Oil and Gas News Briefs
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Wood Mac expects overrun at Chevron's Wheatstone LNG project

(Interfax Global Energy; Aug. 11) - Chevron has been under pressure from cost, labor and construction issues as it starts up its Gorgon LNG project in Western Australia. Now it is rumored to be facing overruns at its second Western Australia-based LNG project, Wheatstone. This week, Wood Mackenzie said it expects Wheatstone to cost more than originally forecast, but it will also produce 1.2 percent more liquefied natural gas.

"We have remodeled Wheatstone LNG economics, increasing our estimate of capex by 15 percent to US$36 billion. We have increased our expected output to 9 million metric tons per year, in line with the performance seen at other Australian LNG projects. We expect first cargo in the second half of 2017," Wood Mackenzie said in its analysis. The project developer has pegged maximum output capacity at 8.9 million tons per year.

The West Australian newspaper this week reported that the Wheatstone partners could meet within weeks to sign off on a revised budget up to US$10 billion higher than planned. For now, Chevron is sticking to its US$30.5 billion cost estimate, despite announcing last January that the project would start up six months later than planned because of construction issues. The partners made their final investment decision in 2011, when market demand was strong and LNG prices were much higher.

Chevron has pre-sold more than 85 percent of its equity LNG from Wheatstone's first train to Japanese utilities and trading houses. But the poor outlook for prices could make it more challenging to pre-sell LNG from Wheatstone's second train. Chevron is the operator with a 64.14 percent share. Its partners are Kuwait Foreign Petroleum Exploration Co. (13.4 percent), Woodside Petroleum (13 percent), PE Wheatstone (a consortium of three Japanese firms, 8 percent) and Kyushu Electric (1.46 percent).

Australia LNG squeezed by rising prices for gas, low prices for output

(Reuters; Aug. 15) – Australia-based Santos will book a $1 billion impairment charge on its Queensland liquefied natural gas project, it said Aug. 15, blaming a slow ramp-up, rising prices for gas to feed the plant and low oil prices. Analysts have warned that the $18.5 billion project faces trouble due to uncertain output from Santos' coal-seam gas wells that supply the plant, which is being squeezed by weak LNG prices as it needs to buy more gas from producers to feed the plant while paying higher prices for that gas.

Prices for domestically produced gas are being driven up as new LNG export plants, set to make Australia the world's largest LNG exporter by 2019, are competing for supply with local gas demand while production growth is slowing as states restrict new drilling onshore and cash-strapped oil and gas companies cut spending.

The bad news for the project, Gladstone LNG, comes not only as a blow to Santos, which owns a 30 percent stake, but also its partners: French giant Total, Malaysia's Petronas and Korea Gas. Santos said it has to buy more gas from other companies to help feed the plant's two-train capacity, and will pay more than previously expected for that gas. The project started LNG production almost a year ago.

Trinidad and Tobago LNG production continues decline

(Platts; Aug. 11) – Liquefied natural gas production at the Trinidad-based gas liquefaction complex Atlantic LNG was down 16 percent in June from a year ago, continuing the year-on-year decline of the past 17 months. The LNG operation has been struggling with falling gas production by the country's producers since 2010. The June decline in LNG output was announced Aug. 11 by Trinidad and Tobago's Energy Ministry. The country's LNG plant started operations in 1999.

The production shortfalls stem from disruptions caused by upgrades to major gas infrastructure and a collapse in upstream investment by the largest producers in Trinidad. Atlantic LNG operates four production trains, each owned by a holding company. Shareholders include BP, BG, Shell, and the National Gas Co. of Trinidad and Tobago. The seven companies operating in Trinidad and Tobago produced an average 3.3 billion cubic feet of gas a day in June, down 13 percent year on year.

Canada says LNG project will not ruin First Nation salmon catches

(Globe and Mail; Canada; Aug. 10) - Canada's environmental regulator is offering assurances to British Columbia aboriginals who fish upstream along the Skeena River that the Pacific NorthWest LNG export project won't ruin their salmon catches. The Canadian Environmental Assessment Agency said the Gitanyow First Nation will still be able to fish if a marine terminal is built to export liquefied natural gas from Lelu Island in northwestern British Columbia, near Prince Rupert.

"The asserted fishing rights of Gitanyow Nation can continue to be practised in the same or similar manner as before," the agency said in a recent letter to Glen Williams, chief negotiator for Gitanyow hereditary chiefs. Williams, however, said he is disappointed with the view of agency officials. "They've pretty well made their determination already about the project, despite our efforts. We're opposed to the site and concerned about the impact to Flora Bank and the future of our food supply."

Pacific NorthWest LNG believes a proposed suspension bridge and pier would avoid harming the sensitive eelgrass beds that are crucial for nurturing juvenile salmon on Flora Bank, a sandbar next to Lelu Island in the Skeena River estuary. The Gitanyow's traditional territory is about 90 miles northeast of Flora Bank. Williams had urged the environmental agency to extend its regulatory review, but the agency said Aug. 10 the timeline for a federal Cabinet decision on the project by early October remains in place.

Small LNG project near Vancouver still plans decision by year-end

(The Mirror; Dawson Creek, BC; Aug. 12) - Amid the uncertainty of proposed liquefied natural gas exports from the B.C. coast, one small project planned for Howe Sound, north of Vancouver, is poised to be the first with a final investment decision. Woodfibre LNG vice president of corporate affairs Byng Giraud doubled down on the company's commitment to make a decision by the end of this year. "The market's tough," he said. "There's lots of bad news stories out there about LNG, (but) this game is not over."

While Giraud hinted that the project would be a "good news story," there are a number of hurdles the project has yet to clear. A tentative agreement is in place for 50 percent of the $1.8 billion facility's planned output of 2.1 million tons of LNG per year, but discussions continue as the company attempts to find buyers for the rest of the gas. Woodfibre will need to secure a source for the gas as well. The company does not own any upstream assets. Instead, it intends to get the gas from existing B.C. producers.

Woodfibre still needs to reach a power purchase agreement with BC Hydro. And because of a significant dip in the price of LNG over the past two years, Woodfibre is re-engineering a large portion of the project to cut costs. As a result, the province's energy regulator has yet to grant permits for construction of the facility at a former pulp mill site. Woodfibre LNG is backed by Indonesian billionaire Sukanto Tanoto's RGE Group.

Papua New Guinea landowners await response on gas royalties

(Radio New Zealand; Aug. 12) - A government delegation is due in Papua New Guinea's Hela province Aug. 12 to respond to disgruntled Highlands landowners threatening a shutdown of the country's 2-year-old, $19 billion liquefied natural gas project. The project's gas conditioning plant in the Hides area of this highlands province remains locked by protestors who say the government owes landowners gas royalties in the hundreds of millions of dollars.

Project developer ExxonMobil said its facilities are continuing to operate, and it is monitoring the protest. A deployment of extra police to Hela from the capital in recent days is a sign that the government is concerned about the landowner threat. However, the government's initial response to the current protest did not satisfy the landowners.

Stanley Mamu from LNG Watch said a government delegation made a brief trip to Hela on Aug. 10 to talk with the landowners, and is expected back in Hela with a response to their grievances. "If the government cannot satisfy their petition, they will forcefully go inside and close down wellheads. … It's the well tap that supplies the gas." The royalty dispute is between landowners and the government, which said it needs more time to properly vet and verify property ownership before distributing any money.

Jamaica receives first LNG delivery to fuel power plant

(Jamaica Observer; Aug. 10) - Jamaica has received its first shipment of liquefied natural gas through a partnership agreement between the Jamaica Public Service Co. and New Fortress Energy. The shipment arrived at the port of Kingston on Aug. 5. The delivery represents a historic milestone for Jamaica, as the nation pursues energy diversification. Miami-based New Fortress Energy signed an agreement a year ago to supply LNG for Jamaica's 120-megawatt power plant in Montego Bay. Earlier this year, the plant was converted to run on gas as well as diesel oil.

New Fortress Energy is finishing construction of the Montego Bay LNG receiving terminal. JPS and New Fortress Energy have also signed an agreement to extend the supply of gas to the new 190-megawatt power plant at Old Harbour Bay, St Catherine, Jamaica. New Fortress has agreed to finance and develop the infrastructure necessary to deliver LNG to the Old Harbour plant. New Fortress has U.S. Department of Energy authorization for gas exports and plans to use 40-foot-long insulated tanks and also a floating receiving and regasification facility for the deliveries.

Chesapeake gives up shale gas assets to escape pipeline obligations

(Bloomberg; Aug. 10) - Chesapeake Energy has agreed to give away its Barnett Shale holdings to a private-equity backed operator, exiting the birthplace of the U.S. shale revolution to escape almost $2 billion in long-term pipeline contracts. Chesapeake will convey all interests in the Barnett region in North Texas to First Reserve Corp.-backed Saddle Operating, according to a statement Aug. 10.

Battered by cratering prices, credit downgrades and a shareholder revolt, Chesapeake has been shedding fields, cutting jobs and exchanging stock for debt to revive the second-largest U.S. gas supplier. The company will receive no proceeds for handing over its Barnett assets, which in July were estimated to be worth as much as $1 billion.

Once ground zero for the U.S. shale boom, the Barnett Shale in North Texas faded in importance as gas prices collapsed and explorers discovered new deposits such as the Marcellus and Utica shales closer to urban demand centers on the eastern seaboard. The transaction will provide Chesapeake “some needed relief” from hefty, cash-draining pipeline obligations, said David Tameron, an analyst at Wells Fargo in Denver.

During the early years of the shale boom, explorers had to slow production because of a lack of pipelines to haul the gas to markets. To entice pipeline operators to build, drillers such as Chesapeake entered into long-term contracts in which they promised to keep the lines full of gas or make up the difference with cash payments. As the boom turned into a glut and gas markets collapsed, Chesapeake found itself saddled with billions of dollars in pipeline commitments where it no longer made sense to pump as much gas.

Louisiana officials sue oil and gas companies for erosion damage

(Platts; Aug. 10) - A series of lawsuits, brought by local officials in southern Louisiana against dozens of oil and gas companies operating in the region, could drive drillers to abandon the state, the head of the Louisiana Oil and Gas Association said Aug. 10. About 10 suits have been filed against dozens of oil and gas operators alleging that the companies violated the federal Coastal Zone Management Act by allowing erosion to eat up an untold number of acres of Louisiana's coastline.

The suits represent a grave threat to the state's exploration-and-production industry, especially at a time when the industry has been hard hit by low oil and gas prices, LOGA President Don Briggs said. "It's the kiss of death for drilling in South Louisiana," he said. The suits are being studied "in the board rooms where people make decisions of whether they're going to drill and operate in the coastal region of Louisiana," he said. "Why would they risk being sued over the various permits that they would acquire?"

Although the suits have been working their way through the courts for a number of months, the industry won a victory recently when a judge decided to dismiss a lawsuit filed on behalf of Jefferson Parish, La. In that ruling, issued Aug. 1, the judge found that the plaintiffs, including parish and state officials, had failed to avail themselves of existing administrative remedies pursuing their lawsuit. The judge dismissed the suit without judgment, which means that the plaintiffs could refile at a later time.

IEA says global oversupply of oil starting to clear out

(Wall Street Journal; Aug. 11) – World oil production is falling behind demand, the International Energy Agency said Aug. 11. From July through September, global production of crude will lag behind demand by almost 1 million barrels a day, said the

IEA, a Paris-based agency that monitors energy trends for oil-consuming nations. The oversupply is clearing out even as OPEC nations pump at record or near record levels.

“Our balances show essentially no oversupply during the second half of the year,” the IEA’s monthly report said. The prediction eliminates a central truth of the oil market for the past two years, when oil prices collapsed because of a flood of new crude supplies from places like the U.S. and Canada, and ramped-up production in traditional producers like Saudi Arabia and Iraq.

Two factors have caused the glut to disappear: Deep cuts by producers outside the Organization of the Petroleum Exporting Countries, and healthy global demand for crude, the IEA said. In North and South America alone, oil production is projected to fall by 700,000 barrels a day in the third quarter of 2016, compared with the first quarter, the IEA said. On a gloomy note for producers, the IEA trimmed its forecast for the rise in oil demand next year, predicting global economic growth would fall short of projections.

North Dakota oil production lowest since April 2014

(Wall Street Journal; Aug. 12) - North Dakota oil production dropped 2 percent in June, falling to its lowest level since April 2014, according to the latest data from the state’s Department of Mineral Resources. Shale oil producers around the U.S. have been hit hard by languishing crude prices that have been stuck below $50 a barrel. North Dakota operators have been especially hard hit because of the high cost to extract oil in some parts of the Bakken formation and move it to market.

“We’re still looking at a $50 price point for increased hydraulic fracturing activity in North Dakota,” said Lynn Helms, director of the state’s Department of Mineral Resources. “We really do expect to drop below one million barrels a day pretty soon. Total production in North Dakota averaged 1.0266 million barrels a day in June, down from 1.0484 million in May.

Natural gas production in North Dakota rose 1.1 percent in June to 1.67 billion cubic feet a day, state figures showed. Energy companies burned off, or flared, 9 percent of gas output, down from a September 2011 high of 36 percent of gas flared. The state has sharply reduced the amount of flared gas by approving more pipelines to take gas to new markets and imposing new regulations to limit wasteful flaring.