

Oil and Gas News Briefs

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Anticipated golden age of LNG not turning out as predicted

(Bloomberg; Sept. 15) - Add cheap coal to the challenges holding back the golden age of liquefied natural gas. Coal is gaining market share in the European Union while the role of gas in the region has shrunk in the past year, Christopher Jones, a director for energy with the European Commission, said at a conference in Tokyo Sept. 16. "Cheap coal and increasing competitiveness of renewables are squeezing gas in many markets," said Fatih Birol, executive director of the International Energy Agency. "For many, this means the golden age of gas remains more of a dream than reality."

Japan's return to nuclear power after its 2011 disaster and less costly alternatives also are undermining demand that prompted the IEA to envision a golden age for gas four years ago. LNG producers are forecast to add 50 million metric tons of new capacity next year, the largest single annual increase in history and equivalent to a fifth of current global demand, according to Sanford C. Bernstein & Co. Meanwhile, LNG buyers are in no hurry to commit to purchases, according to Qatar, the world's biggest LNG exporter.

LNG shipped to northeast Asia has tumbled to \$7.10 per million Btu, more than 60 percent below the record \$19.70 in February 2014, according to New York-based Energy Intelligence Group. A worldwide glut will cap LNG prices for years, according to Citigroup. "The energy industry assumed that Asian consumers would take any amount of LNG at any price because Asia is the center of global demand growth," Birol said. "But this assumption was a grave mistake."

Japanese utilities continue push for new LNG pricing index

(Platts; Sept. 16) - As the price of liquefied natural gas comes under increasing scrutiny in Japan — where the electricity market is going through extensive deregulation — LNG buyers will likely seek and support the use of index pricing to justify new purchases, a senior executive from Jera said Sept. 16. Jera is a joint venture between Tokyo Electric and Chubu Electric, established to cooperate and coordinate on LNG procurement.

"Expectations to create an index that will accurately reflect demand and supply of LNG, not oil, will grow," Jera's President Yuji Kakimi told the fourth annual LNG Producer-Consumer conference in Tokyo. "We want to aggressively adopt index-pricing elements not only in our spot but short-term and long-term contracts," he said. Kakimi said the development of a price index separate from the traditional oil-linked LNG pricing formula was still in its early stage, but it will materialize just as indexes for other commodities.

Japan is in the process of liberalizing its power market in a bid to beef up competition and bring down electricity costs following the Fukushima nuclear disaster in 2011. In

April this year, an independent body to coordinate electricity supply across the regions was set up as the first stage of reform. The government will fully liberalize the retail electricity market in April 2016. Kakimi also said Japanese power utilities were facing challenges, making it difficult to predict future demand for fuels.

North Dakota may loosen rules to help oil and gas industry

(EnergyWire; Sept. 15) - North Dakota oil and gas regulators are considering giving producers leeway from regulations to help the industry cope with a downturn in prices and delays in infrastructure. The state Industrial Commission is scheduled to vote next week on a proposal to loosen the rules governing how much gas can be flared into the atmosphere at oil production sites. And Mineral Resources Director Lynn Helms said he is considering giving companies more leeway to leave wells idle after they're drilled.

North Dakota oil production remained at 1.2 million barrels a day in July, even though prices have fallen by more than half since last year. Currently, producers can leave oil wells uncompleted for a year — they've been drilled but not hydraulically fractured. Helms said he's considering granting more requests to designate wells as "temporarily abandoned," allowing them to stay out of production for another year. The move would help companies cut spending — fracking often accounts for at least half of a well's cost.

Loosening the rules on natural gas flaring would also help oil producers, but it would require reversing a decision made last year. The Bakken field produces huge amounts of gas along with crude, but gas is so much cheaper than oil that many companies burn the gas at their well sites. Statewide, companies flared 20 percent of the gas in July, the most since January. That's still lower than the all-time high of 36 percent, set in 2011.

European Union sees Iran as major gas supplier by 2030

(Wall Street Journal; Sept. 13) - Iran could become a major supplier of natural gas to the European Union by the end of the next decade, according to new estimates from the bloc's executive following the nuclear deal reached with Tehran this summer. The European Commission now believes that the bloc could import between 880 billion and 1.2 trillion cubic feet of gas a year from Iran by 2030, according to a European official and a representative of a European energy company.

That would put future gas supplies from Iran on a similar level to current imports from North Africa and help reduce the bloc's dependence on shipments from Russia. Western governments and energy companies have been positioning themselves to once again tap Iran's rich oil and gas reserves since the prospects of a nuclear deal — and a resulting easing of sanctions on Tehran — improved earlier this year.

Earlier this month, the EU's energy and climate commissioner, Miguel Arias Cañete, held a meeting with delegates from European energy companies to discuss possibilities

in Iran. The get-together followed contacts between commission staff and officials in Tehran, the European official said, as well as recent visits to Iran by ministers from the U.K., France, Italy, Poland, Germany and Spain. "We want our companies to go there and invest big time ... before the Americans and the Chinese," the official said.

Lower prices could prompt India to increase use of LNG

(Natural Gas Asia; Sept. 13) - Lower prices will help push LNG's share of India's gas consumption to 47 percent in fiscal 2017-18 from 33 percent in 2013-14, said Raghu Yabaluri, director of strategy and operations for Deloitte Touche Tohmatsu India during an LNG conference last month in Delhi. "LNG imports are critical to bridging gas demand-supply gap in India," Yabaluri said.

India's gas consumption in 2013-14 was almost 1.8 trillion cubic feet, while it is estimated to almost double by 2017-18, according to Deloitte. Domestic production is not nearly keeping up with demand growth. Yabaluri said long-term and spot LNG prices are competitive with traditional fuels in India such as furnace oil, diesel, liquefied petroleum gas and naphtha. Coal is the only traditional fuel source still cheaper than liquefied natural gas, but environmental concerns will gradually restrict its use, he said.

Lower prices for LNG offer a great opportunity for Asian LNG buyers that will account for 75 percent of global LNG demand by 2035 to lock in attractive deals, Yabaluri said. "Now is the time for Asian buyers to enter into long-term contracts at attractive prices." India expects to boost its LNG import capacity from 25 million metric tons per year in 2014 to 53 million tons by 2018.

Petronas considers new plan to accommodate First Nation concerns

(Globe and Mail; Canada; Sept. 14) - Pacific NorthWest LNG is considering altering the footprint of a planned suspension bridge and jetty in British Columbia in an effort to address environmental concerns of the Lax Kw'alaams First Nation. The Petronas-led proposal for a liquefied natural gas export project has been criticized by Lax Kw'alaams leaders, who are warning about the impact to fish habitat from building an LNG plant and jetty near Flora Bank — a sandy area that is visible at low tide.

Calgary-based AltaCorp Capital analyst Mark Westby, who co-wrote a new report on B.C. LNG, said Sept. 14 that the challenge is how to redesign the suspension bridge and trestle-supported jetty to position them farther away from the ecologically sensitive area. Flora Bank, which contains eelgrass that serves as habitat for juvenile salmon in the Skeena River estuary, is located next to the proposed LNG terminal on Lelu Island in front of Prince Rupert in northwestern British Columbia,

The project had planned for a mile-long suspension bridge to carry a pipeline beginning on Lelu Island and extending over the northwest flank of Flora Bank. The bridge would

connect with a 3,600-foot-long jetty, slated to stretch out to tanker berths. “Engineering issues and shipping channels will dictate what is viable,” AltaCorp said, noting that the location of an “anchor block” is being scrutinized because it is the meeting point where the bridge would end and the jetty begin. The Canadian Environmental Assessment Agency is expected to rule by early 2016 on whether to approve the project.

LNG project starts offshore test drilling at Prince Rupert plant site

(Vancouver Sun; Sept. 15) - Petronas-led Pacific NorthWest LNG has started test drilling off of Lelu Island, the location of its proposed liquefied natural gas terminal near Prince Rupert, B.C., despite First Nation opposition. Members of several First Nations — including the Lax Kw’alaams and the Gitksan — appeared to stop drilling over the weekend, but the presence of Prince Rupert Port Authority boats has allowed the work to start, Lax Kw’alaams First Nation hereditary chief Don Wesley said Sept. 15.

The port authority told him to stay at least 50 meters away from a drilling rig when he approached with his boat, said Wesley, a hereditary chief of the Gitwilgyoots, one of the nine tribes of the Lower Skeena River region. Wesley said he is seeking legal advice to determine whether he should adhere to the warning. Wesley is leading a three-week-old occupation camp on Lelu Island in an effort to halt the project over concerns it will harm salmon-rearing eelgrass beds on Flora Bank adjacent to the island.

The terminal and gas pipeline have been approved by the province, but a federal review has been held up over concerns about a bridge and pier that skirt one edge of Flora Bank. Pacific NorthWest LNG said its test drilling is taking place away from Flora Bank. The drilling is the third phase of engineering work to gather data on soils in the marine environment.

Petronas says safety audit prompts improvement program

(The Canadian Press; Sept. 11) - Malaysian energy-giant Petronas said it has introduced a program to improve health and safety at its global oil and gas operations following an audit that reported serious safety issues at its offshore operations. The state-owned company said in a statement Sept. 11 that a 2013 asset-integrity audit, initiated to improve best practices, included recommendations to enhance safety.

The audit reported competence and training issues with employees and made numerous references to corrosion threatening the structural integrity of facilities. Petronas is the lead backer of the Pacific NorthWest LNG project, proposed for Prince Rupert, B.C. Last July, the B.C. government passed its Liquefied Natural Gas Project Agreements Act. The law intends to give potential LNG project developers, including Petronas, certainty from targeted tax increases and environmental regulations.

B.C. Opposition New Democrat Leader John Horgan said it appears the government did not do its homework on safety issues surrounding Petronas. “My primary concern is the government ... bent over backwards to try and accommodate Petronas with respect to taxation, with respect to royalties, and apparently spent no time looking at their environmental record and looking at their health and safety record,” he said. “That lack of due diligence ... should be shocking to British Columbians.”

B.C. gas pipeline developer will move route to answer critics

(Squamish Chief; Squamish, BC; Sept. 14) - FortisBC is offering alternatives for its proposed pipeline route and compressor station location for a planned liquefied natural gas plant just north of Vancouver. In response to public feedback and the conditions of the Squamish Nation, FortisBC has come up with a new location for its compressor station that is farther away from Squamish residents and a pipeline route option that avoids a wildlife management area.

The pipeline would feed natural gas to the proposed Woodfibre LNG plant slated for southwest of Squamish. “We are making some changes to our application to address the feedback we have received thus far,” FortisBC spokesman Trevor Boudreau told The Squamish Chief. “We are identifying two new options, one that will allow us to move the compressor station outside the urban area.”

The new pipeline option would involve building a tunnel underneath the Squamish Estuary and then through the adjacent Monmouth ridge mountain. Fortis has submitted addenda to its application with the B.C. Environmental Assessment Office to address the new construction options.

Report predicts four LNG projects in B.C. in coming years

(Financial Post; Canada; Sept. 14) - A new report dissents from bearish predictions that no LNG terminals will be built on Canada’s West Coast and instead says four natural gas export facilities could be green-lighted in the coming years. The report by AltaCorp Capital, released Sept. 14, predicts that AltaGas, Shell, Petronas and ExxonMobil will build massive facilities to liquefy natural gas for export from the B.C. coast in the coming years, though not in the order that many industry observers have come to expect.

“While this may appear to be hopelessly optimistic, we would argue that the smaller Douglas Channel LNG project ... is on track (for final investment decision) ... by the end of 2015,” AltaCorp Capital analysts said. Executives at AltaGas, which is leading the \$500 million Douglas Channel proposal, have previously defied predictions that no LNG terminals would be built in B.C. and said the company’s facility would be complete by 2018. That timeline would mean the Kitimat plant would be the first LNG project to be built in the province – leapfrogging Petronas’ \$36 billion Pacific Northwest LNG project.

AltaCorp expects Pacific NorthWest, “the project that looked like it would proceed first,” to be built at Prince Rupert sometime after Douglas Channel and after Shell’s Kitimat project, widely estimated at \$25 billion to \$40 billion. The report cites a “preponderance of evidence” suggesting Shell will decide in the first half of 2016 to proceed. The fourth LNG project to be built, the report predicts, is ExxonMobil’s West Coast Canada LNG project near Prince Rupert, which has “quietly” been making steady progress.

B.C. city council delays gas line support until revenue-sharing talks

(Terrace Standard; Sept. 15) – The Terrace (B.C.) city council voted Sept. 14 to withhold a letter of support for pipeline developer TransCanada until after a meeting with the provincial government next week for a revenue-sharing agreement with northern local governments. TransCanada official Dave Kmet told the city council he is trying to raise a message of support from municipalities to counter the controversial and negative press generated by protests and opposition to gas projects.

Kmet highlighted the jobs his company has brought to the area with environmental and other work over the past three years, adding, “to other places that are not in northcentral B.C. ... the only thing you see is controversy.” He said having support statements from communities helps the company make a more convincing case to investors that they should back the company with the billions necessary to get up and running.

TransCanada is anticipating a final investment decision by LNG Canada, led by Shell, early next year to build a liquefied natural gas plant at Kitimat, B.C. TransCanada’s Coastal GasLink pipeline would feed that plant. TransCanada’s other potential northern gas pipeline, Prince Rupert Gas Transmission, would feed the planned Petronas-led Pacific NorthWest LNG plant on Lelu Island near Prince Rupert.

Texas school district rejects property tax break for LNG project

(KRGV-TV; Rio Grande Valley, Texas; Sept. 16) - The Point Isabel (Texas) School District Sept. 15 rejected a proposed tax break for Annova LNG, which proposes to build a liquefied natural gas plant on the Brownsville Ship Channel. The deal would have given the company relief from school district property taxes over 10 years. Schools Supt. Lisa Garcia said the company estimated the value of the tax break at about \$120 million. The vote against Annova LNG was unanimous.

Garcia said the board listened to the concerns of the community before making a decision. Residents expressed concerns about safety and potential harm to the environment. Annova is one of three companies looking to build an LNG export terminal along the ship channel. The Port Isabel City Council last week adopted a resolution against all three LNG projects.

“Despite the disappointing decision by the Port Isabel Independent School District, our work with this project is a marathon and not a sprint. Annova will submit its application” to federal regulators next year to start the environmental review process, said Bill Harris, communications manager for Exelon Generation, Annova’s parent company.

Italy’s Eni wants to develop Mediterranean LNG hub to serve Europe

(Reuters; Sept. 15) - Braving political risks of the region, Italy’s Eni aims to pull together its east Mediterranean gas empire — headed by a giant find in Egypt — into a major hub to supply Europe. Eni, the biggest foreign oil and gas major in Africa, wants to use its deep ties with Egypt and Libya to help create an LNG export hub. It expects Libyan gas to flow into the hub when its internal conflict abates and hopes to attract producers seeking an outlet for Israel’s reserves, all feeding into an export facility, likely in Egypt.

The project would help diversify gas supply to Europe, now dependent on Russia for about a third of its needs, but faces long odds given the region's mix of political disputes, conflict zones and state involvement in energy policy. Eni’s scope of tying together a multi-national gas supply network may be unprecedented. Pipelines would need to be built linking the various gas deposits scattered across the region to a liquefied natural gas plant.

"The area (Egypt) could restart exporting LNG and, as it's very close to Italy and Spain where LNG import terminals are idle or underused, it's very likely it will come in there," Eni CEO Claudio Descalzi told Italy's parliament last week. Fuel shortages have forced Egypt to idle its LNG export plants. Pooling the region's rich energy resources could resuscitate once-bustling LNG export plants in Egypt while spurring investment in previously stranded gas fields in Israel and Cyprus.

Low prices prompt companies to try new drilling technologies

(Wall Street Journal; Sept. 14) - The depressed price of oil has spurred a new wave of innovation in energy exploration. When a barrel of oil fetched \$100 or more, energy companies were focused on drilling wells and pumping crude just as fast as they could. But now that prices have settled around \$50 a barrel, companies are focused on efficiency — getting the most petroleum for the least amount of money. And many are turning to advanced technology for help.

Big oil field services companies like Halliburton and Schlumberger say their customers are hungrier than ever for technology that saves them cash. Some are using lasers and other high-tech equipment and data analytics before they drill to make sure new wells deliver the most crude for the buck. Others are looking to new techniques that they hope will allow them to wring more crude from both new and old wells.

Several companies are looking into refracking — using the latest fracking techniques to get more out of wells that were fracked using less advanced techniques. This is still an experimental approach, and companies aren't making their results public. But they are seeing enough to keep trying. ConocoPhillips, for instance, says it has tried refracks and continues to evaluate the technology. "We do see some potential, particularly in wells that were drilled a few years ago," said spokeswoman Andrea Urbanek.

Pipeline developer bets on state approvals for Bakken oil line

(The Associated Press; Sept. 12) - Mountainous piles of steel pipe are being staged across four states in anticipation of building the biggest-capacity pipeline proposed to date to move crude from North Dakota's prolific oil patch. But stockpiling the pipe is a gamble for the Dallas-based Energy Transfer Partners' Dakota Access Pipeline, a \$3.8 billion, 1,130-mile project that still requires approval from regulators in North Dakota, South Dakota, Iowa and Illinois.

"What the company does is at their own risk," said Julie Fedorchak, chairwoman of the North Dakota Public Service Commission. The three-member panel has signaled its approval of the project in North Dakota, the pipeline's longest leg, but Fedorchak said a final decision is weeks away. If approved, the Dakota Access Pipeline would move at least 450,000 barrels of North Dakota crude daily through South Dakota and Iowa to an existing pipeline in Patoka, Ill., where shippers can access the Midwest and Gulf Coast.

Energy Transfer Partners announced the project last year, just days after North Dakota's governor urged industry and government officials to build more pipelines to keep pace with the state's oil production. He said doing so will reduce truck and oil train traffic, curb natural gas flaring and create more markets for the state's oil and gas. North Dakota is the No. 2 oil producer in the U.S. behind Texas. It pumps about 1.2 million barrels a day, with about half of it moved by rail.

Oil traders buy at low prices today to resell at a profit later

(Bloomberg; Sept. 15) - To see how oil traders are profiting from the longest-lasting glut in three decades, look at the Caribbean island of St. Lucia. Glencore leased tanks at the island's only oil terminal to stow crude, joining Vitol Group, sources said last week. They are responding to the market's deepening contango, a situation where prices today are lower than those in future months, allowing traders with access to storage to lock in a profit. From St. Lucia to South Africa to Rotterdam, they're seizing the opportunity.

"Contango opportunities are emerging," Ian Taylor, chief executive officer of Vitol, the world's largest independent oil trader, said in an interview earlier this month. While the oil market has been in contango since August 2014, in the past month prices have moved in a direction that makes the trade more profitable. The price difference between

a Brent oil contract for immediate delivery, the global benchmark, and one-year forward stood at minus \$7.85 a barrel Sept. 15, more than double its level in mid-July.

The spread has widened as refiners enter into their maintenance season before the northern hemisphere's winter, reducing oil intake. At the same time, oil supplies in the Atlantic basin from producers in the North Sea and West Africa have risen to the highest in three years, forcing traders to find a home for millions of barrels. At today's prices, traders can store crude onshore and make money from future sales. The contango isn't strong enough yet to allow the use of oil tankers as floating storage facilities.

Low oil prices likely will lead to cuts in smaller drillers' credit lines

(Wall Street Journal; Sept. 15) - U.S. energy companies have defied financial gravity for more than a year, borrowing and spending billions of dollars to pump oil, even as crude prices plummeted. Until now. The oil patch is expected to finally face a financial reckoning, experts say, with carnage occurring as early as this month. One trigger: Smaller drillers are bracing for cuts to their credit lines in October as banks re-evaluate how much energy companies' oil and gas properties are worth.

Jim Flores, vice chairman of Freeport-McMoRan, which pumps oil in the Gulf of Mexico, explained the industry's conundrum this way: "It's raining and it's going to rain for a long time. We're all going to get wet. A few people are going to drown. You just have to make it to the other side." Some smaller companies are already negotiating with their lenders, dumping assets at distress-sale prices and delaying payments to vendors as they try to preserve cash.

Though the financial pain likely will be concentrated among some of the smaller and more debt-laden companies, it could ultimately have big effects on the oversupplied global oil market. On the debt side, many U.S. oil companies anticipate that banks will curb their credit lines, which are often secured by the value of oil and gas holdings. Low prices make those properties less valuable. Banks already cut back on some credit lines in the spring, and are beginning another round of reviews likely to lead to further cuts.