Oil and Gas News Briefs
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February 15, 2016

‘World isn’t going to wait on Canada’ for LNG, researcher says

(CBC News; Feb. 10) - The longer the delay in liquefied natural gas facilities being developed in British Columbia, the more likely that countries such as the United States and Australia will develop the capacity instead, said a senior researcher for Canadian think tanks. "The world isn't going to wait on Canada and B.C. If we can't get things done in this country, people will go and invest and build their LNG terminals elsewhere," said Philip Cross, a senior fellow at the Ottawa-based Macdonald Laurier Institute.

Cross said the regulatory process for LNG was "drawn out" in B.C., and also said that it took some time for the province to finalize its tax and royalty regime for the industry. "While we haven't been approaching this with a sense of urgency, other countries have been," said Cross, who is also a senior research fellow at the Resource Works Society in Vancouver. "Australia is building terminals left and right, [and] the United States seems to be able to put these plans into effect a lot more efficiently than we are.”

He added, "All this time that we've been talking and debating and hemming and hawing about this, the U.S. has been building an LNG terminal on the Gulf Coast. It’s ready to come online and there are four more like it right behind." Proposed LNG exports on the B.C. coast have been delayed by a combination of regulatory reviews, First Nations opposition, weakening global demand and low prices for LNG worldwide.

Annual BP forecast says LNG will surpass pipeline gas trade by 2035

(LNG World News; Feb. 11) – U.K.-based oil and gas giant BP expects fossil fuels to remain the dominant form of energy for the next 20 years, according to the 2016 edition of the BP Energy Outlook. Despite the rapid growth of other sources, fossil fuels “will remain the dominant form of energy over the period to 2035, meeting 60 percent of the projected increase in demand and accounting for almost 80 percent of the world’s total energy supplies in 2035,” the report said.

According to BP, natural gas will be the fastest growing fossil fuel, increasing 1.8 percent a year. As gas demand grows, LNG’s share of the global gas trade will continue to rise, surpassing pipeline gas trade by 2035. Oil, while it also will increase, BP said, will do so at a much slower pace, averaging 0.9 percent a year as its share of the energy mix continues to decline. Growth of coal is projected to slow sharply, such that by 2035 its share in the energy mix is at an all-time low, with gas replacing it at No. 2.

Non-fossil fuels are projected to grow even faster than anticipated in last year's outlook. Renewables, including biofuels, are projected to grow at around 6.6 percent per year, and as a result their share in the energy mix increases from 3 percent today to 9 percent by 2035, BP said in the report.

Pennsylvania governor tries again for natural gas production tax

(Oil & Gas Journal; Feb. 11) - Saying it is essential to help Pennsylvania address a serious schools funding shortfall, Gov. Tom Wolf has asked legislators to enact a 6.5 percent gross severance tax on most natural gas production. The levy would generate an estimated $220 million in additional revenue in the next fiscal year, he said in a Feb. 11 memorandum to legislators. The Pennsylvania Independent Oil and Gas Association and American Petroleum Institute quickly responded that the tax is a bad idea.

Pennsylvania is the only gas-producing state in the nation without a severance tax, though the state did adopt a schedule of drilling impact fees in 2012 that raises about $200 million a year which is shared with affected municipalities. The fees vary, depending on the price of gas. The governor's proposal would allow producers to deduct the impact fees from their tax bills. Pennsylvania, which sits atop the prolific Marcellus Shale, last year averaged 13 billion cubic feet a day in gas production — second in the U.S. only to Texas. The governor's 5 percent tax proposal failed last year.

The proposal is modeled on West Virginia's tax, Wolf said. "West Virginia offers proof that a state can build a thriving unconventional gas industry while simultaneously using a portion of the proceeds to help make a better future for its citizens." Exemptions would be allowed for gas given away for free, gas from low-producing wells and wells brought back into production after not having produced marketable quantities. Because of limited pipeline capacity out of Pennsylvania, Marcellus gas has been selling at a steep discount to the U.S. benchmark, fetching just $1.30 per 1,000 cubic feet this past week.

India talking with Australia about increase in LNG imports

(Bloomberg; Feb. 9) - India is exploring buying more liquefied natural gas from Australia under long-term sales agreements to take advantage of cheap energy. "Opportunities to control the entire value chain right from gas production, liquefaction, shipping, re-gasification and power generation can be evaluated at the current historic low prices of many of these activities," India's Power Minister Piyush Goyal said in a statement.

Goyal is visiting Brisbane for an India-Australia energy security meeting. India signed its first long-term LNG sales agreement with an Australian supplier in 2009. A 75 percent drop in LNG prices since 2014 because of a global glut is helping India's quest for cheaper energy supplies from overseas.

Australia and India will prepare a road map within two months, outlining the possibility of supplying more LNG to India at prices that compete with coal to produce electricity, according to the Feb. 8 statement. Coal-based electricity is available in India at less than 5 cents per kilowatt hour, Goyal said. Australia is forecast to overtake Qatar as the world's largest LNG supplier by 2020.

Japanese utilities' joint venture wants to own more LNG carriers

(Natural Gas Asia; Feb. 11) – Japan-based Jera Co. plans to almost double its LNG fleet by 2030, the company said in its business plan released Feb. 10. As of 2016, Jera, a joint venture of Tokyo Electric and Chubu Electric, has a fleet of 16 vessels, with plans to own 30 carriers by 2030. The company wants to pursue optimization through full utilization of its fleet and expansion of its trading business. It also hopes to contribute to an increase in market liquidity and seek a role as a leading player in fuel transportation.

Jera also said it expects its long-term LNG supply contracts will drop in volume by 2030, to less than half of its 2016 volume. The 50-50 joint venture "wants to optimize its LNG portfolio by procuring gas through a combination of highly flexible short-term and spot contracts and economically efficient and stable long-term contracts."

Adviser says U.K. needs more gas storage to handle imports

(The Telegraph; London; Feb. 12) - The U.K. could face natural gas supply shocks and spiking prices as the oil-price rout reduces investments and accelerates the decline of North Sea reserves, former energy minister Charles Hendry has warned. The senior adviser to the government said the U.K.'s increasing dependence on imported gas means that without more investment in gas storage, the U.K. could become increasingly exposed to supply interruptions.

In the past, the U.K. has relied on the North Sea for a predictable gas supply, but crashing gas prices could speed the region's decline as firms are forced to scale back investment in new projects — resulting in a supply shortfall within five years, industry experts warn. "The risk of course is that it takes five years to build gas storage," Hendry said. "So if you want to see them built on the time scale that is necessary, then you need to see more investment come through more quickly."

Hendry said the Department of Energy and Climate Change was "reluctant" to push for gas storage, which at current depressed market prices would be uneconomic without subsidy. But the cost to consumers would be "a sensible insurance" against the "immeasurable" cost of a gas-supply shock, he added. The government is banking on the booming liquefied natural gas market to play a greater role in the U.K.'s range of gas supply options. Falling LNG prices in Asia, and significant underutilized import capacity in Europe, could combine to draw increasing volumes of gas to Europe.

IEA official says regulatory reforms would help Asian LNG market

(Interfax Global Energy; Feb. 9) - Urgent regulatory reforms are needed to unlock Asia's potential as a natural gas trading hub, a senior figure at the International Energy Agency said Feb. 9. Addressing delegates at a London conference, Keisuke Sadamori, director of the energy markets and security division at the IEA, suggested boosting gas market liquidity should be at the heart of regulators' ambitions.

"There are huge opportunities for [Asian] markets to import LNG or pipeline gas, but what is needed are regulatory reforms to create a more liberalized and flexible market and pricing systems. This is required to make a secure and sustainable contribution of gas in the region," he told delegates. If these reforms are not forthcoming, Sadamori said he expects gas to be squeezed between the low cost of coal and the falling cost of renewables, which could mean demand for the fuel may never grow substantially.

"Gas should play an important role in providing flexibility in the power system … but its future is uncertain given competition from coal and renewables," he said. Gas also could displace oil in many Southeast Asia markets, but low oil prices will make it difficult to justify fuel switching, especially with the high cost and long payback periods associated with gas infrastructure, he said.

Cooperative proposes that Hawaii drop oil and LNG for renewables

(Pacific Business News; Honolulu; Feb. 10) - The Hawaii Island Energy Cooperative, which is looking to start an electricity cooperative on the Big Island, says its power generation plans include eventually getting off oil, not using liquefied natural gas and instead developing renewable energy projects. The cooperative's plan is in part a response to the proposed sale of the state's largest electric utility, Hawaiian Electric, to Florida-based NextEra Energy.

The deal is going through the regulatory review process with the Hawaii Public Utilities Commission. The cooperative said it would move the Big Island faster and at a lower cost toward the state's 100 percent renewable energy goal, which it said would be done years ahead of the 2045 target date. The co-op said its plan is based on a new analysis of existing resources and estimates of potential new solar, wind and energy storage.

The plan also includes continued expansion of rooftop solar, as well as utility-scale solar and wind. Whether more geothermal energy will be brought on line will be left to the co-op's board. In December, the co-op said it could save ratepayers millions of dollars a year if Hawaiian Electric is converted to a nonprofit cooperative. Hawaiian Electric and NextEra also have said they could cut costs for consumers, and the utility is looking at LNG as a cleaner-burning generation fuel to oil, in addition to renewables.

Oil industry braces for continued crisis of low prices

(Bloomberg; Feb. 12) - The thousands of attendees seeking optimism didn’t find much at the annual International Petroleum Week Feb. 9-11 in London. Instead, they were greeted by a cacophony of voices from some of the largest oil producers, refiners and traders: There are few reasons for optimism. The world is awash with oil. The market is overwhelmingly bearish. Producers are bracing for a tough year. Prices will stay low for up to a decade as China’s economic growth slows and U.S. shale oil acts as a cap on any rally, said Ian Taylor, CEO of Vitol Group, the world’s largest independent oil trader.

“The oil industry is facing a crisis,” said Patrick Pouyanne, CEO of Total, Europe’s biggest refiner. BP boss Bob Dudley described himself as “very bearish” and joked that the surplus is so extreme that people will soon be filling swimming pools with crude. As the world runs out of places to store oil, “I wouldn’t be surprised if this market goes into the teens,” said Jeff Currie, head of commodities research at Goldman Sachs Group.

“Tell me who is supposed to cut?” said Igor Sechin, CEO of Rosneft. "Will Saudi Arabia cut production? Will Iran cut production? Will Mexico cut production? Will Brazil cut production? Who is going to cut?” Supply exceeds demand by as much as 1.7 million barrels a day, so cutting 1 million barrels could make prices more “reasonable,” Sechin said. But cuts on the scale required to balance the market just aren’t happening. While some fields have started to fall victim to low prices, only 0.1 percent of global output has been curtailed because it’s unprofitable, researcher Wood Mackenzie estimates.

Oil producers ‘coming to grips with reality’ of low prices

(Wall Street Journal; Feb. 11) - As oil slides toward $25 a barrel, many companies have little choice but to start making the steep cuts they have avoided, jettisoning every well that can’t break even or isn’t needed to keep the lights on. “Folks are coming to grips with the reality,” Dennis Cassidy, managing director at consulting firm AlixPartners, said of the oil bust that many fear will wipe out profits in 2016. U.S. and Canadian producers are losing at least $350 million a day at current prices, according to AlixPartners.

Some Canadian companies are now warning they may be forced to shut down older oil sands sites if prices fall further. “For the month of January we did not make any money on our oil sands,” said Brian Ferguson, CEO of Cenovus Energy. Daniel Yergin, vice chairman of consulting firm IHS, said sub-$20 oil shouldn’t happen unless crude storage tanks are completely filled, leaving producers no place to stash the fuel they pump. In the U.S., more than 500 million barrels of oil are in storage now, near levels not seen at this time of year since the Great Depression, according to the latest federal data.

Globally, nearly $1.5 trillion worth of oil spending will be canceled between 2015 and 2019, according to IHS estimates, which should eventually mean global oil output will fall. But production has been stubbornly high from Texas to Kuwait, leading some energy experts, like Ian Taylor, CEO of the world's largest oil trader, Vitol Group, to predict that even if oil prices rebound from their current lows to around $48 a barrel by year's end, they could languish between $40 and $60 for five to 10 years.

U.S. shale oil and gas output higher than predicted

(Bloomberg; Feb. 8) - Shale patches in the U.S. are pumping out more oil and gas than the government previously thought. A total 184,000 barrels a day of shale oil output was added to the Energy Information Administration's estimate for February in its monthly Drilling Productivity Report released Feb. 8. The agency also raised its estimate for natural gas production from the Marcellus region by 4.2 percent.

While American drillers have idled more than two-thirds of their oil and gas rigs since October 2014, production has been resilient thanks to techniques that allow them to pump more from each well. A much-anticipated decline in stockpiles is yet to be seen. U.S. crude storage inventories climbed above 500 million barrels to the highest level since 1930 in the week ended Jan. 29, according to EIA data.

The EIA last week said it was revising the models it uses to estimate output. Last month, the EIA said it expected major shale formations to produce 4.83 million barrels of oil a day in February. Monday's report raised that estimate to 5.02 million. The agency last month expected the Marcellus to pump an average 15.2 billion cubic feet of gas per day this month. That was revised to 15.9 billion. Even with the revisions, the agency sees shale oil output on a long downward trajectory as companies cut spending.

UPS signs up for more LNG to fuel its trucks in Texas

(Financial; Feb. 11) - UPS announced it has expanded its agreement with Clean Energy Fuels to use up to 500,000 gallons of liquefied natural gas annually in Texas (equal to about 40 million cubic feet of natural gas). UPS stations will dispense the LNG to a fleet of 140 UPS tractors. The deal builds on UPS's current agreement with Clean Energy Fuels, which has the delivery company using about 1.5 million gallon equivalents of compressed natural gas annually in California to fuel nearly 400 CNG vehicles.

Clean Energy produces and markets what it calls renewable natural gas, also known as biomethane. It can be produced and delivered as compressed natural gas or liquefied natural gas, and is derived from multiple renewable sources, including decomposing organic waste in landfills, wastewater treatment and agriculture.