Oil and Gas News Briefs
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B.C. premier calls special session to consider LNG tax legislation

(Vancouver Sun; June 23) – B.C. Premier Christy Clark's government is recalling the legislature for a rare summer session to pass key legislation enabling a liquefied natural gas project. The government will reconvene the legislature July 13, Finance Minister Mike de Jong announced June 23. The intention is to pass enabling legislation that will allow the government to enter into a project development agreement with Pacific NorthWest LNG, which is proposing an export terminal near Prince Rupert.

Pacific NorthWest LNG announced last month a conditional final investment decision on the multibillion-dollar project, dependent on legislative approval of the tax-certainty bill, as well as federal environmental approval and some type of agreement with local First Nations. De Jong said he's not sure how long it will take to pass the legislation, but if approved it would allow the government in the future to make similar LNG agreements with other developers using cabinet approval.

The entire project development agreement with Pacific NorthWest LNG will be made public, de Jong said. It protects the project from future targeted taxes. Malaysia's state-owned Petronas is the lead partner in the LNG plant, marine terminal and gas pipeline.

Lawsuit could delay Petronas LNG project in British Columbia

(Bloomberg; June 22) – The Petronas-led Pacific NorthWest LNG project in British Columbia was treading water after the global market weakened. Now local opposition is adding a new hurdle. An aboriginal group that claims title to land earmarked for the liquefied natural gas terminal said it will take legal action if its environmental concerns aren't addressed. That follows a decision by Petronas and its partners earlier this month to press ahead with the project, as long as regulatory and fiscal conditions are met.

The Lax Kw'alaams band, which has already turned down $1 billion in compensation, said the terminal is slated for a culturally significant island and would damage salmon habitat. "One of the key risks is potential for delay," said Tom Isaac, a partner at Osler, Hoskin & Harcourt in Calgary, who leads the firm's aboriginal law group and has no stake in the project. "If litigation were initiated, that could take some time to wind its way through the courts."

The Lax Kw'alaams are among several aboriginal groups claiming title to the land where Petronas wants to build the LNG terminal. The group underwent political turmoil last year with the ouster and eventual reinstatement of its mayor. An election is scheduled for later this year that could affect talks with Pacific NorthWest LNG. Petronas can probably find ways to mitigate environmental impacts and avoid a lawsuit, said Werner Antweiler, a University of British Columbia associate professor of business. Still, any delay could render it uneconomic if the market for LNG weakens further, he said.

Petronas-led LNG project continues talking with B.C. First Nation

(Globe and Mail; Canada; June 23) - Backers of a proposed liquefied natural gas project near Prince Rupert, B.C., are hoping a new phase of collaboration with First Nations will address concerns about impact on salmon habitat. Malaysia's state-owned Petronas and its partners in Pacific NorthWest LNG have told the Canadian Environmental Assessment Agency they are committed to conducting further studies to forecast the project's potential impact on Flora Bank and its eelgrass used by juvenile salmon.

The project's new consultations with First Nations come as the B.C. government announced it will reconvene lawmakers July 13 to debate legislation on the project development agreement signed last month between the consortium and the province. Meanwhile, Pacific NorthWest LNG will be conducting further work aimed at "evaluating and assessing, in collaboration with governments and Tsimshian First Nations," the project's impact on salmon populations, according to the environmental agency.

In May, members of the Lax Kw'alaams First Nation declined to provide aboriginal consent, rejecting Pacific NorthWest LNG's $1 billion cash offer over 40 years, pointing to the risk to salmon habitat. A Pacific NorthWest LNG-commissioned report contends there will be little to no environmental impact from building the terminal on Lelu Island, which has forested areas spread over bog deposits. The focus now is on examining measures to reduce any potential environmental harm.

Market will need more LNG, but it will take time, analyst says

(Sydney Morning Herald; June 22) - Australian LNG producers hoping to start new projects will have to wait years before they can find customers as global markets work through a supply glut and higher-cost projects slide down the development queue, said energy forecaster Fereidun Fesharaki. Woodside Petroleum's Browse floating project, the Sunrise venture in the Timor Sea, and the ExxonMobil-led Scarborough project off Western Australia will all take longer than anticipated, as will most Canadian LNG projects, said Singapore-based Fesharaki, chairman of FACTS Global Energy.

"The Australian projects, there is room for them, but they will have to wait," Fesharaki said, pointing to a need for more contracted supplies in 2025 or later. Similarly, the proposed LNG projects in Canada will take longer, with a lack of demand the hurdle, he said, noting that the Petronas-led Pacific NorthWest LNG project, currently poised to get the go-ahead, would be an exception. "Canada, Alaska, Browse, Sunrise — there is a need for all these projects, but over an extended period of time."

Projects in Papua New Guinea are different, he said, with more favorable economics allowing them to compete against U.S. exports 2021-2025. Meanwhile, LNG producers face challenges because of an unusually large gap between prices for contract sales linked to oil prices and spot prices that have fallen because of low demand, Fesharaki said. "The separation of spot from the contract market is the most unusual I have seen in my life." New long-term demand in Asia will come mostly from buyers needing to replace expiring contracts, with a wave of Japanese contracts set to lapse 2019-2024.

FERC denies Sierra Club motion against Cheniere LNG expansion

(Houston Chronicle; June 23) - Cheniere Energy cleared its final regulatory hurdle to expand its Sabine Pass LNG export terminal after the federal government dismissed an environmental group's request. The Sierra Club had asked the Federal Energy Regulatory Commission to reconsider its April approval of two more liquefaction trains at the plant. The group argued the expansion would spur an increase in U.S. gas production to feed the exports, leading to a rise in air pollution and uptick in gas prices.

FERC rejected those arguments, as it has in the past when the Sierra Club made similar claims against other LNG export proposals. In its order released June 23, FERC said it has no jurisdiction to regulate upstream natural gas production — that's done at the state and local level — nor can it assume that the LNG terminal would lead to a swell of new gas production.

The order denying Sierra Club's request for a rehearing throws open the door for Cheniere to start work on plans to add a fifth and sixth train at its Sabine Pass, La., terminal, where four trains already are under construction. The terminal is slated to start production this year, pushing Cheniere toward becoming the first large-scale plant to ship LNG from the continental United States.

Total pulls out of Shtokman gas project in Russia's Arctic waters

(Agence France Presse; June 24) - Total said June 24 it had pulled out of the Shtokman natural gas project in the Barents Sea, with development of one of the world's largest untouched gas fields apparently falling victim to Western sanctions against Russia. "Total has passed to Gazprom its 25 percent share in Shtokman … and expressed its interest to further cooperate on the project should it enter an active phase," the French energy company said, confirming a report in the Russian business daily Vedomosti.

The project had been frozen for two years, waiting for new technology to make it profitable, but Vedomosti said development solutions Total had recently proposed were prevented from moving forward by the sanctions. The United States and European Union slapped sanctions on Russia last year over its role in the Ukraine crisis, targeting in particular the oil and gas sector where Russia needs Western technology to profitably access deposits in hostile climates.

At 135 trillion cubic feet of gas, the Shtokman field is one of the world's largest untouched gas fields. But buried underneath the Barents Sea above the Arctic Circle, development would require technology breakthroughs and huge investment. Norway's Statoil dropped out of the project in 2013 and then Gazprom suspended the project until new technology could make it viable. Total last year wrote off $350 million for its stake in Shtokman, but did not formally renounce the partnership with Gazprom.

U.S. industrial demand for gas slips, but growth still expected

(Reuters; June 22) - U.S. manufacturers have not soaked up as much excess shale gas in the first half of 2015 as expected, but the shortfall may be an anomaly as a Gulf Coast manufacturing boom is approaching. Average industrial demand for gas in 2015 was expected to increase nearly 4 percent over 2014, according to federal energy forecasts. But almost halfway through the year, it has slipped about 1 percent to 21.7 billion cubic feet per day, according to Thomson Reuters Analytics.

The primary reason for the decline was a milder winter this year than last year's brutal cold in the heavily industrialized U.S. Midwest and Gulf Coast. Experts, however, expect the industrial sector to become less weather-sensitive as more manufacturing facilities enter service along the Gulf Coast. Chemical companies alone expect to spend more than $100 billion to build or expand more than 200 U.S. projects and create more than 300,000 jobs by 2023, according to the American Chemistry Council lobbying group.

"The boom in industrial demand will not take off until 2017 to 2020, when many new manufacturing facilities, especially chemical plants, enter service," said Gregory Shuttlesworth of the PIRA Energy Group in New York. For their part, power generators account for 33 percent of U.S. gas consumption, burning on average 23.9 bcf a day so far in 2015. That compared with 20.1 bcf a year earlier and a 10-year average of 19.0 bcf as dozens of coal-fired plants are retired for economic and environmental reasons.

Hawaiian Electric says starts of bulk LNG deliveries uncertain

(Pacific Business News; Honolulu; June 24) – Hawaiian Electric recently told the Hawaii Public Utilities Commission that the prospects of liquefied natural gas being delivered to a bulk terminal in the islands instead of a smaller-scale containerized LNG solution is uncertain at this time. The Honolulu-based utility said that developing a bulk terminal project became a lot tougher in light of the recent passage of a couple of bills related to energy, according to a document filed with the utilities commission.

The legislation sets the goal of Hawaii achieving 100 percent renewable energy by 2045 and sets limits on the use of LNG. Hawaiian Electric said it now anticipates that developing, permitting and implementing a bulk LNG import and regasification terminal for the state will take considerably longer than the alternative of bringing in insulated, individual containers with smaller volumes of LNG. The utility referred to the uncertainty in building out infrastructure for a bulk terminal in a June 19 filing with the commission.

Hawaiian Electric said, however, it still believes that delivery of LNG in containers in volumes sufficient for power generation “has the potential to provide more immediate reduction to customer bills while helping to minimize the investment.” The utility earlier this month said it doesn’t envision LNG imports until 2019, two years later than originally planned. The $235 million bulk-cargo project called for the delivery of up to 800,000 tons of LNG per year (an average of about 100 million cubic feet of gas per day).

Brownsville channel, Texas, popular spot for proposed LNG projects

(The Monitor; McAllen, Texas; June 22) - On a typical weekend afternoon the waters of South Bay, Texas, off the coast of South Padre Island, glisten in the sun and the otherwise shallow blue-green sea is shared by fishing enthusiasts, tour boats, kayakers and the occasional large tanker ship that slowly sails into the Brownsville shipping channel. But that landscape could change with the possible addition of liquefied natural gas carriers hauling the fuel to customers around the world.

Five corporations are looking to construct LNG export facilities along the Brownsville channel. Area resident Roseann Lerma filed a letter June 5 against Annova LNG with the Federal Energy Regulatory Commission. The project, she said, “will be extremely problematic with very few local benefits and will create a wasteland. South Texas’ economy depends heavily on ecotourism and the fishing industry, and the presence of the aforementioned facilities will have a detrimental impact on these industries.” The Lower Rio Grande Valley Sierra Club has pledged to stop any LNG plants in the region.

Others said they are waiting to make a decision until an environmental impact report is released. There is a lot of interest. There are about 250 dolphins that live in the waters of the Brownsville ship channel and the surrounding bay, and several tour boat companies rely on them. Shrimp harvesters across the Texas coast catch about 50 million pounds of shrimp each year and 17 million pounds come from Brownsville. By July, there will be shrimp boats using the channel during open season.

Gas production from offshore Israeli field delayed to 2020

(Platts; June 22) - Gas production at the massive Leviathan field offshore Israel is now expected to start in 2020, delayed from an earlier estimate of early 2018, industry sources said June 21. They said the revised timetable will be part of a compromise framework the Israeli government is due to approve later this month. Before a regulatory impasse in Israel's gas sector, the Leviathan consortium — including Houston-based Noble Energy and its Israeli partners — had expected to begin production in early 2018.

The consortium said in negotiations with the government in recent weeks that it would not be able to make the 2018 target, sources said. To cover the delay, the government is expected to approve exports from the offshore Tamar field, currently the sole source of gas for the domestic market, the sources said. In 2013, Israel approved limited exports from Tamar, but only after Leviathan begins commercial production. Under the new deal, Tamar gas could be exported before Leviathan comes online.

The government's security cabinet is due to discuss a compromise formula by the end of the month. Approval of the compromise is crucial for Israel's foreign relations. Companies from Egypt and Jordan have signed letters of intent to buy Leviathan gas, which is now delayed. The field holds an estimated 22 trillion cubic feet of gas.

Offshore Australia LNG project commits to supply local needs

(The Australian Business Review; June 24) – The proposed Woodside Petroleum-led Browse liquefied natural gas export project has overcome a key hurdle, striking a $1 billion royalty and gas-reservation deal that will see the Western Australian government support the development. Western Australia Premier Colin Barnett said June 23 the state had signed an agreement that would help clear the way for the development of the Browse fields via floating liquefaction and storage vessels rather than an onshore plant.

The Browse partners have agreed to supply gas into the domestic market as part of the agreement, as well as committing to royalties estimated at more than $1 billion over the life of the export project. Barnett had formerly been a critic of the venture's floating LNG plans, warning the state would lose jobs and investment if the partners abandoned development of an onshore LNG plant. He also feared a floating LNG plant would help the partners bypass the state's domestic gas-reservation policy.

He said the new agreement marked the first time the state's gas-reservation policy for local needs had been applied to floating LNG. The huge gas fields have had a tortuous journey toward development since they were discovered more than 40 years ago. Plans to build an onshore LNG plant were abandoned in 2013 after studies determined it would likely cost twice the $45 billion estimate, prompting the partners to look at an offshore project. Engineering and design studies are due to start in the next few months.

BP buys stake in Siberian oil field

(Bloomberg; June 22) - BP's $750 million purchase of a Siberian oil field stake is as much a bet on China as it is on Russia. The Taas-Yuriakh Neftegazodobycha's blocks near China's northern border will supply the planned Tianjin refinery on China's east coast, according to Rosneft, which sold the 20 percent holding last week. BP CEO Bob Dudley predicts the unit's natural gas reserves also will prove strategic as Russia develops its Far East and builds ties with the world's biggest energy consumer.

"You have to make a judgment on whether it will have value," Dudley told Bloomberg News on June 19 in St. Petersburg, referring to the gas reserves. "We believe it will, eventually." BP's Siberian acquisition comes at a time when Russia is turning to Asia for energy sales in response to sanctions imposed by the U.S. and European Union following its annexation of Crimea. China has agreed to increase its Russian oil and gas purchases as it diversifies it sources of energy.

"BP has been in Russia since the mid-1990s and is probably the most successful of the western majors there and in understanding how Russia works," said Alex Brooks, an oil and gas analyst at Canaccord Genuity in London. "Russia's potential is substantial and China continues to play a major part in global energy demand." The Taas-Yuriakh unit plans to raise production fivefold to 100,000 barrels a day in 2017, according to Rosneft. The field has enough gas reserves to surpass 175 billion cubic feet of production a year.