Oil and Gas News Briefs
Compiled by Larry Persily
April 4, 2016

Japanese utilities lose electricity monopoly April 1

(Reuters; March 31) - Japan's power utilities will lose their monopoly over electricity April 1 in an unprecedented shakeup that could give a much needed jolt to Japan's long stagnant economy. Already, a price war has broken out among many of the more than 260 companies that will be allowed to sell electricity in Japan's $70 billion retail market. Consumers will be able to buy electricity from suppliers ranging from telecom Softbank and trading firm Marubeni to travel agency H.I.S. and a supermarket co-operative.

They and others like Japan's biggest city gas operator, Tokyo Gas, are packaging other services and offering loyalty programs. The new entrants are betting they can make money in a low-margin business by undercutting the monopolies hurt financially by the 2011 Fukushima disaster and saddled with a high-cost business model after decades of guaranteed profits. The government is hoping increased competition will boost efficiency and innovation and cut prices that are among the highest in the world.

But the new entrants are competing in a market in long-term decline as the population falls and consumers from factories to homes look to trim power use. What is likely to happen is regional monopolies will merge and relatively few newcomers will survive the coming battle, according to industry officials and analysts. Tokyo Electric Power, owner of the wrecked Fukushima nuclear plant, is likely the biggest loser. Tokyo Gas and JX Holdings are among those targeting TEPCO's 29 million customers. Six other regional utilities have announced plans to sell electricity to TEPCO customers in the Tokyo area.

Report says small-scale LNG project has best chance in B.C.

(Globe and Mail; Canada; March 31) - The number of proposals in serious contention to export liquefied natural gas from British Columbia has dwindled to four, down from a dozen viable plans in the fall of 2014, a new study concludes. Trade publication World Gas Intelligence said the player with the best chance of forging ahead is Woodfibre LNG, a $2 billion small-scale project near Squamish, 30 miles north of Vancouver, at the site of a former pulp mill.

There are 20 LNG export projects proposed in British Columbia, but over the past 18 months the outlook has become increasingly bleak, with a global glut of LNG supplies and tumbling prices for the commodity. “Just four LNG projects now look feasible on Canada’s West Coast — and even these may not go ahead, at least until prices and demand pick up,” according to the analysis titled “Canadian Death Spiral.”

The other projects in the “most-likely-to-succeed club” are Pacific NorthWest LNG, a proposed export terminal on Lelu Island near Prince Rupert. Pacific NorthWest LNG, led by Malaysia’s Petronas, has faced delays and is awaiting a decision from the Canadian Environmental Assessment Agency. Next is the LNG Canada venture in Kitimat, led by Shell. The fourth is a Prince Rupert-area project co-owned by ExxonMobil and Imperial Oil. Projects described by World Gas Intelligence as on “life support” include Kitimat LNG, co-owned by Chevron and Woodside, and BG Group’s Prince Rupert LNG.

Mechanical problem halts LNG production at Gorgon

(The West Australian; April 1) - Chevron and its Gorgon LNG partners are facing a repair bill tipped to run over $100 million after a major mechanical problem flared soon after the maiden cargo left the dock. The latest setback for Australia’s biggest resources development — last priced at $54 billion but set to escalate — means liquefied natural gas production may not resume until the end of this month.

Chevron would not discuss how long it would take to fix the propane refrigerant circuit, part of the first of Gorgon’s three production lines, nor what it would cost. Sources said the repair bill is likely to far exceed $100 million, and Gorgon’s second cargo would not sail until the end of this month. “It’s significant time and significant money,” one source said. A Chevron spokeswoman said a team was assessing the extent of the problem in the propane refrigerant circuit. “We should know more in the coming week,” she said.

Gorgon’s maiden cargo sailed from its Barrow Island terminal last week. While mega projects like Gorgon are expected to have teething problems during start-up, the issues that have already emerged are understood to have caused major angst within Chevron and partners Shell and ExxonMobil. Under the ownership structure, cargoes are to be sent to customers of Chevron, then Shell, Chevron, ExxonMobil and back to Chevron.

LNG developer asks Australia to ease off on environmental mitigation

(Australian Broadcasting Corp.; April 1) - The company behind a $37 billion liquefied natural gas project in Australia’s Northern Territory is trying to renege on its agreement to complete $30 million worth of environmental projects. The Inpex-led Ichthys joint venture will take natural gas off the coast of Western Australia and pipe it 550 miles underwater to a liquefaction plant in Darwin Harbor. About 70 percent of the gas will go to Japan once production begins. Inpex is Japan’s largest oil and gas company.

Government approval for the project was conditional on the company delivering $91 million of environmental-offset mitigation over the 40-year life of the project. But the federal Environment Department confirmed Inpex has sought approval to revise its offset program "in light of lower-than-expected environmental impacts for the project." The Australian Broadcasting Corp. understands the company wants to save around $30 million by not proceeding with marine and land reserves it had agreed to establish.

The requested change would affect 5,000 acres of mangroves and land, plus "marine habitat for inshore dolphins, marine turtles and dugong." Sources said a $24 million partnership with aboriginal rangers "to provide for co-management of dugong, coastal dolphins and marine turtles" along 200 miles of coast is in danger if the government approves Inpex's request. Sean Kildare of Inpex said the assessed environmental risks were no longer relevant. The Ichthys project is scheduled to come online late 2017.

India pays about $5 per million Btu for LNG from Cheniere plant

(Bloomberg; April 1) – GAIL (India) has bought the second shipment of liquefied natural gas from Cheniere Energy's Sabine Pass plant in Louisiana in a deal that makes it the first Asian importer of U.S. shale gas. The nation's biggest gas supplier will receive the cargo, bought on a spot-price basis, at the Dabhol import terminal on the country's west coast by mid-April, Vandana Chanana, a company spokeswoman, said April 1.

The deal marks the beginning of U.S. LNG exports into the world's biggest importing region of the fuel, just as new producers from Australia to Papua New Guinea ramp up supplies. India last year overtook South Korea as the world's second biggest LNG buyer on a spot and short-term basis, taking advantage of lower prices from the crash in crude oil and an oversupplied LNG market. The delivered price of the Cheniere cargo is about $5 per million Btu, according to two sources. GAIL declined to comment on the price.

The LNG tanker left Sabine Pass on March 15 after loading the second export cargo from the terminal. The plant's first batch of LNG was shipped to Brazil in February, marking the start of U.S. shale gas exports. The third cargo is also set to go to Brazil. Cheniere's initial exports are commissioning cargoes as part of the start-up process. India's long-term contract deliveries from Sabine Pass are scheduled to start next year.

BP signs production-sharing deal for shale gas in China

(Bloomberg; April 1) - BP is seeking to hit it big in China's shale gas fields where competitors including Shell have struck out. The company on March 31 signed its first shale gas production deal in China, joining the nation's biggest oil company, China National Petroleum Corp., to target the same areas that ConocoPhillips abandoned. Shell, meanwhile, said April 1 it's giving up on its China shale acreage, where difficult drilling conditions stymied exploitation of what could be the world's largest reserves.

"It is an intriguing move, as in many ways BP is swimming against the tide," said Angus Rodger, a Singapore-based analyst at Wood Mackenzie. BP's entry into Chinese shale comes after a pullback by international oil companies that have relinquished the majority of the country's areas they agreed to study since 2010, according Wood Mackenzie. In a departure from previous deals with foreign firms, China National Petroleum will be the operator of the BP project in the 370,000-acre Neijiang-Dazu block in Sichuan basin.

Shell, which sealed a production-sharing deal in 2012 with CNPC unit PetroChina in the Fushun-Yongchuan block in Sichuan basin, said it would not proceed with investments after facing challenging geology and mixed drilling results. ConocoPhillips entered into a joint-study agreement for a 500,000-acre area of Neijiang-Dazu in 2013, though in 2014 it decided not to pursue a production agreement. BP still believes China "has good shale gas potential," said David Nicholas, a spokesman for BP in London.

Kuwait contracts for new LNG import facility

(Gulf Business; Dubai; March 31) - Kuwait has signed a $2.9 billion deal with three South Korean firms for construction of the country's largest liquefied natural gas import facility. The project at the Al-Zour refinery near the border with Saudi Arabia was awarded to Hyundai Engineering, Hyundai Engineering & Construction and Korea Gas. Kuwait National Petroleum CEO Mohammad Al-Mutairi said the project, which is set for completion first-quarter 2021, is needed to meet growing domestic demand for gas.

Despite its oil wealth, estimated at 7 percent of the world's proven reserves, Kuwait lacks enough gas production to meet domestic needs. It imports LNG to supply power plants and its petrochemicals industry. The gas import facility will be part of the Al-Zour complex, consisting of a 615,000-barrel-per-day refinery and petrochemicals plant. The total cost of the complex is expected to reach $30 billion. Kuwait awarded $13.2 billion of contracts in October to build the refinery, scheduled for completion in late 2019.

Australia to take title as top LNG exporter by 2019

(Houston Chronicle; March 31) - Australia could become the world's largest liquefied natural gas exporter by 2019, topping Qatar, the U.S. Energy Information Administration said March 31. The country's Gorgon project shipped its first cargo to Japan last week, and three other projects in eastern Australia have been fully or partially commissioned since 2014. The country now has a gas export capacity of 6.2 billion cubic feet per day. If additional capacity is built out as planned, Australia would reach 11.5 bcf a day of export capacity, roughly one-third of the total global LNG market in 2014.

Most of the gas that Australia's projects will export is headed for Asia. Japanese customers have contracted for 79 percent of output from currently operating LNG plants and 35 percent of new projects. China is the second-largest destination, with about 15 percent of existing capacity and 23 percent from new projects, the EIA said. About 2 bcf per day of new capacity is expected to be sold to short-term and spot-market buyers.

[Small-scale LNG project in Texas files with FERC]

(LNG Global; March 31) - Texas LNG announced March 31 it has filed an application with the Federal Energy Regulatory Commission to build and operate its proposed small-scale natural gas liquefaction plant and export terminal in Brownsville. The company started the pre-filing process with FERC in March 2015. The project at a 625-acre site would have an initial capacity to make 2 million metric tons of LNG per year.

The company's goal is to receive all necessary government approvals by 2017 and start shipping LNG in 2020. The application to FERC will formally start the federal agency's environmental review of the Texas LNG project.

[Gas pipeline operator tells audience not to take opponents lightly]

(Philadelphia Inquirer; March 31) - The chants of about three dozen activists penetrated the walls of the Chemical Heritage Foundation in Center City, Pa., on March 30 as Philip Rinaldi took the stage. "I'm inclined to ask for a brief moment of silence to hear the protesters a little better," the refinery executive joked to about 200 business, labor and political leaders who came to hear plans to promote a Philadelphia energy hub.

The protesters were a reminder of the obstacles facing promoters of a pipeline to deliver natural gas from the Marcellus Shale to Philadelphia. Opposition by climate-change activists has delayed and added costs to efforts across the nation to expand pipelines to transport oil and gas from shale fields such as the Marcellus, said Robert Riga, general manager of business development for Spectra Energy. Spectra owns a major pipeline that moves gas to the Philadelphia region and is working to boost capacity into the area.

"We should not take them lightly," Riga cautioned the audience about the environmentalists. "They're organized, they're intelligent, and they believe in what they do. And they have become effective in working the current system." In 2013, Spectra built a $1.2 billion, 20-mile pipeline extension to deliver 800 million cubic feet of gas a day under the Hudson River and into the heart of Manhattan. The project aroused fierce protests. "So we've got a lot of experience building in an urban environment," Riga said.

[U.S. natural gas inventories 52% over 5-year average]

(Bloomberg; March 31) - U.S. natural gas futures has capped the worst first-quarter loss since 2012 as cold weather faded, expanding a stockpile glut. Gas prices dropped after a government report showed the inventory surplus climbed last week to almost 52 percent above the five-year average, the largest in four years. Meanwhile, rising spring temperatures will erode heating demand, leaving even more of the fuel in storage.

Lackluster winter heating demand failed to trim the supply overhang, sending futures to historic lows as gas production from shale basins flooded the market. Without a sweltering summer or a sharp decline in output, prices are poised to remain under pressure. "We need to see constructive signs emerge that the industry can handle this excess inventory level," said Teri Viswanath, managing director for natural gas at PIRA Energy Group in New York. "The heating season is largely behind us."

Natural gas for May delivery fell 3.7 cents to settle at $1.959 per million Btu on the New York Mercantile Exchange. Prices have fallen 16 percent this quarter.

Investment bank lists 'fragile five' oil-producing nations

(Financial Post; Canada; March 30) - The global oil price rout has left many oil producers reeling across the world. From Canada to Norway, Saudi Arabia to Russia, none of the world's largest oil exporters have been spared from oil prices that declined 45 percent last year alone. While some of the biggest producers will stumble along, five oil-producing economies are on the verge of collapse if prices do not stabilize soon, according to Canadian investment bank RBC Capital Markets.

The five countries face a mix of social, political and terrorism-related upheavals that could either lead to a regime change or create instability that could knock out their oil production. "Our 'fragile five' states … were already facing severe political and security challenges when prices were above $100 a barrel, and the situation has grown far more grim as these countries have struggled to fund their state apparatuses and provide essential services," Helima Croft, global head of commodity strategy, said in a report.

The Algerian government is struggling to develop a new economic plan after its foreign reserves declined $35 billion last year. It needs oil at $115 a barrel to break even on its budget. Iraq is one of the few countries that can raise production significantly, but still needs $77 oil to break even. Libya's production of 1.6 million barrels a day before 2011 is now down to 460,000 barrels as various factions seek control of the country. It needs $69 oil to break even. In Nigeria, as much as 15 percent of its output remains offline. It needs $123 oil. Venezuela's economic meltdown belies its status as the world's largest holder of crude oil reserves. With declining production, it needs oil at $118.

Asia-Pacific oil buyers sticking with Middle East suppliers

(Bloomberg; March 30) - Even in a world awash with crude, buyers in the world's biggest market can't seem to escape their addiction to Mideast supplies. South Korea's imports from the Middle East climbed last year to the highest level since at least 1980, while refiners in India said they are shunning oil from distant ports and taking more cargoes from the Persian Gulf. Saudi Arabia and Oman boosted supplies to China this year as volumes from Venezuela and Colombia to Asia's largest buyer have shrunk.

While the Middle East provides more than 50 percent of Asia's orequirements because of its proximity, buyers in the world's biggest oil-consuming region are seeking to end that dependence and guard against geopolitical risks. Still, even though the global glut has attracted cargoes from Mexico, the North Sea and Alaska, processors say cargoes from the Persian Gulf are irresistible because of shorter shipping times, attractive prices and the promise of crude at a quality that refineries are used to processing.

"If you're getting something nearby and cheap, why would you go shopping far?" said B.K. Namdeo, refineries director at India's Hindustan Petroleum. "The Middle East is the nearest source for the crude we need and the prices are good." Mideast nations including Saudi Arabia, the world's biggest oil exporter, have responded to the price collapse by opening their taps and pressing higher-cost producers. They've also cut selling prices to defend market share against other suppliers in the Asia-Pacific region.

Saudi Arabia moving ahead with expansion of oil field by 2018

(Bloomberg; March 30) - Saudi Arabian Oil Co. is pressing ahead with expansion of the Khurais oil field despite lower crude prices and also plans to double its production of natural gas over the next 10 years, the company's chief executive said. The world's biggest oil exporter won't cancel any oil, gas or refining projects, Amin Nasser told reporters March 30. The company is also studying a possible expansion of the country's largest oil refinery, Ras Tanura, which has a capacity of 550,000 barrels a day, he said.

The Khurais oil field expansion is due to be complete in 2018, Nasser said. The company was seeking to add 300,000 barrels a day to the field's production to reach a capacity of 1.5 million barrels a day, the company's former CEO Khalid Al-Falih said in 2013. In addition, it has made a "promising" shale gas discovery at the Jafurah field in the Al-Ahsa region and is assessing the area for future production, Nasser said. The company plans to double its gas production to 23 billion cubic feet a day over 10 years.

Saudi Arabia led a 2014 decision by the Organization of Petroleum Exporting Countries to maintain output, not cut it, in order to defend market share and drive out higher-cost producers. Crude prices have tumbled almost 50 percent since that decision.

Helicopter industry loses business to low oil and gas prices

(Wall Street Journal; March 30) - The energy-industry downturn has created a huge surplus of helicopters, a sharp turnaround from two years ago when oil and gas companies were forced to share rides to and from far-flung offshore oil platforms. Operators such as CHC Group and Bristow Group that ferry workers and cargo on behalf of the energy industry said they have been surprised by the severity of the downturn, and don't see any prospects for recovery until next year at the earliest.

Industry executives said a fifth of the 1,900 helicopters serving the industry worldwide are idle or underemployed, and expect the overcapacity to worsen before it improves. Helicopters used by the oil-and-gas sector account for 26 percent of the global commercial fleet, according to AgustaWestland. Helicopter operators have tried to diversify, expanding into search and rescue missions, medical and VIP flights.

John Mannion, a Houston-based industry consultant, said the industry will have to look — for the first time — at options for storing unsold helicopters. Limited indoor storage facilities has created a need for alternative solutions. Mannion said alternatives include shrink-wrapping or Heli-Cells — inflatable climate-controlled canopies developed to protect classic cars. Era Group, one of the largest operators in the Gulf of Mexico, has said it may cancel or defer almost three-quarters of its orders for new helicopters.