Oil and Gas News Briefs
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LNG importing nations could double, Wood Mackenzie says

(Bloomberg; June 22) - The number of liquefied natural gas importers may more than double as a glut holds down prices and encourages nations to ditch crude, according to Wood Mackenzie. More than 50 countries may switch to LNG, with demand from new importers accounting for about 150 million metric tons per year (7.2 trillion cubic feet of gas) by 2025, amid an oversupply of the fuel, said Noel Tomnay, Wood Mackenzie's vice president for gas and LNG. That's about 61 percent of the current global market.

"You've got easy access to shipping and you've got easy access to supply, and you're going to get, we believe, further rises in the oil price whereas LNG prices, at the spot level, are probably going to be quite flat," Tomnay said in an interview in London. "The opportunity is going to become increasingly compelling for markets to switch to gas." Egypt, Jordan and Pakistan last year increased the number of LNG importers to 34, helping offset the first decline in Asian purchases since 2009.

New markets are forming as countries consider switching to gas from crude after prices for the fuels diverged, with spot LNG in Japan sliding 45 percent this year as Brent oil gained 35 percent. This year, Wood Mackenzie expects five new importers of LNG: Colombia, Jamaica, Malta, the Philippines and Abu Dhabi. While some markets can easily turn to LNG, most of the new entrants, including El Salvador, Ghana and Kenya, would be switching from naphtha, diesel and fuel oil and will require investment in infrastructure such as new pipelines and power plants, Tomnay said.

Energy Department official predicts boom in U.S. gas exports

(Platts; June 23) - Demand for U.S. natural gas for export — including both pipeline and LNG exports — is set to skyrocket through the next few decades, a Department of Energy official said June 23, adding that the country is on a path to become a top supplier to the international market. "We're going to have substantial increase in pipeline exports to Mexico and LNG exports are going to explode," Carmine Difiglio, deputy director for energy security, said at a conference in Pittsburgh.

U.S. gas production peaked last year at an average of about 80 billion cubic feet per day before beginning to decline somewhat. However, the drop-off is expected to be short-lived as demand for gas for export increases, Difiglio said. The dramatic increase in shale gas production over the past decade is responsible for growing supplies beyond what is needed to meet U.S. demand, he said. Shale gas has grown from being less than 5 percent of U.S. gas supplies in 2000 to 56 percent today.

"A number of important LNG export projects are underway," he said of efforts to find markets for surplus U.S. gas, predicting that U.S. exports would reach 10 bcf a day by 2022 and 20 bcf a day by 2040. Difiglio warned, however, that U.S. LNG exports will come online in a softening international market. But U.S. gas will be price competitive, he said. “U.S. LNG projects are brownfield projects (converted import terminals), they already have pipeline connections to gas supply, they have marine terminals."

No LNG carriers currently scheduled to use expanded Panama Canal

(Environment and Energy News; June 23) – After seven years and $5.2 billion, the newly expanded Panama Canal will open June 26. The project is a milestone for the liquefied natural gas industry, which is gaining access to the shipping shortcut just as the launch of U.S. Gulf Coast LNG exports creates the need for a passageway to Asian buyers. But it also represents a big question mark.

An LNG carrier has never transited the Panama Canal, according to the Panama Canal Authority, and despite many years of lead-up for the canal project and the launch earlier this year of the first U.S. Gulf of Mexico LNG export terminal, there are no LNG transits on the canal authority’s calendar. The question of why there are no transits scheduled for the expanded Panama Canal is a tougher question.

Weakening demand in Asia, a global oversupply of LNG and falling prices for the fuel have made the Gulf Coast-to-Asia trade look less profitable. Today, spot prices in Japan fall close to the break-even point for U.S. LNG with shipping costs. Forecasters have pushed back estimates of when stronger demand could return, and U.S. suppliers are increasingly focused on LNG opportunities in Europe and South America.

Still, many say the Panama Canal will be important, even if it's not heavily used right away. Investment in LNG markets is inherently "lumpy," said Andrew Slaughter, executive director of Deloitte's Center for Energy Solutions, because of the large dollar values involved and the long timelines required to build assets.

Natural gas gains ground on coal for power generation

(Houston Chronicle; June 23) - Gas has crept past coal as the largest source of electric energy in the U.S. and is now gaining globally, opening new markets. The use of natural gas at U.S. power plants surpassed coal for the first time last year, and its share of the domestic electricity market has only expanded since then, growing from 20 percent a decade ago to 34 percent this year, according to the Energy Department. Coal's share, meanwhile, has plunged by half, to 24 percent this year from 49 percent in 2006.

"You can go back as long as you want in history, coal had always been the dominant source of fuel in U.S. power, until last year," Spencer Dale, chief economist for BP, recently told Houston business and civic leaders. Globally, coal still dominates electricity generation, but it is slowly losing its grip, according to BP's Statistical Review. Coal's share of the global power market fell below 30 percent in 2015, the lowest in a decade. During that same period, gas rose from 23 to 24 percent, according to the BP report.

Mark Hanson, an analyst at the Chicago-based investment research firm Morningstar, said a "litany" of natural gas projects have been proposed over the last few years that could further expand markets for Texas natural gas. They include pipelines to Mexico, terminals to export liquefied natural gas to Asia and Europe, and $100 billion in new chemical plants, mostly along the Gulf Coast. "There are plenty of new demand sources for natural gas production that can absorb the upticks," Hanson said.

Germany moves toward ban on hydraulic fracturing of shale

(Bloomberg; June 23) – German Chancellor Angela Merkel's coalition is set to ban shale gas fracking in Germany, passing legislation in parliament June 24 that would end years of discussion over whether the nation should follow the U.S. in launching a boom in drilling. Merkel's coalition will use their majority to amend gas extraction rules, in effect banning the unconventional method of tapping oil and gas deposits not possible with traditional methods, according to a draft bill obtained by Bloomberg News.

Conventional fracking that doesn't involve extraction from shale may continue under strict rules, the draft shows. Lawmakers moved quickly after a report that companies such as ExxonMobil and Wintershall, which sought exploration licenses, were preparing to move ahead. In 2014, Merkel's coalition prepared an amendment that would allow shale fracking below 10,000 feet under certain geological conditions. The government wanted the companies to hold off on projects until after the amendment was passed.

"We have a new situation where industry said that without any legal rules, we'll simply start making requests," said Volker Kauder, parliamentary chief for Merkel's coalition. "Therefore we had to act." The government is coming down on the side of environmental groups. Hydraulic fracking is deeply unpopular in Germany. Opposition to easing drilling rules has prompted criticism from mineral water makers to beer brewers and citizen groups worrying about earth tremors caused by fracturing bedrock.

Thailand could come up short on gas

(Bangkok Post; June 23) - Thailand is at risk of being short 6,300 megawatts of electricity in 2021 due to a lack of investment in the nation's offshore gas fields and insufficient LNG storage capacity. Production concessions for two oil and gas blocks — Bongkot, operated by Thai producer PTTEP, and Erawan, operated by Chevron — are due to expire in 2022-23. With production declining, the operators are unlikely to invest more, forcing Thailand to increasingly rely on imported liquefied natural gas.

However, the limited storage capacity of the country's LNG terminals means that Thailand could come up short of gas, said Prasert Sinsukprasert, director general of Thailand's Energy Policy & Planning Office. Prasert said a shortage of 9 million metric tons of LNG would be the worst-case scenario if operators PTTEP and Chevron do not win the next round of contracts for the offshore fields and invest in new production.

PTT, the country's oil and gas conglomerate, is adding to Thailand's only LNG receiving terminal and also is planning a second terminal to open in 2019 to help handle growing demand. During a gas shortage, the government would have to encourage people to consume less energy as well as increase power-generating capacity from other sources such as coal and renewable energy. However, the two coal-fired power plants that are due to be constructed face delays and strong opposition by local communities.

Tanzania, Mozambique risk losing out to LNG competitors

(Gulf Times columnist; Qatar; June 23) - The vast and well-documented gas reserves in East Africa continue to whet the appetite of investors along the New Silk Road — stretching from Beijing to Lagos — especially as the global population and energy demand soars. China, Japan, India and the Middle East are particularly hungry for liquefied natural gas, but the intensifying global competition among LNG exporters means East Africa's window of opportunity is shrinking and facing stiff competition.

Tanzania and Mozambique — home to East Africa's largest natural gas reserves with a combined 250 trillion cubic feet — must quicken their pace as the race for supply contracts accelerates. East Africa benefits from convenient geography to meet rising demand in the Middle East, India, China, Southeast Asia and Northern Europe. However, emerging and established exporters are all jostling to lock in Asian clients. Those include producers Qatar, Malaysia, Indonesia, Papua New Guinea and Russia; growing exporter Australia; and the world's newest supplier, the United States.

The vast potential of East Africa's gas reserves and LNG hopes face little debate. But, Tanzania and Mozambique must quickly court investors to leverage their assets and secure clients before other LNG exporters cross the finish line.

Lithuania loses price arbitration case against Gazprom

(Forbes; June 23) - Russia’s Gazprom is free and clear and does not owe Lithuania one cent for allegedly overcharging the Baltic nation $1.6 billion for natural gas between 2004 and 2012. The Stockholm Arbitration Court ruled June 22 that Gazprom was not at fault. The Lithuanian government appealed to the Stockholm Arbitration Court in 2012. Had the ruling gone the other way, the state-run gas company would have had to pay $1.6 billion, or about 10 percent of Gazprom’s 2016 estimated earnings before taxes.

Gazprom is seen as one of the big villains of the Russian corporate enterprise. Price gouging and delivery stoppages are often headlines associated with the energy firm. Russia accounts for well over half of Lithuania’s natural gas deliveries. In 2014, Gazprom was Lithuania’s only source of natural gas. This year, 20 percent or more of Lithuania’s natural gas comes from Norway, though a liquefied natural gas import terminal that went online last year.

Fort Nelson, B.C., hit hard by natural gas downturn

(CBC News; June 23) - The downturn in the gas sector is having devastating consequences in Fort Nelson, a town of about 4,000 residents in British Columbia’s far northeast corner. Bev Vandersteen of the Fort Nelson Chamber of Commerce said 200 people have lost jobs in the gas sector over the past 18 months, while 50 local business have been forced to shut down, with many others suffering major layoffs. She calls the town's economic situation the worst she's seen in 30 years.

"We are seeing people, particularly in the retail sector, who are now drawing on their reserves and drawing on their retirement funds in order to keep their business alive," Vandersteen said. The Fort Nelson area is rich in natural gas reserves, but with the commodity price in the tank the industry has all but shut down in the area. The latest hit came last month when Endurance Energy — the last gas operation standing in the area — filed for bankruptcy, owing thousands of dollars to local contractors and outfitters.

Fort Nelson survived a downturn in forestry last decade but the gas sector was there to fall back on, Vandersteen said. Now with both sectors struggling, the situation is dire. She said development of a liquefied natural gas export industry promised by Premier Christy Clark can't come fast enough. "Gas really is the best option for clean energy, and we're sitting on the biggest reserves in Canada in the Horn River, Liard and Cordova basins. … But we need announcements, we need the future to move forward."

Oil-by-rail terminal fight goes before Washington state energy panel

(The Associated Press; June 24) – A venture proposing to build what would be the nation's largest oil-by-rail marine terminal along the Columbia River in Washington state sees it as an opportunity to link domestic crude oil from the Midwest to a West Coast port. Critics, however, see an environmental and safety catastrophe waiting to happen, especially after a train carrying volatile Bakken crude oil derailed and burned June 3 in Mosier, Ore., just 70 miles upriver from the project site in Vancouver, Wash.

The battle over the $210 million Tesoro Savage Vancouver Energy terminal — which would handle about 360,000 barrels of crude oil a day — unfolds June 27 when the parties make their case for or against the terminal before a state energy panel. The Energy Facility Site Evaluation Council will hear testimony from dozens of experts and other witnesses over five weeks. It will make a recommendation to Gov. Jay Inslee, who has the final say. The terminal would see an average of four 1½-mile-long trains a day.

Vancouver Energy is expected to argue that the terminal is needed to meet fuel needs; that risks of spills or accidents are remote; and that it adds economic benefits to the region. The Port of Vancouver also plans to testify in support. They'll face a lot of opposition. Tribes, environmental and community groups, the city of Vancouver and a Washington state agency will urge the panel not to recommend approval. They plan to show that it poses too great a risk to people and the environment, and that the dangers extend well beyond the facility to include communities along rail lines across the state.

U.S. Gulf of Mexico oil production grows, despite low prices

(Wall Street Journal; June 23) - Companies are pumping more crude from the U.S. Gulf of Mexico, a surprising trend that shows the resilience of the nation's energy industry. Despite the worst price downturn in a generation, so much oil is starting to pour forth from offshore fields near Louisiana and Texas that it is partially offsetting declining output from shale regions on shore. The U.S. is currently pumping about 8.7 million barrels a day, 480,000 less than at the end of last year.

Production is forecast to drop further to 8.5 million barrels a day later this year. But well over 500,000 barrels a day of new Gulf crude is set to come online this year and next, according to a Wall Street Journal analysis of government data, company presentations and regulatory filings. "The projects are coming faster and sometimes bigger than expected," said Roger Diwan, vice president of financial services at IHS Energy.

Gulf production is up in part because several massive fields sanctioned for development years ago are starting to pump this summer and fall. But it is also because companies are finding that smaller fields can be tapped relatively cheaply by linking to existing offshore platforms with underwater pipelines. Tieback wells are drilled in fields not large enough to justify the hefty expense of building new floating installations in the Gulf. Some tieback wells are profitable with oil at $25 to $30 a barrel, and many can make money when crude is between $30 and $40, according to analysts at Wood Mackenzie.

TransCanada files for $15 billion in damages over Keystone rejection

(Financial Post; Canada; June 23) - TransCanada made good June 24 on its threat to challenge President Barack Obama's rejection of the Keystone XL oil sands pipeline, filing a request for arbitration under the North American Free Trade Agreement to recoup $15 billion (U.S.) in damages from the federal government. The Calgary-based company's request was made to the International Centre for Settlement of Investment Disputes in Washington, D.C., after efforts to reach an amicable settlement failed.

A three-member panel will determine whether TransCanada was treated unfairly when the administration rejected the project last November after almost seven years of review. No date has been set for the proceedings. In its 42-page filing, TransCanada claims the U.S. government "ultimately denied Keystone's application, not because of any concerns over the merits of the pipeline, but because President Obama wanted to prove his administration's environmental credentials to a vocal activist constituency."

The company said the U.S. delayed its decision for seven years — far longer than average — while claiming that it needed to collect additional technical information, conduct additional analysis of the environmental impact of the proposal, or allow state-level procedures regarding the routing of the pipeline to run their course. "Those excuses were arbitrary and contrived," TransCanada said. "In fact, none of that technical analysis or legal wrangling was material to the administration's final decision."