Oil and Gas News Briefs
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Yamal LNG struggles to complete financing for $27 billion project

(Wall Street Journal; Aug. 27) – Russia's $27 billion energy project rising rapidly on an icy peninsula jutting above the Arctic Circle is racing to shore up its finances as it has emerged as a test of Moscow's ability to weather Western sanctions. Restrictions on Novatek, the project's leader, are squeezing the Yamal liquefied natural gas venture, a centerpiece of President Vladimir Putin's plan to reduce his nation's heavy dependence on sales to Europe by increasing exports to Asia and fortifying Russia's ties with China.

Barred by the sanctions from raising long-term dollar loans, Novatek and its foreign partners, Total of France and China National Petroleum Corp., are seeking more money from Chinese lenders than they had intended, in addition to kicking in nearly $10 billion of their own, according to company executives. But they have, so far, failed to secure the $15 billion or so they need to complete the project. Last year, the Kremlin allocated $2.7 billion to keep Yamal on track and also approved large tax breaks for the project.

Russia had hoped that Chinese investment would help soften the blow from its souring relations with the West. But that bet looks more perilous as China, which had already proved slower to invest than Moscow expected, struggles with its own deepening economic slowdown. Time is growing short for the Yamal partners, which have contracts to ship almost all of the gas, mostly to Asia, starting in 2017. A major holdup could force the Kremlin or the partners to cover the financing shortfall, or, analysts say, the companies could have to buy gas on the spot market to fulfill contracts.

Qatar agrees to shift China's LNG cargoes to winter peak season

(Reuters; Aug. 21) - Gas giant Qatar has agreed with PetroChina to shift deliveries under an existing long-term liquefied natural gas supply deal toward the peak demand winter period, a shift likely to weigh on global spot prices. The concession to PetroChina fits Qatar's recent pattern of adapting to long-term buyers' needs, as it becomes more commercially savvy in spot markets to hold onto its share of the prized Asian market.

Qatargas, the world's biggest LNG exporter, has skewed the 3 million metric tons of LNG annually contracted to PetroChina toward the winter, two sources with knowledge of the matter said. The deal only extends to this winter, one of the sources said, but could be renewed when PetroChina and Qatar discuss their delivery program for 2016 later this year. Supplies under the 25-year deal, which began in 2011 and in which Shell is also involved, previously arrived steadily throughout the year.

PetroChina requires more LNG in winter because its import terminals are on China's northern coast, most exposed to cold weather. With PetroChina's winter gas demand now largely filled through Qatari diversions, global LNG markets should see less Chinese buying on spot markets this winter, putting downward pressure on prices, a trader said. In past years, China's winter buying sparked several spot LNG price rallies, notably in the winter of 2013-2014. "This just shows how even established suppliers are coming under pressure in this market," a commodities finance banker told Reuters.

Indian partners in Mozambique LNG say project needs $9-$10 price

(Live Mint; India; Aug. 28) - A proposed liquefied natural gas project in Mozambique will not be viable if the LNG fetches below $9 to $10 per million Btu, said N.K. Verma of India's government-controlled Oil and Natural Gas Corp. Several Indian companies, along with ONGC's international arm, hold a combined 30 percent stake in the Offshore Area 1, Rovuma Basin in Mozambique, with gas reserves of 75 trillion cubic feet. The partners are looking at building an LNG plant of 10 million metric tons per year capacity.

Verma said the partners have already signed preliminary agreements to sell 85 percent of the plant's capacity, but negotiations on price are not complete. "It's a commercial decision to be taken by the consortium." LNG pricing is harder these days in the face of falling crude oil prices. The price of spot LNG sales on the global market have come down to $7.50 per million Btu from about $12 a year ago, forcing several buyers to either postpone purchases under contracts with higher prices or negotiate a reduction in price.

Along with the Indian partners in Mozambique LNG, Anadarko holds 26.5 percent, Japan's Mitsui has 20 percent, Mozambique's Empresa Nacional de Hidrocarbonetos at 15 percent, and Thailand's PTT Exploration and Production at 8.5 percent.

Commodity traders see opportunities in LNG market

(Reuters; Aug. 26) – Oil-trader Trafigura is blazing a trail for trade houses, adopting highly successful tactics used in oil markets to get an edge in the burgeoning liquefied natural gas sector. Oil traders usually act as a go-between for producers and end users, investing in logistics and storage to facilitate trade, while also providing credit and shouldering risk for their customers.

Commodity traders are now stepping up their activity in LNG, adding liquidity and carving a niche in a market previously dominated by producers, as new supplies create trade opportunities. Traders including Vitol, Noble Group and Guvnor are also attracted to LNG through rising supply and increasing spot-market trade. Trafigura, best known for its oil and metals business, is leading the pack, having become the top LNG trader in two years after leaping into the market in 2013 with a major deal to supply Mexico.

"They're taking the classic trading model from other energy markets and applying it to LNG, using infrastructure and shipping to take advantage of opportunities, it's the typical bag of tricks used by traders," said Jason Feer, head of business intelligence at Poten & Partners. Earlier this year, Trafigura took advantage of a glut of cheap tankers available for spot charter, agreeing to a rare deal with shipping company Golar LNG to lease six vessels on a single-voyage basis. It has also leased LNG storage at Asia terminals.

Rosneft signs deal to supply LNG to Egypt

(UPI; Aug. 27) - Russian energy company Rosneft said Aug. 27 it was marking its frontier entry into the global liquefied natural gas market through a deal in Egypt. Rosneft signed an LNG supply-and-purchase agreement with the Egyptian Natural Gas Holding Co. Papers were signed between Rosneft board members and their Egyptian counterparts during a visit to Moscow by Egyptian President Abdel Fattal el-Sisi.

The deal with Egypt is Rosneft's first in the global LNG market. Up until last year, the Russian government had reserved LNG exports as the exclusive right of state-controlled Gazprom. "The Egyptian gas market has a significant growth potential," said Rosneft, the Russian government-owned oil producer. Rosneft does not own or operate an LNG export plant, though it hopes to build one in Russia's Far East. Until then, the company could buy and sell LNG from other producers.

Egypt, since its 2011 revolution, has suffered energy shortages, and though it has reduced exports from its 10-year-old liquefied natural gas plant, the country still faces gas shortages at home and has started importing LNG.

Report predicts increase in fracking-caused quakes in B.C.

(The Canadian Press; Aug. 30) - If the liquefied natural gas industry proceeds as the British Columbia government hopes, there could be five times as many fracking-caused earthquakes, warns one expert. But the company that would provide gas to a major LNG terminal — the same company found responsible for a 4.4 magnitude tremor last year — said it doesn't need to increase the number of wells it drills each year to supply Pacific NorthWest LNG's proposed liquefaction and export terminal near Prince Rupert.

Progress Energy, owned by Malaysia's Petronas, which is the lead in the proposed Pacific NorthWest LNG project, paused its operations after a 4.6 magnitude quake in northeast B.C. on Aug. 17. The B.C. Oil and Gas Commission is investigating and has not established its cause. The commission has, however, confirmed that Progress

Energy triggered a 4.4 magnitude tremor last August. Hydraulic fracturing can trigger seismic events but most are not felt above ground.

David Hughes, a geoscientist who worked for the Geological Survey of Canada for 32 years, recently analyzed the province's LNG plans for the Canadian Centre for Policy Alternatives. In order to meet the B.C. government's highest estimate of five terminals delivering 82 million metric tons of LNG a year, drilling would have to increase five-fold by 2020 — up to 2,100 wells per year, he said. "If five terminals get built, get ready for some unavoidable seismic activity," he said. "It's just the cost of doing business."

Canada's Mackenzie gas partners ask for government extension

(The Canadian Press; Aug. 27) - Imperial Oil is hanging on to hope that its long-dormant plan to tap into natural gas fields in Canada's Far North may eventually come to fruition. The lead partner in the Mackenzie Gas Project has asked the National Energy Board for a seven-year extension of the regulatory approval granted in 2011. The clause requires Imperial and its partners to break ground by the end of this year. But that's not feasible in today's market environment, with gas prices about half what they were a decade ago.

The request was made in a letter to the NEB signed by Imperial senior vice president Bart Cahir. Other than timing, Cahir said Imperial doesn't "envision any material changes" to the multibillion-dollar project, which would carry natural gas from three fields near the coast of the Beaufort Sea down the Mackenzie Valley through a 750-mile pipeline, linking up with the North American distribution network in northern Alberta.

Imperial's extension filing to the NEB includes letters of support from the Northwest Territories government and aboriginal groups that back the project. As of late 2013, the entire project was projected to cost at least $20 billion.

Shrimpers concerned about Port of Brownsville, Texas, LNG projects

(Valley Central; Harlingen, Texas; Aug. 27) - Some Rio Grande Valley shrimpers have expressed concern about the liquefied natural gas export facilities proposed in the Port of Brownsville, Texas. Carlton Reyes, president of the Shrimp Producers Association in Brownsville, shrimps in the port area for a living. "You're probably looking at $55 million or so in revenue that comes through these ports from shrimping," Reyes said.

"With (shrimp) boats going in and out, maybe they won't be able to transit the channel when that (LNG) ship is being loaded or unloaded or transiting in and out. We just don't have the answers to those questions yet," Reyes said. Shrimpers are concerned LNG carriers could clog up the channel, making it difficult for shrimpers to do their job.

They're also worried tankers could affect local shrimping grounds. “One of the concerns was pollutants going back into the water that might affect small shrimp in the channel.”

"It’s a big concern. We need answers … from folks that can really tell us what’s going to happen," Reyes said. The proposed LNG plants have growing support from major corporations and cities in the Rio Grande Valley.

Low oil prices will drive some companies to write down reserves

(The Canadian Press; Aug. 26) - Another wave of ugly news is looming for oil producers already battered by weak prices. Every year, companies hire outside evaluators to tally up their reserves — a calculation of how much resource in the ground can be recovered technically and economically. With U.S. benchmark crude dipping below $40 a barrel for the first time since early 2009, the economics are looking especially dicey these days. Oil that might have been viable to produce at stronger prices may not be anymore.

Reserve reductions have tangible financial consequences. A company may have to take a charge against its financial results. And for many producers, it makes borrowing money from banks problematic. “It all sort of feeds itself in an ugly vicious cycle,” said Sonny Mottahed, CEO of Calgary-based Black Spruce Merchant Capital.

Keith Braaten, president and CEO of GLJ Petroleum Consultants in Calgary, said his firm is going to be busy doing up annual reserve evaluations for clients throughout the fall, wrapping up preliminary reports around the end of the year. “I think a lot of companies took a bit of a haircut last year-end because prices were low then,” said Braaten. “I am expecting to see more of a haircut this year because we are seeing prices weakening further than they were and staying low for longer than we expected.”

Makes sense to send Western Canadian oil to East Coast, report says

(Calgary Herald columnist; Aug. 27) - Eastern Canada needs Western Canadian oil more than it needs Western Canadian gas, and a new study reinforces the wisdom of converting a portion of TransCanada’s cross-country gas mainline to carry oil to the East. The Canadian Energy Research Institute study focuses on Canadian LNG exports as a new market to offset the surge of U.S. Marcellus Shale gas increasingly coming to Ontario and Quebec at the expense of long-established supply from Western Canada.

“The Marcellus gas supply will continue to enter the Ontario and Quebec markets, thus backing out western (Canadian) gas from those markets,” predicts the 20-year Western Canada Natural Gas Supply Forecast and Impacts report released Aug. 26 by Calgary-based CERI. TransCanada’s plan is to use its surplus gas pipeline capacity by converting part of the gas line and adding new pipe to deliver 1.1 million barrels a day of crude oil from Alberta and Saskatchewan to refineries and ports in the East.

Oil refineries in Eastern Canada import about 600,000 barrels a day of higher-price crude from global markets as Canadian oil is routinely discounted due to the lack of access to refineries in Quebec, New Brunswick and overseas. Despite the opportunities for Canadian oil, the $12 billion TransCanada proposal is iffy. Environmentalists oppose any project that helps oil sands development, and this month the Ontario Energy Board determined the risk of a pipeline rupture outweighs any economic benefits.

Canada's oil-by-rail volume down almost half from late last year

(The Canadian Press; Aug. 27) – New figures compiled by Canada's National Energy Board show a sharp decline in the amount of crude exported by rail so far this year. Nearly 84,000 barrels a day moved to the United States on trains in the second quarter. That's about 30 percent less than the nearly 120,000 barrels a day that were exported by rail in the first quarter. It's an even sharper drop from the roughly 159,000 barrels a day in the last three months of 2014.

The plunge in crude-by-rail exports comes amid a severe weakening in crude prices — from above $107 U.S. a barrel around the middle of last year to roughly $42 now. Prices for Western Canadian crude are even lower. The lack of sufficient pipeline capacity to move Alberta oil sands production — and Bakken Shale crude from North Dakota — had driven oil-by-rail shipments in the U.S. and Canada to record levels before the price collapse started to force producer cutbacks.

Oil drilling cutbacks could lead to less supply, higher prices ahead

(Wall Street Journal; Aug. 28) - When oil prices started falling last summer, Genel Energy, a London-based small exploration company, asked the government of Ethiopia to extend its exploration license, so it could put off drilling and save some cash. Wildcatters like Genel — which got an 18-month extension — are renegotiating drilling commitments, selling off stakes in licenses and canceling plans to drill exploration wells, in an attempt to pare back budgets that once hinged on expensive drilling programs.

"When capital becomes very scarce, you end up having sensible discussions with governments about how to re-phase activity to reflect the realities of the day," said Tony Hayward, former chief executive of BP and now chairman of Genel. The move by these smaller companies reflects a much broader scramble by the entire industry to cut costs. As these sorts of smaller explorers pull back, industry executives warn this could result in fewer new big finds down the road. That, in turn, could crimp supply years from now.

Earlier exploration pullbacks have been blamed for subsequent tight markets. In the late 1990s, oil prices crashed, triggering a round of consolidation and pullback in exploration spending. That came back to haunt the world when Asian demand took off a few years later and supply growth couldn’t keep up — sending prices soaring. The number of exploration wells either drilled or planned this year around the world is expected to fall 26 percent — the lowest in five years, according to a U.K. energy database provider.