Oil and Gas News Briefs
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South Korea forecasts long-term drop in natural gas demand

(Reuters; Dec. 28) – South Korea expects its demand for natural gas to fall by 5 percent over the next 15 years, as increased use of gas by households and industry will only partly offset a steep fall in demand for power generation. The world's second-largest liquefied natural gas importer will also seek to diversify its suppliers, and plans to work with other big Asian buyers Japan and China to cooperate over supplies, South Korea's Ministry of Trade, Industry and Energy said Dec. 28.

Still, South Korea will invest $6.1 billion to expand its gas supply facilities including storage tanks and pipelines through 2029, the ministry said. LNG accounted for about 21.4 percent of South Korea's power generation in 2014. However, gas imports fell more than 9 percent to below 30 million metric tons in the first 11 months of 2015. The ministry said gas-based power generation is too costly compared with nuclear power, which reduces greenhouse gas emissions more efficiently than fossil fuels.

Demand is forecast to fall 0.34 percent a year to 34.65 million tons of LNG in 2029 from 36.49 million tons in 2014, with demand for power generation nearly halving by 2029. Household and industrial consumption is expected to rise 2.06 percent a year through 2029. South Korea will look to diversify its suppliers, and expects to take mid- and long-term contracted gas supplies from 11 countries in 2029, up from seven in 2014, officials said. It will also look to set up two- to three-year contracts instead of longer-term deals.

New report says U.S. LNG exports will help lower prices in Asia

(Bloomberg; Dec. 28) - An impending flood of U.S. shale gas into world markets stands to lower the price of the fuel in Asia by almost 5 percent while marginally raising costs to U.S. customers, a study commissioned by the Energy Department shows. Exports of 20 billion cubic feet a day of U.S. gas by 2040 may cut prices in the Asia-Pacific market by 73 cents a million Btu, while adding 17 cents to U.S. prices, according to the study by Oxford Economics and the Center for Energy Studies at Rice University.

Despite the climb in domestic prices, exports would be "marginally positive" for the U.S. economy because of bigger profits and more spending on gas production, the report shows. The analysis, posted on the Energy Department's website Dec. 28, comes as developers already are building five liquefied natural gas export terminals in the U.S. — with more proposed. The surge in shale gas production has led to record stockpiles of the fuel domestically, and producers are looking for markets abroad to alleviate the glut.

“As exports increase, the spread between U.S. domestic prices and international benchmarks narrows,” according to the report. “In every case, greater LNG exports raise domestic prices and lower prices internationally. The majority of the price movement (in absolute terms) occurs in Asia.” Asia will benefit most as countries including China and India lack adequate domestic gas supplies and will depend increasingly on LNG imports, the report said.

Thailand looks to spend billions on gas pipelines, infrastructure

(Reuters; Dec. 25) - Thailand's biggest energy firm PTT plans to spend $8.2 billion over the next five years, mainly on building infrastructure such as natural gas pipelines, its chief executive said Dec. 25. The board approved the five-year investment plan, which does not include a budget for potential acquisitions, CEO Tevin Vongvanich said.

Domestic demand for energy is expected to increase by 2 percent next year, with Thai GDP growth seen at 3.7 percent next year, up from 2.8 to 3 percent this year, he said. PTT's core subsidiaries include PTT Exploration and Production, PTT Global Chemical and Thai Oil.

Thailand in 2014 produced enough natural gas — almost 1.5 trillion cubic feet — to cover about 80 percent of its demand. Most of its imports were delivered by pipeline from Myanmar, with some liquefied natural gas from Qatar and other suppliers. The country, however, is increasing its imports of LNG to meet growing demand.

Sinopec forecasts big jump in shale gas production

(Bloomberg; Dec. 28) - China Petrochemical, China’s second-biggest oil and gas producer, plans to double annual shale gas production capacity at its Fuling project in southwest China in the next two years to an average 1 billion cubic feet of gas per day. The Beijing-based company, known as Sinopec Group, has steadily produced about 500 million cubic feet of gas a day at the site for more than a month, it said Dec. 29.

The combined shale gas output from Sinopec Group and PetroChina, the country’s biggest oil and gas producer, may soon reach a steady 500 million cubic feet a day, though lagging behind China’s output target of about 630 million cubic feet a day, Bloomberg reported Dec. 9, citing people with direct knowledge of the matter. China consumes an average of 18 bcf of gas per day.

U.S. shale producers could handle $50 oil, but not $35 oil

(Bloomberg; Dec. 27) - In 2015, the fracking outfits that dot America's oil-rich plains threw everything they had at $50-a-barrel crude. To cope with the 50 percent price plunge, they laid off thousands of roughnecks, focused their rigs on the biggest gushers only and used cutting-edge technology to squeeze all the oil they could out of every well. Those efforts, to the surprise of many observers, largely succeeded. As of this month, U.S. oil output remained within 4 percent of a 43-year high.

But oil is no longer at $50; it's near $35. For an industry already pushing its cost-cutting to the limits, the new declines are devastating. Drillers are "not set up to survive oil in the $30s," said R.T. Dukes, an analyst for Wood Mackenzie in Houston. The Energy Information Administration predicts that companies operating in U.S. shale formations will cut production by a record 570,000 barrels a day in 2016. That's precisely the kind of capitulation that OPEC is seeking as it floods the world with oil to depress prices.

It's a high-risk strategy, one whose success will ultimately hinge on whether shale drillers drop out before the financial pain within OPEC nations becomes too great. "You are going to see a pickup in bankruptcy filings, a pickup in distressed asset sales and a pickup in distressed debt exchanges," said Jeff Jones, managing director at Blackhill Partners, a Dallas-based investment banking firm. "And $35 oil will clearly accelerate the distress."

Worldwide overproduction creates uncertainty for oil prices

(Wall Street Journal; Dec. 29) - Surprisingly strong crude output in the U.S. and Mideast over the past year has pushed oil prices to their lowest levels in more than a decade. But for investors trying to determine if the oil market is close to bottom, the pace of production elsewhere in the world is a key source of uncertainty. Producers in Russia, Brazil and Norway pumped more oil in 2015 than the forecasters at the International Energy Agency and Energy Information Administration had projected.

Meanwhile, oil field investments made years ago when prices were higher are set to begin producing, even as exploration and drilling projects scheduled to bear fruit in the coming decades are being delayed or canceled outright. Investors' increased focus on supplies from outside the U.S. and the Organization of the Petroleum Exporting Countries underlines uncertainty about the magnitude of a global oil glut that has erased more than 60 percent off the value of a barrel of oil in the past 18 months.

On the one hand, analysts say, low prices can cause oil wells to deplete more quickly, because companies spend less to maintain fields and enhance production from aging wells. On the other hand, producers have surprised investors in the past year with their ability to boost drilling efficiency and cut costs. Given the strength of production around the world in 2015, many investors say it's unclear when the glut will start to recede. "We're in untested waters," said Judith Dwarkin, chief economist at RS Energy Group.

Saudi Arabia reduces energy subsidies to cut budget deficit

(Bloomberg; Dec. 28) - Confronting a drop in oil prices and mounting regional turmoil, Saudi Arabia has reduced energy subsidies in next year's budget. Authorities have announced increases to the prices of fuel, electricity and water as part of a plan to restructure subsidies within five years. The government intends to cut spending next year and also gradually privatize some state-owned entities and introduce value-added taxation as well as a levy on tobacco.

The government said Dec. 28 it will raise gasoline to about 91 cents a gallon from 60 cents. In attempting to reduce its reliance on oil, the kingdom is seeking to put an end to the population's dependence on government handouts, a move that political analysts had considered risky after the 2011 revolts that swept parts of the Mideast. The biggest shake-up of economic policy in recent history coincides with growing regional unrest, including the war in Yemen where a Saudi-led coalition is battling pro-Iranian rebels.

The collapse in oil prices has slashed government revenue, forcing officials to draw on reserves and issue bonds for the first time in nearly a decade. The government recorded a budget deficit of 367 billion riyals ($98 billion) in 2015. That's about 16 percent of gross domestic product, according to the National Bank of Abu Dhabi.

Home prices fall in Alberta's center of oil sands industry

(National Post; Canada; Dec. 27) - As a result of the collapse in global oil prices, there are fewer new oil sands projects planned for construction in the next few years around Fort McMurray, Alberta, fewer people working at existing projects and fewer homes selling in the once-booming city. By November, Canadian Real Estate Association data showed home prices in Fort McMurray had fallen more than 19 percent to about $519,000, while realtors, facing an absence of potential clients, were leaving town.

Forecasts don't offer much hope that oil prices will rebound, either. One predicts prices will average no more than $40 to $45 a barrel next year — not enough to justify new oil sands developments. Another holds that "oil sands labor demand may never return to historical peaks." But the city and region of 125,000 people have been through these boom-and-bust cycles before, and Mayor Melissa Blake thinks the region — the center of Canada's oil sands industry — can manage through it.

"Friends and neighbors — and unfortunately, some former neighbors — have all been affected by one of our toughest years in recent history," Blake said during a state-of-the-region address. She said they will fight and "forge a new path toward prosperity" and expects to "see a pipeline or two approved – eventually." The industry has been pushing for years for new pipeline capacity to move its production to market, particularly to coastal ports to allow exports. But environmental opposition has stymied those efforts.

Alberta oil patch waiting for answers in 2016

(Financial Post; Canada; Dec. 27) - There's no rest for the weary. Canada's oil and gas industry weathered one of its worst years in a generation, and there's no guarantee it's going to be any better in 2016 — especially if oil prices remain range-bound at their current level of $38 per barrel. But a number of developments are expected to unfold in 2016 that may determine prospects for the Canadian oil patch in the new year.

As soon as executives return to work in January, they will be greeted by a new report by the Alberta oil and gas royalty review panel. Industry fears that the expected provincial changes already have frozen investments in Alberta, especially as a carbon tax and new climate change polices have inserted uncertainty in the sector. In August, the government pledged the current royalty laws would remain in place to the end of 2016.

Barring any delays, in May the National Energy Board will release its recommendation on Kinder Morgan's Trans Mountain pipeline expansion project to move more oil sands production from Alberta to a port on the B.C. coast. With TransCanada's Keystone XL pipeline proposal nixed by the United States and little hope that Enbridge will build its Northern Gateway oil pipeline from Alberta to the B.C. coast, Trans Mountain is the industry's big hope to reach global markets. The other hope is TransCanada's Alberta-to-New-Brunswick Energy East oil pipeline, which the energy board will review in 2016.