Oil and Gas News Briefs
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Shell and Asian partners delay decision on LNG project in B.C.

(The Canadian Press; July 11) - Instability in global energy markets has caused international partners in a proposed liquefied natural gas project in Kitimat, B.C., to delay their final decision on the multibillion-dollar investment. LNG Canada CEO Andy Calitz said in a conference call July 11 that global oversupply and a drop in natural gas prices around the world, particularly in Asia, have made the project too expensive for now. “The whole global energy industry is in turmoil,” he said.

The LNG Canada project would export up to 24 million metric tons of liquefied natural gas per year and cost up to $40 billion (U.S.) to build. Shell owns a 50 percent stake, along with partners Korea Gas Corp. (15 percent), Mitsubishi (15 percent) and PetroChina (20 percent). All four companies jointly decided to put off the final decision, Calitz said. A decision had been expected by the end of this year. Representatives from each company are currently in Canada to look at a range of options for the project.

A timeline for when a final decision will be made has not been set, but LNG Canada still sees the project on B.C.’s northwest coast as a promising opportunity. “It is important for the community to understand that the project has been delayed and has not been cancelled,” Calitz said. However, global oil and gas prices will have to recover before the companies can move forward, he added. Last month, the International Energy Agency forecast a worldwide glut of LNG over the next five years, with demand weakening in Japan and South Korea while supply rises in Australia and the U.S.

Shell postponement adds to LNG pessimism in British Columbia

(The Canadian Press; July 12) – B.C. Premier Christy Clark’s dreams of a booming liquefied natural gas industry have been dealt another blow after a Shell-backed venture delayed a final investment decision indefinitely. LNG Canada’s decision to put the project in Kitimat on hold amid weak global prices isn’t surprising, but it adds to the pessimistic mood around the future of the sector in B.C., experts say.

“It just creates a dark cloud over what is already a bunch of dark clouds for that type of economic activity,” said Martin King, vice president of institutional research at FirstEnergy Capital in Calgary. Clark made a massive political bet on LNG in 2013 with promises of 100,000 jobs and $100 billion in revenue over decades — but no project has yet committed to start construction. King said the province was not alone in its optimism three years ago. But weak Asian demand, a supply glut from the U.S. and Australia and the oil price collapse have all darkened the industry's prospects.

Japan is the world's largest LNG buyer, but King said it has been moving back toward nuclear power as it recovers from the 2011 tsunami. But Mary Hemmingsen, global head of LNG at KPMG, said long-term, the future looks brighter. The climate change agreement signed in Paris means Asian countries, especially coal-dependent China, will need natural gas as a cleaner fuel, she said. "It's not if, it's when," she said. "In my view, based on my understanding of global supply and demand, gas is needed."

First Nations disappointed with indefinite LNG delay

(Globe and Mail; Canada; July 12) - A decision by LNG Canada to indefinitely delay a proposed liquefied natural gas plant in Kitimat, B.C., has sent a shock wave across northern B.C., said the leader of a small aboriginal community that was hoping to work on the project. "We had been preparing for it and I think the whole northwest region had been preparing for it," said Chief Joseph Bevan of the Kitselas First Nations. "The whole region is fairly disappointed."

The Kitselas traditional territory lies near Terrace, along the route of the pipeline that would have been built to supply the export plant proposed by Shell-led LNG Canada. The delay is seen as a sign that many of the more than 20 proposed energy projects in the province will also likely stall because of plunging LNG prices in Asia. Bevan said the future of the project obviously hangs on what happens with global LNG prices, and nobody can predict that.

Bevan said people in his community had been looking forward to the construction jobs that would have flowed from the LNG plant and pipeline, and they will find it hard to adjust to diminished opportunities. Art Sterritt, a spokesman for the Gitga'at First Nation, said his community had worked out benefit agreements with LNG Canada and a lot of people were looking forward to seeing the project proceed. The Gitga'at are based at Hartley Bay, a small community that lies on the proposed LNG tanker shipping route.

Spot LNG prices in Asia at $5.25 last week

(Reuters; July 8) - Asian prices for liquefied natural gas were set to rise next week on strong demand from Argentina and India as well as potentially lengthy supply disruptions in Australia and Angola. However, this week Asian spot LNG prices traded lower at $5.25 per million Btu, down 25 cents since last week. More supply in Asia helped lower prices following a streak of gains recently, but uncertainty over when Chevron's newly-built Gorgon LNG export plant will resume clouded outlooks.

Last week Chevron suspended production at Gorgon due to a gas leak and said operations would resume a week later, although it is not clear if that is still the case. Meanwhile, supply from the Chevron-led Angola project also seems to have slowed compared with an initial burst of cargoes after the plant restarted in June following a two-year rebuild.

In terms of demand, Argentina has launched a major tender to buy10 LNG cargoes. A tender Egypt is expected to offer for additional supply may help push prices higher if it materializes next week. And Indian buyers are heard to be in the market for supply.

Gorgon LNG plant still shut down after July 1 leak

(Reuters; July 12) - Production remains suspended at Chevron's $54 billion liquefied natural gas Gorgon export facility in Australia following a gas leak nearly two weeks ago, a company spokesman said. After the shutdown on July 1, Chevron initially said production would resume in the "coming week." But spokesman Bradley Haynes said this week that “production at the Gorgon LNG plant site has been temporarily suspended while the company undertakes some minor repair and maintenance work.”

Gorgon had stored LNG and was able to export its second cargo July 3, but there have been no exports since. According to a shipping schedule published by Chevron before the leak, Gorgon was due to export another cargo July 9-11 aboard the Asia Excellence tanker, but the ship is currently anchored about 62 miles off Gorgon, according to shipping data, along with the Asia Endeavour, another of Gorgon's project vessels.

The world's most expensive LNG project shut down in April due to technical problems shortly after exporting its first cargo. Gorgon is a joint venture of the Australian subsidiaries of operator Chevron with a 47.3 percent stake, ExxonMobil and Shell at 25 percent each, Osaka Gas at 1.25 percent, Tokyo Gas at 1 percent and Chubu Electric Power at less than 0.5 percent. Gorgon will have the capacity to produce 15.6 million metric tons of LNG a year after the second and third production lines are added in 2017.

Boston Harbor LNG import terminal keeps busy

(Bloomberg; July 12) - Thanks to the shale revolution, the U.S. has plenty of natural gas of its own. All along the eastern seaboard, a chain of import terminals — built when the country expected to get its fuel from abroad — now lie idle. Except one. For reasons that have to do with environmental politics and geology, New England is bucking the trend. Three or four times a month, a police helicopter escorts giant ships through Boston Harbor as they deliver liquefied natural gas from Trinidad to a terminal.

Why buy from the Caribbean, when so much cheap gas is pumped out of Pennsylvania and Ohio? One objection is the new pipelines needed to bring the gas to New England to meet peak winter demand. The Northeast is famously cold in winter but sits on beds of granite that make underground fuel storage a problem, so gas and power prices typically spike way above the rest of the country when there's a freeze.

Using shale gas to cut heat and light bills would mean a longer-term commitment to fossil fuels, and any proposed pipeline triggers local objections: It would leave a scar along the Catskill Mountains or pose a safety risk to neighborhoods. That's the dilemma that has given the LNG facility near Boston its lease on life — it supplied 11 percent of New England's gas in January. To pipeline builders, that's a stopgap not a solution.

"The population up there has to pay exorbitant power bills, and the No. 1 reason for that is that local gas … 300 miles away, the cheapest in the world, can't get up there," said Robert Christensen, an analyst with Drexel Hamilton in New York. "It's sinful."

EIA projects U.S. to become net exporter of natural gas in 2017

(Platts; July 12) - With natural gas pipeline exports to Mexico on the rise and the ramp-up of U.S. LNG exports from Louisiana, the federal Energy Information Administration on July 12 projected the United States will become a net exporter of natural gas in the second half of 2017. EIA's July Short-Term Energy Outlook predicted gross pipeline exports will rise to an average of 5.3 billion cubic feet a day this year. Driving the increase is the growing appetite from Mexico's power sector and flat production there.

At the same time, following the February kick-off of liquefied natural gas exports from Cheniere's plant in Sabine Pass, La., the agency expects a rise in gross LNG exports of 500 million cubic feet a day in 2016 and 1.3 bcf a day in 2017 as Sabine Pass ramps up capacity, the EIA said. "For the first time since 1957, the U.S. is on track to export more gas than it imports; this will occur during the second half of next year as more liquefied natural gas export capacity comes online," said EIA Administrator Adam Sieminski.

Despite the export increase, Sieminski said, "there are still abundant supplies to meet domestic demand, as gas inventories are expected to be at a record high for the start of the upcoming winter heating season." The outlook puts inventories at 4.022 trillion cubic feet at the end of October 2016, a record for that time of year. A projected rise in total U.S. gas consumption for 2016 is driven by the power sector's appetite for gas, EIA said, noting that power-sector gas demand is expected to rise 4.9 percent in 2016.

U.S. natural gas prices up as market starts to rebalance

(Reuters; July 12) - U.S. natural gas prices have risen by a third since hitting a two-decade low in the first quarter, amid signs supply and demand are rebalancing and excess stocks left over from an unusually warm winter are being worked down. The volume of gas in working storage hit a record 4.01 trillion cubic feet in November 2015 and is still at 3.18 trillion cubic feet, according to the U.S. Energy Information Administration — though the inflow into storage is slower than a year ago.

In response to the earlier slide in prices, the number of rigs drilling for oil and gas across the U.S. has fallen to the lowest level since World War II. By the start of June 2016, there were just 82 rigs drilling for gas, down from over 300 in June 2014. Output from wells drilled into the Marcellus and Utica shale formations underneath Pennsylvania and Ohio has continued to increase. But output from older gas-producing states including Texas, Louisiana and Oklahoma has fallen sharply as drilling activity has dried up.

There are no longer enough new oil and gas wells being drilled to replace declining gas output from old wells. At the same time, gas consumption is rising, with deliveries to industrial customers and electricity producers sharply up. Futures prices are already anticipating a tighter supply-demand balance at the end of next winter. Futures prices for gas in March 2017 have risen 31 percent from $2.50 to $3.28 per million Btu.

China predicts gas demand to triple by 2030

(Reuters; July 12) - China's energy consumption will peak by 2035 and its oil demand growth will slow to 2 percent per year by then, from about 4.3 percent currently, state-owned flagship company China National Petroleum Corp. said in a rare long-term energy outlook. The research paper said China's total annual energy consumption will reach its ceiling at 3.75 billion metric tons of oil equivalent by around 2035, compared to estimates of about 3.04 billion tonnes for 2016. That marks a roughly 23.3 percent increase in overall national energy consumption over the next two decades.

CNPC also forecasted that natural gas will play a bigger role in China's energy consumption mix over the next three decades, echoing the government's ambitions to increase the use of gas in power generation and to reduce its reliance on coal. Natural gas consumption will triple to 18 trillion cubic feet by 2030, and will rise to 25 tcf by 2050, CNPC said. By contrast, oil consumption growth will ease to 2 percent annually, peaking at about 13.5 million barrels per day in 2027, according to the research paper.

Israel looks for more LNG imports, as price is below domestic gas

(Haaretz; Israel; July 10) - Faced with unexpectedly strong demand for power and high prices for domestic natural gas, state-owned Israel Electric Corp. is stepping up its gas imports, industry sources said. Four months ago, the electric power generator signed a deal with BP to import a cargo of liquefied natural gas from Trinidad and Tobago. Israel Electric has since made inquiries with BP, BG, the Dutch trader Vitol and the U.S. LNG transporter Excelerate Energy to supply a cargo between Aug. 28 and Sept. 3.

The surprise request comes as Israel Electric struggles to deliver power to homes, offices and factories after weeks of unusually high temperatures that have kept the nation's air conditioners running overtime. While Israel has plenty of its own gas in the Tamar field just 55 miles offshore, deliveries are limited because only one pipeline links the field to delivery points onshore.

In addition, the price of Israeli gas, linked to the U.S. consumer price index, is higher than LNG imports and rising, today at about $5.80 per million Btu. But with energy prices crashing globally, the price of imported LNG has fallen sharply. When Israel Electric contracted for LNG from BP in April, it paid just $4.90 per million Btu.

Russia talking with Indian companies about next phase of Yamal LNG

(Economic Times; India; July 10) - Russia has offered Indian oil companies a stake in a potential second phase of Yamal LNG, currently under construction in the Russian Arctic and scheduled to start-up late 2017. The offer was made when India's Oil Minister Dharmendra Pradhan visited St. Petersburg last month, sources privy to the development said. Petronet LNG, India's biggest natural gas importer, is studying the offer, they said, adding that other state-owned firms like Indian Oil Corp. may join later.

Novatek, Russia's second-biggest gas producer, had in 2013 offered a 9 percent stake in the $27 billion Yamal LNG project to a consortium of Petronet and two other Indian oil and gas companies. But the overseas arm of state-owned Oil and Natural Gas Corp. did not find the offer attractive and the Indian consortium backed off. Novatek later stitched together a consortium with China National Petroleum Corp. (20 percent), France's Total (20 percent) and China's Silk Road Fund (9.9 percent). Novatek holds 50.1 percent.

The first phase of the Yamal project will include three liquefaction trains, brought online over several years. Novatek is now planning a second phase and is offering a stake to Indian firms, sources said. Sources said Petronet, which operates two LNG import terminals in Gujarat and Kerala, has been offered the stake in the second phase as it would be a ready buyer of the gas.

Indian LNG importer looking to expand into Bangladesh, Sri Lanka

(Reuters; July 11) - India's biggest gas importer Petronet LNG aims to spend up to $3 billion in the next five years to expand overseas, setting up receiving terminals in Bangladesh and Sri Lanka among other countries, its managing director said. Falling spot LNG prices have boosted consumption of the fuel in India and triggered demand for LNG infrastructure in countries long shut out of the gas trade.

"We are thinking global and we are not looking inwardly only at India ... we have potential and we should aim for … ($445 million to $596 million) worth of projects every year for five years," Prabhat Singh told Reuters. Petronet has previously just focused on importing liquefied natural gas for regasification at its plants in India at Dahej in Western Gujarat state and at Kochi in the southern state of Kerala. India's current LNG consumption is about 2 billion cubic feet of gas per day, up from 1.6 bcf a day last year.

Singh said the company plans to build an import terminal at Kutbdia in Bangladesh, with capacity to handle 5 million metric tons of LNG per year. And last month, Petronet submitted a proposal for a floating LNG receiving terminal in Sri Lanka, which wants a gas link for its 600-megawatt power plant, Singh said.

Mideast oil production hits record high; U.S. production slips

(Bloomberg; July 13) - Oil production from the Middle East has climbed to a record while U.S. output slumps, the International Energy Agency said, in a sign that OPEC's strategy of defending market share is succeeding. Middle Eastern output exceeded 31 million barrels a day for a third month in June amid near-record supply from Saudi Arabia, while U.S. oil production slid 140,000 barrels a day to 12.45 million, the agency said in its monthly market report.

The IEA said that while the rebalancing of the oil market is progressing, brimming inventories remain "a threat to the recent stability of oil prices." Oil prices have recovered more than 70 percent from the 12-year low reached in January as Saudi Arabia's strategy to pressure OPEC's rivals succeeds in reversing the U.S. shale oil boom. Elevated output from the Middle East has pushed the region's share of world supplies to 35 percent, the highest since the late 1970s, according to the IEA.

But while supply and demand were more in balance in the second quarter, bloated stockpiles "remain a dampener on oil prices." Oil inventories in industrialized nations climbed to an all-time high of more than 3 billion barrels in May, while the volume being hoarded on tankers at sea has reached the highest level since 2009, the IEA said. "The modest fallback in oil prices in recent days to closer to $45 a barrel is a reminder that the road ahead is far from smooth," the agency said.