Oil and Gas News Briefs
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November 9, 2015

Delayed, over budget, Gorgon LNG expected to start up 2016

(Bloomberg; Nov. 5) - Next year, on a remote island off Australia's western coast, the world's most expensive liquefied natural gas export terminal will start shipping cargoes into a market that has changed a lot since 2009, when the project was approved. The Chevron-led $54 billion Gorgon LNG facility, initially budgeted at $31 billion, was supposed to have begun operations in 2014. Labor disputes have delayed it, and lower LNG prices have potentially reduced its profitability.

Producers no longer have the bargaining power they once did. Weakening demand in Asia combined with a jump in supply is giving buyers not only cheaper gas but more say on how contracts are designed. "The buyers have the upper hand," said Neil Beveridge, an analyst at Sanford C. Bernstein. Suppliers historically have been able to lock customers into 20-year contracts, with clauses that restrict the resale of gas. In Japan, two of the largest utilities have teamed up to gain leverage and demand more flexibility — they will no longer sign contracts that give producers control over LNG destinations.

If buyers succeed in negotiating better terms, the LNG market could become more like oil, where producers, suppliers and traders compete for profits through constant buying and selling. That would require a fully functioning spot market, where LNG is traded for immediate delivery, a development that's still a decade away, Beveridge said. Gorgon will join three other LNG megaprojects recently completed along Australia's eastern coast. In the U.S., five LNG projects under construction will export cheap natural gas unlocked by the shale boom. The first will begin exports in 2016.

Goldman Sachs forecasts LNG below $5 by 2019

(Bloomberg; Nov. 4) - Liquefied natural gas is cheap, and according to Goldman Sachs Group it's only going to get cheaper. A wave of new supply coming from Australia and the U.S. is deepening a glut of the fuel, raising the risk of losses for exporters and prompting some buyers to look at breaking contracts with suppliers, according to the Wall Street bank, which cut its forecast for prices in Asia next year by 13 percent. LNG will probably drop a further 23 percent by 2018, Goldman said.

"The struggle to create sufficient demand for LNG shows that energy policies have largely failed to deliver the promised Golden Age of gas," Goldman said in the Nov. 5 report. U.S. Gulf Coast exports are set to start in January amid a flood of projects globally that analysts at Sanford C. Bernstein estimate will lead to the largest increase in capacity in history. Prices have fallen over 60 percent since a peak in February 2014 and Goldman expects them to weaken further as buyers seek to renegotiate contracts.

Goldman lowered its 2016 spot price forecast in Japan and South Korea to $6.13 per million Btu and now forecasts prices of $5.19 in 2017 and $4.75 in 2018 and 2019. That compares with the latest spot price of $7.45 for LNG shipped to northeast Asia, according to Energy Intelligence Group. If prices fall toward the cash cost of production, LNG can compete with coal in the power generation sector, the Goldman report said. In the U.S., plant utilization rates are expected to be near 50 percent, while in Australia, weaker prices signal “danger” for the nation’s exporters, the bank said.

Toshiba looking to reduce commitment to take U.S. LNG

(Reuters; Nov. 6) - Toshiba, struggling with a major accounting scandal, is trying to sell down a $7.4 billion commitment to U.S. liquefied natural gas that it signed two years ago as part of a plan to boost its sales of power-plant turbines. A plunge in Asian LNG prices means an expected U.S. export bonanza has fizzled out before it even started, leaving Toshiba potentially exposed to liquefaction fees of up to $370 million a year.

Toshiba confirmed it is looking to cut its commitment in the early years of the 20-year contract. It has held talks with oil and gas majors, utilities, trading houses and other potential LNG buyers to try to offload its commitments, according to industry sources. Other Asian buyers are also trying to reduce their exposure to long-term LNG import obligations, as their demand wanes along with stalled economic growth and as excess supplies become available cheaply on the spot market.

Toshiba may find it difficult to exit its commitment, say industry experts. The issue stems from a 2013 decision to buy the right to liquefy for export 2.2 million metric tons of LNG annually starting in 2019 from the Freeport LNG export plant under construction in Texas. The purchase of the so-called tolling agreement by an electronics conglomerate that makes everything from computers to vacuum cleaners stunned the market.

Toshiba's plan was to pitch LNG supplies as a sweetener to Asian buyers of its turbines used in combined-cycle gas-fired power plants. However, the company has yet to sign any firm contracts to supply turbines. Toshiba's tolling deal with Freeport requires it to pay liquefaction plant fees even if it does not use the facility to produce any LNG. It exposes Toshiba to $7.4 billion in charges over 20 years, according to Reuters.

Mitsui says decision on Mozambique LNG delayed to March

(Reuters; Nov. 6) - Japan's Mitsui & Co will make a final investment decision on a liquefied natural gas project off the coast of Mozambique by the end of March, its chief financial officer, Keigo Matsubara, said Nov. 6. The FID was initially expected by the end of this year. Negotiations with the local government on various conditions are taking time, Matsubara said.

Mitsui holds a 20 percent stake in the project with majority partner Anadarko. The offshore discovery is estimated at 75 trillion cubic feet. The sponsors are considering a two-train onshore liquefaction plant. Other partners include Indian and Thai companies.

B.C. LNG developer expects decision soon on customs fee appeal

(Terrace Standard; Terrace, BC; Nov. 6) - A Calgary-based energy company expects to find out this month if it will be successful in its appeal of a decision by the federal government to impose a $100 million customs duty on a planned liquefied natural gas project at Kitimat, B.C. The appeal was filed by AltaGas, a Canadian partner in the Douglas Channel LNG project which would feature a small LNG plant affixed to a floating platform to be built in Asia and ferried to Kitimat.

Because the Canada Border Services Agency is classifying the platform as a ship, it is subjecting the barge-shaped platform to a 25 percent duty. AltaGas vice president John Lowe, in speaking to analysts during an earnings conference call, took the opposite view. “The floating unit is incapable of navigation, it has no self-propulsion and it's going to be moored permanently,” he said. And the equipment on the platform should not be subject to any duty, as is the case for equipment that liquefies air or gases, Lowe said.

AltaGas and other members of the Douglas Channel consortium have been working toward a final investment decision on the $600 million project by the end of the year and an appeal of the duty is necessary to make the decision on the 550,000-tonne-per-year project, Lowe said. “We feel that on a policy basis it's not in Canada's interest to impose this sort of a barrier to these developments, particularly when there really aren't any shipyards in Canada that would be able to undertake this sort of a project,” Lowe said.

U.S. likely to set record for natural gas storage inventory

(Houston Chronicle; Nov. 6) - The U.S. has tied and is set to surpass a record for the amount of natural gas in storage, according to the latest Energy Department data. Inventory figures released Nov. 5 show 3.929 trillion cubic feet in storage across the country, tying the previous weekly record of 3.929 trillion cubic feet set Nov. 2, 2012. And with two or three weeks of additional inventory gains expected this year, it’s likely the U.S. will have a new high mark by the time the summer/fall injection season ends.

The large amount of gas in storage, continued strong gas production and forecasts for a warm winter — which would mean less need for gas as a heating fuel — have weighed on prices. Natural gas fell close to $2 per million Btu at the end of October, a three-year low. Traditionally, U.S. inventories rise during the warm summer months and then fall as cold weather arrives and gas is used for heating.

A colder-than-expected winter could lead to higher prices, but it would take a prolonged cold snap to burn through the extra cushion provided by the record amount of storage and force prices up significantly. The U.S. Energy Information Administration forecasts that natural gas prices will remain below $3 per million Btu through mid-2016.

China may offer up another round of shale gas acreage

(Bloomberg; Nov. 4) - China is poised to further open up its acreage to shale gas exploration even as the appetite for producing the fuel ebbs amid a global glut and plunge in energy prices. China's Ministry of Land and Resources may announce details of the third round of shale gas auctions within two months, Guo Jiaofeng, a researcher at the Development Research Center of the State Council, a government think tank, said in an interview. An announcement is expected by the end of the year, he said.

The new blocks will be offered as interest in exploring China's shale potential has cooled amid falling prices and the country's challenging geology. The government is trying to lure more private companies in the next bid round as part of broader reforms of an industry dominated by state-run giants. "It may not be the best time for private companies to bid for shale parcels," said He Sha, a professor at Southwest Petroleum University. "Falling oil prices, shrinking government subsidies and a lack of technology, among other things, will hurt private companies' chances to succeed in shale gas."

China last held shale gas auctions in 2012 when it awarded 19 blocks — none have yielded producing assets. This year, ConocoPhillips ended talks with PetroChina on a shale gas project after a two-year study. Shell gave similar indications when it said in July it is evaluating drilling results in Sichuan after "mixed results." PetroChina and China Petroleum & Chemical, the country's biggest and second-largest explorers, began shale gas production in 2013 at parcels allocated to them in two provinces.

Portland city council votes against oil trains

(Portland Business Journal; Nov. 5) - Portland City Council on Nov. 4 passed one of two resolutions on banning fossil fuel expansion in Portland while tabling the other for a week. The council, facing a standing-room-only crowd, passed a resolution opposing the increase of crude oil-carrying trains in and around the city. The second resolution, which opposes expansion of infrastructure whose primary purpose is transporting or storing fossil fuels in or through Portland or adjacent waterways, was tabled to Nov. 12.

The hearing garnered so much interest that city officials needed to open an overflow room to accommodate the crowd. Scores of residents, activists and industry types filled city hall. “Communities along the Columbia River are faced with an unprecedented and new threat — the idea of moving vast quantities of fossil fuels in oil trains down the Columbia River in trains that are known to derail, spill and ignite," Dan Serres, conservation director for environmental group Columbia Riverkeeper, told the council.

The resolutions resulted from Mayor Charlie Hales' about-face on Pembina Pipeline’s planned $500 million propane terminal at the Port of Portland this summer, which he helped to stall after initially supporting the project. Hales refused to bring a necessary environmental amendment for the project to the full city council for a hearing and potentially a vote, and went on to create the resolutions to ban future fossil fuel expansion. Oil trains would haul crude to port for loading aboard tankers or barges.

Canadian oil producers likely to continue reliance on rail transport

(Calgary Herald; Nov. 6) - Rejection of the Keystone XL pipeline will complicate and add cost to getting western Canadian oil to U.S. markets but it isn’t expected to actually prevent any shipments reaching south of the border, observers say. Calgary-based Suncor Energy, Canada’s largest oil producer by market capitalization, says it has 600,000 barrels per day of current access to world markets, including 80,000 barrels of rail-loading capacity, as an alternative to Keystone XL.

Analyst Stephen Paget of FirstEnergy Capital said the rejection will lead to more crude-by-rail shipping, which has expanded enormously over the past three years despite higher costs. Rail shipping declined over the summer as pipeline “workarounds” came on stream, but Paget said it will rise again as Canadian production increases, driven mainly by new oil sands production. “It’s never good to lose an application on a major project. But they have been preparing the market to some extent for this.”

Mike Tims, vice chairman of Matco Investments, of Calgary, said it’s difficult to say whether the Keystone rejection will affect the energy investment climate in Alberta. But he conceded higher costs of rail transport aren’t good for an industry already suffering from low commodity prices and poor access to capital markets. The Calgary Chamber of Commerce issued a call for Canada to push through pipeline projects to bring oil to Canadian coastal export points.

Canadian LNG import facility pleads guilty in 2013 bird kill

(The Canadian Press; Nov. 5) - Canaport LNG has pleaded guilty to two charges in connection with the 2013 death of about 7,500 birds that flew into a burning flare at the liquefied natural gas import and storage facility in Saint John, New Brunswick. A provincial court judge ordered the company to pay $750,000, which will be distributed to numerous environmental and wildlife organizations. The Canaport terminal is owned by U.S.-based Irving Oil and Spain’s Repsol.

An investigation was launched by Environment Canada after thousands of migrating birds were killed in September 2013 while excess gas was being burned off at the facility. The flare tower at the Canaport liquefied natural gas receiving and regasification terminal is about 100 feet tall. Flaring is used to maintain normal operating pressure by burning off excess natural gas.

U.K. driller expects decision in February on appeal of fracking ban

(Interfax Global Energy; Nov. 6) – U.K. shale gas pioneer Cuadrilla expects to overturn the fracking ban imposed by the Lancashire County Council and begin fracking and testing its first shale wells in 2017. Cuadrilla has appealed the local ban to the U.K. planning inspectorate, a government agency that answers to Secretary of State for Communities and Local Government Greg Clark. A decision is expected in February 2016. The county is in northwestern U.K., north of Manchester and Liverpool.

"The appeal is moving quickly and we have strong chances of winning this appeal, not least because of the positive recommendations we received from the council’s own planning officers," said Cuadrilla CEO Francis Egan. He was referring to the fact that the Lancashire County Council rejected the application despite a recommendation from its planning officers to allow exploration at one of Cuadrilla’s two drilling sites.

Roy Pinnock, a partner at the law firm Dentons, said Cuadrilla was right to be confident, but added the company would have to show it has tried to mitigate the landscape, noise and traffic impacts – the main reasons given for the refusal. "These points will be tested to destruction on appeal," Pinnock said. However, following the outcome of the appeal, fracking opponents could still request a judicial review, with a judge ultimately deciding the application – a process that could yet prolong Cuadrilla’s legal battle.