Oil and Gas News Briefs
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Partnership suspends effort on small-scale LNG plant in B.C.

(Reuters; May 10) - Japanese oil refiner Idemitsu Kosan said May 10 that it and its joint-venture partner, Calgary-based AltaGas, would suspend their quest to build a liquefied natural gas export project in British Columbia for the foreseeable future due to low energy prices. The two firms had conducted a feasibility study to export about 2 million metric tons per year of LNG to Asia from Canada's West Coast as early as 2017. The project, called Triton LNG, had not selected a site for the plant and marine terminal.

The venture would not be able to make a commitment to development if currently low LNG prices continue into the future, Toshiaki Sagishima, executive officer and general manager of Idemitsu Kosan's treasury department, told reporters during a briefing on the company's full-year earnings. But Idemitsu left open the possibility of continuing with the project when energy prices recover.

The Triton LNG suspension was the second in three months for AltaGas and Idemitsu. In February, the companies, along with two other partners, halted development of the proposed Douglas Channel LNG project, a barge-mounted export facility (550,000 metric tons per year) planned for near Kitimat, B.C. The companies cited unfavorable market conditions for stopping work on that venture, too. The AltaGas/Idemitsu decisions are among multiple delays in proposed LNG projects for the B.C. coast.

Woodfibre LNG could make B.C. investment decision later this year

(Bloomberg; May 9) - Woodfibre LNG may move ahead with its $1.8 billion project for the coast 30 miles north of Vancouver by the end of the year, which could make it the first liquefied natural gas export project proposed for British Columbia to reach a final construction decision. Woodfibre, backed by Indonesian billionaire Sukanto Tanoto’s RGE Group, is in talks to sell China’s Guangzhou Gas Group 1 million metric tons of LNG per year for 25 years, starting 2020. That would be about half the plant’s output.

"That portion of gas may be sufficient to make a final investment decision," said Byng Giraud, Canada manager for Woodfibre. As part of a preliminary agreement signed May 9, Guangzhou Gas is also considering acquiring a 10 percent stake in the project. A glut of seaborne LNG and plunging prices have caused cancellations and delays of LNG projects worldwide. Investors have yet to sanction a single LNG export project in Canada, where projects face higher gas production costs than some competitors.

Woodfibre could make a final investment decision "toward the end of this year," Giraud said. "As soon as you get one customer in the door, it's easier to get the second." The project proposes to build the terminal at a former pulp mill site. Guangzhou Gas is a unit of Shanghai-listed Guangzhou Development Group, which is majority-owned by the city government and runs businesses from utilities and infrastructure to retail. Guangzhou Gas served 1.43 million customers with sales of 40 billion cubic feet of gas in 2014.

New buyers take advantage of LNG oversupply, low spot prices

(Wall Street Journal; May 9) - The liquefied natural gas industry is shifting its focus away from traditional markets in Asia and looking for new demand centers in emerging markets in an attempt to expand sales, say leading executives in the sector. Last year, three emerging markets became new players: Egypt, Jordan and Pakistan. Part of the reason they were able to ramp up LNG imports so quickly is that all three use floating storage and regasification units. The FSRUs usually are converted LNG tankers that can be mobilized quickly and negate the need for costly onshore import facilities.

Global LNG imports increased 2.5 percent in 2015 year-over-year, though not enough for all the new supply, said Vincent Demoury, of the International Group of Liquefied Natural Gas Importers. He spoke at the Flame natural gas and LNG conference in Amsterdam on May 9. Demand in Asia is slowing and the gap has to be filled, he said. With more than 100 million tons of additional annual LNG-making capacity due on the market by 2020, more buyers from emerging markets are needed, he said.

All that increased liquefaction capacity is driving down prices and fueling growth in the global LNG spot market, which sells cargoes for immediate delivery and is a factor in many countries' being able to afford imported LNG. The spot market has grown from 8 percent of LNG trading in 2005 to just under 30 percent in 2015, according to U.S.-based energy data and analysis service Genscape. With so much LNG available, huge volumes have become available for sale at competitive prices.

LNG wholesale price in Japan averaged $7.50 first-quarter 2016

(Platts; May 10) - The LNG-dependent Asia-Pacific paid the world's highest wholesale prices for gas in 2015, according to the International Gas Union. Wholesale prices were highest in South Korea at more than $10 per million Btu, with the average wholesale price in Japan in 2015 at $10.36, down from $15.98 in 2014, the IGU's Wholesale Gas Price Survey showed. The third-highest price was in China, at just below $10. The prices are an average of contract deliveries and generally lower spot-market purchases.

Contract prices in Japan, which is the world's largest LNG importer, did not begin to fall significantly until the first quarter of 2015 as the lag effect of falling crude oil prices began to feed through, the IGU said. Prices have fallen further in the first quarter of 2016, the IGU said. Average wholesale prices in the first quarter were $7.50 in Japan, $7.54 in China and $5.50 in India, the IGU estimated. The Platts Japan-Korea Marker price for spot LNG cargoes for June delivery into Asia stood at $4.50 on May 6.

"Global energy pricing has entered a new paradigm," IGU President David Carroll said in the report. "Gas industry dynamics are also changing," he said. "Projects approved several years ago in a more robust pricing environment are now coming on stream. This supply abundance has affected gas hub and spot pricing levels and shifts in the wholesale price formation mechanisms are occurring."

FERC will take more time to reconsider LNG project denial in Oregon

(The World; Coos Bay, OR; May 9) - The Federal Energy Regulatory Commission will take more time to make its decision whether to rehear the applications for a natural gas pipeline and an LNG plant and export terminal at Coos Bay, Ore. The commission issued an order May 9 giving itself more time to consider the issues raised by Jordan Cove LNG, which objected to the FERC's March 11 order denying the applications.

FERC did not provide a timeline of when it would make its decision on the developer's request. One of the major issues FERC cited in its initial denial was the lack of evidence to support market demand for the LNG. Without demand for the gas, FERC said, it could not justify the impact to property owners from the 232-mile pipeline across Oregon to the coast. After the FERC decision, Jordan Cove LNG announced non-binding commitments from customers for half of the plant's output.

FERC approves expansion at Sempra's LNG plant in Louisiana

(Natural Gas Intelligence Daily; May 10) – The Federal Energy Regulatory Commission last week approved San Diego-based Sempra Energy's proposed expansion of its Cameron liquefied natural gas export project under construction in Louisiana, the first phase of which is more than 40 percent complete. FERC approval covers a fifth LNG storage tank and two additional liquefaction trains (4 and 5), each train with nearly 5 million metric tons per year of capacity. The investment decision is now up to Sempra.

The company said the Cameron expansion would push the plant's overall export capacity to almost 25 million tons per year, totaling about 3.5 bcf of natural gas per day. On an earnings conference call last week, Sempra CEO Debra Reed cited the expansion as one of the company's major organic growth opportunities. "We would anticipate having agreements in place [for the added Cameron volumes] by the end of the year based on conversations we have been having with the parties now," Reed said.

FERC said the expansion will result in "minimal environmental impacts." Sempra outlined the expansion 18 months ago, calling for the additional trains if there was enough support from the market. At the conference call May 4, President Mark Snell reiterated his contention that the Cameron expansion offers the lowest-priced North American option for additional U.S. LNG exports. The first train at Cameron LNG is scheduled to come online March 2018, with Trains 2 and 3 later in the year.

Applicant files with FERC for LNG plant in Texas

(Brownsville Herald; Texas; May 6) - NextDecade, one of three companies that wants to build a liquefied natural gas plant and export terminal at the Port of Brownsville, Texas, on May 5 filed an application with the Federal Energy Regulatory Commission for authorization to build and operate Rio Grande LNG, the proposed export facility, and Rio Bravo pipeline, a 137-mile pipeline to provide natural gas to the plant. The initial liquefaction unit at the plant would be able to make 4.5 million tons of LNG per year.

NextDecade said it expects to receive FERC authorization by the end of the first quarter of 2017 and said it will make a final investment decision — whether or not to build the terminal — later that year. If the project moves forward, NextDecade expects to begin exporting LNG by the end of 2020. Texas LNG, another one of the three companies with plans to build an LNG plant at the port, filed its FERC application in late March.

Jim Chapman, of the anti-LNG group Save RGV (Rio Grande Valley) from LNG, called NextDecade's plans "a threat to the local South Padre Island and Port Isabel economy, which is currently thriving." He added, "They don't talk about the several thousands of existing jobs which will be threatened by massive industrialization and pollution. … Fishermen, oystermen, shrimpers and beach and nature tourism depend on clean air, clean water and a high-quality fish and wildlife habitat."

French government will look at possible ban of shale gas imports

(Reuters; May 10) - French Energy Minister Segolene Royal said she is investigating legal means to ban the import of U.S. shale gas. Citing environmental concerns, France has banned shale gas exploration using hydraulic fracking. The import of U.S. liquefied natural gas produced, in part, from shale gas is raising political debate in France. Royal, answering a question in parliament May 10, said contracts signed by gas utility Engie and power utility EDF have led to the import of U.S. LNG with 40 percent shale gas.

"I have asked the two companies why they weren't vigilant and I have also asked for an examination of a legal means for us to ban the import of shale gas," Royal said. French environmental groups have accused state-owned EDF of hypocrisy. France's ruling Socialist government insists it has no plans to exploit the country's shale reserves, despite pressure from energy groups. However, environmentalists argue, it appears the government is comfortable with importing shiploads of U.S. shale gas.

The first LNG export terminal on the U.S. Gulf Coast, Cheniere Energy's plant in Sabine Pass, La., started up operations in late February, taking advantage of the glut of U.S. shale gas production to sell into the global market. It already has sent cargoes to Brazil, Argentina, Portugal and Belgium. Experts say given the globalized energy market, it would be hard for France to impose a ban on imports.

Argentina plans to boost LNG imports this year

(Argus Media; May 10) - Argentina is planning to import as many as 90 LNG cargoes this year, a substantial increase from last year, with almost half of the loads during the southern hemisphere's winter when gas demand soars. "Time will tell, but it will be between 85 and 90," energy and mining minister Juan José Aranguren said on the sidelines of an energy conference May 10. Argentina has two LNG receiving terminals that were built after the nation shifted from exporter to importer status in the mid-2000s.

Over the winter months Argentina will buy "all those that we can get in, because it's all about maximizing the two terminals," Aranguren said. The minister added that "around 40, 41" cargoes will be received in the winter months of June through August, when Argentina routinely suspends industrial gas supply to favor residential consumption that relies on the fuel for heating. Aranguren said the country is currently paying an average of $6.50 per million Btu for LNG imports.

Argentina's increased LNG imports come at a time when the fuel can be cheaper than gas produced locally, which can cost as much as $7.50, although the average price is closer to $5. In addition to upping LNG purchases, Argentina is also poised to begin unprecedented pipeline imports of gas from Chile this week. Argentina imports pipeline gas from Bolivia at around $3. By importing more gas, the energy ministry is attempting to take advantage of lower international prices and offset imports of diesel fuel.

B.C. LNG backers plan road trip to lobby federal lawmakers

(Alaska Highway News; Fort St. John, BC; May 10) - Residents from Fort St. John, Fort Nelson, Prince Rupert and Kitimat, B.C., plan to hit the road to the Canadian capital city May 22 to deliver a stack of petitions to federal lawmakers in support of developing a liquefied natural gas industry in Canada. The Fort St. John for LNG group is leading the "LNG or Bust" road trip with its Northern B.C. counterparts. Supporters of LNG export plants on the B.C. coast are frustrated with delays in turning proposals into investments.

After attracting national media attention for its 600-truck rally in March, followed by a visit by B.C. Premier Christy Clark at a rally in April, Fort St. John for LNG founder Alan Yu said it's time to meet federal officials on their own turf. "There's nothing we can do here anymore … it's preaching to the choir. We need to bring the unemployed people, the workers to Ottawa," Yu said. "It's about time the federal decision makers hear the voice of the unemployed here in Fort St. John and Northern B.C."

Yu said the bus plans to stop and build support and speak with local news media in resource towns along the way to Ottawa. The group has budgeted $20,000 for its trip, and is fundraising to help cover costs. As of May 10, the group had raised $8,350 through a GoFundMe online campaign.

Yamal LNG operator says 100 percent of project output is sold

(Platts; May 9) - The partners in the Yamal LNG project under construction in the Russia Arctic have now contracted to sell 100 percent of the plant’s output, a senior official from majority owner and operator Novatek said May 9. Speaking at the Flame natural gas and LNG conference in Amsterdam, Novatek deputy chairman Mark Gyetvay also said the project is now fully financed to completion following $12 billion in loans from China at the end of April. The LNG customers were not named.

Gyetvay said the plant’s first liquefaction train is 65 percent complete, and the second and third trains are more than 50 percent complete. At full capacity, the plant would be able to produce 16.5 million metric tons of LNG per year. Novatek has said it will be ready to load its first cargo in the second half of 2017. The $27 billion Yamal project will be Russia’s second LNG export plant. The first, on the Far East island of Sakhalin, went into production in 2009.

Gyetvay said Yamal LNG was "very competitive" with other LNG projects globally, not the least given its very low feedstock and other costs. He said the feedstock cost was just 40 percent per 1,000 cubic feet of gas, with total LNG production cost "a little under" $3. "Our costs of feedstock are quite low," he said. The Russian government has helped the project by building the port and an airport at the remote site, and committing icebreakers to escort the LNG carriers that will serve the project.

Analyst calls Chinese loans for Russian LNG project ‘gift for Putin’

(Financial Times; London; May 10) - Russia’s political and economic “pivot to Asia” has long appeared to deliver less than promised. But last month, two Chinese banks came through with eye-catching loans for $12 billion to develop the Yamal LNG venture in the Arctic — one of the largest project financing deals in Russian corporate history. The agreement was the second big Chinese commitment to the project in a matter of weeks.

In March, Novatek, the main Russian shareholder in the Yamal project, sold a 9.9 percent stake in the venture to China's Silk Road Fund in a deal worth $1.2 billion.

The deals are a notable breakthrough for Novatek and the Kremlin. They mean the $27 billion project is fully funded and on track to launch next year, even though similar LNG projects have been shelved amid a global oversupply of cheap energy. However, Yamal seems unlikely to herald a rush of similar Sino-Russian energy deals. More likely, it will be the exception. China has been surprisingly slow to take advantage of the combination of western sanctions and its own financial resources to grab a larger part of Russia's upstream energy market, or to service more of Russia's financing needs.

One reason may be that Beijing's banks lack the on-the-ground knowledge and risk-management skills to provide large-scale financing to Russian clients. Alexander Gabuev, an Asia specialist at the Carnegie Moscow Center think-tank, suggests that while Beijing has criticized western sanctions on Russia, China's banks and financial institutions have been reluctant to risk falling afoul of sanctions compliance. Gabuev also believes that Chinese President Xi Jinping approved the Yamal investments as "small personal gifts to Russia President Vladimir Putin … to invest in the relationship."

Lost oil sands production costing companies $70 million a day

(Financial Post; Canada; May 8) - As oil sands producers scramble to determine when they can start producing oil again in fire-ravaged northern Alberta, the industry is estimated to be losing $70 million every day that production is off-line. "There are a lot of fixed costs that don't go away by just shutting in your production," ARC Financial vice president of energy research Jackie Forrest said, pointing to employee salaries and in some cases pre-paid diluent costs and fixed pipeline costs.

She said the industry is losing about $70 million per day for expenses and forgone revenues, given that one million barrels of various grades of daily oil production are shut in because of the fires raging around Fort McMurray. Industry analysts say projects could be restarted as soon as a week after the threat of the fire has passed, given potential complications with pipelines and power lines connected to the projects.

Spokespeople for several producers say there will be additional complications involved with flying sufficient staff back up to northern Alberta and providing them with food and lodging in the area. Martin King, vice president, institutional research for FirstEnergy Capital, said in a research note that "even if the fire threat is relatively short-lived (hopefully), lasting no more than a few days, getting all of the sites and pipelines back to full operation could be time consuming, running a week or more."

B.C. premier says energy exports could help rebuild Fort McMurray

(Aboriginal Peoples Television Network; Canada; May 7) – B.C. Premier Christy Clark says an out-of-control wildfire in Fort McMurray, Alberta, means Western Canada must work quickly to extract its natural resources and export them to overseas markets in order to help the economy. Clark said the blaze is weakening Canada's economic growth, and the answer is to develop the country's western resources including oil, natural gas and uranium.

Clark made the comments during a press conference with other provincial leaders at the end of the annual Western Premiers' Conference in Vancouver on May 6. She also criticized the federal regulatory process on natural resource projects such as pipelines and LNG plants for taking too long compared to B.C.'s faster approval process.

She said, as an example, the proposed Petronas LNG facility in northwestern B.C. was approved by her government in just 180 days, while the ongoing federal regulatory process has taken more than 1,000 days. Alberta's Deputy Premier Sarah Hoffman reiterated Clark's speech about extracting and exporting resources overseas in light of the disaster in Fort McMurray. "As every member of our government continues to work to rebuild Fort McMurray, we're also working to diversify our economy," Hoffman said.

Alberta fires lead to less oil sands demand, lower price for natural gas

(Financial Post; Canada; May 10) - Canadian natural gas prices are the latest casualty of Fort McMurray wildfires, falling this week to their lowest level on record. Alberta's natural gas demand fell to its lowest level in a year, after oil sands facilities were shut down by a raging fire that forced evacuation of the entire town. Oil producers use gas for upgrading the thick bitumen and at gas-fired cogeneration plants, among other uses.

Due to that lost consumption, tepid export demand to the U.S. and "grossly overstuffed storage for this time of year," Canada's benchmark AECO gas price has collapsed in the past few days to less than 50 cents per 1,000 cubic feet on May 9, said Martin King, analyst at FirstEnergy Capital in Calgary. "We believe these to be the lowest prices ever recorded for the AECO market in the history of deregulated gas prices in Canada," King said in a note to clients May 11. The AECO spot price was trading at 65 cents May 11.

Genscape, which tracks energy data, said Alberta gas demand has fallen by 1 billion cubic feet a day from last month. While the fire has certainly played a role in curbing demand, at least four oil sands upgraders were in the midst of planned shutdowns, which was already weakening consumption. Two weeks of oil sands production outages could see 11 bcf of gas pushed into storage, although not a significant number in the total North American market, investment firm Raymond James said in a report.