# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Analysts say LNG investments are all about market timing

(Houston Chronicle; June 27) - The U.S. Gulf Coast became an exporter of liquefied natural gas this year with Cheniere Energy's first shipments from Louisiana, but a glut of LNG globally is raising questions about when a "second wave" of LNG export projects will move forward. Five U.S. plants are under construction as others await regulatory approval and corporate decisions on multibillion-dollar investments. Perhaps the most brazen project is NextDecade's Rio Grande LNG project in Texas.

NextDecade proposes building what could be the nation's largest LNG export facility on 1,000 acres at the Port of Brownsville near the Mexican border. But the multiple projects in various planning stages are risky, particularly since it is unclear how long it will take for global demand to work through the supply glut. Most analysts expect LNG demand and prices to rise over the long term, but it is uncertain when that might happen. So, for companies investing billions in projects that take years to complete, timing is everything.

Luana Siegfried, an energy analyst with Raymond James, said it might take longer than many in the industry believe, pointing to slowing growth in China, weaker European demand and the potential for Japan to restart nuclear plants. Spencer Dale, BP’s chief economist, said it could take a decade for demand to catch up and prices to rise. As a result, many new projects won't be profitable at first. But, over a period of time, he said, “that big growth market in Asia is going to mean you're going to need a lot more gas.”

The biggest challenge for NextDecade is locking in long-term contracts with buyers. Without guarantees from customers at set prices over 20 years or so, the risk would be too great to secure investors. NextDecade only has non-binding agreements thus far.

## Oversupply will put pressure on LNG prices, Qatar bank says

(Gulf Times; Qatar; June 25) - The global liquefied natural gas market will remain oversupplied for the next four years, but will be undersupplied beyond 2020 in view of the expected rise in demand, Qatar National Bank said in a report. High prices encouraged the start-up of multiple LNG export projects around the world, with supplies from these projects expected to come into the market over the next few years. “As a result, the market is expected to be oversupplied up to 2020,” the bank said.

“Beyond that, the market is likely to be undersupplied as the current low oil-price environment makes starting new projects unviable, meaning that demand will eventually catch up," the bank said. Though most LNG is sold under long-term contracts linked to oil prices, the volume sold on spot or under short-term contracts (less than four years) rose from 25 percent in 2012 to 29 percent in 2014.

"Because demand growth is expected to fall short of supply, the LNG market is expected to be oversupplied in the next five years. The oversupplied market is likely to exert downward pressure on spot prices," the bank report said. "This could provide incentives for LNG buyers to purchase on the spot market rather than through long-term contracts. This in turn could lead to renegotiations of long-term contracts, which would impact suppliers, especially the newcomers." Qatar is the world's largest LNG producer.

## Canadian regulator restarts review of Petronas LNG project in B.C.

(Globe and Mail; Canada; June 27) - Canada's environmental regulator has resumed its review of plans presented by Malaysia's state-owned Petronas to export liquefied natural gas from northern British Columbia, clearing the way for the federal Cabinet to rule this fall on the controversial project. The Canadian Environmental Assessment Agency had suspended its review March 18, asking Pacific NorthWest LNG to submit more information about its proposal to build on Lelu Island near Prince Rupert.

On June 27, the federal agency said the Petronas-led group recently filed new documents that satisfy the request for greater detail about construction plans. The submissions include a 343-page study on fish habitat and a 271-page report on issues such as a proposed suspension bridge and trestle-supported pier from Lelu Island to a deep-water loading dock for LNG carriers. Pacific NorthWest LNG is vowing that it will take appropriate measures to prevent damage to juvenile salmon habitat in a sandbar called Flora Bank, located next to Lelu Island in the Skeena River estuary.

Petronas owns 62 percent of Pacific NorthWest LNG. The Malaysian energy giant's partners are from Japan, China, India and Brunei. The new filings allowed CEAA to restart the regulatory clock in the lengthy assessment process, which began in April 2013. At the request of the regulatory agency in March, federal Environment Minister Catherine McKenna granted an extra three months for the review. Barring any further delays, the Cabinet is expected to issue its ruling in late September or early October.

## Federal court rejects Sierra Club suit against LNG export plants

(Houston Chronicle; June 28) - Environmentalists' efforts to block U.S. liquefied natural gas exports were struck a blow June 28 when a federal appellate court ruled two projects in Texas and Louisiana could move ahead. The Sierra Club had sued to block expansion of Cheniere Energy's Sabine Pass terminal, which began shipping LNG earlier this year, and construction of Freeport LNG's terminal in Texas on the grounds that both threatened to worsen climate change by increasing natural gas production.

But the D.C. Circuit Court of Appeals ruled the environmental analysis by the Federal Energy Regulatory Commission was correctly limited to local impacts of the facilities. The court found no evidence the facilities would expand drilling on new lands, but rather would draw from the large quantities of gas already flowing from shale fields. The ruling comes as a relief to the oil and gas industry, which is facing increasing legal challenges from environmental groups over projects, including LNG terminals and pipelines.

But the fight does not appear to end here. A spokesman for the Sierra Club said the conservation group planned to sue the Department of Energy. FERC regulates the construction and operation of onshore LNG plants, while the Department of Energy regulates gas exports. "This disappointing decision fails to address the significant environmental harms of increased gas exports, and this is not the end of the road in this fight," said Lena Moffitt, director of Sierra Club's Beyond Dirty Fuels campaign.

## BP schedules first LNG tanker through expanded Panama Canal

(Bloomberg; June 28) - BP will send the first tanker of liquefied natural gas through the expanded Panama Canal in late July, opening up a new trade route for the heating and power-plant fuel as global supplies surge. The British Merchant will begin its journey in Trinidad & Tobago before heading to the canal for passage to the Pacific Ocean, according to an e-mailed statement from the Panama Canal Authority on June 28. BP holds 34 to 42 percent stakes in the four LNG production trains in Trinidad & Tobago.

The canal's $5.3 billion expansion will allow it to handle the kind of massive tankers that transport LNG. The shorter trade route between the Atlantic and Pacific will help cut costs as global LNG prices have plunged in the past two years because of lower oil prices, rising LNG supply and softening demand. At the same time, the U.S. Gulf Coast became an exporter of LNG produced from shale gas in February with the start of Cheniere Energy's Sabine Pass terminal in Louisiana.

"It's what a lot of folks have been anticipating for a long time," said Rusty Braziel, president of RBN Energy in Houston. Given current oil prices and economic conditions, shipments through the canal may be limited to volumes contracted to go to Japan and other Asia-Pacific buyers. The longer-term prospects are more promising, Braziel said.

## Appalachian shale gas industry looks forward to new markets

(Wheeling News-Register; WV; June 27) - Shell's decision to build an ethane cracker near Monaca, Pa., and Dominion Resources' construction of a liquefied natural gas export plant at Cove Point, Md., give the Appalachian region's gas industry hope that demand for their products will continue to grow. As drillers dig deeper and farther to achieve maximum output from wells, the limits of the Marcellus and Utica shale boom continue to push up against demand.

Recently, the U.S. Energy Information Administration projected domestic ethane production to grow from 1.1 million barrels per day in 2015 to 1.4 million barrels per day in 2017, with a significant portion to be drawn from Marcellus and Utica drilling. In fact, there is so much ethane in the region that pipeline operators Sunoco Logistics and Kinder Morgan collectively plan to spend about $3.5 billion to move the liquid out of Ohio, West Virginia and Pennsylvania for processing elsewhere.

Tom Petrie, chairman of the Petrie Partners advisory firm, believes LNG terminals such as Dominion's Cove Point project will energize the sluggish drilling industry when they go into service. Dominion officials intend to have Cove Point operational before the end of 2017. "Cove Point has direct implications for you here in Appalachia," Petrie said at a recent conference in Pittsburgh. "I think U.S. LNG exports could be one of the best job-creating opportunities."

## Opponents focus on stopping LNG projects in Brownsville, Texas

(Morning Valley Star; Harlingen, TX; June 26) - Environmentalists won in their recent fight against a liquefied natural gas export project in Oregon, and believe they can win in Brownsville, Texas, too. The Federal Energy Regulatory Commission denied the Jordan Cove LNG application to build at Coos Bay, Ore., in large measure because the developer was unable to show that the benefits of the facility outweighed the "potential for adverse impact on landowners and the communities," FERC said in its denial.

FERC said Jordan Cove LNG "presented little or no evidence of need" for the facility, citing the lack of customers. And while environmentalists in Texas were heartened by the Oregon decision as a potential harbinger for denial in Brownsville, most observers concede the South Texas battle may be much tougher. In Oregon, for example, a more populist anti-LNG sentiment laid the foundation for the FERC denial. The three LNG projects proposed for Brownsville already have the backing of powerful political figures.

There are some like Rebekah Hinojosa, and those from the Sierra Club's Lone Star Chapter, whose job is to make sure none of the LNG export terminal proposed for Brownsville obtain federal approval. Ocelots and various birds could lose their homes, opponents contend. Wetlands and greenfields (undeveloped land) would be disturbed. "There's no such thing as minimizing harm with wetlands and these endangered species," said Jim Chapman, chairman of the Lower Rio Grande Valley Sierra Club.

## China ‘in no hurry’ for another gas deal with Russia

(Bloomberg; June 24) - Gazprom, the world’s top natural gas exporter, will keep pushing for a new gas supply contract with China as President Vladimir Putin travels to Beijing this week, even while the Asian nation’s worst economic slowdown in a quarter-century batters demand. “This is a deal that Russia needs far more than China,” said Michael Bradshaw, professor for Global Energy at Warwick Business School in England. “China has lots of options, Russia does not.”

Putin clinched Russia’s first contract to ship gas to China from untapped East Siberian fields under a $400 billion deal in 2014. Gazprom planned to follow the landmark deal with another 30-year agreement to supply West Siberian gas, which would have made China its largest export client. But that western route stalled and Gazprom in September instead signed a memorandum of understanding with China about a possible smaller gas pipeline from the Sakhalin region in Russia’s Far East.

Slower economic growth in China and a global gas oversupply make it unlikely Russia will sign a new deal in the next five years, said Li Yao, of Beijing-based consulting firm SIA Energy. China “is in no hurry” for yet another gas agreement with Russia, said Erica Downs, an analyst for Asia at Eurasia Group. The country looks fairly well-supplied with domestic production and already has imports contracted through 2020, she said. China’s gas consumption expanded 3.7 percent in 2015, the slowest pace in a decade.

## China to reduce coal production as part of shift toward natural gas

(Bloomberg; June 26) - China says it’s reining in coal production as the country tries to curb the pollution that is choking the nation’s cities, and also wants to eliminate so-called “zombie” companies in the struggling industry. Coal output capacity will fall by 280 million tons this year, National Development and Reform Commission Chairman Xu Shaoshi said at the World Economic Forum in Tianjin on June 26. That’s equal to about 7.5 percent of the 3.75 billion tons that BP says the country produced in 2015.

The world’s largest energy consumer is trying to raise the share of less-polluting natural gas to 10 percent of its energy mix by 2020 from 6 percent last year.

The coal reduction is part of the country’s plans to eliminate as much as 500 million tons of output by 2020 and to consolidate a further 500 million tons among fewer miners. Besides tackling pollution, the Chinese government says it wants to eliminate companies that aren’t viable in struggling industries such as coal and steel as part of efforts to restructure the economy for greater efficiency.

## Hong Kong power company proposes its first LNG import terminal

(Nikkei Asian Review; June 27) - Having failed in its attempts to secure cheaper and more diversified sources of energy, one of Hong Kong's two major power providers has set its sights on a floating LNG import plant. But the plan, which has yet to be forwarded to the government, already faces uncertainty. The proposed offshore liquefied natural gas plant has touched off controversy among the 7.3 million residents — who inhabit an area about half the size of Tokyo and have few options when it comes to power.

Hong Kong's power companies want to reduce their energy costs by diversifying LNG sources. The city currently uses gas to generate 19 percent of its power and is heavily reliant on China for gas. The utilities would like to be less reliant on China. Hong Kong gets 59 percent of its electricity from coal. The controversy comes from potentially higher electricity bills — construction costs for the LNG import facility would be high — and from possible environmental damage.

CLP Holdings, one of Hong Kong's two regional power companies, announced its plan in early May. According to the plan, the facility would be a floating storage and regasification unit, which serves as a terminal to accept imported LNG. There, LNG would be converted back into gas, then put into the pipeline distribution network. The project would include construction of a pipeline to connect the terminal with a gas-fired power plant in the New Territories, in northern Hong Kong, as well as other facilities.

## Developer drops LNG trucking option from Massachusetts project

(South Coast Today; New Bedford, MA; June 27) - Eversource Energy has eliminated a controversial trucking component from its proposed natural gas liquefaction and storage facility in Acushnet, Mass., population 10,000 about 45 miles south of Boston. The change was announced in a brief letter from Access Northeast Project Manager Brian C. Kuta to Acushnet Fire Chief Kevin Gallagher and Police Chief Michael Alves, who had written Eversource to protest the inclusion of trucking facilities on the site.

The company has proposed adding additional liquefaction and storage capacity to its more than 40-year-old facility to better accommodate peak needs for LNG. Gas would be drawn from a nearby pipeline, liquefied and stored until needed and delivered by pipeline to customers for power generation and heat. But language in a recent project report to federal regulators, suggesting that LNG could be delivered from the plant by truck, caused an eruption and anger and frustration, especially from the fire chief.

“The idea of adding LNG tractor trailers on town roads was completely unacceptable,” Chief Gallagher said June 27. “This was never made known to us,” he said of the trucking option for the facility. The project would add 6.8 billion cubic feet of gas storage at the site. “This has completely changed the dynamics with the fact that they are stripping out all references (to trucks).” The company had said that the truck terminal was needed to provide flexibility in the event of an emergency.

## Lack of pipeline capacity stymies Canadian oil exports

(Calgary Herald columnist; June 30) - There’s trouble ahead when it comes to Canada growing its oil production, as the sector bumps up against a lack of pipelines. A report from the Canadian Association of Petroleum Producers notes that overall oil output is expected to grow over the next 14 years, albeit more slowly than expected, with a drop in conventional and East Coast production more than offset by expansion of the oil sands. But new pipelines aren’t getting built, stuck in regulatory review or political limbo.

The ramifications of the imbalance — too much oil, not enough capacity to move it — could see producers and governments receiving lower prices and less revenue as time goes by. “Pipelines are something that we continue to talk about … it’s because they’re so important for us to reach our economic potential,” said CAPP president Tim McMillan. The group’s annual report released June 23 predicts Canadian production will start growing again and reach 4.9 million barrels per day by 2030 — 3.7 million barrels of that from the oil sands.

“Today we are sitting right on the knife’s edge,” McMillan said. The country’s pipeline system has the capacity to ship about 4 million barrels per day, while oil companies are producing about 3.98 million. There are potential solutions in the wings, with a handful of proposed pipelines in the regulatory process — where they are stuck. The challenge is getting Canadian oil to new customers in growth markets. Without enough pipeline capacity to export terminals, less than 1 percent of Canadian oil is shipped overseas.