Oil and Gas News Briefs
Compiled by Larry Persily
April 9, 2015

Rosneft to delay proposed Sakhalin Island LNG project

http://uk.reuters.com/article/2015/04/07/russia-crisis-lng-idUKL6N0X310920150407

(Reuters; April 7) – Russian energy producer Rosneft may have to delay development of its liquefied natural gas project on the Pacific island of Sakhalin for at least two years, sources said, as LNG prices have fallen and financing has all but dried up due to Western sanctions. The delay is the latest blow to Rosneft, which has also been forced to suspend drilling at an Arctic oil project after sanctions imposed on Russia by the West over the Ukraine crisis halted cooperation with ExxonMobil.

Rosneft, which has spearheaded President Vladimir Putin's drive to increase oil and gas output, signed an agreement with ExxonMobil in 2013 aimed at building an LNG plant by 2018 (5 million tons annual capacity) at Sakhalin. Russia is the world's largest gas supplier, mostly by pipe to Europe. Putin wants to grow Russia's LNG trade, particularly in Asia. Gazprom operates Russia's only LNG export plant, also at Sakhalin. Sources with direct knowledge of Rosneft's plans said the 2018 target is no longer realistic.

A source at Rosneft, who declined to be named because he was not authorized to speak to the media, said the plant would most probably "be postponed for three to five years because of lack of funds and low fuel prices." A second source said it could be delayed two years. "This is not a surprise," the source said. "The year 2018 had never been seen as the final deadline. All the stuff that's happening — a decline in LNG prices, a slump in demand, the economic crisis — only confirms that."

Moody's says most North American LNG projects will get cancelled

http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/global-supply-glut-threatens-british-columbias-lng-projects/article23828753/

(Globe and Mail; Canada; April 7) - Most liquefied natural gas export projects are at risk of being cancelled in North America as a result of a looming global glut of LNG, putting a damper on the energy dreams of British Columbia and other hopefuls. Moody's Investors Service issued a stark outlook April 7 for the fledgling North American LNG industry, arguing it doesn't make economic sense to invest billions of dollars on each venture especially as Asian buyers slow down their orders for new LNG supplies.

Moody's said the "vast majority" of North American proposals face outright cancellation. "Many sponsors — including those in the U.S., Canada and Mozambique that have missed that window of opportunity as oil prices have declined — will face a harder time inking the final contracts, most likely resulting in a delay or a cancellation of their projects," the credit rating agency said.

In the global LNG industry, most contracts have maintained their historic link to crude oil prices, and that has meant declining revenue for LNG suppliers amid the slump in oil markets. And since major LNG projects are led by large energy companies, the oil sector's downturn has eroded corporate revenue generally, forcing firms to curtail capital spending, Moody's said. "We expect that global liquefaction capacity will be well in excess of demand for the remainder of this decade, as demand will grow more slowly than supply," according to the report.

B.C. unlikely to meet its 2020 goal for LNG, says Moody's report

http://business.financialpost.com/news/energy/oil-price-collapse-dampening-b-c-s-goal-for-three-lng-plants-by-2020-moodys-says?__lsa=cc61-897b

(The Financial Post; Canada; April 7) - It is highly unlikely the government of British Columbia will realize its goal of having three LNG plants up and running on the West Coast by 2020, says a new report from Moody's Investors Service. The April 7 report said the majority of the 18 liquefied natural gas projects proposed for B.C. will be nixed as a result of the collapse in oil prices — which affects the price of new contracts for LNG shipments — and a coming glut of LNG from places such as Australia.

"The thing about the B.C. projects is they're greenfield," Moody's senior vice president Mihoko Manabe said in an interview. Each multibillion-dollar project would need to be built from scratch at a higher cost than competing projects in the United States. "They're in an area where there hasn't been any LNG trade, which is different from the Gulf Coast, and they're remote from the pipelines that will bring the supply," she said.

B.C. Premier Christy Clark's government has championed the development of an LNG export industry as a source of new tax revenues for the government and jobs.

Government has done all it can as it waits on B.C. LNG decisions

http://www.biv.com/article/2015/4/bc-forced-play-waiting-game-volatile-global-natura/

(Business in Vancouver; April 7) - When Petronas CEO Shamsul Azhar Abbas warned at last year's LNG conference in Vancouver that his company's Pacific NorthWest LNG project was not a slam dunk, it was characterized by some as an attempt to wring tax breaks from government. The company later announced it would delay a final investment decision — originally expected by the end of 2014 — to summer 2015.

If it was brinkmanship, it worked. The B.C. government reduced the tax rate it had originally announced for LNG projects, and in February the federal government announced a tax-saving, accelerated-depreciation schedule for liquefied natural gas plants and associated facilities. Zoher Meratla, an LNG specialist with CDS Research, said there's not much more the provincial or federal governments can do to create a competitive investment climate for an LNG industry in B.C.

And there's not much either government can do about low oil prices, which have added uncertainty to LNG projects worldwide. "We now have buyer expectations for a very low price," said Colin Coe, an adviser to the Oregon LNG project. "That means that for any jurisdiction that is a higher-cost jurisdiction, such as British Columbia, they have a real challenge finding a slot in the marketplace." B.C.'s higher costs are largely due to the fact that most of its projects need multibillion-dollar pipelines across mountain ranges.

Expansion at Cheniere's Sabine Pass LNG hinges on financing

http://fuelfix.com/blog/2015/04/08/cheniere-cleared-to-expand-sabine-pass-lng/

(Houston Chronicle; April 8) - Federal regulators have cleared Cheniere Energy to expand its Sabine Pass, La., liquefied natural gas export terminal, but construction will hinge on the company's ability to secure financial backing for the project. Although U.S. natural gas remains inexpensive, international LNG buyers now have access to cheap oil and gas products closer to home, making it less attractive to import LNG from the U.S., according to a report this week from Moody's Investors Service.

Despite the skepticism surrounding LNG projects not yet under construction, Cheniere told investors it hopes to start work on at least part of its expansion project this year, according to company presentations. The expansion calls for adding two additional LNG production trains to the four-train Sabine Pass terminal under construction in Louisiana. Adding a fifth and sixth train would boost the terminal's authorized processing capacity by half, from 2.76 billion cubic feet per day to 4.14 billion cubic feet per day.

The first phase of the terminal is nearing completion, pushing Cheniere closer to becoming the first large-scale plant to ship LNG from the continental U.S. The first train is expected to begin producing LNG late this year, with shipments going out by early next year. Cheniere has already signed contracts to sell liquefied gas produced by the first four trains. That $18 billion project was cleared for construction years ago. However, the company has not yet made a final investment decision on trains 5 and 6.

Merger would give Shell 18 percent of global LNG production capacity

http://www.reuters.com/article/2015/04/08/bg-group-ma-shell-idUSL3N0X441R20150408

(Reuters; April 8) - Shell has agreed to buy smaller rival BG Group for $70.2 billion in the first major energy industry merger in more than a decade, closing the gap on market leader ExxonMobil. Anglo-Dutch Shell will pay a mix of cash and shares for BG, the companies said, paying a hefty premium of around 52 percent to the 90-day trading average for BG, setting the bar high for any potential counter-bid.

The third-biggest oil and gas deal ever by enterprise value will give Shell additional assets in Brazil, East Africa, Australia, Kazakhstan and Egypt, including some of the world's most ambitious liquefied natural gas projects. Shell is already the world's leading LNG company, and it would get BG's capacity in LNG logistics — complex infrastructure that includes terminals, pipelines, tankers, rigs, regasification facilities and storage tanks. The new Shell-BG group would have 18 percent of global LNG production.

"We are seeing a gasification of energy demand. Shell clearly recognizes this," said Richard Gorry, director at JBC Energy Asia. "That said, Shell is still taking a big gamble because if the price of oil and gas doesn't go back up (in the next 24 months), I would imagine this might put them in a difficult position in terms of cash flow." Shell said the deal would boost its proven oil and gas reserves by 25 percent.

With merger, Shell will have more gas reserves than oil reserves

http://www.bloombergview.com/articles/2015-04-08/maybe-it-s-time-to-stop-calling-shell-an-oil-company

(Bloomberg; April 8) - Can we stop calling Shell an oil company, or even an oil and gas company? The majority of its proved reserves have long been in natural gas, not oil. If its $70 billion acquisition of BG Group goes through, the reserves breakdown will be 8.9 billion barrel-of-oil equivalents of natural gas to 7.8 billion barrels of oil (that includes synthetic crude, bitumen and natural gas liquids). It's a gas and oil company.

Of the oil majors, Shell and Total are the only two with their reserves mainly in gas, although all of them — especially ExxonMobil — have a lot of gas reserves to go with their oil. For quite a while now, people have been proclaiming that gas is the fuel of the future, at least the immediate future. Gas burns cleaner, and releases less carbon into the atmosphere, than either coal or oil. It also is found in more places than oil, with the Middle East holding a smaller share of proved reserves.

Shell's big bet is that, whatever happens with prices, natural gas will be the global energy commodity that matters most in the years to come. If its executives are right, maybe in a decade or two people will just call it a gas company.

Shell-BG merger adds uncertainty to LNG projects in B.C.

http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/shell-bg-mega-merger-could-threaten-fate-of-major-bc-lng-projects/article23830779/

(Globe and Mail; Canada; April 8) - Two major liquefied natural gas export projects on British Columbia's West Coast face a more uncertain future with Shell's proposed $70 billion acquisition of BG Group. A key issue if the deal goes ahead is whether the merged company will proceed with Shell's own B.C. LNG project as well as that of BG, or cancel one or perhaps both.

In the current context of the looming global glut of LNG and slumping prices for oil and gas, many observers say it's unlikely most of the 19 proposed LNG projects on the West Coast will get built. The energy sector is also under pressure to rein in spending in an environment of low oil and gas prices and overcapacity, and companies have been delaying or abandoning exploration and development projects.

Shell has estimated the cost of its proposed LNG export project in Kitimat, B.C., at up to $40 billion (Canadian). It owns 50 percent of LNG Canada through its subsidiary Shell Canada Energy. BG said late last year it was slowing work on its Prince Rupert LNG project, with an investment decision not in the cards until 2017, at the earliest.

Analysts say Shell-BG merger part of race for LNG market share

http://blogs.wsj.com/moneybeat/2015/04/09/the-lng-race-is-on-energy-journal/

(Wall Street Journal; April 9) – Shell's massive $70 billion deal to buy BG Group is the first shot in the global LNG race. The deal would vault Shell far ahead of rivals such as ExxonMobil and Chevron in the race to build market share for liquefied natural gas — a fuel with a fast-growing and increasingly global market. The tie-up is a bet that countries like China, India and others in the developing world will move toward cleaner-burning fuels like natural gas instead of coal amid growing pressure to curb emissions.

And it is a gamble that Asian markets will come to rely on U.S. exports of the product. In BG, Shell found a partner in a unique position to take advantage of growing demand for gas. BG has the rights to export sizable volumes of U.S.-produced LNG to foreign buyers. Analysts said Shell's deal for BG could provoke a reaction from ExxonMobil, which has built a massive LNG production and trading arm. "The race is on," said Dennis Cassidy, the head of oil and gas at energy consulting firm Alix Partners.

Shell's move could prompt a wave of oil deals that analysts and bankers have been predicting since crude prices started to slump in June. The next predator in the hunt would likely be Shell's biggest rival, ExxonMobil, but it isn't clear when it would strike or which firm would be its target. The so-called oil majors, led by ExxonMobil, Total, Chevron and BP, piled on a record amount of debt in the first quarter with an eye on potential acquisitions, according to Morgan Stanley.

Shell-BG merger would create giant customer for LNG charters

http://www.wsj.com/articles/shell-acquisition-of-bg-group-to-create-giant-operator-of-lng-ships-1428584517

(Wall Street Journal; April 9) – Shell's planned $70 billion acquisition of BG Group would create a giant customer of liquefied natural gas carriers, offering owners that charter the ships more opportunities for lucrative, long-term contracts in an otherwise-depressed shipping industry. Shipping is still trying to emerge from the lengthy down cycle that began in 2008. But now, the fall in oil prices and a shift by governments to cleaner fuels like LNG is spurring demand for vessels.

At around $200 million apiece, LNG carriers cost at least three times as much as other types of vessels of similar size. But while the market for ships such as container vessels, tankers and dry-bulk carriers is marred by overcapacity reaching up to 25 percent above demand, leading to unsustainable freight rates, LNG carriers are usually linked to lucrative contracts that range from five years to more than 10, raking in substantial earnings for their owners.

Energy producers like Shell and BG lease rather than own most of the ships moving their products, avoiding the risk of being stuck with nonperforming assets when the market goes sour. The two own a combined 12 LNG carriers and charter about 60. The leases go to a handful of ship owners, generating around $75,000 a day. The break-even point for such a ship is $50,000 at most. And demand for LNG carriers is expected to grow. ExxonMobil estimates the global LNG trade will more than triple through 2040.

Eni plans Mozambique floating LNG investment decision this year

http://www.naturalgasasia.com/eni-plans-to-make-fid-for-mozambique-flng-project-later-this-year-15222

(Natural Gas Asia; April 6) - Italy's Eni plans to make a final investment decision regarding the Coral floating LNG project in Mozambique during the second half of this year. "We plan to finalize gas contracts and obtain the necessary production licenses in order to make a final investment decision for the project Coral floating LNG in the second half of 2015," Eni said in its 2014 annual report published April 6.

The Coral project includes a floating unit for the treatment, liquefaction and storage of natural gas fed by subsea wells from the offshore field. Eni said LNG production could start as early as 2019. The company said an onshore LNG plant could follow, fed by other offshore gas reserves.

Sierra Club speaks out against LNG projects in Brownsville, Texas

http://www.brownsvilleherald.com/news/local/article_9962aa86-db39-11e4-948b-b7af8282a032.html

(The Herald; Brownsville, Texas; April 4) - Proposals for construction of liquefied natural gas export terminals at the Port of Brownsville, Texas, have raised the hackles of local environmentalists. The companies behind three proposed LNG terminals holding lease options on the Brownsville Ship Channel announced last month that they had submitted pre-filing applications with the Federal Energy Regulatory Commission, the initial step in the roughly two-year FERC environmental review and approval process.

A report from the Lower Rio Grande Valley Sierra Club released in December predicts unprecedented environmental damage to the region if the LNG projects go through. Stefanie Herweck, the report's author, Sierra Club chapter spokeswoman and member of the coalition SaveRGVfromLNG, said LNG facilities emit large amounts of airborne pollutants including nitrogen oxides, which give smog its brown color, and volatile organic compounds, which help create smog and in some cases affect public health.

LNG is also a "highly hazardous" industry because of the potential for leaks, fires or explosions, she said. The Sierra Club also worries about what impact the LNG plants would have on endangered species such as the aplomado falcon and ocelot. According to the report, ocelots use the area along the lower ship channel. Port director Eduardo Campirano disputes the Sierra Club's characterizations. "If we thought that this was going to create an environmental disaster, we wouldn't be doing it," he said.

Oregon members of Congress hear local opposition to LNG plant

http://www.dailyastorian.com/Local_News/20150406/merkley-bonamici-listen-to-locals-at-town-hall

(Daily Astorian; Astoria, OR; April 6) - The social and political issues that matter most to North Coast citizens came before two of Oregon's prominent political figures April 3 when Democratic members of Congress Sen. Jeff Merkley and Rep. Suzanne Bonamici held a joint town meeting at the Cannon Beach Community Hall. They heard a lot about the controversial Oregon LNG project, an export terminal proposed for Warrenton, at the entrance to the Columbia River about 20 highway miles north of Cannon Beach.

Allowing Oregon LNG to build a facility near the mouth of the Columbia River "would be throwing away this beautiful place that we have for the gain of someone else, somewhere else," said Roger Rocka, of Astoria. Given that many scientists expect a massive Cascadia Subduction Zone earthquake to occur at an unknown future date — which may cause a tsunami to flood the Pacific Northwest coastline — LNG terminals "just don't belong in this hazardous area," said Jan Mitchell, of Astoria.

Bonamici acknowledged the LNG controversy is often framed as a trade-off between creating jobs and protecting the environment. "I understand there is a need to build the economy, especially rural economies. There are many ways we can do that without jeopardizing the safety of our residents," the congresswoman said. "The more I learn about the Cascadia Subduction Zone and the resilience issues, and what would happen on the coast 'when' — not 'if' (the earthquake occurs) — the more concerned I am."

Coalition opposes pipeline expansion to serve Northeast

http://www.fairfield-sun.com/32378/interstate-pipeline-project-in-ct-approved-by-ferc/

(The Fairfield-Sun; Shelton, CT; April 6) – A coalition opposed to a $1 billion pipeline expansion project to bring Marcellus Shale gas through Connecticut into New England has asked the Federal Energy Regulatory Commission to reconsider its approval of the project. Spectra Energy's Algonquin Incremental Market project, approved by FERC last month, would move more than 300 million cubic feet of additional gas per day. Unless blocked, the project is scheduled for completion in November 2016.

Individuals, groups and communities in states affected by the pipeline expansion project — Connecticut, Massachusetts, Rhode Island and New York — formed a coalition to oppose the project and filed the rehearing request with FERC. "Natural gas is a euphemism for fracked methane gas," said Martha Klein, of the Connecticut Chapter of the Sierra Club. "Although burning coal or oil produce more carbon dioxide than burning methane, methane is much worse than carbon dioxide as a global greenhouse gas."

Primary support for pipeline expansion plans comes from the Connecticut state government. "A robust natural gas transmission and distribution system will improve energy independence for Connecticut and support our policy objectives to develop low-carbon natural gas use," Gov. Dannel Malloy wrote in an earlier letter to FERC. "The demand for natural gas by firm customers has and will only continue to increase."

Sanctions on Russia affect Indian oil and gas explorer

http://www.livemint.com/Industry/ljLLIh5OOB7PgWe4WcUcsN/Halliburton-Baker-Hughes-pull-out-of-OVLs-Russian-oil-gas.html

(LiveMint; India; April 6) – Oil-field service contractors such as Halliburton and Baker Hughes have withdrawn from Russian oil and gas ventures of ONGC Videsh, the overseas arm of India's national oil company, in the face of U.S. and European Union economic sanctions imposed on Vladimir Putin's government. The pullback is likely to hurt India's efforts toward energy security. The Indian company owns a 20 percent stake in the Sakhalin-1 hydrocarbon block in Russia's Far East.

"We are not impacted by these sanctions but our U.S. contactors in Russia such as Halliburton, Baker Hughes and Liberty Resources have withdrawn," said N.K. Verma, managing director of ONGC Videsh. “They have been replaced by local Russian contractors.”

Halliburton and Baker Hughes are the world’s largest oil-field services firms. Liberty Resources is based in Denver. The problem comes as ONGC Videsh has expressed interest in exploration opportunities in Russia’s Arctic. It is also in talks with Russia’s Novatek to secure a stake in its Yamal LNG project. India is struggling to meet its ambitious targets for energy security, with the country having to import as much as 77 percent of its energy needs. The prime minister wants imports to be cut in half by 2030.

Oil-by-rail volume down from a year ago

http://www.wsj.com/articles/oil-shipments-by-rail-take-slow-track-1428348393?mod=WSJ_hp_LEFTWhatsNewsCollection

(Wall Street Journal; April 7) - The growth in oil-by-rail has stalled in recent months, dampened by safety problems and low crude prices. The number of train cars carrying crude and petroleum products peaked last fall, according to the Association of American Railroads. By March, traffic was down 7 percent on a year-over-year basis. Railroads have been a major beneficiary of the U.S. energy boom, as producers turned to trains to haul oil to refineries from wells in North Dakota and other areas not served by pipelines.

Rail shipments had expanded from 20 million barrels in 2010 to just under 374 million barrels last year, according to the U.S. Energy Information Administration. About 1.38 million barrels a day of oil and fuels rode the rails in March, versus an average of 1.5 million barrels a day in the same period a year ago, according to a Wall Street Journal analysis. More recently, Energy Department data show oil-train movements out of North Dakota’s Bakken Shale have leveled off as drillers there have begun to pump less.

“With lower crude prices, the extra cost of rail makes it a tougher choice,” compared to tanker deliveries of foreign crude, said Sandy Fielden, an analyst with RBN Energy. The slowdown comes as federal safety experts call for stronger tank cars. Federal regulators April 6 recommended a five-year schedule for phasing out or upgrading older rail tank cars. A string of recent accidents has resulted in spills, fires and local evacuations. Regulators say railcars in use today rupture too quickly and aren’t fire-resistant enough.