Oil and Gas News Briefs
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Alberta faces $6.5 billion budget deficit due to low oil prices

(Calgary Herald; Oct. 24) - The collapse of crude oil prices that led the government to warn Albertans last spring to brace for a multibillion-dollar hole in provincial revenues will result in the recently victorious New Democratic Party introducing a budget update Oct. 27 that forecasts the largest-ever deficit in the province's history. The Finance Minister hinted this week the deficit will be just shy of $6.5 billion — nearly $1.5 billion more than the March forecast. Resource revenue was projected to fall from $8.9 billion to $3.6 billion this year and income tax revenue was expected to drop with it.

It's a gigantic hole — and analysts say there aren't any palatable solutions in sight. The Parkland Institute, a University of Alberta public policy think-tank, didn't mince words in a report this week. "The implications of this unattractive fiscal situation are obvious," noted author Melville McMillan, professor emeritus and fellow of the University of Alberta's Institute for Public Economics. "Albertans will be faced with significant cuts to provincial public services or they will face higher taxes."

Alberta's fiscal situation is "very dire," said University of Calgary economist Ron Kneebone. "There's very little prospect for oil prices to dramatically increase over the near term, which means the government has got this huge fiscal hole in their budget that is not going to be filled anytime soon." Kneebone suggested the new government "start filling it with some combination of tax increases and spending cuts," although no one is expecting large tax increases or huge program cuts to be unveiled this week. Alberta's budget year runs April 1 to March 31.

Tokyo Gas adviser predicts drop in Japan's LNG demand

(Reuters; Oct. 26) - Japanese liquefied natural gas demand will dive by 17 percent, or 15 million metric tons in five years to below 80 million tons a year as more nuclear reactors are restarted, a top executive of Tokyo Gas said Oct. 26. "Last fiscal year, the imported volume of LNG was 89 million tons. By 2020, that demand could be reduced," said Shigeru Muraki, executive adviser of Japan's top gas utility, speaking on the sidelines of the Singapore International Energy Week.

He said 15 to 20 nuclear reactors could restart in about five years. Other estimates have put the number of nuclear restarts in the next few years as low as seven. All of Japan's nuclear reactors were shut down following the 2011 tsunami, with the country restarting only two as of this fall. Despite nuclear restarts for power generation, Tokyo Gas is

looking to add 2 million to 3 million tons of LNG a year to its own annual offtake of 13 million tons as it expects demand from its customer base to increase, Muraki said.

Muraki also said Tokyo Gas will continue to use long-term contracts for its basic supply, but he expects traditional sellers to provide more flexibility to buyers, including not limiting contract cargoes to a single destination. "I don't think traditional sellers will continue to stick to the traditional way of doing contracts. For instance, in the U.S., our LNG contract is based on long-term supply but has flexibility in the destination," he said.

Gazprom budgets for European gas sales to average $5.45 in 2016

(Bloomberg; Oct. 23) - Gazprom, the world's biggest natural gas exporter, is planning for the lowest price for its fuel in its main European market in more than a decade. The state-run exporter is drafting its budget for 2016 with preliminary estimates for gas prices outside the former Soviet Union of about $200 per 1,000 cubic meters ($5.45 per million Btu), said two people with direct knowledge of the matter who asked not to be identified because the information is private.

That compares with the company's estimate of an average price for the region, which covers Turkey and Europe outside the Baltic States, in 2015 of $238 per 1,000 cubic meters and $349 in 2014 ($6.60 and $9.70 per million Btu, respectively). Gazprom, which supplies about a third of Europe's gas and relies on exports of the fuel for 40 percent of its revenue, is facing falling prices for its export sales as most of its contracts are linked to oil. Brent crude has lost 16 percent this year after a 48 percent fall in 2014.

Gazprom is also facing increased competition as the U.S. prepares to export its first liquefied natural gas from the Gulf Coast. "Gazprom's forecasts look reasonable," Alexei Kokin, an energy analyst at UralSib Financial Corp. in Moscow, said by phone Oct. 23. Russia has the capacity to maintain its market share in Europe given lower prices next year even amid the predicted glut in LNG, he said.

U.S. gas exports to Mexico average record 3.3 bcf a day in July

(The U.S. Energy Information Administration; Oct. 21) - Growing U.S. gas pipeline exports to Mexico are beginning to gradually displace Mexico's liquefied natural gas imports, as new U.S. pipeline capacity is brought online and connecting pipelines in Mexico are ramping up to full capacity, the U.S. Energy Information Administration reported Oct. 21.

U.S. exports to Mexico set a monthly record high in July, averaging 3.3 billion cubic feet per day, according to EIA data, and averaged 2.7 bcf a day in the first seven months of this year, 35 percent higher than in the same period last year. In contrast, Mexico's LNG

imports were 7 percent lower in the first seven months of 2015 as compared to the same period last year, according to data from Mexico's Secretaria de Economia.

Before the strong growth in the U.S. shale production, Mexico considered LNG imports as a viable alternative to offset declining domestic production and expected limited growth in pipeline imports from the United States. With the rise of U.S. shale production and a decline in U.S. gas prices in recent years, the need in Mexico for LNG imports decreased. As a result, LNG regasification terminals are operating below capacity.

Norway on track to hit new record for gas production this year

(Bloomberg; Oct. 21) - The Troll A platform rocks as North Sea waves pound its gigantic concrete legs, but monitors inside the control room show a steady flow of gas continues unabated — enough to meet the needs of 10 million homes in Europe. Norway is on track for record gas production this year after Statoil put an end to technical issues that limited Troll's capacity. And deep within the platform 40 miles offshore, newly installed compressors stand ready to maintain the field's capacity well into the next decade.

Statoil is investing in its biggest gas field as the opportunity, but also the competition, expands in the European market. Demand in the region is growing for the first time in years, while safety concerns constrain output at Europe's biggest onshore gas field in the Netherlands. At the same time, prices are under pressure as Russia boosts gas deliveries to Europe and increasing numbers of liquefied natural gas cargoes arrive from the Middle East and Africa.

Troll is a monster by any definition. It's Norway's biggest gas field, accounting for almost a third of production, underpinning its position as Europe's biggest supplier after Russia. Its platform — the tallest structure to have ever been moved by human beings — can deliver 4.2 billion cubic feet of gas each day. Compressor breakdowns that reduced flow have been resolved, Statoil said, helping the country to increase output. A new record of more than 4.1 trillion cubic feet of gas is possible from all of Norway's fields this year.

India's LNG importer pays $70,000 per day for unused charters

(Live Mint; India; Oct. 22) - Petronet LNG, India's biggest liquefied natural gas importer, is shelling out more than $6 million every quarter in demurrage charges for ships idling because its public-sector customers are refusing to buy expensive imported gas. The company is taking only 68 percent of the volumes it agreed to in 25-year contracts with RasGas of Qatar after a slump in global energy prices led to gas being available in the global spot market at roughly half the contract rate.

State-owned GAIL India, Indian Oil and Bharat Petroleum had committed to buy all of the 7.5 million metric tons a year of LNG that Petronet signed up to import from Qatar. But with falling global prices, they have opted to buy gas on the spot market rather than use the long-term LNG deals, senior officials said. The reduced offtake by the buyers forced Petronet to cut its purchase from RasGas, which resulted in frequent idling of the ships it had chartered for ferrying gas from Qatar to its import terminal in Gujarat.

But as per the contract, Petronet continues to pay about $70,000 per day for the unused time — totaling more than $6 million per quarter. While spot-market LNG is available at $7 to $8 per million Btu, the price under the RasGas long-term contract is close to $13. Pricing under the contract is linked to the previous 12-month Japan Crude Cocktail oil benchmark based on average prices of the past 60 months. That five-year average has prevented India from reaping the benefits of the steep drop in oil prices of the past year.

Companies hold attractive stakes in Papua New Guinea LNG

(Bloomberg; Oct. 22) - The record $24 billion offered for Australian oil and gas companies this year is less about assets in that country and more focused on its smaller neighbor — Papua New Guinea and ExxonMobil's liquefied natural gas project there. Both Australia-based Santos, which rejected a buyout bid Oct. 22, and Oil Search, which declined an offer last month, have stakes in the Exxon-led project that's seen by Sanford C. Bernstein & Co. as one of the best assets to own amid low energy prices.

The $19 billion project started production last year and is a bright spot in a battered energy sector because of its low cost and expansion opportunities. "It's the crown jewel," Neil Beveridge, a Hong Kong-based analyst at Sanford C. Bernstein, said by phone. "It offers tremendous resource potential, low development costs and lots of room for expansion. It's one of the few projects that we see as competitive in this new lower-oil price environment, making it appealing to a lot of companies."

LNG from 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. Asian LNG has averaged $7.52 this year, compared with $13.93 in 2014, amid a surge in supply. The offers for Santos and Oil Search have already made it a record year for proposed oil and gas deals in Australia, with at least 28 takeover proposals this year worth $24 billion including debt, according to data compiled by Bloomberg.

U.S. will need higher natural gas prices to encourage investment

(Platts; Oct. 23) - There is no evidence of a slowdown in the growth of natural gas supplies to world markets despite low prices, senior officials at global industry group the International Gas Union said Oct. 23, but they warned that U.S. prices would need to

rise to $4 to $5 per million Btu to encourage investment in new projects and to guarantee a continued abundance of gas supply.

The fall in prices across the globe — and particularly in North America, where prices are currently pegged at less than $2.40 — has triggered concern over future upstream investments. "We're seeing investments being curtailed in some of the next tranche of early LNG developments," Mel Ydreos, the chairman of the IGU's coordination committee, told Platts in an interview. "If you look at Canada, it's questionable when [final investment decisions] will be reached for some of those projects," he said.

In addition, Ydreos said, the current low price in the U.S. is not incentive enough for upstream companies to invest in the development of new gas resources. "In the U.S., $3 gas is really not sustainable in the long run if you want to continue to have the abundance. A movement toward $4 to $5 is likely needed to continue to aggressively pursue resources," he said. "Whether [low prices] are a good thing for the ultimate long-term supply situation, that remains to be seen."

Oregon county opposes eminent domain for gas line to LNG plant

(The World; Coos Bay, OR; Oct. 21) – Oregon's Douglas County commissioners have asked the Federal Energy Regulatory Commission to deny Pacific Connector Gas Pipeline the right to use eminent domain for right-of-way acquisition. In a filing with FERC on Oct. 19, the commissioners cited safety and eminent domain as their main concerns with the proposed pipeline that would carry gas through Klamath, Jackson, Douglas and Coos counties to the proposed Jordan Cove LNG terminal in Coos Bay.

"The board does not believe the use of eminent domain for the acquisition of private property for the Pacific Connector Pipeline, a privately owned company, is appropriate," the commissioners wrote. "We request FERC to include a condition in any approval of the Pacific Connector Pipeline through Douglas County that eminent domain not be used and Pacific Connector be required to negotiate with property owners to reach agreement on route, safety and compensation."

The board also said it shared with FERC the concerns of its constituents regarding safety. The 230-mile pipeline would run from near the Oregon-California border to the coastal LNG site, bringing U.S. Rockies and Canadian gas to the plant for export. FERC has not issued approval for the pipeline and LNG plant, and the project developer has not committed to construction pending that approval and necessary commercial deals.

New York gas pipeline critics say FERC review was inadequate

(Albany Times Union; NY; Oct. 21) - Opponents of a gas pipeline expansion that includes New York's Mohawk Valley on Oct. 21 blasted as inadequate a federal environmental review that found no significant potential health risks along the pipeline route but was silent on how the gas might be exported from the U.S. The Federal Energy Regulatory Commission on Oct. 20 found no significant environmental issues with plans by Dominion Transmission to expand its 200-mile pipeline in New York to handle gas from the shale fields of northern Pennsylvania.

Pipeline opponents called on the state of New York to require a more detailed environmental review as part of state water and air quality permits required for what Dominion calls the New Market pipeline project. Resolutions against the project have been adopted by Otsego, Canajoharie, Montgomery County, Fort Plain and Sharon Springs in upstate New York. Several opponents also wanted FERC to look at the environmental impacts of hydraulic fracturing for shale gas production in Pennsylvania.

Bob Perry, a trustee for the small community of Fort Plain, said there was "no evidence that the federal government gave our concerns … any serious consideration." In the 199-page document, federal regulators wrote that "natural gas extraction and related activities in the Marcellus Shale region are not within the scope" of the pipeline review, even though project opponents asked FERC to include the issue. Some of the gas moving through the line could go to proposed LNG export projects in Canada.

Oregon LNG developer puts investment decision at late 2016

(The World; Coos Bay, OR; Oct. 22) - In a presentation to the Community Enhancement Plan work group Oct. 20, Jordan Cove LNG senior project adviser Bob Braddock gave an update on the schedule for the coastal Oregon project. The Federal Energy Regulatory Commission issued Jordan Cove's final environmental impact statement Sept. 30, and a FERC decision on federal authority to build and operate the plant at Coos Bay, Ore., is expected in late November or December, Braddock said.

"We expect somewhere in the range of 120 conditions that must all be successfully complied with before the start of construction," he said. "Once we comply, then they will give us the notice to proceed." An investment decision won't come from Calgary-based Veresen, Jordan Cove's parent company, until fourth quarter 2016, Braddock said. "The reason for that is that we are in the process of negotiating commercial agreements that we anticipate will be fully executed by early March of this coming year."

"The scale of the project essentially requires a fairly high level of national government support for the customers of these facilities, therefore there's a lot of red tape they need to do," Braddock said. Jordan Cove will also need an engineering, procurement and construction contractor. Kiewit and Black and Veatch "carried us through the permitting process," he said, but those contracts do not extend to construction. The developer says it would take 52 months after an investment decision to build the $7 billion project.

B.C. officials head to Singapore, Tokyo to pitch LNG plans

(Globe and Mail; Canada; Oct. 21) – B.C.'s Deputy Premier Rich Coleman will meet next week with the chief executive officer of Malaysia's state-owned Petronas as the provincial government embarks on two Asian trade missions to spur liquefied natural gas exports. Coleman will speak at a conference in Singapore, where he will also discuss gas in a meeting with Petronas CEO Wan Zulkiflee Wan Ariffin. Petronas leads the Pacific NorthWest LNG venture, which is looking to build near Prince Rupert, B.C.

Industry experts consider Pacific NorthWest LNG a front-runner in the race to start work in B.C., although its proposal faces opposition from environmentalists and prominent members of the Lax Kw'alaams First Nation. Coleman, who oversees the province's LNG file in his role as Natural Gas Development Minister, will fly to Japan after Singapore. He will meet with Japan Petroleum Exploration (a Pacific NorthWest LNG co-owner) and Mitsubishi (a member of the LNG Canada proposal led by Shell).

B.C. Premier Christy Clark and International Trade Minister Teresa Wat will head a separate trade mission to China from Oct. 30 to Nov. 7, stopping in four cities. They will address topics such as LNG, agriculture and clean technology. The trips come as anti-LNG activists step up protests. Last week, more than 180 people representing environmental groups and First Nations marched in downtown Vancouver.

Low diesel prices make trucking more competitive against rail

(Wall Street Journal; Oct. 22) - Fuel prices are low enough that truckers are again becoming more competitive with rail, executives at Union Pacific said Oct. 22. For years, railroads like Union Pacific have been developing their intermodal businesses of moving containers and trailers, allowing them to compete directly with truckers on their home turf. As fuel prices skyrocketed and trucking companies faced driver and capacity crunches, railroads became a logical, cheaper choice.

But diesel prices have fallen by about 30 percent over the past year to $2.53 per gallon, according to the U.S. Energy Information Administration, something that has made trucking prices more competitive again. "I think you look at what's going on currently in the trucking environment, the lower fuel cost is allowing trucks to be more competitive vis-à-vis rail, just by virtue of that fact," said Eric Butler, Union Pacific's executive vice president of marketing and sales, on an earnings call with analysts Oct. 22.

Given a similarly priced choice, many shippers will choose trucking over rail because the shipment can go point-to-point and will likely arrive faster. In addition, after an intermodal container is railed close to its destination, it still typically needs to be trucked

the so-called final mile to its destination. Still, Union Pacific said trucking companies still face the same issues going forward, including a driver shortage and issues with productivity due to sleep regulations and road congestion.