Oil and Gas News Briefs
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LNG producers may invest downstream to help build demand

(Wall Street Journal; April 28) - The world's natural gas suppliers don't have enough customers, so they might have to create some themselves. Some of the world's biggest entrants into the growing global gas market have considered investing in power plants and other big projects that could help slurp up the supply glut that has mushroomed just as their multibillion-dollar LNG export terminals are about to open, executives said at the Columbia Global Energy Summit in New York City on April 27.

Buyers have become stingy and hesitant to lock in deals because of the new wave of supply from export terminals under construction worldwide. Prices are already down about 40 percent from a year ago and the glut could last for years. "We've had a cozy 10 years where we could just sit on the fence and wait for the buyers to come to us, the sellers," said Woodside Petroleum CEO Peter Coleman. "We now need to think about how we start to create market. We can't wait for market to be created for us anymore."

Woodside recently decided to explore the downstream options, Coleman said, and could target markets like Vietnam and Myanmar that are hungry for development but often don't have domestic developers with the money or credit to build expensive projects such as power plants and floating LNG import terminals. Cheniere Energy, which recently opened its export project in Louisiana, has encountered similar problems and explored similar solutions. It took a 50 percent stake in Chile's Penco Lirquén LNG Terminal, attached to a power-plant project to be fueled by Cheniere-supplied gas.

Yamal LNG signs deals for $12 billion in loans from Chinese banks

(Wall Street Journal; April 29) - A $27 billion liquefied natural gas project in the Russian Arctic has secured billions in financing from Chinese banks, a hard-fought victory over Western sanctions. The financing also serves to tighten Russia's energy relations with China. The Yamal LNG project said April 29 it had signed two 15-year loan deals with Chinese state banks in euros and yuan worth some $12 billion, enough to complete the project that is under construction and scheduled to ship its first gas next year.

The project had emerged as a test for the Kremlin's ability to endure Western sanctions over its intervention in Ukraine. The U.S. and European Union targeted Russian government officials, tycoons and companies, cutting them off from access to dollars and in many cases Western financing altogether. The project looked to China for loans after the U.S. in 2014 imposed restrictions on Novatek, the project's Russian leader. But negotiations with China dragged on, and the Kremlin stepped in with a bailout of 150 billion rubles ($2.3 billion) to keep Yamal on track while financing talks continued.

The partners also had to pay in more of their own money than they had intended, while Russia committed billions in loans, tax breaks and subsidies. China is already invested in Yamal LNG, which will ship gas eastward around Russia's Arctic seaboard to China and other Asian countries for half the year, and via Europe for the other half. The China National Petroleum Corp. holds a 20 percent stake, with China's Silk Road Fund at 9.9 percent. France's Total holds 20 percent, with Novatek at 50.1 percent.

Petronas hopes to make final decision on B.C. LNG project by fall

(Reuters; April 29) - Petronas and its partners hope to make a decision within months whether to build Canada's first liquefied natural gas export project, though further delays to the environmental review could delay that timeline. "Depending on the timing of the CEAA (Canadian Environmental Assessment Agency) decision, we would hope that by late summer or early fall we would be in a position to follow up" on a final investment decision, Michael Culbert, president of Pacific NorthWest LNG, said April 28.

Petronas, Malaysia's national oil and gas company, owns a 62 percent stake in the venture. Long considered a front-runner in the race to build Canada's first LNG export terminal, the consortium behind Pacific NorthWest pledged last June to start building as soon as the project was approved by regulators, eyeing the end of 2015. But nearly a year later, the environmental review is still underway and LNG prices have plunged, hitting project economics for the facility proposed near Prince Rupert, B.C.

Culbert said whether the project goes ahead depends largely on final conditions ordered by Canada's environmental regulator. "It's fair to say that some of the conditions were not realistic for a construction project of this magnitude," he said, referring to a draft review released in February. The final measures would need to be carefully weighed before a decision could be made, he said. "As a human, we all want to see the finish line from time to time. This finish line has continued to be somewhat evasive for us."

First Nation support builds for LNG project near Prince Rupert, B.C.

(The Province; Victoria; BC; April 29) - Pacific NorthWest LNG is increasingly gaining support from First Nations. The support is essential for the project — led by Malaysia's state-controlled Petronas — as it awaits a decision from the Canadian Environmental Assessment Agency and then Prime Minister Justin Trudeau's federal government. First Nation support is critical because mounting court victories have pushed the aboriginal consultation and accommodation obligations for governments to a higher threshold.

A federal government decision on the project could come by the summer. Pacific NorthWest LNG has signed impact-benefit agreements with four of five First Nations it has to consult with over the LNG terminal near Prince Rupert, B.C., and the fifth, the Lax Kw'alaams, recently offered conditional support in a letter to the Canadian Environmental Assessment Agency. It was a major about-face — the community voted in 2015 to unanimously reject a $1.14 billion deal from the company and the province.

According to the province, 16 of 19 First Nations along the gas pipeline route have benefit agreements and the province is in talks with the others. Of the 11 agreements made public so far, one-time payments to First Nations would total $22 million. An additional $10 million a year in ongoing payments would be shared. Support for the LNG project is not universal, however. The Luutkudziiwus, a Gitxsan Nation house group, is staunchly opposed to the pipeline across its territory. And there are hereditary leaders opposed to the location of the LNG terminal near critical salmon habitat.

Cutbacks could cause problems when natural gas demand returns

(Argus News Media; April 29) - Soaring U.S. natural gas output from shale formations has pushed prices to their lowest levels in nearly two decades, forcing companies to slash spending and idle drilling rigs. But a long-anticipated decline in U.S. production expected to begin this year could leave some regions undersupplied by 2020 as gas demand swells for power generation, industrial use, pipeline exports to Mexico and LNG exports, experts said at the Argus U.S. Natural Gas Markets conference in Houston.

Gas production should decline as long as oil remains below $50 per barrel and natural gas below $2.75 per million Btu, said Bernadette Johnson, of Denver-based Ponderosa Advisors. But Ponderosa projects gas demand will grow by 3.2 billion cubic feet per day by 2020 to supply an expanding fleet of gas-fired power plants. Industrial calls spurred by low prices should boost demand by 3.3 bcf a day, while Mexico will likely import an additional 2.5 bcf a day of U.S. gas. LNG exports, a harder number to forecast, could lead to increased demand of 6.9 bcf a day by 2020.

Gas from Marcellus and Utica shale in the Northeast will likely fill much of the expected demand, but only if new pipeline infrastructure is able to be built. Regulatory delays in new pipelines could cause problems, however, said Andrew Bradford, chief executive of BTU Analytics. And some producers may not be able to respond quickly even if oil and gas prices rise because of heavy debt. "Banks will want to get paid first," Bradford said.

European officials talk of need for new gas suppliers

(Houston Chronicle; April 28) - Europe remains overly dependent on Russia and needs to establish a steady natural gas stream from the United States and other countries, U.S. and European diplomatic officials said April 28. Since Russian President Vladimir Putin threatened last year to cut off a major pipeline running through Ukraine, officials from Poland, Czech Republic, Hungary and Slovakia said their countries are working to get LNG import terminals, pipelines and infrastructure built to shift away from Russia.

“Energy diversity is very dear to us and were trying to find a solution,” Jan Kuderjavy, director of economic diplomacy in the Slovak Republic, said during a forum at the Atlantic Council in Washington DC. With a glut of gas in the United States, producers in shale fields across Texas and Pennsylvania are eager to sell into Europe where Russia, the world’s largest gas exporter, has long reigned supreme. The first LNG cargo from Cheniere Energy’s Sabine Pass, La., liquefaction terminal arrived in Portugal this week.

Dependence on Russian gas remains most acute in Central and Eastern Europe, particularly among smaller countries without access to the sea for LNG deliveries. “The U.S. will be a reliable supplier to global markets. That’s not only good for us but for our allies around the world,” said Robin Dunnigan, U.S. deputy assistant secretary of state for energy diplomacy. “But it doesn’t matter how many molecules of gas we put on the market if once it gets to Europe it can’t move freely around.”

Eni says strong partner could help in Mozambique gas development

(Reuters; April 29) - Italian oil major Eni could benefit from an additional partner in developing its giant Mozambique gas deposits, especially one with project-management skills in running such complex ventures, a company leader said April 29. “This contract is so big … we could take advantage from a strong additional partner, not only stronger from a financial point of view but also (with) a capability to run such a complicated project," Eni Chief Financial Officer Massimo Mondazzi said in a conference call.

Eni has been in talks to sell a stake in its Area 4 gas development off the coast of Mozambique, containing 85 trillion cubic feet of gas. Area 4, in which Eni holds a 50 percent operating stake, would feed a proposed onshore liquefied natural gas export plant, mainly supplying Asian markets. Mondazzi's comment came in response to a question of how much of a stake Eni would be willing to sell in its Mozambique interests.

Reuters reported in March that ExxonMobil was in talks to buy a stake of varying potential sizes in Eni's Area 4 development, including a full operating stake. Eni has been in talks with several buyers including China's Huadian Corp., sources have said.

Korean shipyard loses floating LNG work as Shell cancels order

(Bloomberg; April 28) – South Korea’s Samsung Heavy Industries, the world’s third-largest shipbuilder, said an order to build three floating liquefied natural gas production facilities has been canceled as Shell scrapped the project amid a plunge in oil prices. The contract, valued at $4.6 billion, was voided because of the current difficult market conditions, Samsung said in a regulatory filing April 28. The shipbuilder won the deal in June on the condition that the project will start only after the client is ready to proceed.

Oil prices that have more than halved in the past two years have forced producers and rig owners to cancel offshore projects and delay deliveries. Woodside Petroleum halted plans in March to develop the Browse floating LNG project in Australia with partners, including Shell and BP. Samsung is currently building two floating LNG facilities, one each for Shell and Malaysia's Petronas. The vessels — more like a huge barge than a ship — will contain gas production, liquefaction and storage facilities, offloading to LNG carriers for deliveries.

Canadian producer in price dispute over Chinese natural gas contract

(Bloomberg; April 26) - The Chinese government's efforts to shift domestic consumption from coal to less polluting natural gas are being felt on the other side of the world by Canadian oil and gas producer Husky Energy. Husky saw its shares drop 9.2 percent April 26 after the company said it plans to defend the contract gas price it receives for its biggest energy project — the Liwan development in the South China Sea — amid attempts from China to lower natural gas prices for consumers.

CNOOC, Husky's partner in the Liwan development, warned about lower prices to come for the development's gas production, which is averaging about 300 million cubic feet per day. Husky threatened to take legal action if it can't find a solution with the Chinese state-controlled producer, since its agreement for Liwan production guarantees it will earn fixed prices for about another three years. "The sanctity of the contract has come into question," said Nick Lupick, an analyst at AltaCorp Capital in Calgary.

"It seems like CNOOC is trying to use that legislation as a chance to renegotiate," Lupick said. CNOOC buys gas from the Liwan joint venture and resells it to customers. The Chinese government lowered gas prices twice last year to stoke demand and shift consumption from coal, which makes up 64 percent of the country's energy mix. Husky is prepared to discuss its Liwan deal with CNOOC, recognizing the "difficult" market in China, provided any changes are "value neutral," said CEO Asim Ghosh.

Canadian forecast says oil and gas recovery will start in 2017

(Financial Post; Canada; April 28) - If Canada's oil and gas sector can survive another tough year, good times will return in 2017 and revenue and profit could soar by 2020, according to the Conference Board of Canada. But that's a long time if you don't have an income. Conditions in Canada’s oil fields are so dire “the last two drilling seasons were pretty much nonexistent,” said Mark Salkeld, president of the Petroleum Services Association of Canada.

The drilling industry association predicted conditions will get worse this year, with only 3,315 wells expected to be drilled in Canada, down 1,835 wells from expectations last November and down more than 9,000 from 2014. “When the oil and gas sector is not working, oil field services companies are tools-down and there is no cash flow,” Salkeld said in a statement. “This is unlike our customers, the producers, who can still generate some revenue, however dismal, from production.”

But two consecutive years of cost-cutting, higher crude oil prices and expanding production will set the stage for a return to black after 2016, the Conference Board forecast said April 28. The board expects Western Canadian Select, the benchmark for Canada’s crude bitumen blend, will increase from $35 per barrel in 2016 to $63 by 2020. Investment will continue to contract this year, but as revenue recovers, investment will expand and return to 2014 record levels of nearly $41 billion by 2020.