

**UPDATE 2-ExxonMobil resumes quake-hit PNG LNG production ahead of schedule**

536 words

13 April 2018

14:18

Reuters News

LBA

English

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* Resumption of output, exports comes weeks ahead of expectations

* Announcement expected to drag on spot Asia LNG prices near term (Adds comment, detail, prices)

MELBOURNE April 13 (Reuters) - ExxonMobil Corp has resumed production at the Papua New Guinea liquefied natural gas (LNG) project a fortnight ahead of schedule after it was shut down in the wake of a deadly earthquake in February, its Australian partners said on Friday.

Production at the PNG LNG project was halted after a 7.5 magnitude earthquake hit Papua New Guinea's energy-rich interior on Feb. 26, causing landslides, damaging buildings and killing 100 people.

Australia's Oil Search Ltd and Santos Ltd said they had been advised that one train at the LNG plant near Port Moresby has re-started operations and the second train is expected to resume as gas production ramps up.

LNG exports, which were expected to resume shortly, will come weeks ahead of schedule and may put pressure on spot LNG prices, traders said. Exxon Mobil Corp had earlier advised that production would restart in May 2018.

"The recommencement of operations at the PNG LNG Project, ahead of ExxonMobil's previously guided eight week timeframe, is a major achievement by the operator," said Oil Search Managing Director Peter Botten.

Exxon Mobil was able to restart production earlier than expected because damage to hundreds of kilometres of pipelines that run through the mountains between gas output facilities and the LNG terminal was much less than initially feared, a source involved with the project told Reuters.

Santos is a foundation partner and holds a 13.5 percent interest in PNG LNG. Oil Search has a 29 percent stake.

Exxon Mobil declared force majeure on exports from PNG in March and the resulting uncertainty over supply drained liquidity from Asia's spot LNG markets, traders said.

"At the time the project was halted in late February, it was a time in the year when LNG prices were to gradually fall down as demand eases," said one industry source in Tokyo.

"The halt did have some impact in that it took longer for (Asian benchmark) prices to fall, but the impact was rather limited because demand was weak at the time," he said.

Asian spot LNG prices <LNG-AS> have lost almost 70 percent from their 2014 peak to around \$7 per million British thermal units (mmBtu), driven lower by a global supply overhang that developed as new production came online, especially in Australia and the United States.

Worry about the surplus has been tempered somewhat by unexpectedly strong demand out of China, India and Southeast Asia, especially over this past winter.

Before the quake, the PNG LNG project had been producing at around 20 percent above its rated capacity of 6.9 million tonnes a year.

Another trader said that although the announcement would likely weigh on prices, any fall "will be limited by summer demand expected soon from Asia." (Reporting by Sumeet Gaikwad in BENGALURU, Melanie Burton in MELBOURNE, Jessica Jaganathan, Henning Gloystein and Roslan Khasawneh in SINGAPORE, Osamu Tsukimori in TOKYO; Editing by Richard Pullin and Tom Hogue)

Released: 2018-4-13T05:18:51.000Z

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