Oil and Gas News Briefs
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October 12, 2015

Analyst says world will need only 5 more LNG projects by 2025

(Bloomberg; Oct. 8) - Five years ago, energy companies hungry for the next big thing started planning as many as 90 terminals to liquefy natural gas and ship it around the globe. Now, it seems the world only needs five more. Consulting firm IHS Inc. said only one in 20 proposed projects are actually necessary by 2025 as weakening Asia economies, cheap coal, the return of nuclear power in Japan and the ever-expanding glut of North American shale gas temper demand for the power-plant fuel.

Barring an unusually cold winter in Asia, global LNG supply will outstrip demand by next year, said Trevor Sikorski, an analyst at Energy Aspects in London. Seven new plants in Australia will flood the market over the next two years. Cheniere Energy is planning the start-up of its Sabine Pass terminal in Louisiana this quarter. “The global LNG industry now resembles a game of ‘musical chairs’ with far more projects than the market can absorb,” said James Taverner, an IHS analyst in Tokyo.

“There is a very narrow window of opportunity for new projects that want to take final investment decision by 2020," Taverner added. "It will be increasingly difficult to convince financial institutions to put major sums of money on the table to construct additional capacity,” said Tim Boersma, acting director of the Energy Security and Climate Initiative at the Brookings Institution in Washington. Meanwhile, the pace of project postponements will pick up as the supply glut expands, Noel Tomnay, head of global gas and LNG research at Wood Mackenzie in Edinburgh, said in a Sept. 3 report.

Malaysian analysts speculate Petronas will delay LNG project in B.C.

(The Malaysian Reserve; Oct. 6) – Malaysia’s state-owned Petronas is likely to defer the start-up of commercial operations of its proposed liquefied natural gas export project on the British Columbia coast until 2022 or 2024 as depressed oil and gas prices continue to shroud earnings prospects, analysts said. Petronas has been talking of a 2019 start-up for the project, though the company has yet to commit to construction.

Analysts said Petronas would require prices to hover between $11 and $12 per million Btu for the project to break even. Current spot-market prices for LNG cargoes to Asia are holding around $7. “With prices as they are, many projects, not only related to Petronas, do not look viable,” an analyst at a securities research firm covering the oil and gas sector told The Malaysian Reserve. The project already faces delays due to regulatory approvals, low prices and possible capital budget cuts, another analyst said.

An analyst at a Malaysian investment bank said: “A delay (for the Canada project) is likely. Deferring the project to 2022 or even 2024 would be less costly than completely exiting the project. … Pausing for a while and then restarting when conditions improve isn’t a bad option.” Some analysts believe Petronas may look for additional partners to reduce its spending on the project but retain its majority control of the asset.

Petronas reaffirms commitment to LNG project on B.C. coast

(Globe and Mail; Canada; Oct. 8) - Malaysia’s state-owned Petronas says it is committed to building a liquefied natural gas export terminal on the British Columbia coast, despite volatile energy markets and analyst doubts. Petronas leads the Pacific NorthWest LNG consortium that wants to construct a plant on Lelu Island, near Prince Rupert. While waiting for its federal environment review, the project faces opposition from some First Nation members to the site and its impact on juvenile salmon habitat.

Petronas Executive Vice President Wee Yiaw Hin issued a statement Oct. 8, after a series of analysts have warned that weak Asia LNG prices and other issues could delay the project by months, if not years. “Petronas would like to reaffirm its commitment to deliver long-term LNG supply to its customers through the Pacific NorthWest LNG project in Canada, despite the current market volatility for oil and gas,” Wee said, adding that Petronas is ready to proceed after it receives federal regulatory approval.

Canadian environmental regulators are expected to rule in early 2016 on the project after it scrutinizes Pacific NorthWest LNG’s plans in the Skeena River estuary, especially its design to build a suspension bridge and pier that would carry a pipeline from Lelu Island to a dock for LNG carriers. The consortium is striving to become the first major LNG exporter in the province, targeting start-up by the end of 2019, although some analysts say that will likely be delayed until 2020 at the earliest.

Indian LNG buyer says no more long-term price contracts

(The Economic Times; India; Oct. 8) - Indian Oil Corp., the country's largest refiner and fuel retailer, will not enter into long-term price contracts with liquefied natural gas suppliers, drawing lessons from the fiasco where state-run importer Petronet has been forced to take expensive LNG to honor a contract but struggles to sell it to consumers.

Indian Oil Corp. will sign long-term agreements for the quantity of LNG but not for the price, said A.K. Sharma, finance director. The company wants to avoid the difficulty that Petronet LNG, which it co-owns with other state oil firms, is caught in. IOC is betting big on the gas business, hoping it would help the firm defend its market share in the fuel business as rising environmental concerns and a public rage against air pollution are accelerating a shift toward cleaner fuel.

Since crude oil prices started falling sharply last year, Petronet has been struggling to find buyers for the gas purchased under a long-term contract with Qatar's RasGas. The LNG contract price is based on a five-year average of oil prices, which, although it may have seemed wise at the time of signing, is delaying the steep collapse of oil prices from showing up in current LNG prices to Petronet customers. Petronet is paying about 50 percent more for its LNG than current spot-market prices of under $7 per million Btu.

Kansai Electric wants more flexibility in LNG supply contracts

(Platts; Oct. 9) - Japan's Kansai Electric is looking to add more flexibility to its contracts to enable the utility to respond swiftly to changes in LNG demand and adjust its portfolio by buying or selling cargoes, a company executive said this week. Kansai Electric, whose LNG procurement hit a record 9.44 million metric tons in fiscal year 2014-15, faces growing demand uncertainty as the domestic retail power market is set to fully open to newcomers in April 2016, a measure which could dent or boost its sales.

Timing of the restart of Kansai Electric's two Takahama 870-megawatt nuclear units also remains murky, and Japan's slow economic growth is adding another variable to the equation. Against such backdrop, the Osaka-based utility has struck a deal with BP, under which BP would supply Kansai Electric with up to 13 million tons of LNG over 23 years. The agreement also allows Kansai Electric to resell the volumes to third parties or ask BP to find alternative buyers by mutual consent, the first of its kind in Japan.

The utility also inked a contract with France's Engie under which Kansai would sell 400,000 tons per year of LNG from its U.S.-contracted volumes and buy an equivalent amount from Engie's portfolio, with the aim to cut shipping costs on the long voyage to Japan. Kansai Electric will be the first Japanese utility to receive U.S. gas next year when its contract starts up with Cheniere Energy, which is completing its plant at Sabine Pass, La. Kansai also has contracts with the Cove Point LNG project under construction on Chesapeake Bay and the Cameron LNG project under construction in Louisiana.

Cheniere moves closer to commercial start-up at Sabine Pass

(Houston Chronicle; Oct. 7) - Cheniere Energy has started the months-long process of preparing its Sabine Pass liquefied natural gas export terminal to crank out its first batch of LNG for shipment overseas. The Houston-based company received permission from federal regulators to pipe gas into the sprawling plant on a remote stretch of coastline along the border between Texas and Louisiana as it starts priming the first production facilities for start-up.

Last week, Sabine Pass LNG began bringing in small amounts of gas and burning some off, a process called flaring, providing early signs that the first phase of the project is nearing the finish line, according to energy research firm Genscape, which has been monitoring plant activity using a network of infrared monitors. “If we are at the dawn of the golden age of U.S. gas exports, this is the start of it,” said Ted Michael, LNG analyst at Genscape.

Three years after construction began, the flurry of activity at the Sabine Pass plant has attracted much attention, placing Cheniere on track to complete the nation’s first large-scale terminal to ship LNG from the continental U.S. Once construction is done, it can take three to six months to ready the plant for production, Michael said. The first commercial cargoes are expected to sail out early 2016. British gas producer BG Group has locked in 20-year contracts to buy much of the LNG from the first liquefaction train.

Foreign investment needed to develop Iran’s huge gas reserves

(The Telegraph; UK; Oct. 8) - Much of the focus on the impending opening up of Iran has been on what it means for the oil industry. However, even bigger shockwaves could be felt in the natural gas sector, should economic sanctions restricting the Persian Gulf powerhouse be fully lifted. Tehran’s reintroduction to the international community would fire the starting pistol on a natural gas race that could have profound long-term implications for international oil and gas companies.

Iran shares access to the world’s single largest gas field with Qatar but has so far been unable to fully develop its share of this vast resource. The South Pars field is thought to hold at least 325 trillion cubic feet of gas. Prior to the imposition of tougher economic sanctions on Iran, the country had made progress in tapping into South Pars. The Iranians were able to move ahead with early phases intended to provide energy for the country’s domestic market but more lucrative plans to export LNG were delayed.

Iran had signed deals with companies to develop LNG projects under a five-year plan, but many of the deals were cancelled, setting back Iran’s gas industry by decades as its rival Qatar pressed ahead with its own developments on the other side of the Gulf. Even if partners can be found once sanctions are lifted, it would take at least five years to build the infrastructure that would be required for Iran to export LNG on a global scale. However, Iranian gas would have the advantage of being relatively cheap to produce.

BP may take LNG from Eni project in Mozambique

(Interfax Global Energy; Oct. 9) - BP has agreed to take LNG from Eni’s planned floating liquefied natural gas project in Mozambique. Interfax understands that under the deal — which is not yet binding — the U.K. oil major has secured the LNG on an oil-linked, free-on-board basis, at prices competitive with cheap exports that will be coming out of the United States. With oil costing $50 per barrel, the LNG price would work out at $5.50 per million Btu, a source told Interfax.

In return, BP has agreed to take on a lot of technical risk and will be flexible if LNG volumes from the project are lower or available later than expected. Italy’s Eni, which operates Mozambique’s offshore Area 4, has yet to select the engineering, procurement, construction, installation and commissioning contractor for the project. This was initially expected by the end of October, but Interfax understands negotiations are still ongoing and a decision is unlikely to be made until November or December.

Eni submitted its development plan to the Mozambique government in December 2014 but has yet to win approval because of a dispute over how the project — estimated at $5 billion to $7 billion — should be structured. Eni is looking at a smaller, floating LNG production and storage vessel — 2.5 million metric tons per year capacity — rather than a larger, more costly onshore plant for its initial development of gas reserves. Anadarko is also looking to develop an LNG project to monetize its offshore reserves in the area.

Construction starts on B.C.’s largest gas processing plant

(Vancouver Sun; Oct. 8) - British Columbia’s largest natural gas processing plant is moving closer to production. Veresen announced this week that construction is under way on its $860 million Sunrise gas processing plant near Dawson Creek after the Cutbank Ridge Partnership — a partnership between producers Encana and Cutbank Dawson Gas Resources — approved the plant. Dawson Creek is in northcentral B.C., near the Alberta border. Mitsubishi Corp. is a major shareholder in Cutbank.

The new plant for the Montney Shale region, managed and constructed by Encana for Veresen Midstream (owned 50 percent by Veresen and 50 percent by affiliates of Kohlberg Kravis Roberts), is one of three gas plants that Veresen plans on building in the Dawson Creek region. The Sunrise plant is expected to process 400 million cubic feet of gas per day, while Tower, with approval expected later this year, would be 200 million cubic feet a day. The existing Saturn plant would be expanded to allow for an additional 400 million cubic feet of gas a day, with approval expected in early 2016.

“(Sunrise) is going to be the biggest in Western Canada that they’ve built in the last 30 years,” said David Noseworthy, a CIBC World Markets analyst for energy infrastructure. “It’s a big gas plant. And it’s the first of three gas plants that are expected to reach a final investment decision between now and the end of (the first quarter of 2016).” The processing plant will, among other things, separate water from the gas, remove the carbon dioxide and pull out any other impurities from the gas coming into the plant.

Canada’s Green Party leader denounces LNG project

(Squamish Chief; Squamish, BC; Oct. 8) - The Green Party leader of Canada has made it clear she would do everything in her power to stop construction of a liquefied natural gas export facility in Howe Sound, north of Vancouver. Elizabeth May visited Squamish on Oct. 3 to attend a rally against the proposed Woodfibre LNG facility. The Green Party banners and free hand-outs at the West Coast Railway Heritage Park made it clear the event also doubled as a Green Party supporters’ assembly.

"What kind of cockamamie scheme, what kind of lunatic thinks we need an LNG plant in Howe Sound?" May asked, which brought loud applause. Investing in fossil fuels is increasingly being seen as a “bad risk” by the international community, she said. The small Woodfibre LNG plant, at the site of a former pulp mill, is one of 20 LNG projects proposed for the B.C. coast. None have committed to construction.

National park staff raises issues about LNG project in Oregon

(Daily Astorian; Astoria, OR; Oct. 9) - Lewis and Clark National Historical Park has expressed concern about potential adverse impacts of Oregon LNG’s proposed terminal and pipeline project on the park’s visitors and natural, cultural and scenic resources. During the public comment period for the Federal Energy Regulatory Commission’s draft environmental impact statement of the $6 billion project, park staff gave input on the project to the Department of the Interior, which oversees the National Park Service.

“We’ve been commenting informally (on the LNG project) for the past couple of years,” Scott Tucker, the park’s superintendent, said. The Interior Department recommended that FERC conduct further analyses to better quantify the project’s impacts on the 3,400-acre park. The commission’s draft environmental impact statement, released in August, concluded the LNG project would result in adverse environmental impacts, but the company could lessen the impacts to acceptable levels through mitigation.

FERC closed the public comment period on the draft EIS Oct. 6 and is scheduled to release the final impact statement in February. The project includes a liquefaction plant, storage tanks and marine terminal in Warrenton, Ore., near the mouth of the Columbia River. An 87-mile pipeline, which would connect to an existing pipeline in Woodland, Wash., would transport gas, primarily from Canada, to the plant. The project would be 3 miles from the Fort Clatsop Visitor Center and 2 miles from the park’s northwest corner.

Pennsylvania legislature defeats natural gas production tax

(EnergyWire; Oct. 8) - The Pennsylvania state House in a lopsided vote Oct. 7 dismissed Gov. Tom Wolf's plan to tax the natural gas industry, extending a budget stalemate that has lasted 99 days. The House, which has 119 Republicans and 84 Democrats, voted 127-73 against an amendment that included Wolf's plan, following nearly six hours of debate. With the vote, gas drillers in Pennsylvania will continue to produce without paying a severance tax of any kind, though they do pay a drilling fee.

Republicans argued that taxing the industry would cost the state jobs. They want Wolf to reform the state's public employee pensions and make other budget changes, rather than impose broad-based taxes. "The governor finally saw what we have been telling him for months — there is not enough support to pass his tax package," House GOP Majority Leader Dave Reed said. Democrats said lawmakers need to restore education and social service budget cuts, while the drilling industry needs to pay its fair share.

Marcellus Shale drilling has turned Pennsylvania into the nation’s second-biggest gas-producing state. "Pennsylvania, frankly, is being played for suckers by the drilling industry," said Rep. Greg Vitali, a Democrat from the Philadelphia area. The governor has made the gas tax the centerpiece of his first budget proposal. He initially asked for a 5 percent tax on the gas industry, plus a 4.7-cent surcharge for every 1,000 cubic feet of production. He cut the proposed tax rate Oct. 5 to 3.5 percent plus the surcharge.