Oil and Gas News Briefs
Compiled by Larry Persily
May 11, 2015

Second vote by First Nation goes against LNG project deal

(Globe and Mail; May 8) - In the second stage of three votes, members of a B.C. First Nation band have again unanimously rejected a $1 billion offer for their support of a liquefied natural gas project in their region. More than 255 eligible Lax Kw'alaams voters at a meeting May 7 in Prince Rupert stood up to show their opposition to the deal, two sources close to the aboriginal group said. The LNG export plant would be constructed on an island in front of Prince Rupert.

In the first vote in Lax Kw'alaams on May 5, more than 180 eligible voters unanimously stood up to signal their opposition to the Pacific NorthWest LNG joint venture led by Malaysia's state-owned Petronas. Lax Kw'alaams Mayor Garry Reece and 12 elected councillors will make the final decision on behalf of the 3,600-member band, after voting wraps up May 12 in Vancouver. In addition to $1 billion from the project spread over 40 years, the First Nation would receive 5,400 acres of provincial land, valued at $108 million, in the Prince Rupert harbor area and other property near Lax Kw'alaams.

Aboriginal leaders and environmentalists fear the project would threaten salmon habitat in Flora Bank, next to the proposed export terminal. While the First Nation makes its decision, Pacific NorthWest LNG waits on its federal environmental review.

First Nation members put salmon habitat, culture ahead of LNG deal

(Globe and Mail; May 8) - For the Lax Kw'alaams in British Columbia, the decision looks to be simple — the environmental risks of a massive liquefied natural gas project far outweigh the financial rewards. Members of the First Nation band in the second of three community votes turned down a $1 billion pay-out in exchange for their support, and aboriginal leaders and environmentalists say the proposed LNG terminal on Lelu Island, near Prince Rupert, would threaten salmon habitat in the nearby reef-like Flora Bank.

Critics say the island in the Skeena River estuary is a terrible place for the terminal because of the threat to juvenile salmon habitat and the band's way of life. "Lax Kw'alaams would no longer be able to harvest traditional plants and medicines on Lelu Island," according to a bulletin issued by the band. There are also worries that Native history and signs of traditional culture will be lost, notably from damage to culturally significant trees, such as ones partly stripped of bark by aboriginals over the decades.

“Up to 431 culturally modified trees (CMTs) would be destroyed during the construction of the facility, although the proponent will attempt to preserve parts of the CMTs with modified features on them,” the bulletin said. The band’s elected leaders will make a decision after a third meeting of members May 12 in Vancouver. Project proponents, led by Malaysia’s oil and gas company Petronas, have offered the Lax Kw’alaams $1 billion over 40 years to resolve their opposition to the Pacific NorthWest LNG project.

Province continues to reach revenue-sharing deals with First Nations

(Vancouver Sun; May 10) - The B.C. government said May 10 it has revenue-sharing agreements in place with 28 First Nations for pipelines to supply proposed liquefied natural gas export projects on the West Coast. The province had previously announced eight agreements with First Nations on four separate pipeline proposals in northwest B.C. Details of the 20 other agreements are being kept under wraps — at the request of the First Nations — because the Native groups are in their own negotiations with the companies, said Aboriginal Relations and Reconciliation Minister John Rustad.

Rustad said the province also has agreements in place on revenue-sharing with First Nations in northeast B.C. where natural gas is extracted. The province is in negotiations with an additional seven First Nations, Rustad said, adding that if they reach agreements the province will have unanimous support from First Nations for its major push to establish an LNG export industry. It brings into stark relief the opposition by the Lax Kw’alaams First Nation to the financial benefits package offered by the Petronas-led Pacific NorthWest LNG project proposed for near Prince Rupert, B.C.

“Our goal through all of this has been to work with nations and try to find out how we can address concerns,” Rustad said. “Liquefied natural gas provides a once in a lifetime opportunity for all British Columbia and especially for First Nations.” While Canada’s highest courts have said that First Nations do not have a veto on resource development projects, First Nations’ support for LNG is considered critical in moving plans forward. First Nations have taken to the courts when they oppose projects.

Regulators approve LNG exports from small Vancouver-area plant

(Press release; May 8) – Canada’s National Energy Board has approved the application of WesPac Midstream - Vancouver for a 25-year natural gas export license with a maximum quantity of 4.1 trillion cubic feet (averaging 165 billion cubic feet a year) from a small liquefied natural gas plant near Vancouver that is under expansion. The NEB determined the volume of proposed gas exports is surplus to Canada’s needs.

The regulatory agency approved exports from the FortisBC liquefaction plant in Delta, B.C., just south of downtown Vancouver, as well as highway border crossings between

British Columbia and Washington state. The small FortisBC LNG plant, which has operated since 1971, is undergoing a $400 million expansion to add liquefaction capacity and an additional storage tank. Work started last fall and is scheduled for completion late 2016.

The Delta facility, called a peak-shaving plant, has helped meet the area's needs during winter demand peaks. FortisBC looks to serve growing demand for LNG as a transportation fuel, while WesPac is looking at regional deliveries and overseas exports.

Northwest Territories not giving up on Mackenzie Valley gas

(The Canadian Press; May 7) - The minister in charge of resource development in the Northwest Territories said he hopes the federal permit to build the long-dormant Mackenzie Valley gas pipeline will be extended. "We don't want to see all the work that's gone into it just disappear and have to be started all over again at some other point in time," David Ramsay said in an interview from Houston, where he received an update on the 742-mile gas pipeline project from energy heavyweight ExxonMobil.

ExxonMobil is the majority owner of Imperial Oil, the Calgary-based company leading the effort. When the project got its federal certificate in 2011, backers were given until the end of 2015 to start construction. But the proposed line, which would run from gas fields near the coast of the Beaufort Sea to connect with the pipeline grid at the Alberta boundary, has been put on hold indefinitely. The market has changed significantly since proponents first filed for regulatory approval more than a decade ago, with shale formations providing a closer, cheaper and more abundant source of natural gas.

In April, Imperial sent a letter to the National Energy Board requesting a meeting "to seek guidance on the process required for the board to consider an extension to the date for commencement of construction." Many in the Northwest Territories had been looking forward to the economic boost that would come from developing its gas resources. The best hope now for Mackenzie gas would be to pipe it to a liquefied natural gas export terminal on the British Columbia coast, Ramsay said.

Fitch says risk of oversupplied LNG market creates uncertainty

(Fitch Ratings press release; May 7) - The possibilities of an oversupplied LNG market and more competitive prices in Asia have created an uncertain outlook for U.S. export projects, according to a May 7 report from Fitch Ratings. Fitch believes the global LNG market may become oversupplied in the next five years as new projects start up. Global LNG capacity (existing and under construction) is anticipated to reach 420 million metric tons a year by 2020, about 80 percent more than 2013 demand.

In an LNG-oversupply scenario, Fitch anticipates that the prospects for new U.S. LNG export capacity would weaken as other established LNG centers (such as Qatar and Australia) could sell gas at their operating costs. The fixed take-or-pay contracts sought by U.S. export plants — requiring customers to pay for plant capacity even if they don't want the gas — and the distance from LNG demand centers could become economic handicaps for U.S. projects.

Reduced momentum toward final investment decisions, including BG Group's delay of a decision on its proposed Lake Charles, La., project until 2016, suggests that offtakers are re-evaluating and searching for improved visibility on longer-term economics. Fitch believes that additions to new U.S. LNG capacity will slow considerably over the medium term. Fitch also expects that Asian buyers will seek more competitive LNG prices, with an oversupplied market providing importers with more pricing leverage.

Environmental groups sue FERC to block LNG project in Maryland

(Bloomberg; May 7) - Dominion Resources' Cove Point liquefied natural gas terminal promotes pollution from fracking, Earthjustice and other environmental groups alleged in their court challenge to Federal Energy Regulatory Commission approval of the export project. FERC used an illegally narrow environmental assessment that didn't factor in how the project's demand for gas would encourage fracking in the Appalachian region, increasing air and water pollution and spurring climate change, the groups said May 7.

"Exporting nearly 1 billion cubic feet of LNG per day means more gas drilling, which wreaks havoc on both the climate and the communities scarred by wells and pipelines," Jocelyn D'Ambrosio, an attorney for Earthjustice, said in a statement. FERC also failed to consider the effect of foreign LNG carriers dumping wastewater into Chesapeake Bay, where the terminal is under construction, according to the groups.

The Marcellus Shale inland of Chesapeake Bay is the most productive U.S. natural gas field, according to the Energy Department. Dominion is seeking to take advantage of a boom in U.S. gas production, driven by advances in drilling techniques including hydraulic fracturing. The terminal is located in Lusby, Md., just south of Baltimore. FERC approved the project last September and rejected the groups' request for a rehearing earlier this week, clearing the way for the court challenge, the groups said.

BG Group sees 6% annual growth in LNG demand through 2020

(Bloomberg; May 8) - Global demand for liquefied natural gas will grow as much as 6 percent a year through the end of the next decade, said Helge Lund, chief executive officer of BG, the U.K. company that agreed last month to an acquisition by Shell that would create the world's top LNG producer. Gas is becoming a favored fuel as it's cleaner to burn than coal and oil. China, the world's biggest energy user and carbon emitter, has set a target to more than double its use of gas by 2020 from 2013 levels.

The question is whether LNG producers, already anticipating the rush to gas and seeking markets for excess U.S. shale gas, will unleash too much new LNG capacity. A surge in gas output in the U.S. and Canada means companies are lining up to build export plants, some looking to convert import terminals to get gas to flow the other way. In addition, Eni, Anadarko and BG are among the companies that have made big gas finds in Mozambique and Tanzania and will need LNG projects to exploit the resources.

Sanford C. Bernstein & Co. says 90 million metric tons of new LNG capacity will need to be approved over the next five years to meet Asia's long-term demand. The capacity vying for that prize is as much as three times higher, Neil Beveridge, Bernstein's Hong Kong-based analyst, said May 8. "It will be very competitive, and only the lowest-cost projects will … move forward." The industry won't overbuild without contracts from buyers as LNG plants are too costly, Chevron CEO John Watson said last month.

Japanese utility places first LNG order for new power plant

(Reuters; May 7) - Japanese utility Hokuriku Electric Power said May 7 it had signed its first agreement to buy liquefied natural gas as it prepares to start using the fuel for electricity generation. While a small contract, at 380,000 metric tons a year from Malaysia (averaging about 50 million cubic feet of gas per day), it adds to Japan's growing demand since the Fukushima nuclear disaster in 2011 led to the shutdown of the nation's reactors. Japan's LNG imports hit a record for a fifth year in a row last year.

Hokuriku Electric signed an agreement with Malaysia LNG to start receiving the gas for 10 years beginning in April 2018, it said in a statement. The fuel will go to Hokuriku Electric's first gas-fired plant, a 425-megawatt unit being built at its Toyama Shinko station west of Tokyo, which is scheduled to start operation in 2018.

Mitsui says it has no plans to sell off its stake in Mozambique gas

(Reuters; May 8) - Mitsui said May 8 it has no plans to sell a stake in a proposed liquefied natural gas project off the coast of Mozambique, and that a final investment decision is still expected by the end of this year. The comments are in line with a statement from project partner Anadarko Petroleum, which said earlier this week it is not in talks to sell its multibillion-dollar stake in Mozambique's gas reserves and that it is working toward a final investment decision on the LNG project.

"We aim the FID to be made within this calendar year and production is expected to begin in 2019," Keigo Matsubara, Mitsui's chief financial officer, said at an earnings briefing. Mitsui has a 20 percent stake in the LNG project off the coast of Mozambique, which is working to become the first East African nation to export LNG. "We have no plan to sell a part of our stake at the moment," Matsubara said.

Tanzania plans to start land purchases for proposed LNG plant

(Reuters; May 9) - Tanzania plans to spend $6 million in the next fiscal year to buy land for a proposed liquefied natural gas export terminal, raising hopes of speeding up progress of the long-delayed project. The two-train LNG terminal, which the government says could cost up to $30 billion, has run into delays mainly due to complex land-acquisition procedures and uncertain legal and regulatory framework. The oil and gas companies in the project say an investment decision could come in 2016, at the earliest.

Along with neighboring Mozambique, Tanzania is in a race with Russia, Australia, the United States and Canada to build LNG export plants, aiming to exploit a gap in global supply that is expected to open up by 2020. "The government has set aside 12 billion shillings ($6 million) in 2015/16 for assessment and compensation of 450 people ... where the (LNG) terminal will be built," the government's planning commission said in a report seen by Reuters. The 2015/2016 fiscal year starts July 1, 2015.

Tanzania is estimated to have more than 53 trillion cubic feet of gas reserves off its southern coast, but its energy sector has long been dogged by allegations of graft and other problems. Parliament last year accused senior government officials of fraudulently authorizing the transfer of at least $122 million of public funds to an energy company. Three cabinet officials, including the energy minister, lost their jobs. Analysts said the accusations — plus delays in passing gas legislation — are holding back development.

Russia signs second major gas deal with China

(Interfax Global Energy; May 8) - Gazprom's bid to shift its sales focus eastward continues with the signing of a second major gas export deal with China. The agreement was one of host of infrastructure contracts signed May 8, the first day of Chinese President Xi Jinping's visit to Moscow. The deal would ship up to 1 trillion cubic feet of gas per year to China from existing fields in Western Siberia via the so-called Western Route pipeline.

Gazprom and China National Petroleum Corp. last May signed a similar deal that would send up to 1.3 tcf of gas per year from Russia to China via a new pipeline called the Eastern Route. Abhishek Kumar, energy and modelling analyst at Interfax's Global Gas Analytics, said the deals "once again highlighted Russia's preference to diversify its gas-supply portfolio." Gazprom has been looking to China and the global liquefied natural gas export market to lessen its near-total dependence on gas sales to Europe.

Terms of the latest Russia-China were not released, nor was a construction schedule. Analysts have recently speculated that Russia might be more interested in developing the Western Route to China first because the Eastern Rout would cost more money and require more miles of new pipeline.

German company unveils LNG rail tanker car

(Railway Age; May 6) - Hamburg, Germany-based VTG Aktiengesellschaft, a European railcar lessor and rail logistics company, has debuted what it says is the first rail tank car for transporting liquefied natural gas in Europe. The new tank car, designed jointly by VTG and Czech Republic-based Chart Ferox, a division of global natural gas distribution systems supplier Chart Industries, is being marketed under the brand name “LNG by Rail.” The rail tank car debuted May 5 at a trade show in Munich.

The tank car is fitted with special insulation to keep the LNG in its supercold liquid state (minus 259 degrees Fahrenheit) for up to six weeks. The design includes a vacuum between the inner tank and outer tank, as well as a special suspension. Germany’s equivalent of the U.S. Federal Railroad Administration issued operational authorization for the car in mid-April of this year. VTG on May 6 signed the first leasing contract for the car with Norway-based Skangass, covering up to 20 tank cars.

VTG said it sees “enormous potential in Europe” for LNG deliveries to industries, maritime customers and regions without connections to gas pipelines. The tanker car’s empty weight is almost 100 tons, measuring more than 80 feet in length. U.S. authorities have not approved any rail tank cars to move LNG, and no such cars are available in the United States. However, federal regulators are considering several applications for railroads to carry smaller LNG tanks on flatbed cars.

Oil drilling slowdown may be nearing bottom

(Bloomberg; May 9) - The oil boom isn’t dead after all. For the first time in five months, a rig in the Williston Basin, in North Dakota’s Bakken shale formation, sputtered back to life and started drilling for oil. And then one returned to the Permian Basin, the nation’s biggest oil play, field services contractor Baker Hughes said May 8. Explorers including EOG Resources and Pioneer Natural Resources say they’re preparing to bounce back from the deepest and most prolonged slowdown in U.S. oil drilling on record.

The country has lost more than half its rigs since October as crude prices fell 49 percent during the last half of 2014. Futures rallied above $60 a barrel this week, and a sudden return to oil fields would threaten to end the fragile price recovery. “You’re inviting a lot of pent-up supply to come back into the market — not only do you have people drilling again, but you have this fracklog of over 4,000 uncompleted wells," said Harry Tchilinguirian, the head of commodity markets strategy at BNP Paribas in London.

While rigs are returning to some fields, the total U.S. count has continued to drop. The slowdown won't reach a real bottom for about another month, said James Williams, president of consultant WTRG Economics. "This is an indicator we're nearing the end of the bust. … What we're going to see now are mixed signals from the different basins as we near the bottom."

Some oil companies believe worst is past, time to resume drilling

(Bloomberg; May 6) - Oil producers battered by the steepest market collapse in a generation are signaling for the first time that they believe the worst is behind them. Carrizo Oil & Gas, Devon Energy and Chesapeake Energy all lifted their full-year production outlooks this week. Shale explorer EOG Resources said May 5 it plans to increase drilling as soon as crude stabilizes around $65 a barrel, while Pioneer Natural Resources has said it is preparing to deploy more rigs as soon as July.

The actions come amid a seven-week rally that's boosted oil prices by 41 percent. They follow 10 months of dramatic cost-cutting and revamped drilling strategies that have created a new reality for some within the industry. As prices rapidly fell, a $60 price for oil looked like a death sentence. Now, with the industry's spending cutbacks, it appears positively rosy. "We didn't think we'd be quite this good," Stephen Chazen, Occidental Petroleum's chief executive officer, said in an analyst call May 6.

The danger, of course, is that a production surge by newly optimistic U.S. oil explorers will flood the market with excess crude and force prices back down to the $43 level seen in March, or worse. Oil historian and economist Daniel Yergin has said he believes the recovery will take a W-shape, with peaks and valleys as drillers rush out product in times of higher prices, then pull back when they drop. "That means oil prices are going to be a lot more volatile," said Yergin, the vice chairman of energy information firm IHS.