Oil and Gas News Briefs
Compiled by Larry Persily
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Gazprom slows down gas line to China, but still looks to grow sales

(UPI; May 20) - Delivering more gas to expanding Asian economies is a central part of Gazprom's portfolio diversification plan, as the Russian company's board of directors met in Moscow to review their long-term objectives. While Europe is its main customer, the company said it aims to increase its gas export options for Asia. "The key task in achieving export diversification is to strengthen the company's position in the most promising and fast-growing gas market of Asia-Pacific, primarily China," Gazprom said.

Gazprom has a 30-year sales agreement with China National Petroleum Corp. to deliver gas through a new pipeline dubbed the Power of Siberia, but the project faces delays. In order to control spending, Gazprom is scaling back its short-term vision for the 2,500-mile pipeline after building about 70 miles, said board member Vitaly Markelov.

Liquefied natural gas shipments by sea, which are less exposed to geopolitical risk than cross-border pipelines, can offer more market options, Gazprom said. In April, however, Gazprom accused its counterparts at China National Petroleum Corp. of using the LNG option as a bargaining chip for negotiating the price it was willing to pay for Russian gas deliveries. Nevertheless, Gazprom said expanding its 7-year-old LNG export plant at Sakhalin Island is a "high priority" for the company.

Cheap coal getting in the way of China's switch to natural gas

(Bloomberg; May 20) - China's effort to promote natural gas over coal to cut pollution is facing resistance from buyers that prefer cheaper to cleaner. The world's largest energy consumer wants to raise the share of less-polluting gas to 10 percent of its energy mix by 2020 from 6 percent last year. Yet even with the government cutting the cost of gas, it remains almost three times as expensive as coal when burned for electricity — that's putting a damper on switching. Coal now accounts for more than 60 percent of demand.

"I do not believe the government's target of 10 percent will be met," said Peter Lee, with BMI Research in Singapore. "While gas use will still grow, it will prove challenging to achieve such a significant jump." The goal of increasing reliance on gas comes amid broader efforts to reduce the country's coal mining overcapacity and improve the quality of life in smog-choked cities. A greater appetite from China for gas could be a boon to producers of liquefied natural gas as well as gas suppliers in Central Asia and Russia.

Prices for coal and oil products will probably remain depressed for the next two years, making gas unattractive, according to Liu Guangbin, an analyst with Shandong-based SCI International. The government needs to more aggressively cut gas prices or adopt stringent environmental policies if it wants to achieve its goal, he said. A boost to a 10 percent gas share of China's energy mix would be equivalent to almost 34 billion cubic feet of gas per day in 2020, according to private forecasts.

Hawaii's electric utilities could start LNG imports from B.C. by 2021

(Honolulu Civil Beat; May 18) - Hawaiian Electric Industries announced May 18 it has negotiated a deal to import liquefied natural gas from Canada that could mean lower bills for its customers. But the contract with FortisBC is contingent on the state Public Utilities Commission approving the $4.3 billion buyout of Hawaiian Electric Industries by Florida-based NextEra Energy. The Hawaiian company owns three utilities that burn diesel to power 457,800 residential hook-ups on Oahu, Maui County and the Big Island.

One obstacle may be Hawaii Gov. David Ige's opposition to the NextEra merger and any plans to import LNG for power generation. The governor came out against LNG last August, saying it's an imported fossil fuel that doesn't need to be a part of Hawaii's state mandate of providing 100 percent of its electricity needs from renewable energy sources by 2045. He said the money spent transitioning Hawaii to use LNG, even as a "bridge fuel," as supporters call it, could be better spent on going fully renewable.

With an LNG supply contract in hand, a Hawaiian Electric spokesman said, "we now have much more than a theoretical plan for the governor, Public Utilities Commission, energy stakeholders and the public to consider." The utility estimates savings of up to $32 a month for Oahu residents. For the Big Island, savings could be $8 a month, and on Maui savings could be $1.25 a month. If the commission approves the plan, deliveries could start in 2021. FortisBC would use mid-size LNG carriers to deliver the fuel from its plant near Vancouver — which is undergoing a $400 million expansion.

Environmental groups line up against Hawaiian Electric LNG plans

(Pacific Business News; Honolulu; May 20) - Opponents of Hawaiian Electric's deal with Canada's FortisBC for bulk shipments of liquefied natural gas to the islands as a replacement for oil want the Honolulu utility to first get approval for its new long-term energy plan. They also oppose the contract because the gas that would be delivered to Hawaii could be produced with hydraulic fracturing, which they say harms the environment.

Richard Wallsgrove, of Honolulu-based Blue Planet Foundation, said May 19 that the utility's LNG supply contract with FortisBC is premature by trying to lock in "billions of dollars in new fossil fuel infrastructure and future fuel purchases, before Hawaiian Electric has received approval for its plan to achieve 100 percent renewable energy.” Regulators are reviewing the plan; state law requires 100 percent renewables by 2045.

“Key questions remain unanswered, such as assessing exactly how much risk consumers will be exposed to by this investment in new fossil fuels, compared to the safer bet of investing in fixed-price renewable energy,” Wallsgrove said. Henry Curtis, of Honolulu-based Life of the Land, said the group opposes the gas supply because it involves fracking. If approved by regulators, LNG cargoes to Hawaii could start in 2021. The utility said LNG would cut consumer bills while the company moves to renewables.

Developer of LNG plant in Maine gives up and puts up project for sale

(Bangor Daily News; Maine; May 19) - The developer of a proposed liquefied natural gas import and export terminal in Robbinston, Maine, just across a bay from Canada, has decided to put its project up for sale. George Petrides, chairman of the board for Downeast LNG, said in a news release that the company decided that another industrial firm or infrastructure investor would be better suited to take on the project. Opponents of the LNG project cheered the decision, saying it points to its challenges and deficiencies.

“Downeast LNG has finally recognized that they are not qualified to carry out the project,” said Robert Godfrey, of the group Save Passamaquoddy Bay. “They were never qualified to carry it out. The project has been beleaguered by numerous insurmountable obstacles that they should have anticipated.” Godfrey said those obstacles include requirements for the project to obtain approvals in Canada and from the Passamaquoddy Tribe in order to bring ships in and out of the bay.

Downeast LNG proposed a $2 billion export terminal to liquefy and ship U.S. and Canadian gas, planning a capacity of 3 million metric tons per year. The developer originally proposed an import terminal, but added liquefaction and export capabilities to the plan as the market changed. Challenges included pipeline capacity to deliver gas to the coastal site, local opposition and an oversupply of LNG in the world market.

Fight over gas lines in Northeast pits industry vs. environmentalists

(Bloomberg BNA; May 19) - New York state's rejection of the Constitution Pipeline and Kinder Morgan's halt to its proposed Northeast Energy Direct pipeline have highlighted the intense public debate in the Northeast over the need for more natural gas and the infrastructure to deliver it. The gas industry is steadfast in its position that the region, which has among the highest energy prices in the country, needs the gas and pipelines to meet its power needs, cut carbon dioxide emissions and keep its economy buzzing.

Environmental groups and others are equally firm that renewables and energy efficiency are enough to meet the area's needs, and have opposed virtually all pipeline proposals. The Constitution and Kinder Morgan gas lines were among almost 20 pipeline projects proposed in the region. The New York Department of Environmental Conservation denied a water quality certification for the Constitution Pipeline project April 22, saying the project would have an adverse impact on 251 streams and would disturb wetlands.

The four companies that own the Constitution Pipeline Co. have pledged to fight the state's decision. The 125-mile pipeline would have linked gas production in northeastern Pennsylvania with markets in the Northeast. The same week that the state rejected the Constitution project, Kinder Morgan voluntarily withdrew its proposal to build a $3.3 billion pipeline to deliver gas to New England. The gas industry, environmental groups and lawmakers said the decisions could have a big impact on the region's energy future.

Scott Kurkoski, an energy attorney at a New York firm, said rejection of the Constitution Pipeline has implications: "Billions of dollars of investment in New York will be lost if the [line] … is not permitted. The risks of doing business in New York are simply too high."

EIA expects U.S. gas-fired power generation will exceed coal this year

(U.S. Energy Information Administration; May 19) - Gas-fired power generation jumped 19 percent in 2015 because of low prices, increased gas-fired generation capacity and coal power plant retirements. The U.S. Energy Information Administration's May 2016 Short-Term Energy Outlook forecasts that full-year gas-fired generation will exceed coal generation in 2016. Gas-fueled generation exceeded coal for several months in 2015, the first time that has happened since the EIA started tracking the numbers in 1973.

Growth in gas-fired generation capacity is expected to continue over the next several years as 18.7 gigawatts of new capacity comes online between 2016 and 2018. Many of the new gas-fired capacity additions under development are near major shale plays, the EIA report said. Many of the additions are concentrated around the Marcellus and Utica shale regions, largely located in Pennsylvania, West Virginia, and Ohio.

Significant levels of gas-fired capacity also are under construction in Texas, which produces more gas than any other state and is home to several major shale plays. Florida has the largest cumulative addition of gas-fired capacity under construction, with three plants at a combined capacity of 3.8 gigawatts expected to come online in 2016-2018. Although the state has no shale gas production, the retirement of older, less-efficient coal units and replacement of some oil-fired capacity have driven the shift.

Power generation demand unlikely to push gas prices higher

(Platts; May 19) – Natural gas demand by U.S. electric generation plants is likely to grow to 15.9 trillion cubic feet by 2030, but surging renewable energy supplies and global LNG liquefaction capacity may soften any price impact on gas from the heavier demand, a Texas economist said May 19. In the most recent year for which complete data is available, power generation consumed 9.7 tcf of natural gas, according to the U.S. Energy Information Administration.

Gurcan Gulen, senior economist at the University of Texas Bureau of Economic Geology's Center for Energy Economics, presented at a Gulf Coast Power Association luncheon in Houston. "If we think natural gas prices are going to be low, we build a lot of natural gas generation, and [if] we have a lot of renewables on the market … [that] don't need natural gas generation, what's going to happen to natural gas prices?" Gulen said. "They're going to tank further."

The gas industry "shot itself in the foot by overproducing" while gas demand has not kept up, Gulen said. Gas market participants are asking whether U.S. LNG exporters "can play a balancing role" by shipping out surplus gas to keep domestic supply from knocking down prices. “I don’t think so,” Gulen said. "LNG is going to be in excess condition for the next several years."

French company may enter Japan’s electricity, gas markets

(Bloomberg; May 18) – French energy company Engie may participate in Japan’s recently fully liberalized 18 trillion yen ($163 billion) power market as global LNG suppliers seek new revenue streams amid a price crash. Engie, formerly GDF Suez, already is active in Japan’s liquefied natural gas supply. The marketer partnered last year with Japan’s second-biggest utility, Kansai Electric Power, to swap LNG cargoes, and also supplies fuel to Tohoku Electric Power. Engie is a leading electricity producer.

“Engie is carefully monitoring the opening of energy markets in Japan, and is at the beginning of its consideration,” said Patricia Marie, a spokeswoman for Engie. “We could consider entering the electricity and gas trading markets with local partners as the industry’s liberalization progresses.” Japan liberalized its retail power market last month and will open its gas market to new entrants in April 2017.

LNG producers including Total and Woodside Petroleum are seeking to invest more in downstream activities like regasification terminals, pipelines and power plants to boost demand. “We have seen many gas companies go to wire to monetize their supply,” Bob Fryklund, chief upstream analyst at IHS Inc., said in an e-mail. More gas companies will “look at this as a better way to get a higher overall margin for their supply.”

New pipeline, LNG supplies will hold down gas prices in Europe

(Bloomberg; May 19) - A rebound in the price of liquefied natural gas in Europe will lag any recovery in oil as new pipelines are poised to boost additional gas supplies to the continent, according to a May 19 report from analysts at the Deloitte Center for Energy Solutions. Though the power plant and heating fuel typically tracks oil, which slumped to the lowest level in 12 years in February, additional gas supplies could disrupt the price link, said Andrew Slaughter, Houston-based executive director for the Deloitte center.

Pipelines, while expensive and at times controversial, have the advantage of being able to deliver large volumes of gas at low cost, according to the report on LNG exports. At the same time as new pipelines into Europe, the global LNG supply is set to surge over the next five years as projects under construction add to the emerging glut. That's putting pressure on prices that have already weakened because of the collapse in crude, a benchmark for many LNG contracts.

"You would expect LNG prices to track up after the oil prices," Slaughter said. "They won't recover quite as fast just because of these big slopes of supply coming on from both LNG and pipe." Europe has emerged as a key destination for LNG producers as demand in other markets has waned. Meanwhile, the Trans-Adriatic Pipeline will bring 1 billion cubic feet a day of new supply from Azerbaijan into southern Europe from 2020.

Papua New Guinea buyout could lower costs for LNG expansion

(Bloomberg; May 20) - Oil Search is aiming to save money in its deal to buy up and divide with Total the Papua New Guinea assets held by their partner InterOil. The deal may save the country's two liquefied natural gas projects — one in operation and one proposed — as much as $3 billion and speed up development if they cooperate, said Peter Botten, managing director of Oil Search, established in Papua New Guinea 1929.

If the deal is approved, Oil Search would hold a 29 percent stake in the proposed Total-led LNG project. That's the same share Oil Search has in ExxonMobil's $19 billion PNG LNG, which is considering expansion after starting up just two years ago. Taking over InterOil will make it easier for Oil Search and Total to integrate their LNG plans with Exxon's project, said Neil Beveridge, an analyst at Sanford C. Bernstein & Co. "It becomes incrementally easier with three parties instead of four," Beveridge said.

While LNG projects globally are being delayed or scrapped amid a fall in prices, Papua New Guinea is seen as a promising location due to lower costs and gas reserves that include condensates, a type of light oil that adds revenue. "There are substantial capital cost reductions and schedule optimization that can be done with cooperation," Botten said. "Oil Search has always been keen on the two projects seeking ways to collaborate — or combine — to reduce costs; the deal increases the possibility of the developments integrating," said Angus Rodger, director of Asia-Pacific upstream at Wood Mackenzie.

Kuwait's acting oil minister expects crude at $50 by year-end

(Bloomberg; May 18) - OPEC's strategy to defend market share rather than target a higher price is working as crude gains amid rising demand and declining output from producers including U.S. shale wells, Kuwait's acting oil minister said. Oil will end the year at $50 a barrel as the market rebalances in the third or fourth quarter, Anas Al-Saleh said in an interview May 18 in Kuwait City.

OPEC's market share theory "has been working well," Al-Saleh, who is also finance minister and deputy prime minister, said. "Now we see better prices in the market, demand has been increasing — part of it is outages of production in Canada, Libya, Nigeria and the shale oil." OPEC meets June 2 in Vienna, in a gathering at which Al-Saleh sees producers continuing discussions about market strategy.

Oil prices have fallen by more than 35 percent since OPEC's November 2014 meeting, when Kuwait joined Saudi Arabia in leading the producers to shift from supporting prices to defending sales against higher-cost output including U.S. shale. But the decline in prices has strained Kuwait's budget. Persian Gulf nations are cutting energy subsidies and scaling back spending. A strike last month by Kuwaiti oil workers slashed output in half as thousands of employees stayed away from their jobs to protest a cut in benefits.

Canadian regulators approve expansion of oil pipeline to B.C. coast

(The Canadian Press; May 19) - The National Energy Board says the proposed $6.8 billion Trans Mountain oil pipeline expansion is in Canada's best interests, despite increased greenhouse-gas emissions and threats to killer whales off British Columbia's coast. The federal regulator issued its long-awaited report May 19 after a two-year debate that cost millions and galvanized aboriginal and environmental protests. The NEB recommended Ottawa approve Kinder Morgan's project subject to 157 conditions.

"Given that there are considerable benefits nationally, regionally and locally, the board found that the benefits of the project would outweigh the residual burdens," said Robert Steedman, the board's chief environmental officer. Pipeline company Kinder Morgan wants to triple the capacity of its Trans Mountain pipeline, which carries diluted bitumen from oil sands near Edmonton to Burnaby, B.C., for export. The expansion would bring capacity to 890,000 barrels a day and increase tanker traffic in Burrard Inlet seven-fold.

The recommendation clears a major hurdle for the 715-mile project, with Prime Minister Justin Trudeau's Cabinet set to make a final decision by the end of the year. But Kinder Morgan would have to address 157 environmental, safety and financial conditions, including holding $1.1 billion in liability coverage and detailing its plans to protect endangered species. There was fierce opposition to the project and the process throughout the energy board’s hearing, with the British Columbia government and the cities of Vancouver and Burnaby opposing the expansion.

Coastal First Nations remain opposed to oil pipeline project

(Vancouver Sun; May 19) - The First Nation question — can aboriginal opponents stop Kinder Morgan’s $6.8 billion Trans Mountain oil pipeline expansion — looms large after the project passed a major hurdle with approval May 19 from Canada’s National Energy Board. Some First Nations, including the Simpcw in the Interior, are supportive. But key First Nations on the coast remain opposed, including the Tsleil-Waututh, Squamish and Musqueam. First Nations in the northwest U.S. are also opposed and reiterated their opposition May 19, saying they were “extremely” disappointed with the NEB decision.

B.C. Environment Minister Mary Polak also weighed in, saying First Nations opposition and concerns remain significant. Ultimately, Canadian Prime Minister Justin Trudeau will have to make a hard decision on the project. The project would expand the 715-mile pipeline from Edmonton, Alberta, to Burnaby, B.C., and triple its capacity, opening up new markets in Asia for Alberta oil. Opponents fear oil tanker traffic and the risk of spills.

Legal experts said Canadian law does not give First Nations the power to halt projects, but court challenges can stall projects and challenge the notion that companies have support to go ahead. First Nations have been gathering considerable clout as mounting court decisions — including the 2014 Supreme Court of Canada decision that granted the Tsilhqot’in title to 430,000 acres of traditional territory in the Interior — have pushed the consultation and accommodation obligations for governments to a higher threshold.