

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **B.C. legislature convenes next week to debate LNG project deal**

(CBC News; July 6) - The B.C. government has agreed to compensate a major liquefied natural gas project if the province raises taxes on the LNG industry during a 25-year period after plant start-up. Finance Minister Mike de Jong released details July 6 of the deal it reached in May with Pacific NorthWest LNG, a consortium led by Malaysian energy giant Petronas which wants to build an LNG export terminal near Prince Rupert. The legislature will convene next week for a rare summer session to debate the deal.

Under the terms of the agreement, B.C. has agreed to compensate the LNG consortium if taxes on the industry are raised, natural gas tax credits are reduced or new carbon taxes target the LNG sector. The agreement does not protect the company from increases in provincial sales and corporate taxes. De Jong said the deal gives the company the certainty it needs to make a final investment decision.

"It provides a measure of stability that says to them, here are the rules of the game that will govern this industrial activity within this jurisdiction for the term of the agreement and they can bank on that and know those rules are not likely to change," he said. Opposition party member Bruce Ralston said it's a good deal for the company, but not good enough for British Columbians. The project still faces a number of hurdles, including opposition from aboriginal groups that have vowed to fight it in court.

The key determination would be if a tax or regulatory change were to increase costs to the LNG operator by \$25 million or more in a year or by a cumulative \$50 million over five years. The province would be contractually obliged to "make the proponent whole," offsetting those costs directly or via deductions from provincial taxes. If the parties could not agree on compensation, the dispute would be submitted to commercial arbitration.

#### **B.C. government says LNG benefits worth trade-off of 25-year tax deal**

(The Canadian Press; July 6) – B.C. Finance Minister Mike de Jong says the potential economic returns from British Columbia's first liquefied natural gas project will outweigh any tax trade-offs included in a 25-year deal he expects to introduce in the legislature next week. De Jong said July 6 he expects British Columbians will support the blueprint for the largest private-sector investment in the province's history, valued at \$36 billion.

The proposed multibillion-dollar Petronas-backed Pacific NorthWest LNG export plant at Lelu Island near Prince Rupert is one of 19 proposed LNG facilities on the drawing

board in B.C. Under the project development agreement that must be ratified in B.C.'s legislature, the Malaysian state-owned energy giant has two years to make its final investment decision to start the project.

"Most people will see that as a very reasonable and very rational trade-off for the benefits," de Jong said. He said the agreement will include assurances that Pacific NorthWest will not face significant increases in specific taxes, including the new LNG income tax, the carbon tax and natural gas tax credit. But the agreement does not protect the company from increases in provincial sales and corporate taxes. He said the agreement eliminates "discriminatory tax practices that single out a particular industry."

### **LNG project executive talks of regulatory uncertainty in Canada**

(Calgary Herald; July 8) - Cost overruns in the oil sands from a decade ago and ongoing opposition from B.C. First Nations are major impediments to investments in Canada's liquefied natural gas export industry, said the CEO of the proposed Jordan Cove LNG in Oregon. Betsy Spomer, a veteran LNG executive who joined the project last year, said at a Calgary conference July 8 that Canada's reputation as a good place to invest is being hurt by labor cost and productivity fears and regulatory uncertainty.

"The big fear in everybody's minds is what happened in the oil sands from 2005 to 2010 and I think that's given Canada ... a black eye that hasn't quite gone away," she said. She added that regulatory risk to pursuing LNG projects in B.C. has increased at the same time that fears of regulatory hurdles for U.S. projects have dissipated. "If you had told me four years ago that the U.S. regulatory process would be more straightforward than the Canadian regulatory process, I would have thought you were crazy," she said.

"The lack of treaties with First Nations on the West Coast of Canada has created a lot of uncertainty. The U.S. process, as cumbersome as it is, if you grind through it, you will get a permit. I don't know if people are that confident that you can grind through the Canadian process and come out with a permit." Calgary-based Veresen wants to build the Oregon coast plant to liquefy Canadian and U.S. gas for export. It is waiting on its federal environmental review, customers and financing before its investment decision.

### **First Nation goes to court over consultations on LNG project**

(Financial Post; Canada; July 6) - A First Nation in British Columbia is taking the province to court for lack of consultation on the massive Pacific NorthWest LNG project, even though the band is based 75 miles away from where the project would be built. The Gitga'at First Nation is demanding a judicial review of B.C.'s decision not to include it among the five First Nations entitled to "full consultation" on the Petronas-led LNG terminal planned for construction near Prince Rupert, B.C.

The challenge could change the way B.C. determines which aboriginal bands receive full consultation and which are entitled to partial consultation on major projects. The Gitga'at First Nation is based in Hartley Bay, 75 miles south of Prince Rupert, but the nation said two-thirds of its members live in Prince Rupert. Legal experts and observers called the challenge unusual, as challenges like this are generally based on an aboriginal community's traditional territory rather than where its members live.

"Our territory, for example, doesn't go anywhere near Prince Rupert, but that doesn't mean you only use (resources) within your traditional territory," Gitga'at councillor Kyle Clifton said in an interview. "We're not looking to claim ownership of Prince Rupert Harbor, we're just looking to have our rights to use the area acknowledged." The legal challenge comes a week before B.C. lawmakers gather for a rare summer legislative session to vote on the province's LNG tax and royalty agreement with Petronas.

### **Shell-led LNG project applies for Canada's new 40-year export license**

(Natural Gas Intelligence Daily; July 6) – A Shell-led liquefied natural gas project proposed for Kitimat, B.C., has stepped forward as the first candidate for the newly available extended Canadian export license with a life span of 40 years. The super-permit "would increase the regulatory certainty associated with the project as well as the economic value," said LNG Canada Development, 50 percent owned by Shell, 20 percent by PetroChina and 15 percent each by Mitsubishi and Korea Gas.

Canada's pro-industry Conservative federal government enacted the extended license term as of June. Only the duration — and not the size — of the plan for an export terminal at Kitimat would change, LNG Canada said in its application to the National Energy Board. The project already has an export permit for up to 3.7 billion cubic feet of gas per day for the previous maximum 25 years, and has its conditional environment approval from the B.C. government.

The Shell-led venture said the development schedule would be driven by market conditions and the availability of labor and supplies on the northern Pacific coast. Total costs of the project, including terminal and pipeline construction plus shale gas supply development by the partners, have been estimated at \$32 billion (U.S.). The project partners have targeted mid-2016 for a final investment decision.

### **LNG project in Oregon postpones investment decision to mid-2016**

(Calgary Herald; July 6) - The latest Canadian company facing a regulatory delay in moving forward with a liquefied natural gas export project is Calgary-based Veresen, proponent of Jordan Cove LNG in the Port of Coos Bay, Ore. The company July 6

confirmed that delays in the Federal Energy Regulatory Commission's environmental review have pushed its final investment decision from the end of this year to mid-2016. The \$7 billion project proposes to liquefy and export Canadian and U.S. gas.

Veresen said FERC had moved the date for issuing its final environmental impact statement to Sept. 30, suggesting a final FERC decision will be issued by Dec. 29 and a notice to proceed by mid-2016. A final investment decision would follow. Jordan Cove is negotiating tolling agreements for liquefaction and loading services with customers; Veresen is not a gas producer. The company already has its U.S. export license.

### **Chevron looking at weak market to sell Gorgon LNG's test cargoes**

(Reuters; July 8) - Chevron's \$54 billion Gorgon LNG project — the world's most expensive — may be forced to dump chunks of its early production into an already saturated global spot market, as some Japanese clients warn they are unlikely to take test shipments. This would be another blow for a project hit by billions of dollars in cost overruns and underscores the difficulties for a raft of Australian liquefied natural gas developments facing subdued demand and competition from U.S. shale gas.

After nearly five years of construction, test cargoes from Gorgon's plant off Western Australia (15.6 million metric tons per year) are due to begin late this year and last until April 2016, when commercial deliveries will likely start. Japanese buyers holding long-term contracts have in the past eagerly sought early cargoes, but some could pass on the test loads with long-term prices well above spot prices languishing at four-year lows.

"At this point there is no plan" to take any test cargoes, a spokesman at Tokyo Gas said. The utility has a contract to take 1.1 million tons a year from the project. An official from another Japanese client also said it was unlikely to buy these cargoes. "If there's spot supply that's cheaper than Chevron's offer price, then we'll not take from Chevron."

Chevron will already have to sell some LNG on the spot market after securing 25-year sales deals for under 70 percent of its share of Gorgon, according to company data, less than the 85 percent a project backer would normally seek to guarantee returns.

### **Environmental group says world will need fewer LNG plants**

(Houston Chronicle; July 7) - Billions of dollars of liquefied natural gas projects won't be needed in the next decade as the world strives to limit its carbon footprint and rein in climate change, a new analysis finds. The shale gas boon spurred a flurry of proposals to build U.S. LNG export terminals, but investors should take a hard look amid a push to limit global warming within 2 degrees Celsius in the next century, according to a report by Carbon Tracker, a London-based nonprofit dedicated to limiting greenhouse gases.

“Investors should scrutinize the true potential for growth of LNG businesses over the next decade,” James Leaton, the group’s head of research, said in a statement issued with the report July 6. “The current oversupply of LNG means there is already a pipeline of projects waiting to come on stream. It is not clear whether these will be needed and generate value for stakeholders.” The group identified \$283 billion in proposed LNG projects worldwide that are “likely to be surplus” in a low-carbon economy.

Carbon Tracker found that a majority of the LNG needed within the next 10 years will come from projects already built, under construction or those with a final investment decision in place. Global demand in a low-carbon world is not robust enough to justify projects proposed by most of the 20 companies eyeing massive investments in LNG plants, Carbon Tracker said. “Only the cost-efficient and the cost-effective ones will go ahead,” said Andrew Grant, the group’s senior analyst.

### **Report critical of Canada’s response readiness to Arctic oil spill**

(Canadian Press; July 4) - An internal report warns that Canada’s federal government isn’t fully prepared to respond in the event of an oil spill in the Arctic or in deep-water offshore. The report, "An Emergency Response Biomonitoring Plan for Accidental Spills," was prepared for Fisheries and Oceans Canada. It was written by the consulting firm SL Ross Environmental Research, of Ottawa, dated May 23, and recently released under Access to Information laws.

"To date, there have not been any major spills related to offshore oil exploration in Canada's Arctic, but should they occur they could pose some challenges for monitoring," the report said. Knowledge of key marine species found in the region's unique habitat, such as Arctic cod, is limited. Marine research in the area is ongoing and should be regularly gathered and assessed to offer a baseline against which any potential oil exposure could be measured, the report recommends.

The report also raises concerns about increased drilling in 1,000 metres of water or more. Major spills at such depths create unpredictable plumes that can take days to surface, the report said. "From a monitoring perspective, subsea dispersant injection into these deep, subsea blowouts poses a significant challenge as evidenced by the Gulf of Mexico spill in 2010," the report said. "The behavior of these subsea plumes is still poorly understood and will require extensive monitoring."

### **Tanzania parliament approves oil and gas legislation**

(Reuters; July 6) - Tanzania's parliament July 5 approved a legal and regulatory framework for developing its nascent hydrocarbons industry, after days of contentious

debate. East Africa has become a new oil and gas frontier after a string of discoveries that producers hope to exploit to supply Asian markets. Tanzania estimates it has more than 55 trillion cubic feet of natural gas offshore but has yet to make oil discoveries.

Under the terms of the bill, energy companies will pay a 12.5 percent royalty for oil and gas production in onshore or shelf areas and 7.5 percent for offshore output. The state's share of profit on gas production would range from a minimum of 60 to 85 percent, pegged on specific daily gas output. Members of parliament, mainly from the ruling party, voted overwhelmingly in favor of the bill after the speaker suspended more than 40 opposition lawmakers for shouting their objections in an earlier debate.

Companies would be required to pay signature and production bonuses, but the bill did not specify the amount, saying it would be agreed under in each contract. The bill also proposes ring-fencing the recoverable cost before taxes of exploration and development licenses. And it stipulates that oil and gas companies satisfy the domestic market in Tanzania from their share of production. The bill's opponents said industry players and non-governmental organizations should be given more time to scrutinize the bill.

### **LNG carrier oversupply could last until 2018, says IHS**

(IHS Maritime 360; July 2) - The glut of liquefied natural gas carriers is expected to persist until 2018, when more LNG cargoes emerge in Australia and the United States. It's too many carriers chasing too little business. As of June, IHS Maritime's Sea-web.com data show there are 144 LNG carriers and seven storage and regasification vessels on order with a capacity greater than 60,000 cubic meters.

Average monthly charter rates fell to approximately \$23,000 a day in May as demand for Atlantic LNG moving into the Pacific Basin weakened. Spot-charter rates recovered to approximately \$27,000 by the end of June, with increased spot demand from Latin America and the Middle East. "Despite this recent, albeit small, uptick in spot-charter rates, the capacity surplus is likely to continue until Australian and U.S. volumes ramp up over the next three years," IHS Energy director Terrell Benke said.

"However, a tightening could still reoccur by the turn of the decade. Based on IHS Energy's LNG supply outlook, more vessels will need to be ordered between 2015 and 2017 if charterers in the shipping market want to avoid another cycle of tight market conditions for chartering vessels." LNG carriers have been ordered for the Australian supply, though the buyers of U.S. exports, expected fully online by 2020, have yet to order all of the necessary shipping capacity.

### **Despite slowdown, U.S. oil output on track to reach 45-year high**

(Bloomberg; July 7) - U.S. crude oil production will climb to a 45-year high in 2015 before slipping next year, according to federal estimates. U.S. output will advance 8.6 percent to 9.47 million barrels a day this year, the most since 1970, the Energy Information Administration said July 7 in its monthly Short-Term Energy Outlook. That's a 40,000-barrel average gain from what the agency projected in June. Output in May declined, however, and is expected to continue moving lower through early 2016.

"While U.S. crude oil production is expected to decline over the months ahead, total output in 2015 is on track to be the highest in 45 years," EIA Administrator Adam Sieminski said in a statement. Horizontal drilling and hydraulic fracturing have unlocked supplies in shale formations in North Dakota, Texas and other states. The number of active oil rigs in the U.S. rose by 12 to 640 last week, ending the longest decline on record. Still, the number of active rigs is down 59 percent from November.

"The forecast decline in U.S. monthly oil production through early 2016 is the result of low oil prices, which pushed oil companies to reduce the investment in drilling that resulted in the lowest number of rigs drilling for oil in nearly five years," Sieminski said.

### **Low oil prices cut into spending at Calgary Stampede**

(Wall Street Journal; July 6) - As companies in the once-flush oil patch slash budgets in line with a slump in global crude prices, the belt-tightening is hitting one of Western Canada's most venerable traditions: the Calgary Stampede. The 103-year-old rodeo-centered event has survived floods, droughts and Mad Cow disease, but the recent downturn in oil and gas has forced energy companies to cut back on sponsorships and Stampede-themed client events during the annual festival, which runs July 3-12.

Calgary is the headquarters for many Canadian oil and gas companies, as well as a regional headquarters for multinational giants. The slump in oil prices in recent months has meant industry-wide wage reductions, layoffs and sharp budget cuts. The downturn is taking a toll on the Stampede. Three key corporate sponsors backed out this year, and corporate events are down about 10 percent. The provincial government, which is dependent on energy royalties, slashed its grant to the Stampede by 20 percent.

Many companies have scaled back or pulled the plug on parties, traditionally among the year's major networking events. These bashes entertain hundreds of guests decked out in hats and cowboy boots. But this year, the mood is lower key. "Anybody who's going to throw a big party for Stampede this year just doesn't get it. You can't watch your clients cut 10 percent of their work force and then have a six-figure party and ask them to come celebrate," said Maureen Killoran, managing partner in a Calgary law office.