Oil and Gas News Briefs
Compiled by Larry Persily
January 7, 2016

Chinese insurance companies will help finance Russia's Yamal LNG

(Reuters; Jan. 5) - More than 40 Chinese insurance companies and asset managers have jointly started an investment firm, raising 40 billion yuan ($6 billion) for a first fund to finance energy and infrastructure projects overseas, China's insurance regulator said. The new firm, China Insurance Investment, will boost China's energy security by directing part of its first fund to help finance Russia's $27 billion Yamal LNG project, the China Insurance Regulatory Commission said Jan. 4, without providing details.

Yamal LNG, due to start production of liquefied natural gas at the remote Arctic plant in 2017, has been struggling to raise funds because of international sanctions on Russia over its involvement in the conflict in eastern Ukraine. China's Silk Road Fund has already provided 700 million euro ($750 million) to Yamal LNG and obtained a 9.9 percent stake in the project. Chinese lenders are also set to provide $12 billion in credit.

China Insurance Investment, headquartered in the Shanghai free-trade zone, was launched by 46 Chinese corporate shareholders, comprising 27 insurance companies, 15 insurance asset management companies and four private companies. The shareholders each have a stake of less than 4 percent. Its first fund will also help finance China Merchants Steam Navigation's port construction projects in Sri Lanka, Turkey and Djibouti, the nation's insurance regulator said.

Qatar's low cost allows it to profit in oversupplied global LNG market

(Bloomberg; Jan. 5) - For Qatar, the world's largest exporter of liquefied natural gas, preparing for a looming glut of the fuel isn't about being the biggest seller. It's about being the most efficient. Global LNG output is expected to rise by a third to about 330 million metric tons annually by 2018, according to Sanford C. Bernstein & Co. Most of the new fuel will come from the U.S. and Australia, which is poised to topple Qatar as the biggest supplier later this decade.

But unlike Saudi Arabia, the largest oil shipper, Qatar won't be fighting for market share at the expense of earnings. Instead, it will continue as one of the most profitable LNG sellers by taking advantage of its industry-lowest production costs and its ability to redirect LNG quickly between continents to exploit opportunities, said Ibrahim Ibrahim, vice chairman of Ras Laffan Liquefied Natural Gas, known as RasGas.

The Persian Gulf sheikdom faces a challenge similar to Saudi Arabia's struggle with oil markets, as competitors take market share and drive down prices. Prices for LNG delivered to Asia have plunged more than 60 percent from a record in 2014. Buyers such as Tokyo Electric Power, Chubu Electric and India's Petronet LNG are haggling for better terms. Qatar shipped 76.4 million tons of LNG in 2014, or 32 percent of global supply, according to the International Group of Liquefied Natural Gas Importers.

The Jamaica-sized country is currently the lowest-cost and most profitable producer of LNG, according to Neil Beveridge, an analyst at Bernstein. The break-even cost for RasGas to produce 1 million Btu of LNG is $1.60, compared with $7.60 in the U.S. and as much as $13.50 for Australian companies, according to reports by Columbia University's Center on Global Energy Policy and the Oxford Institute for Energy Studies.

B.C. LNG proposal first to receive provincial facility permit

(The Canadian Press; Jan. 5) - A Shell-led joint venture has obtained a key permit to build a liquefied natural gas export facility in northern British Columbia. LNG Canada is the first in the province to earn a facility permit from the B.C. Oil and Gas Commission. The document outlines the requirements for design, construction and operation of the facility in Kitimat, B.C. Spokeswoman Susannah Pierce said it's a crucial development for the project, following federal and provincial environmental approval last June.

"What (the permit) looks at is: How are we designing the facility? How are we ensuring that it can operate safely in the community? How have we engaged with the community?" she said Jan. 5. Pierce said the company is comfortable with all 30 conditions imposed by the permit, including those on noise management and response plans. The project could cost up to $40 billion and produce up to 13 million metric tons of LNG a year (average 1.7 billion cubic feet of gas a day).

LNG Canada has not made a final investment decision. The joint venture is comprised of Shell, PetroChina, Korea Gas and Mitsubishi. The project still needs to obtain one permit from Fisheries and Oceans Canada, Pierce said. The joint-venture participants also want assurances that the project has First Nations support and will need to decide if it's the right time for the investment, she said. The project is one of 20 LNG export proposals for the B.C. coast — no final investment decisions have been issued.

B.C. industry says time is running short to win LNG investments

(CBC News; Jan. 4) - The organization representing contractors and service providers to British Columbia's oil and gas industry says time is running out to snag investments for liquefied natural gas export projects in the province. The B.C. government has made no secret of its intentions to back major LNG projects, saying the new industry will yield billions of dollars to pay back provincial debt while creating tens of thousands of jobs. But skeptics have stepped up criticism of the government for falling behind on its plans.

Now, the executive director of Energy Services B.C. says contractors and firms servicing the industry need to know now whether or not that investment is coming. "We really need it in 2016. We need to know the answer and move ahead," said Art Jarvis, adding that 2015 was tough on the oil and gas industry because of low prices and fewer jobs. "What that means of course is less income to the communities, less income to the province and, of course, [it's] pretty tough to be sustainable," Jarvis said.

He said the window of opportunity for LNG investments is closing quickly because prices are dropping while costs are rising. "When you look at the sale price for natural gas internationally and the cost to develop it regionally, those are fast coming to parallel to each other. … They're close enough that it makes it more difficult," he said. "The only producers that can play this game are people with a large budget and a big pocketbook. Because it's already knocked the smaller producers off the pole."

Approvals delayed for proposed LNG plant on Oregon coast

(The World; Coos Bay, OR; Jan. 2) - The proposed Jordan Cove LNG export project in Coos Bay, Ore., is almost moving in slow motion, as delays and permit extensions push forecasts for its launch further into the future. After receiving its final federal environmental impact statement Sept. 30 — a huge milestone for the liquefied natural gas project — federal and state processes have skidded to a near halt.

The Federal Energy Regulatory Commission was expected to issue its decision on the application to build and operate the LNG plant before the end of 2015, but that didn't happen. Comment periods and deadlines on state permits have been extended or renewed. Work on the project's Community Enhancement Plan has been stalled in negotiations since October. The project needs approvals not only for the LNG plant but also for the pipeline to deliver U.S. Rockies and Canadian gas to the Coos Bay site.

The delays all point to the project being a bad idea, said Texas-based oil and gas industry consultant Art Berman, adding that's especially so under weak oil and gas market conditions. But during a conference call Dec. 7, Dan Althoff, CEO of Calgary-based project developer Veresen, remained optimistic. "Clearly, this has taken longer than we like, but it's a big project with a lot of moving parts and I'm very pleased with the ... progress that we are making, so stay tuned here," Althoff said.

U.S. enters the world of oil and natural gas exports

(Bloomberg; Jan. 3) - The worst fears of OPEC and gas exporters are about to come true. U.S. shale drillers that pushed domestic crude production to a 45-year high and unlocked record amounts of natural gas are letting those supplies loose into global markets. The first tanker of shale oil that shoved off from a Texas port on New Year's Eve and an LNG cargo scheduled to set sail later this month from a Louisiana terminal will inaugurate a new era of competition among the world's largest energy producers.

With OPEC already pumping all out to undercut rivals and hold tight to market share, lead member Saudi Arabia must now contend with additional pressure from U.S. oil producers. Meanwhile, voracious importers of liquefied natural gas from Japan to Spain now have an alternative source in a global market long dominated by Qatar, Malaysia and Australia. "Who would have thought we would be exporting both oil and LNG in the same month?" said Phil Flynn, senior market analyst at Price Futures Group in Chicago.

The exports mark a reversal from when U.S. oil and gas production was dwindling and North America feared running out, leaving the continent at the mercy of resource-rich nations such as Russia, Iraq and Saudi Arabia. A flood of investment in the past decade by drillers eager to get in on shale's promise triggered such a tidal wave of new supplies that prices have crashed. The bust has forced debt-laden producers to slash jobs, halt dividends, auction off assets and abandon exploration projects — and push for exports.

Iran hopes to attract foreign investment to build gas export trade

(PressTV; Iran television network; Jan. 3) - Iran is wooing foreign investors to put up the billions of dollars in investment it would need to move into the global gas trade. With more than 1.2 trillion cubic feet of reserves, Iran owns the world's largest natural gas reserves but its share of the global trade is less than one percent. The country is in a race against time to embolden its place in the market as global demand for gas expands while shale gas production is adding to supply and tightening rivalry among producers.

"Natural gas will be the main fuel in the next 20 to 30 years," National Iranian Gas Co. international affairs director Azizollah Ramezani said. Iran has signed a raft of initial agreements with a number of neighbors in recent years but the plans have remained on paper only as Western sanctions have curbed trade with Iran. Currently, Turkey is Iran's biggest gas customer with 1 billion cubic feet a day of pipeline gas imports under a 25-year deal signed before the West imposed sanctions on Tehran.

Iran's gas exports to Iraq are to start this year to feed three power plants through a pipeline. A separate pipeline will be built in the next two years to move gas to Basra in southern Iraq. With the much-anticipated lifting of sanctions, Iranian officials hope to attract $40 billion in investments for the gas industry, including development of liquefaction capacity and the potential for LNG exports.

Pakistan working to import more gas to meet demand

(The Express Tribune; Pakistan; Jan. 4) – The year 2015 saw major developments in Pakistan's energy sector as the country emerged as a buyer of natural gas. Though oil consumers got a big relief as global crude prices plunged more than 50 percent, there was no end to the suffering of natural gas consumers who continued to face load-shedding in winter caused by gas shortages. Pakistan was self-supporting with its own gas production until 2015, when it started to import the fuel to meet demand.

The country started importing liquefied natural gas for the first time. The government has been making strenuous efforts to strike a 15-year LNG supply deal with Qatar, the world's biggest liquefied natural gas producer. But negotiations have dragged on over a payment mechanism for power producers in Pakistan. In the meantime, Pakistan has awarded short-term contracts to Shell and LNG trader Gunvor for 120 LNG cargoes over the next five years.

The government believes that burning LNG instead of oil products in power plants will help to save $2 billion a year and bring down electricity rates for consumers. In addition to LNG, the government has taken steps to secure energy supplies for the future by continuing to support a pipeline that would bring in Turkmenistan gas to Pakistan. And the government in 2015 awarded contracts to China and Russia for constructing additional pipelines to deliver imported gas.

Delays in loading first cargo at Australia LNG project

(Reuters; Jan. 5) - The Australia Pacific LNG project has delayed its first commercial cargo, racking up costs for China's Sinopec, which has had a tanker waiting to load for more than two weeks, two sources close to the matter said Jan. 5. LNG carrier BW Pavilion Vanda, chartered by the Chinese company, arrived at the Gladstone anchorage Dec. 18, but has yet to load a cargo from the new $18 billion plant, ship-tracking data on Reuters Eikon showed.

"The plant appears to have run into teething issues," one of the sources said, adding there was no indication when the cargo would load. Sinopec may have chalked up costs of more than $500,000 in the 18 days that the ship has been anchored, a second source said. Another LNG tanker, Methane Spirit, arrived in the anchorage Dec. 2 and is now berthed at the terminal, shipping data showed. Sinopec holds a 25 percent stake in the project, with Australia's Origin and ConocoPhillips at 37.5 percent each.

On Dec. 11, Origin said it had started LNG production and was on track to export its first cargo by the end of 2015, but has since revised that timeline. "Australia Pacific LNG's plant … continues to ramp up production and first export is expected to occur shortly," a company spokeswoman said Jan. 5. Origin declined to comment on who would pay the demurrage costs for the delay. A senior LNG trader said: "It's not unusual if there is some schedule changes in the first cargo from a new plant."

Croatia reviewing bids to build first LNG import terminal

(Reuters; Jan. 4) - Croatia has received seven bids to build a liquefied natural gas import terminal on the island of Krk in the northern Adriatic Sea, LNG Croatia said Jan. 4. Croatia is looking to reduce its reliance on Russian gas imports. The proposed terminal would allow Croatia to import LNG from suppliers worldwide. The project, which could distribute more than 550 million cubic feet of natural gas per day, is expected to require investment of about 600 million euros ($655 million).

LNG Croatia, a joint venture between the country's power utility and gas system operator, said it had received four bids from industrial investors and three from financial investors for the project, which it wants to complete by mid-2019. The bids are under review. The Croatian government in July declared the project to be of strategic interest, which should simplify procedures for obtaining site and construction permits.

U.S. natural gas prices in 2015 fall to lowest average since 1999

(U.S. Energy Information Administration; Jan. 5) - Natural gas spot prices in 2015 at the Henry Hub in Louisiana, a national benchmark, averaged $2.61 per million Btu, the lowest annual average level since 1999, according to the U.S. Energy Information Administration. Daily market prices fell below $2 this year for the first time since 2012. Prices began the year relatively low and fell throughout 2015, as production and storage inventories hit record levels and fourth-quarter temperatures were warmer than normal.

Despite declining prices, U.S. gas production, measured in terms of dry gas volume, averaged an estimated 74.9 billion cubic feet per day in 2015, 6.3 percent above 2014, the EIA said in a report Jan. 5. This increase occurred even as the number of gas-directed drilling rigs decreased. As of Dec. 18, there were 168 gas-directed rigs in operation, only about half the number of rigs at the beginning of 2015, according to data from Baker Hughes. However, producers continue to make gains in drilling efficiency.

Low prices and strong production led to increase use of natural gas for electric power generation, which is projected to average 26.5 bcf per day in 2015, exceeding the 24.9 bcf level in 2012, the EIA said. Natural gas surpassed coal as the leading source of electricity generation on a monthly basis for the first time in April, and again in each of the four months from July through October.

Financial adviser forecasts U.S. natural gas prices at $2 in 2016

(Natural Gas Intelligence Daily; Jan. 4) - U.S. natural gas prices look terrible again this year and could decline an additional 25 percent from 2015 as the structural oversupply continues, financial adviser Raymond James & Associates said Jan. 4. The domestic gas market glut should persist even as associated gas from onshore oil production declines, said analysts J. Marshall Adkins, Pavel Molchanov and John Woodiel.

For the third time since August, the analysts reduced their forecast for 2016 Henry Hub prices, this time to $2 per 1,000 cubic feet from $2.35. The longer-term price now is set at $2.50, down from $2.75. U.S. gas prices are "seemingly hopeless" and should "continue to be ugly" without strong demand, the analysts said. One year ago, Adkins and his colleagues forecast Henry Hub would average $3 for 2015. However, weaker-than-expected industrial demand and a milder-than-normal winter knocked down prices.

By 2017, the analysts are a bit more bullish as more demand sources should emerge, driven by increased gas exports to Mexico, decreased imports from Canada, a gradual ramp-up in U.S. LNG exports, moderate industrial demand gains and an assumed reversal to "normal" winter weather. "Looking beyond, it has become abundantly evident that U.S. gas producers can grow supply at a pace of more than 3 billion cubic feet per day with gas prices at relatively low levels," Adkins said.

Earthquakes prompt Oklahoma to order injection well restrictions

(The Associated Press; Jan. 4) - The state commission that regulates Oklahoma's oil and gas industry ordered some injection well operators to reduce wastewater disposal volumes Jan. 4 after at least a dozen earthquakes hit an area north of Oklahoma City in less than a week. The Oklahoma Corporation Commission said it was implementing a plan that affects five drilling wastewater injection wells operating within 10 miles of the center of earthquake activity near Edmond, a northeast suburb of Oklahoma City.

Among the recent quakes to hit the area was a 4.2 magnitude temblor on New Year's Day that caused minor damage but no injuries. "We are working with researchers on the entire area of the state involved in the latest seismic activity to plot out where we should go from here," Oil and Gas Conservation Division Director Tim Baker said, adding that responding to the swarm of earthquakes in the region was an ongoing process.

Oklahoma has become one of the most earthquake-prone areas in the world, with the number of quakes magnitude 3.0 or greater skyrocketing from a few dozen in 2012 to more than 800 in 2015. Many of the quakes are occurring in areas where injection wells pump salty wastewater — a byproduct of oil and gas production — deep into the Earth. George Choy, a U.S. Geological Survey seismologist in Denver, said studies indicate that earthquakes in certain areas have been induced by wastewater disposal.

[Canadian heavy-blend oil falls to record low $19.81 a barrel]

(Bloomberg; Jan. 6) - A deepening oil market slump is adding fresh pain for producers of the world's cheapest crude as the Canadian heavy grade reached a record low, raising the prospect of more production coming offline. Spot prices for Western Canadian Select fell to $19.81 (U.S.) a barrel Jan. 6, the lowest since tracking began in 2008, according to data compiled by Bloomberg. The benchmark is made up of heavy conventional oil production and bitumen blended with synthetic crude and condensate.

The low prices could push more of the highest-cost output offline after producers including Baytex Energy and Canadian Natural Resources shut in more than 35,000 barrels a day of heavy oil and bitumen production capacity, according to company presentations and a report published on the Alberta government website. "We're below shut-in levels" with current prices, said Tim Pickering, founder and chief investment officer of Auspice Capital Advisors in Calgary.

There's no incentive to ship Canadian crude to the U.S. Gulf Coast, and producers may take oil sands projects offline sooner than planned for annual maintenance because of the low prices, Pickering said. "We're the last barrel produced and we're the first barrel shut in." The pain is being felt across Canada's largest oil-producing province, Alberta. Energy companies are shelving new oil sands projects and have cut more than 40,000 jobs across the country, the industry's main lobby group estimates.

[TransCanada sues over presidential denial of Keystone XL oil line]

(Calgary Herald; Jan. 6) - TransCanada has launched a free-trade agreement challenge claiming $15 billion (U.S.) in damages along with a constitutional lawsuit against the U.S. government over its rejection of the Keystone XL pipeline. The Calgary-based pipeline company announced Jan. 6 that it had filed a lawsuit in Houston, claiming that President Barack Obama's "decision to deny construction of Keystone XL exceeded his power under the U.S. Constitution."

The company said it will request arbitration for damages under the North American Free Trade Agreement, arguing the denial was "arbitrary and unjustified." The claim asserts: "TransCanada had every reason to expect its application would be granted as the application met the same criteria the U.S. State Department applied when approving applications to construct other similar cross-border pipelines — including the existing Keystone pipeline, which was approved in under two years, in contrast with the seven years the administration took to make a decision on Keystone XL."

Obama officially denied the application Nov. 5. He said the project would deliver "dirty" Canadian oil sands production to American refineries and contribute to climate change.

TransCanada called Obama’s denial a “breach of its NAFTA obligations.” TransCanada required presidential approval for the pipeline because it crosses an international border. It would have capacity to deliver 830,000 barrels per day of crude oil from western Canadian and northern U.S. oil fields to refineries on the U.S. Gulf Coast.