Oil and Gas News Briefs
Compiled by Larry Persily
November 25, 2015

Mozambique may look to partners to help finance its stake in LNG

(Financial Times; London; Nov. 23) - For much of its 35-year life, Mozambique's state-owned oil company, Empresa Nacional de Hidrocarbonetos, was a little-known entity. Yet in recent years, ENH has had many of the world's top energy groups knocking on its doors because the waters off Mozambique hold some of the world's largest untapped gas reserves. Since 2010, Anadarko and Italy's Eni have made gas discoveries in the Rovuma Basin in the Indian Ocean that are estimated to exceed 160 trillion cubic feet.

These reserves have the potential to transform one of the world's poorest countries into a key global supplier of liquefied natural gas. As the state energy company, ENH has a stake of at least 10 percent in all of Mozambique's gas projects, and is the main vehicle through which foreign oil companies interact with the government. Omar Mitha, a former bank economist who became ENH chairman in August, acknowledges that ENH "is feeling the pressure" as an expectant nation waits for the riches to be unlocked.

"What is critical is that we need to speed up the pace to the market because the window of opportunity might shrink," Mitha said. Output by existing LNG-producing countries, particularly Australia, is expected to increase significantly — with the U.S. due to join this group of nations soon. Anadarko and Eni have both been expected to deliver final investment decisions for their Mozambique projects this year.

The challenge for cash-strapped ENH is how it raises $1.5 billion to $1.7 billion to cover its share of the projects. It has a 15 percent stake in the Anadarko consortium and a 10 percent share of the Eni project. Mitha said ENH is looking at the possibility of initially being "carried" by its partners to finance ENH's stake. This is likely to be more costly than bank financing but could ease the process of getting the projects started. ENH would look to traditional bank financing once the developments are under way.

First Nations go to court against B.C. gas production for LNG project

(CBC News; Nov. 23) - The Blueberry River First Nations have filed a petition in B.C. Supreme Court seeking to quash the province's landmark liquefied natural gas development agreement with a company controlled by Malaysian energy giant Petronas. The First Nations claim the government ignored their treaty rights in reaching a long-term royalty agreement with Progress Energy and four other producers to extract natural gas from an area of northeastern B.C. known as the North Montney.

The gas would be liquefied at a proposed export facility built near Prince Rupert by Pacific NorthWest LNG, which is also controlled by Petronas. "The infrastructure development required by the long-term royalty agreement and planned by Progress

Energy would cause serious harm to Blueberry Rivers First Nations territory and treaty rights," the petition said. "It would destroy, fragment, pollute and otherwise disturb thousands of acres of animal habitat."

Pacific NorthWest LNG has proposed a pipeline and terminal on Lelu Island just south of Prince Rupert to export Progress Energy's gas. According to the First Nations' petition, the company expects to drill 6,200 wells and build 14 gas processing plants to supply the LNG facility. The First Nations claim the company will build hundreds of miles of roads and pipelines in their territories. They say the province ignored treaty rights that guarantee access to clean water, hunting, trapping and fishing.

Qatar agrees to waive penalty for India's failure to take LNG cargoes

(Mint newspaper; India; Nov. 23) - In a significant development, Qatar has agreed to waive a $1 billion penalty on India for breaking a long-term liquefied natural gas contract, and has consented to change the pricing formula to reflect the slump in global energy rates. After months of intense negotiations, RasGas of Qatar has agreed not to press for the $1 billion penalty that Petronet LNG, India's biggest LNG importer, would have to pay for buying only 68 percent of the contracted 7.5 million metric tons this year.

Also, RasGas has in principle agreed to change the pricing formula based on a 60-month average of a basket of oil prices to a three-month average of Brent crude, a move that will lower India's cost of LNG to $7 to $8 per million Btu as compared to $12 to $13 currently. Petronet is taking only 68 percent of the gas it agreed to in contracts with RasGas a decade ago after a slump in global energy prices led to LNG being available in the spot market a roughly half that rate.

As per the new deal being negotiated, Petronet will take the gas it did not take this year during the remainder of the contract period. People familiar with the matter said Petronet has a take-or-pay contract with RasGas where if its purchases total less than 90 percent of contracted volumes, a penalty is triggered and it has to pay for all of the contracted volumes.

Lithuania wants to renegotiate lower LNG prices with Statoil

(Reuters; Nov. 24) - Lithuania is seeking to renegotiate its liquefied natural gas supply contract with Norway's Statoil due to falling demand, the head of energy group Lietuvos Energija said Nov. 24. "The government has asked us renegotiate the contract. ... One question is the total annual volumes, which could be smaller," Dalius Misiunas, chief executive of state-owned Lietuvos Energija, told Reuters, declining to elaborate.

Misiunas said he wanted to negotiate results by the end of this year, when Lithuania's long-term gas supply contract with Russian gas supplier Gazprom expires. Gazprom has said it will offer to sell some gas to the Baltic state at an auction planned for

December, and Misiunas said Lietuvos Energija was interested, but there few details available so far. "Norwegian gas (LNG) today is more expensive than Russian (pipeline) gas," Misiunas said.

Lietuvos Energija subsidiary Litgas signed a five-year deal in 2014 to import almost 20 billion cubic feet of natural gas as LNG from Norway via a floating import terminal in Klaipeda. Warm weather and increased used of biomass instead of gas for central heating has left Lithuania with surplus gas. Lithuania also has been negotiating to buy U.S. LNG exports as it looks to break Gazprom’s dominance as a gas supplier and play the market for lower prices.

Goldman Sachs expects oil to remain below $55 for next 12 months

(ClimateWire; Nov. 23) - Oil, coal and other commodities like natural gas, cotton, coffee, copper and nickel still haven't hit rock bottom despite oil prices sinking below $40 a barrel last week, Goldman Sachs Group analysts said in a recent note. Global commodity markets remain significantly oversupplied and there won't be enough demand to significantly drive up prices until late in 2016. Oil prices need to stay "lower for longer" to nudge drillers to halt production, the analysts said.

Goldman Sachs forecasts West Texas Intermediate and Brent oil prices will remain below $55 through the next 12 months. "We continue to believe that the downside risks to our forecasts are non-negligible, in particular in the oil market in the near term," as the amount of oil stored away for sale at a later date continues to rise, the note reads.

In its own investment strategy, the Wall Street bank appears to be shifting toward renewable energy. "Over the past 10 years, we have built on our commitment to harness market-based solutions to help support a healthy environment and address the problem of climate change," Lloyd Blankfein, the bank's chairman and CEO, said in a statement Nov. 4, announcing Goldman Sachs plans to allocate $150 billion on "clean energy financing and investments" by 2025.

Continued low oil prices could force more industry spending cuts

(Wall Street Journal; Nov. 20) - The ingenuity and easy money that allowed American oil companies to keep pumping through a year-long price crash appear to be petering out as U.S. crude slides toward $40 a barrel. U.S. companies have stunned global rivals by continuing to produce oil — particularly from shale deposits — ever more cheaply as American crude prices plunged from over $100 a barrel in 2014. But the recent drop toward $40 a barrel and below puts even the most efficient operators in a bind.

Many executives, including BP CEO Bob Dudley, expect prices to be “lower for longer.” The U.S. Energy Department is forecasting the price of oil will average around $50 a barrel next year. Many companies hoping to weather low prices without new layoffs and salary cuts may be forced to slash costs again, said Eric Lee, an energy analyst with Citigroup. In a way, he said, oil companies are responsible for the problem. During brief price rallies, they raced back to drill new wells — adding to the global glut of crude.

The boom in shale oil production came amid wide open capital markets. As companies ramped up drilling from Texas to North Dakota, they often paid for new wells either with cheap debt or new equity. But in the past 12 months, the 24 largest shale producers have reported losses totaling more than $62 billion and many show negative returns. Energy companies will be forced to cull billions from their 2016 budgets, said Dennis Cassidy, a managing director at AlixPartners, an advisory firm focused on turnarounds.

African nations have not adapted royalties to low oil prices

(Bloomberg; Nov. 19) - “On the brink of a boom,” said PricewaterhouseCoopers’ review of Africa’s oil industry 16 months ago. Now, oil below $50 has made more than two out of three investment projects on the continent non-viable. “Capital markets are effectively closed to the oil and gas industry” in Africa, Tony Hayward, former head of BP and now chairman of Genel Energy, said at a conference in Cape Town last month. “A decade of exploration, with billions of dollars invested and only limited commercial success.”

Though six of the 10 biggest global oil finds in 2013 were made in Africa, governments have been slow to react as the slump in crude prices makes the royalties charged from Libya to Angola look punitive. African production is 19 percent below its 2008 peak and set to drop for a third year in a row. While final investment decisions have been made on less than 10 percent of the 48 billion barrels of oil equivalent discovered in the past decade, governments haven’t adapted to the new price environment, said Martin Kelly, director for sub-Saharan Africa research at consultancy Wood Mackenzie.

That means some nations including Nigeria, the continent’s biggest oil producer, are proposing increasing royalties at a moment the industry can least bear it. African governments’ profit share from deepwater oil projects ranges from 91.1 percent in Libya to about 60.7 percent in Gambia, according to data from Wood Mackenzie. That’s higher than elsewhere in the world, with the continent’s average onshore take of 66.1 percent being 8.5 percentage points above the global one. Persuading governments to cut their share won’t be easy with low oil prices destabilizing their economies.

Italy’s Eni set to start oil production from Arctic platform

(Wall Street Journal; Nov. 23) - Even as energy companies retreat from exploration in the Arctic, Italy’s Eni will soon open the taps on the northernmost offshore oil platform in the world, offering a glimmer of potential for crude in the region — though at a considerable cost. In a field in the Barents Sea in Norwegian waters nearly 300 miles north of the Arctic Circle, Eni is set to begin pumping at its Goliat platform before the end of this year. It would open a flow that will eventually reach 100,000 barrels a day.

The launch underscores the continuing appeal of the Arctic, but also highlights the challenges of operating in a frontier region where crude is difficult and expensive to extract. The huge cost of pushing ahead with big projects, amid the precipitous fall in crude oil prices over the past 12 months, has prompted companies to delay or cancel $200 billion in new oil and gas projects, according to consultancy Wood Mackenzie.

For Eni, the $6 billion Goliat was too far advanced to be called off. The project comes with a host of problems — it is already 50 percent over budget and two years behind schedule. When Eni gave the final OK to Goliat in 2009, Brent crude traded at roughly $70 a barrel and rose to $126 two years later. Today, Brent is treading above $40. Goliat can break-even with $55 oil over the expected 15-year life of the field, Eni said.

Analysts are less sanguine about Goliat’s prospects. Credit Suisse says Goliat’s break-even point is above $100 a barrel. Citigroup reckons that without the delays and cost overruns Goliat would have been profitable with oil at $75, but now needs a break-even level of $122. “Goliat is not an example of the industry’s finest execution,” said Alistair Syme, Citigroup’s global head of oil and gas research. “Assumptions they made were wrong and now there is no question that Goliat is in the upper part of the cost scale.”

Saudi Arabia says non-OPEC producers will have to cut back too

(Reuters; Nov. 23) - Saudi Arabia's cabinet said Nov. 23 it was ready to cooperate with OPEC and non-OPEC countries to achieve market stability, days before OPEC meets to review its year-long policy of not cutting production to boost prices. Oil prices jumped $1 a barrel after the comments, even though they repeated what Saudi Oil Minister Ali Naimi said in a speech last week. OPEC meets Dec. 4.

"The council (of ministers) ... stressed the kingdom's role in (achieving) the stability of the oil market and its continuous readiness and efforts to cooperate with all OPEC and non-OPEC countries to maintain the stability of the market and prices," the cabinet said. OPEC has been urging non-member producers such as Russia to join it in cutting supply to reduce a glut that has more than halved prices since mid-2014. So far, non-OPEC countries have refused and OPEC in turn has declined to reduce its supplies.

Algeria's prime minister, in a speech at the Gas Exporting Countries Forum Summit in Tehran, urged leading oil market players to control output levels. "If the petroleum market is not controlled, it will witness strong volatility for prices," said Algerian Prime Minister Abdelmalek Sellal. Barring a shift in stance from Russia, the chance of such action still looks remote and OPEC delegates say OPEC is unlikely to cut output alone.

Northeastern B.C. waiting for LNG export boom

(Alaska Highway News; Fort St. John, BC; Nov. 20) - There is a steady stream of stories on the potential benefits that liquefied natural gas export projects will bring to the Peace Region of northeastern B.C. But some, like Art Jarvis from Energy Services BC, are warning the perception that the region is booming are off the mark. "Investors think that gold is going to be flowing down the ditches here. … (They're) under the impression that B.C. is doing great, LNG is going crazy. Well, it's not."

That perception could be limiting access to programs aimed at helping businesses hurt by the oil-and-gas price downturn, including a $500 million fund announced this week. Building pipelines to the coast and LNG projects will take time — something smaller service-sector businesses might not have, Jarvis said. He's worried the perception that B.C. is doing fine might obscure reality, especially for those flocking to Alberta to help businesses hit by low oil prices, such as the Business Development Bank of Canada.

With trillions of cubic feet of gas stranded in the ground without access to markets, and with the price of natural gas in some cases too low for development, the myth of northeastern B.C.'s bustling LNG boom towns is just that, Jarvis warned. Dawson Creek Mayor Dale Bumstead said he has heard the same concerns from smaller-service sector businesses in town. He thinks the situation is the result of the lack of a final investment decision for any of the big LNG projects planned for the B.C. coast.