Oil and Gas News Briefs
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Japan plans to build as many as 22 new coal-fired power plants

(The New York Times; Feb. 3) - Just beyond the windows of Satsuki Kanno's apartment overlooking Tokyo Bay, a behemoth from a bygone era will soon rise: a new coal-burning power plant. It is an unintended consequence of the Fukushima disaster almost a decade ago, which forced Japan to scale back its nuclear power program. Japan now plans to build as many as 22 coal-burning power plants — one of the dirtiest sources of electricity — at 17 different sites in the next five years, just at a time when much of the world is trying to slash carbon dioxide emissions to fight global warming.

"Why coal, why now?" Kanno said. "It's the worst possible thing they could build." Together the 22 power plants would emit almost as much CO2 annually as all the passenger cars sold each year in the U.S. The construction stands in contrast with Japan's effort to portray this summer's Olympics in Tokyo as one of the environmental friendly ever. The plants have prompted unusual criticism in Japan. Some local residents are suing the government over its approval in what they hope will jump-start a fight against coal.

The government, the plaintiffs say, rubber-stamped the project without a proper environmental assessment. The complaint is noteworthy because it argues that the plant will not only degrade local air quality but also contribute to climate change. Japan, however, relies on coal for more than a third of its power generation needs. And while older coal plants will start retiring, eventually reducing overall coal dependency, the country still expects to meet more than 25% of its electricity needs from coal in 2030.

Papua New Guinea LNG expansion in doubt

(Reuters; Feb. 2) - Plans to double LNG exports from Papua New Guinea within the next four years are in doubt after the government walked away from talks with Exxon Mobil on a key gas project needed for the $13 billion expansion. Prime Minister James Marape called off negotiations with Exxon on the Pnyang field, blaming the energy giant for failing to budge on a proposed deal that was "out of the money" for the country. The expansion is crucial for the impoverished nation, which is vying with proposed LNG projects around the world. One of Exxon's partners in the project, Oil Search, said Feb. 3 that the terms the government had sought would have made the project unprofitable.

The Pnyang agreement was one of two needed for Exxon and its partners to go ahead with plans to double LNG exports from the Pacific nation. The other agreement, the

Papua LNG pact, was sealed with France's Total in September. The government was seeking terms from Exxon giving the state more than the 45% to 50% take the country is set to reap from the Total-led project, and well above the terms Exxon negotiated in 2008 for its PNG LNG project, a source said. The PNG LNG facility went online in 2014.

Pnyang and Total's Papua project were designed to feed three new liquefaction units at Exxon's LNG plant with the two projects sharing infrastructure to save $2 billion to $3 billion on construction. Bank of America analysts estimated that separating the projects would reduce the savings and delay first gas from Papua LNG by 18 months to 2026.

Exxon CEO Darren Woods said Jan. 31 the company hopes to revive talks to get to a "win-win proposition," but said the company was in no hurry as it has other projects it could advance elsewhere. The prime minister, who came to power last May on a pledge to reap more benefits from the country's resources, said Feb. 2 he was comfortable with the hard line he had taken. "I am sorry, but if you show little respect to our motive to gain extra for the country you will lose my support," Marape said in a post on Facebook.

Exxon partner says Papua New Guinea's demands uneconomic

(Bloomberg; Feb. 3) - ExxonMobil's partner on a Papua New Guinea gas project that is threatened by failed talks with the government hit back at the state's position on Feb. 3, saying its terms were uneconomical. Oil Search, in its first comment since the talks broke down Jan. 31, said the government's demands meant the project would not gain a sufficient return on investment.

The impasse casts doubt on a broader $13 billion plan to double Papua New Guinea's LNG exports after Prime Minister James Marape, who came to power on a promise to increase the nation's share of resources wealth, said Exxon's proposed terms were "out-of-the-money" for the country. The country's take from the project would have been "significantly less" than deals done elsewhere in the region, Marape said.

However, the size of the resource, cost of development and unique challenges of operating in PNG make comparisons with other deals in the region "misleading," according to Oil Search. "For Oil Search, the project returns under the state's proposed terms were approximately the same as our cost of capital, on an unrisked basis," Managing Director Peter Botten said in a statement to the Australian Stock Exchange.

[Oil drops to $50 for first time in more than a year]

(Bloomberg; Feb. 3) - Oil fell to $50 per barrel for the first time in more than a year as China's oil consumption was said to plunge by 20% amid the spread of coronavirus, threatening what could be the largest demand shock since the since the global financial crisis. West Texas Intermediate crude futures sank as much as 3.2% on Feb. 3 as oil demand in the world's biggest importer dropped by about 3 million barrels per day.

The loss of demand as the world's second-largest economy quarantines cities to limit the outbreak is starting to ripple around the globe, as some Chinese refineries slow or halt operations. Concerns that a glut will form may force OPEC and its allies to hold an emergency meeting to discuss cutting production further in an effort to stabilize prices.

"The fears are justified when you consider just how massively important China is to oil demand," said Robbie Fraser, senior commodities analyst at Summit Energy Services. Chinese government measures amount to a "major shutdown of the economy" and even with a deeper OPEC+ production cut it will drive weaker oil balances, Ed Morse, Citigroup's global head of commodities research, said in a note. "There would be critical knock-on indirect effects for all commodities."

[Citigroup slashes 2020 price forecast for Brent to $50s range]

(Bloomberg; Feb. 2) - Citigroup has slashed its price forecasts for commodities from oil to copper and iron ore as it said the impact of the coronavirus looks much worse than it initially thought. Oil came in for the most severe downgrades, with the bank cutting estimates for the first three quarters of 2020. Citi also reduced its first-quarter copper projection by almost a fifth, noting the outbreak had "drastically shifted" the Chinese and global economic outlook, analysts, including Ed Morse, wrote in a note.

Chinese government measures amount to a "major shutdown of the economy," and even with a deeper OPEC+ production cut it will drive weaker oil balances, Morse, the global head of commodities research, said in the note. The lender slashed its first-quarter Brent oil estimate to $54 a barrel from $69. Reductions for the following two quarters are based on the bank's view that the virus will have a longer and deeper impact than had been anticipated. It said the global benchmark could fall as low as $47.

Oil demand in the world's biggest importer has dropped by around 3 million barrels a day, or 20% of total consumption, according to people with inside knowledge of China's energy industry. The Wuhan virus looks set to be the biggest demand shock for oil markets since the global financial crisis more than a decade ago with OPEC+ considering an emergency meeting. Citi cut its second-quarter crude forecast to $50 a barrel from $68 and its estimate for the following three months to $53 from $63.

Russia offers significant tax breaks for Arctic oil and gas

(Barents Observer; Norway; Feb. 4) – The Russian government has approved tax incentives for national oil companies to invest in Arctic oil and gas, Prime Minister Mikhail Mishustin said. “These laws will create favorable conditions for Arctic investments, the development of unique fields and consequently the accelerated development of the Northern Sea Route,” the premier underlined as his Cabinet approved the legislation.

Minister of the Far East and Arctic Aleksandr Kozlov said new onshore and offshore projects could reach 14.7 trillion rubles (US$232 billion). The legislation provides a 5% tax on offshore production for the first 15 years. Petrochemical projects in the region also will get a boost, with a new zero percent mineral extraction tax, Kozlov said, adding the incentive could lead to development of three petrochemical projects in the region.

The Russian government also wants to intensify oil exploration in the country’s eastern Arctic, where it will introduce a zero extraction tax for start-up of new projects. The legislation also covers transport and infrastructure development. The companies that build new seaports in the region will benefit from a zero percent income tax for 10 years. And shipping companies operating in the region will have no value added tax charged on shipments of export goods and icebreaker services.

North Asia spot LNG down to $3.51 for March cargoes

(S&P Global Platts; Feb. 3) - North Asian spot LNG prices plunged to a historic low Feb. 3 on weaker demand outlook from China and softer European gas prices. The S&P Global Platts Japan Korea Marker for March was assessed down 21.3 cents at $3.512 per million Btu, the lowest since Platts started assessing the prices in February 2009.

China’s coronavirus outbreak has dampened market sentiment with sources hearing of buyers delaying spot cargoes, reselling some February and March cargoes and potentially delaying contractual off-takes. "Everyone is taking a wait-and-see approach as we do not know yet how bad the situation is likely to get and how much [volume] would Chinese buyers be able to take this summer," a Singapore-based trader said. “There is absolutely no reason to buy in a hurry in the current market. Every time I think the market has stopped falling, it goes down further," a Japanese trader said.

China’s largest LNG buyer invokes force majeure, cancels cargoes

(Bloomberg; Feb. 5) - China’s biggest buyer of liquefied natural gas told some suppliers it won’t take delivery of cargoes because of constraints caused by the coronavirus, a rare step that shows how deeply the epidemic is impacting global commodity flows.

China National Offshore Oil Corp. has declared force majeure on some contracts, according to people with knowledge of the situation, who asked not to be identified as the information isn't public.

It's among the first cases of a force majeure clause being invoked in the global commodity market as a result of the coronavirus after speculation mounted that Chinese buyers of everything from copper to LNG could be forced to take the dramatic step. It's a sign of the deepening disruptions to flows of key raw materials as the virus curbs demand and constrains logistics. CNOOC sent the force majeure notice to firms including Shell and Total, according to sources.

China said last week that it would offer support to its companies that are seeking to declare force majeure on contracts, referring to the situation when a company is unable to meet contractual obligations for reasons beyond its control. Suppliers to CNOOC include the North West Shelf LNG and Queensland Curtis LNG projects in Australia. The move will add further pressure on spot LNG prices in Asia, which are already trading at the lowest on record amid a supply glut and milder winter temperatures.

Falling LNG prices could force U.S. exporters to shut in production

(Bloomberg; Feb. 4) - A grim situation for U.S. natural gas exporters has gotten even worse as the coronavirus outbreak sends global prices plunging on concern that China's demand for the fuel will collapse. Suppliers of American liquefied natural gas already were under pressure from depressed prices arising from a global glut and an unusually mild U.S. winter. Now with the virus threatening to disrupt industrial production across China, Asian spot LNG prices have hit a record low.

Faced with the prospect of being unable to even cover their shipping costs, customers such as commodity trading houses may refuse to load U.S. cargoes. Cancellations could force LNG export terminal operators to cap, or "shut in," production as their storage tanks fill up. "Forward prices for summer are now at levels where U.S. LNG shut-ins begin to seem viable," said Edmund Siau, a Singapore-based analyst with energy consultant FGE. Even if they decide not to take a cargo, many of the customers still have to pay a fee for the liquefaction capacity they reserved but did not use.

A cutback to liquefaction volumes would be a blow to the fast-expanding U.S. LNG industry. New export terminals from Maryland to Texas have sprung up to make the country one of the world's top suppliers, while also providing a crucial outlet for soaring production from shale basins. China hasn't directly imported U.S. LNG in a year amid trade tensions and tariffs on the fuel. But it's the world's fastest-growing buyer, and a slowdown or decline in demand there will have an effect that ripples across the market.

Uncertainty a challenge for U.S. LNG project developers

(S&P Global Platts; Feb. 4) - LNG exporters were told Feb. 4 to brace for an oversupplied market and weaker than expected global demand depressing prices for another two years, followed by a period of recovery and then renewed uncertainty around the middle of the decade. That was the consensus message as market participants gathered during at the American LNG Forum in Houston.

The outlook is expected to force a reckoning among the multiple U.S. projects under development but not yet at a final investment decision. How many end up going forward is key to determining when the market balances. Meanwhile, mild weather, China's tariffs on U.S. LNG, and the coronavirus cloud the situation. "Will there be another wave of U.S. LNG? Our view is yes," said Alex Munton, principal analyst, Americas LNG, at consulting firm Wood Mackenzie. "We're going to go into a period of a pause button pressed on the pace of development. But … another wave of investment is likely."

By 2026 as many as 18 liquefaction projects will be operating in North America, a number which assumes that some, but not all, of the proposed U.S. projects advance to construction, said Paul Sullivan, senior vice president for LNG at Australian engineering and consulting firm Worley. "The feeling is if we can maintain a level of pricing — I'm not going to give you a benchmark other than $6 per million Btu, that's what people are settling around — if we look at that being the normal, the rapid rate of expansion of our industry can be maintained in a figure around that," he said.

Low spot LNG prices finally make 2002 contract terms look better

(Australian Financial Review; Feb. 2) - The dire state of LNG spot prices means the North West Shelf venture's famously cheap LNG sales contract to China may finally be "in the money" for the first time. Credit Suisse calculated that the ultra-weak LNG spot market meant that the 25-year oil-indexed fixed-price contract signed by North West Shelf operator Woodside Petroleum in 2002 is now fetching a higher price than if the Australian gas were sold on the short-term market, which is at record lows.

The cut-price deal was once described wryly by Woodside Petroleum CEO Peter Coleman as "the gift that keeps on taking" because it was struck at a historically low level. Unusually, it included no regular review periods to allow the price to be adjusted to the prevailing LNG market, or to vary in line with crude oil prices. That means the $25 billion contract with China National Offshore Oil Corp. for at least 3 million tonnes a year of LNG has been underwater ever since it was signed.

The contract was won amid fierce competition from rival suppliers and was originally seen as a coup for the North West Shelf venture and for Australia, whose prime minister engaged in diplomatic efforts to secure it. Credit Suisse said the weak LNG spot forward curve shows LNG falling to just US$3.50 per million Btu in the coming months, equating to about US$2.90 at the North West Shelf plant before shipping costs. That would make the US$3 minimum price paid by China under the legacy contract a better deal for Woodside and its partners than the spot-market price for the first time in its history.

Investment decision expected this year on Israeli LNG project

(Reuters; Feb. 3) - Israel’s Delek Drilling expects a final investment decision later this year on expanding exports from the Leviathan offshore gas field using either an underused liquefied natural gas facility in Egypt or a new floating LNG terminal in the Mediterranean, its CEO said Feb. 3. The Leviathan project came online a month ago and is already supplying Egypt and Jordan with pipeline gas deliveries. The project is led by partners Delek Drilling, a unit of Delek Group, and Texas-based Noble Energy.

Delek Drilling CEO Yossi Abu told a conference of investors that his company was in talks with banks about securing $2.5 billion in long-term funding, either through bank financing or bonds, to finance an expansion of gas production at Leviathan. He later told Reuters his goal is to turn Leviathan — one of the world’s largest gas finds of the past decade, at 22 trillion cubic feet of recoverable reserves — into a global supplier. “Potentially, we can reach anywhere LNG reaches in the world,” Abu said.

Delek could use the Idku LNG plant in Egypt, which is partly owned by Shell. Or it could build its own floating LNG terminal off Israel’s coast. Abu said it was too early to say which option would be used, and that the company was examining the commercial and regulatory aspects as well as the risk and reward of each project. Either way, the cost of ramping up production from the current plan of almost 1.2 billion cubic feet of gas per day to 2.4 bcf will require billions of dollars and will take up to three years to complete.

Report criticizes Exxon’s take of oil revenues in Guyana

(The Associated Press; Feb. 3) - A watchdog group alleges in a new report that Guyana may have lost as much as $55 billion in potential revenue by poorly negotiating a deal with ExxonMobil to pump oil that is expected to make the small South American country into the world’s newest major producer. London- and Washington-based Global Witness said in its report Feb. 3 that the 2016 deal giving Guyana 52 percent of the revenue from oil pumped from a massive offshore block was far better for Exxon than Guyana because such deals typically give national governments 65 to 85 percent of revenues.

Exxon said the report failed to account for the risk in exploring the unproven deepwater area known as Stabroek. “The conclusions drawn are based on hypotheticals and circular reasoning that do not take into consideration Guyana's status as a frontier hydrocarbon province," Exxon said Feb. 3. "The conclusions are misleading in that they compare Guyana deepwater with mature hydrocarbon-producing provinces which naturally have evolved fiscal frameworks reflecting maturity and lower risk profiles," the company said. Much of the area also is subject to a border dispute with Venezuela.

The government said officials were reviewing the report. Exxon began shipping the first tankers of Guyanese oil this year. The fields are estimated to contain more than 8 billion barrels. The revenue is expected to transform the finances of Guyana by generating an estimated $168 billion over the life of the project, 120 times the country's annual budget. Guyana is a relatively poor nation of about 740,000 people. It holds general elections on March 2 and the opposition party has issued statements indicating that it will seek to renegotiate oil concessions, although the specifics of its position remain unclear.

Saudi Arabia and Kuwait will resume production at jointly held fields

(Reuters; Feb. 2) - Kuwait and Saudi Arabia have started preparations to resume oil production from the al-Khafji field jointly operated by the two countries with initial output expected around the end of February, industry sources said. Kuwait and Saudi Arabia agreed last year to end a five-year dispute over the area known as the Neutral Zone, allowing production to resume at two jointly run fields.

Trial production of about 10,000 barrels per day from al-Khafji will start around Feb. 25, a Kuwaiti oil official told Reuters. The field should be pumping about 60,000 barrels per day by August, the official said. In addition, 10,000 barrels per day of trial output from the Wafra field will start by late March, the official said, adding that production there is expected to increase to 80,000 barrels within six months of starting trial production.

Output is expected to reach 175,000 barrels per day from al-Khafji and 145,000 from Wafra a year after restarting the fields, the official said. Khafji had been producing between 280,000 and 300,000 barrels per day before closing in 2014 for environmental reasons. Wafra has been shut since 2015 and had output capacity of about 220,000 barrels per day. Chevron operates the Wafra field on behalf of the Saudi government. The Saudi energy minister said in December that the fields' production would not affect the countries' commitments to restrict overall output under the OPEC+ agreement.

Canadian government wins court ruling on oil line expansion

(Bloomberg; Feb. 4) - The Canadian government's plan to expand a major oil pipeline has cleared a key legal hurdle, providing optimism the project will proceed and sending a lifeline to the country's ailing energy industry. The Federal Court of Appeals ruled Feb. 4 in Ottawa that Prime Minister Justin Trudeau's government had adequately consulted with indigenous communities along the pipeline route and that the regulatory review of the project included all necessary elements.

The ruling signals that one of the final remaining legal challenges to the project may be overcome, which would help keep construction from being interrupted and allow the expanded line to start shipping oil by its 2022 target. However, the ruling is almost certain to be appealed to Canada's Supreme Court, according to David Austin, an energy lawyer in Vancouver. "People should take a deep breath and wait for the outcome of an appeal," Austin said in an interview before the ruling was released.

The Trans Mountain project has been highly anticipated by Canada's oil producers, which have suffered from a lack of pipeline capacity that has weighed on local crude prices and stymied their plans to expand output. The project would boost daily shipping capacity by 590,000 barrels, to a total of 890,000 barrels. Expanding the line, which runs from Edmonton to a terminal near Vancouver, would open new markets for Canadian crude in Asia and reduce dependence on U.S. refiners.

Canadian oil line expansion wins permit in Minnesota

(Reuters; Feb. 3) - Enbridge's Line 3 oil pipeline replacement cleared important hurdles on Feb. 3 when a Minnesota regulator endorsed a revised environmental impact statement for the project. The Public Utilities Commission decision, followed by its approval of a certificate of need and route permit, is a win for Canadian producers that have been forced to curtail output in Alberta because of a shortage of pipeline capacity.

Line 3, built in the 1960s, carries oil from Alberta to a connection point in Superior, Wisconsin. It carries less oil than it was designed for because of age and corrosion. "Instead of a 50-plus year-old pipeline with known integrity issues, a new pipeline would replace it," Enbridge lawyer Eric Swanson said. Line 3's opponents, however, questioned the need for replacing the pipeline amid concerns about fossil fuels.

"If Enbridge is talking about an integrity problem, shut it down," Joe Plummer, representing the Red Lake Band of Chippewa Indians, told the utilities commission. Replacing Line 3 would allow Calgary-based Enbridge to double capacity to 760,000 barrels per day. "This (decision) is critically important because when we get that extra shipment capacity, we should be able to keep our energy market in balance," Alberta Premier Jason Kenney said. Line 3 still requires various permits and its opponents are expected to formally petition the Minnesota commission to reconsider its decisions.

Libya’s oil output falls to lowest level since 2011

(Bloomberg; Feb. 3) - Libya’s oil production has tumbled to its lowest since the 2011 uprising against former leader Muammar Qaddafi as a blockade on the country’s ports entered into its third week, according to a person with direct knowledge of the situation. Current output is 204,000 barrels a day, the source said. Libya’s exports already had dropped in early January to the lowest level in a year after forces loyal to eastern Libyan commander Khalifa Haftar blocked oil shipments from the country’s main terminals.

Loadings averaged 731,000 barrels a day for January, down from 917,000 barrels in December, according to tanker-tracking data compiled by Bloomberg. Forces loyal to Haftar began closing export terminals in mid-January in the run-up to peace talks with the internationally recognized government in Tripoli. That prompted the state-run National Oil Corp. (NOC) to slash crude output, which is now down to 204,000 barrels.

As a result of the closures, NOC declared force majeure on supplies, allowing Libya — which is home to Africa’s largest proven oil reserves — to legally suspend delivery contracts. The country has almost no storage capacity that could allow onshore fields to continue pumping even though exports are curtailed.

Japan looks to boost investment in LNG across Asia

(Nikkei Asian Review; Feb. 5) - Japan wants to support construction of liquefied natural gas import terminals across Asia, aiming to take a leading presence in the expanding market before its position as world's largest LNG buyer is overtaken by China in the near future. Japan currently supports companies involved in LNG projects through investment and loan guarantees using a government-backed natural resource company — Japan Oil, Gas and Metals National Corp., or JOGMEC.

JOGMEC currently is limited to aiding upstream operations, such as gas exploration and liquefaction plant construction. New legislation would allow JOGMEC to support investment in projects further downstream, such as LNG terminals in other countries so that they can import the fuel. As a relatively clean carbon-based fuel, global LNG demand is projected to double by 2040, according to the International Energy Agency. Japan is currently the biggest importer, but consumption is forecast to grow rapidly in Asian countries with China expected to take the number 1 spot before too long.

The easing of JOGMEC’s aid for construction of LNG terminals is expected to help corporate Japan expand trade with other consuming countries. By helping the world’s top producers, such as the U.S., expand their sales destinations, Tokyo hopes to take a central role in the growing market. The legislation also would allow JOGMEC to focus on transshipment facilities, making it easier for Japan's private sector to participate in the growing transport of Russian LNG through the Arctic Ocean.