Oil and Gas News Briefs
Compiled by Larry Persily
July 5, 2016

BP and partners approve third train at Indonesia LNG plant

(Reuters; July 1) - BP gained final investment approval for an $8 billion expansion of the Tangguh liquefied natural gas project in Indonesia on July 1, clearing the way for a third train to start operations in 2020. BP is going forward with expansion of Tangguh despite announcing it would rein back spending this year due to weak oil prices. It also approved investment in an Egyptian gas field last week. The two-train Tangguh liquefaction plant started operations in 2009.

The investment will boost annual LNG production capacity at the Tangguh project in Indonesia's West Papua province by 50 percent to 11.4 million metric tons per year. Three-quarters of the gas from the new Train 3 will be supplied to Indonesian power utility Perusahaan Listrik Negara, BP said. The rest will go to Japan's Kansai Electric Power Co. Officials at Indonesia's upstream energy regulator SKKMigas said the project would cost $8 billion, although BP declined to confirm that figure.

"We are finalizing details with potential lenders and at this point I'm not able to disclose who they are," said Christina Verchere, BP regional president Asia Pacific. In May, BP was able to trim its budget for the project to $8 billion to $10 billion, down from $12 billion. "This final investment decision … is based on commercial considerations," said Indonesian energy minister Sudirman Said. BP leads the Tangguh project with a 37.16 percent stake. Its partners include companies from China and Japan.

Small gas leak stops operations at Gorgon LNG

(Bloomberg; July 1) - Chevron halted output at its $54 billion Gorgon liquefied natural gas development for the second time this year after a gas leak at the site, the latest problem for the Australian mega-project. The plant, located on Barrow Island off Australia’s northwest coast, evacuated workers after a minor gas leak. Chevron will make repairs to the low-pressure flare system and acid-gas removal unit before restarting production in the coming week, it said July 1.

The terminal still plans to load an LNG cargo in the coming days. “Another short delay is relatively inconsequential for a project that Wood Mackenzie estimates will generate cash flows of nearly $7 billion a year for the partners over many decades,” Matt Howell, a Perth-based analyst for industry consultant Wood Mackenzie, said by e-mail. “But this latest event does introduce doubts about the facility’s reliability and ability to produce at capacity for that extended period.”

The largest resource development in Australia’s history faced delays, cost overruns and labor unrest during construction. It then started exports to customers in Asia amid the worst energy slump in a generation. Chevron’s partners in the venture are ExxonMobil and Shell. The plant in April temporarily halted output just two weeks after making its first shipment, citing a malfunction with the propane refrigerant circuit used to cool gas supplied to the plant. Production of LNG restarted this week, Chevron said June 27.

B.C. premier not giving up on LNG industry

(Metro; Vancouver; June 27) – B.C. Premier Christy Clark said her “determined” personality keeps her resolute that liquefied natural gas will one day thrive in B.C. — despite the fact that there’s not yet a single project built here or a final investment decision. “The market is terrible right now,” she said, “but we hope that we will get to a final investment decision — that one of them will — before the next election,” Clark said in a meeting with Metro staff on June 27.

“That's an important milestone, but things are still happening and thousands of people have been employed as a result of the work that's been going on,” Clark said. “Whether or not we get to that before the election, I think we will get to it.” Asked if she felt disheartened by the global slump in oil and gas prices and resulting delays in project decisions, Clark admitted that her 2013 election promise of an LNG industry has been a “challenge.”

“We haven't seen any of these projects get stopped, so that's good.” Clark remains undeterred. “I'm just one of those people who just kind of plough through — we just keep on going,” she said. “Every day, despite the fact that there are challenges, we just keep working at it. We're still going to get there, it's just taking us a little longer.”

Panama Canal could provide boost for U.S. LNG exports

(Bloomberg; July 1) - Natural gas exports from the U.S. Gulf Coast will reach buyers in Asia and South America faster and at lower costs thanks to an expanded Panama Canal that could see 550 tankers a year by 2021. As of June 26, the canal linking the Pacific and Atlantic oceans was open to the size of vessel typically used to carry liquefied natural gas after a $5.3 billion expansion.

“The Panama Canal expansion will mean Asia can meet its demand peaks with U.S. gas with lower prices,” Alex Tertzakian, an analyst with Energy Aspects in London, said in an e-mail July 1. “However, when the market is looking more oversupplied, U.S. volumes will still be challenged to sell into” Asia. Large tankers bound for Asia that use the canal may save as much as $3.2 million per round trip compared with travel through the Suez Canal, and $2.8 million versus the trip around Africa's Cape of Good Hope.

The shortcut may also boost U.S. exports. More than a dozen customers including Shell, Korea Gas and Indonesia's PT Pertamina Persero will pay Cheniere Energy about $4.3 billion a year in fixed fees for the right to liquefy gas and load LNG cargoes at the company's terminal in Sabine Pass, La. — even if they don't take any gas. Lower transportation costs and faster shipping times may encourage them to ship more gas.

Expanded Panama Canal can handle 90% of world's LNG carriers

(U.S. Energy Information Administration; June 30) - The newly expanded Panama Canal will be able to accommodate 90 percent of the world's current fleet of liquefied natural gas tankers. Before the expansion, only 6 percent of the global fleet could transit the canal. The expansion has significant implications for LNG trade, reducing travel time and costs for LNG shipments from the U.S. Gulf Coast to key markets in Asia, the U.S. Energy Information Administration said in a recent report.

Only the 45 largest LNG vessels in the world, Qatar's Q-Flex and Q-Max tankers, able to carry 4.5 billion to 5.7 billion cubic feet of natural gas as LNG, will be too large for the expanded canal. A transit from the U.S. Gulf Coast through the Panama Canal to Japan will reduce voyage time to 20 days, compared to 34 days for voyages around the southern tip of Africa or 31 days if transiting through the Suez Canal.

The wider Panama Canal will also considerably reduce travel time from the U.S. Gulf Coast to South America, declining from 20 days to 8 to 9 days to Chilean import terminals, and from 25 days to 5 days to prospective terminals in Colombia and Ecuador. For markets west of northern Asia, including India and Pakistan, transiting the Panama Canal will take longer than either transiting the Suez Canal or going around the southern tip of Africa.

Cheniere could be sending U.S. LNG to new import terminal in Chile

(Bloomberg; June 30) - Chile this week gave Cheniere Energy a good reason to build more capacity to export U.S. natural gas by clearing the final environmental hurdle for a proposed floating import terminal. Approval was granted for the Penco Lirquen LNG project, which comprises a floating storage and regasification unit, Juan Jose Gana, executive director of Biobiogenera, the project developer, said in an e-mail June 30.

The 1,200-megawatt Central El Campesino power plant, which will be supplied by the gas import operation, "should be approved" in July or August, he said. This approval marks a milestone for Cheniere, which has a 20-year agreement to supply gas to the power plant — about 9 or 10 cargoes a year. Cheniere is also a co-owner of the LNG import project with Biobiogenera, according to Hoegh LNG Holdings, which is building the terminal.

Success in Chile may help Cheniere find other buyers to sign long-term contracts before it makes a decision on additional liquefaction capacity at its Corpus Christi facility in Texas, according to Energy Aspects and Hennessy Funds. Although it got the environmental nod, the project has stirred up controversy in the community. Police used a water cannon to break up protests in the Chilean city of Concepcion on June 28 after the regional environmental commission unanimously approved the LNG project.

Chinese gas distributor expects sales growth from lower prices

(Bloomberg; June 28) - China Gas Holdings expects its natural gas sales to grow 20 percent in the current fiscal year as lower prices and the country's push to replace coal with cleaner fuels spur increased consumption. The distributor, which runs most city gas projects, plans to sell 420 billion cubic feet of gas in the year ending March 2017, up from 350 bcf in the previous year, Chairman Liu Minghui said in a briefing in Hong Kong on June 28. Chinese authorities in November reduced prices in an effort to boost usage.

"China's gas demand is always there, but relatively high prices last year made it unaffordable for many industrial users," Liu said. "Because of the price cuts in November, consumption is back and we are confident we can achieve the 20 percent sales growth in the year ahead." China's gas consumption growth slowed to 3 percent last year as the fuel's competitive edge was undermined by cheap oil. The price reductions in November helped push the country's gas demand.

Gas storage field shutdown could limit California supplies

(Bloomberg; June 29) - California is warning of natural gas shortages and potential blackouts this summer after a historic gas leak near Los Angeles. Meanwhile, more of the power-plant fuel is flowing from California into Mexico. Deliveries to the North Baja pipeline system in Mexico through California jumped 45 percent to 441 million cubic feet June 29 compared with two weeks ago, according to data compiled by Bloomberg New Energy Finance.

The flows into Mexico underscore how an unprecedented leak at a gas storage complex near Los Angeles is limiting the state's ability to build up the supplies it will need when this summer's heat has air conditioners blasting and power demand surging. The region's electricity grid manager plead with consumers just last week to conserve power as a heat wave swept across Southern California. The high temperatures caused wholesale power and natural gas prices to surge.

“Storage is pretty full, so in terms of the California system, they may only be able to take what they need on a daily basis,” said Jacob Fericy, a Bloomberg New Energy Finance analyst. The ability to store excess gas in Southern California is constrained after a nearly four-month natural gas leak at Sempra Energy’s Aliso Canyon facility took the field offline. It was the biggest such leak in U.S. history, according to the National Oceanic and Atmospheric Administration and the University of California at Davis.

In the past 5 years, 346 coal-fired power plants have closed in U.S.

(Bloomberg; June 29) - Five years ago, opponents of newly proposed clean-air rules sounded dire warnings of blackouts and surging electricity prices if coal-burning plants were shuttered. Welcome to 2016. Instead of rising, the price of electricity in the nation’s largest grid is 40 percent lower than back then, even as a record 346 coal-burning units, producing enough electricity to supply 40 million homes, were retired. The difference: America’s shale boom unleashed cheap and abundant gas that burns cleaner than coal.

The nation’s emergence as the world’s largest producer of natural gas has not only sped up the closure of coal-burning plants. It’s also put the U.S. on a surer path to meeting an international accord to slash global-warming pollutants and to comply with a host of federal environmental mandates estimated to yield billions of dollars in health benefits. More gas-fired generation also helped the U.S. cut emissions of carbon dioxide last year to 21 percent below 2005 levels.

The mid-Atlantic grid, which stretches from Maryland to Chicago, has been ground-zero for coal-plant shutdowns as power plants have access to the cheapest gas supplies in the country. In that network, about 20,000 megawatts of gas-fired plants are projected to connect by mid-2019, said Ethan Paterno, a Denver-based energy industry specialist with PA Consulting Group. Natural gas prices in Pennsylvania, home of the most prolific shale reserves, plummeted to as low as 59 cents per million Btu last year, down from more than $14 in 2008. Gas production has more than doubled since 2012.

B.C. LNG supporters return from cross-country tour

(Alaska Highway News; BC; June 29) - It was a long trip, and there was considerable "penny pinching" along the way, but Alan Yu returned from his LNG of BUST mission with optimism and a sense of accomplishment June 28. Yu, founder of Fort St. John for LNG, traveled across the country to alert the federal government to the precarious economic situation and job market in the gas producing region of Fort St. John, B.C., and to encourage support for a liquefied natural gas industry in British Columbia.

Supporters funded the trip. However, only three-quarters of the budget was raised. “When I was in Ottawa, I thought I was going to be in trouble because we didn’t raise enough money for me to go back,” Yu said. But help came when it was most needed. On the day Yu and his team, numbering five in all, ran out of funds, “Someone who has been a long supporter of Fort St. John for LNG actually said, ‘Don’t worry, whatever you need I will provide,’” Yu said.

With the 90-day clock ticking on a federal decision on Pacific NorthWest LNG’s application build an export terminal near Prince Rupert, B.C., Yu said he is optimistic the federal government will approve the project. “I know for a fact that we did hit the daily summary news for Parliament. ... I feel that they are aware of the economic need to approve the project,” Yu said.

Power generators oppose proposed ‘pipeline tax’ in New England

(Mass Live; June 30) - Opponents call it "the pipeline tax," while utility regulators have called it "an innovative mechanism." Power generators call it an "unjust scheme." Proposals in several New England states would have consumers underwrite the cost of new gas pipelines through a surcharge on their electric bills. But two major power plant owners have asked the Federal Energy Regulatory Commission to block efforts to implement the funding mechanism, saying state utility regulators shouldn't be "putting a finger on the scales" to promote "uneconomic pipeline capacity."

NextEra Energy and Public Service Enterprise Group, in their complaint to FERC, said the "highly unusual proposals" would constitute unfair market manipulation and unjustly drive down the price of wholesale electricity. "This transportation subsidy would artificially flood New England markets with gas, thereby unreasonably suppressing gas prices and wholesale power prices," the companies wrote.

Under the proposals, electric companies would enter into long-term contracts for capacity on yet-to-be-built gas pipelines, then transfer those capacity costs to their retail customers. The utilities would use the gas in power plants and sell whatever is left. It's not clear what the plan would actually mean to consumers. Pipeline foes say ratepayers would be "on the hook" for billions of dollars. Supporters say it would save New Englanders around $1 billion during a typical winter through lower natural gas prices.

Canadian appeals court rejects oil sands pipeline

(The Canadian Press; June 29) - The Canadian government failed in its duty to consult with aboriginal people before approving a controversial pipeline to link Alberta’s oil sands to the north coast city of Kitimat, B.C., the Federal Court of Appeal has ruled. The court quashed federal approval for Enbridge's Northern Gateway project in a written decision dated June 23 but released June 30 by a law firm involved in the appeal.

The judgment says the government neglected to discuss subjects of critical importance to First Nations by ignoring many of the project's impacts and offering only a "brief, hurried and inadequate" opportunity for consultation. "The inadequacies — more than just a handful and more than mere imperfections — left entire subjects of central interest to the affected First Nations, sometimes subjects affecting their subsistence and well-being, entirely ignored. Many impacts of the project … were left undisclosed, undiscussed and unconsidered," the decision reads.

"It would have taken Canada little time and little organizational effort to engage in meaningful dialogue on these and other subjects of prime importance to Aboriginal Peoples. But this did not happen." The pipeline received federal approval in 2014 but has been mired in legal uncertainty ever since. Eight First Nations, four environmental groups and a labor union launched the legal challenge. The company said it will consult with First Nations partners and commercial proponents before deciding its next steps.