Oil and Gas News Briefs
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March 17, 2016

Citigroup says LNG glut to last until 2022; new projects needed 2025

(Sydney Morning Herald; March 17) - A glut of liquefied natural gas is likely to plague the market until 2022, triggering further delays to new projects and potentially forcing some producers in Australia and elsewhere to cut back production, Citigroup analysts said. But the LNG market will "balance, not fail," the bank said, adding it expects long-term contracts still to be honored. It also pointed to opportunities, particularly in growing markets such as India and Thailand that will benefit from access to cheap LNG.

Citi estimates global LNG oversupply will peak at 28 million metric tons a year by 2019, about 11 percent of current production, just from plants now running or in construction. More than 100 million tons a year of supply is set to come into the market from new projects in the next five years, mostly from Australia and the U.S. LNG spot-market prices are expected to dip under $4 per million Btu in the low-demand season, while the bank has also cut its forecast for contract prices as terms fall in line with a softer market.

Some 60 million tons a year of additional supply still will be needed by 2025, but that is far less than the 318 million tons of new capacity proposed within that timeframe, said the Citigroup analysts led by Sydney-based Dale Koenders. Despite the need for some new capacity, a "disconnect" between pricing and project costs will hinder projects from going ahead, the bank predicted. It said "buyer paralysis" has obstructed new long-term contracts from being signed, and that the problem would likely last into next year.

Citigroup likened the situation of new LNG projects jostling for contracts with a large number of taxis looking for customers outside a building. "The building is surrounded by vacant taxis undercutting each other," it said.

Asia LNG buyers continue moving away from oil-linked pricing

(Interfax Global Energy; March 15) - Japanese and Singaporean LNG buyers are looking to introduce more flexibility and a greater degree of gas indexation into their supply portfolios, according to speakers at the 11th LNG Supplies for Asian Markets conference in Singapore this week. Low oil prices have made oil-indexed contracts desirable in the short term, but companies and governments want to encourage gas-on-gas competition to create a more stable LNG market in the future.

"Current low oil prices may have diminished Asian gas buyers' urgency to diversify from oil indexation, but it does not remove the fundamental need for an alternative pricing mechanism that better reflects gas market fundamentals," said S. Iswaran, Singapore’s minister for trade and industry. Yuji Kakimi, president of Jera — a joint venture between Tokyo Electric and Chubu Electric — affirmed that position in announcing Jera wants to reduce oil-indexed contracts from 90 percent of its portfolio to 50 percent by 2020.

"We are going to use U.S. and European gas indices and a benchmark based on average Asian LNG prices — not just for spot purchases, but for short- and long-term contracts," Kakimi said. Jera would be looking to make investments in LNG projects and secure long-term contracts over the next five years, he said. The moves are part of its strategy to ensure the sharp price spike that followed the 2011 Fukushima disaster is not repeated in the 2020s, as well as the long-term goal to bring stability to the market.

Repsol puts on hold LNG export proposal in Nova Scotia

(CBC News; March 16) - A multibillion-dollar conversion of the Canaport LNG import facility into an export terminal that politicians have been promoting as a lifeline for New Brunswick's struggling economy has been mothballed. Repsol Canada spokesman Brent Anderson told CBC News that after a long review which included preliminary permitting applications with the National Energy Board, the company has been unable to find outside investors and has concluded the conversion is not currently economical.

"We've placed that on hold," Anderson said. "The current market conditions and project challenges make it unattractive for third-parties and off-takers [customers] to join the project." The conversion to reverse the Canaport facility from importing liquefied natural gas to manufacturing and exporting LNG had wide political support in New Brunswick, where the economy is struggling. Spain’s Repsol is a 75 percent owner of Canaport.

New Brunswick has lost 9,900 jobs since October, and a major investment in Canaport was seen as a way to turn that around. But Anderson said the business case did not come together. "Low commodity prices are just one factor, so I wouldn't want to give the false impression that if commodity prices suddenly shot up … that would immediately change our decision," he said. "The decision-making … has included many factors." The import plant has been underused for years, taking in just three cargoes this winter.

Japanese firm delays Indonesia LNG project decision at least 2 years

(Reuters; March 16) - Japanese oil and gas firm Inpex will delay sanctioning its Masela Abadi liquefied natural gas project in Indonesia by at least two years, Indonesia’s energy regulator said March 16. The government is divided on whether to allow a floating LNG facility at the gas fields about 100 miles offshore, or require development of an onshore LNG plant in the belief that it would be better for the local economy.

"We are still waiting for a government decision on the revision of the plan of development, and hope there will be a decision as soon as possible," said Usman Slamet, senior communication manager at Inpex Indonesia. Once a decision is made, Inpex will continue with front-end engineering and design on the project, which has been estimated at $14 billion for the floating facility.

Gas was discovered in the Arafura Sea 16 years ago. The project, as proposed by Inpex and its partner, Shell, would produce 7.5 million metric tons of LNG per year and 24,000 barrels a day of condensate. The pace of development of giant gas export schemes has slowed globally as LNG prices have plummeted with oil prices, prompting many companies to delay funding decisions until business conditions brighten.

Analysts speculate Australia LNG projects may delay ramp-up

(Sydney Morning Herald; March 13) - Weak commodity prices and worries over natural gas supplies have fueled speculation that the Queensland LNG industry may ramp up output at new projects more slowly than scheduled, and some market sources suggest one production unit may be mothballed. Two of the six trains across the three coal-seam gas projects in Gladstone, worth almost $80 billion in total, have yet to start up.

While the Australian partners in those ventures, Santos and Origin Energy, say work is proceeding toward full start-up later this year as planned, some market participants are not ruling out other possibilities. "I would not be surprised that of the four trains [across the Origin and Santos projects], only three end up running in the early stages," one gas executive said, pointing to doubts around economics given the slump in liquefied natural gas prices and the need for some of the ventures to buy gas to feed their plants.

Credit Suisse and RBC Capital Markets have theorised on the possibility that one LNG train is mothballed, primarily in the context of a potential consolidation between the Santos and Origin projects. Others disagree, saying the ventures will want to get into production and ramp up as quickly as possible to start raising cash. Weighing on some minds is the ongoing need to spend hundreds of millions of dollars a year on new wells to sustain production because coal-seam output starts to decline soon after start-up.

Despite high cost, low prices, Chevron confident of profits at Gorgon

(Financial Times; London; March 16) - Chevron’s massive Gorgon project off the coast of Western Australia is poised to ship its first cargo this week. The $54 billion liquefied natural gas project is one of the world’s largest, and a feat of engineering in a remote and harsh environment. But analysts say Gorgon is also a symbol of the excess that characterized a commodities supercycle in which oil prices surged and companies piled into a series of “mega projects” aimed at satisfying seemingly insatiable Asian demand.

Grappling with a deepening global commodities rout, Chevron and its peers are now backing away from blockbuster energy projects, in part due to the challenges of projects such as Gorgon. “As we go forward in this lower [oil] price world we want to rebalance our project activity so we have a larger proportion of shorter-cycle projects that don’t have as long a period of cash outflow before we start to see some cash back,” said Mike Wirth, Chevron’s executive vice president for midstream and development. “Over the next several years it will be difficult to see projects of this scale receive sanction.”

“Gorgon was tremendously expensive and I don’t think it will make a return on investment,” said Neil Beverage, an analyst at Sanford C. Bernstein & Co. “It is a reflection of what went wrong — the industry thought building larger-scale projects would lower unit costs but this didn’t happen.” Despite the ballooning cost and the slump in LNG prices, Chevron is confident Gorgon will generate profits for the company and its partners Shell, ExxonMobil and a trio of Japanese utilities.

Opponents cheer LNG project rejection; supporters not giving up

(KPIC-TV; Roseburg, OR; March 14) - Emotions are mixed in Coos County, Ore., following the decision by federal authorities to deny authorization for the Jordan Cove LNG export plant and natural gas pipeline. The Federal Energy Regulatory Commission on March 11 said the project failed to show evidence of a customer base and that the need for the project did not outweigh the potential adverse impacts to hundreds of landowners. Opponents of the project are celebrating the decision as a victory.

"For them to outright deny, it was just surreal," said Jody McCaffree, executive director of Citizens Against OLNG. "It's pretty significant. And then when I finally got a chance to read the order it's really a win for landowners.” But supporters said the multibillion-dollar investment would give the local economy a much-needed boost by creating hundreds of jobs. Mark Wall of the Boost Southwest Oregon group said he felt blindsided by the decision, but he and other supporters see it as a small setback.

"We're undeterred in our support for the project and we trust that Veresen, the project sponsor, will address FERC's issues and we can put this behind us and continue to move forward,” Wall said. The project sponsor, Calgary-based Veresen, said it will file a request for a re-hearing of the decision. The developer’s business plan is to collect a fee for liquefaction of U.S. and Canadian natural gas, loading the LNG aboard tankers for shipment to overseas markets.

Canadian agency reads through 30,000 comments on LNG project

(Alaska Highway News; Fort St. John, BC; March 15) - Canada's environmental regulator is continuing to wade through nearly 30,000 comments submitted on the proposed Pacific NorthWest LNG plant. As of March 14, the Canadian Environmental Assessment Agency had uploaded 3,105 comments to its website, with more being posted daily. Public comment on the controversial project's federal environmental assessment closed March 11. The plant is proposed for near Prince Rupert, B.C.

With traditional North American markets for gas drying up, the Petronas-led LNG export project is increasingly seen as a make-or-break for northeastern B.C.'s Peace Region, where the gas would be sourced. Comments to the environmental agency, however, reveal deep fault lines over the project. The plant would be built near marine habitat crucial to salmon and has met with opposition from First Nations. Last week, 130 scientists signed a letter claiming the science behind the agency's draft report is flawed.

Those for and against the project have stepped up their advocacy as the government gets closer to a decision on the plant. Both sides made sure to stuff the ballot box during the public comment period. Michael Gurney, manager of communications for the Port of Prince Rupert, said there's a lot of interest in the breakdown of the comments. "(But) it's not really a vote," he said. "People are trying to raise concerns about specific aspects of the environmental assessment, and that's what's going to be considered."

Greenhouse-gas issue may drive B.C. LNG project to federal Cabinet

(Globe and Mail; Canada; March 16) - After a long regulatory process, a final decision on Pacific NorthWest LNG's proposed liquefied natural gas export terminal on British Columbia's coast could be referred to the federal Cabinet because of its impact on Canada's greenhouse-gas emissions. The Canadian Environmental Assessment Agency's draft report last month found that the project is "likely to cause significant adverse environmental effects" to harbor porpoises and greenhouse-gas emissions.

If the final report comes to a similar conclusion, Environment and Climate Change Minister Catherine McKenna would have to refer the matter to Cabinet — which has made climate change a central focus of the government. Bloomberg News reported March 15 that McKenna was preparing to make that Cabinet referral — which would cause another delay in the contentious approval process for the high-profile project, proposed by Malaysia's Petronas and its partners for an island near Prince Rupert.

However, a spokesperson said the minister "has not yet made her determination of whether the project would likely cause significant adverse environmental effects." Meanwhile, during the years of project planning, the LNG market has turned soft. "Even if the minister said, 'Great, no problem,' and the government said, 'Great, go ahead,' there's no market for this at the moment," said Ken Courtis, a former vice chair of Goldman Sachs Asia who advised China National Offshore Oil Corp. on an LNG project in Australia. "By 2020, we're going to have natural gas coming out our ears."

Editorial criticizes new Canadian rules for oil and gas project reviews

(Calgary Herald editorial; March 12) - It isn't just pipelines that are facing lengthy delays. Backers of the Pacific NorthWest LNG project, which would ship liquefied natural gas to Asia from Prince Rupert, B.C., have waited almost three years for the federal environmental review process to come to an end — and they're still waiting. A source close to the project says the developers are frustrated with delays and won't accept new hurdles to meet Canadian Prime Minister Justin Trudeau's climate-change priorities.

In January, the newly elected government announced it would revisit how major energy projects are reviewed, putting more focus on greenhouse-gas emissions. In the case of pipelines, it means an assessment of upstream emissions produced in the extraction and processing of the oil and gas they carry. The changes have added months to the assessment of Kinder Morgan's Trans Mountain oil pipeline expansion from Alberta to the West Coast and TransCanada's Energy East oil pipeline in the opposite direction.

Environment Minister Catherine McKenna said the changes are needed to "rebuild Canadians' trust in our environmental assessment processes." There is no guarantee a project will be permitted even if it passes muster, she said. It looks like holding pipeline companies responsible for emissions created during the extraction and processing of the product they transport. Isn't that like insisting grocery stores be held accountable for how the vegetables and other products they sell are grown and packaged?

Jobs disappear in British Columbia gas fields

(CBC News; March 11) - With no LNG projects confirmed, British Columbia's once booming gas fields are now one of the worst places in the province to find work. And while analysts have been closely watching Alberta's oil patch slump, few have noticed the collapse of B.C.'s gas patch — except those who are suffering the most. Don Loewen, a long-time contractor for the natural gas industry in northeastern B.C., has had to cut 48 people from his crew of 60 workers. His experience is all too common.

"If these LNG plants don't go — at least one of them — these guys will quit drilling entirely," Loewen said. "As it is, it's almost ground to a halt. All our employees are off looking elsewhere, but there really is nothing else," said Loewen, whose company builds roads to gas leases. Tamara Kemble's husband recently lost his electrician's job in Fort St. John. The family is living on her husband's unemployment benefits, while paying $1,000 a month for medical expenses formerly covered by his benefits plan.

Already, some unemployed workers have fallen on such tough times they're turning to the Salvation Army in Fort St. John for bus tickets home. Capt. Sheldon Feener hears from more and more men who traveled far from home to work in northeastern B.C.'s gas patch to support their families. Now, they've lost their jobs, their temporary apartments and even their pick-up trucks. "They'll come in and some of them are still dressed in their work gear," Feener said. "They're like, ‘I've got no way to get home.'"

Hundreds of truckers rally for LNG industry in B.C.

(CBC News; March 16) - Hundreds of B.C. truckers rallied in Fort St. John and Fort Nelson on March 16, trying to send Ottawa a message that their once-booming gas patch communities are banking on an LNG export industry for jobs. Federal Environment Minister Catherine McKenna is expected to make a decision later this month on the controversial Pacific NorthWest LNG plant proposed near Prince Rupert, B.C., a project backed by Malaysia's Petronas.

The rallies, and one in Terrace, were promoted by the Independent Contractors and Businesses Association of B.C. Member of the Legislative Assembly Pat Pimm said there were more than 580 trucks at Fort St. John, with many drivers saying work had dried up due to falling natural gas prices and other factors. "In the 14 years I've been in Fort St. John, this has absolutely been the worst year ever," said Murray McClelland of Caliber Oilfield and Production Services, who said he has laid off 25 workers this year.

"We've got to make some noise or else they don't even know we're in northern B.C," said Chuck Fowler Sr. at the Fort St. John rally. "We need a market. We need pipelines. We need jobs." Though the province had hoped one or more of several LNG projects proposed for the coast would have committed to construction by now, environmental reviews, First Nations and especially market conditions have delayed all the proposals — and the gas field development and pipelines that would accompany the projects.

First Nation receives initial benefits checks for gas pipeline projects

(The Northern View; Prince Rupert, BC; March 15) – The Metlakatla First Nation has signed two pipeline benefits agreements with the British Columbia government that will provide financial help to the community as the province tries to develop a liquefied natural gas industry. “This kind of benefits agreements gives us that voice and offers us the opportunity to move forward in partnership with government and with business in a way that benefits everyone,” said Harold Leighton, chief councilor for the First Nation.

The agreements cover TransCanada’s proposed Prince Rupert Gas Transmission pipeline and Spectra’s proposed Westcoast Connector Gas Transmission pipeline. Each would serve a different LNG plant proposed for the Prince Rupert, B.C., area. Metlakatla First Nation has received an initial payment of $430,000 related to the Prince

Rupert Gas Transmission line, and would receive two separate payments of just over $1 million if construction starts and if the gas line goes into service.

As part of the agreement related to the Westcoast Connector Gas Transmission project, the First Nation received an initial payment of $390,000, and would receive $975,000 if construction starts and an equal amount if the line goes into service. Neither LNG plant has received full government approval or a sponsor commitment to proceed. Government approval involves environmental impacts, and sponsor decisions are focused on project economics and the global LNG market.

First Nations opposition to TransCanada oil pipeline grows

(Montreal Gazette; March 13) - A Canadian First Nations movement against the Energy East oil sands pipeline project is picking up steam in other parts of the country. Besides the official opposition of the Assembly of First Nations Quebec and Labrador representing 43 chiefs, the list against TransCanada's pipeline now includes the Union of British Columbia Indian Chiefs — who are fighting their own oil pipeline battle — and the Iroquois Caucus regrouping Mohawk nations in Quebec and Ontario.

The level of anger in the First Nations is revealed in a personal "nation-to-nation" style letter March 9 from Mohawk Kanesatake Grand Chief Serge "Otsi" Simon to Quebec Premier Philippe Couillard. Opening a new front for TransCanada, the letter calls the project to move 1.1 million barrels of crude a day through the 2,852-mile line from Alberta to refineries in Eastern Canada "risky and dangerous" to First Nations and a threat to their lands, waters and very survival.

"Indeed an alliance of indigenous nations, from coast to coast, is being formed against all the pipeline, rail and tanker projects that would make possible the continued expansion of tar sands," Simon wrote. "We the Mohawks of Kanesatake will not be brushed aside any longer and we wish to press upon you that we reserve the right to take legal action if necessary to prevent the abuse of our inherent rights."

North Dakota's Bakken oil production at lowest level in 18 months

(Wall Street Journal; March 12) - North Dakota on March 11 said its oil production fell 2.65 percent in January to the lowest level in 18 months — reflecting a sharp drop in prices — as the number of drilling rigs active in the state fell to the lowest level in more than a decade. Oil production in January, the latest data available, fell to 1.12 million barrels a day, down from 1.15 million barrels a day the previous month, according to the North Dakota Department of Mineral Resources.

“We’re losing altitude pretty rapidly,” North Dakota Department of Mineral Resources Director Lynn Helms said at a news conference in Bismarck. “February and March production declines could be equal to or greater than what we’ve seen in December and January,” he said. After remaining resilient in the face of lower crude prices for much of last year, crude output in the state’s Bakken Shale formation has begun to drift down toward the million-barrel-a-day mark as operators cut the number of new wells drilled.

There are 32 active drilling rigs in the state, down from 40 last month and the fewest since November 2005. Industry and government officials said they expect production to trend lower even if prices recover as output declines from existing wells and operators adopt a cautious approach to drilling new wells. Gerbert Schoonman, vice president of Hess Corp.’s Bakken operations, said the company is running just two rigs and will “have to see a pretty significant price increase” before it thinks about adding more.

U.S. oil companies could be slow to reverse production cuts

(Wall Street Journal; March 14) - The U.S. was supposed to be the world’s new swing oil producer, able to open and close the taps in response to market forces, thanks to its bounty of shale fields. But as oil prices show some signs of stabilizing, U.S. producers and oil field services companies are warning that they may not be able to jump-start drilling. The reason: Many independent companies are too financially strapped, have let go too many workers, or have idled too much equipment to immediately ramp up again.

“The balance sheets of these shale-only producers have to be repaired for them to get back to drilling,” said Hess Corp. CEO John Hess. “That’s going to curb any recovery.” Just as U.S. output fell more slowly than predicted — even as oil plunged from around $100 a barrel in 2014 to $30 — it is likely to be slower in recuperating, even if prices rebound to $50 a barrel or more, some oil executives and analysts now say. “Coming back this time is going to be tough, no question about it,” said Tom Petrie, chairman of Petrie Partners, an investment banking firm. “These cutbacks have been painful.”

More than three dozen U.S. oil and gas producers plan to cut their capital spending for 2016 by nearly half, on average, compared with last year, according to a Wall Street Journal analysis of company financial filings. Some of the largest U.S. oil field services firms have laid off 110,000 people in the past year, Evercore ISI analysts estimate, and many of those workers have no plans to return to the industry. Close to 60 percent of the fracking equipment in the U.S. has been idled during the downturn, according to IHS Energy, which estimates it would take two months for some of that equipment to return.

Fracked wells now produce about half of total U.S. oil production

(U.S. Energy Information Administration; March 15) - Even though hydraulic fracturing has been used for more than six decades, it has only recently been used to produce a significant portion of oil in the United States. Fracking, often used in combination with horizontal drilling, has allowed the U.S. to increase its production faster than at any time in history, the U.S. Energy Information Administration reports. The agency estimates production from hydraulically fractured wells now provides about half of U.S. production.

Using well completion and production data from DrillingInfo and IHS Global Insight, EIA created a profile of U.S. oil production. In 2000, approximately 23,000 hydraulically fractured wells produced 102,000 barrels per day of oil in the United States, providing less than 2 percent of the nation’s total. By 2015, the number of hydraulically fractured wells grew to an estimated 300,000, and production from those wells had grown to more than 4.3 million barrels per day, about 50 percent of the total U.S. oil output.

This new production has primarily come from shale and other tight rocks in the Eagle Ford formation and Permian Basin of Texas, and the Bakken and Three Forks formation of Montana and North Dakota.

Kuwait proposes 10% corporate tax to help close budget deficit

(The Associated Press; March 15) - Kuwait's government has proposed a 10 percent corporate tax on profits and the privatization of some publicly run services and facilities to close a widening budget deficit brought on by a plunge in global oil prices. The Cabinet suggested privatizing services at Kuwait's airport and ports, as well as the management of schools, hospitals and some facilities owned by Kuwait Petroleum Co.

The proposals are part of a nearly 60-page document outlining broad economic reforms the Cabinet says are needed to boost non-oil revenue, decrease public spending and widen private-sector growth. Without offering too many specifics, the document suggested other reforms such as merging government agencies and ministries and re-pricing public goods and services, which suggests a partial lifting of subsidies on electricity, water or gasoline could also come into effect.

It’s the first time since oil prices began sliding in 2014 that Kuwait has proposed an overhaul of its spending. Government revenue fell by 60 percent last year due to lower oil prices. Kuwait projects a $40 billion budget deficit for the coming fiscal year. The reining in of generous benefits is sensitive in the Gulf, where citizens are accustomed to free health care, tax-free incomes and government subsidies that keep prices low. Some neighboring oil nations have already raised prices and adopted similar reforms.

Korea Gas may take role in exporting Iranian gas

(Business News Korea; March 16) - Korea Gas Corp. may play a leading role in the construction of a proposed deep-sea gas pipeline linking Iran’s gas fields to a liquefied natural gas plant in Oman. Iran has been pushing the project to export its gas. South Korean and Iranian authorities are in talks over the possibility that KOGAS may lead the project, according to sources.

Construction would be split into three sections. KOGAS is seeking a role in construction of the deep-sea pipeline across the Strait of Hormuz and Gulf of Oman — believed to be the most challenging piece of the project. That work is estimated at $1.5 billion. Gas from Iran’s South Pars fields would be sent to the Sohar industrial complex in Oman for liquefaction. There are two LNG plants in Oman, with three liquefaction trains totaling 10 million metric tons a year capacity. Oman wants to import Iran’s gas to boost its output.

South Korea and KOGAS are willing to cover project operation in addition to financial support. Iran boasts the second largest proven natural gas reserves in the world, but it lacks an LNG export plant.