# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Canada imposes new climate tests on pipelines, LNG projects

(Bloomberg; Jan. 27) - Prime Minister Justin Trudeau's government is changing the approval process for pipelines and other energy projects in Canada, requiring more thorough environmental and emissions reviews in a bid to win public support for the projects. Environment Minister Catherine McKenna and Natural Resources Minister Jim Carr unveiled the changes Jan. 27, which will apply to proposals currently under review for pipelines, liquefied natural gas production and export terminals and other projects.

The new "transition plans" will add nine months to the deadline for a government decision on TransCanada's Energy East oil sands pipeline project and four months to the environmental review deadline for Kinder Morgan's Trans Mountain oil sands pipeline expansion to the West Coast. Each pipeline will now be subject to "deeper consultations" with indigenous peoples and a review of the project's impact on carbon emissions — data the government intends to publish.

"Projects will only get done if they're done sustainably and responsibly," McKenna said. The interim rules are a precursor to a broader update of environmental reviews. The rules will apply to LNG projects, particularly proposals for the B.C. coast. That includes the Pacific NorthWest LNG project led by Malaysia's Petronas, which has been under federal review for almost three years. The sponsors say they are ready to make a decision as soon as the Canadian Environmental Assessment Agency makes its ruling.

## Exxon forecasts coal in decline, natural gas demand to grow

(Sydney Morning Herald; Jan. 26) - ExxonMobil predicts that global demand for coal will peak in about 2025 and then fall into terminal decline as natural gas gains the ascendancy amid increased efforts to clamp down on greenhouse-gas emissions. The decline of coal, currently the world's second-largest fuel source, will be driven by moves of the industrial and power generation sectors to improve their energy efficiency and switch to lower-emitting fuels, the company said in its 2016 global energy outlook.

By 2040, coal is expected to account for 20 percent of global energy demand, down from 25 percent in 2014, Exxon said. The bleak forecast for coal contrasts with bullish expectations for gas, which is expected to meet 40 percent of the world's growth in energy demand by 2040 and play its part to cut the carbon intensity of the global economy by half by that time. Total demand for gas, as it grabs more of the market share, would rise by 50 percent by 2040, Exxon said in its annual energy outlook.

Nearly half the growth in gas demand would be met through international trade, mostly liquefied natural gas, according to the forecast, which Exxon uses to make investment decisions. It expects LNG exports to almost triple by 2040, reaching nearly 100 billion cubic feet a day. It said low-cost supply would be a critical factor for new LNG projects, especially in the second half of the period out to 2040. Much of the rest of the growth in global energy demand to 2040 is expected to be met by nuclear and renewables, bio-energy, hydro, geothermal, wind and solar — supplying nearly a quarter of demand.

## B.C. officials confident new federal rules will not hurt LNG prospects

(Globe and Mail; Canada; Jan. 26) - B.C. Premier Christy Clark and Minister of Natural Gas Development Rich Coleman will go to Ottawa next week in advance of a federal decision on climate-change measures that could create a new hurdle for the liquefied natural gas industry in British Columbia. The federal government has promised to unveil in February details of a separate climate test for pipelines and B.C.'s most advanced proposal for an LNG export facility, the Pacific NorthWest project near Prince Rupert.

Coleman said Jan. 25 he is confident the new measures will not create further delays for Pacific NorthWest LNG, which has been in review at the Canadian Environmental Assessment Agency for almost three years. "We will be there to sit down and talk to them about this stuff, to work with them to make sure it works in British Columbia," he said. "I'm pretty confident we can deal with this. It's … my understanding it won't affect the timeline of the environmental assessment that Pacific NorthWest is under."

The B.C. government campaigned in the past election on the promise of creating an LNG industry that would generate enough cash to eliminate the province's debt. With the next election a little more than a year away, the government hasn't secured a single final investment decision. The Pacific NorthWest project, led by Malaysia's Petronas, remains its brightest prospect before the 2017 election. But Judith Dwarkin, chief economist at RS Energy Group in Calgary, said a new regulatory process for greenhouse-gas emissions will inevitably create more delay for the LNG industry.

## Coalition wants to protect B.C. site from LNG development

(The Canadian Press; Jan. 25) - A declaration to protect what environmentalists say is crucial salmon habitat in northwestern British Columbia could be the latest hurdle for plans to build a liquefied natural gas plant near Prince Rupert. A coalition of indigenous leaders, politicians and others has signed a declaration to permanently protect Lelu Island and nearby Flora Bank from industry. The area at the mouth of the Skeena River is considered vital to the ecosystem of B.C.'s second-largest salmon-bearing waterway.

Petronas, the Malaysian-owned oil and gas giant, hopes to develop an LNG production plant and export terminal on the island, but Lax Kw'alaams hereditary Chief Yahaan says support to stop the project is overwhelming. The declaration to protect Lelu Island and its surroundings came at the end of a weekend summit in Prince Rupert, attended by more than 300 hereditary and elected First Nations leaders, scientists, politicians, fishermen and others.

Petronas is waiting on its federal environmental review, in addition to continuing consultations with First Nations, before committing to start construction.

## Report warns that LNG faces competition from renewables

(The Tyee; Vancouver; Jan. 22) - A new report warns investors, governments and regulators that renewable energy could outcompete high-cost, high-risk liquefied natural gas projects. The sheer volume of shale gas in North America has blinded many of its promoters to an important dynamic, the report said: "The fast progress of renewable energy technologies is capable of providing an alternative to one or more of the major sources of demand for LNG — electricity production and in the future perhaps heating."

The report was prepared by the Brattle Group, an independent consulting firm. The fate of 20 proposed LNG export projects in British Columbia has become increasingly uncertain as oil prices have collapsed, the Chinese economy has faltered and Asian demand for gas has slumped, while Australian LNG exports have swamped the global market. As a consequence, analysts agree LNG markets are likely to be oversupplied for the next several years and low prices could persist for some time.

The report warns that investors should not regard the LNG glut as temporary because the declining cost of wind and solar energy combined with their rapid adoption in many jurisdictions such as Germany and China could significantly dampen demand for gas. "In fact, in some regions such as Germany and California, where renewable penetration has been high, gas demand growth has already been stunted by the penetration of renewables in the generation mix."

## Japanese LNG investor tells Australia not to change tax structure

(Sydney Morning Herald; Jan. 25) - The biggest Japanese investor in Australia has issued a stark warning of the consequences of reducing the tax deductions for capital-intensive industries such as oil and gas, advising that the cost to the country would be greater than gains elsewhere in the economy. Modifying the terms for tax deductions could jeopardize the future expansion of Australia's burgeoning liquefied natural gas sector, according to Inpex Corp., lead in the $34 billion Ichthys LNG project in Darwin.

Forgoing expansion could mean that existing LNG plants are not fully utilized and lost opportunities to develop smaller fields, Inpex told Parliament's economics committee. The oil company's submission to the committee also advised against scrapping tax deductions for corporate debt. The Australian Petroleum Production & Exploration Association said any changes that tilt the tax system against capital-intensive industries "will fundamentally impact on the ability of Australia to attract legacy projects."

Arrangements for capping the life of oil and gas assets for tax depreciation purposes are particularly important, Inpex said. It argued against reducing depreciation rates in the early years of an asset's life. Inpex noted that having to pay more tax in the early stages of a project life would negatively impact financing for projects because lenders would model for lower available cash flows and potentially reduce available debt. The government is considering tax changes, but Parliament has not passed any legislation.

## Statoil cuts its price for LNG to Lithuania

(Reuters; Jan. 25) - Norwegian oil company Statoil and Lithuania have agreed to a revised deal for liquefied natural gas deliveries to the Baltic state, Prime Minister Algirdas Butkevicius said Jan. 25. Statoil had agreed to lower its gas price by 15 to 20 percent, the head of Lithuania's state-owned energy group Dalius Misiunas told Reuters, after a joint press conference with Butkevicius. Lithuania started receiving deliveries of LNG imports about a year ago, using a leased floating terminal.

As part of the deal, the contract will be extended to 10 years from five, and annual sales volumes will fall from 19 billion cubic of gas to almost 12.4 bcf as gas consumption in Lithuania declines. Because of the longer term, Statoil will supply 130 bcf of gas as LNG during the period, instead of 95 bcf in the original contract. The new price would be close to that of Gazprom, Misiunas told reporters. The updated pricing formula will remain indexed to natural gas prices at the British National Balancing Point hub.

The price of globally traded LNG has been falling since February 2014 due to rising supply and weakening demand from traditional buyers Japan and South Korea, while Chinese consumption also slowed in line with a cooling economy.

## Iran planning to use plant in Oman to liquefy gas for export

(Platts; Jan. 25) - Iran plans to convert a third of the natural gas it will export to Oman into LNG in the absence of its own liquefaction facility, the oil ministry's news service, Shana, reported over the weekend. The two countries signed an export deal in 2014 for Iran to supply almost 1 billion cubic feet of natural gas per day to Oman via pipeline for 15 years. "From this volume, around 25 to 30 percent will be probably allocated for LNG," Alireza Kameli, managing director of the national Iranian Gas Exports Co., said.

"The details of LNG capacity and the gas volume to be allocated will be determined at the next negotiations," he added. "The value of this contract depends on the oil price," Iranian Oil Minister Bijan Zanganeh said. Oman has enough spare liquefaction capacity at its LNG plant to handle about 75 bcf to 100 bcf of gas a year, Zanganeh said. Iran plans to use Oman as a conduit to sell LNG to other countries in the region.

The Oman plant, which has three liquefaction trains, opened in 2000, with an expansion in 2005. The owners include the government, Shell, France's Total, Spain's Union Fenosa, a Portuguese company, and nine Japanese and South Korean partners with smaller stakes. With the easing of international sanctions, Iran is looking for markets for its oil and gas.

## LNG project took years, but Norwegian town has profited

(Popular Science; Jan. 23) - In 1974, the mayor of Hammerfest, Norway, declared that his small fishing community — the northernmost town in the world — would one day become the center of the oil and gas industry in the Barents Sea. Today, the town of 10,000 is fulfilling the prophecy. Hammerfest is home to the first oil and gas operation in the Barents Sea. The offshore gas is pumped 89 miles through an underwater pipeline. It arrives at an LNG plant, which occupies pretty much the entire island of Melkøya.

The export plant has been in operation since 2007, and produces enough fuel to fill a tanker every five or six days. Long ago, the decision whether to build the plant was hotly contested. Mayor Alf Einar Jakobsen said it took 22 years for Hammerfest to finally pull the trigger and get the project rolling. Over the years, as the fishing industry continued to decline and the population started dropping off, a deal was eventually struck between the city and Norway's Statoil. "Even the fishermen said yes," he said.

Despite protests of environmental groups, the project went ahead. Today, Hammerfest collects $22 million (U.S.) a year from Statoil's property taxes for a major investment in schools, housing and other needs. Both Statoil and the city of Hammerfest are aware that LNG is not a forever thing. The plant should have enough gas through 2050. By the time it runs out, Hammerfest hopes to have moved on from fossil fuels. "In the end, we want to get to a renewable state," said Roger Kristoffersen of the city's planning office. "We don't want to be dependent on oil and gas, but they're financing that transition."

## Alberta's greenhouse-gas caps could limit future oil sands production

(Wall Street Journal; Jan. 25) - Canada's efforts to curb greenhouse-gas emissions are calling into question oil majors' ability to tap the world's third-largest reserves. Alberta's new left-leaning government, which took over in May after 44 years of conservative rule, has announced it would cap carbon emissions from its oil sands industry, a move that threatens to strand billions of barrels of oil. Nine of the world's top oil companies have invested tens of billions of dollars in megaprojects in the province's boreal forests.

Combined, those operations account for 23 percent of the companies' proven crude reserves, according to data from investment bank Peters & Co. — up from only 5 percent in 2006. Most of these producers have taken a wait-and-see approach toward the cap, details about which remain to be worked out. Privately, executives at some oil multinationals with oil sands assets express dismay about the sudden policy shift in Alberta, and the heads of some smaller companies have voiced their concerns publicly.

Canada's federal government defers to its provinces to decide policies to curb overall emissions. Alberta's new climate plan, announced in November, would cap its oil sands industry's greenhouse-gas emissions at 100 million metric tons a year — which could be reached by 2020. Despite low prices, oil sands production is expected to increase through 2020 as a result of expansion projects approved years ago. The prospect of Alberta's carbon cap looms large because it could thwart future developments.

## World Bank predicts oil to average $37 per barrel in 2016

(Bloomberg; Jan. 26) - Oil will recover more slowly this time than it did following the major price shocks of the past 30 years, the World Bank predicts. The Washington-based development bank Jan. 26 said it marked down its forecast for the average price of oil this year to $37 per barrel, from $51 in its previous projection in October. World Bank researchers expect prices to bounce back to an average of $48 per barrel in 2017 and about $51 in 2018, according to a quarterly update to the bank's market outlook.

The forecast indicates the recovery will be shallower than it was following other major price declines, including the collapse that began in 1985, when OPEC boosted production, and the period following the 2008 global financial crisis, the World Bank said. "Low prices for oil and commodities are likely to be with us for some time," World Bank senior economist John Baffes said in a statement accompanying the report.

"While we see some prospect for commodity prices to rise slightly over the next two years, significant downside risks remain." Oil prices could be lower than expected if OPEC produces more than anticipated and demand remains weak from emerging markets, the lender said. OPEC's decision in December to maintain production rather than reduce supply has been one of the key factors depressing prices — along with ample inventories, weak demand and Iran's moves to increase production.

## Exxon seeks permission to move stranded California oil by truck

(The Associated Press; Jan. 22) - Eight months ago a ruptured pipeline created the largest coastal oil spill in California in 25 years, fouling beaches near Santa Barbara and spreading crude as far as 100 miles away. The beaches reopened last summer, but the fallout is continuing. Santa Barbara County planners are expected to decide in about a week whether to grant ExxonMobil's latest request to use trucks to move more than 17 million gallons of oil stuck in storage after the pipeline shut down in May after the break.

With the pipeline shut down indefinitely, the county last year rejected the company's request to truck the oil to refineries. In a new proposal filed this month, Exxon said the pipeline will be shut down for months, if not years, creating an "unusual risk" for the remaining oil. "The lack of a pipeline to quickly empty the ... crude storage tanks during a natural disaster or unforeseen circumstance could potentially result in the loss or damage to property, the environment or essential public services," the company warns.

On May 19, a 6-inch breach along a corroded section of pipeline, owned by Texas-based Plains All American Pipeline, caused thousands of gallons of oil to spill onto the beach, while creating an ocean slick that spread for miles. If approved, Exxon would run up to 30 truck trips a day for as long as six months to move the remaining crude. The plan has run into opposition from environmentalists who warn that transporting the marooned oil would be more dangerous than leaving it where it is.

## LNG as transportation fuel does not always pass economics test

(CBC News; Jan. 25) - All the elements seemed right for the experiment to work. Bison Transport purchased 15 liquefied natural gas trucks and ran them back and forth from Calgary to Edmonton. The trucking company partnered with Shell to provide fuel stations to fill up. Bison expected to save 30 percent on fuel with LNG trucks compared to diesel, and produce 30 percent fewer emissions. But after two years and almost 1 million miles traveled, Bison hit the brakes. The trucks were sold; the project shelved.

LNG has long been hailed as a potential game changer for the transportation industry, but the technology is still fledging. The main problems for Bison were the cost to convert its trucks, higher than expected operating expenses and the fuel economy. The return on investment was taking longer than forecast because of low fuel economy and maintenance costs twice as high as diesel trucks.

CN tried running two LNG locomotives between Edmonton and Fort McMurray, Alberta, for 12 months in 2012-2013, and again in August 2015 — that project was also not sustainable. But not all experiments with LNG have failed. At least eight companies across Canada use gas-powered trucks and buses, according to the Canadian Natural Gas Vehicle Alliance. When Bison put up its LNG trucks for sale, they were bought by Vedder Transport in B.C., which was already running 50 of its trucks on natural gas.