# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Japanese lawmakers see political value in Russian gas pipeline

(Bloomberg; Nov. 8) - Japanese lawmakers are revisiting a proposal to build a $6.7 billion natural gas pipeline from Russia ahead of a visit by President Vladimir Putin to the Asian country next month. A group of about 80 lawmakers from ruling parties will ask the government by the end of this month to carry out a feasibility study on the project, Naokazu Takemoto, the secretary general of the group, said in an interview.

The proposed pipeline linking Russia's Sakhalin Island with Tokyo could stretch more than 900 miles. Prime Minister Shinzo Abe is seeking to deepen economic ties with Russia in an attempt to resolve a 70-year-old row over which nation owns four disputed islands off Hokkaido. Expanding energy cooperation can help Japan diversify its supply sources, while Russia, struggling to climb out of a recession amid western sanctions and low oil prices, can gain a market share in Asia's second-biggest economy.

"As we want the return of all four islands of the Northern Territories, we should offer something that makes Russia happy," Takemoto said Nov. 4. "To that end, the Japan-Russia gas pipeline plan is one of options. Russia's economy has recovered a bit, but is still in great difficulty. They want to sell natural resources, particularly gas." The pipeline could transport almost 2.5 billion cubic feet of gas per day. Japan is the world's biggest buyer of liquefied natural gas, and a large pipeline supply could cut into that market.

## The world changed quickly for LNG, especially in Australia

(Forbes; Nov. 7) - Flash back to the year 2011. After a magnitude 9.0 earthquake hit Japan that March, with an ensuing tsunami that struck the Fukushima nuclear power plant, the country eventually shut down all of its 54 nuclear reactors that had been generating nearly 30 percent of Japan's power. The event caused Japan to turn to then-costly liquefied natural gas imports to make up the difference in its energy mix. The result was cataclysmic financially for Japan but a boon for the LNG industry.

As Japan turned to LNG, prices spiked, rising to between $16 to $ 17 per million Btu by the end of the year. It was an LNG seller's paradise over the next few years. But a wave of new LNG projects followed as suppliers looked to lock in what could be years of increased demand amid exorbitantly high prices. The building frenzy played out mostly in resource-rich Australia, whose proximity to Asian gas markets seemed the perfect fit. By the end of 2011, investors had earmarked several massive Australian LNG projects.

For a while it looked like nothing could go wrong for either existing LNG producers or soon to brought online projects — then the bottom fell out. Demand growth in Asia stalled, while LNG markets became so oversupplied that prices starting trending down. LNG spot prices for June 2016 delivery to Northeast Asia averaged $4.46 per million Btu. Worst yet for Australia, already high construction and labor costs were spiraling out of control, creating political problems at home and causing budget blowouts.

Cost overruns came as LNG markets are oversupplied well into the next decade, raising the question: Why did global oil companies allow themselves to be so swayed without foreseeing even the possibility that the bottom could fall out? Companies are now stuck with massive capex LNG projects, low prices and saturated supply until at least 2020.

## Woodfibre LNG approval not a signal of more to come, analysts say

(Reuters; Nov. 7) - Woodfibre LNG, Canada's first liquefied natural gas export project, will be a "nice-to-have" boost for the country's gas producers but does not signal the start of a West Coast LNG boom, industry watchers said Nov. 7. Privately held Woodfibre said it will start next year on construction of its $1.6 (Canadian) billion project in Squamish, B.C., after its Singapore parent company authorized the funds last week.

It's the first of more than a dozen LNG projects proposed for British Columbia to get the final go-ahead, but analysts say Woodfibre is unlikely to herald an investment surge for other projects given the challenging economics of an oversupplied LNG market. "I think it's a one-off," said Wood Mackenzie analyst Dulles Wang, adding that Woodfibre's structure made the investment easier. "Woodfibre is a private company, they're funding this project by themselves and they are not looking to the debt or equity markets."

The other two perceived front-runners are still awaiting the go-ahead from their owners. Canada approved Malaysia's Petronas' Pacific NorthWest LNG project in September, but the company has yet to approve final funding. Shell deferred a decision on its LNG Canada project in July. "The biggest hurdle facing both of them is still cost and oversupply," said Raymond James analyst Chris Cox. "Given how oversupplied the LNG market is, it's tough to make the economics work for a project of that size." The Petronas and Shell projects are six and 12 times larger, respectively, than Woodfibre.

## Report says Canada underestimated LNG project's risks to salmon

(Globe and Mail; Canada; Nov. 9) – The Canadian government has underestimated the risks to salmon habitat posed by a proposed liquefied natural gas export terminal on the British Columbia coast, said a new study that examines a sandy area called Flora Bank. If Pacific NorthWest LNG constructs the export terminal on Lelu Island, near Prince

Rupert, B.C., the environment in the Skeena River estuary will be damaged, the authors said in the peer-reviewed scientific journal Marine Ecology Progress Series.

Their paper argues Flora Bank is a crucial nursery for juvenile salmon that spend weeks in and around the sandbar. The bank is in an ecologically sensitive area where juvenile salmon seek sanctuary in eelgrass to hide from predators, the report said. “This region of the Skeena River estuary serves as an extended stopover habitat for migratory salmon.” Jonathan Moore, a fisheries biologist, and Charmaine Carr-Harris of the aboriginal-backed Skeena Fisheries Commission are among the six co-authors.

In September, the federal cabinet approved the project proposed by Pacific NorthWest LNG, which is led by Malaysia’s state-owned Petronas. Cabinet members based their decision in part on a report by the Canadian Environmental Assessment Agency, which said the Lelu Island terminal would not cause major ecological damage to Flora Bank. Pacific NorthWest LNG is scrutinizing more than 190 conditions of the permit, along with global LNG market conditions, before deciding whether to proceed with the investment.

## Southeast Asia could become key buyer in global LNG market

(Nikkei Asian Review; Nov. 8) - Southeast Asian nations could soon double their total liquefied natural gas import capacity as domestic energy sources fall short, becoming a key player in the global LNG market. Energy providers in the region will boost annual LNG receiving capacity from 25 million metric tons to some 50 million tons over the next five years. The expanded figure for post-2020 equates to about 20 percent of the LNG carried on tankers worldwide in 2015.

Thai state petroleum giant PTT will double capacity at a terminal in Map Ta Phut, on the Gulf of Thailand, to 10 million tons by March 2017. New docks have been added and two massive storage tanks are nearly complete. Thailand relies on gas for 60 percent of its electricity. Much of that fuel is produced domestically, though the country aims to boost production of renewable energy as its gas reserves decline and electricity demand grows. But gas will still fulfill 40 percent of power needs, requiring LNG imports.

Indonesia could also start importing LNG as early as 2019 if no new fields are developed, said an official at the Ministry of Energy and Natural Resources. Domestic oil and gas output is quickly becoming insufficient to meet growing energy needs. The country, a long-time LNG supplier, could become a net importer of LNG by 2030, the official indicated. Indonesia’s state energy giant Pertamina is adding two LNG import terminals to its network, raising the company's annual import capacity to more than 14 million tons. Meanwhile, PetroVietnam Gas is building Vietnam's first LNG terminal.

## PetroChina adds additional LNG import capacity

(Reuters; Nov. 8) - PetroChina has started up new storage tanks for liquefied natural gas at two import terminals, getting ready to meet winter demand, according to officials and an industry website. It expanded storage in Rudong, in eastern Jiangsu province, and added regasification facilities and pipelines. The new facilities are part of a second-phase expansion that brought capacity to 6.5 million metric tons of LNG a year, up from 3.5 million. Rudong now has storage for more than 14 billion cubic feet of gas as LNG.

PetroChina is also testing a new storage tank this week at its Dalian terminal in the northeast, expecting to double its receiving capacity there to 6 million tons a year, according to two industry officials. PetroChina said last week it would raise natural gas supply this winter by 7 percent compared from a year earlier by pumping more from onshore domestic fields and also by moderately raising imports.

## China could have gas surplus by 2020 unless demand grows

(Platts; Nov. 9) - China could potentially have a surplus 1.8 trillion cubic feet of natural gas a year by 2020 as liquefied natural gas supply through long-term contracts grows and import pipeline capacity increases, a senior economist at the CNPC Research Institute of Economics and Technology said Nov. 9. The institute is a subsidiary of China National Petroleum Corp.

China's LNG imports are expected to rise to more than 40 million metric tons per year (1.9 tcf of natural gas) by 2020, and more than 50 million tons per year (almost 2.5 tcf of gas) by 2030, about double the 19.65 million tons of LNG imports in 2015, Feng Chenyue, senior economist at the research institute's gas market department, said at the 10th IEEJ/CNPC research meeting in Tokyo. China has six new LNG receiving terminals under construction and three expanding capacity.

The capacity of China's import pipelines totaled almost 2.4 tcf a year in 2015, with the utilization rate at about half. By 2020, the capacity is expected to grow almost 50 percent, according to Feng. Measured against domestic gas production plus imported LNG and pipeline gas, China's demand is likely to fall short in 2020, creating a potential supply glut of 1.8 tcf, Feng said. But China's gas market is still relatively young and has the potential to grow further, with coal-to-gas switching creating more demand.

## Indian company says higher prices would boost gas production

(The Economic Times; India; Nov. 8) – India's state-run Oil and Natural Gas Corp. is seeking total pricing freedom for natural gas produced in the country, arguing it would help boost output. "We are making the case before the government that the gas prices could be deregulated," said ONGC Chair Dinesh Sarraf. "Some regulatory mechanism can be put in place to protect the interest of the consumers. But let the prices be deregulated. Let it be determined by the buyers and sellers … through market forces."

ONGC has given a new push to the demand from Reliance Industries, BP and other private-sector gas producers in the country to free up pricing. The government has kept a lid on prices using a formula worked out two years ago, along with an allocation policy to decide which sectors receive local gas production. Imported liquefied natural is more costly than the price-controlled domestic gas supply.

Sarraf is optimistic the government will consider the company's plea of pricing freedom because ONGC's aim is to help raise domestic gas output, the same as that of the government. A few months back, ONGC asked the government to set a higher minimum price for domestic production. "The price which we get today is $2.50 (per million Btu). We believe that government needs to reconsider this because new exploration and development can get encouraged if prices are better," he said "If prices are increased … many of the gas discoveries which are not otherwise viable would become viable."

## France's Total signs on to develop Iran's natural gas reserves

(Platts; Nov. 8) - National Iranian Oil Co. on Nov. 8 signed a provisional agreement with a consortium led by France's Total to develop part of the huge South Pars gas reservoir, signaling Iran's commitment to opening its energy sector to international oil and gas companies following the lifting of sanctions in January. Total signed a $4.8 billion deal to develop Phase 11 of South Pars, the world's largest gas field, with a production capacity of 1.8 billion cubic feet per day. The gas will go into Iran's domestic pipeline network.

"The first gas is to come online 40 months after the contract is signed," said Mohammad Meshkinfam, managing director of Pars Oil and Gas Co., which is in charge of all projects at South Pars. Total will operate the project with a 50.1 percent interest. China's state-owned China National Petroleum Corp. will hold 30 percent, and a subsidiary of Iran's national oil and gas company will have a 19.9 percent interest. The contract is expected to be signed in early 2017.

The project requires advanced technology and investment that Iranian companies could not provide. Total and China National Petroleum have been leaders in finding ways to do business in countries under U.S. sanctions. Both were instrumental in developing the $27 billion liquefied natural gas project on Russia's Arctic Yamal Peninsula, along with Russian partner Novatek. Yamal LNG, which is scheduled to start up next year, was largely financed by Chinese banks after U.S. sanctions closed off Western financing.

## Icebreaking LNG carrier for Russia starts test voyage this week

(Yonhap News Agency; South Korea; Nov. 7) - The world's first icebreaking liquefied natural gas carrier is set to leave a dock in South Korea this week for a test voyage in the Arctic Sea, after about 30 months of construction, the ship's manufacturer said Nov. 7. Daewoo Shipbuilding & Marine Engineering won the order to build the 750-foot-long ship from Russia's state-run shipper Sovcomflot in March 2014. Since then, Daewoo has won orders to build 14 more icebreaking LNG carriers for Russia's Arctic Yamal LNG project, with the contracts totaling about $4 billion.

The tanker can plough through the Arctic route by breaking through ice almost seven feet thick, Daewoo said. The vessel's bow and stern are covered with 2.75 inches of specially treated steel plates that can endure minus 60 degrees Fahrenheit. The vessel will leave the dock at Daewoo's shipyard on Nov. 8 and head to the Arctic Sea for a test voyage. After completing the test by the end of January, the ship will be delivered to the client. The Yamal LNG project expects to start production late next year.

## Cruise lines have 13 LNG-powered ships on order

(Cruise Industry News; Nov. 7) - Thirteen of 73 cruise ships on order for delivery between 2017 and 2026 will be powered by liquefied natural gas, and the trend toward LNG-powered cruise ships is moving forward as more operators commit to the cleaner fuel. Carnival is leading the way, and will be the first to run LNG-fueled ships when its AIDA and Costa lines each take delivery of a 5,200-passenger ship in 2019.

In 2020, two more Carnival brands will get LNG power with newbuilds for the P&O and Carnival brands, followed by two more ships in 2021 for Costa and AIDA, respectively. In 2022, another Carnival LNG ship will follow. The seven Carnival LNG newbuilds on order will either be built at Meyer Werft in Germany or Meyer Turku in Finland.

At STX France, MSC Cruises has four 200,000-ton LNG-fueled ships on order, with deliveries expected in 2022, 2024, 2025 and 2026. Royal Caribbean Cruises will also move to the fuel, recently placing an order with Meyer Turku for two vessels with deliveries in 2022 and 2024.

## Canada sticks with pledge to ban oil tankers in Northern B.C. waters

(Maritime Executive; Nov. 5) - Canada's federal government will deliver on its pledge for a moratorium on oil tanker traffic along the northern coast of British Columbia this year, CBC News reported on Nov. 4. Transport Minister Marc Garneau confirmed the plan in an interview on CBC radio. Canadian Prime Minister Justin Trudeau last year instructed Garneau to formalize the ban on oil tanker traffic, effectively slamming the door on a pipeline project to the B.C. coast that already was facing massive development hurdles.

The ban is one of several obstacles to building Enbridge's Northern Gateway pipeline, which would carry oil sands crude from Alberta to a deepwater port at Kitimat, B.C., for export to Asian markets. With the moratorium in place, the industry will likely ramp up pressure on government to approve other export projects not covered by the tanker ban, like the Trans Mountain pipeline expansion to an existing terminal near Vancouver and TransCanada's Energy East that would take oil sands production to the East Coast.

Enbridge said it remains committed to Northern Gateway, and questioned the economic impact of the oil tanker ban on northern communities and the region. Canada's previous federal government approved the $7.9 billion ($5.9 billion U.S.) pipeline last year, subject to more than 200 conditions. But the project has faced staunch opposition from communities along its B.C. route and an investment decision has been delayed. Many also worry about the risk of a spill. The tanker ban will not apply to LNG carriers.

## Senegal could learn lessons of managing potential oil wealth

(Reuters; Nov. 4) - In a report last week detailing sub-Saharan Africa's dire economic outlook, the International Monetary Fund singled out Senegal as a rare bright spot. One key reason: It does not produce oil. While low crude prices have hobbled oil exporters Nigeria and Angola this year and African growth staggers to its slowest rate in more than two decades, Senegal's economy will expand by more than 6 percent.

Today, however, Senegal is on the verge of its own oil and gas boom. With recent finds promising billion-dollar payoffs within a decade it would do well to learn from mistakes of others. "Oil and gas could boost the economy, but at the same time resources can turn into a curse," said Ibrahima Aidara, an economist at the Open Society Initiative for West Africa. In Africa's top producer, Nigeria, billions of dollars of oil revenues have vanished while many in the country remain impoverished. Rulers in Equatorial Guinea, Republic of Congo and Gabon have long used patronage systems fed by oil to maintain power.

Already, claims of corruption and opacity in the government's managing of the nascent sector have raised concerns in Senegal, one of West Africa's rare, relatively stable democracies. Companies including Shell, ExxonMobil and ConocoPhillips spent 60 years exploring in Senegal before U.K.-based Cairn Energy struck oil in deep waters in 2014. Cairn reckons it could be sitting on upward of 1 billion barrels and plans to start production in 2021. Dallas-headquartered Kosmos Energy boasts about 50 trillion cubic feet of natural gas reserves off the coast of Senegal and neighboring Mauritania.

## Better fiscal terms could help sub-Saharan Africa, says Wood Mac

(Wood Mackenzie; Nov. 8) - Capital investment in the oil and gas industry in sub-Saharan Africa has been cut by $100 billion over the next five years, global energy consultancy Wood Mackenzie said in its latest report on the region. “Exploration cuts in the region will also contribute to a longer-term production slump as explorers have shied away from greenfield prospects in favor of appraising known discoveries,” said Femi Oso, senior research manager for sub-Saharan Africa at Wood Mackenzie.

Wood Mackenzie expects a slow recovery. “Governments in sub-Saharan Africa need to revive the upstream oil and gas industry by offering attractive fiscal terms rather than look to increase state revenues in the current climate,” Oso said. The report said deep-water projects have suffered the deepest capital cutbacks due to their high breakeven price. Nigeria and Angola have endured the worst of these cuts. Sub-Saharan Africa production will decline to 2.6 million barrels a day by 2030, from 4.8 million presently.

The biggest upstream success story is East Africa’s emergence as a natural gas region of global importance, the Wood Mackenzie report said. With more than 168 trillion cubic feet of gas found and limited regional demand, East Africa is on track to become a major global LNG supplier as various export projects are awaiting final investment decisions. According to Wood Mackenzie’s research, Mozambique and Tanzania gas project economics are resilient and will “transform the global LNG market.”

## BLM, Colorado tribe reach deal on tribal oversight of fracking

(EnergyWire; Nov. 7) - An Indian tribe in Colorado will be the primary overseer of hydraulic fracturing on its lands, under a settlement reached with the federal government on Nov. 4. The Southern Ute Tribe sued the government over its fracking rule last year, arguing that it violated tribal sovereignty by improperly lumping in tribal lands with public lands for new requirements that address well construction, wastewater management and chemical disclosure for fracked wells.

But while separate, high-profile litigation over the rule has been moving through federal courts and left the rule's fate uncertain, the Southern Utes have quietly engaged in negotiations with the administration for more than a year. The outcome is a settlement that gives the Southern Utes a leading role in fracking oversight on its land but does not answer the fundamental question of whether the Bureau of Land Management had authority to apply the rule to tribal lands in the first place.

"The tribe's position has been that its rules supersede the BLM's rule and apply without the BLM's approval," BLM, the Justice Department and the tribe said in a joint announcement last week. "Without resolving that issue, the settlement agreement recognizes that the Southern Ute's revised regulations meet or exceed the objectives of the BLM's rule, and govern hydraulic fracturing operations on Southern Ute lands." The Utes updated their tribal oil and gas regulations after BLM's rule was unveiled last year.