Oil and Gas News Briefs
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Japan's utilities looking to sell surplus LNG

(Reuters; Jan. 28) – Japan's liquefied natural gas buyers are having to hone a new skill — selling. After decades of negotiating with suppliers for the lowest possible prices, the world's top importer is moving from customer to competitor, seeking to sell surplus LNG. Japan is unlikely to shift vast volumes of gas off its books, but it is delaying or diverting some cargoes after overestimating its needs, adding pressure to a market already in a global glut. Sources say the utilities can only justify selling surplus gas if it turns a profit.

"These end users that have been conservatively trying to buy LNG at the best possible price, these people now have to morph into sellers and optimizers, which is definitely not in their DNA," said a trader, estimating Japan may need to resell about one or two cargoes per month. LNG imports by the world's top buyer declined 3.9 percent to 85.046 million metric tons last year, the first dip since the 2011 Fukushima nuclear disaster drove purchases to successive records, Ministry of Finance data showed.

Utilities have already cut import contracts to minimum levels. Utilities also aim to further trim supply as mild weather curbs heating demand, and atomic reactor restarts and cheap coal crowd gas from the power mix. To lighten its burden, Kansai Electric Power Co. is looking at swapping out cargoes with firms outside Japan, traders say. "The (Japanese) end users are slightly overbought so they're all working either independently if they're the bigger ones, or with trading houses if they're the smaller ones, to either delay those cargoes or to sell them on the open market," a trader said.

Canada bank says weak market will delay B.C. LNG projects

(Business in Vancouver; Jan. 28) - LNG will continue to be oversupplied until the early 2020s and low prices will delay proposed liquefied natural gas export projects in British Columbia, according to Scotiabank's Jan. 28 commodity price index. The price of liquefied natural gas has fallen globally due to low oil prices, less demand from countries like Japan, South Korea, China, India and Taiwan, and more supply coming on board from new projects in Australia, the United States, Malaysia and Indonesia.

"The prices [for LNG], which several years ago had been quite high, have really come down a lot," said Patricia Mohr, an economist with Scotiabank. "It's because of two developments: one is that oil has moved very low and a lot of price contracts for LNG in Asia are tied directly to crude oil. But it's also because there is more supply. … I think that with quite slow economic activity around the world, the supply-demand balance for LNG over the balance of the decade looks to be in surplus."

Because oil is cheap, energy consumers are choosing oil over alternatives like LNG (in China, fuel oil has been cheaper than imported LNG). With sanctions lifting on Iran, the oil oversupply situation is expected to continue, Mohr said. “Oil prices will remain unusually low and choppy until signs of a significant global output drop emerge — made difficult by the production ambitions of Iraq.” For Canada, new projects and drilling activity in the oil sands will be put on hold but existing production will continue.

Gas industry objects to expansion of FERC’s environmental review

(Argus Media; Jan. 29) - An effort by the Federal Energy Regulatory Commission to revise its environmental review guidelines has sparked an industry debate over whether the agency should weigh the effects of gas pipeline and LNG export facility approvals on upstream gas output. FERC has consistently rejected calls to review upstream environmental effects when it decides whether to approve natural gas infrastructure.

Such an additional step could trigger tougher environmental protections or block some projects. FERC, however, has for years successfully argued in court it would be too difficult to accurately predict where gas production might increase. Regardless, FERC's decision last month to revise its guidance for preparing environmental reviews has created a regulatory forum for outside groups and other federal agencies to push for changes. However, the extent of FERC's rule review is unclear.

The Environmental Protection Agency on Jan. 19 told FERC it is possible to provide a "conceptual level analysis" of the types of upstream environmental effects likely to occur from increased gas production. EPA said FERC’s environmental guidance should be updated to require project developers to review greenhouse-gas emissions from the construction of new infrastructure, along with transporting and burning the gas. Projects should also have to describe measures to reduce their greenhouse-gas emissions, the EPA said. Natural gas producers are pushing back on the EPA recommendations.

Chevron looks to start shipments from Gorgon LNG in March

(Sydney Morning Herald; Jan. 31) - After missing its planned 2015 start-up, Chevron said it expects to commence first production of liquefied natural gas at the giant Gorgon project off Western Australia in the next few weeks, with the initial shipments to start by the end of the first quarter in March. Additionally, first shipments from the Chevron-led Wheatstone project, which is also off western Australia, are expected by mid-2017.

Initial shipments from the $US54 billion Gorgon project had been expected by the end of 2015, although delays pushed that back into the new year. Commissioning of the first train is underway, with its completion to aid in a drop in capital spending as Chevron continues to cut costs amid the slump in oil prices. “First LNG production is expected within the next few weeks, with first cargo anticipated soon after that. We'll be ramping up train 1 in the months ahead. On trains 2 and 3, all modules have been delivered to the site and construction is progressing,” said CEO John Watson.

Wheatstone will see export shipments commence in mid-2017. "Hookup and commissioning of the offshore platform is progressing," Watson told analysts. "Six of nine wells are drilled and completed, offering sufficient well capacity for the first train. At the plant site, the operations center and LNG loading jetty are complete, and tank hydro testing is ongoing."

Report of cost overrun at Chevron’s Wheatstone LNG in Australia

(Bloomberg; Feb. 1) - The cost of Chevron’s Wheatstone liquefied natural gas project in Australia, with partners including Woodside Petroleum, may rise about 14 percent to $33 billion after its start date was delayed by about six months, according to Macquarie Group. That would add to budget overruns in the LNG industry in Australia, which is forecast to overtake Qatar as the world’s biggest supplier of the fuel in a few years.

Chevron said last week it expects first LNG cargoes from Wheatstone in about mid-2017, citing a delay in building parts of the project in Malaysia. The company had expected the plant in Western Australia to begin in late 2016. While Chevron didn’t provide an updated cost estimate with a review of expenses to be carried out in the second quarter, “schedule slippages rarely do not transpire to additional cost pressure,” Kirit Hira, a Sydney-based analyst at Macquarie, wrote in a note Feb. 1.

A weaker Australia dollar will probably ease some of the pressure on the project, previously estimated to cost about $29 billion, according to Macquarie. Chevron owns a 64 percent stake in Wheatstone. Other partners include Kuwait Foreign Petroleum Exploration Co. and Kyushu Electric Power. Chevron has succeeded in “mitigating further delays” and “all modules required for train one are now on site,” the company said last week. The project will have an initial capacity of 8.9 million metric tons a year.

Opponents continue protests against coal-seam gas in Australia

(BBC News; Jan. 28) - A natural gas that supporters say could power another resources boom in Australia is proving highly controversial. Coal-seam gas has supplied 90 percent of domestic gas in the state of Queensland for the past two decades and is feeding new liquefied natural gas export plants on the coast. But activists want to stop exploration in neighboring New South Wales because they say it could lead to an environmental catastrophe. Campaigners argue the process of mining the gas will contaminate groundwater supplies, a charge the industry rejects.

One of the frontlines is a short drive from the farming town of Narrabri, 325 miles northwest of Sydney. It's here that energy firm Santos wants to extract enough coal-seam gas to provide up to half of the supplies used in New South Wales homes and businesses. The gas seams are more than 3,000 feet underground. The gas is trapped by the pressure of underground water, and when that is pumped out the coal-seam gas is collected. However, the extraction process and wastewater has led to controversy.

Don McKenzie, a 64-year-old farmer, sits with a bicycle lock around his neck that is clamped around the fence to a coal-seam gas water treatment plant, where more than 100 demonstrators have gathered — landowners to conservationists, Aborigines and the Knitting Nannas, a group of older women who sit and knit in a gentle, determined protest. "We are being forced into doing this because the government … will not listen," McKenzie said. "We've made it very, very clear we don't want this coal-seam gas."

U.K. shale gas fracking applications go to hearing officer

(The Telegraph; London; Jan. 30) - It was four years ago that Francis Egan, then a senior executive at BHP Billiton in Houston, was interviewed to become chief executive at U.K.-based shale explorer Cuadrilla. The company's attempts to pioneer fracking in the U.K. had got off to, quite literally, a shaky start — causing two earth tremors near Blackpool — and its then-chairman Lord Browne, the former BP chief, needed an experienced pair of hands to help kick-start a British shale gas revolution.

"When I was being interviewed by Lord Browne, I was told I'd be drilling lots of wells and fracking lots of wells," Egan recalls. "I think at the time everyone expected it would be." How wrong they were. Despite strong U.K. government support for shale gas, planning setback after planning setback mean Egan has yet to oversee the drilling of a single well, let alone any fracking. The focus of Egan's attention in coming months will not be drilling into the rocks of the Bowland shale — where Cuadrilla believes there could be enough gas to supply the entire U.K. for six years — but a conference room.

Lawyers for the company will spend much of February and March making their case at a public inquiry into its applications to frack at two well sites in Lancashire. After numerous delays, both applications were eventually thrown out by local councillors last summer, despite one having the recommendation of the council's planning officers. Cuadrilla's hopes now rest on the appeal. The hearing officer will have to decide whether the local concerns over noise and traffic from the sites are outweighed by the government's stated support for shale gas exploration in the national interest.

Tanzania moves closer to gaining land for proposed LNG plant

(Reuters; Jan. 29) - Tanzania said Jan. 29 it had finalized land acquisition for the site of a planned liquefied natural gas plant and was now working to compensate and resettle villagers to move forward on the long-delayed project. Tanzania's gas reserves are estimated at more than 55 trillion cubic feet. BG Group, acquired by Shell, along with Statoil, ExxonMobil and London-based Ophir Energy are looking to build an onshore LNG terminal in partnership with the state-run Tanzania Petroleum Development Corp.

The partners are looking to start production in the early 2020s, but their final multibillion-dollar investment decision has in part been held up by delays in issues related to the project site. “After securing the title deed, the law requires the owner to pay compensation to the relevant parties based on a valuation done by the chief government valuer," Tanzania Petroleum said in a statement. The land was bought from large landowners and some individual villagers.

Tanzania's new president, John Magufuli, has promised more urgency in decision-making, responding to a frequent complaint from businesses. "The next key thing to watch is how quickly a host-government agreement is executed between the Tanzanian government, Tanzania Petroleum and IOCs (international oil companies)," Ahmed Salim, senior associate at consultancy Teneo Intelligence, said in a note to clients.

Gas supply shortage forces China to turn down thermostats

(Wall Street Journal; Jan. 29) - Bundle up, Beijing: Many of the city’s buildings are about to get a bit chillier. The severe cold spell last weekend that saw temperatures fall to their lowest level in decades in the Chinese capital has left the city’s government running short on natural gas to heat homes and offices. Beijing’s government Jan. 29 said that as part of an emergency-response plan, it would cut heating temperatures in public buildings to 57 degrees Fahrenheit. A statement on its website said heating in some residential buildings would also be impacted, but didn’t give details.

The city has embraced cleaner-burning gas in recent years as a source of public heating instead of coal as part of its bid to cut smog. But local leaders have faced repeated challenges in ensuring enough gas arrives at heating plants. The latest case is the second time in recent months Beijing has announced a shortage of gas supply. In December, local leaders were forced to cut building heat after a ship carrying liquefied natural gas failed to dock due to severe smog that limited visibility at an import terminal.

China is rapidly working to build out its natural gas supplies, including boosting domestic production. China has raised its supply of pipeline gas from Central Asia and has a deal with Russia for a new gas pipeline. It has also bought more imported LNG to boost supply. But infrastructure and other limitations mean the region can face unexpected shortages when demand surges.

Pipeline expansions help move Marcellus gas to markets

(U.S. Energy Information Administration; Jan. 28) – A number of recently completed and upcoming natural gas infrastructure projects have increased the reach of natural gas produced in the Marcellus and Utica shale regions of the northeastern U.S., with the projects built to transport gas from production centers to consuming markets or export terminals, the U.S. Energy Information Administration said.

Over the past several years, production in the Marcellus and Utica grew significantly: Their combined growth of 12 billion cubic feet per day since 2011 accounts for 89 percent of the total growth in U.S. gas production. But because infrastructure projects often have longer lead times than gas wells, pipeline growth has not kept pace. In the past several months, however, several new pipeline projects have come online to move gas to nearby market areas or to more distant regions, especially the U.S. Gulf Coast.

Key projects that came online in late 2015 include: Texas Eastern Transmission Co.'s OPEN project added 550 million cubic feet per day of pipeline takeaway capacity out of Ohio; Columbia Gas Pipeline's East Side Expansion, at 310 million cubic feet, is helping move gas from Pennsylvania to the Mid-Atlantic; Tennessee Gas Pipeline's Broad Run Flexibility Project, at 590 million cubic feet, moves gas to the Gulf Coast; and Tetco's Uniontown-to-Gas City project flows up to 425 million cubic feet of gas produced in the Marcellus to Indiana. Still more pipeline capacity is scheduled to come online this year.

Canadian regulator forecasts oil production to grow 56% by 2040

(Financial Post; Canada; Jan. 26) - Canada's top energy regulator says the country's crude oil production will continue to grow until at least 2040 even if key pipeline projects do not proceed and despite government policies to reduce greenhouse-gas emissions. The National Energy Board's report forecasts crude oil production to grow 56 percent to reach 6.1 million barrels per day by 2040 from its current level of 4.3 million. The NEB's previous forecast in November 2013 projected growth to 5.8 million barrels by 2035.

More crucially, many projects will remain profitable and production will still rise even if major export pipeline projects are rejected, with oil-by-rail gaining more prominence, the NEB said. Low crude oil prices, however, could have a bigger impact on production. A prolonged period of prices around US$55 per barrel would see Canadian oil production rise more modestly to 4.8 million barrels, the NEB said. The agency forecasts Brent crude prices to average $80 per barrel by 2020 and $105 per barrel by 2040 in its base case, and $55 per barrel in 2020 and $80 per barrel in 2040 in its low oil-price scenario.

The report comes as a debate is raging across the country on the environmental costs of developing Canada’s oil deposits, estimated to be the third largest in the world after Venezuela and Saudi Arabia. Much of Canada’s oil resources are in its oil sands resources in Alberta, which is carbon-intensive to extract. The federal regulator has itself been under fire in recent years from aboriginal and local communities for approving crude oil pipelines and other oil and gas projects without proper consultation.

Alberta oil and gas royalty review recommends few changes

(Calgary Herald; Jan. 29) - After months of controversy, the provincial government will tweak Alberta’s oil and gas royalty regime, not tear it down. The report delivered by the government’s royalty review panel — and accepted by Premier Rachel Notley — will maintain the existing royalty structure for Alberta’s massive oil sands resource, which allows cost recovery before higher royalty rates. It also will keep the current royalty rates for other oil and gas wells drilled before 2017 in place for the next decade.

On wells drilled after 2017, the new regime will preserve existing rates at the outset. New oil and gas wells will pay a flat royalty rate of 5 percent until payout, followed by a higher rate after costs are recovered — similar to the current structure for oil sands. The administration had promised a royalty review to ensure Albertans receive “a full and fair return” from energy revenues, but the report comes in the midst of a massive downturn in oil prices that has hammered the industry and Alberta’s economy.

Oil prices that have at times dipped below US$30 were a factor in the government’s approach, the premier said, adding that the energy industry “is in a precarious and somewhat struggling situation.” She said, “Now is the time to work together as partners, to still bring about change, to bring about innovation.” The changes are intended to modernize a system the government said is “complex, unpredictable and too rigid to keep pace with the rapidly changing economy of our energy sector.” The structure for new wells is intended to reward producers that reduce drilling costs through innovation.

Shell joins effort to boost natural gas-fueled vehicles

(Houston Chronicle; Jan. 28) - Shell is switching its trucking fleet to more liquefied natural gas-fueled vehicles in Houston and Louisiana as more companies increasingly move away from dirtier diesel fuel. The use of LNG and compressed natural gas — another new CNG fueling station has opened in Houston — in commercial vehicles has rapidly expanded because of the nation’s cheap and bountiful supply of natural gas.

Shell said it partnered with Ryder transportation company for 15 new, heavy-duty LNG trucks to support its oil and gas operations in Houston and Lafayette, La. The trucks will replace diesel-fueled vehicles. Shell will provide the LNG. Meanwhile, the 15th CNG fueling station in Houston opened Jan. 28. The new station will fuel the county's transit authority's new fleet of 50 CNG-fueled, public transportation buses. Texas ranks third in the nation with 79 public CNG fueling stations, trailing only California and Oklahoma.