Oil and Gas News Briefs
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Shell-led LNG Canada looks for new prime contractor to cut costs

(Vancouver Sun; Dec. 9) - The consortium proposing a $40 billion liquefied natural gas project at Kitimat, B.C., is calling for bids to find a new lead construction contractor, looking to reduce costs while the project is under an indefinite delay. Shell-led LNG Canada initially awarded a contract in 2014 to a consortium of engineering firms under the name CFSW LNG Constructors but this week, in a statement, said it is “now undertaking a new competitive process” to pick its lead construction contractor.

“In the current industry and market context, cost competitiveness and affordability of the LNG Canada project remain a challenge,” said Susannah Pierce, LNG Canada director of external relations. The consortium of Shell, Korea Gas, PetroChina and Mitsubishi isn’t alone in grappling with the high costs of new projects in what remains a tough market for energy companies. The global LNG market has hit a period of oversupply, driving down prices and squeezing margins in the business plans for new projects.

LNG Canada was expected to make a final investment decision by the end of 2016, but in July announced an indefinite postponement. The delay has allowed the company to “return to the market and rebid the construction contract to ensure the project remains cost competitive and affordable,” Pierce said. LNG Canada has embarked on a competition with a pre-qualified group of companies to find a new prime contractor responsible for managing all design and construction work.

Qatar will merge its two LNG producers to cut costs

(Reuters; Dec. 11) - Qatar will merge state-owned liquefied natural gas producers Qatargas and RasGas, the chief executive of Qatar Petroleum said Dec. 11, in the Gulf state's latest reaction to lower energy prices. The tie-up of Qatargas and RasGas, Qatar's number one and two LNG producers respectively, has been talked about for a number of years stretching back before the oil price collapse.

At a news conference, QP CEO Saad al-Kaabi said the merger is about cutting costs. "It will make us more competitive in the market," he said, adding that the move would save "hundreds of millions of dollars,” without giving a timeframe for the savings. "It's one business that will do the same thing. Putting it all (in) one place gives you a much bigger advantage in marketing." The transition, which will result in a single company called Qatargas, will take around 12 months to complete.

“Arguably, the reasons for having two firms — to deal with western and eastern markets and also to encourage some competition during the rollout phase of LNG facilities — are no longer relevant," a Doha-based energy analyst said. Qatargas is the largest LNG-producer in the world, with an annual output capacity of 42 million tonnes a year. Qatar Petroleum owns a majority stake, while Total, Mitsui & Co. and ConocoPhillips possess small holdings. RasGas has a production capacity of about 37 million tonnes a year. It is a 70/30 percent joint venture between QP and ExxonMobil.

FERC denies rehearing request for failed LNG project in Oregon

(The Oregonian; Dec. 9) - Federal regulators on Dec. 9 said they will not reconsider their denial of the Jordan Cove liquefied natural gas export terminal in Coos Bay, Ore., and a feeder pipeline stretching halfway across the state. The Federal Energy Regulatory Commission in March denied an application to build the $7.6 billion LNG project, saying the sponsor had not shown a sufficient public need to overcome the negative impact on landowners along the pipeline’s 232-mile route. FERC said the backers had not demonstrated there was any demand for the LNG.

Calgary-based Veresen, the energy company backing the project, requested that FERC reconsider its decision, and submitted preliminary, non-binding agreements with Asian utilities to show that there was demand for the gas. But FERC did not accept that as sufficient to reopen the application. In its Dec. 9 order, FERC said the project backers had more than ample time — three and a half years — to demonstrate there was a need for the development, but had failed to do so.

"We're clearly disappointed with the denial and the Veresen board is considering all options for moving forward," said Michael Hinrichs, a spokesman for the Jordan Cove project. Backers have spent more than $400 million on the venture, he said. But they faced serious headwinds, including a worldwide glut of LNG and weak market. The FERC decision is a victory for property rights advocates, landowners, residents and conservation groups who spent more than a decade fighting an LNG plant.

Opponents not giving up in fight against LNG project site in B.C.

(Financial Post; Canada; Dec. 9) - Ken Lawson, house leader with the Gitwilgyoots tribe, describes his opposition to the Petronas-led LNG project near Prince Rupert, B.C., as “location, location, location.” The location has infuriated environmentalists and First Nations people such as Lawson determined to protect the Flora Bank, where millions of juvenile salmon from the Skeena River acclimate between freshwater and saltwater every year. It has led to a groundswell of environmental activism and legal challenges on the basis of aboriginal title that could prevent the project from being built.

The location has also exposed divisions in Prince Rupert, a city whose population was cut in half when a pulp mill closed more than a decade ago. Residents are largely in favor of new development to provide jobs and rejuvenate the city's boarded-up storefronts, but not at the cost of the region's salmon fishing industry. Multiple politicians, protestors and community residents all say they hope the LNG developer can strike a deal to move the project because a new location would alleviate environmental concerns and bring most opponents on board.

Until that happens, Lawson said, his supporters will maintain a camp established 15 months ago on Lelu Island, the site of the proposed LNG plant, and continue turning away Port of Prince Rupert and Pacific NorthWest LNG staff trying to land on the shore. Christie Brown, who camps out on the island for months at a time as part of the protest, calls the growing encampment "Lelu Village," which has grown to include a two-story cabin and other covered structures. The Gitwilgyoots and another aboriginal community, the Gitanyow, have filed separate federal court actions to block the project.

[Skeptic questions economics of East Coast Canada LNG]

(Natural Gas Intelligence; Dec. 7) - Bear Head LNG is proposing a 1,000-mile pipeline to bring Western Canadian natural gas to the Maritimes for liquefaction and an ocean voyage as LNG to European markets. Management is optimistic about the project, but some experts question whether it is feasible, considering the global outlook for liquefied natural gas prices and project costs. The 42-inch-diameter pipeline would feed gas into the $5 billion Bear Head LNG plant proposed for the Nova Scotia coast.

There are several proposed mega-projects — pipelines and LNG export terminals — that would carry North America's relatively cheap gas to the Atlantic coast and on to Europe. All would require billions of investment dollars and pipeline expansions. "The field of dreams is littered with broken projects," said Calgary-based AltaCorp Capital managing director Dirk Lever. "With the tolls involved in a very old pipeline, it still makes it difficult for guys in Calgary to send gas to Toronto and make money."

Alberta and British Columbia gas would have to first travel through existing pipelines to Ontario, then through the proposed new pipeline to Bear Head, paying tolls along the way, before it is liquefied and shipped. "The producers and the provinces are all for it, but the economics don't work," Lever said. "If the guys in B.C. can't get it to work and have a short distance to go, what makes someone think you can build a pipeline and a liquefaction plant on the opposite side of the country and make it work?"

[Malaysia's Petronas tests production at first floating LNG facility]

(Borneo Post; Dec. 10) – Malaysia's Petronas achieved an industry breakthrough Dec. 5 with first production of liquefied natural gas from the Kanowit offshore field, liquefying and storing the fuel aboard a floating production facility, the PFLNG Satu. The milestone marks a decade-long journey for Petronas to maximize the potential of remote, stranded gas reserves as a game changer in the global LNG business.

"At 365 metres long and with 22 modular systems, PFLNG Satu is an engineering marvel that brings together the liquefaction, production, storage and offloading processes of LNG to the offshore gas field," said Petronas' acting vice president LNG assets, development and production Adnan Zainal.

With a processing capacity of 1.2 million tonnes per annum (mtpa), operating at water depths between 70 metres to 200 metres deep, PFLNG Satu is expected to lift its first cargo and achieve commercial operations in the first quarter of 2017.

Thailand adds Malaysia as LNG supplier in its plan to boost imports

(Reuters; Dec. 8) - Thailand's energy policy committee has approved a proposal for state-owned PTT to buy liquefied natural gas from Malaysia's Petronas over a 15-year period, a senior energy ministry official said Dec. 8. PTT will buy 1 million tonnes of LNG per year from Petronas in 2017 and 2018, and 1.2 million tonnes from 2019 onward, the energy committee said. Pricing and contract terms were not disclosed.

The deal is subject to cabinet approval and an attorney general review, said Twarath Sutabutr, director-general of the ministry's Energy Policy and Planning Office. Petronas would be Thailand's fourth LNG supplier under long-term contracts. PTT already has a 20-year contract to buy 2 million tonnes of LNG a year from Qatar, starting last year. PTT recently won approval to sign long-term contracts with Shell and BP to buy 1 million tonnes LNG each per year. The contracts are expected to be signed this month.

Thailand uses gas for nearly 70 percent of its power generation. The country has become increasingly reliant on LNG imports as its own domestic gas fields are being depleted. The energy committee said it also approved a new LNG import plan for the next 20 years to meet rising demand after delays in construction of coal-fired power plants. Thailand recently revised its LNG imports target to 17.4 million tonnes in 2022, reaching 34 million tonnes a year by 2036, up from an earlier target of 31 million tonnes.

Production ramp-up at Australia LNG project will extend three years

(Reuters; Dec. 8) - Santos, operator of the Gladstone liquefied natural gas project in Australia, aims to increase sales from the project to about 6 million tonnes a year over its three-year ramp-up period, its chief executive said Dec. 8. When fully operational, the project will have the capacity to produce 7.8 million tonnes a year, but has faced challenges securing gas supplies from its own coal-seam gas wells and has had to rely on buying additional gas from other producers to feed the LNG plant.

In addition to Australia-based Santos (30 percent), the partners in Gladstone LNG are Malaysia's Petronas (27.5 percent), France's Total (27.5 percent) and Korea Gas (15 percent). The partners made their final investment decision on the $18.5 billion project in January 2011. The first liquefaction train at the plant started production in September 2015, with start-up of the second train in May 2016. Santos operates the upstream gas production, with the joint-venture operating the LNG plant.

Growing LNG exports could create domestic shortage in Australia

(Reuters; Dec. 8) - Eastern Australia could be short of natural gas starting in 2018 due to a sharp rise in liquefied natural gas exports drawing supply from the domestic market, the national market operator said Dec. 8. The potential gas supply crunch could slow Australia's push to cut carbon emissions, or force a sharp jump in power prices. Increasingly expensive gas-fired power will be needed to supplement wind and solar until large-scale batteries for storing renewable energy become affordable.

"Gas-powered generation growth is expected to stretch available domestic gas supply, with the greatest supply challenge between 2018 and 2024," the Australian Energy Market Operator said in its annual gas forecast. Annual gas demand in eastern states is expected to jump 24 percent over the five years to 2021. With LNG exports from the eastern state of Queensland projected to soar 42 percent by 2021, the eastern Australia regional gas market could be vulnerable to sharp price moves, the report said.

"The domestic gas sector in eastern and southeastern Australia is now linked to a more volatile world market for gas through our LNG export industry," said Mike Cleary, chief operating officer of the Australian Energy Market Operator. Despite the supply constraints, the states that are most dependent on gas for homes and industry, Victoria and New South Wales, have banned or limited development of onshore gas resources due to opposition from farmers, communities and environmental groups.

Cold weather, higher oil prices push Asia LNG to $8.10

(Reuters; Dec. 8) - Asian spot prices for liquefied natural gas rose to their highest since mid-2015 this week as a deal by OPEC and Russia to cut crude oil output lifted the entire fuel market, with winter weather in the Northern Hemisphere supporting natural gas markets. Spot prices for Asian LNG rose by half a dollar from last week to about $8.10 per million Btu, their highest since July 2015.

Traders said the main price drivers were a deal between the Organization of the Petroleum Exporting Countries and non-OPEC producer Russia to cut crude output to prop up prices, as well as cold weather in northern Asia and Europe that lifted LNG demand for heating and power generation use.

"Higher oil prices translate into higher LNG import prices for the majority of LNG consumers," energy consultancy Wood Mackenzie said Dec. 8. As some 80 percent of LNG supply is sold at prices linked to Brent crude oil, Wood Mackenzie said every $1 per barrel increase in Brent would push an increase of between 7 and 15 cents per million Btu in contract LNG prices indexed to oil.

Cold weather could drive U.S. natural gas prices past $4

(Bloomberg; Dec. 7) - A blast of Arctic air across the U.S. may deliver natural gas bulls something they've spent more than two years waiting for: prices above $4. Cold weather has already sent gas futures surging 19 percent since the start of November. And if the forecasts for a deep chill across the northern half of the U.S. hold true, prices may reach $4 per million Btu for the first time since December 2014, when plunging temperatures caused demand for the heating fuel to soar.

"That $4 level is now within reach," said Bob Yawger, director of the futures division at Mizuho Securities in New York. "The market seems determined to rally, and we can continue to push higher as long as these cold forecasts don't fall apart." December's icy grip has already sent gas futures soaring in the past week by the most seasonally in a decade, stoking bets that the cold will be deep enough to burn through the nation's glut of natural gas in storage and propel prices even higher next year.

Production of the power-plant fuel in the nation's prolific shale formations is projected to fall this year, and supplies are already lower as U.S. gas heads by pipeline to Mexico and as LNG to overseas buyers. Gas futures jumped more than 7 percent in the first week of December, settling at $3.603 on Dec. 7. Prices are up 54 percent this year.

Alberta and Alaska in the middle of global investment rankings

(Postmedia News; Canada; Dec. 6) - Alberta is losing ground as an attractive place to invest for oil and gas companies, says the latest annual global survey of energy-sector executives by the Vancouver-based Fraser Institute. A report by the conservative-minded think tank said Alberta dropped to 43rd out of 96 jurisdictions worldwide on a "policy perception index," which measures the extent that government policy discourages oil and gas investment. In 2012-2014, Alberta ranked in the top 10 percent.

“The Alberta government has introduced policies that are confusing and possibly costly, creating uncertainty for the oil and gas industry, which can invest elsewhere,” said Kenneth Green, of the Fraser Institute and co-author of the 2016 Global Petroleum Survey, released Dec. 6. Alberta earned low marks for regulatory duplication and inconsistencies, high taxation and uncertain environmental regulations, the report said. The report compiled surveys of 381 petroleum industry executives and managers.

Alaska ranked 49th of 96 jurisdictions, similar to its mid-level rating of recent years. Alaska ranked well on fiscal terms and labor issues (in the top third of the ratings), but fell into the bottom half for regulatory uncertainty and environmental rules. The best ratings among jurisdictions with large oil and gas reserves went to Texas, United Arab Emirates, Qatar, Alberta and China. The most attractive mid-size rankings included Oklahoma, Wyoming, North Dakota and Norway. Jurisdictions least likely to attract investments were Venezuela, Libya, Russia, Indonesia and Nigeria.