the Ex-Im Bank regain its footing after a three-year lapse in the quorum of board members needed to authorize transactions above $10 million.

Confirmed by Congress in May, Reed has made clear her interest in the bank becoming more involved in U.S. LNG. Participants in the Aug. 21 meeting discussed the possibility of expanding the use of the Ex-Im Bank's products. One option, industry representatives said, might be for the bank to support U.S. projects entering into long-term offtake contracts with a wider array of overseas buyers, including those that lack investment-grade credit ratings favored by banks that might finance the multibillion-dollar projects.

The Ex-Im Bank generally provides finance guarantees and credit insurance, such as insuring against nonpayment by international buyers. Fred Hutchison, president of LNG Allies, said the bank could vastly broaden the range of customers considered bankable.

China's gas consumption growth rate expected to slip this year

(Reuters; Sept. 1) - China's natural gas consumption growth rate is expected slow to around 10 percent in 2019, from 17.5 percent last year, amid easing economic growth and pressure on the country's production, storage, and gas sales network, a government report published Aug. 30 showed. The research report, conducted by the oil and gas department at the National Energy Administration, forecast gas consumption at almost 11 trillion cubic feet this year and to continue growing until 2050.

Like the rest of the global economy, China's growth prospects are being overshadowed by the lengthening trade dispute with the United States that has seen the world's two biggest economic players apply tit-for-tat tariffs on each other's goods, making trade more expensive and difficult. China, the world's second-largest buyer of liquefied natural gas last year and this year, has imposed tariffs on imports of U.S. LNG.

The report also called for a boost in domestic gas output, especially in the southwestern province of Sichuan, the Erdos basin and offshore basins to ensure security of supply. The report calls for building the Sichuan basin into the country's top gas hub with its rich resource base in conventional and unconventional gas, such as shale gas and tight gas. "Through expanding development of deep-reservoir gas, tight gas, and shale gas, Sichuan is likely to account for about a third of the country's gas output," the report said.

China wants to reduce imports by boosting domestic gas output

(Reuters; Sept. 2) - China aims to slash its growing dependence on gas imports by boosting domestic projects like shale fields as the security of its energy supply is under a spotlight amid a festering trade war with the United States. China's economy and its gas demand growth are slowing down this year, a government research report shows. Meanwhile, Beijing is funding new efforts to boost domestic gas output, particularly from shale gas, as weaning China off its reliance on imports takes on new importance.

The report, released Aug. 30 by the National Energy Administration and a State Council research arm, calls for boosting domestic gas production in key resource basins in the southwestern province of Sichuan, the Erdos basin in the north and offshore China. According to the report, China's gas consumption will rise by about 10 percent this year to almost 11 trillion cubic feet, though less than last year's 17.5 percent growth rate.

"China's reliance oil and gas imports is growing too rapidly with oil topping 70 percent and gas moving toward 50 percent," said Lin Boqiang, director of the Energy Economics Institute at Xiamen University. In a report carried by China's official news agency on Aug. 30, Zhao Wenzhi, a researcher at China's Academy of Engineering, forecast that shale gas output could reach 23 percent of China's total gas output by 2035. Shale gas last year provided less than 7 percent of the domestic gas supply. China should consider offering tax breaks such as waiving its resource tax on shale gas, Zhao said.

Papua New Guinea says it will honor LNG deal

(Reuters; Sept. 3) - Papua New Guinea said Sept. 2 it will honor a deal that Total signed with the previous government as part of a $13 billion plan to more than double the country's liquefied natural gas exports, after securing minor concessions from the French company. The decision removes uncertainty over two projects in the Pacific nation that arose after Prime Minister James Marape came to power in May, promising to win more benefits from resource development for the impoverished country.

The Papua LNG gas agreement is one of two agreements needed for Total and its partners, ExxonMobil and Oil Search, to go ahead with LNG expansion plans. Doubts about the deal escalated in August, when the government suddenly called for talks to revise the agreement. Petroleum Minister Kerenga Kua said Sept. 2 that Total had promised to prepare a plan outlining how much local equipment and services would be used in the project and negotiate with any third-parties wanting access to the pipelines.

Total also is willing to negotiate for Papua New Guinea to take a stake in the pipelines and will consider buying LNG carriers in a joint venture with the government. The companies had insisted that the Papua LNG gas agreement that Total signed in April should be honored, and Oil Search warned in August that costs on the project could rise if it was delayed by prolonged talks. "This is a big win for the industry, but they can't say that because they need to let the prime minister and Kua save a little political face," said an industry analyst, who declined to be named due to the sensitivity of the issue.

Companies compete for stake in Qatar’s LNG expansion

(Reuters; Aug. 29) - When Shell wanted to buy a stake last year in a promising exploration block off South Africa, Total, the asset's main shareholder, used its rights to stymie the deal and acquired the share itself, only to sell it later to Qatar Petroleum. The rapid turn of events caught some of those involved by surprise, according to company sources close to the transaction. In February, Total announced it had made a major gas discovery in the block, paving the way to develop South Africa's first offshore field.

For Total, the deal was part of a wider quest to strengthen its ties with Qatar Petroleum (QP) in an effort to win a stake in the country's expansion of its liquefied natural gas facilities, already the world's largest and one of the most lucrative projects in the energy sector. The race to partner in Qatar’s expansion project has drawn in several of the world's largest energy companies, including ExxonMobil and Shell, which have also offered QP stakes in some of their most prized ventures to strengthen their ties. Exxon and QP are partners in the $10 billion Golden Pass LNG export project in Texas.

Qatar's LNG production facilities, in which Total already holds a stake along with Shell, Exxon, and ConocoPhillips, offer investors access to vast resources at among the lowest production costs in the world. QP wants to expand its LNG production to around 110 million tonnes per year from today's 77 million tonnes over the next five years. The company is expected to announce its partners in the coming months, sources said. The terms for the new production partnerships have not been revealed, though they’re likely to be less attractive than those for the original LNG facilities built 10 to 20 year ago.

Japan imports LNG from China, which is selling what it doesn't need

(Reuters; Aug. 29) - Japan imported its first cargo of liquefied natural gas from China in July as utilities from the world's biggest LNG buyer seek out new suppliers and try to lower costs amid tough competition at home. The cargo shows the increasing flexibility of the Asian market. China has become the world's second-largest LNG buyer amid a surge in domestic gas use. However, it has started to re-export shipments amid a lull in summer gas demand and Japanese buyers are scooping up the gas to cut their costs.

The cargo of 70,560 tonnes of LNG — about 3.4 billion cubic feet of natural gas — was shipped from the Hainan LNG Terminal, which is operated by state-owned China National Offshore Oil Corp., to Chita near Nagoya, where Toho Gas jointly operates an LNG terminal with utility joint-venture JERA, according to a source familiar with the matter. It was delivered at $5.68 per million Btu, below Japan's average import cost of $9.50 for LNG during July, according to Ministry of Finance data released on Aug. 29.

Japan's trade statistics show it is the first LNG cargo from China since 1988, when the Japanese government started publishing import and export figures. Spot LNG prices in Asia have sunk to near record lows in recent weeks as a wave of new supply from the U.S. and Australia comes onto the market. The decline in spot-market prices is pushing Japanese utilities to be more aggressive in price reviews built into their long-term contracts linked to oil prices, while also are buying more LNG on the spot market.

Russia provides tax breaks for second Arctic LNG project

(The Barents Observer; Norway; Aug. 29) – Russian gas producer Novatek will get 40 billion rubles in tax deductions (US$600 million) for building a port terminal in the Gydan Peninsula. It's one of a series of tax benefits for companies investing in Russia's Arctic energy projects. The tax deductions are part of a deal with the regional Yamal-Nenets government, according to Russian news media reports.

The Utrenneye terminal will serve Novatek's next major liquefied natural gas export project, Arctic LNG-2, which is expected to cost more than $20 billion and produce up to 19.8 million tonnes a year — making it the country's largest LNG project. Construction costs for the port are estimated at 144 billion rubles (US$2.16 billion), of which the federal budget will cover 104 billion (US$1.6 billion). Novatek has yet to give a final go-ahead for Arctic LNG-2 but is expected to do so this year.

The terminal will proceed in seven stages, the first three of which will include state-owned infrastructure, including dredging a major ship channel through the nearby shallow waters of Ob Bay and installment of navigational equipment. The terminal is not the first project where Novatek received significant tax benefits. The company is building a major construction operation in Murmansk for building LNG platforms and it received generous tax reductions for that effort.

Russian prime minister says Baltic LNG project needs state support

(Reuters; Aug. 29) - Gazprom's new chemical and liquefied natural gas project in the Baltic port of Ust-Luga will be impossible to build without state support, Prime Minister Dmitry Medvedev said Aug. 29. State development bank VEB later said it would invest up to 111 billion roubles (US$1.68 billion) in the project, whose total costs have been estimated by Gazprom at 900 billion roubles. The Russian sovereign fund and other state banks may also provide financing.

"It's big and expensive," Medvedev said of the Ust-Luga project during a board meeting with state development bank VEB. "(The project) certainly requires careful attention from the state, taking into account that this project cannot kick off without it." Shell quit the project earlier this year after Gazprom moved to integrate its Baltic LNG project and gas processing plants and added a partner with links to an ally of President Vladimir Putin. The Baltic LNG terminal is proposed at 10 million tonnes annual capacity.

Toshiba completes sale of U.S. LNG operations to Total

(Kyodo News Service; Japan; Sept. 2) - Toshiba said Sept. 2 it has completed the sale of its liquefied natural gas operation in the United States to French oil giant Total, letting go of an asset it deemed too risky as it continues to restructure its businesses. Toshiba, which announced the deal in June, paid Total $800 million to take over its contractual obligation to take 2.2 million tonnes of LNG per year for 20 years from the Freeport LNG project in Texas.

Toshiba had decided that its plan to procure U.S LNG for Japanese utilities was unlikely to reach profitability as LNG prices have declined significantly since the 2013 deal with Freeport. Toshiba had previously said it could lose as much as 1 trillion yen ($9 billion) under the contract. The company had been scheduled to start taking Freeport LNG cargoes in 2020.

The sale of the LNG business to the Singapore affiliate of Total comes after Chinese chemicals maker ENN Ecological Holdings scrapped a plan to buy it due to failure to receive early approval from U.S. and Chinese regulators. Toshiba is continuing to restructure following an accounting fraud scandal that came to light in 2015 and the bankruptcy of its U.S. nuclear power subsidiary Westinghouse Electric Co. in 2017.

Mexico settles dispute over pipeline charges for U.S. gas deliveries

(Wall Street Journal; Aug. 27) - Mexico's president has announced a deal to end a standoff with several natural gas pipeline operators over contract prices, avoiding international arbitration and allowing more U.S. gas into the country. Although terms of the deal weren't immediately made public, the president and Manuel Bartlett, head of Mexico's state-run power utility, the CFE, said Aug. 27 that the service fees paid by the CFE will be reduced and set to a fixed rate, rather than escalating each year, as planned before. The length of the contracts will also be extended.

Several pipelines, including the important South Texas-Tuxpan subsea pipeline, which was completed in June, could go online within weeks. Sources said the deal will save Mexico about $600 million over the life of the contracts. Since early July, the Mexican government has been renegotiating contracts for seven gas pipelines in various stages of completion with four different companies: Canada's TC Energy, Mexico's Carso Energy and Fermaca, and IEnova, the Mexico unit of San Diego's Sempra Energy.

Companies in Mexico have complained for years that gas and electricity prices are too high. Under the previous administration, Mexico tried to attract more private drillers, rig operators and pipeline builders into the market to try to increase supply. But the CFE has struggled to make the country's power grid more reliable, partly because of the lack of a consistent supply of gas. Under the negotiated deal that fixes the pipeline rates, the CFE will pay more in the early years than originally proposed, but less in the later years.

Newest Texas-to-Mexico gas line will operate at limited flow

(Bloomberg; Aug. 29) - After Mexico reached a deal ending a months-long dispute with some pipeline operators, Sempra Energy's Mexico unit, IEnova, and Calgary-based TC Energy are free to move forward with their $2.5 billion Sur de Texas-Tuxpan natural gas project. Completed in June, the massive line is expected to be in service within about a week. But pipeline bottlenecks in Mexico threaten to limit flows on the line, which is supposed to deliver gas from Texas to power plants in Tamaulipas and Veracruz.

At its full capacity of 2.6 billion cubic feet a day, the pipeline will expand Mexico's import capability by 40 percent. But flows are likely to reach just 500 million cubic feet a day in September and 1.2 billion in the first quarter of 2020, Tudor Pickering Holt & Co. said in a research note Aug. 27. Genscape's Mexico gas analyst Ricardo Falcon estimates that September flows will be just half of the 500 million depending whether Mexico's Federal Electricity Commission decides to keep three liquefied natural gas cargoes it has ordered from Shell for next month. The cargoes could create an oversupply, he said.

The Sur de Texas-Tuxpan also faces the challenge of servicing multiple points throughout the country, putting it in competition with other pipelines, as well as LNG arriving at the port of Altamira, according to Falcon. Demand is an issue, as well. The electricity commission has said 14 power generation plants will potentially receive gas from the line, but only five have been confirmed for development so far, Falcon said.

Colorado governor says new drilling laws will not hurt industry

(S&P Global Platts; Aug. 29) - Colorado's governor downplayed any damage to the oil and gas industry from sweeping regulations passed earlier this year, saying the industry's future instead depends on market fundamentals. "As long as commodity prices are good, you're gonna have a good business," Democratic Gov. Jared Polis told a packed hall at the Colorado Oil and Gas Association's Energy Summit on Aug. 28. "It has nothing to do with me, and nothing to do with our state politics, and less even to do with national politics; it really all comes down to supply and demand," he said.

The discussion revolved around the effects that Senate Bill 181, passed earlier this year, could have on oil and gas production in the state. It gives counties and municipalities more authority in approving future drilling sites. The bill also elevates public health, safety, and environmental concerns, and changes some operating requirements. "With all due respect, what you do, what you say, does matter," trade association CEO Dan Haley responded to the governor.

"There is a lot of talk out there of people wanting to ban fossil fuels. It makes our folks nervous," Haley said. "I think you underestimate the impact that political rhetoric, political actions and regulatory actions have," he added. "What I see often from financial analysts is the sort of legislative, political tensions in Colorado impacting markets here." What worries Colorado producers the most is the fear that local governments across the Front Range in the Denver-Julesburg Basin might use the new authority to prevent future drilling in their communities. So far nine have passed some form of moratorium.

LNG project developer asks FERC to extend deadline 5 years

(Houston Chronicle; Aug. 30) - Dallas pipeline operator Energy Transfer is asking federal regulators for a five-year extension to build the company's proposed Lake Charles LNG export terminal. Energy Transfer received federal approval for the project in December 2015. Under terms of the permit, the liquefied natural gas export terminal was supposed be running by December 2020, but construction work has not started.

In an Aug. 30 letter, Energy Transfer cited complex international contract negotiations for the delay and asked the Federal Energy Regulatory Commission to extend the deadline until December 2025. Lake Charles LNG was originally built as an import terminal that opened in 1982, but the shale revolution prompted several LNG import plants to remake themselves into export terminals. Under its FERC authorization, the proposed export terminal is authorized to produce 16.45 million tonnes of LNG year.

Energy Transfer Chief Regulatory Officer Michael Langston told FERC that British oil & gas giant BG Group had originally agreed to buy all of the output of Lake Charles LNG but the company was bought by Shell. The deal between Shell and BG Group closed in

February 2016 but required complex contract renegotiations between Shell and Energy Transfer. Those negotiations ended with Shell and Energy Transfer each owning half of the proposed export terminal. Langston explained to FERC that Energy Transfer is not expected to make a final investment decision on Lake Charles LNG until early 2020.

Cheniere says repaired LNG storage tanks will be ready by year-end

(S&P Global Platts; Aug. 29) - Cheniere Energy expects two storage tanks at its Sabine Pass, Louisiana, LNG export terminal that have been offline for more than a year and a half to be online by the end of 2019 if there are no regulatory delays, the company said Aug. 29. The shutdown — while it has not affected Cheniere's ability to liquefy gas and ship cargoes to meet customer needs — has lowered the facility's storage capacity.

When all five tanks are in operation at Sabine Pass, the storage capacity is 17 billion cubic feet of natural gas, about five LNG carrier loads, giving the facility the ability to handle periods of strong demand and maintenance. Cracks in the tank walls caused a small LNG spill in January 2018 that led to the shutdown. Repairs are now finished, Cheniere spokeswoman Jenna Palfrey said in an email responding to questions.

The company still must satisfy the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration and the Federal Energy Regulatory Commission, both of which required corrective actions intended to prevent a re-occurrence. Cheniere operates five liquefaction trains at Sabine Pass and is building a sixth that will take its total annual production capacity to 27.5 million tonnes, an average of 3.6 billion cubic feet of gas per day.

Bangladesh approves spot-market LNG buys as backup

(The Daily Star; Bangladesh; Aug. 29) - The Bangladeshi government Aug. 28 gave the green light to buying liquefied natural gas on the spot market as it looks to ensure an uninterrupted supply of the fuel for the fast-growing economy. At present the government purchases LNG under long-term agreements from Qatar and Oman. Given the rise in geopolitical tension in that region, there are risks of supply disruptions.

With the Cabinet committee decision, the government has the option to purchase LNG from the spot market in the event of supply disruptions arising out of an outbreak of conflicts in the Middle East or other supply issues. As per the new policy, Bangladesh can purchase LNG from 17 companies at rates prevailing in the global spot market, according to Finance Minister AHM Mustafa Kamal. Of the companies, four are from Japan, plus Singapore-based commodity traders, U.S.-based suppliers Chevron and Cheniere Energy, and LNG suppliers based in Australia, Italy, Malaysia, and China.

Bankruptcies on the rise among U.S. shale producers

(Wall Street Journal; Aug. 30) - Bankruptcies are rising in the U.S. oil patch as Wall Street's disaffection with shale companies reverberates through the industry. Twenty-six U.S. oil-and-gas producers have filed for bankruptcy this year, according to an August report by the law firm Haynes & Boone. That nearly matches the 28 in all of 2018, and the number is expected to rise as companies face mounting debt maturities.

Energy companies with junk-rated bonds were defaulting at a rate of 5.7 percent as of August, according to Fitch Ratings, the highest since 2017. The metric is considered a key indicator of the industry's financial stress. The pressures are due to companies struggling to service debt and secure new funding, as investors question the shale business model. M any drillers financed production growth by taking on a lot of debt.

But investor interest has faded after years of meager returns, and some companies are struggling to meet their obligations as oil prices hover below $60. Private companies and smaller publicly owned drillers have been hit hardest. Those producers collectively generate a large portion of U.S. oil, according to consulting firm RS Energy Group. "They were able to hang in there for a while, but now their debt levels are just too high," said Patrick Hughes, a partner at Haynes & Boone.

The current financial strain on shale producers is likely to intensify as many companies that took on debt after the 2016 oil slump face large debt maturities in the next four years. As of July, about $9 billion was set to mature throughout the remainder of 2019, but about $137 billion will be due between 2020 and 2022, according to S&P.