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Compiled by Larry Persily
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Low costs are essential for new projects, say LNG hopefuls in B.C.

(Bloomberg; Oct. 15) - Competition hasn't been this stiff for liquefied natural gas developers since the 1990s. Companies backing export proposals in British Columbia need to keep costs low for their projects to survive as a global surplus of the fuel emerges, according to LNG hopefuls ExxonMobil, Shell and Chevron. "The situation … right now is quite similar to the 1990s … where there was a supply overhang," Andy Calitz, CEO of the Shell-led LNG Canada proposal, told reporters at an LNG conference in Vancouver Oct. 14.

"Only the most competitive, in terms of cost of supply and the projects which are best connected to markets, will survive," Calitz said. Analysts including Citigroup's Ed Morse have cast doubt on Canada's ability to deliver LNG export projects this decade. The market is entering a period of oversupply as demand is slowing in Asia — just as the oil slump has lowered prices for LNG along with companies' ability to finance projects. Adding to tough market conditions, a new pricing model from U.S. LNG exports is causing developers and buyers to rethink contract terms.

The glut of new supply will start to ease past 2021, and the current oil-price rout offers a chance for proponents to reduce costs, Steve Lidisky, president of ExxonMobil LNG Market Development, said at the conference. "The dramatic drop in energy prices provides the catalyst today for a cost shakeout, and only the strongest projects from financially strong developers will succeed," Lidisky said.

Floating LNG import terminals gain in popularity

(RBN Energy; Oct. 12) - Depending on whom you believe, the international liquefied natural gas market is either struggling through a period of oversupply and rock-bottom prices or poised for a new round of demand growth based on that low-cost supply abundance. For electric and gas utilities that want to become LNG importers as quickly — and as cheaply — as possible, an increasingly popular option is buying or chartering a floating storage and regasification unit, or FSRU.

Traditionally, LNG import terminals have been built on land. Increasingly, though, the market is turning to ships fitted with special equipment that enables them to receive, store and regasify LNG. These FSRUs may eventually become a significant factor in the LNG market. These floating behemoths offer several benefits, most of them involving speed, cost and flexibility. An FSRU acts very much like a traditional, land-based LNG import terminal, except that it's assembled in a shipyard, delivered to a waterfront or offshore site and moored, then connected to a pipeline and/or dockside power plant.

All that's led to growing interest in FSRUs, primarily in countries 1) that need to add gas import capabilities as soon as possible, maybe to fuel power generation; 2) that may not have the financial wherewithal to undertake a higher-cost, land-based terminal project (most FSRUs are chartered from a third-party); and/or 3) that see an opportunity to take quick advantage of the emerging LNG supply glut. There are now about two dozen FSRUs in operation (or about to be) around the world, and FSRU advocates see the potential for the number to climb past 30 by 2018 and past 40 or even 50 by 2020.

As much as 10% of world's LNG carrier fleet sits idle

(IHS Maritime 360; Oct. 14) - The number of unemployed LNG carriers has been growing as the spot shipping market stagnates. Vessel-tracking data from IHS Maritime's Market Intelligence Network shows that as many as 40 LNG carriers have been idle in Malaysia and off South America. Idling LNG carriers could cost their owners as much as $2.5 million per ship every month, due to fuel, operating expenses and capital expenditure.

Spot and short-term charter rates surged in 2011 and 2012, with peaks of $150,000 per day in the first half of 2012, sending ship owners into a newbuilding frenzy. Believing that a spot market would emerge for LNG shipping, some ship owners that were not involved in the business made their entry into the market. More than 30 LNG carriers were ordered speculatively since Japan's post-quake Fukushima nuclear crisis in 2011 caused the country's LNG demand to surge as all nuclear reactors were shut down.

But then the oil-price shock caused oil-linked LNG prices to plummet to about one-third the levels of early 2014. IHS Maritime's data shows that 16 LNG carriers were delivered in the first six months of 2015 out of a total of 41 expected in the full year. The trading fleet is expected to expand by 9.4 percent in 2015. The current order book stands at 155 vessels. IHS Maritime's Sea-web data shows there are currently 419 LNG carriers in service, meaning that about 10 percent of the active fleet is unemployed.

LNG developer puts B.C. project on hold over customs tariff

(Bloomberg; Oct. 14) – Calgary-based AltaGas is putting its investment decision for a $464 million (U.S.) liquefied natural gas export project in British Columbia on hold as it fights a federal government tax on imported equipment. The company is disputing a 25 percent customs duty on a $232 million floating LNG facility that the developer wants to import from China, John Lowe, executive vice president of corporate development at AltaGas, said Oct. 14 at a province-sponsored LNG conference in Vancouver.

The company is optimistic of winning its appeal, expected in November, Lowe said. AltaGas and the other owners of the Douglas Channel LNG project plan to decide this year whether to proceed with the development. "This is quite a significant price impact," Lowe said. "We need to resolve this to reach a final investment decision." The tariff exists "to protect Canadian industry, but there are no ship builders in Canada that build this kind of thing," Lowe said. "So it's a barrier for no useful purpose."

Other backers of the project include Japan's Idemitsu Kosan, Belgium's Exmar and France's EDF Trading. Douglas Channel is among 20 LNG export proposals along Canada's Pacific Coast. Output from the project, proposed near Kitimat, B.C., would be small, about 550,000 metric tons per year (less than 25 billion cubic feet of gas). The project includes a floating liquefaction plant, storage and loading facilities at a site leased from the Haisla First Nation.

New First Nation issue hits Petronas LNG project in B.C.

(Vancouver Sun; Oct. 14) – British Columbia faces a new First Nation legal challenge to the Pacific NorthWest LNG project. A group within the Gitxsan First Nation said it will apply to the B.C. Supreme Court for a judicial review seeking to overturn the provincial environmental certificate and Oil and Gas Commission construction approval for the TransCanada Prince Rupert Gas Transmission Line to serve the proposed LNG plant on the basis they were not consulted, said group spokesman Richard Wright.

"They're not talking to the right people, the people who actually own the land," Wright said, referring to consultations that took place with the Gitxsan Development Corp. during the environmental assessment for the 558-mile pipeline. The case highlights a rift between the Gitxsan Treaty Society (which includes the development corporation) and hereditary house groups within the Gitxsan First Nation.

Among the multiple LNG proposals under consideration for the B.C. coast, Pacific NorthWest LNG, led by Malaysia's Petronas, is the major project closest to receiving a green light. It received provisional approval for the project in June, subject to receiving federal environmental approval. However, the project also has First Nations concerns to resolve that remain outstanding. The Lax Kw'alaams object to the suspension bridge and jetty location at the terminal site, arguing they threaten juvenile salmon habitat.

B.C. government continues optimistic view of LNG projects

(Globe and Mail; Canada; Oct. 13) - British Columbia's fledgling liquefied natural gas industry will overcome the slump in global energy markets and will successfully address aboriginal concerns, the province's Finance Minister said. Though current LNG prices are weak in Asia, the backers of major projects on Canada's West Coast are taking a long-term view, said Mike de Jong, who will be delivering a speech Oct. 14 at the start of an annual international LNG conference in Vancouver.

"There is an LNG market out there and there will be cycles to that market. Proponents themselves are telling us that the sooner they can be up and running, the sooner they, British Columbians and Canadians will enjoy the benefits of this industry," de Jong said in an interview the day before his speech. "We have come a long way in a very short period of time," he said. "Every step of the way, there have been detractors and naysayers and people who have dismissed the opportunities within British Columbia."

The three-day LNG convention will attract about 3,000 participants and more than 300 exhibitors. Environmentalists and Native protesters, including representatives from the Luutkudziiwus, a house group of the Gitxsan First Nation, are gearing up for the event. Luutkudziiwus members have been raising money to file a challenge in B.C. Supreme Court against the gas pipeline that would serve the proposed Pacific NorthWest LNG project near Prince Rupert, a venture led by Malaysia's state-owned Petronas.

[Mexico plans to import 9 bcf a day of U.S. gas by 2019]

(Platts; Oct. 14) - Mexico aims to import 9 billion cubic feet per day of natural gas from the U.S. under a five-year plan to build gas pipelines and infrastructure, Mexico's Energy Ministry said Oct. 14. Currently, Mexico imports about 1.5 bcf per day from the U.S. The five-year plan, to run from 2015-2019, includes a new compression station in the northern state of Chihuahua and 13 other projects, many of which are already being bid or are under construction.

Investment was calculated by Energy Minister Pedro Joaquin Coldwell at $11 billion through 2019. By 2018, Mexico will have built more than 3,000 miles of additional pipeline, an increase of 84 percent on the present network, representing an investment of $10 billion, Coldwell added. Currently, more than 2,000 miles of pipeline are under construction to help remedy gas shortages in the country.

[Egypt signs up to import 55 LNG cargoes]

(Reuters; Oct. 12) - Egypt will buy 55 cargoes of liquefied natural gas, equal to about 10 percent of its annual gas demand, via a tender awarded to seven suppliers. The cargoes — 10 more than Egypt originally sought — total about 165 billion cubic feet of gas. The LNG is scheduled to start arriving in November and run to December 2016.

Egypt has emerged as a major new market for LNG because falling gas output and rising demand have turned the country from an exporter to a net importer. The cargoes are expected to meet much of Egypt's near-term needs as the government tries to cope with its energy shortage. Over the past year, Egypt has signed deals with commodity trading companies as well as Russian and Algerian companies to feed its first-ever LNG import terminal. Egypt has since added a second floating LNG import terminal.

The seven companies awarded the latest LNG contracts include Trafigura, Vitol, Noble Group, EDF Trading, Gas Natural, PetroChina and Shell, a ministry of petroleum source said. Details of the purchase price for the cargoes were not immediately available. Egypt has also given the private sector a green light to import LNG, a step that could encourage private investment in the energy sector while easing supply shortages.

Poland moves closer to opening its first LNG import terminal

(Bloomberg; Oct. 12) - Thirteen days before Poland's general election, Prime Minister Ewa Kopacz on Oct. 12 opened the nation's first terminal to import liquefied natural gas and promised "full independence" from Russian gas supplies next year. The facility is ready for start-up tests and will get its first shipment of LNG from Qatar between Dec. 11 and Dec. 17 to cool the plant, with commercial deliveries starting in 2016, two years later than initially planned.

"Next year, we'll be fully independent from supplies from the east," Kopacz told reporters at the terminal's site in the Baltic port of Swinoujscie, near the German border. Poland plans to expand its gas grid to enable the transport of fuel from Swinoujscie to its neighbors in the Czech Republic, Slovakia, Ukraine and Lithuania. That would also allow it to boost the use of the terminal, which currently only has supply agreements for 30 percent of its capacity.

Poland's Law & Justice opposition party, which leads opinion polls ahead of the Oct. 25 election, said the terminal isn't ready and that Kopacz was staging a "show" to woo voters. "The prime minister is cutting a ribbon and the terminal's construction will continue, the terminal isn't open," said Beata Szydlo, the opposition's candidate for prime minister.

Poland's shale gas hopes fading away

(The Guardian, UK; Oct. 9) - Poland's shale gas industry appears to be collapsing, just four years after the U.S. government predicted that its reserves were abundant enough to fuel the country for the next three centuries. Leases for exploratory shale drilling have nearly halved in the past year from 58 to just 32, according to a new Polish government manifest published with little fanfare on the environment ministry's website this week.

With rock-bottom oil prices continuing to erode global fracking hopes, Chevron and ConocoPhillips this year joined ExxonMobil, Talisman and Marathon in pulling out of the country. “The shale gas story in Poland is dead,” said Antoine Simon, a campaigner at Friends of the Europe. “It is simply not working. The geology is not favorable and I would expect the concessions to continue to decrease. Unless prices rise dramatically, it is now just a matter of years before all of Poland’s shale projects are stopped.”

Even the state-backed gas firm PGNiG has now dropped seven of its 11 shale gas concessions, holding onto just four licenses in northern Poland. A PGNiG spokesman said the fields were abandoned because of geological and technological problems, as well as cost overruns. Poland was initially seen as a standard bearer for the ‘shale gas revolution’ in Europe. The U.S. Energy Information Administration in 2011 said Poland held “some of the most favorable shale gas resources in Europe,” estimated at 187 trillion cubic feet.

Papua New Guinea tribes upset with government over LNG profits

(Sydney Morning Herald; Oct. 11) - Until now, the tribal chiefs in Papua New Guinea have been happy to host a hugely profitable natural gas project on the slopes of their mountainous land. It might have disrupted hunting grounds, ruined waterways and uprooted fruit and vegetables, but the money flowing from it also promised progress and development for the people. The $19 billion ExxonMobil-led Papua New Guinea LNG project has given the country one of the highest GDP growth rates on Earth.

All that could change. The tribal chiefs are threatening to "turn off the taps" after the PNG government barred their Australian lawyers from entering the country. It was the final straw for the deal that has turned increasingly sour for local tribesmen in the mountainous Hela province, where the majority of the gas is sourced. Locals say they are missing out on their share of the profits from the project that started up last year. The government said it has yet to determine who is entitled to the funds, while landowners say the government is deliberately dragging its feet.

Under the deal struck in 2009 to allow the project to go ahead, the tribes are entitled to exercise an option to buy a 4.2 percent equity share. But a news media investigation reveals that a complex and unlikely deal inked in March last year between Australian bankers at Swiss firm UBS and close advisers of PNG Prime Minister Peter O'Neill has unnerved tribal leaders. The leaders say the deal "mortgaged" their equity to plug a widening hole in the government's own finances.

Low oil prices cut into Australian LNG profits

(Australian Broadcasting Corp.; Oct. 12) - It was supposed to be the next wave of Australia's resources boom, but the turbo-charged profits once hoped for from the liquefied natural gas bounty are quickly being scaled back, thanks to falling oil prices. "These projects were put in place and approved in a completely different environment," ANZ head of commodity research Mark Pervan said. "So there is certainly an adjustment in the valuation and maybe even the longer-term outlook for these things."

Curtis Island, off Queensland's central coast, is at the heart of Australia's LNG construction boom, with three projects costing a total of $75 billion. When they were approved — at a time when oil prices were above $100 per barrel — the projects were forecast to be bonanzas for the companies and their shareholders. But now those investors are scaling back their expectations. The LNG export contracts were priced against oil, which is good news now for buyers but painful news for the developers.

Origin's Australia Pacific LNG project in Queensland has an estimated break-even price of $40 to $45 per barrel, after taking into account interest and principal payments on the debt associated with the coal-seam gas venture. "And that means that project is struggling to break even," said Ben Clark, a senior portfolio manager at TMS Capital. "And I think you can put that across a lot of these projects." The worsening market for LNG has forced the major players to take some multibillion-dollar write-downs.

Gazprom offers more gas at spot prices to hold European market

(Reuters; Oct. 13) - Russian energy producer Gazprom is preparing to offer to sell more natural gas to Europe at spot prices to ensure European companies' support for a planned pipeline bypassing Ukraine, industry sources said. Worried that conflict-ridden Ukraine is not a reliable transit route, state-run Gazprom signed a shareholders' agreement with five European firms last month to build the Nord Stream II pipeline under the Baltic Sea to Germany.

Gazprom is under pressure from the European Union to change its policy of selling gas through long-term contracts linked to the price of oil because the European Commission said this leads to overcharging. Gazprom sources said the firms that signed the shareholders' agreement — Germany's E.ON and BASF, Austria's OMV, France's ENGIE and Royal Dutch Shell — had done so in expectation of a change in the huge Russian company's export pricing policy.

Changing pricing terms appears intended by Gazprom to boost sales by offering gas priced in a way that encourages consumption in Europe and appeals to Gazprom's European partners. It could also help defend Gazprom's gas market share in Europe from LNG exporters such as those in the United States and Qatar that might try to dump supply in Europe due to a global glut of the fuel.

Oil slowdown in Alberta drives workers to compete for jobs in B.C.

(Alaska Highway News; Fort St. John, BC; Oct. 9) - You can spot the ground forces of the Alberta invasion on just about any frontage road in northeastern British Columbia. Their trucks idle outside all-night restaurants, hotels and gas stations, destined for oil fields outside Dawson Creek and Fort St. John, B.C. For B.C. businesses, the sight of those trucks is salt in a wound. Low oil and gas prices have shut down projects in Alberta, driving workers to search for jobs in the neighboring province.

"We could go stand on the Alaska Highway right now and I could point out which trucks aren't from here," said one frustrated oil field service company owner in Fort St. John. “Unless that (driver) buys a bag of chips at the Esso on the way through, there's no benefit to him being here." Through the collapse in oil prices, B.C. has been a relative bright spot, with a handful of major energy companies continuing to drill for oil and gas. For the companies that serve those operations, competition is fierce.

B.C. companies say they're feeling increasingly pinched by Albertans who are hungry for work and able to underbid them on contracts. While cross-border competition and the "Alberta advantage" are facts of life in Northeast B.C., the competition is more pronounced when times are tough. "Before (the price collapse) Alberta was busy, so there was no reason for them to be over here," said one company owner.

Midwest, Mid-Atlantic gas pipeline proposals total $16 billion

(Charleston Gazette-Mail; WV; Oct. 11) - Seven interstate pipelines that would carry gas from the mineral-rich counties of Ohio, Pennsylvania and West Virginia are moving through the federal regulatory process, with some possibly starting construction as early as 2016. The proposed pipelines would total more than $16 billion of investment and involve construction of more than 1,900 miles of 24- to 42-inch-diameter pipe that would cut through West Virginia, Ohio, Virginia, Pennsylvania, Michigan and North Carolina.

Officials with the oil and gas industry believe the pipelines are the relief valve needed to help them recover from a precipitous decline in gas prices this year caused by a supply glut. By creating a large network of pipelines that can export gas to markets in the Midwest, Mid-Atlantic and Gulf Coast, industry officials hope they can serve more markets and boost prices. “The key is getting to unserved and underserved areas,” said Corky DeMarco, the West Virginia Oil and Natural Gas Association’s executive director.

The large influx of pipelines now up for federal review highlights the industry’s delayed attempt to match infrastructure development with gas production, which has skyrocketed in the past five to seven years due to unconventional drilling in shale formations like the Marcellus and Utica. By combining horizontal drilling and hydraulic fracturing, companies have been able to tap deposits that were previously unattainable, increasing U.S. gas production by 44 percent in less than 10 years.

Oil industry worries deep layoffs could mean future worker shortage

(Wall Street Journal; Oct. 13) - As layoffs become the energy industry's main response to low oil prices, a handful of producers are aiming to trim costs without pink slips by spreading the pain among their employees. Companies are trying hiring freezes, caps on bonuses, and even across-the-board wage cuts to preserve jobs. They and others — including many drilling and well servicing firms — are reluctant to slash further, say industry experts.

In part, they're trying to avoid the type of skilled-worker shortages that followed mass job cuts in prior downturns. But it's also because their businesses can't succeed without sufficient staff, especially if the downturn in oil prices reverses course. "There's no more fat to be cut," said Deborah Byers, a partner at consultants Ernst & Young in charge of its U.S. oil and gas practice.

Occidental Petroleum has avoided mass layoffs so far, unlike during another period of low crude prices and industry consolidation. Those cutbacks led to a dwindling number of petroleum engineers followed by what some described as a "lost generation" that left the energy industry exposed to shortages of high-skilled professionals a decade later. "Everybody that went through this before all knows it really hurt oil companies in terms of not having a generation ready to move into management positions," said Dan Hill, who heads Texas A&M University's petroleum engineering department.