OIL AND GAS NEWS BRIEFS FROM LARRY PERSILY

Oil and Gas News Briefs for October 19, 2015

Costs must come down for B.C. projects, developer says

(Bloomberg; Oct. 15) - The cost for Canadian shipments of liquefied natural gas must drop by almost a third for projects to succeed as a supply glut makes LNG a buyers' market, according to Woodside Petroleum CEO Peter Coleman. Asian buyers can afford to pay a maximum of $10 to $11 per million Btu for long-term deliveries of the fuel, Coleman told reporters Oct. 15 after speaking at an LNG conference in Vancouver.

The Australian producer is backing an export proposal in B.C. led by Chevron, after acquiring a stake from Apache last year. "It's a difficult time to be in the marketplace for LNG," Coleman said. "That means cost structures need to come down by anywhere between 25 and 30 percent." The 20 LNG projects proposed for British Columbia are vying with supplies from Australia and the U.S., as Asian demand slows and the oil slump lowers LNG prices. None of the Canadian ventures have started construction.

The Canadian projects will be challenged to maintain momentum the longer the oil price rout lasts, Coleman said. The Chevron-Woodside venture, known as Kitimat LNG, is currently assessing the gas supply source required and continues to talk to potential customers, after completing design work on a proposed pipeline and terminal, Coleman said. "Before we get to a final investment decision, we need to have each of those elements understood," he said.

Low taxes, low costs make Papua New Guinea attractive

(Bloomberg; Oct. 15) - Papua New Guinea is one of the most promising plays in the liquefied natural gas business. Ventures tapping the country's resources are attractive even after a 67 percent collapse in Asian gas prices because development costs can be half of those in neighboring Australia. The country's first LNG export project — led by ExxonMobil — opened last year, with talk of expanding that plant and other developers possibly building their own projects in the South Pacific nation.

The nation is a bright spot in an industry where canceled LNG projects litter the energy landscape from the Arctic to Africa amid a fuel glut. Buyers in Japan, the world's top consumer, will probably turn to the South Pacific nation when they need new supplies early next decade, according to FGE, a consultant to oil and gas companies and banks. By that time, if you're sitting in Papua New Guinea, you're better off than anywhere else," Fereidun Fesharaki, chairman of London-based FGE, said in a phone interview.

Plants in Papua New Guinea can break even with prices of $6 to $8 per million Btu, compared with about $10 in the U.S., according to Macquarie Group. The advantage for developers in Papua New Guinea stems from lower taxes and cheaper labor in the nation of about 7.5 million people, according to Credit Suisse Group. Along with natural gas, the nation also produces a sought-after light crude oil, offering a second source of revenue from LNG projects, the bank said.

U.K. petrochemical plant will import lower-cost U.S. ethane

(Bloomberg; Oct. 14) - The U.K.'s largest closely held company has U.S. shale to thank for its survival. Ineos Group, which manufactures chemicals used to make jet fuel to yogurt pots, was running equipment at its biggest plant, in Grangemouth, Scotland, at less than half capacity. That's because its sources of raw materials — North Sea oil and gas fields — were depleting and the volume of fuel heading to the facility dwindling.

Hoisting the roof in July on an ethane storage tank large enough to hold 560 double-decker buses was a sign of the company's reviving fortunes. Amid a $1 billion overhaul — a life-or-death revamp for the plant — the biggest such tank in Europe will store feedstock originating from fields as far away as Pennsylvania; gas produced amid the shale-fracking boom. Ineos was the first European chemicals maker to seek U.S. feedstock to replace North Sea fuel, according to Wood Mackenzie.

"It was the only plan, the survival plan for Grangemouth chemicals," said John McNally, CEO of Ineos Olefins & Polymers U.K. Output of crude oil and liquid fuels in the North Sea has fallen by 50 percent since 2005, while U.S. exports of gas liquids and liquid refinery gases surged 16-fold. The boom has driven the price of U.S. ethane down 86 percent from a 2008 peak. It now costs about half as much as the same fuel in Western Europe. Ethane is used in producing ethylene, a key component in plastic and cables.

Petronas says First Nation court challenge will not stop B.C. project

(Globe and Mail; Canada; Oct. 15) - The president of Pacific NorthWest LNG said the owners are poised to start construction next year, undaunted by a Native group's legal challenge of the project's proposed British Columbia site for exporting liquefied natural gas. "We're shovel ready, and ready to move ahead as soon as we've got the final federal government approvals and final permits," Michael Culbert said in an interview during an international LNG conference in Vancouver.

The Canadian Environmental Assessment Agency is expected to rule in early 2016 on the proposal submitted by Pacific NorthWest LNG, a consortium led by Malaysia's state-owned Petronas. Three weeks ago, the Allied Tribes of Lax Kw'alaams filed a court claim for title to Lelu Island and Flora Bank near Prince Rupert, arguing that LNG export plans at the site interfere with aboriginal fishing rights and could harm salmon habitat.

Culbert said the uncertainty surrounding ownership of the proposed site for the export terminal on Lelu Island won't be a showstopper. Lelu Island and Flora Bank have been labeled as federal Crown properties by the administrator, the Prince Rupert Port Authority. "The First Nations file is a complex file in British Columbia," Culbert said. "The challenge for a project of our nature, and the scope of it, is the vocal minority sometimes is a very small group of people, and in most cases the silent majority is indeed silent."

India LNG buyer says it will sign shorter supply deals

(Platts; Oct. 15) - Indian Oil Corp. will seek "pricing flexibility" clauses in long-term LNG deals it will sign with global suppliers, a company official said Oct. 14, noting the move is driven primarily by current low commodity prices. "We are looking for price-revision clauses and also signing deals of shorter duration," Santosh Kumar Srivastava, executive vice president at the Canadian affiliate of IOC, said in Vancouver on the sidelines of an LNG conference. Shorter durations would imply offtake deals of 10 years to 15 years, rather than the 20 years to 30 years as is prevalent now, he said.

In addition, the company is looking at yet another clause under its supply deals, which will include the right to divert cargoes to any destination of the buyer's choosing, Srivastava said. India Oil Corp. is building its first LNG import terminal, with completion scheduled for 2018. "With a slowdown in demand in northeast Asia, producers will be looking at India as the next growth market. Our (gas) demand will be driven mainly by the crude oil refining, fertilizer and power sectors," Srivastava said at the conference.

The current low oil price is sparking a debate among Asian buyers of LNG on the benefits of delinking from the crude-based pricing in favor of gas-linked prices. "Oil-indexed pricing is once again gaining popularity, as gas-linked pricing may not be the panacea for the future and it will come with its own challenges," Srivastava said.

Mitsui may buy minority stake in smaller LNG project in B.C.

(Wall Street Journal; Oct. 14) - In a potential boost to Canada's hopes of entering the global market for liquefied natural gas, Japanese trading house Mitsui & Co. may buy a minority stake in a project on the British Columbia coast, a company official said Oct. 14. "We are looking at equity participation" as soon as next year, said Eiji Yanagawa, general manager of Mitsui's Natural Gas Development Department.

The trading house, which has taken stakes in LNG plants planned for Mozambique and the United States, is interested in a smaller-scale Canadian LNG project that uses a so-called tolling model not bound to any one gas supplier, Yanagawa said. Investing directly "increases confidence" of Japan's industrial end-users, he said. Yanagawa did not specify which LNG project his company is most interested in buying into.

That support could buoy British Columbia's efforts to create a new LNG supply source for buyers in Asia. Nearly two dozen B.C. export terminals have been proposed but none have received final approval from their corporate sponsors amid uncertainty about their profitability and ability to resolve aboriginal and environmental issues.

Cheniere CEO says first cargo may delayed to early next year

(Bloomberg; Oct. 15) - Cheniere Energy is unsure if it will ship the first cargo of liquefied natural gas from its Sabine Pass, La., export terminal this quarter or early next year, Chief Executive Officer Charif Souki said, signaling that the company could miss its original 2015 target. The plant will have to complete certain operational steps such as cooling the tanks before the first ship can be loaded, Souki said Oct. 15 in an interview at the 20th International Gas & Electricity Summit in Paris.

"The first LNG you produce, you have to see at what pace you produce it, if there are any issues or not; and you have to accumulate enough LNG in the tanks to make sure you cool down everything," Souki said. Cheniere is on the front line of U.S. plans to export LNG as shale formations boost gas production.

Most of the plant's production capacity is covered by long-term contracts with customers in the U.K., Spain, India and South Korea. Souki said he sees Europe as a "natural customer" for U.S. LNG under current market conditions and is ready to supply as much fuel to the European market as it's willing to absorb. In the current market, it is more profitable to sell LNG to Europe than to Asia, he said.

Dubai could land 2-year LNG supply deal at $5 per million Btu

(Reuters; Oct. 16) - The Dubai Supply Authority is holding a private tender to buy between four to six liquefied natural gas cargoes each in 2016 and 2017, and is nearing the final stages of the process with an award expected soon, trade sources said. About 15 companies participated in the process via bilateral discussions and price offers were extremely aggressive, sliding below 12 percent of the price of Brent crude oil, traders that participated in the talks said.

Depending on how much below 12 percent, it could work out to a price of around $5 per million Btu for the two years of gas, a trader said, a significantly pessimistic price indicator for global LNG suppliers. LNG traditionally has been priced as a percentage of a barrel of oil, based on an energy-equivalent basis. Spot LNG prices are currently hovering around $6.80 for November delivery. Middle East nations are increasingly relying on LNG imports to fuel power-generating plants.

Jordan signs 2-year LNG deal with Shell for 18-20 cargoes per year

(The Jordan Times; Oct. 15) - Shell will provide Jordan with 59.13 trillion Btu of liquefied natural gas per year over the next two years, a Jordanian official said Oct. 15. The LNG will cover about 40 percent of Jordan's annual electricity generation needs. Under the two-year deal with Shell, Jordan will receive 18 to 20 shipments of LNG per year.

Jordan, which enjoys a strategic relationship with Egypt, is also eyeing imports of natural gas from that country following the discovery of a giant offshore gas field there. "We greatly rely on LNG for power generation at this stage. In addition to the deals with Shell, we also floated a tender to buy LNG from international spot markets," a Jordanian official said. Jordan, which imports about 97 percent of its energy needs, started LNG imports after opening a terminal in mid-2015.

First LNG cargo leaves coal-seam gas project in Australia

(Reuters; Oct. 16) - The first cargo from the $18.5 billion Gladstone liquefied natural gas project left the dock Oct. 16, the second of seven new Australian developments putting the country on track to overtake Qatar as the world's top LNG exporter in the next three years. The launch was a rare piece of good news for Santos, the operator of the project, which is racing to sell assets to cut its $8.8 billion in net debt and help it ride out what is expected to be a prolonged period of weak oil prices.

The maiden cargo from the world's second LNG plant fed by coal-seam gas fields is headed to Korea Gas Corp. in South Korea, just as spot LNG prices in Asia have tumbled to a record low.

Most of Gladstone's 7.8 million metric tons of annual production is locked into 20-year oil-linked contracts with KOGAS and Malaysia's Petronas, both of which are partners in the project along with France's Total, giving the owners confidence in long-term returns.

But expected profits have been crushed since Gladstone was approved in January 2011, with oil prices halving and the global gas market slumping with the advent of abundant shale gas in the United States. The oil-linked LNG prices for Gladstone mean reduced profits for the project developers.

Local government considers new LNG terminal on Sea of Japan coast

(IHS Maritime 360; Oct. 16) - The government of Japan's Kyoto Prefecture is considering building a liquefied natural gas import terminal at the western port of Maizuru. Kyoto recently set up a study group comprised of officials from private companies, including Kansai Electric Power and Osaka Gas, as well as local government officials.

Based on the group's conclusions, the prefectural government is expected to work out details of the project proposal by the end of this year. Japan's LNG import terminals are concentrated on the Pacific coast. A new LNG import terminal at the port of Maizuru on the Sea of Japan coast would help ensure stable energy supplies to Kyoto and nearby prefectures in the event of a serious natural disaster on the Pacific coast.

Pakistan proceeds with deal for Russia to build gas pipeline

(The Express Tribune; Karachi, Pakistan; Oct. 17) - Pakistan and Russia signed a government-to-government deal Oct. 16 to construct a pipeline to transport natural gas from Karachi inland to Lahore. Moscow will lend Pakistan $2 billion for the project, which will pipe gas landed as LNG and then regasified for pipeline transport.

Pakistan will award the contract of laying the pipeline to Russian firm RT Global Resources without going out for bids. The Russian state corporation will lay the almost 700-mile pipeline with a capacity of almost 1.2 billion cubic feet of gas per day to connect with LNG terminals in Karachi. Financing for the pipeline comes as a prelude to Russia's offer to sell LNG to Pakistan. Under the pipeline deal, Pakistan would provide 15 percent equity, with 85 percent from the Russian firm. The first phase of the project is expected to conclude by December 2017.

First Nation grants environmental approval for small LNG project

(North Shore News; North Vancouver, BC; Oct. 18) – The Squamish Nation council has given its environmental approval for Woodfibre LNG's proposed gas processing and export project on Howe Sound, north of Vancouver. The council voted 12-2 on Oct. 14 to grant Woodfibre an environmental certificate — a legally binding agreement that will ensure the company abides to a series of conditions the First Nation says are necessary in order to go ahead.

Among those conditions: Providing better environmental assurances that the plant's cooling system won't damage herring stocks with its intake pipe or chlorinated outflow; moving the project's pipeline compression station farther away from Squamish Nation members' homes; and ensuring that nation members will be able to hunt and fish on their traditional territory.

The nation chose to run its own assessment because the provincial one didn't address issues around aboriginal rights and title, said Chief Ian Campbell. "The assessment represents an exercise in Squamish Nation self-determination by moving beyond mere consultation and getting to First Nation consent," Campbell said. The provincial environmental review is ongoing. Woodfibre is one of the smaller projects proposed for the B.C. coast, at less than $2 billion and about 2 million metric tons of annual capacity.

Anti-LNG protestors demonstrate at FERC offices in Portland

(Portland Oregonian; Oct. 14) - A group of protesters, one dressed as Oregon Gov. Kate Brown, marched into the Portland regional office of the Federal Energy Regulatory Commission on Oct. 14. The protest was organized by Portland Rising Tide, which objects to proposed pipelines and LNG export terminals in Oregon and FERC's environmental impact statements for the Jordan Cove LNG project at Coos Bay and the Oregon LNG terminal in Warrenton.

"By permitting pipeline projects that contribute to climate change and threaten the health and safety of all Oregonians, the Federal Energy Regulatory Commission has failed to act in the interest of the public," said the demonstrator dressed as the governor. The group called on public officials and the governor to stop LNG projects, and oppose natural gas exports in Oregon.

Slight decline in Marcellus Shale gas production

(Bloomberg; Oct. 14) - For the first time since America's shale boom began, the flow of natural gas from the nation's biggest reservoir is close to dropping below year-ago levels. Output from the Marcellus basin in Pennsylvania and West Virginia is faltering as pipeline capacity fails to keep up with the surge in production. While space on Appalachian pipelines has more than doubled this year, it hasn't been enough to keep the flow moving freely, according to Bloomberg New Energy Finance.

That has some producers "choking back" the output from wells, said Charles Blanchard, an analyst at Bloomberg in New York. "They're saying it's not even worth it day to day to keep my wells online because I'm losing money on every molecule that I sell." Marcellus production has surged more than 14-fold in the past eight years. Drillers are waiting on seven new pipeline projects set to enter service this quarter, with eight more scheduled for 2016, according to Range Resources, a Texas company active in the Marcellus.

Marcellus gas production may slip 1.3 percent in November to 15.89 billion cubic feet a day from October, according to the U.S. Energy Information Administration. Output is poised to drop for four straight months. Average gas production is still set to climb for the year, even as the dearth of pipelines keeps supply off the market. "We're on the cusp," Blanchard said. "But you have new pipelines coming in. Everyone hopes to finish these projects before the heating season in November."

Analysts see gradually higher U.S. natural gas prices

(Platts; Oct. 15) – U.S. natural gas prices will rise moderately over the next several years as supplies and demand gradually begin to come back into balance, speakers at the Platts Appalachian Oil and Gas Conference in Pittsburgh said Oct. 15. Meanwhile, liquefied natural gas exports from the Lower 48 states, which are expected to start up later this year, should have a bigger impact on global markets than on domestic prices, said Kenneth Medlock of the Center for Energy Studies at Rice University.

Although U.S. LNG projects under development are permitted to export about 10 billion cubic feet of gas per day, Medlock predicted that within the next three to five years the U.S. contribution to the global LNG market will average about 6.5 bcf a day. "I think you're going to see project developers push forward because there are contracts and interested parties. But a contract doesn't indicate flow. It's about markets," he said.

"We think (U.S.) natural gas prices are going to rise, because they have to," Medlock said. "The price has to reflect marginal cost." U.S. energy supply and demand trends moved in tandem until 2009 "when that relationship [fell] apart" as a large amount of capital began pouring into the North America upstream sector, looking to cash in on the shale oil and gas boom, he said. "When you see these trends, you should say, 'That's not sustainable. When does the correction come?' We're living through it right now."

TOTE takes delivery of world's first LNG-fueled container ship

(UPI; Oct. 16) - General Dynamics subsidiary NASSCO on Oct. 16 delivered the Isla Bella, the world's first container ship to be powered by liquefied natural gas. Isla Bella is the first of two 764-foot-long container ships contracted by TOTE Maritime. Together, the two vessels will be the largest LNG-powered dry cargo ships in the world.

Officials with NASSCO said the ship's natural gas-powered engines will boost the vessel's fuel efficiency, drastically reducing its emissions. Isla Bella will carry cargo between Jacksonville, Fla., and San Juan, Puerto Rico. The ship was built at NASSCO's San Diego shipyard.