Oil and Gas News Briefs
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Analysis says Gazprom could lose money on gas deal with China

(Reuters; July 28) - At face value, Russia's $400 billion deal to supply gas to China, via state-controlled Gazprom, sounds like a coup for Moscow. But according to recent analysis, the deal is strongly tilted in China's favor. Gazprom will be lucky to break even and may even lose substantial amounts of money. While the deal may not make economic sense for Gazprom, it does fit with Russia's broader geopolitical "tilt to Asia" strategy, and represents "a desperate geopolitical gambit trumping all economic rationale," according to analysis by the Chatham House, a U.K.-based policy institute.

In fact, the deal with China is just one example of how Gazprom operates more as an instrument of Russian President Vladimir Putin's political ambitions and Russian state power than as a rational profit-maximizing corporation. While Gazprom trades on both Russian and American stock exchanges, it is majority-owned by the government and takes its marching orders directly from the Kremlin. Gazprom is first and foremost a tool of Russian foreign policy, which Putin is not shy about using for Russia's interests.

And while the Russian government frequently promises Gazprom that it will be allowed to raise the price of domestic gas to a level sufficient to at least cover costs, Gazprom continues to lose large amounts of money on domestic sales. Its export sales, particularly pipeline gas deliveries to Europe, are its profit center. While a below-cost pricing strategy may be irrational by normal corporate standards, the Kremlin remains unwilling to risk the political and social instability that higher domestic gas could cause.

Gazprom talking with EU about possible settlement of antitrust probe

(New Europe; July 24) – Gazprom is seeking an amicable settlement of the European Union antitrust probe against the Russian gas monopoly, Gazprom's Deputy Chairman Alexander Medvedev said July 23, after a meeting with EU Competition Commissioner Margrethe Vestager. It was their first meeting since charges were filed against Gazprom in April. "As I have stated in the past, we prefer to settle this case amicably and will continue to engage with DG Competition [the EU's antitrust body]," Medvedev said.

The Commission, which has accused Gazprom of abusing its market power to control and overcharge Central and Eastern European countries, thereby violating the EU's competition rules, said the meeting was an informal exchange, with Gazprom giving its initial views on the statement of EU objections. Gazprom has until mid-September to lodge its formal response.

Medvedev said the company disagrees with the Commission's accusations that Gazprom overcharges clients. Settlement talks between the Commission and Gazprom broke down early last year, when the conflict in eastern Ukraine strained relations. In late April, Vestager announced antitrust charges against Gazprom, claiming its often-secretive contracts were hindering competition in the natural gas markets.

B.C.'s LNG job claims are inflated, says alternative energy group

(Globe and Mail; Canada; July 28) - The B.C. government's claim that liquefied natural gas exports will create 100,000 jobs is a vastly exaggerated forecast, says a report by a think tank that has touched off a controversy about how much of an employment boon the sector will actually create. "We find that this claim is not credible and that potential employment impacts have been grossly overstated," said the study by the left-leaning Canadian Centre for Policy Alternatives.

The Liberal Party touted LNG-related job creation during their successful 2013 provincial election and have repeatedly mentioned bright prospects for employment over the past two years. Marc Lee, a senior economist at the policy centre, said in an interview that the government's rosy view is based on giving too much weight to new investment. "It is a work of fiction, originally created to support the Liberal Party's election platform," said Lee, whose group supports alternative energy sources.

The Liberals padded the statistics with temporary construction jobs as well as vague references to thousands of positions created in architecture, engineering and an array of supplier industries, Lee said. But the provincial minister responsible for LNG development, as well as the head of an industry alliance, said the center's study is flawed. Natural Gas Development Minister Rich Coleman said the government stands by its outlook for strong economic spinoffs in B.C.

First Nation delays vote on LNG project north of Vancouver

(Globe and Mail; Canada; July 28) - Council members of the Squamish Nation have delayed their vote on whether a $2.1 billion liquefied natural gas project 40 miles north of Vancouver, B.C., meets their environmental and cultural conditions. Chief Ian Campbell said the vote by the 16-person elected group will now take place in the fall, after further talks with Woodfibre LNG over 25 conditions outlined last month by the aboriginal council on behalf of its 4,000 members.

The main concern is Woodfibre LNG's planned seawater cooling discharge system — specifically, the impact that warm chlorinated water would have on small fish in Howe Sound. "With the revitalization of Howe Sound and the visible presence of whales, that has really heightened the anxiety, not only of the Squamish Nation but also local residents," Campbell said July 28.

Woodfibre LNG, a Singapore-based company controlled by Indonesian businessman Sukanto Tanoto, is seeking approval from the B.C. Environmental Assessment Office before deciding whether to forge ahead. The review, which began in mid-January, was recently put on hold at the Woodfibre's request in order to consult further with the Squamish Nation. The terminal on the site of a former pulp mill would produce 2.1 million metric tons of LNG per year (100 billion cubic feet of natural gas).

Small B.C. port community would grow with LNG projects

(The Province; Vancouver; July 26) - The 550 folks who call Port Edward, B.C., home have grown tired of seeing big projects make big promises before falling apart. But after action by the B.C. government last week, the little port 10 miles south of Prince Rupert stands on the threshold of becoming B.C.'s first LNG boom town. The legislature passed a 25-year project development deal for Malaysia's state-owned energy giant Petronas, which wants to build a liquefied natural gas facility on the port's Lelu Island.

Pacific NorthWest LNG, led by Petronas, has said it will make an investment decision subject to two conditions: approval of the agreement by the provincial legislature, and an environmental assessment by the federal government. The assessment is expected this year, though the Lax Kw'alaams Band, which has a strong claim to Lelu Island at the mouth of the salmon-rich Skeena River, has rejected a deal with Petronas. But with a project decision pending, developers have snatched up land in the area.

Vancouver-based developer Kevin Stunder has bought several parcels in the area, including a site he envisions could bring retail, hospitality industry and a grocery store to town, and temporarily house workers and their families during the plant's construction before becoming market housing. And Alture Properties is working with Port Edward to rezone six acres for a multi-family development of about 130 condos and townhouses. In addition to the Petronas project, there are other LNG plants proposed for the area.

Opponents question LNG export terminals on Texas coast

(Port Isabel Press; South Padre, Texas; July 25) - In what has become a regular occurrence, members of the group "Save RGV from LNG" met July 23 in Brownsville, Texas, to discuss the progress of several proposed liquefied natural gas export terminals along the Brownsville Ship Channel. Five developers have been granted options to lease land along the channel for the multibillion-dollar projects, though none have secured federal export and environmental approvals, financing and customers.

Save RGV (Rio Grande Valley) from LNG members, many of whom belong to the Sierra Club, have attended open houses and demonstrated in places like South Padre Island. At the July 23 meeting, the group reiterated its concerns that the LNG facilities could present a hazard to the environment, primarily the Bahia Grande, which is one of the largest restored wetlands area in the country. They also expressed concerns about possible negative impacts to ecotourism and real estate values.

Port Isabel resident Edna Goette acknowledged the historic track record of gas. “The safety record is pretty good, but there is the possibility,” she said.

Morgan Stanley analysts warn oil prices could get worse

(Bloomberg; July 22) - Morgan Stanley has been pretty pessimistic about oil prices in 2015, drawing comparisons to the some of the worst oil slumps of the past three decades. The current downturn could even rival the iconic price crash of 1986, analysts had warned — but definitely no worse. This week, a revision: It could get worse. Until recently, confidence in a strong recovery for oil prices had been pretty high, wrote analysts including Martijn Rats and Haythem Rashed, in a report to investors July 21.

That confidence was based on four premises, they said, but only three have proven true: Demand will rise; spending on new oil will fall; oil company stock prices will remain low. The fourth premise, however, has not panned out: Oil supply has not dropped. The opposite has happened. While U.S. production has leveled off, OPEC has taken up the role of market spoiler. For now, Morgan Stanley is sticking with its original thesis that prices will improve, largely because OPEC doesn’t have much more spare capacity.

But another possibility is that the supply of new oil coming from outside the U.S. may continue to increase as sanctions against Iran dissolve and if the situation in Libya improves, the Morgan Stanley analysts said. U.S. production could also rise again. A price recovery is less certain than it once was, and the oil-price slump could last for three years or more — “far worse than in 1986,” the analysts said.

More layoffs likely at U.S. energy companies

(Wall Street Journal; July 27) - U.S. energy companies are planning more layoffs, asset sales and financial maneuvers to deal with the recent drop in oil prices to under $50 a barrel, the lowest in four months. Companies had been banking on a second-half 2015 rebound, and prices began to recover in the spring, but rose so quickly that some U.S. producers started adding more drilling rigs. That speedy return and the threat of new Iranian oil output have pushed down prices more than 20 percent in the past six weeks.

Oil-field services providers have quietly revealed job cuts that were deeper than initially announced, and warned of more layoffs to come. Nearly 50,000 energy jobs have been lost in the past three months on top of 100,000 laid off since oil prices started to tumble last fall, according to Graves & Co., a Houston consultancy. Initial layoffs tended to be blue-collar jobs, such as drilling roughnecks, fracking crews and industrial-equipment manufacturer workers. Now the cuts are extending to engineers and scientists.

Many companies are hesitate to lay off geoscientists and other highly skilled workers, said Dennis Cassidy, managing director of oil and gas at Alix Partners, a global consulting firm. That reluctance stems from the oil crash of the mid-1980s, when so many educated workers were let go that it created a talent gap the industry struggled to fill for 20 years. Meanwhile, oil-hedging programs that protected many companies from falling prices will begin expiring this fall, leaving them exposed to low oil prices.

Rockies oil-by-rail shipments increase to 122,000 barrels a day

(U.S. Energy Information Administration; July 15) - Rail shipments of crude oil from the Rocky Mountain region have steadily increased as regional crude oil production has increased. The U.S. Energy Information Administration’s recently released Petroleum Supply Monthly report shows that 122,000 barrels per day of crude oil moved by rail from the Rockies to other regions of the country, representing 19 percent of total crude shipments from the region.

Crude oil production in the Rocky Mountain region has continued to grow, increasing by 290,000 barrels per day between 2010 and 2014. In 2010, just 359 barrels per day of crude oil from the region was shipped out by rail, heading to the Gulf Coast. As of April 2015, the total was 122,000 barrels a day, to all areas of the country.

Croatia may join list of new LNG importers

(Reuters; July 21) - Croatia's power utility HEP and gas transmission system operator Plinacro July 21 invited investors to express interest in building a liquefied natural gas import terminal in the Adriatic, part of the country's drive for energy independence. The proposed terminal on the island of Krk is also part of Europe's wider efforts to reduce its reliance on Russian pipeline gas deliveries, joining other LNG import projects.

HEP and Plinacro, in a joint venture named LNG Croatia, said the deadline for submitting investor proposals is Dec. 15. The terminal is expected to cost almost $700 million. The Croatian government last week declared the project to be of strategic interest, which should simplify the procedures for obtaining construction permits.

Australian industries could pay a price for LNG exports surge

(Western Australia Today; July 23) - Australia's industrial gas users face a more than doubling in prices over the next three to five years, slashing profitability, driving up debt and potentially forcing plant closures, according to analysis on the natural gas market by ANZ Bank. The chemical industry is set to be the worst hit of the industry sectors, potentially forcing multinational operators to shift operations overseas, ANZ senior commodity strategist Daniel Hynes said July 23.

The lack of alternative feedstocks for chemical production and their exposure to international competition means that sector will bear the heaviest toll from the rising prices, caused by the surge in growth in LNG exports that will send more Australian gas overseas. The metals and steel manufacturing sectors, and wood, pulp and paper manufacturers are also set to suffer pain over the next few years as the market adjusts to the transformation being wrought by Australia's LNG exports growth.

Households, meanwhile, face an increase of about 30 percent in their gas bills by 2020. The fresh analysis from ANZ came as the Australian Energy Market Commission recommended a package of immediate actions to be considered by the Commonwealth and state energy ministers to address some of the constraints in gas supply for domestic consumers.

Canadian companies want bigger share of fracking sand market

(Canadian Press; July 18) - North American demand has surged in recent years for the smoothest, hardest sand available, and Canadian companies are looking to carve out a bigger chunk of the market. The appetite is coming from the fracking industry, which in North America went from using about 7 million tonnes of sand in 2007 to an estimated 35.3 million tonnes this year, accord to PacWest, a consulting group that tracks the industry.

The process involves shooting tonnes of sand down a well as fracking fluid splits open rocks to release oil and gas. The sand wedges into cracks and keep them open so the hydrocarbons can flow out. The industry has high specifications for their sand, said Joe Peskunowicz of fracking company Canyon Technical Services. "It's got to be round, because if it's angular, it will crush because of point loading," he said. The best sand is known as "Northern White," and many Canadian drillers think it's good enough to justify hauling it 2,200 miles from Wisconsin to the shale plays of northern B.C. and Alberta.

But with energy industry operators looking at any ways to save costs these days, importing sand from far away has become harder to justify. As a result, local sands are making inroads into the Canadian market. Several Canadian producers have stepped in to try to fill the gap and provide some of the 3.5 million tonnes used annually in the country, but it's been a rocky start for some. A lot depends on quality.