Oil and Gas News Briefs
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LNG developer in Oregon to withdraw proposal

(The Daily Astorian; Astoria, OR; April 15) - Oregon LNG informed city officials in Astoria, Ore., on April 15 that the company will withdraw its proposal for a $6 billion liquefied natural gas export terminal and pipeline project on the Skipanon Peninsula in Warrenton, at the mouth of the Columbia River. Mayor Mark Kujala said he was told by a company representative that Leucadia National Corp., the New York-based holding company behind the energy project, was no longer willing to bankroll the effort.

Skip Urling, the city's community development director, said he was told that Oregon LNG would not proceed with an appeal of a city hearings officer's decision to deny the terminal. Urling said he was told "they're done." The company had proposed an LNG plant and marine terminal and an 87-mile pipeline to tie in with the North American grid so that it could liquefy and export gas from Western Canada and the Rocky Mountains. The Warrenton project is different than the Jordan Cove LNG project proposed for Coos Bay, Ore., which was rejected March 11 by the Federal Energy Regulatory Commission.

Oregon LNG had argued its project would be an economic boon for the Warrenton area. But a coalition of residents, environmentalists and fishermen attacked the project, which was facing a host of obstacles. Last year, the state Land Use Board of Appeals upheld Clatsop County's 2013 decision to deny a permit for a portion of the pipeline. And Oregon LNG was embroiled in a lawsuit with the U.S. Army Corps of Engineers over an easement the Army Corps holds at the liquefaction plant site.

FERC approves LNG export project in Louisiana

(Argus Media; April 15) - The Federal Energy Regulatory Commission on April 15 approved the Magnolia LNG export project in Louisiana and associated pipeline modifications to bring feed gas to the site. Magnolia previously had said it planned to make a final investment decision this year, but April 15 said the timing is not clear because low oil prices have made it difficult to finalize long-term deals for the plant's capacity which are needed to finance the $4.35 billion project.

"I don't think we can say if we will make FID this year," said Mike Mott, chief financial officer of Australia's LNG Ltd., 50 percent owner of the project. "We need additional offtake and the markets are difficult right now." Magnolia LNG, which would be built near Lake Charles, La., would include up to four liquefaction trains with total capacity of 8

million metric tons of LNG per year. The company has said it has one customer for 2 million tons a year but needs additional binding contracts before an investment decision.

Magnolia is owned 50-50 by Australia's Liquefied Natural Gas Ltd. and New York-based Stonepeak Infrastructure Partners. Under the FERC order, Magnolia has five years to build and start operations. The FERC environmental impact statement and approval will clear the way for Magnolia to receive Department of Energy approval for gas exports. The first LNG export plant on the U.S. Gulf Coast started operations in February, with three more under construction as U.S. producers look for new markets for shale gas.

Global LNG oversupply drives buyers and sellers further apart

(Wall Street Journal; April 15) - As liquefied natural gas exporters ramp up output, the gulf between buyers and sellers over prices is widening. A growing glut of gas coming onto world markets is handing pricing power to buyers such as power utilities. They are questioning the long-held industry practice of contracting long-term supply deals linked to oil prices, pushing instead for shorter and more flexible deals that reflect the world's excess supply and low market prices. That's bad news for producers.

Global trade in LNG is still expected to grow to as much as 420 million metric tons a year by 2020, up to 40 percent higher than in 2014, said Anne-Sophie Corbeau, a fellow at King Abdullah Petroleum Studies and Research Center in Saudi Arabia. The problem is demand isn't keeping pace. The LNG market has been oversupplied since late 2014, and that is expected to continue for several years. "Asia has always been regarded as a bottomless pit, but now seems set to confound expectations," Corbeau said.

"People are understandably more cost conscious and expect the price of LNG to reflect more adequately what is going on in the marketplace," said Yuji Kakimi, president of fuel procurement at Jera Co., a joint-venture between two big Japanese utilities. Jera now plans to buy LNG using contracts of varying length and move away from using oil as a pricing reference, Kakimi said. LNG producers, though, prefer long-term purchase agreements — sometimes lasting 20 years or more — to lock in revenue in order to secure funding for their expensive production facilities.

LNG producers invest to help build market demand

(Reuters; April 14) - The world's top producers of liquefied natural gas are investing in ship-fueling operations, floating import terminals and power plants to open new markets and keep from drowning in an LNG surplus expected to last into the 2020s. Companies such as Shell, Total and Malaysia's Petronas are scrambling to create more demand as cheap coal and cleaner wind and solar power threaten to curb growth in the market.

LNG suppliers are in a tough spot as demand from the world's top importers Japan and South Korea has declined due to slowing economies, more efficient use of power, and switches to coal and renewables. Using LNG, burned now mostly in power generation, as a fuel for transport is one of the industry's biggest hopes. "If we can secure only 10 percent of the heavy transport market, you're talking about 70 million metric tons (a year) extra demand (for LNG). That's almost as much as Japan," Shell's integrated gas director Maarten Wetselaar told reporters at a conference in Perth, Australia, this week.

Shell recently signed a deal to supply LNG to Carnival, the world's biggest cruise operator, and sees huge potential to fuel ships, trucks and buses, which it says use the equivalent of 700 million tons of LNG a year in oil products. Australia's Woodside Petroleum also took a small step this week to grow LNG demand in transport, buying an LNG-fueled supply vessel that could be a seed for developing LNG as a shipping fuel in Australia. Woodside is also eyeing road transport markets, such as for trucking.

Petronas exec says LNG buyers must allow ‘equitable’ pricing

(The Sun Daily; Malaysia; April 14) – Malaysia’s Petronas is calling for a more equitable relationship between liquefied natural gas producers and consumers to ensure continuity and sustainability of the business. In a statement April 13, Petronas vice president of LNG marketing Ahmad Adly Alias said both sides have a responsibility toward sustaining a fair balance in the market to help lessen the impact of cyclical LNG price movements. Malaysia last year was the world’s third-largest LNG exporter.

“Currently, there is a perception that the LNG market will be oversupplied for a long time, prompting many buyers to demand better commercial terms from sellers,” he said. “However, if LNG prices continue to be depressed, there might be a possibility that some producers might pull the plug on LNG projects that have not gone through with their final investment decision,” Adly said while co-chairing an LNG 18 conference session in Perth, titled: “The Changing LNG Supply & Demand Landscape.”

Anticipated project deferments due to the unfavorable price situation will only lead to future tightness in the market. “While buyers are taking advantage of the current depressed market to save costs, in the long run they must allow prices to return to a more equitable level to support producers in bringing supplies on stream,” Adly said. “In the long run, the demand curve will gradually match the LNG supplies available in the market and reach some level of equilibrium.”

Japanese government expected to unveil LNG market plan

(Platts; April 13) - Japan's Ministry of Economy, Trade and Industry is expected to announce an action plan for the LNG market by the end of this month in a bid to boost

liquidity and transparency in the spot market and to help create a trading hub in Japan, a ministry official said April 13. The plan will be presented at the G7 energy ministers' meeting in Kyushu in May, the official added.

"Gas prices are expected to remain low for a while, and we want to call for better utilization of gas and create a global market," the official said. The plan follows a study by a group comprised of industry participants including Japanese power and gas utilities, oil companies and foreign energy firms and government officials. Key issues discussed were creation of a trading hub and infrastructure such as third-party access to LNG terminals and connecting pipelines, and building underground storage facilities.

The group discussed possible government funding for building infrastructure building, the source added. The group also looked at LNG pricing options.

Tokyo Gas predicts it will lose market share in deregulation

(Reuters; April 14) - Tokyo Gas expects its market share to fall by a double-digit amount over the long term as it loses its monopoly on retail city gas sales in its service districts next year, the head of Japan's biggest city gas supplier said April 14. Next April, city gas suppliers will lose their monopoly in the retail city gas market, one year after the government opened the retail power market to full competition.

A major provider of natural gas to Tokyo and the surrounding regions, Tokyo Gas last month projected a market share loss of about 10 percent by 2020-21, taking into account the liberalization of the currently regulated city gas sector. In the longer run, without any timeframe, the company could lose 20 to 30 percent of city gas sales to new entrants, Tokyo Gas President Michiaki Hirose told reporters. Tokyo Gas currently has about 11 million city gas customers.

Meanwhile, Tokyo Gas is aiming to become No.1 among the new power entrants to the now liberalized retail power market and already has more than 240,000 retail customers that switched to its power supplies from Tokyo Electric. Hirose said the company is targeting 400,000 retail power customers by the end of March 2017, with a plan to raise the number to about 1 million by around 2020.

LNG a big part of China’s gas future, company exec says

(Platts; April 15) - LNG will play an "irreplaceable part" in meeting China's emissions-reduction targets and lifting the share of gas in the domestic energy mix over the next few years, CNOOC Vice President Li Hui told the LNG 18 conference in Perth on April 15. The government, as part of its move to tackle air pollution, is also targeting to cut

coal's share of China's primary energy mix to less than 60 percent. Gas has raised its share of China's energy consumption from 4 percent in 2010 to 6 percent in 2016.

In 2015, China consumed 6.82 trillion cubic feet of gas, up 5.7 percent year on year. Official forecasts suggest gas consumption will rise to 10 percent of the primary energy mix by 2020, which represents 10.6 tcf to 12.7 tcf a year. LNG will be an "indispensable supplement to domestic gas supply," Li said. It will help diversify gas imports, safeguard national energy security and will be the major clean energy source in China's coastal areas. China's first LNG receiving terminal was commissioned in Dapeng in 2006. There are now 11 terminals operating in China, with another three under construction.

In the past 10 years, China's LNG imports have surged from 36 billion cubic feet of gas per year to nearly 960 bcf a year, and the fuel now represents 14 percent of total natural gas consumption, Li said. Domestic production and pipeline imports cover the rest. Li said CNOOC's term contracted volume of LNG has reached 25 million metric tons a year (about 1.2 tcf of gas), making it the world's third-largest buyer.

Pro-LNG group in B.C. concerned project delay will hurt region

(Alaska Highway News; Fort St. John, BC; April 14) - An organizer with a pro-LNG group said he is alarmed that Progress Energy is drastically cutting back drilling as it awaits a federal environmental review decision on the proposed Pacific NorthWest LNG project near Prince Rupert. The project is led by Malaysia's Petronas, which owns Progress Energy. The cutbacks would hurt northeastern B.C., which in March had the highest unemployment rate in the province, said Alan Yu of Fort St. John for LNG.

Yu started the group earlier this year to protest what he sees as unnecessary delays in the regulatory process. He had been laid off from a job programming two-way radios used in the oil patch. Progress is cutting back its drilling to prove up gas reserves in northeastern B.C. amid delays in federal approval for the LNG project. The company is the most active driller in the province, according to the B.C. Oil and Gas Commission. In 2014, it drilled 203 wells in the Montney formation — about one-third of all wells in B.C.

The company has spent $5 billion proving wells in the Montney over the past three years. The LNG export project would secure a world price for B.C. gas at a time when the province's biggest customer — the U.S. — races towards self-sufficiency in natural gas production. However, Pacific NorthWest is controversial for its location near sensitive juvenile salmon habitat and its upstream greenhouse gas emissions, which under new federal policy are now considered in environmental assessments.

Low natural gas prices push delays in new U.S. pipelines

(Argus Media; April 12) - Some U.S. natural gas infrastructure projects scheduled for completion this year may be delayed until 2017, industry officials said April 12, as low prices add unprecedented uncertainty to construction plans. Developers may opt in some cases to reduce the mileage of projects or only add additional compression and pipeline looping to move more gas, ICF vice president Kevin Petak said, speaking at an event hosted by the Interstate Natural Gas Association of America Foundation.

Completion of numerous gas pipeline projects has been delayed from this year to 2017-18, said Sheehan Pipe Line Construction CEO Robert Riess. "It begs the question of what will happen to those scheduled for completion in 2017-18," he said. For example, the proposed Constitution pipeline from the Marcellus Shale to upstate New York has been delayed nearly a year until the second half of 2017 to comply with environmental conditions set by federal regulators.

Energy Transfer's Rover project from the Appalachian region into Ohio is now expected in service in late 2017, a year later than planned. The PennEast line to move 1 billion cubic feet a day from Pennsylvania to New Jersey has been delayed a year until late 2018. Midstream capital spending has declined from higher levels of recent years, according to the INGAA Foundation, the study arm of the natural gas pipeline association. The group commissioned the study by consultants ICF International.

New Brunswick and Saint John in dispute over LNG tax break

(CBC News; April 15) - New Brunswick's Local Government Minister Brian Kenny announced April 11 that the province will agree to a request from the city of Saint John to end an LNG plant’s 2005 property tax freeze 14 years ahead of schedule, but only on the condition that the city assume all financial risk that might flow to the province from a change. "The City of Saint John, since they are making the request, the burden would be on the City of Saint John to make sure the province doesn't get hit," Kenny said.

It was an unexpected caveat, especially since the only thing likely to cause a problem with ending the 25-year tax break is if the province has overestimated the value of the property. That could result in the assessment crumbling in the face of an aggressive appeal by property owner Irving Oil after the deal is dissolved and the property is taxed at full value. The province doesn't want to have to refund any money if that happens. Irving Oil and its partner are looking at adding export capabilities to the underutilized Canaport LNG import terminal. The city last year raised objections to the tax break.

The provincial government is responsible for assessments, and collects and distributes taxes for communities based on those assessments and normally takes responsibility for mistakes. Kenny said the provincial government does not want to guarantee its past assessment of the LNG property and insists Saint John pay if mistakes show up. The provincial government assesses the property at $299.5 million, and the 2005 deal set the taxes at $500,000 a year. At full assessment, the tax bill would be $8 million a year.

Oil-price crash empties out work camps in North Dakota

(Financial Post; Canada; April 10) - A no-trespassing sign collects dust next to an empty chained-off parking lot for an equally empty work camp in the heart of North Dakota oil country. The sign and chain haven't kept the curious from trying to get a closer look at the Black Gold camp, one of many scattered in and around Williston, hub of the state's shale oil boom. This camp on the edge of town was once filled with hundreds of oil field workers during the shale boom, but now sits empty as crude prices have collapsed.

City officials want the camp gone and have voted to give all camp operators within the boundaries of Williston notice they need to clean up and leave by July. The deadline is an attempt to turn the transient workers, who fly in and out on shifts, into permanent, property-tax-paying residents. It has also put the city in the middle of a fight between the energy industry, which has threatened legal action if they are kicked out, and real estate developers that are keen to sell or rent to oil field workers now in the camps.

Officials in Canadian cities are, like their U.S. counterparts, also trying to figure out the best way to move workers from camps into permanent housing. "What we would like to see (companies) do is have workers live in the community and not promote the work camps," said Craig Copeland, mayor of the oil hub of Cold Lake, Alberta. Allan Vinni, deputy mayor of Wood Buffalo, Alberta, said, "We've got tons of condo buildings that are standing empty." Neither Alberta city wants to get into a fight like in Williston, where the city is caught between the energy and real estate sectors in an acrimonious battle.

TransCanada adds to its gas pipeline system in Mexico

(The Canadian Press; April 10) - TransCanada said it will spend about $550 million to build a 260-mile gas pipeline in Mexico. The Calgary-based company said the line would supply Mexico's state-owned power company with nearly 900 million cubic feet of gas per day. TransCanada expects the new line will be in service in early 2018. It would become one of six major gas pipeline systems that TransCanada operates in Mexico.

The new line would begin in Tula, in the Mexican state of Hidalgo north of Mexico City, and travel northwest to Villa de Reyes, in the state of San Luis Potosi. The Tula-Villa de Reyes line would also connect with two other TransCanada pipelines in the region.

TransCanada's expansion in Mexico coincides with the country's overhaul of its energy industry that ended the state-run monopolies of the Comision Federal de Electricidad and Petroleos Mexicanos, opening the door to private investment. Mexico plans to expand its gas pipeline network 75 percent by 2018 and is seeking as much as $10

billion in investment for 24 new projects in the short term, according to Enrique Ochoa, chief executive officer of the CFE, as the state-run utility is known.

Despite failed oil production deal, analysts still see price recovery

(The Associated Press; April 18) - The failure by oil-rich nations to freeze output hit energy prices April 18 but many analysts say that, in the longer-term, the market is likely to keep recovering as many companies, particularly U.S. shale gas producers, scale back production plans. The effort to reach a consensus on freezing production to help bolster prices failed after Iran stayed away from a weekend meeting of oil-producing nations in Doha, Qatar. Saudi Arabia said it wouldn't back a deal if Iran wasn't involved.

Though the failure to reach a deal means that OPEC countries and Russia will likely continue to pump at near-record rates, other nations are cutting back, and that has the potential to support higher prices. Last week, the International Energy Agency said there were signs the oil market "looks set to move close to balance" in the second half of this year. Kit Juckes, a strategist at bank Societe Generale, said higher oil prices will be supported "as slowly increasing demand catches up with slowly decreasing supply."

Lower U.S. supply is one of the reasons why prices have rallied more than 60 percent since their early year lows — alongside expectations of some sort of deal emerging at the meeting. Fadel Gheit, a senior energy analyst at Oppenheimer & Co., said recent cutbacks in investments will help rebalance supply and demand in the longer-run, regardless the short-term pain caused by the Doha failure. "We believe oil prices will rise to a sustainable level closer to $60, the new normal, not $100 and not $40 either."

Canada's 2015 oil imports to U.S. at record 3.2 million barrels per day

(U.S. Energy Information Administration; April 12) - Although total U.S. crude oil imports in 2015 continued below levels reached during the mid-2000s, imports from the United States' top foreign oil supplier — Canada — were the highest on record, according to annual trade data from the U.S. Energy Information Administration. Canada provided 4 out of every 10 barrels of oil imported into the United States in 2015.

U.S. gross crude imports from all sources averaged 7.4 million barrels per day in 2015, down 27 percent since the 2005 high of 10.1 million. As oil imports decline, a growing share of imports are being sourced from four top suppliers: Canada, Saudi Arabia, Venezuela and Mexico. Canada, America's largest supplier since 2004, sent a record-high 3.2 million barrels per day of crude to the United States in 2015, up 10 percent from the year before, accounting for a record 43 percent of total U.S. crude oil imports.

Canada generally produces heavy, sour crude that is well-matched to processing capacity in the United States, where many refineries have the equipment needed to process such oil. Canada has few alternative outlets for the heavy crude produced in Alberta, where most of Canada's proved oil reserves are located.