Oil and Gas News Briefs
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IEA forecasts global gas demand will grow 50% by 2040

(Bloomberg; Nov. 9) - China and the Middle East, spurred by lower prices and ample supply, will drive global natural gas demand growth in the next 25 years as consumption in Europe fails to recover to peak levels seen in 2010, according to the International Energy Agency. Both regions will become larger users than Europe by 2035, the Paris-based IEA said in its World Energy Outlook 2015. Global demand for gas will rise 1.4 percent a year to 182 trillion cubic feet in 2040, up 50 percent from 120 tcf in 2014.

“With gas prices already low in North America, and dragged lower elsewhere by ample supply and contractual linkages to oil prices, there is plenty of competitively priced gas seeking buyers in the early part of the Outlook,” the IEA said. Gas will account for 24 percent of power generation by 2040, up from 21 percent in 2013, as the share of dirtier coal falls to 30 percent from 41 percent.

Lower prices “seem set to boost gas demand in major importing regions, reinforcing our view that natural gas is a fuel well placed to expand its role in the global energy mix,” the IEA said. China’s consumption is expected to rise 4.7 percent annually, the fastest growth among all regions, to 20.9 tcf a year by 2040, the report shows. The Middle East will expand gas use by 2.1 percent a year to 26 tcf. In the United States, natural gas will displace coal as the largest source of power generation by the mid-2020s, the IEA said.

Korea Gas sells off more of its excess LNG supply

(Reuters; Nov. 11) - Korea Gas has agreed with the trading arm of France's EDF to funnel excess liquefied natural gas supply into Europe and beyond, the French company said Nov. 11. Caught by sinking domestic demand, KOGAS and its Asian peers are maneuvering to offload billion-dollar supply commitments signed when demand was peaking early this decade. Much of the new LNG comes from the United States and Australia.

KOGAS will hand over up to 4 million metric tons of LNG to the French trading company, known as EDFT, over eight years starting in 2017, representing a significant share of the company's overall LNG portfolio. Commercial details of the deal were unavailable. "The deal enables KOGAS participation in the European LNG market through European market access provided by EDF Trading," EDFT said.

EDF's new LNG import terminal at Dunkirk is scheduled to come online later this year, providing one access route for the gas into Europe. Timing of the deal coincides with the start of KOGAS' hefty supply commitments from the U.S., also beginning in 2017, which the firm has been gradually passing on to other companies. In 2011, KOGAS struck a 20-year deal to take 3.5 million tons per year of LNG from Cheniere Energy's plant in Louisiana. Last year, KOGAS sold 20 percent of that contract to France’s Total.

LNG market shake-up forces sellers and buyers to adjust

(Forbes; Nov. 8) - What a difference just over a year can make. From a seller’s market with high prices and somewhat limited supply, the liquefied natural gas market in Asia has buyers that once scrambled to lock in long-term supply deals now unloading the very same cargoes they sought so hard to obtain. The latest development came last week when one of China’s state-owed oil majors announced a tender to sell a cargo from BG’s Queensland Curtis LNG, one of the Australia projects in which it has a stake.

The China National Offshore Oil Corp. decision to sell its LNG cargo on the spot market signifies what’s unfolding in the market, particularly in the Asia-Pacific region that accounts for two-thirds of global LNG demand. LNG markets are awash in supply while even more gas will enter the market soon, mostly from Australia and the United States. CNOOC’s tender of LNG that it had purchased under long-term contract is only the start of the market shake-up.

Expect the entire LNG market infrastructure to be revolutionized before the end of the decade. With a market awash in LNG supply, buyers will seek to renegotiate long-term supply contracts for more favorable terms, even incurring penalties for not procuring cargoes under their contracts. Buyers will opt instead for the flexibility of the LNG spot market. All of this is good news for buyers left holding the bag during the exorbitantly high LNG prices after the 2011 Fukushima nuclear disaster.

First LNG tanker headed to Cheniere export plant in Louisiana

(Reuters; Nov. 9) - Cheniere Energy's landmark Sabine Pass liquefied natural gas export plant in Louisiana will receive its first tanker for loading on Jan. 12, according to ship tracking data and a source with knowledge of the plant's operations. The Energy Atlantic LNG tanker, which was last seen on Thomson Reuters ship tracking data Nov. 9 steaming west across the Indian Ocean, is the first in a string of test cargoes that will be loaded at Sabine Pass before commercial operations begin later in the year.

The expected arrival of the tanker was confirmed by a source and by IHS Waterborne consultants. It marks a milestone for the long-awaited export plant, the first of its kind to be built in the U.S. since Phillips Petroleum and Marathon Oil opened a small plant in 1969 in Nikiski, AK. It is unclear when the Energy Atlantic will leave Sabine or where it will go. One source said testing could take four to six months before the first cargoes begin under a long-term contract between Cheniere and BG Group.

The first shipment represents a turnaround for Cheniere, which in 2008 built an import terminal at the same site that was quickly rendered obsolete by the rise in U.S. shale gas production. Now, however, other headwinds exist for exports, including a global supply glut that has pushed prices way below year-ago levels. The Cheniere plant is one of five LNG export facilities under construction on the U.S. Gulf and East coasts.

Trans-Pacific free-trade deal would make LNG exports to Japan easier

(EnergyWire; Nov. 10) - Last week's publication of the text underlying the Trans-Pacific Partnership deal allows stakeholders in the U.S. liquefied natural gas industry to celebrate a small victory: It includes broad access to the commodity for signatory nations, according to legal experts. The agreement, negotiated behind closed doors over more than a decade and finally made public Nov. 5, includes "national treatment for the trade of natural gas," according to an Energy Department spokesman.

The translation? If the United States and 11 other countries that have signed onto the pact ultimately ratify the deal, those 11 countries will be able to purchase U.S. LNG using free-trade partner status, taking advantage of a guaranteed export approval process through the Department of Energy and avoiding the possibility of permit speed bumps through the more challenging non-free-trade-agreement process.

For would-be exporters of U.S. LNG, seeing Japan enter the group of free-trade buyers would mean easier access to the world's largest market. The other Trans-Pacific Partnership players are generally seen as not significant for the U.S. LNG industry, either because they are exporting countries (Australia), already covered by free-trade agreements with the U.S. (Canada, Mexico, Singapore) or are not major players for LNG. The trade deal faces a tough vote in Congress, expected next spring.

Pakistan signs 15-year LNG deal with Qatar

(Reuters; Nov. 9) - Pakistan has finalized a 15-year, $16 billion liquefied natural gas deal with supplier Qatar and shipments are expected to begin next month, Pakistani Energy Minister Shahid Khaqan Abbasi said Nov. 9. The amount is 1.5 million metric tons per year (less than 75 billion cubic feet of natural gas per year), the minister told Reuters on the sidelines of an Asian ministerial energy roundtable in the Qatari capital Doha. The two sides have agreed on a price, he said, without elaborating. "We have finalized the deal. The first shipment is expected in December."

Up until this year, Pakistan was self-sufficient with domestic gas production, averaging about 4 billion cubic feet per day. But increasing demand pushed the country in March to start LNG imports, bringing in the fuel through a floating receiving, storage and regasification vessel. The LNG came from Qatar. Since then, Pakistan has been working to boost its ability to accept additional LNG imports.

First Nations disagree over effort to block Petronas LNG project

(Globe and Mail; Canada; Nov. 9) - A battle is brewing between vocal opponents of a liquefied natural gas project and five First Nations that are eager to keep a federal environmental review alive. A diverse group, led by an array of aboriginals and environmental organizations, says it has attracted widespread support for its campaign urging Canadian Prime Minister Justin Trudeau to block Pacific NorthWest LNG's proposed terminal on Lelu Island near Prince Rupert, B.C

The group, led by Lax Kw'alaams leader Donnie Wesley, has asked Trudeau to protect salmon habitat in Flora Bank. The Allied Tribes of Lax Kw'alaams say their territory encompasses the critical habitat. But Harold Leighton, chief of the Metlakatla First Nation, said five aboriginal groups in northern B.C. are counting on the government to let the Canadian Environmental Assessment Agency finish its lengthy review of the LNG project's site plans. The regulator is expected to issue its ruling by the end of February.

"We're looking for a positive end to this somehow," Leighton said in an interview. "We've put in a lot of hard work with Pacific NorthWest LNG, the province and Canada." He said the Tsimshian Environmental Stewardship Authority, formed in July by the Metlakatla and four other Native groups, believes there could be an acceptable way to build the project without harming ecologically sensitive Flora Bank's eelgrass, which nurtures young salmon. The project is led by Malaysia's state-owned Petronas.

U.S. sets record with 3.26 bcf a day gas exports to Mexico

(Bloomberg; Nov. 10) - Think the slide in U.S. natural gas prices has been bad? It would be even worse if Mexico wasn't picking up at least some of the slack. Gas flowing south over the border jumped 60 percent to average a record 3.26 billion cubic feet a day in August from the end of last year. Mexican power generators and industrial users taking advantage of cheap U.S. shale gas will more than double those pipeline flows in the next five years, said Citigroup and Genscape. That will help support U.S. gas prices.

"That's the sleeper story," said Richard Ennis, head of natural resources at ING Capital. "All these new pipelines are going to triple their daily use. It's pretty dramatic." Rick Margolin, senior analyst with Genscape, said, "It is certainly plausible that the absence of those export volumes" would cause regional prices to fall. Mexico is giving Texas producers an outlet, in sharp contrast to the Marcellus and Utica shales in Ohio and Pennsylvania where stranded gas caused prices to crash last month to under 80 cents.

Overall, cross-border pipeline capacity to Mexico will more than double by the end of 2019 from mid-2014, Citigroup estimates. As a result of the increase in U.S. supplies, Mexico is meeting less of its gas needs with domestic production or LNG imports. The country's output met 60 percent of consumption last year, down from 80 percent in 2010, according to a Barclays report released last month.

Drilling efficiency keeps U.S. gas production high, prices low

(Bloomberg; Nov. 11) - U.S. natural gas drillers facing the lowest seasonal prices in two decades are trying to cut back supplies. The only problem: They're too good at their jobs. Rigs are freeing record volumes of gas from new wells in six out of the seven largest U.S. shale deposits, U.S. Energy Information Administration data show. That'll keep supplies expanding to all-time highs this year and next even as drillers sideline rigs, the agency said in a forecast Nov. 10.

The persistent shale gas supply from the Marcellus and Utica in the eastern U.S. to the Eagle Ford in Texas dragged gas prices last month below $2 per million Btu for the first time in three years. Stockpiles hit an all-time high in October, threatening to keep the market oversupplied through what could be a mild winter. "We are only producing the best wells in this low-cost environment, so that will increase your (production) average," said Teri Viswanath, director of commodities strategy at BNP Paribas in New York.

"Increases in drilling efficiency will continue to support growing natural gas production in the forecast despite low natural gas prices and declining rig activity," the EIA said in its Short-Term Energy Outlook. While total gas production from the top seven U.S. shale plays is forecast to drop in December, the average of rigs drilling new wells in the Marcellus will yield a record 8.741 million cubic feet a day per well, keeping production declines modest, according to an EIA report released Nov. 9.

Success in Utica Shale could add to U.S. gas glut

(Pittsburgh Post-Gazette; Nov. 9) – In recent weeks, the buzz around the Marcellus Shale has been about its deeper neighbor, the Utica, where a handful of companies have drilled record-setting wells for record-high costs. That has been making some people nervous — not because the dry portion of the Utica underlying eastern Ohio, southwestern Pennsylvania and the West Virginia Panhandle might be too expensive to drill. Instead, it's because, as some predict, it might soon be the least expensive.

"If there's a shoe to drop that makes things worse, it's the dry Utica working," said Jim Crockard, CEO of the newly formed Marcellus startup Lola Energy Operating. Crockard founded Lola this summer, looking to capitalize on good prospects left behind by operators that have had to cut back or vanish because of stubbornly low commodity prices. Each new shale play has seemed to outshine the last, with bigger wells and better economics. Now, here comes the Utica, another giant gas field.

"If it does work, if you start flooding the market with economic Utica wells," Crockard said. In July, Erika Coombs, senior energy analyst for Colorado-based BTU Analytics, predicted the success of the dry Utica would be the death of the Haynesville Shale in Louisiana, which has been hanging by a thread since the Marcellus stole its thunder. "The last thing the market needs is another gas play as prolific as the Marcellus Shale."

Oil likely to stay below $80 a barrel until 2020, IEA forecasts

(Financial Times; London; Nov. 10) - The oil market will remain oversupplied until the end of the decade as the push for cleaner fuels and greater efficiency offsets the effect of lower prices, the world's leading energy forecaster said. In its annual outlook, the International Energy Agency said oil demand would rise by less than 1 percent a year between now and 2020, slower than necessary to quickly mop up an oil glut that has driven prices to multiyear lows.

The slowdown in oil demand growth follows a near 15-year surge in consumption, driven by the rapid industrialization of China and other emerging market economies. But Beijing is now moving away from dirtier fuels and to less energy-intensive growth as it heads toward a more consumer-led economy. "We are approaching the end of the single largest demand growth story in energy history," Fatih Birol, executive director of the IEA, told the Financial Times.

"Demand is not as strong as we have seen in the past as a result of efficiency [and climate] policies [globally]," he added, saying the growth in renewables will further restrict demand for oil. The IEA does not expect oil to reach $80 a barrel until 2020 under its "central scenario," as excess supplies are slowly soaked up. After 2020, oil demand growth is expected to grind almost to a halt, increasing just 5 percent over the next 20 years, the IEA said. In its "low oil price" scenario, the agency said prices would stay close to $50 a barrel until the end of the decade.

Dissension builds over OPEC policy not to cut production

(Wall Street Journal; Nov. 10) - OPEC's unwillingness to limit its oil output could help usher in a sustained period of low prices and more pain for its members' budgets, the International Energy Agency said Nov. 10. The comments by the Paris-based monitor of energy trends echoed criticism from within and outside the group over a Saudi-led strategy of keeping the taps open to put pressure on higher-cost rivals such as the U.S.

Members of the Organization of the Petroleum Exporting Countries including Venezuela, Iran and Algeria are being badly pinched by low oil prices and have agitated for production cutbacks to push them back up. Oil producers that aren't members of the group are complaining as well. Omani oil minister Mohammed Bin Hamad Al Rumhy called current oil production levels "irresponsible" and said Nov. 9 that the group had contributed to low prices.

"This is a commodity that if you have 1 million barrels a day extra in the market, you just destroy the market," he said. "We are hurting, we are feeling the pain and we're taking it like a God-driven crisis. Sorry, I don't buy this. … we created it ourselves." The debate comes as OPEC readies for a potentially contentious meeting Dec. 4 in Vienna. Saudi

Arabia, the group's leader, has signaled it won't allow a change in strategy, arguing production cuts can't change the market like they did before the surge in U.S. output.

U.S. shale oil production is forecast to slip eighth month in a row

(Reuters; Nov. 9) - U.S. shale oil production is expected to fall for an eighth consecutive month in December, according to a forecast Nov. 9 from the U.S. Energy Information Administration. Total output is set to decline 118,000 barrels per day in December, the biggest monthly decline on record, to 4.95 million barrels, the lowest since September 2014, according to EIA data going back to 2007.

Oil production from the Eagle Ford play in South Texas was expected to fall 78,000 barrels to 1.28 million. Bakken oil output in North Dakota was expected to slide 27,000 barrels per day to 1.11 million. Oil production from the Permian Basin of West Texas, which continues to buck the trend, was projected to rise 11,000 to 2.02 million barrels.

U.S. natural gas production, meanwhile, was expected to fall for a sixth month in a row. Total output was set to decline almost 400 million cubic feet per day, the biggest monthly decline since March 2013, to 44.3 billion cubic feet per day in December, the lowest level since February, according to the EIA. The biggest decline was expected to be in the Marcellus region in Pennsylvania and West Virginia, down 200 million cubic feet a day to a forecast 15.7 bcf in December.

Analysts say TransCanada has options to pursue Keystone line

(Financial Post; Canada; Nov. 8) - TransCanada has several options after President Obama rejected its proposal to build the Keystone XL pipeline, and investors shouldn't expect a write-down of the project's costs just yet. The company appears to have two other routes it can take. One is to pursue legal action under the North American Free Trade Agreement against the U.S. government in an effort to recoup some of the $2.8 billion in project costs to date. Some of the money has been spent on steel, which could be reused elsewhere, but a lot has gone to regulatory and environmental submissions.

Another option would be to wait until a new U.S. president takes office in January 2017 and reapply for a permit. All of the Republican candidates support Keystone XL, but all of the Democrats oppose it. Although some combination of those options could also be pursued, TD Securities analyst Linda Ezergailis believes the company could sue the U.S. government if the project eventually loses commercial support and is halted.

If a write-down happens, Ezergailis said repurposing components for other projects or reselling them could recoup up to half of the project costs. The odds of the project eventually getting built in some form are 50 percent, she said, noting the uncertainty of energy fundamentals and political dynamics should persist for the next decade or so.

Paul Lechem at CIBC World Markets thinks TransCanada will pursue both a legal case and another application when a new administration enters the White House.

Crowley wins OK to bring Canadian LNG to Alaska, Pacific Northwest

(American Journal of Transportation; Nov. 10) - Crowley Maritime's Petroleum Distribution Group has been granted approval by the U.S. Department of Energy and Canada's National Energy Board to import Canadian-sourced liquefied natural gas, with distribution targeting the Pacific Northwest and Alaska. The renewable, two-year import and export licenses allow Crowley to import up to 2.12 billion cubic feet of gas as LNG via truck in 10,700-gallon tanks or in bulk via ships, through October 2017.

"This approval is an important step in expanding Crowley's capability to provide LNG for the Pacific Northwest and Alaska markets, building on the company's existing service offerings in the region," the company said in a prepared statement. The company is working to secure long-term, 25-year licenses from U.S. and Canadian regulators. Meanwhile, Crowley is monitoring the development of Alaska LNG supply projects, which would be a closer source to Alaska Interior markets.

Crowley, a Florida-based shipping, marine services and fuel distribution company, has worked in Alaska more than 60 years, in addition to its history serving Puerto Rico, Central America, the U.S. West and Gulf Coasts, and providing marine services worldwide. Crowley started operations in 1892 in San Francisco. Crowley Alaska said it is looking to deliver LNG directly to customers' facilities, where it could be regasified into pipeline gas for power generation, and mining, marine and industrial applications.

TOTE delays conversion of Alaska ship to run on LNG by one year

(Tacoma (WA) News-Tribune; Nov. 8) - The sinking of a 790-foot containership Oct. 1 on a run from Florida to Puerto Rico will delay conversion of two Tacoma-based ships to natural gas propulsion. The lost ship, El Faro, had been scheduled to move from Florida to Tacoma at Thanksgiving to replace one of two TOTE Maritime Alaska ships that sail between Tacoma and Anchorage. That ship, the Midnight Sun, had been scheduled to head to Singapore for a four-month conversion of its propulsion system from oil to LNG.

John Parrott, Tote Maritime president, said that without a ship to replace the Midnight Sun, TOTE is delaying the conversion a year. El Faro, then called the Northern Lights, served the Alaska route until 2006, when it was transferred to Florida to serve TOTE Maritime Alaska's sister company TOTE Maritime Puerto Rico. Both companies are part of privately held Saltchuk Cos.

El Faro was due to move to a shipyard in late October for reconversion to the Alaska trade. In the trade between Florida and Puerto Rico, the ship was equipped to handle both trailers and shipping containers. On the Alaska route, TOTE ships handle only trailers and vehicles. On the Puerto Rico run, El Faro has already been replaced by a new ship, the Isla Bella, the first of two new natural gas-powered ships built for TOTE in San Diego. The second of those two ships will join the Puerto Rico fleet next summer, freeing up El Faro’s sister ship to move to Tacoma while the Midnight Sun is retrofitted.