

Oil and Gas News Briefs

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April 28, 2016

[Gas imports likely to play a big part in China's energy future](#)

(Forbes columnist; April 24) - Although the slowest pace since 1990, China's economy still grew by nearly 7 percent last year. This economic "slowdown" has cut back the growth in China's natural gas demand. Yet, gas use in 2015 was still up 4 percent, and an 18 percent gain year-on-year in January 2016 should mean better prospects are ahead this year. Emerging and inevitable climate agreements and increased emission standards mean even more gas. And much of it imported gas.

Production wise, China has generally been a high-cost producer with no single giant field, particularly a major disadvantage when prices are so low like they are now. Gas fields in China are unevenly distributed and often remote from demand centers. Output is monopolized by the three state-owned energy giants, with a constant lack of competition that stagnates efficiency improvements and cost reductions.

Shale development is two to four times more expensive in China than in the U.S. China probably does have the world's largest shale gas potential with 1,115 trillion cubic feet of technically recoverable resources, but future production doesn't seem as promising as it did a few years ago, constrained by geological complexity, shortages of water, land access, and the limitations of infrastructure and the service industry. For many reasons, the mindset is that gas imports could be cheaper than domestic production.

[Gazprom exec says LNG gets in the way of pipeline gas pricing](#)

(Tass; Russian news agency; April 25) – Russia's moves to liberalize its exports of LNG are hindering talks for pipeline gas deliveries to China, Gazprom Deputy CEO Vitaly Markelov said. "I have to say that the talks with China National Petroleum Corp. have been negatively affected by liberalization of Russian exports of liquefied natural gas, as the Chinese partners used the argument of the possibility of receiving Russian gas in the form of LNG as a bargaining tool regarding the pricing issue."

Gazprom has signed deals to build new pipelines for large-volume gas deliveries to China, but pricing terms have not been settled. Gazprom has long held a monopoly on Russian natural gas exports, though the government has approved LNG exports for other producers — introducing limited competition to the market. Partners in the Yamal LNG project in the Russian Arctic have said the plant will be ready to start shipments late next year. China National Petroleum Corp. is a partner in Yamal LNG.

Gazprom's new Siberian pipeline and gas field development to serve China is not scheduled for completion until late 2018, though delays are possible.

LNG exports will play a big role in Canadian gas production

(U.S. Energy Information Administration; April 26) - In its recent publication, "Canada's Energy Future," the country's National Energy Board projects that Canada's natural gas production and its domestic gas consumption will increase through the next decade. Though exports of natural gas by pipeline to the United States are expected to continue to decline, the proposed construction of liquefied natural gas export terminals on the west coast will play a key role in maintaining Canada's overall gas exports.

The NEB expects that Canadian natural gas net exports to the United States will fall to 2.5 billion cubic feet per day by 2025, shrinking to a negligible volume by 2040. Net exports to the United States have already decreased from a high of 10.6 bcf a day in 2007 to 7.4 bcf in 2014. With the continued development of U.S. shale resources, the United States now relies less on Canadian imports to meet demand.

With the decline of gas sales to the United States, LNG exports are expected to be the primary driver of Canadian gas production growth, with overall production growing from 15 bcf a day in 2015 to nearly 18 bcf in 2025. The NEB report said future Canadian gas production growth will rely on the construction of LNG export capacity. None of the 20 LNG export projects proposed for the west coast have received a final go-ahead to start construction, waiting on regulatory and/or financial decisions.

Cheniere continues commissioning work, ships seventh LNG cargo

(Houston Chronicle; April 25) - Cheniere Energy's Sabine Pass natural gas liquefaction plant in Louisiana has shipped its seventh cargo, roughly eight weeks after the company began first LNG exports from the Lower 48 states. The LNG carrier set sail April 25 for Portugal. The first six cargoes from Sabine Pass sailed to South America, the Middle East and India. Only the latest ship has set a course for Europe, which was originally viewed as a major buyer for U.S. natural gas.

Interim Cheniere CEO Neal Shear said the variety of locations indicates the diverse buyers who are interested in the fuel. "There's a global bid for LNG that we didn't expect," he said. Shear briefly spoke to media at a ceremony at the plant site April 25. A few hundred people — representing international LNG buyers and a range of U.S. companies that helped build and finance the \$20 billion project — gathered in a tent near the completed first LNG production train.

The 1,000-acre facility can accommodate six liquefaction trains. The first train broke ground in August 2012 and is currently ramping up production. The second train is expected to begin producing shortly, with three others following at intervals of six to nine months. A fifth train broke ground last summer and is due online in 2019. Cheniere hasn't given approval for the sixth train. Sabine Pass was an underutilized LNG import terminal until Cheniere decided to add liquefaction and exports to its business plan.

Traditional gas suppliers to Europe react to U.S. LNG

(Sputnik International; April 26) - The first tanker with U.S. LNG is expected to arrive in Portugal this week under contract from Cheniere Energy's Louisiana plant to Portugal's Galp Energia. According to the reports, Cheniere also has contracts with several other European gas companies. According to U.K.-based energy analyst Rui Almeida, the Russian gas giant Gazprom may follow the suit of Saudi Arabia that has been keeping oil production high in order to push U.S. shale oil out of the market.

"Gazprom will be faced between losing (gas) market share or lowering prices. And Gazprom has publicly said they will defend market share, so the bet is on lowering prices," Almeida said. "What we may see play out in gas is not dissimilar to Saudi Arabia's strategy in crude market — going for market share, maintaining production to price out higher marginal cost producers. ... We may witness a similar strategy by Gazprom as it protects market share in Europe."

Stuart Elliott, a Platts analyst on European gas and LNG, said traditional suppliers are boosting their output as a reaction to U.S. gas. "U.S. LNG gives buyers in Europe an alternative to traditional suppliers such as Russia, Norway and Algeria. The response from those producers has been strong," he said. "Russia has promised more flexibility in its long-term contracts and has been pumping gas to Europe at full blast, while Norway and Algeria have been pushing as much gas onto European markets as they can."

U.S. increases pipeline gas exports to Mexico

(Financial Times; London; April 25) - Donald Trump wants a wall along Mexico's northern border. Energy companies are perforating it with pipelines. They are laying steel pipes, some beneath the Rio Grande riverbed, to export billions of cubic feet of U.S. shale gas to markets in Nuevo León, Guanajuato and other Mexican states. The shipments could help uncork a glutted U.S. market, rivaling volumes of much-hailed liquefied natural gas exports.

Bigger gas sales to Mexico could not come soon enough for U.S. producers. The warmest winter on record left 2.5 trillion cubic feet of gas in U.S. storage, the most ever for the end of the heating season. The U.S. Energy Information Administration believes

prices will average \$2 per million Btu this year, the cheapest since 1998. “It’s a huge potential economic benefit to U.S. producers to be able to ship gas just across the border to Mexico,” said David Porter, chairman of the Texas Railroad Commission, which regulates oil and gas production in the state.

For Mexico, gas will feed power plants that are switching from oil as a generation fuel and answer a government drive to lower manufacturers’ electricity costs. Gas is used for 60 percent of the country’s power generation, Goldman Sachs said. “There’s a lot of dormant demand,” said José Manuel Carrera, head of new business at Pemex, Mexico’s state energy company. IHS Energy estimates U.S. gas exports to Mexico will rise to 4.4 billion cubic feet per day by 2020, and some analysts forecast even more.

U.S. gas pipeline delays could tighten supplies, boost prices

(Reuters; April 25) - The saturated natural gas market may get a jolt to help lift prices out of their worst rout in a generation from an unexpected source: pipeline delays. Most analysts believe production cuts this year — the first since the start of the “shale gale” in 2005 — and strengthening exports will deplete the record domestic inventory and help prices recover next year. In addition, analysts at UBS and Raymond James say recent delays to Marcellus Shale pipeline projects will prevent gas from getting to customers.

The pipeline delays in Pennsylvania and West Virginia will hinder gas from moving to the energy-starved upstate New York and New England winter-heating markets, cutting U.S. output by more than many expect and tightening supplies. The analysts expect production will decline in 2017 by about 1 billion to 2 billion cubic feet per day from 2016 due in part to the slowdown in new pipeline takeaway capacity from the Marcellus.

In anticipation of lower supplies following notable pipeline delays in the Northeast, UBS last week said it expected output next year to fall, rather than rise. It also raised its price forecast for 2017 by 25 cents to \$3 per million Btu, which would be a 45 percent rebound from current levels. To be sure, spending cuts and rig reductions over the past couple years by drillers will also play a role in curbing U.S. gas production as prolonged weak prices hurt producers’ margins.

Russia reportedly interested in joining offshore Israel gas project

(Globes; Israel; April 24) - The Russian press reported at the end of last week that Russia was seeking to take a stake in development of Israel’s offshore Leviathan natural gas field. The news reports followed a meeting in Russia between President Vladimir Putin and Israeli Prime Minister Benjamin Netanyahu. The initiative originated in the realization by the field’s partners that they lack the financial capability, know-how and connections needed to realize the huge reservoir’s potential as soon as possible.

According to reports, other companies that expressed interest in joining Leviathan included Korea Gas, Chinese company CNOOC and Australian company Woodside. Gazprom has apparently submitted the highest bid. However, while the Israelis, led by lease holder Delek Group, were enthusiastic about the possibility of the giant Russian company joining the venture, the U.S. partner in the field — Noble Energy — objected, preferring a Western partner, even on terms slightly inferior to Gazprom's terms.

For Putin, a stake in an Israeli gas reservoir is a strategic-geopolitical issue, not an economic one. Russia has plenty of its own gas, but Israeli gas could compete with Russian supplies in Europe and Turkey. One of Israel's main concerns, however, is that Russia's primary aim is to forestall the development of Leviathan in order to prevent competition with Russian gas or, if it is developed, to make sure it is not sold to Turkey or Europe. Leviathan has been estimated to hold at least 16 trillion cubic feet of gas.

Australian consumer watchdog concerned over gas market control

(UPI; April 22) - A government watchdog over competition and consumer interests in Australia said it is growing concerned by the tight market control of a few natural gas players and an uncertain supply outlook. The Australian Competition and Consumer Commission issued its report April 22 on a year-long investigation into the regional gas market. It found suppliers as well as pipeline operators were exploiting their market positions to the detriment of buyers and industry customers.

Commission Chairman Rod Sims said the start-up of new liquefied natural gas export projects in Australia, which exposes the national market to international pressures, the steep drop in crude oil prices and regulatory uncertainty has created a "triple whammy" for the industry. Sims said the future is uncertain as forecasts for increased domestic demand for gas suggest a need for extensive development of national reserves. But the long-term outlook is uncertain because of lingering pressure from lower energy prices.

"Some suppliers have taken advantage of this supply uncertainty and potential shortfalls to increase prices and implement more restrictive non-price terms and conditions," he said. Some users in southeastern states like Victoria, the report said, may be faced with steep price increases for gas if market fluidity doesn't improve. The report calls on government to enact measures to bring new gas supplies to domestic markets, increase regulation over some sectors and open up the industry to more public scrutiny.

Rising oil prices could bring back U.S. shale production

(Bloomberg; April 26) - Oil's rebound from the lowest level in more than 12 years may face an abrupt halt as higher prices could trigger a wave of new U.S. shale production.

U.S. oil futures have advanced more than 60 percent since February, closing at \$43.73 a barrel April 22, the highest in five months, and nearing a level that makes some plays profitable. Drilled, uncompleted wells could return 500,000 barrels a day to the market, said Richard Westerdale, the State Department's Bureau of Energy Resources director.

The inventory of wells is known as the "fracklog," as they require hydraulic fracturing to start production. "Once we start approaching \$45 and above, the risk of a much sharper pullback starts to increase as a lot of shale becomes profitable again," Angus Nicholson, an analyst at industry watcher IG in Melbourne, said by phone. "It'll bring more supply back into the market. This happened last year when a swathe of output hit the market after a price gain and subsequently led to oil dropping to record lows."

Oil has rebounded amid speculation that the global glut will ease after a decline in U.S. production this year trimmed more than 280,000 barrels a day of supply. Still, not everyone sees \$45 a barrel oil as a trigger for shale's return. That price is too low for it to be profitable, International Energy Agency Executive Director Fatih Birol said in Tokyo last week. The market is projected to rebalance by the end of this year, or in 2017 at the latest, he said.

Oil industry recovery could start if price climbs into the \$50s

(Bloomberg; April 26) - The new magic number for oil is \$50. BP, rig-owner Nabors and explorer Pioneer Natural Resources all said in the past 24 hours that prices above \$50 will encourage more drilling or provide a needed boost to cash flow. With oil bouncing close to \$45 a barrel, an industry that has been shaving costs to stay competitive is ready for signs of stability. An average of \$53 means the 50 biggest publicly traded companies in the industry can stop bleeding cash, said consultant Wood Mackenzie.

Nabors Industries, which owns the world's largest fleet of onshore drilling rigs, said it has been talking with several large customers about plans to boost work in the second half of the year if prices rise "comfortably" above \$50. The global oil industry slashed more than \$100 billion in spending last year and is in the midst of further cuts this year to survive what servicer Schlumberger has called the industry's worst-ever financial crisis. In North America alone, spending is expected to drop by half from last year.

"It's not just about touching \$50," said Fraser McKay, vice president of corporate analysis at Wood Mackenzie in Houston. "It's about touching, maintaining and having the perception of future prices above \$50 a barrel before you start sanctioning projects." Yet even talk of ramping up again is bringing a stinging reminder of last year's failed attempt to restart activity too quickly after oil prices rose. "We got out ahead of ourselves," Tony Petrello, chief executive at Nabors, told analysts and investors on a conference call April 26. "We're going to be a little more guarded here."

Moody's downgrades Alberta credit rating

(Calgary Herald columnist; April 26) – Alberta Finance Minister Joe Ceci met with credit rating agencies April 25. But before sitting down with Moody's Investors Service, the agency pulled the rug on Alberta's triple-A credit rating, lowering it to double-A1. It's the third time this has happened to the oil-and-gas province since December. "I was disappointed. ... I believe that the things we've built into our fiscal plan addressed the risks they've identified," Ceci said. "It was kind of a respectful disagreement."

Here's the thing: Agencies such as Moody's, DBRS and Standard & Poor's aren't really looking at whether Alberta's plan helps create jobs or protects core services. They want to see the creditworthiness of Alberta's finances, the stronger, the better. As the credit rating sinks, it will cost the treasury more in borrowing costs. Moody's critique was particularly cutting. It bluntly said the downgrade reflects the "increased risk stemming from the deep deficits and long return to balanced budgets."

The rapid increase in Alberta's debt levels — hitting \$57.6 billion within two years, up from just \$12.9 billion in 2014-15 — was also cited as a factor. "The downgrade of Alberta's credit rating, along with our negative outlook, reflects the province's growing and unconstrained debt burden ... and risks surrounding the success of the province's medium-term fiscal plan," said Moody's Adam Hardi.

Qatar will end gasoline and diesel fuel subsidies next month

(Bloomberg; April 26) - Qatar will scrap gasoline and diesel subsidies next month as the world's richest nation per capita is set to plunge into a deficit this year after more than a decade of budget surpluses. The decision to link transportation fuel to international prices follows a 30 percent increase in January in local gasoline prices for the lowest available grade. Even with that increase, regular gasoline sold for \$1.17 a gallon.

Ending subsidies aims to reduce wasteful consumption, the official Qatar News Agency reported April 26, citing comments by Sheikh Mishaal bin Jabor Al Thani, who heads a committee studying domestic gasoline and diesel prices. As part of their own belt-tightening plans, the United Arab Emirates eliminated fuel subsidies last year, while Saudi Arabia, Oman and Bahrain reduced support.

Reducing and scrapping subsidies, curbing spending and seeking non-oil revenue sources has become a priority for crude exporters from Saudi Arabia to Algeria that are grappling with low prices. Qatar is expected to post a budget deficit of 2.7 percent of gross domestic product this year, after recording a surplus of 10.3 percent in 2015. It had an average budget surplus of 9.3 percent of GDP between 2000 and 2012.

Canadian regulators expect to complete oil pipeline review 2018

(Canadian Press; April 27) - The National Energy Board's final report on TransCanada's proposed Energy East oil pipeline project should be completed by March 2018, the federal regulator said April 26. Consultations with communities along the proposed route will begin in August and a preliminary timeline has the report being issued 19 months later. The fate of the pipeline ultimately rests with the federal government, which will take the NEB's final report into account before announcing a decision on the project.

Quebec's environment review also should be complete by March 2018. TransCanada filed its federal application for the 2,850-mile project in 2014. Energy East would bring 1.1 million barrels of oil a day from Alberta and Saskatchewan through Quebec and into New Brunswick for overseas shipping. Energy East has encountered stiff opposition in Quebec, with politicians, citizens and ecologists arguing the environmental risks outweigh the economic rewards.