Oil and Gas News Briefs
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Japanese operator announces delay in Australia LNG project

(Reuters; Sept. 11) - Inpex Corp., Japan's biggest oil and gas developer, said Sept. 11 that the start-up of its Ichthys liquefied natural gas project in Australia would be delayed until the third quarter of 2017, later than the original plan for 2015 and a revised end-of-2016 start, due to construction hold-ups. In addition, the project's total cost will likely rise about 10 percent from a January 2012 estimate of $34 billion when Inpex made the final investment decision.

The company also said it has engineered a small gain in capacity at the plant, from 8.4 million metric tons per year to 8.9 million tons. The increase in output comes from the use of a more efficient gas-fired power generation unit, officials said. Inpex President Director Australia Seiya Ito said the company aims to direct about 70 percent of the plant's output to Japan, the world's biggest LNG buyer. The plant's second liquefaction train is set to start up late 2017, bringing Ichthys to full production, officials said.

Condensate and liquefied petroleum gas production will also rise from the previous outlook of 100,000 barrels per day and 1.6 million metric tons per year, but it is not clear how much, officials said. An Inpex official said despite the recent slump in oil prices, the project remains "very profitable." Inpex has a 62.2 percent stake in the project, with France's Total and several Japanese and a Taiwanese company holding the rest.

Japanese utilities' coal consumption in August highest since 1972

(Bloomberg; Sept. 10) - Japan's regional power utilities burned the most coal on record in August, flouting calls from the nation's environmental minister to rein in use to control greenhouse gas emissions. The nation's 10 power utilities used 5.82 million metric tons of coal in August, the Federation of Electric Power Cos. reported Sept. 11. That's the most in monthly usage since the group started compiling data in April 1972.

While total power generation and purchases fell 0.9 percent, liquefied natural gas use slid to the lowest in August in five years and fuel oil to its lowest in six years. Japan's environment minister said last month that he would not support a new coal power station planned for central Japan as part of a push to control greenhouse gas emissions. Coal consumption increased 19 percent between 2010 and 2014, largely due to the 2011 Fukushima disaster that led to the closing of the nation's nuclear plants.

“Coal is still the cheapest fuel source,” Ali Izadi-Najafabadi, a Tokyo-based analyst with Bloomberg New Energy Finance, said by phone. By year’s end it will cost on average of about 4 yen (3 cents) per kilowatt hour to operate a coal-fired plant, compared to 9.6 yen for a gas-fired facility, according to data compiled by Bloomberg.

B.C. Cabinet minister not too worried about Petronas safety lapses

(Vancouver Sun columnist; Sept. 11) – B.C. Cabinet minister Rich Coleman admitted to being caught off-guard this week by news of potentially “catastrophic” lapses in safety at the Malaysian operations of Petronas, the company the provincial leadership is counting on to build B.C.’s first major liquefied natural gas export terminal. The 732-page audit raised concerns ranging from decades-long delays in inspections to corrosion that endangered the structural integrity of the company’s offshore oil and gas platforms.

Several problems identified by the auditors were so severe as to have possibly lethal consequences. Still, in characteristic fashion, the province’s deputy premier and minister for natural gas development proceeded to explain why the findings should not be any cause for concern in B.C. The audit was “a couple of years old,” and Petronas had commissioned the review itself, which Coleman found reassuring. But British Columbians — and indeed Coleman himself — only learned about it because The Vancouver Sun obtained a copy and reported the findings on the front page.

The audit was commissioned in 2013 after mounting concerns inside the company about a number of accidents and deaths in the preceding two years. Coleman further qualified the findings by noting that the audit focused on the company’s offshore drilling for oil and gas, not the onshore production of liquefied natural gas. Petronas and its partners are waiting for Canadian environmental regulators to make a decision on their proposed LNG export project in front of Prince Rupert, B.C.

B.C. LNG projects will face delays and cancellations, report says

(Globe and Mail; Canada; Sept. 10) - Worries are growing that proposed liquefied natural gas projects in British Columbia will face delays and cancellations as high construction costs and low LNG prices erode the confidence of international energy players. “The coming 12 months will prove pivotal for LNG development on the Canadian West Coast,” Calgary-based investment dealer Peters & Co. said in a new report.

Pacific NorthWest LNG, an export project proposed for near Prince Rupert, B.C., is awaiting the green light from the federal environmental regulator. The venture, led by Malaysia’s state-owned Petronas, is widely seen as the front-runner in the race to export LNG from the B.C. coast. The Canadian Environmental Assessment Agency started its Pacific NorthWest LNG review in April 2013. The process had been expected to take two years at most, but the agency has repeatedly asked for more information.

Other projects also face timing uncertainty. “High capital costs, development of infrastructure, the extended regulatory approval process and weakness in Asian LNG prices increase the risk of deferral or cancellation of projects in the near-term,” said the 21-page Peters & Co. study, which examines LNG proposals, gas producers, work-camp operators and pipeline companies. While Pacific NorthWest LNG and LNG Canada’s Kitimat site appear to lead the race, others continue to jockey for position.

First Nation’s internal dispute another reminder of barriers in B.C.

(Vancouver Sun columnist; Sept. 10) - As leader of a community that stands to benefit greatly from B.C. liquefied natural gas projects, Chief Councillor Ellis Ross of the Haisla First Nation recently issued a strong defense of the industry in the face of opposition from a holdout group of Natives. His statement was prompted by a standoff in the territory of the neighboring Wet’suwet’en First Nation over the routing of a pair of pipelines that would deliver gas to proposed LNG terminals at Kitimat in Haisla territory.

The Wet’suwet’en, via their elected leaders, have signed on to support the pipelines via benefit-sharing agreements that brought construction jobs in the short run and the promise of millions of dollars longer term. However, one of the clans that comprise the First Nation is refusing access to pipeline construction crews in their area of the lands.

“When I was first elected to Haisla Nation Council, I was generally opposed to industry,” Ross said. “It didn’t take long before I was confronted with the harsh reality of what our communities have been facing — poverty, suicides and the hopelessness.” He figured there had to be a way for his people to start helping themselves. The Haisla now have a piece of the multibillion-dollar action in two potential LNG projects. But so far, the First Nation’s internal dispute has resisted all efforts to settle it from within or without. It’s another reminder of the multiple barriers to investment in the province.

Hedge fund exec sees grim prospects for U.S. LNG exports

(Bloomberg; Sept. 9) - Hedge fund executive Jim Chanos’ bet that Cheniere Energy is set for a fall puts him in line with a growing chorus of analysts forecasting grim prospects for U.S. natural gas exports. Multibillion-dollar liquefied natural gas projects are facing a hard future as a crash in energy markets strains producers’ resources and global demand for the fuel wanes. Chanos has placed negative bets on Cheniere, declaring in an interview on CNBC that the LNG industry is a “looming disaster.”

The bet also mirrors Chanos’ pessimistic view of growth in China, one of the key potential markets for LNG supplies. “The single biggest worry is the very sharp slowdown in manufacturing in China,” said Michael Stoppard, chief strategist of global gas at IHS in London. “We’re at an absolutely critical pivot point of huge uncertainty, so people are betting in different directions.”

Cheniere is the only pure-play LNG company and a proxy for investors betting on U.S. gas shipments. By the end of the year, it plans to begin shipments from the U.S. Gulf Coast, making it the first exporter of gas sourced from the Lower 48 states. Those shipments will come just as a supply glut takes hold in 2016 and expands through 2025, when global export capacity may be 40 percent higher than demand, according to a report by Bloomberg New Energy Finance. China’s appetite for LNG will grow more slowly as its economy weakens and pipeline competition ramps up, the report said.

Canada approves East Coast LNG export project

(Reuters; Sept. 11) - Spanish energy giant Repsol has received approval from Canadian regulators to begin exporting liquefied natural gas from its underutilized Canaport import facility in Saint John, New Brunswick. The National Energy Board Sept. 3 granted the company a 25-year permit to import as much as 312 billion cubic feet of natural gas per year by pipeline from the United States and western Canada, then convert it to 6 million metric tons of LNG at a new facility it would build at Canaport.

The project is one of four LNG export terminals proposed in eastern Canada, aiming to ship abundant North American natural gas to energy-hungry markets overseas. Two projects in neighboring Nova Scotia, proposed by privately owned Pieridae and Australia's Liquefied Natural Gas, received energy board approval last month. None of the East Coast projects have finalized gas supply, customers and financing. Nineteen similar projects have been proposed in British Columbia, on Canada's West Coast.

Gas supply remains a major hurdle for the East Coast projects. Quebec, Nova Scotia, New Brunswick and Newfoundland and Labrador have all imposed various forms of moratoriums on hydraulic fracturing of shale gas deposits over environmental concerns. Repsol said it was "evaluating the prospects of sourcing feed gas supply from Western Canada and/or the United States." But there is not enough pipeline capacity to move that much gas to Canada’s East Coast. Recent proposals to build pipelines through the U.S. Northeast have met resistance from local environmentalists.

Provincial oversight of LNG plants could depend on national election

(Vancouver Sun; Sept. 10) - A provincial oil and gas agency will be the lead authority over huge new liquefied natural gas plants if they are built in British Columbia, even on federal port lands, under proposed federal regulations. Ottawa plans to delegate the oversight authority to the B.C. Oil and Gas Commission. The federal regulations are not yet in force, and with a national election underway it's not clear what would happen to the proposals if there is a change in government in Ottawa.

If the federal rules became law, the provincial commission would oversee construction, operation, maintenance and regulatory enforcement of LNG facilities at the Port of Prince Rupert. Several have been proposed in the area of northwest B.C. In a written statement, the commission said it has been building the capacity and expertise in the past two years to "effectively" review and regulate major LNG projects.

That includes staff training, traveling to see operating LNG facilities, restructuring positions and hiring new staff, although the commission would not say how many have been hired. Critics of the plan, including environmental groups, fear it would reduce transparency and accountability. Critics also have concerns with the commission's powers, saying the B.C. agency has a conflict of interest because it is has responsibility to both steward the growth and development of the natural gas sector and to regulate it.

Texas county wants more information on tax break for LNG project

(The Brownsville Herald; Texas; Sept. 10) - Cameron County Commissioners Sept. 10 voted to table a 10-year property tax abatement for Annova LNG, one of three developers that want to build a liquefied natural gas plant and export terminal at the Port of Brownsville. After hearing comments from more than a dozen residents opposed to LNG and a handful of audience members in favor, Commissioner David Garza asked his colleagues to table the abatement, worth $25 million, until an outside financial expert can be brought in to assess the “true cost” to the county.

“I’ve looked at the details, and I’m still not satisfied with what I’ve seen,” he said. Garza said the county doesn’t go around looking for companies to receive tax abatements, though private enterprises do come in and seek the tax breaks. Bill Harris, spokesman for Annova LNG, said companies like his use such incentives to bolster their projects, and that they make attracting additional private investment easier.

French bank sees profit opportunity in U.S. natural gas futures

(Bloomberg; Sept. 9) - A supply glut that has kept U.S. natural gas prices trading near a two-year low is a “buying opportunity” with the market expected to tighten by the end of 2016, Societe Generale said. Natural gas futures fell in April to the lowest since June 2012 as U.S. shale gas continued to flow, boosting already-high stockpiles. But liquefied natural gas scheduled to leave the U.S. by tanker late this year, pipeline exports to Mexico and demand from power plants will start eroding that surplus, SocGen said.

“The recent drop in longer-dated U.S. natural gas prices represent, in our view, a buying opportunity,” SocGen analysts including Michael Haigh and Breanne Dougherty wrote in a note to clients Sept. 9. “Catalysts emerge on both the demand and supply sides of the ledger that will challenge the overarching bearish pressure and potentially trigger bullish undercurrents” by the fourth quarter 2016, the French multinational bank said.

LNG export projects in the works are set to turn the U.S. into the world’s third-largest gas supplier by 2020, according to the International Energy Agency. While U.S. gas leaves for markets abroad, domestic supply is about to see a “dramatic slowdown” in growth next year, according to Societe Generale. The recent collapse in oil prices has hurt drillers’ cash flow profitability and their ability to service debt, it said.

Commodity exchange will handle LNG futures contracts

(Reuters; Sept. 10) – CME Group said Sept. 10 it will begin development and clearing of a Japanese liquefied natural gas futures contract later this year, as the world's biggest LNG importing nation seeks to break a decade-long reliance on oil-linked pricing. The parent company of the Chicago and New York mercantile exchanges said the contract aims to give importers, including utilities and city-gas suppliers, an opportunity to hedge risks and could kick-start spot trading of the world's fastest growing energy source.

The move could also deal a blow to Singapore's ambitions to become a hub for LNG trading in Asia. Already Asia's main oil-trading hub, Singapore is building LNG storage facilities, while the SGX Singapore stock exchange plans to launch LNG futures, but has given no timeframe. Japan, which buys about a third of global LNG shipments, is trying to cut its fuel costs and gain more control over prices, and buyers have voiced concern that an oil-linked price doesn't reflect LNG market fundamentals.

The Japan contract for LNG futures was initially launched last year, but has failed to gain traction, as the fuel is usually bought on long-term contracts with restricted shipping terms, while the spot market is illiquid and lacks transparency. The relaunch with the backing of CME Group is aimed at kick-starting interest in the futures contract by making it easier for global players to take part, boosting liquidity. LNG supply contracts have traditionally spanned decades and are based on the price of oil.

Goldman Sachs estimates U.S oil at $45 in 2016, or maybe worse

(Bloomberg; Sept. 11) - The global surplus of oil is even bigger than Goldman Sachs Group thought, and that could drive prices as low as $20 a barrel. While it’s not the base-case scenario, a failure to reduce oil production fast enough may require prices near that level to clear the oversupply, Goldman said in a report Sept. 11, while cutting its Brent and benchmark West Texas Intermediate price forecasts through 2016.

“The oil market is even more oversupplied than we had expected and we now forecast this surplus to persist in 2016,” Goldman analysts including Damien Courvalin wrote in the report. “We continue to view U.S. shale as the likely near-term source of supply adjustment.” Goldman trimmed its 2016 estimate for WTI to $45 a barrel from a May projection of $57 on the expectation that OPEC production growth, resilient supply from outside the group and slowing demand expansion will prolong the glut.

The bank also reduced its 2016 Brent crude prediction to $49.50 a barrel from $62. For the global surplus to end by the fourth quarter of 2016, U.S. output will need to decline by 585,000 barrels a day, with other non-OPEC production falling by a further 220,000 barrels a day, Goldman said. The U.S. pumped 9.14 million barrels a day of oil last week, according to data from the Energy Information Administration. U.S. crude stockpiles remain about 100 million barrels above the five-year seasonal average.

OPEC grows pessimistic about oil price recovery

(Wall Street Journal; Sept. 11) - The Organization of the Petroleum Exporting Countries has become more pessimistic about the future of oil prices this year amid plentiful supplies and softening demand from China, the group’s members said this week. Persian Gulf OPEC members, the leaders behind group’s new strategy of letting market forces determine prices while pumping more to maintain customers, now believe prices won’t go much higher than they are now, if at all this year.

One Persian Gulf country official told The Wall Street Journal that members see Brent trading between $40 and $50 a barrel through the end of 2015. Gulf OPEC members had expected prices to bounce back firmly to the $70 to $80 range at the end this year. Brent crashed to $42 a barrel in August, the lowest since the financial crisis and a new trough for a market that had become accustomed to prices of $100 a barrel or more from 2011 to 2014. “The correction is going to take some time,” the Gulf official said.

Now, OPEC delegates see the market rebalancing sometime in 2016 — and prices recovering as a result. OPEC’s glum assessment of the market won’t change its strategy, officials said. The organization has abandoned its long-held role of trying to prop up prices by regulating production, believing that new supplies from other countries would swoop in and steal OPEC’s share of the market if it cut output. Instead, OPEC members have produced at full tilt, adding to the global glut and weighing on prices.

Quebec mayor comes out against TransCanada west-to-east oil line

(The Financial Post; Canada; Sept. 9) - The mayor of Quebec's third-largest city said he opposes not only TransCanada's proposed Energy East oil pipeline running through the municipality, but also the project in its entirety, after the company did not alleviate his concerns over the safety of the project. "We have the power to block the pipeline and push back its promoters," said Laval, Que., Mayor Marc Demers in a statement Sept. 10 when he presented a 17-page document outlining the city's stance.

Though legally the ultimate decision for the placement of the pipeline will be made by Canada's National Energy Board and approved by the federal government — not municipalities such as the 70 in Quebec it passes through — TransCanada has said it hopes to have as many communities as possible on board with the project. Luval officials met with representatives from TransCanada Aug. 12, but the company was not able to answer all the questions the city had about the project, the mayor said.

"Our main concern is the safety of our citizens and the protection of the environment, particularly in regards to the risk of spills in our waterways," Demers said. Although the pipeline's final route through the municipality has not been determined, Demers said that under current plans the pipeline would cross two rivers — Mille Îles and des Prairies — along agricultural lands and two residential areas. The $12 billion project would move Alberta oil sands production to eastern refineries and shipping ports.