Oil and Gas News Briefs
Compiled by Larry Persily
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Qatari official says developing economies will need more LNG

(Gulf Times; Qatar; April 21) - Greater demand for liquefied natural gas is expected in many parts of the world because of rapidly developing economies, said Abdullah bin Hamad al-Attiyah, Qatar's former deputy premier and Minister of Energy and Industry. In the 1980s and 1990s, the "demand for gas was pretty low" around the world, he said. "That situation has clearly changed. Now there is demand for gas in Africa, Asia and even in the Middle East, where there are many oil-based economies."

Al-Attiyah spoke on "The Role of LNG in a Changing Energy World" at an April 20 event in Doha, Qatar's capital city. Many oil-based countries in the Mideast "require more LNG as their domestic consumption has gone up phenomenally," he said. "When your economy is growing, you consume more energy; it is simple." Energizing the world when 2 billion people have no access to electricity is a major challenge. "Every year, we hear about power shortage in many countries in Asia, Africa and Latin America."

He said the Doha-based Gas Exporting Countries Forum was not "created to be like another OPEC." It is different, he said. "OPEC can decide among other things cutting production. In the gas industry, it is difficult to cut production because here we have either long-term contracts or 'take and pay' deals." Al-Attiyah said the gas forum was created to enhance cooperation between producers and consumers and promote LNG as a source of energy. Qatar is the world's largest LNG supplier.

India gas utility looks to swap U.S. LNG for closer supplier

(Economic Times; India; April 21) – State-owned gas utility GAIL (India) is looking to swap one-third of the liquefied natural gas it has contracted to take from the U.S. with a supplier closer to India to save on transportation costs. GAIL, in two separate deals, has contracted to take 5.3 million metric tons a year of LNG from U.S. export terminals starting 2018. It now figures 3 million to 3.5 million tons will be delivered to India for consumption by industries like power and fertilizer plants and the rest will be traded.

"Transporting LNG in cryogenic ships from the U.S. will not just be time consuming but will add a little extra to the cost, wiping away some of the gain accruing from a (U.S.) Henry Hub-linked price for the gas," a senior GAIL official said. To overcome this, GAIL plans to swap 1 million to 2 million tons per annum of U.S. LNG with a supplier in Africa, the Middle East or Asia-Pacific region. The supplier would take the rights to GAIL's U.S. LNG and, in exchange, deliver LNG to GAIL from another source much closer to India.

GAIL has issued a tender seeking expression of interest for a five-year swap of some of the LNG it has contracted to take from Cheniere Energy's terminal in Sabine Pass, La. Deliveries under the 20-year contract with Cheniere are set to start first-quarter 2018. "We believe we can save 40 to 50 cents per million Btu through the swap," the company official said, pointing to lower transportation costs if India takes LNG from a closer supplier and the U.S. LNG cargoes travel a shorter distance to their ultimate destination.

Asia spot LNG prices drop to $4.24; lowest since 2009

(Wall Street Journal; April 25) - Prices for liquefied natural gas have sunk to a seven-year low in Asia as demand has failed to keep up with rising supply from countries such as the U.S. and Australia. The average spot price in Asia for delivery in May dropped by 42.5 percent year-over-year to $4.241 per million Btu, the lowest monthly average since July 2009, according to Platts. Prices have recently come under intense pressure in Asia, which takes 70 percent of global demand, thanks to a gusher of new supply.

Major oil and gas companies have been reluctant to cut output for fear of losing their market share, even if that means selling their products at a discount. Companies also can't afford to curtail production at facilities now coming on stream that have taken years and billions of dollars of investment to start up. Part of the problem is that prices of competing fuels such as oil and coal have slumped in the past year, with crude down about 60 percent since July 2014.

Moreover, Asian gas importers — who buy most of their LNG on long-term contracts — have been unwilling to buy more gas on the spot market given that they have already contracted to purchase more than they currently need. "Not only has demand declined, [but] prices of LNG are more expensive compared to other alternatives, such as diesel and fuel oil," said Nomura's Kwan. "You can say the sky has fallen in on LNG in Asia."

Sinopec receives first LNG cargo at new import terminal

(Platts; April 20) - State-owned China Petroleum and Chemical Corp., or Sinopec, received the first commercial cargo at its newly commissioned Beihai LNG terminal in Guangxi province, the company said April 19. The Methane Spirit, loaded with a 160,000-cubic-meter cargo from the Australia Pacific LNG project, marked the official start in commercial operations of the first phase of the terminal.

In the first phase, the plant has a nameplate capacity of 3 million metric tons of LNG per year to help meet the demand of 22 million households in Guangxi and the western part of neighboring Guangdong province. That volume would require about four LNG tanker cargoes per month. The first phase start-up was about a year behind schedule. Sinopec had earlier said the project's second phase would see a capacity increase to 9 million tons per year, but Sinopec has not stated a timeline for the second phase.

Most of the supply for the terminal will come from Australia, where Sinopec has signed a 20-year contract for 7.6 million tons per year from the Australia Pacific LNG project. The export plant shipped its first cargo earlier this year. Project partners are Australia's Origin Energy, ConocoPhillips and Sinopec. Some of the contract volumes could go Sinopec's other import terminal or be sold on the spot market to other customers.

Yamal LNG project financing to total $18 billion to $19 billion

(Reuters; April 22) - Total debt financing for the Novatek-led Yamal LNG project, which the company says is expected to start producing liquefied natural gas at its remote Russian Artic site next year, is estimated at $18 billion to $19 billion, Novatek's chief executive said April 22. That total includes loans already secured and loans not yet secured, said Novatek CEO Leonid Mikhelson.

Mikhelson told reporters he had no doubt the project would get the additional external financing it needs. Yamal LNG, with three liquefaction trains, has been estimated at $27 billion, with partners Novatek, France's Total, China National Petroleum Corp. and China's Silk Road Fund putting up billions of dollars — with debt financing to cover most of the cost. Construction started in 2014.

At $18 billion to $19 billion, Yamal LNG would rank among the world's largest debt-financing packages for a natural gas project. Western economic sanctions on Russia, some of its businesses and business executives after the country's actions in the Ukraine have made financing difficult for Yamal and its partners, pushing them to seek loans in China.

Kuwait talking with Russia about buying LNG

(Sputnik News; April 22) - The Kuwait Petroleum Corp. has been in talks with Russian producer Novatek about liquefied natural gas deliveries to Kuwait. Novatek is a partner in the Yamal LNG project under construction in the Russian Arctic, and Kuwait is a growing importer of LNG to help meet power generation needs. The country last year purchased about 3 million metric tons of LNG, delivered to its floating import terminal.

"We are planning to purchase up to 1.5 million tonnes annually," deputy managing director of Kuwait Petroleum Corp. Nasser Abdullah Saleh said April 22 of talks with Novatek. Kuwait has imported LNG since 2009 to supplement its domestic gas production. Neighboring Qatar is a major supplier of the fuel for Kuwait.

Wyoming joins Colorado in asking FERC to reconsider Oregon LNG

(Wyoming Public Media; April 22) - The state of Wyoming is asking the Federal Energy Regulatory Commission to reconsider its rejection of a liquefied natural gas export project on the Oregon coast. FERC rejected the Jordan Cove LNG application in March because the project's backers did not have any confirmed customers for the facility. Wyoming is asking FERC to consider leaving the permit decision open, in the event the company can sign up customers in the future for the Coos Bay, Ore., LNG plant.

The project also would include building a 230-mile pipeline across Oregon to bring in gas from producing states and Western Canada. FERC commissioners determined that lacking a market for the project, there was insufficient justification to taking lands for the pipeline. Oregon LNG has since signed non-binding deals with a couple of potential customers, citing those agreements in its request to FERC for a rehearing.

In its letter to FERC, Wyoming said the export terminal could provide an important new market for the state's gas. Colorado made a similar argument in its letter to FERC, also asking for reconsideration of the denial.

Premier says LNG supporters are 'fighting for the life of B.C.'

(Alaska Highway News; Fort St. John, BC; April 20) - British Columbians are ready and have the natural gas to help the world cut greenhouse-gas emissions, create jobs and fill the provincial treasury by building a liquefied natural gas industry, B.C. Premier Christy Clark told a throng of supporters in Fort St. John, B.C., on April 20. Clark was in town as part of a four-hour trip. She told the crowd their support for getting the LNG industry off the ground is "doing nothing less than fighting for the life of B.C."

In her five-minute speech, Clark touched upon the importance of LNG in reducing greenhouse-gas emissions in Asia, creating jobs and raising revenue for government, bringing the crowd to follow her in a chant: "Let us help." Many of those at the rally in the gas-producing region have found themselves hit hard by the latest downturn in Canada's oil and gas industry, either out of work or with significantly reduced hours. Two of those carried a set of placards that read "LNG = Jobs" and waved to motorists.

None of the LNG projects proposed for the B.C. coast have received a full go-ahead to construction, lacking environmental approval, local support and/or customers.

LNG opponents in B.C. schedule protest training

(Squamish Chief; Squamish, BC; April 21) - An anti-LNG group in British Columbia, My Sea to Sky, is organizing a direct-action training workshop for people wanting to step up their protest of the Woodfibre LNG and FortisBC projects near Vancouver. Jessie Schwarz, a former volunteer coordinator with Greenpeace Canada, will conduct the training scheduled for April 30. “To take collective action to change our circumstances,” is how My Sea to Sky event organizer Vanessa Senecal described the training.

“It is a physical act, so it can often speak louder and deeper than anything that you could say or write,” she said. Direct action is traditionally a way of protesting to get the attention of those in positions of power, often through sit-ins, strikes or occupations. Senecal didn’t have exact details of what will be taught at the upcoming session, but topics could include direct-action theory and history, basic blockading, legal rights and de-escalation skills. She said the focus will be non-violent civil disobedience.

The event has already proven so popular it’s full, with about 30 people signed up. The $1.6 billion Woodfibre LNG plant is proposed for the site of a former pulp mill about 30 miles north of Vancouver. The FortisBC project is a $400 million expansion of a 45-year-old small-scale LNG plant just south of Vancouver.

Kinder Morgan cancels New England gas line, cites lack of demand

(Bloomberg; April 20) - Kinder Morgan canceled a controversial New England natural gas pipeline and also has demanded that some customers post collateral to ensure bills get paid as collapsing energy markets have stunted demand for its pipeline and storage services. North America’s biggest oil line operator canceled the $3.1 billion Northeast Direct pipeline that had been scheduled to start shipping gas to Boston in 2018, the largest planned investment in Kinder’s portfolio, according to an April 20 statement.

With a debt load that has doubled the past five years to over $41 billion, Kinder has been hit as stagnant or falling demand prompted drillers and oil refiners to cancel orders for new pipeline capacity. “That New England project going offline is concerning,” said Charlie Smith, chief investment officer at Fort Pitt Capital Group. “All they’ve talked about is the huge arbitrage between Marcellus Shale gas as some of the cheapest in the world and Northeast electricity being some of the most expensive. Unless I’m missing something, this should’ve worked.”

The Northeast Direct project died because of tepid demand for shipping capacity from power producers, Kinder Morgan CEO Steve Kean said during a conference call April 21. And in Georgia, the company dropped its $551 million Palmetto pipeline development after state lawmakers imposed a moratorium on new permits. In a separate move, stung by bankruptcies and credit downgrades for shale gas drillers, Kinder Morgan is requiring some customers to post “a lot” of collateral, Kean said.

[New York regulators deny permit for natural gas pipeline]

(Christian Science Monitor; April 24) - New York regulators announced April 22 that they will not issue a water-quality permit needed for the proposed $750 million Constitution Pipeline running through the northeastern U.S. The New York Department of Environmental Conservation rejected the permit for the 124-mile natural gas pipeline project, which would run from gas fields in Pennsylvania through New York to a connection with other pipelines near Albany, N.Y.

The Earth Day announcement marks a second win for environmentalists in the Northeast. Earlier in the week, Kinder Morgan put on hold its $3.1 billion Northeast Direct Pipeline because of "insufficient contractual commitments" in the New England market. The 30-inch underground Constitution Pipeline would serve about 3 million homes. In its refusal to issue the permit, New York regulators said the line would interfere with water resources in its path, according to The Associated Press.

Permits in Pennsylvania had already been obtained by project partners Cabot Oil & Gas, Piedmont Natural Gas and Williams Partners, and trees had been cleared along the path. "We are very disappointed by today's decision," the partners said in a statement. "We remain absolutely committed to building this important energy infrastructure project. We are in the process of analyzing the stated rationale for the denial. Once that review is complete we will assess our options, which may include an appeal to the US Circuit Court of Appeals."

[U.S. oil producers return to hedging to lock in higher prices]

(Wall Street Journal; April 24) - U.S. oil producers aren't letting the price rally go to waste. In an about-face, companies are using hedges to lock in prices that they turned their noses up at a few months ago. Last September, Energen officials told investors they would hold out for roughly $60 a barrel before using the futures market to hedge their production. But the company recently said it had locked in about half of its expected 2016 production — or more than 6 million barrels — at around $45.

EV Energy Partners hedged in recent weeks at prices slightly above $40, even though last spring it opted not to hedge when prices were between $50 and $60, finance chief Nicholas Bobrowski said. "We thought we were smarter than everyone," Bobrowski said of the missed opportunity. "Lessons learned." Companies that produce oil or gas typically hedge by trading options or futures to guarantee a price for their output. Previously established hedges helped some producers through much of 2015.

Now they are getting a break. Benchmark U.S. oil prices have shot up by more than 65 percent since hitting a 13-year low in February, giving producers a chance to lock in better prices just as many banks are re-evaluating how much credit to extend to the sector. Oil futures rose to $43.73 a barrel April 22 in New York — though prices are still well below the $60-plus level they occupied a year ago. Hedging now means giving up possible higher prices if oil continues to improve. But producers have pounced anyway — due to pressure from their investors and fear that the rally could be temporary.

Oil producers have more work ahead to cut costs

(Bloomberg; April 22) - The world's biggest oil companies, set to report their worst quarterly earnings in more than a decade, are finding their cost-cutting efforts haven't matched the decline in crude prices over the past two years. While producers have been deferring projects, eliminating jobs and freezing salaries, the process will take three years to complete, said Barclays' Lydia Rainforth, a London-based oil sector analyst. In the meantime, profits are being hammered.

"A lot of work still needs to be done on costs," Rainforth said. "It's a reflection of how much costs had piled up and how long a process this is." For producers reeling under the threat of credit-rating downgrades, slashing costs is the surest way of protecting balance sheets. Still, reversing course is proving painful after $100 oil persuaded companies to pump cash into expensive areas in search of new deposits, hire more people and rent rigs and services at record rates.

Shell had operating costs of $14.70 a barrel last year when Brent averaged $53.60, Barclays said. That's more than double the $6-a-barrel cost in 2005, the last time oil averaged in the $50s, according to the report. BP's operating expense was $10.40 per barrel last year compared with $3.60 in 2005, according to Barclays. The operating costs don't include capital spending, taxes and royalties. After rising every year from 2010 to 2014, Shell's costs fell 15 percent last year, according to Barclays. BP's dropped 19 percent. But that's not been enough to counter the rout in oil prices.

TransCanada accepts demand for more rigorous review of oil pipeline

(The Canadian Press; April 21) - TransCanada has heeded Quebec's request for a deeper review of the company's proposed Energy East oil pipeline project, agreeing to provide more detailed information. Environment Minister David Heurtel said the Calgary-based company filed paperwork as required under Quebec's Environment Quality Act and will have to produce an impact study by June 6. The April 22 announcement puts on hold a review process conducted by Quebec's environmental review agency.

TransCanada's decision to submit to the provincial government's process put a halt to a second round of Energy East public hearings that was scheduled to begin April 25. The first hearings before the provincial review body wrapped up in March with citizens from across the province grilling TransCanada executives on the risks and costs associated with the pipeline. Energy East would bring up to 1.1 million barrels of oil a day from Alberta and Saskatchewan through Quebec and into News Brunswick for export.

The $15.7 billion, 2,850-mile project includes existing TransCanada pipeline as far east as Montreal, plus new pipeline to be constructed through Quebec. The project has run into stiff opposition in Quebec, with many questioning whether the environmental risks outweigh the economic rewards. The April 22 agreement could end an impending legal fight between the province and the company — the province had filed an injunction to force TransCanada to be subjected to the more rigorous review process.