Oil and Gas News Briefs
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October 5, 2015

China looks to sell some of its surplus LNG

(Reuters; Oct. 2) - China's energy giants — after years spent scrambling to secure supplies for the world's third-biggest gas market — are being forced to sell off some of the fuel to buyers in other countries as soaring demand in China grinds to a halt. Gas consumption has been hit by a cooling economy and also state policies that ensure the Chinese pay among the world's highest gas prices, threatening Beijing's targets of curbing pollution and emissions by using more of the cleaner-burning fuel.

The sales will increase pressure on Chinese policy makers to speed up planned reforms of its oil and gas sector, and will also weigh on global gas prices that already are low. Chinese state oil firms agreed to a string of long-term liquefied natural gas contracts with producers from Qatar to Papua New Guinea as gas consumption jumped five-fold between 2004 and 2013, but that was before China's demand growth went from double-digits to less than 3 percent this year.

Faced with a wave of new LNG imports, China's Sinopec is in talks to sell part of the 7.6 million metric tons per year it contracted from 2016 to 2036 from the Australia Pacific LNG project, said an industry source. As a buyer and 25 percent shareholder in the project, Sinopec has leverage on diverting cargoes away from China, but still needs the consent of other shareholders. Facing similar headwinds, China National Offshore Oil Corp. held its first-ever tender to sell two surplus cargoes to buyers outside China.

Start-of-winter natural gas prices in U.K. lowest since 2009

(Platts; Oct. 1) – U.K. winter gas supplies are at their lowest price going into the season this decade as concerns over Russian supplies have subdued, oil prices are weak, global LNG supply is strong and temperatures are mild. The winter 2015 delivery contract closed out Sept. 30 at $6.40 per million Btu, the lowest point at which a winter contract has ended its trading life since 2009 when the market was still limping heavily from the 2008 financial crisis.

An oversupplied global LNG market has played a major role in the low prices. The U.K.'s LNG import terminals are much busier than in past years, with few signs of deliveries slowing down. Investment bank Morgan Stanley said last week, "LNG oversupply could pose the next threat for European gas prices." It explained, "The bulk of excess LNG globally is likely to find its way into the European market and would therefore depress European gas prices."

Winter, however, is always a gamble when it comes to gas prices, as temperature fluctuations can dramatically alter demand for the fuel and prices.

Israel impedes development of huge offshore gas field

(Reuters; Oct. 1) - When the Leviathan field was discovered off the coast of Israel in 2010, it was pitched as a game-changer — a vast gas reserve that would transform the economy and boost public coffers for years to come. Five years on, poor policymaking, political infighting and a battle between Prime Minister Benjamin Netanyahu and the antitrust commissioner over a lack of competition mean Leviathan sits undeveloped. Meanwhile, Egypt found a larger field that could make it a more attractive investment.

The case sends a worrying message to investors and could make them wary of the resources sector in Israel. Instead of billions of dollars in exports and taxes from the gas over the next 25 years, analysts are now concerned Israel will end up with negligible additional income. "It seems like (government leaders) are making every possible mistake," said Bank Leumi chief economist Gil Bufman. "They counted how much they could make from this gas but forgot what they have to do to make it come true."

In 2009, Texas-based Noble Energy and Israel's Delek discovered the offshore Tamar field, which was set aside almost entirely for domestic consumption. In 2010, they found twice-as-large Leviathan (22 trillion cubic feet of gas) — economists said Israel would export most of that gas. The reality has been far different. The rules were changed to impose higher taxes on the companies. Then Israel's antitrust commissioner got involved, ruling earlier this year that Noble and Delek had a monopoly. Uneasy about the legal ground, Delek and Noble are holding back on investing to develop Leviathan.

Chinese company will build LNG terminal, pipeline in Pakistan

(The Economic Times; India; Oct. 1) - China will soon start construction of a $2.5 billion liquefied natural gas import terminal in Pakistan’s Balochistan province and also will work on the Iran-Pakistan gas pipeline under the ambitious China-Pakistan Economic Corridor project, a senior official said. The LNG terminal will be set up in Gawadar in the western province, while the pipeline will bring gas from Iran to central Pakistan.

Mubeen Saulat, managing director of Pakistan’s state-controlled Interstate Gas Systems, told media that a Chinese state firm will be awarded contracts for the two projects by November, with construction to start soon after that. The LNG import operation will consist of a floating receiving, storage and regasification terminal, with the capacity to handle up to 500 million cubic feet of gas per day.

"The dual projects will be completed at the cost of about $2.5 billion, and 85 percent of the investment will be done by the Chinese company, while government of Pakistan will provide 15 percent of equity," Saulat said. The two projects are part of the China-Pakistan Economic Corridor, a $46 billion project to strengthen ties between Pakistan and western China. It includes several energy and infrastructure projects.

First Nation members divided over LNG site near Prince Rupert

(Globe and Mail; Canada; Oct. 1) - A rift has emerged in the Lax Kw'alaams First Nation over Pacific NorthWest LNG's plan to export liquefied natural gas from Lelu Island on B.C.'s northern coast. The disagreement among the Lax Kw'alaams focuses on whether the island should be rejected outright as the site of an export terminal. For more than five weeks on Lelu Island, there has been a protest camp spearheaded by Donnie Wesley, a Gitwilgyoots tribal leader who objects to the terminal site because it is next to Flora Bank, an ecologically sensitive area that nurtures juvenile salmon.

But some prominent members of the Lax Kw'alaams are open to potentially having an LNG plant on the island near Prince Rupert, saying they want to examine the project's efforts to address concerns about the impact on fish habitat in Flora Bank. John Helin, a former Lax Kw'alaams chief councillor, said the key is whether Pacific NorthWest LNG is able to prevent environmental harm to Flora Bank in the Skeena River estuary. "You have to keep an open mind and find out all the facts before making decisions."

Helin said he will be running for Lax Kw'alaams mayor in November. Robert Sankey, hereditary house leader of the Eagle clan of the Gitwilgyoots tribe, said he believes it is possible for Pacific NorthWest LNG to devise a suspension bridge and pier that avoids hurting Flora Bank, but the designs presented so far are not sufficient. "We are not against LNG development, we just don't want Flora Bank to be disturbed," Sankey said.

Vancouver Island First Nation sees money in LNG deal

(The Canadian Press; Oct. 2) - A Vancouver Island First Nation exploring the potential of locating a liquefied natural gas export plant on its treaty lands expects a lucrative future financial offer to be part of its negotiations with the project developer. Chief Robert Dennis of the Huu-ay-ayt First Nation near Port Alberni, B.C., did not specify a financial amount, but said Oct. 2 the recent $1.1 billion offer to a northwestern B.C. First Nation to support a proposed LNG project near Prince Rupert sets the stage for talks.

Vancouver-based Steelhead LNG is looking at locating a production plant on aboriginal lands and is working with both the 750-member Huu-ay-ayt and also the Malahat First Nation on separate LNG projects on Vancouver Island. "Let's make no bones about it, Petronas has set a bar by offering $1.1 billion to the Lax Kw'alaams," Dennis said. The

Lax Kw'alaams rejected the offer to support the project near Prince Rupert; among their fears are the development would harm juvenile salmon habitat in the area.

Dennis said the Huu-ay-ayt nation has been in talks with Steelhead, adding that the negotiations include environmental, cultural and economic issues but they have yet to include financial offers. Canada's National Energy Board on Oct. 2 approved Steelhead's LNG export application. That's just one of many regulatory approvals required for the project, said Steelhead CEO Nigel Kuzemko, who added that a final investment decision to proceed is up to two years away.

LNG developer says industry would 'transform' British Columbia

(Vancouver Sun; Oct. 2) - British Columbia will be "transformed" if a liquefied natural gas industry takes hold in the province, according to the chief executive officer of LNG Canada, one of 19 projects proposed for the province's West Coast. "There is substantial revenue flow, employment opportunities, contracting opportunities and business opportunities," Andy Calitz said during a panel discussion on the industry's future in B.C. at a Vancouver Board of Trade meeting Oct. 2.

"It will transform B.C. I've seen that transformation in Western Australia. I've seen that transformation in Russia, in Papua New Guinea. It makes an amazing difference." In June, the multibillion-dollar LNG Canada project near Kitimat, led by Shell, was given the environmental go-ahead, subject to dozens of conditions. The partners — Shell and companies from Japan, China and Korea — still must decide if moving ahead makes business sense. They expect to make that investment decision in 2016.

New England short on pipe, pays high prices for gas and electricity

(Wall Street Journal; Sept. 30) - Natural gas is so abundant and cheap in much of the U.S. that producers want to send it overseas — except in New England, where gas is so hard to get that LNG is being imported from as far away as Yemen. The shale boom that has produced the gas glut — and cut home heating bills — has largely bypassed energy-starved New England. Few pipelines are available to transport gas there from Ohio and Pennsylvania, and new lines proposed won't start service until 2018, or later.

Gas-fired plants currently supply 44 percent of New England's electricity, up from just 18 percent in 2000. So as winter nears, problems loom. When brutal cold hits, energy prices will soar. The residential gas price in Massachusetts was $14 per 1,000 cubic feet last January, more than 50 percent above the U.S. average, according to the Energy Department. At nearly 21 cents a kilowatt hour, average first-quarter home electricity prices in New England were two-thirds more than the U.S. average.

John Flynn, a senior vice president at utility National Grid, which serves parts of New England, said gas and power prices in the region will keep rising until new gas pipelines get built to bring cheap supplies to the region. “We simply can’t keep up with the desire by customers to switch from oil to gas, because of a lack of pipeline capacity,” he said. Most of the gas pipelines under consideration are hotly contested by some communities that object to fossil-fuel development or don’t want the lines buried under their towns.

Judge blocks enforcement of new BLM fracking rules

(Energy Wire; Oct. 1) - The Department of Interior does not have authority to regulate hydraulic fracturing on public lands, a federal judge decided Sept. 30. In a major blow to the Bureau of Land Management and environmentalists who support stricter fracking oversight, the U.S. District Court for the District of Wyoming enjoined BLM's years-in-the-making fracking rule, blocking enforcement of the new regulation while the court considers industry and state challenges.

"One of the fundamental questions presented in this case is whether Congress granted or delegated to the BLM the authority or jurisdiction to regulate fracking," Judge Scott Skavdahl wrote. "At this point, the Court does not believe Congress has granted or delegated to the BLM authority to regulate fracking." The decision sent shock waves through the Interior Department and environmental community. The rule's backers have argued that BLM has broad authority to regulate oil and gas production on federal land.

"BLM has well-established authority to regulate hydraulic fracturing and other downhole aspects of drilling on federal lands," said Earthjustice attorney Michael Freeman. The rules had set new requirements for well construction, water management and chemical disclosure for fracked wells on public and tribal lands. BLM said it is consulting with the Justice Department to decide how to respond to the ruling. Industry groups and several states, meanwhile, celebrated the decision as an affirmation that BLM had gone too far.

Shale drillers experiment with using more sand to boost oil flow

(Bloomberg; Sept. 30) - Amid the maze of wells that Murphy Oil has scattered across the sprawling Eagle Ford Shale formation in Texas, Brett Pennington is carrying out a little experiment. What will happen, the exploration chief wants to know, when he jams huge quantities of sand down the narrow mouth of one of these wells. Will more crude come out? Or, rather, will he smother the opening and choke off the flow?

For the experiment, he’s amped up the sand meter all the way to 3,000 pounds per foot, almost double the average that each well in the Eagle Ford gets nowadays. His project serves to underscore a trend spreading rapidly across a shale industry that’s scrambling to remain profitable after oil prices have dropped 50 percent. More and more sand is getting stuffed down wells to try to better pry open the rock and bolster output.

The initiative is the result of engineers tinkering with inputs and discovering one of the many little technological breakthroughs that have helped the shale industry weather the downturn better than its legions of skeptics predicted. For proof of greater productivity, look no further than total U.S. output: It remains within 3 percent of a 40-year high even though drillers have idled more than half of their rigs. A study of more than 1,000 wells in the Eagle Ford — a region that accounts for 15 percent of all U.S. oil output — found that the injection of additional sand can triple output in some cases.

Pennsylvania will step up seismic monitoring statewide

(Pittsburgh Tribune-Review; Sept. 29) - Pennsylvania plans to increase monitoring of seismic activity as tremors linked to hydraulic fracking in other drilling states spur calls for stepped-up strategies to deal with human-induced earthquakes. The state Department of Conservation and Natural Resources and the Department of Environmental Protection said Sept. 29 they will spend $531,000 on a network of seismic activity monitors at 30 stations across the state for three years.

Despite a boom in drilling that has made Pennsylvania the No. 2 natural gas producer in the country, the state has not had earthquakes connected to fracking or to the deep wastewater injection wells blamed for tremors in states such as Ohio. “This seismic monitoring network will give the state a better baseline understanding of the state's geology — for all decisions, not just oil and gas,” said agency spokesman Neil Shader.

The monitors will help the Bureau of Topographic and Geologic Survey map underground activity, including unnatural events such as tremors caused by quarry blasting or activities connected to the oil and gas industry, resources agency Secretary Cindy Adams Dunn said in a statement. Seismologists, academics and state regulators in recent years have drawn connections between increased earthquakes in some states and drilling activities such as storing wastewater in deep underground wells.

Russia, Saudi Arabia not cutting back on oil production

(Wall Street Journal; Oct. 2) - Russia and Saudi Arabia — the world’s two biggest oil producers — indicated Oct. 2 that they weren’t pulling back from the huge crude output levels that have helped send prices tumbling worldwide. Russia said it produced oil in September at levels not seen since the fall of the Soviet Union a quarter-century ago, pumping an average of 10.74 million barrels a day, government data showed. Oil production increased 0.4 percent from August.

One of the world’s most influential oil ministers — Saudi Arabia’s Ali al-Naimi — said his country would continue investing in oil and gas, according to the Saudi Press Agency. The world’s largest exporter has ramped up production above 10 million barrels a day for the past few months. The output from Saudi Arabia and Russia adds to an already oversupplied global oil market, even with U.S. output showing signs of weakness.

The news is also the latest indication that Russia isn’t prepared to join the Organization of the Petroleum Exporting Countries in trimming production to prop up prices. OPEC has indicated that it will only consider a cut if other big suppliers, such as Russia, join it and several OPEC members have tried to woo the country. Naimi, speaking at a Group of 20 conference of government energy officials in Turkey, again called on non-OPEC countries to help it “stabilize the market,” though he didn’t name Russia.

Iran has large ambitions for increased oil and gas production

(Houston Chronicle; Oct. 1) - Iran plans to increase crude output by 2 million barrels a day from about 50 energy projects slated for presentation to potential investors at a conference in Tehran next month, National Iranian Oil managing director Roknoddin Javadi said. The package will also aim to boost gas production, Javadi said Oct. 1. Oil production is now 2.8 million barrels a day, data compiled by Bloomberg show. Iran has the world’s largest gas reserves and fourth largest oil reserves, according to BP figures.

Iran will need $30 billion of investment over five years to boost oil production, starting with about 350,000 barrels of new output next year, Goldman Sachs Group said in a report Oct. 1. The new supplies could keep downward pressure on global oil prices and delay the market’s return to balance, said Henry Tarr, a Goldman analyst. The deal with the U.S. and other countries to lift sanctions on Iran in exchange for curbs on its nuclear program point to an early 2016 start for new oil if all conditions are met, Tarr said.

Potential investors will be asked to consider contracts over 20 to 25 years, Javadi said. Iran needs 7.4 trillion cubic feet of gas a year to meet its own needs, and production could reach about 10.6 tcf by the end of next year, Javadi said. That would leave up to 3.2 tcf a year available for export. Talks have been renewed with European Union countries to supply them with gas via pipeline and liquefied natural gas, though it could take three years to develop and build Iran’s first LNG export plant.

China could greatly increase imports of Russian gas, official says

(Platts; Sept. 30) - China could import 3.5 trillion cubic feet of Russian gas a year by 2020, shared between pipeline gas and LNG, or about one-third of the country's total consumption, as it sees Russia as a strategic partner that would help it move to the cleaner fuel and away from coal, Zhen Wang, China National Petroleum Corp.’s deputy director-general for policy research, told journalists Sept. 30. China has chosen gas as its next top-growth fuel, Wang said.

While China would prefer to diversify its suppliers, Wang said having Russia as the largest supplier would be safe. "From the consumer side, we want to diversify gas supplies, it would be much safer. But I don't think [Russia being the largest supplier] is a real problem. China is big enough, and China's gas market is also big enough," he said on the sidelines of Sakhalin Oil and Gas conference in Russia's Far East.

Over the past two years, Russia's Gazprom has signed 30-year deals to supply China National Petroleum Corp. with gas from West Siberian fields and a memorandum of understanding on potential pipeline gas deliveries from Russia's Far East. Deliveries under the first contract are scheduled for 2018. Construction of one pipeline is underway. Though China has seen a gas demand slowdown recently, Wang said gas consumption will increase at a relatively high rate longer term. "I don't think the parties should negotiate based on the current demand, they should have a long-horizon view."