Oil and Gas News Briefs
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B.C. may have to wait years for its first LNG investment, analysts say

(CBC News; May 3) - By now, British Columbia should be rolling in cash from an LNG industry — tens of thousands of new jobs, billions in royalties and a roaring economy with all that new investment in the province. Instead, it's still waiting for ground to break on any new facility, or even a final investment decision. While several liquefied natural gas plants are proposed, they have all struggled to get off the ground as sponsors wait for regulatory approval, delay making spending decisions, or cancel plans altogether.

There is a growing possibility that no companies will make investment decisions on LNG projects until at least 2020, said Martin King, a commodities analyst with Calgary-based FirstEnergy Capital. Delays have put B.C. Premier Christy Clark under considerable pressure. She charismatically praised LNG in 2013 as an industry that would build incredible wealth — money to pay off provincial debt and create a $100 billion prosperity fund. The province would start collecting LNG revenues by 2017, Clark told voters.

British Columbia may never see any commercially viable LNG projects built, said energy economist Kenneth Medlock, with Rice University in Houston. "I think if something were to happen, it would be 15 or 20 years down the road when there is actually enough demand. Absent that, I just don't see it." The projects will have to keep costs low, which could be difficult because they are planned for remote sites. Pipelines are necessary to bring in gas from the east side of B.C. and Alberta. "Canada is still behind the 8-ball in terms of getting these projects off the ground," King said. "It's still really iffy right now."

Pacific NorthWest LNG nears finish line for environmental review

(Globe and Mail; Canada; May 2) - Pacific NorthWest LNG will submit new reports to the Canadian Environmental Assessment Agency by mid-May in an effort to address lingering concerns about its plans to build a liquefied natural gas export terminal near Prince Rupert, B.C. The consortium is seeking to push the project across the finish line after a series of delays that arose mostly because of requests from the agency for greater detail, in particular dealing with greenhouse-gas emissions and salmon habitat.

The upcoming filings are significant because they are seen as the final chapters to Pacific NorthWest LNG's submissions aimed at winning regulatory approval. Federal Environment Minister Catherine McKenna said last month that if the environmental regulator gives the go-ahead to the project, she will ask the federal Cabinet to begin its discussions on whether to approve the plans. The regulatory agency began its review in April 2013. Industry officials initially believed the review would take two years at most.

After the agency receives Pacific NorthWest's new reports, it may take several weeks to decide if the responses are adequate. By late June, a 90-day clock could start ticking — that's how much time the federal Cabinet will have to make its decision whether to reject the project or approve it with conditions. If the Cabinet says yes, Pacific NorthWest could make its final investment decision, potentially in September. Malaysia's state-owned Petronas leads the venture, with partners from Japan, China, India and Brunei.

LNG producer eyes short-term contracts to avoid low spot prices

(Sydney Morning Herald; May 4) - Liquefied natural gas producer Oil Search has started talks with Asian customers over negotiating shorter-term contracts in an effort to duck a sharp fall in spot prices for the commodity. Oil companies have historically signed 25-year gas supply contracts with utilities that served as a guarantee to fund the massive capital injections needed to support construction of LNG facilities.

However, a fall in the price of oil and a glut of LNG in the market has handed the power back to buyers that are increasingly looking to either renegotiate long-term deals or simply buy the fuel on the spot market. The spot LNG price in May of $4.24 per million Btu in Asia is 42 percent lower than a year ago. As Oil Search continues to sell cargoes from its Papua New Guinea LNG project, managing director Peter Botten said it will look at a compromise between spot prices and long-term contracts.

"We have a view that the spot market is going to be quite challenging over the next 12 to 18 months, and certainly we are in a process of looking at various short-term and medium-term contracts which could largely take us out of LNG spot trading," Botten told the Macquarie Australia conference.

Chevron expects to restart Gorgon LNG later this month

(Sydney Morning Herald; May 1) - Chevron expects to resume production at its Gorgon liquefied natural gas project in Western Australia this month as it nears completion of repairs required at the massive plant after it had shipped just one cargo. The company still expects to reach full production at Gorgon's first train within six to eight months, with the second and third trains starting six and 12 months later, Joseph Geagea, Chevron's executive vice president for technology and projects, told investors over the weekend.

Despite the problems, Chevron said it was keeping the budget for Gorgon at the already revised level of $54 billion while the budget for its second large Australian LNG venture, Wheatstone, had not changed from $29 billion, despite running about six months behind schedule and experiencing added pressure on costs. Geagea said progress made over the next eight to 12 months at Wheatstone would be "very important" in terms of whether the project comes in on budget.

LNG production at Gorgon, Australia's biggest single resources project, started March 7 after 6½ years of construction at the offshore fields and onshore plant. But mechanical troubles with the propane refrigerant system, a critical cooling circuit in the complex gas-processing plant, meant the first train had to be taken offline, with Chevron flagging a one- to two-month shutdown. "Repairs to this equipment are nearing completion, and we are in the process of reinstating the propane refrigerant circuit," Geagea said.

Japan wants to serve as LNG trading hub by 2020s

(Reuters; May 2) - Japan aims to become an international trading hub for liquefied natural gas by the early 2020s, the world's biggest importer of the fuel announced May 2 as part of a message delivered to the energy ministers of G7 industrial nations. In an attempt to play a role in creating a global LNG market, Japan will open up access to its receiving terminals and beef up the country's large-scale LNG storage facilities to make active LNG trading possible, the country's trade ministry said.

Japan's trade ministry made the announcement at a meeting of energy ministers from G7 countries — Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The two days of meeting are being held in Japan. Global LNG buyers, including the two biggest, Japan and South Korea, have long said the LNG market needs to be more flexible in terms of breaking the pricing link to oil and doing away with the restrictive destination clauses that are part of most long-term supply contracts.

Japan, which buys about a third of global LNG shipments, is trying to cut costs and gain more control over prices. In a statement at the end of the meeting, the G7 ministers said they supported moves in the direction of creating LNG trading hubs to improve market transparency and liquidity. "Relaxing destination clauses in LNG contracts, encouraging market development of price indices reflecting LNG supply and demand, and continued dialogue among stakeholders are crucial to achieve this," the joint statement said.

China adds more storage tanks for LNG imports

(Reuters; May 3) - China's biggest liquefied natural gas importer CNOOC, a subsidiary of China National Offshore Oil Corp., has started building two LNG storage tanks at a receiving terminal in Fujian province, the official Xinhua news agency reported May 3. The new tanks are part of a plan to increase the receiving capacity at the terminal in the southeast coastal province to 6.3 million metric tons a year, Xinhua said. That's equal to 300 billion cubic feet of natural gas as LNG.

CNOOC did not immediately respond to a request for comment about the project to build the new tanks. It was not clear when the two tanks would be completed or when the receiving terminal capacity increased. The tanks, each sized to store 160,000 cubic meters of LNG, are part of 24 billion yuan ($3.7 billion) in LNG projects that the local Fujian government plans for the province to supply city gas to Fuzhou, Putian, Quanzhou, Xiamen and Zhangzhou, as well as to fuel three power plants.

CNOOC imported 13 million tons of LNG last year, accounting for nearly 70 percent of the total intake in the world's third-largest LNG importer. CNOOC has built seven LNG terminals with a total capacity of 28 million tons a year in receiving capacity in China's eastern and southern coastal regions.

United Arab Emirates will join list of LNG importers

(Bloomberg; May 3) - Abu Dhabi is indefinitely delaying construction of the first land-based facility for importing liquefied natural gas into the United Arab Emirates after it contracted for a floating supply terminal, according to sources. EmiratesLNG is looking at other options for the planned onshore facility in the port of Fujairah, including storing gas at the site, reloading it on ships for sale elsewhere and providing LNG as marine fuel, said the sources who asked not to be identified because the plans are confidential.

EmiratesLNG is a joint venture of two Abu Dhabi government-owned companies. Abu Dhabi, the largest emirate in the U.A.E., has the world’s seventh-largest reserves of both oil and gas. Even so, it’s among Middle Eastern oil producers seeking greater gas supply to run power plants and industries amid rising growth. Dubai, the U.A.E.’s second-largest emirate, and Kuwait both import LNG via floating terminals. Abu Dhabi injects most of its own gas into oil wells to maintain pressure for crude production.

“The U.A.E. is facing a crunch in gas supplies for power until the country’s nuclear plants come online,” said Robin Mills, chief executive officer at consultant Qamar Energy in Dubai. “The floating terminal will help bridge the gap.” Abu Dhabi National Oil Co. will contract for the floating storage and regasification unit, which will begin importing LNG later this year. The country buys natural gas as fuel for power plants and has been a net importer since 2008, when Qatar began supplying it by pipeline.

Colorado Supreme Court says cities cannot prohibit fracking

(Wall Street Journal; May 2) - The Colorado Supreme Court ruled May 2 that municipalities cannot bar hydraulic fracturing, a long-awaited decision in a legal battle that has rippled across this energy-rich state. In a pair of rulings, Colorado’s high court found that measures passed by the cities of Fort Collins and Longmont that sought to halt the controversial drilling technique “were preempted by state law and, therefore… invalid and unenforceable.”

The decisions uphold lower court rulings and come amid a long-running battle over fracking across northeastern Colorado, which sits atop a large shale formation. In recent years, cities have sought to limit the practice over concerns that drilling is taking place too close to population centers and amid complaints from environmental groups. The legal dispute dates back to 2012, when voters in Longmont approved a ban on fracking. A year later, Fort Collins voters passed a five-year moratorium on the practice.

But two state district court judges subsequently ruled that the bans were illegal, after the Colorado Oil & Gas Association filed a pair of lawsuits seeking to overturn them. The Supreme Court took up the case after both cities appealed. The fight over fracking also has unfolded elsewhere around the country as municipalities have similarly sought to limit or bar fracking and the energy industry has tried to beat back such efforts. Last year, for example, Texas Gov. Greg Abbott signed a law prohibiting local fracking bans.

Small-scale LNG plant to open at Dawson Creek, B.C., late this year

(AltaGas website) - Calgary-based AltaGas proposes to build a network of small liquefied natural gas production, storage and distribution facilities in northern British Columbia. The company is calling its venture “Regional LNG,” with construction underway at a pilot facility in Dawson Creek, B.C., with start-up expected late this year for an initial capacity of about 30,000 gallons per day (the equivalent of 2.5 million cubic feet of gas). Dawson Creek is near the Alberta border, in an area of oil and gas fields.

The other locations for Regional LNG sites in British Columbia will be determined by “market interest,” the company said. “In general, facilities will be located in areas where gas supply is economical, abundant, reliable and close to existing assets owned by AltaGas or its subsidiaries and close to customers.” The regional effort is aimed at the oil and gas industry, “which currently uses more expensive and carbon-heavy diesel to power drilling operations, as well as remote communities on generators.”

Australian oil and gas cutbacks hit executive housing, private schools

(Australian Business Review; April 30) - When Shell’s Australia employees learned last week that the company would cut hundreds of jobs, they weren’t the only ones to flinch. For the Perth landlords and businesses that have profited handsomely in recent years from the oil and gas construction boom, the news was another reminder that more pain was still to come. The creeping exodus of international oil and gas executives out of Perth has been matched by a sharp drop in rents at the top end of the property market.

The shift is being felt across private schools, too. Enrollment at the International School of Western Australia — popular for the children of European and Asian oil executives — has dropped more than 10 percent this year, with a further drop expected in coming months. The departure of so many executives and senior executives in the past year has had a knock-on effect on Perth's blue-chip schools. Total enrollments at private schools in Western Australia fell for the first time since records began 35 years ago.

The current emigration wave was always going to happen in some form as construction of the tens of billions of dollars in new liquefied natural gas plants in Australia began to wind up. But the trend has been exacerbated by the slump in oil and gas prices, which has killed off hopes for a second round of projects and sent oil and gas companies big and small on an intense round of cost-cutting.

Auctions start for equipment left over from Australia LNG projects

(Sydney Morning Herald; May 2) - Looking for a bargain? Used and new construction equipment from Australia's Curtis Island LNG projects are going under the hammer, with opening bids starting at just $5. Shipping containers, trucks, trailers and four-wheel-drives are up for grabs at an auction May 4 as part of the approximately $50 million ongoing sale of equipment from the three projects nearing completion, near Gladstone.

Toolboxes, shelving, drill bits, spray units, welding equipment, lighting towers and rolls of black plastic are a few items likely to take the interest of local businesses, along with overalls, wheelbarrows and crow bars, some never used before. "It will take about nine months to sell everything that is coming off the island," said auctioneer Steve Wall. While there was quite a lot of interest from construction companies, Wall said local sporting clubs had taken advantage of last month's clearance sale, too.

"A lot of locals bought stuff, sporting clubs bought pie warmers and fridges," he said. "We do a lot of cafeteria equipment, double-door fridges, pie warmers, palettes of coffee, that kind of thing." Wall said the gear had been brought in to provide thousands of workers with new equipment and said a lot had not even been taken off the palettes. "There were four container loads of new tools that were ordered and never utilized."

Alberta oil patch equipment auction nets record $240 million

(Financial Post; Canada; May 1) - Thousands of pieces of machinery are moving out of Alberta to busier economies where they might be put to use, after the largest industrial auction held in the province to date closed on the weekend. Ritchie Bros.' five-day auction just outside Edmonton ended April 30 after auctioneers sold $240 million of industrial equipment, an 11.5 percent jump over last year's record-setting sale

The auction is the company's largest in Canada every year, but as Alberta's economy continues to contract following the collapse in oil and gas prices, the latest sale set records for its size. More than 1,125 companies and individuals sold more than 10,200 pieces of used industrial equipment last week with out-of-province and out-of-country buyers purchasing more than half of that equipment.

"No doubt (low oil prices are) one of the driving factors and motivators for companies today to participate in an event like this — the fact that they have more idle assets than they have had in the last couple of years," said Brian Glenn, Ritchie Bros. senior vice president of Western Canada. Gross proceeds from this year's auction surpassed the previous record, set last year, of $215 million. Another auction is set for June. The company also sold $120 million in industrial equipment in February.

World oil glut finds room in U.S. storage

(Wall Street Journal; May 3) - The U.S. is importing more foreign crude than it has in years, becoming one of the last ports of call for many oil-producing nations despite a glut of crude from domestic companies. Oil imports this year have surged 20 percent to about 8 million barrels a day since early May 2015, when they approached a 20-year low, according to federal data. Crude from the Republic of Congo, Russia and Brazil is arriving at U.S. ports, while Canada is sending a record amount of oil to the U.S.

A big reason is that the rest of the world is running out of places to store oil. Facilities already are near capacity, but the U.S. still has room, said Brian Busch, director of oil markets for data firm Genscape. The U.S. has filled about two-thirds of its storage capacity and has room for roughly 100 million barrels more, Busch said. By comparison, major storage hubs in China and South Africa appear full, and Europe's main storage centered in Rotterdam appears to be within 10 percent of its usable capacity.

Traders that can afford to hold oil and lock in higher sales through the futures market are big beneficiaries. Socking away oil in U.S. storage can cost between 30 cents and 85 cents a barrel each month. "That's precisely why some of these traders import it, to put it in storage," said Amrita Sen, co-founder of Energy Aspects, a London consulting firm. Meanwhile, wait times to deliver crude into the U.S. have become so backlogged that more than 28 million barrels of oil are sitting idle on tankers in the Gulf of Mexico.

Countries like Angola, Albania and the U.K. recently delivered crude to New Jersey, California and Louisiana. Saudi Arabia also shipped 33 percent more crude to the U.S. at the start of 2016 than it did during the same period last year. Refineries in Washington state are supplementing their Alaska supplies by importing more oil from Argentina and Brazil. New Jersey and Pennsylvania plants are importing from Azerbaijan, Chad and Gabon, crude that competes directly with the Bakken Shale.

Less Canadian oil moves by rail to U.S. Gulf Coast

(Financial Post; Canada; May 2) - The crude-by-rail phenomenon that had led to the rapid build-up of new rail terminals in Western Canada is losing steam. A few years ago, energy producers and midstream companies piled into the rail business as an insurance against pipeline constraints and as heavy-oil benchmark Western Canada Select traded at a discount of as high as US$40 per barrel against West Texas Intermediate crude.

It made sense at the time to haul Canadian oil by rail, paying $16 to $20 per barrel to reach Gulf Coast and still turn a profit, elbowing out the more expensive Mexican crude. It takes around $7 to pipe a barrel from Alberta to the Gulf Coast. “This [rail] business took off like a rocket,” driven by heavy discounts of Canadian oil, said John Zahary, president of Altex Energy, which runs five rail terminals in Western Canada. “But the economics just aren’t there to justify shipping crude by rail, so shippers lost interest.”

Now the spread has narrowed, with WTI trading at $43.32 per barrel May 3 versus $30.11 for WCS, making rail transportation uneconomic. Canadian crude shipments by rail fell to just over 95,000 barrels a day in February, the lowest level since July and much lower than the 161,000 on average in 2014, according to Canada’s National Energy Board. Pipeline companies have also stepped up, with Enbridge’s Mainline that links Alberta to North America refineries adding 250,000 barrels of capacity last year.