Oil and Gas News Briefs
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Low prices give LNG buyers opportunity to renegotiate contracts

(Bloomberg; May 5) - Just a few years ago, faced with limited supply and relentless demand growth, liquefied natural gas buyers were happy to lock in contracts that ran through nearly the middle of the century, often paying prices linked to the cost of oil. Now, as the market moves deeper into oversupply, those same contracts are shifting from a blessing to a curse for buyers. Less than 15 percent of long-term LNG supply contracts will expire in the next five years, according to data compiled by Bloomberg.

Meanwhile, new projects in Australia and the U.S. are saturating the world with LNG, depressing spot prices this year in Asia even as oil has risen about 20 percent. That's giving buyers the incentive to try to renegotiate their oil-linked deals with suppliers, according to analysts at Citigroup and Energy Aspects. "Serious tensions will be seen in the market when oil starts transitioning to higher levels, driving contracted gas prices upwards," Trevor Sikorski, an analyst with Energy Aspects in London, said by e-mail.

"At the same time, the LNG spot market should stay low — and that wider gap between the two prices will mean a number of buyers unhappy with that spread, and this will drive calls for renegotiation," Sikorski said. Petronet LNG in December renegotiated its deal with Qatar, dropping by more than half the price the Indian importer was paying. China National Petroleum Corp. wants new prices in its deal with Qatar, and China's CNOOC is negotiating within its existing supply contract with Shell's BG Group unit.

About two-thirds of 160 long-term LNG contracts with known commercial terms are linked to oil prices, according to Bloomberg. Buyers will try to change the basis of their deals from an oil-based index to a gas index such as U.S. Henry Hub, Sikorski said.

Shell slows down development of floating LNG projects

(Sydney Morning Herald; May 5) - Shell acknowledges that the roll-out of its floating LNG technology will occur much more slowly than anticipated a few years ago, leaving its ground-breaking Prelude project in Western Australia as potentially its only such venture for several years. Shell had targeted a conveyor belt of huge FLNG vessels running off the production line in South Korea, deployed at remote gas fields worldwide, with several in waters around Asia to produce, liquefy and store gas for delivery.

The three gas development projects that could have used five new FLNG vessels have been halted in their tracks, leaving the 1,600-foot-long Prelude as Shell's only one for the foreseeable future. FLNG ventures planned by other companies in Australia have also fallen foul to cost and price issues. Shell chief financial officer Simon Henry said that at this point in the oil-price cycle, and with a sharpened focus on project returns, it is “not actually a bad thing if there’s a bit of a deferral in FLNG."

But FLNG is still an attractive way to develop remote fields, and Henry said he expects Shell's portfolio eventually to include several projects. "If I look in 10 to 15 years time, I would hope that we would see multiple FLNG projects in the Shell portfolio because it's a great way of monetizing gas," Henry said on a conference call covering first-quarter results. The Prelude is in construction at a Samsung Heavy Industries shipyard in South Korea. Henry said Prelude "remains on track” to start up sometime in 2018.

Floating LNG, deepwater work are casualties of energy price crash

(Wall Street Journal; May 4) - The world’s largest energy companies are sidelining big ideas that they touted just a couple of years ago as the future of the industry. From Australia to the U.S. Gulf Coast, the casualties include ultra-deepwater drilling, huge boats that serve as floating liquefied natural gas factories, and technology that could drastically reduce emissions from burning fossil fuels. Shell, Chevron and Australia’s Woodside are among the big companies to pull back or delay ambitious projects.

“To be brutally honest, any large new greenfield investment — whether floating LNG, deepwater or elsewhere — is under very strict critical review for cost levels and return simply because of where the industry is,” Shell Chief Financial Officer Simon Henry said in a conference call May 4. As of March, the oil industry had deferred or canceled $270 billion in projects since crude prices began crashing nearly two years ago, according to estimates from Norway-based consultancy Rystad Energy.

It’s a dramatic turnaround from the past decade, when surging demand for energy sent prices soaring and big energy companies pushing into new frontiers regardless of cost. Among the most high-profile victims of the price crash are floating LNG plants — huge ships that are essentially seafaring factories built to exploit remote gas fields. Work on such floating factories has been under way since the early 1990s, but there still isn’t one in operation. Shell’s 1,600-foot-long Prelude floating LNG vessel will likely be one of the first to test the technology. The project offshore Australia is expected to start up in 2018.

Shell may delay B.C. LNG decision past end of the year

(Financial Post; Canada; May 5) - Shell has cast doubts its liquefied natural gas export project in British Columbia will secure a final investment decision by the end of this year, further dashing the province’s hopes of shipping LNG by 2020. Shell’s LNG Canada venture in Kitimat is competing for investment dollars within the next 12 months with two other company LNG projects, both in the U.S., and a chemicals plant in Pennsylvania, chief financial officer Simon Henry told investors during a conference call May 4.

“It’s highly unlikely that more than I would say two, maybe only one … will actually go ahead in that timeframe,” Henry said. “The chemicals plant is probably the first one because of the timing of certain commitments already in place.” However, Shell has “not pulled the trigger on it one way or the other.” Global LNG prices have fallen dramatically in tandem with oil prices the past year, forcing companies to shelve large projects. And a worldwide LNG supply glut is forcing companies to review multibillion-dollar projects.

“The collapse of LNG prices has left Canadian LNG export projects in limbo and looking uneconomic,” said Martin King, of FirstEnergy Capital in Calgary. With most of its regulatory applications in hand, LNG Canada is ahead of rival Petronas, which is planning to build a project on Lelu Island near Prince Rupert, B.C. But the Malaysian company’s Pacific NorthWest LNG Project faces First Nations opposition and is struggling to secure approval from the Canadian Environmental Assessment Agency.

Shell contracts for work camp design at LNG plant site in B.C.

(Business in Vancouver; May 6) - LNG Canada, the Shell-led venture looking at building a liquefied natural gas plant in Kitimat, B.C., is still moving ahead with design plans for a work camp, despite fears the project could be shelved or deferred. LNG Canada has announced its selection of a joint-partnership to design and build Cedar Valley Lodge — a 4,500-person facility that would be more like an instant town than a typical work camp.

Under a joint venture, Bird Construction and Civeo Corp., both major players in the Canadian construction industry, will begin designing the lodge for a total floor space of 1.2 million square feet, including a communal kitchen and medical clinic. But whether the facility ever gets built will depend on Shell making a final investment decision on the multibillion-dollar LNG project — something that has been put in question this week with the release of Shell’s first-quarter earnings and talk of deferred investment decisions.

“Construction on Cedar Valley Lodge will not commence unless LNG Canada’s joint-venture participants have made a positive final investment decision,” LNG Canada said in a press release. “In the interim, Bird-Civeo will advance engineering and planning work for the center.” In its first-quarter-earnings conference call earlier this week, Shell confirmed the project’s final investment decision, which was expected this year, may not come until next year, or later.

TransCanada gets last permit for gas pipeline; waits on LNG project

(Pipeline News North; Prince George, BC; May 5) - TransCanada said it has received the last of the permits it needs from the B.C. Oil and Gas Commission to build and operate the Coastal GasLink pipeline, which would serve the proposed Shell-led liquefied natural gas export plant in Kitimat, B.C. TransCanada reported May 5 that it received the last two of 10 pipeline and facilities permits needed for the project — eight for pipeline construction one each for a gas compressor station and meter station.

The $4.8 billion, 415-mile pipeline would bring gas from the Groundbirch area in eastern B.C. to the proposed LNG plant site. According to TransCanada, the joint-venture partnership LNG Canada is expected to make a final investment decision in late 2016. If the partners give the go-ahead for the LNG plant, pipeline construction would begin in 2017. The Shell-led partnership includes Mitsubishi, PetroChina and Korea Gas Corp. TransCanada said it has approvals from 11 First Nations communities along the pipeline route, and progress is being made with the remaining First Nations groups.

India plans to boost natural gas consumption and imports

(Reuters; May 6) - India plans to shift to a gas-based economy by boosting domestic production and buying cheap liquefied natural gas as the world's third-biggest oil importer seeks to curb its greenhouse-gas emissions, Oil Minister Dharmendra Pradhan said. New Delhi has promised to shave a third off its emissions rate by 2030, partly by boosting the use of cleaner-burning fuels. "Gradually, we are shifting toward a sustainable gas economy," Pradhan told Reuters in an interview.

Gas accounts for about 8 percent of India's energy mix, while oil accounts for more than 25 percent. India's domestic gas supply deficit is expected to widen from 2.75 billion cubic feet per day this fiscal year to 4.1 bcf a day in 2021-22, according to a government estimate. India recently negotiated better terms for a long-term LNG deal with Qatar, and importer Petronet LNG also is in talks with ExxonMobil to renegotiate lower pricing for gas from Australia's Gorgon project.

"The price should be affordable to us. We respect long-term contracts but everybody has to appreciate the changing scenario," Pradhan said. "In a bigger canvas ... India has the potential of a huge market base." India is building LNG import terminals on its eastern and western coasts and pipelines to boost industrial use of gas. In the fiscal year to March, India's gas production declined by about 4.2 percent, while imports rose about 15 percent.

Hong Kong power generator looks at offshore LNG import station

(South China Morning Post; May 5) - The Hong Kong government wants half of the city's electricity to be generated from gas by the end of 2020. CLP Holdings, one of two main electricity generating companies in Hong Kong, aims to cut the carbon emission intensity of its power plants 75 percent by 2050, driving up its need for dependable gas supplies. Last year, it almost doubled the amount of gas used to generate power, and now the company has proposed setting up a floating LNG receiving terminal.

CLP Holdings said its proposed floating gas import project — its second proposal in 10 years to import liquefied natural gas — will cost less and result in “much less” environmental impact than its proposed $10 billion onshore plant rejected by the Hong Kong government in 2008, the company’s chief executive, Richard Lancaster, said May 5. Lancaster said the receiving terminal would give CLP direct access to overseas supplies of natural gas, adding to its pipeline gas deliveries from mainland China.

“The floating liquefied natural gas terminal has much less environmental impact, [costs] much less, and will not need to take up land,” he said. “We think this is a very good solution for Hong Kong.” Planning for the proposed plant is at an early stage, and CLP has yet to conduct an environmental impact assessment, Lancaster said. CLP aims to start building a 600-megawatt, gas-fired power generator later this year so that it can be commissioned in 2020 and help meet more stringent air emissions requirements.

China supplies much of the equipment for Yamal LNG in Russia

(Russia Beyond the Headlines; May 6) - Chinese manufacturers will produce up to 80 percent of the equipment needed for the Yamal LNG project under construction in the Russian Arctic, Dmitry Monakov, the first deputy director of the project, told reporters May 6. The equipment will be produced by seven Chinese and three Indonesian shipyards, he said.

Yamal LNG is designed for three liquefaction trains, with the project leader, Russian gas producer Novatek, reporting that the first train will start up late next year. In addition to buying Chinese-made equipment for the plant, Yamal LNG has two Chinese partners, holding 29.9 percent of the venture, and recently signed $12 billion in financing deals with Chinese lenders. The project is estimated at $27 billion.

Egypt receives first LNG from Russia’s Rosneft

(UPI; May 6) - For the first time in its history, Russian energy company Rosneft has delivered a shipment of liquefied natural gas to an Egyptian customer. A trading arm of Rosneft said it shipped a cargo of LNG to the Egyptian Natural Gas Holding Co. under the terms of an agreement signed in August. "The delivered cargo of LNG is the first one in Rosneft's operational history," the Russian company said in a statement.

Egypt has relied on LNG imports since spring 2015 to supplement domestic production. Egypt has suffered energy shortages since its 2011 revolution, and the country's 11-year-old LNG export plant has been sidelined for lack of supply. Egypt's agreement with Rosneft reportedly covers five LNG cargoes. Rosneft, however, does not hold an interest in Russia's sole LNG plant, which is operated by a Gazprom-led partnership, so the company had to have obtained the LNG it delivered to Egypt from another supplier.

Gazprom, Russia's largest gas producer, had a monopoly on exports from the country until December 2013, when Russian President Vladimir Putin signed a law allowing Rosneft and a smaller producer, Novatek, to export LNG. Gazprom opposed the law.

U.K. could see first shale gas from fracking by mid-2017

(Reuters; May 6) - First supplies of shale gas, extracted with hydraulic fracturing, could enter the British gas market as early as mid-2017, the head of shale gas firm Cuadrilla Resources told Reuters May 6. Britain is estimated to have substantial amounts of shale gas trapped in underground rocks, and Prime Minister David Cameron has pledged to go all out to extract those reserves to help offset declining North Sea oil and gas output.

But progress has been slow as applications for shale gas projects have been held up at the local government level where they face opposition from environmental campaigners. Cuadrilla initially wants to conduct fracking at two sites in northwest England. It hopes to get government approval to start operations at the sites before August. "If we get good results from the wells ... gas could go into the system next year," said Francis Egan, chief executive of Cuadrilla, 46 percent owned by an Australian engineer.

Gas flows from initial testing would be small, but Egan said full production could start in 2018. Lancashire Council last year rejected Cuadrilla's applications for fracking at the sites, underscoring community concerns. However, Britain has since changed planning rules to allow government intervention to approve or reject shale gas drilling permits and give priority to appeals. A planning inspector is expected to make recommendations on Cuadrilla's applications to the U.K.'s Local Government Minister Greg Clark by July 4.

Canadian city wants to repeal tax break for LNG terminal

(CBC News; May 3) – The Saint John (New Brunswick) city council voted unanimously May 2 to move ahead with repeal of the 11-year-old Canaport LNG property tax deal, but it could be years before any additional revenue arrives in municipal coffers. The request is subject to the willingness of the provincial government to agree to an arrangement that will see additional tax payments placed in a trust account until any assessment appeals on the Irving Oil-owned property have been completed.

City manager Jeff Trail advised the council that should Irving Oil appeal the assessment, the process would be complicated and could take years. If the LNG terminal owner wins an appeal, Trail warned, the city could potentially lose millions. "The liabilities could accumulate into a large amount owing. … [It] represents a large financial exposure risk for the city," he said.

The property is assessed at $299 million, but under terms of the 2005 deal accepted by Saint John and agreed to by the provincial government, Irving Oil's property taxes are fixed at $500,000 annually until 2031. Taxes on a $299 million property would — under normal circumstances — generate $8 million annually for the municipality. The tax deal was part of an inducement for the LNG import terminal, which now is underutilized and which its owners are thinking of expanding into an LNG export terminal.

Enbridge asks 3-year extension to start work on oil sands pipeline

(The Canadian Press; May 6) - Enbridge and its partners behind the Northern Gateway 730-mile oil sands pipeline are asking for three more years to build support for the controversial project, but some First Nations say their opposition will never waver. The company's Northern Gateway subsidiary and 31 aboriginal equity partners said May 6 they have asked the National Energy Board for an extension to the 2016 construction deadline to secure legal and regulatory certainty as well as continue consultations.

Northern Gateway president John Carruthers said the company had made mistakes and is committed to creating stronger partnerships with communities along the route between Alberta and Kitimat, B.C. "From the beginning, Northern Gateway should have done a better job of building relationships with First Nations and Metis communities," Carruthers said in a statement. “We are making progress and remain open to further changes. We know this process requires time and we are committed to getting it right."

Currently, Enbridge is required to start construction by the end of this year as one of the 209 conditions attached to the line’s 2014 federal approval. National Energy Board spokeswoman Sarah Kiley said there is no set process for reviewing an extension application. Final approval of any extension would have to be come from the federal Cabinet. The 525,000-barrels-per-day pipeline has faced stiff opposition from other First Nations groups and others who have voiced strong environmental concerns.

Low oil prices turn petrochemicals into profit center

(Bloomberg; May 5) - Big Oil is suddenly Big Chemical. For years, the business of turning gas and crude into the chemicals used to make everything from plastic bags to paint has been a mostly unloved corner of the world’s largest oil companies. Now, it’s shining, cushioning companies from ExxonMobil to Shell from the worst energy price slump in a decade. “Chemicals are coming back on to the radar screen,” Simon Henry, chief financial officer at Shell, Europe’s largest oil company, said May 4.

When high oil and gas prices deliver billions in profits, the chemical business is largely a footnote in the profit and loss account. Today, with most major oil companies losing money in their production and exploration units, petrochemicals have become one of the biggest — if not the biggest — sources of income. The business is getting a lift from the same factor weighing down the production and exploration units: low oil and gas prices. Cheap energy translates into cheap raw materials and higher margins.

Take ExxonMobil. In the first quarter, its chemicals business accounted for almost 75 percent of the $1.8 billion the company reported in profit. From January to March, it made $1.36 billion producing chemicals such as ethylene and propylene. As oil and gas prices start to rise, petrochemical margins are likely to fall back. Yet executives believe the strength of their chemicals businesses is deeply rooted. Demand for plastics in emerging markets remains strong despite the slowdown in economic growth.