Oil and Gas News Briefs
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B.C. negotiating long-term fiscal certainty in LNG project agreements

http://www.vancouversun.com/Three+projects+lead+pack/10892149/story.html

(Vancouver Sun; March 15) - Three LNG projects have emerged as leaders in reaching project development agreements in negotiations with the B.C. government. On the list is the large Petronas-led Pacific NorthWest LNG near Prince Rupert and two smaller projects, Woodfibre LNG north of Vancouver and AltaGas-led Douglas Channel LNG in Kitimat, says the province. The agreements, unprecedented in B.C. but more common in countries with unstable political climates, are meant to provide long-term certainty around items such as tax rates, royalties and possibly greenhouse-gas emissions.

But if the public is hoping to learn any details about the agreements before they are signed, they will be disappointed. The government will reveal little and the companies even less. Citing non-disclosure agreements, the province said only after a company makes a final investment decision to proceed will an agreement be made public.

A future B.C. government could have different priorities, creating the possibility that the province could be constructing a deal where companies would be compensated if the tax or royalty changes. “I think the point here is that were a subsequent government to unravel this deal … the combination of this deal combined with any applicable foreign investment treaty would make it pretty clear that a subsequent government would have to pay,” said Nigel Bankes, University of Calgary chair of natural resources law.

Barry Munro, Ernst and Young’s Canadian oil and gas leader, said the project development agreements act like a contract. “It doesn’t stop the government from changing the contract, it’s just a defined cost,” he said. “It’s almost similar to signing a lease. If you want to change the terms of the lease or vacate your property, people understand the consequences.” Munro lauded B.C.’s move to create the agreements, saying they will help offset risks, helping companies make investment decisions.

Analyst says just one U.S. LNG project will reach decision this year

http://www.reuters.com/article/2015/03/13/usa-lng-cutbacks-idUSL5N0WE59N20150313

(Reuters; March 13) - Sinking oil and gas prices have put the brakes on development of the U.S. liquefied natural gas industry, with projects being delayed or even scrapped. U.S. gas production has soared to record levels in recent years due to advanced drilling techniques, triggering a new LNG export market. But a halving of energy prices has dramatically changed the economics of export projects and cut investment plans, with only one of dozens of projects expected to win a final investment decision this year.

"Global gas prices have fallen so far that the economics for everyone looks difficult," Trevor Sikorski, analyst at U.K.-based consultancy Energy Aspects said. "You're just looking for those projects that have a lot of long-term supply agreements in place already and the only one you would say that has that is Corpus Christi." Sikorski estimated Cheniere Energy's proposed Corpus Christi, Texas, project had already sold around 90 percent of its output for the first two trains via long-term sales agreements.

Before the gas price fall, Energy Aspects had expected three or four projects to reach final investment decisions in 2015. A recovery in energy prices could help get projects back on track but few are forecasting this in the near future. Still, projects under construction including Sabine Pass, La.; Freeport LNG, Texas; Cove Point, Md.; and Cameron LNG, La.; mean the United States will become one of the world's top suppliers of LNG in the next five years, even with other projects delayed or cut.

Low oil prices expected to prompt industry consolidation

http://calgaryherald.com/business/energy/shale-on-sale-as-oil-price-crash-creates-buyers-market

(Bloomberg; March 11) - A decision by Whiting Petroleum, the largest producer in North Dakota’s Bakken Shale, to put itself up for sale looks to be the first tremor in a potential wave of consolidation as $50 oil undercuts companies with heavy debt and high costs. For the first time since wildcatters began extracting significant amounts of oil from shale formations, acquisition prospects from Texas to the Great Plains look less expensive.

Buyers are ultimately after reserves, the amount of oil a company has in the ground. As the value of many shale-focused U.S. producers falls, that’s opening up new reserve-buying opportunities for bigger companies with a better handle on debt, said William Arnold, a former Shell executive. “There are whales and there are fishes and the whales are well armed,” said Arnold, who now teaches at Rice University in Houston. “There are some very vulnerable little fishes out there trying to survive any way they can.”

Smaller producers with significant debt are the most likely early targets for buyers. The oil-price crash is creating “a consolidation game,” Concho Resources CEO Timothy Leach said on a Feb. 26 call with investors. “It’s harder to be a small company today than it has been in the past.” An expected surge of deals is more likely to feature fire sales by companies unable to pay expenses and hit by falling asset prices.

Sellers will be companies like Whiting, handicapped by heavy debt and lacking cash reserves as insulation from the market crash. Among the three biggest producers in North Dakota, the value per-barrel of reserves has fallen by about half since June, meaning that buying those reserves would cost half the price of eight months ago.

Layoffs start to hit Bakken Shale region

http://www.wsj.com/articles/crude-oil-price-collapse-takes-toll-on-willston-1426184505?mod=WSJ_hps_MIDDLE_Video_Third

(Wall Street Journal; March 12) - As the epicenter of the U.S. oil boom, Williston, N.D., was a magnet for blue-collar job seekers. But the collapse in crude prices means truck-choked Williston is no longer the land of opportunity it was less than a year ago. The state reported March 12 that North Dakota's oil output fell 3 percent in January from an all-time high in December. "I tried to get in on the oil rigs, but by the time I got here they were laying off," said Jimmy Sidwell, who arrived in Williston from Atlanta in January.

Instead, Sidwell has been digging ditches and sleeping in motels, hoping that something better will open up. "It's like everyone is here looking for the pot of gold," he said. At North Dakota's peak in mid-2012, more than 200 rigs were drilling oil wells in the Bakken formation. Williston was the fastest-growing small city in the U.S. from 2011 through 2013, according to the U.S. Census Bureau.

But Bakken crude has always been expensive to produce and ship to refineries. When oil prices started to fall last year, Bakken producers slowed down spending. Fewer rigs means less work for the roughnecks and truck drivers who service the new wells. The price of Bakken crude March 12 was $32 a barrel. The number of rigs used to drill new wells in North Dakota sank to 111 as of March 12, the fewest since April of 2010. All this has cooled the hiring frenzy and layoffs have begun in the Bakken oil patch.

Alberta oil sands hoping to ride out cutbacks

http://www.calgaryherald.com/news/insight/Fort+McMurray+boom+falters+Pause+growth+with+trepidation+some/10888206/story.html

(Edmonton Journal; March 12) - Energy companies are tightening their belts in Alberta's oil sands, slashing budgets, scrubbing and delaying projects, and laying off scores of contract workers. With oil hovering around $50 a barrel, the bounce is suddenly missing from Fort McMurray's step. Hotel rooms, typically tough to find, are readily available. The average selling price of a single-family, detached home has dropped $100,000 in the past year. People are lining up at the food bank in numbers previously unseen.

The municipality, which gets more than 90 percent of its $600 million in annual tax revenue from oil and gas companies, is beginning to rethink key components of a $2 billion downtown revitalization plan. Observations about the economy's slide vary, from unfazed real estate brokers who have weathered them before to a hotel owner hoping the worst is over. Housing prices are down, and the vacancy rate for rentals is way up.

“I know this almost sounds a little arrogant, but we have definitely been there and done that,” said Colin Hartigan, director of the local realtors association. “When we had a decline in 2008-2009, after a bit of a breather the community hit the rest button and got going again. Do we expect the same this time around? I think it’s not a question of if it will recover, but when. Is it three months, six months, or a year? That’s what people are concerned about. … It is nothing new for us.”

B.C. shale gas producers can make money, even at low prices

http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/montney-shale-gas-formation-in-bc-and-alberta-still-entices-investors/article23412565/

(Globe and Mail; March 11) - The Montney shale gas formation in B.C. and Alberta is seen as the crucial anchor of a future West Coast liquefied natural gas industry, but some companies are making money drilling there now, even as the price of the fuel languishes. Painted Pony Petroleum and ARC Resources are among those that have had strong results in the B.C. region, and their executives say they are generating returns with gas selling this winter below a bargain-basement $3 per 1,000 cubic feet.

That’s a far cry from about $5 a year ago. Though horizontal drilling and completion costs are at $6.7 million per well — about six times that of a conventional vertical well — Painted Pony’s Montney operations north of Fort St. John, B.C., still can compete with any other in North America, CEO Patrick Ward said. They can do so because of how prolific the wells are and how comparatively low the day-to-day operating costs are, Ward said in an interview at First Energy Capital’s energy conference in New York.

The Montney, with an estimated 271 trillion cubic feet of marketable gas on the B.C. side alone, represents the anchor supply for some of the multibillion-dollar LNG export plants proposed for British Columbia. Leading LNG proponent Petronas of Malaysia has been the most active driller there. The state-owned company is expected to make a final investment decision on its LNG project later this year. Painted Pony and ARC say LNG exports, should they come to fruition, would be a boon to Montney development.

Canadian hedge fund sees profit in moving LNG to U.S. Northeast

http://washpost.bloomberg.com/Story?docId=1376-NL28FI6S972Q01-1JE0DQEDB3M2E2B4VJ3DJNRUMI

(Bloomberg; March 12) - Canadian hedge fund West Face Capital is investing in two projects that plan to bring liquefied natural gas by ship into New York and the U.K., banking on a chronic need for the fuel, according to a person familiar with the strategy. With Northeast U.S. utilities paying as much as 15 times benchmark prices during winter peaks, a West Face-controlled company would buy the LNG in Louisiana or potentially other supply locations, deliver it by ship and regasify it for distribution,

West Face, through wholly owned LNG Holdings, is committed to investing as much as $600 million in the Port Ambrose regasification project 20 miles offshore in the New York City area, and Port Meridian off Barrow-in-Furness, U.K., a source said. Ships that transport LNG and turn the fuel back into gas on board (called shuttle-and-regasification vessels) would connect to a submerged buoy system linked to subsea pipelines, according to Port Ambrose's website. A similar system would be used in the U.K.

Port Meridian holds a permit and says it can be operational by 2018, while the Port Ambrose project is in early-stage development — with significant local opposition. LNG Holdings has an agreement to buy up to 1.7 million metric tons of LNG a year from a Louisiana plant, the source said. West Face expects to profit from buying much cheaper gas at supply hubs and selling it to high-demand markets. Moving the fuel between U.S. ports would require U.S.-built vessels, under a federal law called the Jones Act.

Declining Canadian production could draw U.S. gas to provinces

https://rbnenergy.com/break-on-through-to-the-canadian-side-moving-marcellus-gas-to-the-maritimes

(RBN Energy; March 11) - As if there weren't enough reasons to add new gas pipeline capacity through New England, it's time to consider another: The Sable Island and Deep Panuke production areas offshore Nova Scotia are quickly losing their oomph, and soon the Canadian Maritimes pipeline will need to rely more heavily on gas from other sources, including Marcellus Shale. That adds another layer of complexity to the situation in New England, which already struggles with gas supply during cold winters.

Canada's Sable Island and Deep Panuke discoveries once were viewed as the next big things for New England gas supply. Sable Island started producing in December 1999, and was the first to use the Maritimes & Northeast Pipeline, which runs 730 miles from Nova Scotia to near Boston. But in the past five years production has steadily declined and in January 2015 Sable Island produced only 175 million cubic feet a day. Flows are expected to continue falling until shutdown a few years shy of its predicted 25-year life.

Deep Panuke had been seen as a supplement to — and eventual replacement for — Sable Island, but it's turned into something of a disappointment. Meanwhile, natural gas consumption in New Brunswick and Nova Scotia has risen from near zero in the late 1990s (when there was virtually no local gas production) to more than 200 million cubic feet a day during the winter months today. The Maritimes could use a lot more gas, regardless of reducing flow to New England, and the Marcellus looks to be an option.

Low oil and gas prices could help reduce project construction costs

http://www.edmontonjournal.com/news/edmonton/Lamphier+count+global+game/10888315/story.html

(Edmonton Journal; March 13) - For Alberta, the misery continues. Oil prices tumbled nearly 10 percent this week, as ballooning U.S. inventories stoked fears that crude could test the $40-U.S.-a-barrel mark in coming weeks. The April futures contract for U.S. benchmark West Texas Intermediate slid below $45 a barrel March 13, dashing hopes that prices might stabilize around $50. Instead, it looks like crude won't end its plunge until May or June, setting the stage for a modest rebound late this year and next.

British Columbia's natural gas industry is also struggling due to low prices. And Premier Christy Clark's dream of transforming B.C. into a major liquefied natural gas exporter has yet to materialize. Still, some observers insist 2015 will be the year when the first major West Coast LNG project gets the green light. If so, it would provide a much-needed lift for the whole energy sector. Racim Gribaa, managing director of corporate finance at Deloitte and the leader of its LNG team in Calgary, is one of the believers.

As for today's low commodity prices, he said that means little to projects that won't produce their first LNG until the early 2020s. "Prices today are less relevant from a revenue point of view and far more relevant from a cost point of view," he said. "The LNG business is capital intensive … it involves building a plant, constructing equipment, storage tanks, and cryogenic trains to liquefy the gas. If prices are depressed while you're building, your ability to negotiate lower costs with suppliers is enhanced."

Nova Scotia LNG receives permit; still needs suppliers and buyers

http://www.capebretonpost.com/News/Local/2015-03-13/article-4075834/Bear-Head-LNG-receives-permit-to-construct/1

(Cape Breton Post; Sydney, Nova Scotia; March 13) - The Nova Scotia Utility and Review Board March 13 issued Bear Head LNG an updated and amended permit to construct, making the project the first in Eastern Canada to be granted such authorization. Bear Head LNG has now obtained nine of the 10 initial Canadian federal, provincial, and local regulatory approvals needed to construct a liquefied natural gas export facility on the Strait of Canso in Nova Scotia.

The utility board first permitted Bear Head LNG as an import facility in 2005. Facilities were partially constructed and then work stopped as the import market disappeared under the shale boom. Developers now want to build an export plant at the site. The last of the 10 initial Canadian environmental and engineering approvals required is an updated and amended authorization from Nova Scotia Environment, the provincial government department with a broad mandate to protect the environment.

Bear Head LNG would have an initial production capacity of 8 million tons of LNG per year. The developer says project timing will depend on regulatory approval, as well as contracts with gas suppliers and LNG buyers. The project also requires Canadian export approval and new pipeline capacity to move gas to the plant.

Multiple LNG hopefuls looking at Brownsville, Texas

http://www.bizjournals.com/sanantonio/news/2015/03/13/three-more-lng-companies-seeking-aspot-inside-port.html

(San Antonio Business Journal; March 13) – There are three more liquefied natural gas plants proposed for a new export terminal planned at the Port of Brownsville, Texas. Port CEO Eduardo Campirano said Brownsville is hoping to become a hub to take gas from the Eagle Ford shale region and export it to Mexico or other nations where there is high demand and low supply. The Eagle Ford shale region just south of San Antonio produced 4.7 billion cubic feet of natural gas per day in 2014, according to state figures.

Just this week, Texas LNG and Annova LNG submitted pre-filing letters to the Federal Energy Regulatory Commission to start the process for their projects along the Brownsville Ship Channel. Texas LNG is looking to build two liquefaction trains of 2 million metric tons per year each. Annova LNG is talking of an even bigger plant.

Campirano said three more companies — Gulf Coast LNG, NextDecade LNG and SEG Sideco LNG — are also looking to build facilities in the port. Unlike other ports in Texas, the 40,000-acre Port of Brownsville has ample acres of available land, the port director said. The latest proposals in Texas join a long list of LNG projects lined up for FERC approval, U.S. Energy Department export approval, sales contracts with buyers and financing, all looking to move plentiful U.S. gas to higher-prices markets.

Canada proposes tougher standards for rail tank cars carrying oil

http://www.calgaryherald.com/business/Transport+Canada+proposes+tougher+protections+rail+tanker+cars/10882383/story.html

(Canadian Press; March 11) - Proposed new Canadian regulations will give shippers until 2025 to upgrade rail tank cars to a higher safety standard, a transition that would come almost 30 years after serious deficiencies in the fleet were first identified — and as oil-by-rail accidents continue to pile up. The upgrade would build on standards voluntarily adopted by the industry in 2011 and require shippers to make tank cars more resistant to punctures and valve failures in the case of derailment or collisions.

The news comes amid a spate of fiery derailments on both sides of the border that have proven the latest tank car design remains inadequate. Talks between Canada and the United States on harmonized tank car safety are ongoing, and it was not clear March 12 whether Canada's timetable for retooling or retiring North America's 147,000 older cars used for shipping flammable liquids can be met unilaterally.

"You can't just stop the cars in Sarnia, (Ontario), or wherever and switch cars" at the Canada-U.S. border, said Larry Miller, the Conservative chairman of the Canadian Commons' Transport Committee. Transport Canada noted on its website that "a harmonized standard is essential" while laying out the new Canadian safety timetable. In the past month alone, four trains carrying crude oil have derailed in Canada and the U.S., sparking major fires, polluting waterways and forcing some evacuations.

Japanese shipyards work to gain more LNG tanker orders

http://www.bloomberg.com/news/articles/2015-03-09/cheap-oil-doesn-t-deter-japan-shipbuilders-from-betting-on-lng

(Bloomberg; March 9) - At a Japanese shipyard, Mitsubishi Heavy Industries engineers envision new fuel-efficient engines for LNG carriers while others design tanks with greater capacity. Years after South Korea became the world's largest shipbuilder, Japan stands ready to claw back some of the industry it once dominated. LNG is the catalyst. With several projects around the globe set to begin shipping gas in the next few years and Japan already the largest importer, Japan's shipbuilders are anticipating a windfall.

And while low oil prices are threatening the viability of some LNG projects, many remain convinced the industry's growing pains are mere road bumps in a longer game and that Japan's advances in ship technology provide an edge. "The wind is in the sails of Japan's shipbuilders," said Nobutaka Nambu, CEO at World Ships Future, a consultant for the shipbuilding and shipping industries in Tokyo. "They are now placed to take a step forward. They are now in a position to make a dent in the Koreans' oligopoly."

The specially built ships typically cost as much as $200 million apiece and the largest can measure about 1,130 feet long. Japan entered the LNG tanker market in 1981, 12 years after it first imported the cleaner energy from Alaska. But South Korean shipyards ended Japan's reign in 2000. A total of 50 to 60 LNG ships annually are forecast to be delivered globally in 2017 and 2018, according to an estimate by analyst Masanori Wakae at Mizuho Securities. Japan is looking to grab a larger share of those orders.