Oil and Gas News Briefs
Compiled by Larry Persily
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India wants to renegotiate 2012 LNG supply contract with Gazprom

(Bloomberg; Dec. 12) - India's biggest natural gas utility is seeking a price cut and other changes to a 20-year liquefied natural gas supply contract from Gazprom, the latest in a series of concessions sought by buyers amid a global LNG glut. GAIL India is pushing to overhaul the 2.5-million-ton-a-year contract with the Russian gas giant that starts in 2018, said B.C. Tripathi, chairman of the state-run company.

"It's not only duration, it's the price, source of supply, the terms and conditions," Tripathi said. "There are a host of contractual issues. All these are being re-looked into," he said Dec. 6. While there are talks on "adapting the contract terms," the deal signed in 2012 is legally binding, the Gazprom's export arm said in response to a request for comment. No other details were provided. In renegotiating long-term contracts, India is seeking to take advantage of a global oversupply that has pushed down prices almost 60 percent the past three years. Last year the country's biggest gas importer, Petronet LNG, reworked a 25-year contract with Qatar that cut prices by almost half.

GAIL also plans for short-term charters of four to five LNG carriers as it prepares to start receiving U.S. LNG cargoes. GAIL has a contract to buy 3.5 million tons a year for two decades from Cheniere Energy's Louisiana terminal, with supplies expected to start in March 2018. It has also booked 2.3 million tons a year from the Cove Point LNG terminal in Maryland, which is set to start deliveries in December 2017.

Cost-cutting top priority in Qatari LNG merger

(Platts; Dec. 12) - "Everybody in the oil and gas business wants to become more competitive," Qatar Petroleum CEO Saad al-Kaabi told reporters Dec. 11 in announcing the merger of the country's two liquefied natural gas producers, RasGas and Qatargas. Kaabi predicted that combining the two companies responsible for managing Qatar's LNG production and core business functions such as marketing would yield hundreds of millions of dollars in annual savings — a top priority in the current economic climate.

With a global oversupply of the fuel and low prices, LNG margins are tightly squeezed due to much higher production and transportation costs than pipeline gas. The Qatari government expects a $12.8 billion budget deficit this year, its first in over a decade, and predicts deficits at least the next two years. Newspapers have reported layoffs of tens of thousands of white-collar workers, while financial problems afflicting real estate contractors have resulted in mass strandings without pay for construction workers.

The Persian Gulf emirate is currently the world's leading LNG exporter with 77 million metric tons per year of production capacity. Qatar's long-term plan to develop a world-class LNG business based on efficiencies of scale was conceived at a time when an uptrend in U.S. and European LNG imports was expected. However, the U.S. shale gas boom since 2008 and European economic stagnation have left Qatar largely dependent on the competitive Asian gas market for LNG sales. Qatar started up the first of its 14 LNG production trains in 1997; the last expansion came online in 2010.

LNG suppliers will need to adapt to shorter-term contracts

(Interfax Global Energy; Dec. 14) - BP and Shell are optimistic about the future of global natural gas and LNG, as well as the industry's ability to meet the new wave of demand growth. Speaking at an LNG conference in Barcelona on Dec. 13, Jonty Shepard, chief operating officer of BP's LNG division, said that while supply would not be an issue for the foreseeable future, demand growth presents certain challenges. "It's a healthy market and demand is growing, but the sources of that demand are changing."

LNG suppliers need to accommodate buyers who want shorter, more flexible terms, Shepard said. LNG demand would grow in countries where energy policy is driving coal displacement, he said, as well as in countries with dwindling nuclear power capacity. Steve Hill, Shell's vice president for gas and energy marketing, was also optimistic about future demand. "Gas will continue to supply the chemicals industry … and it will be a long time before anything but gas heats Moscow, Seoul and Beijing in winter."

Under a low-price environment and with declining demand in many of the more mature markets, the executives said new ways of financing projects must be found. "You need long-term contracts to underpin the financing, but buyers are asking for shorter contracts and more flexibility," said Laurent Vivier, president of gas at Total. "I think the industry has yet to find a solution for getting together the financing for new projects."

It is up to suppliers to help develop new markets, which require major investment, Vivier said. "You need the players in the LNG upstream to start considering investment in the downstream supply chain, including import infrastructure." Khalid Sultan R. al-Kuwari, an officer at RasGas, suggested he too is concerned by the longer-term outlook. "We see [in] the next five years there being excess supply in the market; the question is what happens in the 2022-2025 timeframe if no FIDs are taken in the next couple of years."

Start-up problems persist at Gorgon LNG

(Reuters; Dec. 13) - Chevron's Gorgon liquefied natural gas plant off western Australia still has one of its two production units shutdown two weeks after first being taken offline, the company said Dec. 12. It's the latest in a string of outages to hit the $54 billion project since it started up in March. "Production from Gorgon LNG Train 1 remains on hold while we address some recent performance variations," a company spokesman said. Chevron did not indicate how long the shutdown would last.

Exports from the plant's second production line resumed Dec. 8 after a temporary halt Dec. 7, the spokesman said. Disruption at Gorgon has led to demand for replacement cargoes to fulfill customer commitments, pushing spot LNG prices above long-term oil-indexed contract prices, said Thomson Reuters analyst Mathilde Jacobsen. The Asian spot LNG price climbed to $8.10 per million Btu on Dec. 9. The last time the Asian spot price exceeded oil-linked LNG contract prices was in winter 2014.

Oregon LNG project could reapply to FERC after Trump takes office

(Financial Post; Canada; Dec. 12) – Calgary-based Veresen may wait until president-elect Donald Trump takes office to reapply for permits to build a liquefied natural gas project on the Oregon coastline, according to one analyst. The Federal Energy Regulatory Commission dealt Veresen a setback Dec. 9 when it declined the company's application for a rehearing on its Jordan Cove LNG project in Coos Bay. Raymond James analyst Chris Cox said the company could reapply after Trump takes office.

Veresen had requested a rehearing after FERC denied its application in March, citing a lack of customers for the LNG. In denying a rehearing, FERC said the company had not demonstrated there were "extraordinary circumstances" to warrant reconsideration. Calgary-based AltaCorp Capital analyst Dirk Lever said in a research note that the most recent FERC denial puts Veresen "back to square one," and noted that a timeline for a sanctioning decision for the project is now "indeterminable."

Oregon newspaper editorial says it's time to give up on LNG project

(The World; Coos Bay, OR; editorial; Dec. 13) - Judging from the reader comments on our Facebook page as of this weekend, there is apparently a change of attitude about the Jordan Cove Energy Project and its proposal to build a liquefied natural gas export plant in Coos Bay, Ore. Rather than engaging in heated debate about progress and job growth versus environmental preservation and public safety, the whole back and forth following the latest news about the project is a collective "Meh."

The Federal Energy Regulatory Commission finally put a stake through the heart of the current regulatory process Dec. 9 by announcing that it would not consider a rehearing of its March decision to deny permission to build the 234-mile-long interstate gas pipeline and multibillion-dollar LNG export terminal. Essentially, it sounds like FERC got tired of waiting for the developer to prove a need for the project. And reader comments over the weekend suggest the same — so have we.

Bottom line, the project developer, Calgary-based Veresen, is a corporation, publicly owned and answerable to stockholders who want returns on investment. Jordan Cove isn't paying out. So, despite the optimistic tone of the company CEO that the fight is not over, we're starting to realize that we shouldn't waste any more time hoping and wishing and allowing ourselves to be disappointed over and over again. As state economists remind us, their forecasts take into account what's real now, not what's promised.

EPA report bolsters anti-fracking activists

(Bloomberg; Dec. 14) - Janet McIntyre has heard President-elect Donald Trump praise fracking and the jobs it's created. But she's living the other side of the story. For six years, the western Pennsylvania woman and dozens of neighbors have blamed their tainted groundwater — turned foul-smelling and undrinkable — on hydraulic fracturing. Now McIntyre and others in the fracking debate have support from an Environmental Protection Agency report, released Dec. 13, which said drilling can harm groundwater.

The report, quickly denounced by the industry, comes as Trump's naming of a fossil-fuel champion to lead the EPA has activists despairing. They are vowing to turn to the states and the courts to fight a technology they blame for water pollution, earthquakes and climate-warming gas emissions. "I understand everybody has to have a job," McIntyre said. "But when it damages other people, is it really worth it?" Her neighbors are suing in state court, seeking damages. The case is not expected to go to trial until late 2017.

The EPA report said a review of more than 1,200 scientific sources found evidence that hydraulic fracturing can affect water resources "under some circumstances." The impacts ranged in severity from "temporary changes in water quality to contamination that made private drinking water wells unusable," the agency said in a statement. That was a reversal from an earlier draft that said there was no evidence of widespread water effects from fracking. Still, the agency's final report noted that "significant data gaps" make it impossible to say just how frequent the damage has been.

Oklahoma says recent earthquakes could be linked to fracking

(EnergyWire; Dec. 12) - State officials in Oklahoma said there are indications that recent earthquakes of moderate strength have been caused by hydraulic fracturing, rather than underground disposal of drilling wastewater that has been considered the culprit in past tremors. The quakes linked to fracking occurred southwest of Oklahoma City, near two fairly new plays widely seen as Oklahoma's next big drilling opportunity.

"There is data indicating that, while low, seismicity risk in that area might be related to hydraulic fracturing," Matt Skinner, spokesman for the Oklahoma Corporation Commission, said Dec. 9. Because of that risk, he said oil and gas regulators are developing "seismicity guidelines" for companies operating in the plays, known as the SCOOP and the STACK. SCOOP stands for South Central Oklahoma Oil Province, and STACK stands for Sooner Trend Anadarko Basin Canadian and Kingfisher Counties.

The quakes occurred in July near Blanchard, Okla., in an area devoid of high-volume disposal wells. Between July 7 and July 12, U.S. Geological Survey data reflect nine earthquakes in the area south of Blanchard, with magnitudes ranging from 2.1 to 3.4. Outside of that, another 11 quakes, with magnitudes as large as 3.1, have shaken the area since the beginning of May. Skinner noted that the seismicity linked to fracturing is smaller and less frequent than seismicity linked to produced wastewater disposal.

Keystone marked a shift in pipeline opposition

(Financial Post; Canada; Dec. 8) - In 2011, well-known environmentalists in Canada and the U.S. issued a joint letter as a rallying cry against the Keystone XL pipeline. The proposal by Calgary-based TransCanada, until then a peripheral concern, became a major North America political issue. It marked a noticeable shift in pipeline opposition.

In the past, corporations would propose a project and residents and stakeholders could respond with opposing arguments. Today, stakeholders and environmental groups raise objections to projects, and corporations must respond with supporting arguments. The onus of proof has shifted from the opposer to the opposed. The cultural shift is a change to how people judge the merits and necessity of energy infrastructure. For industry, this somewhat new obligation typically materializes in the question of fulfilling a “social license,” a term oil and gas proponents dismiss as designed to halt economic progress.

Ed Whittingham, executive director of left-leaning think tank Pembina Institute, said the growing influence of environmental groups, and their successful opposition to pipelines, is part of a large shift in public thinking. He said climate-change concerns are central to the opposition, bolstered by local concerns over sensitive waters, aboriginal rights and distrust of the oil industry. Pipeline campaigns have brought new life to the movement and given a boost to luring in new recruits, organizers said. “As someone who tries to mobilize people … the notion that you can actually win is something that draws people into a struggle,” said Keith Stewart, head of Greenpeace Canada’s climate campaign.

Quebec approves legislation that could boost oil and gas activity

(Bloomberg; Dec. 10) - Quebec’s legislature has passed a bill that will pave the way for more oil and gas exploration, providing a boost to drillers while drawing criticism from environmental, aboriginal and citizen groups. Bill 106 passed Quebec's National Assembly in a 62-38 vote early Dec. 10 after an overnight debate ahead of the holiday break. The legislation is meant to implement Quebec's clean-energy plan but also contains provisions allowing for energy exploration, potentially including fracking.

"Quebec's government just voted down an amendment to ban fracking in a triumph of science over 'leave it in the ground' lunacy," Calgary-based Questerre Energy tweeted on Dec. 10. Shares of companies that hold exploration rights, including Questerre and Junex, based in Quebec City, surged last week as passage of the legislation looked likely. Questerre holds about 1 million acres and has drilled test wells in the Utica shale formation along the St. Lawrence River, according to its website.

The bill creates a new agency to promote Quebec's transition to cleaner energy and also lays out a framework for oil and gas development in the province. Environmental, aboriginal and citizen groups said the bill is contradictory, that debate was rushed, and that it should have included a moratorium on fracking and protection for landowners. "It's a strange bill," said Sidney Ribaux, of Quebec environmental group Equiterre. The bill is meant to create a roadmap to reduce fossil fuel consumption by 2030, but it also opens the door to oil and gas development in a province that has very little drilling.

Inuvik in Canada's Far North waits for a gas line that may never come

(Financial Post; Canada; Dec. 11) - "I'm older than this town," Fred Carmichael said as he drove his truck through Inuvik, Northwest Territories. Carmichael, 81, is among a shrinking generation of Inuvialuit who remember when this outpost was nothing more than a few tents along the Mackenzie River in Canada's Far North. The town's attempt to shift toward a modern economy is tied to the proposed Mackenzie Gas Project. The venture led by Imperial Oil and ExxonMobil was proposed in 2000 for a pipeline to move natural gas from the Beaufort Sea delta to markets in Alberta and British Columbia.

But after decades of regulatory delays and volatile commodity prices, the project now seems unlikely to ever go forward, leaving the 3,300 residents of this 63-year-old town to contemplate an uncertain future. The government largely subsidizes housing, while summer unemployment numbers in the Northwest Territories reached 30 percent — the highest in Canada. Many locals say the gas pipeline would go at least some way toward combatting the economic woes. The three main Inuit groups in the territories supported the project, and together formed a consortium under the Aboriginal Pipeline Group.

But the pipeline, approved in 2010 after years of consultations, hasn't been built. The anxieties of some who reside near the proposed route, as well as a long campaign by environmental groups, caused delays. By the time it was approved, drillers unlocked massive new pockets of shale gas in the U.S. and Canada, pushing down prices and making the project uneconomic. In June 2016, Imperial Oil won government approval to extend the project deadline to 2022, perhaps putting a final deadline on the line. “It’s the project that never goes away but never gets built,” said Inuvik Mayor Jim McDonald.

OPEC warns everyone must adhere to cutbacks for market to recover

(Wall Street Journal; Dec. 14) - OPEC warned Dec. 14 that it would need non-OPEC producers to act on the pledge to join an output reduction if a global oil glut is to disappear, though markets could rebalance by the second half of 2017 if both sides keep their promises to cut back on production. The Organization of the Petroleum Exporting Countries over the weekend reached an agreement with producers outside the group to jointly reduce global oil supplies by just under 1.8 million barrels a day.

Yet questions have arisen about how much non-OPEC countries such as Russia, which have promised to reduce output by a combined 558,000 barrels a day, will enforce the cuts. Regardless of adherence to the cutbacks, some oil market watchers believe trends in demand might be working against the petroleum cartel. After years of healthy growth fueled by low prices and Asia’s expanding appetite, demand for oil next year could increase at its slowest pace since 2014, some analysts say.

In its first monthly market report since the reduction was agreed, the 13-member group said the “OPEC production adjustment alone wouldn't be enough to clear the total overhang” of 300 million barrels currently in storage. “This clearly emphasizes the importance of non-OPEC producers’ contribution to the production adjustment in support of market rebalancing.” If both sides heed their pledges, it “will accelerate the reduction of global inventories and bring forward the rebalancing of the oil market.”