Oil and Gas News Briefs
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Global LNG production rose in 2015, but sales to Asia dropped

(Wall Street Journal; Jan. 13) - Liquefied natural gas shipments to Asian economies that are the world's biggest gas importers dropped in 2015, according to a report published Jan. 13, including a first-ever decline in China. The decline in Asia came as global LNG global production rose 1.6 percent to 250 million metric tons, or 32 billion cubic feet a day, energy consultant Wood Mackenzie said in an annual report on the industry.

The increase in LNG supply comes amid a steep drop in spot-market prices in Asia over the past year to below $7 per million Btu. Prices may remain depressed with the start of shipments this year from the U.S. Gulf Coast and a ramp-up in exports from Australia. The new supplies will help boost global LNG production by an estimated 50 percent over the next five years, which is beyond the capacity of Asia to absorb, Giles Farrer, Wood Mackenzie's research director for global gas and LNG, said in an interview.

Asia represents more than 70 percent of worldwide demand for LNG, but Wood Mackenzie said demand from the region's largest buyers dropped in 2015, including a first-ever decline in shipments to China, which fell about 1 percent after years of double-digit growth. South Korean imports of LNG fell 11 percent on the year and shipments to Japan declined 4 percent, the report said. That was offset by growing demand from newer importers such as Egypt, Jordan and Pakistan, the report said. And lower prices for LNG will likely spur increased demand from other markets, Farrer said.

Korea Gas wants to reduce its stake in proposed LNG Canada project

(Platts; Jan.12) - South Korea's state-owned Korea Gas Corp. will press ahead with a long-delayed attempt this year to sell part of its 15 percent stake in the proposed LNG Canada project, a company official said Jan. 12. KOGAS aimed to sell the stake by the end of 2015, but the plan was delayed due to the falling price of natural gas and some delays to the LNG project, a company official said. However, KOGAS will continue the plan to sell the stake this year as part of its efforts to improve its finances, he said.

The official declined to disclose how much the company would sell, but it most likely will be one-third of its stake. KOGAS currently holds a 15 percent interest in Shell-led LNG Canada after selling a 5 percent slice to Shell in May 2014. KOGAS and its partners in May 2013 launched LNG Canada, a project to produce 12 million metric tons per year of LNG from two trains at Kitimat, B.C. Shell holds a 50 percent stake, China National Petroleum Corp. 20 percent, and Japan's Mitsubishi 15 percent.

The LNG Canada consortium plans to make a final investment decision on the project this year. KOGAS is under pressure from the government to reduce its debt, which has grown after massive overseas projects in the past few years. KOGAS is owned 54.55 percent by the state — 26.15 percent by the central government, 20.47 percent by state power monopoly Korea Electric Power Corp. and 7.93 percent by local governments.

China's push to cut air pollution could help boost natural gas demand

(Nikkei Asian Review; Jan. 11) - The serious and endemic air pollution that has engulfed major Chinese cities in recent years is not only a growing health threat, but may well have a significant impact on the global market for cleaner-burning natural gas. The formidable environmental challenge forced the government to issue its first-ever air pollution red alert in December. Under the five-year economic development plan that begins this year, Beijing is set to make a concerted effort to reduce air pollution.

The government intends to curb growth in oil and coal use, while promoting renewable energy. Efforts to slash coal consumption, the main contributor to pollution, have barely begun, but there have been some encouraging signs. The International Energy Agency says China's coal use in 2014 was down 3 percent from 2013, marking the first decline since 1999. And China's maritime imports of coal for power generation fell about 30 percent in 2015 from the previous year, according to Bank of America Merrill Lynch.

Driven by the government's efforts to promote its use, China's natural gas imports will triple from 2014 to 2020, according to British financial services company Barclays. In November, the Chinese government lowered wholesale prices of natural gas for nonresidential users by about 30 percent in Beijing and other major markets, in a move to boost flagging growth in demand for natural gas. The measures taken to push up natural gas consumption also include allowing third parties to use liquefied natural gas import terminals and private-sector companies to build such terminals.

This could be the year for investment decisions on B.C. LNG projects

(Canadian Press; Jan. 10) - After much anticipation, Canada could see final approval of the first liquefied natural gas export projects on the West Coast this year. Proponents behind some of the 20 proposed LNG projects in B.C. say they should be in a position to make final investment decisions this year as environmental approvals, permits and First Nations support fall into place. And while a supply glut has pushed down natural gas prices and reduced short-term prospects, some experts say projects remain viable.

"These are long-term, multi-decade projects," said AltaCorp Capital analyst Mark Westby. "Current gas prices are only one factor." However, spot prices for LNG have dropped by more than half in Asia over the past two years. Westby sees the Shell-led LNG Canada facility in Kitimat, and the much smaller barge-mounted Altagas-led Douglas Channel project also planned for Kitimat, as most likely to proceed this year.

LNG Canada's final barriers are securing assurances from First Nations and a permit from Fisheries and Oceans Canada, while Douglas Channel still needs to settle a 25 percent excise duty being levied on its LNG facility, Westby said. Another possibility is the Pacific NorthWest LNG project led by Malaysia's Petronas. But Westby said while it remains promising, it faces uncertainty. An environmental assessment should be done by March, but Petronas still has to resolve significant fisheries issues with First Nations.

Mary Hemmingsen, global head of LNG at KPMG, said the drop in oil and gas prices has diminished the likelihood of multibillion-dollar projects going ahead. She said low oil prices have reduced cash flow at project developers, while also making alternatives to LNG cheaper. The "gold rush mentality" that was in place the past couple of years has been replaced by a somber, realistic outlook, she said. "What everyone was chasing two years ago was volume, volume, volume. … Now it's about value, value, value."

Australia LNG project ships first cargo; Conoco one of three partners

(Houston Chronicle; Jan. 11) - The first cargo of liquefied natural gas has sailed from the Australia Pacific LNG facility in Queensland, Australia, ConocoPhillips and its partners in the project announced Jan. 11. For the companies behind the project, the cargo is an important first step toward transitioning from a cash-sink to cash-generator after years of construction and more than $17 billion (U.S.) in investment to develop the facility capable of making 9 million metric tons of LNG per year.

ConocoPhillips and Australia's Origin Energy each own 37.5 percent of the venture; China's Sinopec owns 25 percent and is its largest customer. Japan's Kansai Electric Power also has signed contracts for some shipments. The Australia Pacific LNG plant takes coal-seam gas through a 330-mile pipeline from Eastern Australia, liquefies it and then ships the fuel to customers in Asia. The initial shipment came from the plant's first liquefaction train; a second production train is due online in the second half of 2016.

The project's backers have continued to pour billions into APLNG despite a collapse in oil prices that has crimped cash flow and dragged down LNG prices across the globe. That collapse has left immediate profitability of the project uncertain — Origin has said it needs oil prices at between $38 and $42 per barrel before it will see positive cash flow from its investment, according to the Sydney Morning Herald. ConocoPhillips said it expects the project to be self-funding after the second train comes online later in 2016.

Oregon LNG developer withdraws lawsuit over proposed plant site

(Daily Astorian; Astoria, OR; Jan. 11) - Oregon LNG has voluntarily withdrawn from litigation with the U.S. Army Corps of Engineers before a federal district court judge could officially dismiss the developer's claims. The company wants to build a liquefied natural gas plant and export terminal in Warrenton, Ore., near the mouth of the Columbia River, but the Army Corps has asserted its exclusive rights to the proposed plant site under a nearly 60-year-old easement to deposit dredging spoils.

In late December, Magistrate Judge John V. Acosta ruled against Oregon LNG in a lawsuit the company filed against the Army Corps. Oregon LNG failed to prove, Acosta said, that the Corps has abandoned property. Acosta's ruling still needs to be signed by Anna J. Brown, a federal district court judge, to become official. By choosing to drop its lawsuit ahead of Brown's signature, the company preserves its ability to refile its complaint against the Army Corps at a later date.

Opponents of the $6 billion terminal and pipeline project welcomed the move as another setback for the company. "The direct implication is that there won't be an official court judgment saying that Oregon LNG 'loses,'" said Miles Johnson, a lawyer for Columbia Riverkeeper, an environmental group opposing the project. "It's just one more legal defeat for Oregon LNG in kind of a long string of them," he said. "It makes it harder for them to see how they're going to get this project off the ground."

Chevron-PetroChina venture starts production at gas field in China

(Bloomberg; Jan. 10) - Chevron and PetroChina started gas production in China's southwestern regions of Sichuan and Chongqing, eight years after signing a production-sharing agreement. The well in Chongqing's Luojiazhai gas field began commercial gas production Dec. 30, China National Petroleum Corp., PetroChina's parent, said Jan. 11. PetroChina in 2008 signed the 30-year agreement with Chevron, under which the U.S. producer took a 49 percent stake in the parcel and became the operator.

The Luojiazhai project, the first phase of development, will produce at its peak an estimated 300 million cubic feet of gas per day, according to the PetroChina statement. China currently consumes almost 18 billion cubic feet of gas per day. Both parties will work on two more phases in the same area. Chevron beat Shell, Statoil and Total to win the right to develop the so-called sour-gas reserves at Chuandongbei. Sour gas refers to natural gas that contains a high level of hydrogen sulfide.

Gulf of Mexico tugboats to benefit from start of LNG exports

(Bloomberg; Jan. 11) - Somewhere in the Gulf of Mexico right now, the Energy Atlantic is headed for Louisiana to collect the first exports from America's shale gas revolution.

Waiting to steer the tanker into Cheniere Energy's Sabine Pass terminal is a fleet of tugboats that's spent the past seven years killing time — some days holding emergency exercises, some days racing each other. They were ready to escort ships for natural gas imports, but that never arrived. Now, they will work escorting ships for LNG exports.

"The boats are beautiful — you could eat off the floor in the engine room," said Richard Ennis, head of natural resources at ING Capital. With the switch to exports, the tugs will at last have a job to do — even if it's not the one they expected. The surge in oil and gas output from U.S. shale drillers has the potential to transform world markets. At home, it left a chain of idle LNG import facilities from the Northeast to the Gulf Coast. Now, some of those facilities will go to work exporting liquefied natural gas.

It's about putting to use for export what was not being used to import gas. At Sabine Pass, empty LNG storage tanks designed for the import terminal will be repurposed for exports. And, at last, there'll be work for the ochre-colored tugboats with their fire-engine-red hulls. They'll no longer be waiting for phantom ships.

B.C. government will oppose oil pipeline expansion project

(Vancouver Sun; Jan. 10) - The B.C. government will formally oppose the Trans Mountain oil pipeline expansion in a written submission to the National Energy Board. Environment Minister Mary Polak told The Vancouver Sun that the provincial government believes that pipeline proponent Kinder Morgan has failed to provide the NEB with an adequate plan to prevent or respond to an oil spill. "We are asking them not to recommend approval," Polak said of the Alberta-to-B.C. coast pipeline project.

The B.C. government laid out in five conditions in 2012 that it said all oil line projects would have to meet before they would be allowed in the province. The second and third conditions require "world-leading" prevention and response plans if a pipeline fails on land or if oil is spilled into any rivers, lakes or the ocean. "As far as we're concerned, we have not seen the evidence in the hearings to support a conclusion that they've met our conditions," Polak said. "So we won't be supporting their approval at this time."

The $6.8 billion Trans Mountain project would involve twinning Kinder Morgan's existing 715-mile pipeline from the Alberta oil sands to its costal terminal in Burnaby, B.C. It would increase capacity between Edmonton and Burnaby from 300,000 barrels a day to 890,000 barrels, and lead to as much as a seven-fold increase in tanker traffic. Kinder Morgan has said it will mitigate increased risks of oil spills by increasing tug escorts in inland ocean waters and beefing up spill-response capacity. "They did not submit evidence of their ability to respond in a world leading way on the land," Polak said.

Hard to see 'any company making money' at $30 oil

(Calgary Herald; Jan. 12) - Crude proved it can indeed go “lower for longer,” falling briefly Jan. 12 to below $30 per barrel before closing at $30.44. “At these prices, I can’t think of any company making money,” said Gary Leach, president of the Explorer and Producers Association of Canada. At a conference in Calgary, meanwhile, a panel of commodities experts agreed that prices will come back — eventually — but no one sees West Texas Intermediate ever getting back to above $105, where it was in June 2014.

Martin King, an analyst with FirstEnergy Capital in Calgary, pointed out that Canadian crudes are being hit particularly hard, with Western Canadian Select, a heavy oil and oil sands blend, recently falling below $20 per barrel. “Prices remain under pressure,” said panelist Michael Wittner, global head of oil research for Societe Generale, listing China’s market turmoil and currency uncertainty around the world as recent influences on the price. But he did predict that oil could return to the $70s by 2020 as cheap oil cannot keep up with demand growth, forcing the market to call on costlier supplies.

Meanwhile, Ed Morse, global head of commodities for Citi Research, said new production from Iran as sanctions are removed in the next month or so will cause ripple effects on global oil markets. “It’s hard to be optimistic over the short term when you have as much inventory being put into storage as we’ve seen happening right now and when Iran is going to put out a significant amount of oil into the market,” he told reporters.