

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **B.C. LNG project opponents plan to file lawsuits to overturn approval**

(Reuters; Oct. 26) - Aboriginal and environmental groups plan to file lawsuits Oct. 27 against the government of Canada to overturn the permit for a controversial liquefied natural gas project in British Columbia, representatives of the groups said. The planned lawsuits also will name Malaysia's state oil and gas firm Petronas, which owns a majority stake in the multibillion-dollar project, the groups told Reuters this week.

In September, Canada gave the green light for the Pacific NorthWest LNG project near Prince Rupert, B.C., with 190 conditions, despite concerns by opponents that it would destroy a critical salmon habitat and produce a large amount of greenhouse gases. A statement from opponents on Oct. 26 said they would be launching "multiple legal actions" against the project the next day at the Federal Court in Vancouver.

Legal challenges put the project's future at risk after it has already endured a three-year process for its environmental approval and as Asian LNG prices have dropped by two-thirds since 2014. The Canadian government said it stands by its decision to approve the project. "This project underwent a three-year rigorous and thorough science-based process that evaluated and incorporated mitigation measures that will minimize the environmental impacts," said a spokeswoman for the Environment Minister.

The Gitanyow and Gitwilgyoots aboriginal communities have expressed similar environmental concerns and said they would sue Canada for failing to meaningfully engage with the groups before granting project approval.

#### **LNG market soft this decade, but new supply may be needed in 2020s**

(ICIS; Oct. 26) - Asia's gas market will likely remain soft until the end of the decade as supply continues to grow while demand is expected to stay tepid amid weakness in the global economy, industry observers said Oct. 26. China's slowdown, the volatility in financial markets as well as uncertainties over Britain's exit from the European Union have been weighing down on the global gas market, Singapore Minister for Trade and Industry S. Iswaran said at a gas conference in Singapore.

"With Asia accounting for more than 70 percent of global liquefied natural gas demand, the LNG market has seen weaker-than-expected demand from buyers in China, Japan and Korea," he told delegates. "At the same time, Australia and the U.S. are set to

supply close to 140 million metric tons a year of LNG over the next five years, which will increase global LNG supply by over 50 percent,” he said.

Masakazu Toyoda, CEO of The Institute of Energy and Economics, Japan, said the global oversupply is expected to widen next year, with production capacity exceeding projected demand by more than 50 million tons, adding that LNG will be oversupplied until at least 2020. But from 2020 to 2030, new supply is needed to cater to an expected growth in global demand, requiring timely investments in new projects, he said. “The industry needs to re-establish a healthy equilibrium. If not, sustained under-investment will have adverse long-term consequences on energy security and pricing.”

### **No LNG investment decisions expected before 2019, consultant says**

(Business in Vancouver columnist; Oct. 25) - When B.C. Natural Gas Minister Rich Coleman told his party’s supporters at a fundraiser last month that he expects a final investment decision on at least one large liquefied natural gas project in B.C. before the May 2017 provincial election, he either was making a promise he likely can’t keep or has some inside knowledge that experts in global LNG markets don’t have.

Making a final investment decision on any large greenfield LNG project anywhere in the world in 2017 makes no economic sense, experts say. With an oversupply in the market, and lower-than-expected global demand, it looks like the market is covered until the second half of the next decade. No company is likely to make an investment decision on a major new greenfield LNG project until 2019 at the earliest, said David Ledesma, an LNG consultant and fellow at the Oxford Institute for Energy Studies.

Carlos Murillo, a Conference Board of Canada economist, agreed. “Given the state of the markets, it’s hard to see they will make a decision next year,” Murillo said of hopes for a B.C. LNG project. The global market has changed in fundamental ways since Canadian projects were proposed, Ledesma said. Asian buyers are reluctant to sign 20-year contracts, given uncertain domestic gas demand and oil and gas price volatility.

Without long-term commitments, it could become difficult to justify capital investments of \$40 billion to \$50 billion in greenfield LNG projects when there are brownfield projects in the world that can be expanded at lower costs. “You’ve got buyers now who’ve got no idea what the price is going to be, they don’t know what their economic growth is going to be, so how can they sign up for 20 years of a supply contract?” Ledesma said. “They can’t do that without asking for a lot of flexibility, and the more flexibility they ask for, the less likely the banks are going to lend money against the take-or-pay contracts.”

### **LNG oversupply in search of home, says energy consultancy**

(Petroleum Economist; Oct. 24) - The global glut of liquefied natural gas shows no signs of dissipating as more than 70 million metric tons of annual production capacity is expected to come into the market over the next two years. Global supply of LNG will reach 319 million tons in 2018, according to London-based Energy Aspects, up from 249 million tons in 2016 and 234 million tons in 2015.

Most of the new gas arriving by the end of 2018 will be from projects in Australasia and the United States, which together will account for 53 million tons a year of capacity additions. The consultancy said the "relentless" growth means that about 58 million tons of annual capacity will be seeking a home. Europe will certainly not be able to pick up all the slack. Last year, the continent imported just 40 million tons of LNG. This year, Energy Aspects expects Europe to take a miserly 2.5 million tons more.

Mild winters, costly import bills and a general economic slowdown have all helped to curb demand for LNG imports in Asia, historically the global driver of LNG consumption. Asia's demand growth will slow next year, increasing by just 3.5 million tons (about 3 percent) to reach 180 million tons. Meanwhile, too much gas chasing too little demand has knocked down prices, leading Energy Aspects to suggest that low prices could force some LNG export projects to scale back production.

### **Australia taking LNG market share from Qatar in Australia**

(Reuters columnist; Oct. 26) - China stands out as a bright spot for liquefied natural gas markets. China's imports of the fuel almost doubled to 2.53 million metric tons in September from the same month in 2015. While a small part of the surge is likely because of an earlier outage of a gas pipeline, the overall story is that China is finally starting to fulfil its promise as the next great hope for LNG.

Imports over the first nine months of 2016 were 17.87 million tonnes, up 26.5 percent over the same period in 2015. This positive picture stands in contrast to Japan, the world's biggest buyer of the fuel, where imports dropped 3.5 percent in the first eight months from year-ago levels. No. 2 LNG importer South Korea has also seen declining purchases, buying 5.8 percent less in the first nine months.

China's rising imports show how market dynamics are changing. China's biggest LNG supplier is Australia, with imports jumping a 101.3 percent in the first nine months of the year to 8.13 million tonnes. This puts Australia's share of China's imports at 45 percent, well ahead of the 17 percent enjoyed by Qatar, the next biggest supplier. Australia's sharp increase in market share in China has largely been at the expense of Qatar.

While Qatar is a low-cost LNG producer, it's farther from North Asian markets than Australia and it's not clear it is enjoying a competitive advantage from its lower cost base. China customs data show the landed cost of cargoes from Australia in September was \$6 per million Btu, while those from Qatar were \$7.69.

## **Egypt buys more LNG while it tries to boost domestic gas production**

(Reuters; Oct. 23) - Egypt will boost production of natural gas to 5 billion cubic feet per day in the 2017-2018 fiscal year as the giant Zohr field comes online, but also will ramp up its liquefied natural gas imports to feed a spike in consumption, Oil Minister Tarek El Molla said. Once an energy exporter, Egypt has turned into a net importer in recent years, squeezed by declining production and increasing consumption. The shortfall and Egypt's squeezed finances have forced the government to ration gas to industry.

Egypt is racing to reverse that trend, speeding up development of major gas discoveries with a goal of achieving energy self-sufficiency by 2020-21. Next year Zohr, the offshore field discovered by Italy's Eni in 2015, comes online. In a further boost, BP's northern Alexandria field is also due to enter production next year. "Eni will begin producing about 1 billion cubic feet a day from Zohr at the end of 2017 and there is also the production of BP at around 450 million to 500 million cubic feet a day," Molla said.

Egypt's domestic gas production is currently about 4.35 bcf per day versus consumption of about 5.2 bcf. Without enough domestic gas, Egypt has emerged as a major buyer of LNG. State gas buyer EGAS said last week it would hold a tender for additional import cargoes in 2017. A third floating storage and regas unit, an import terminal that converts LNG to natural gas to feed the power grid, is expected to arrive at the end of June 2017.

## **Egypt goes to market to buy as many as 108 LNG cargoes**

(Reuters; Oct. 24) - Egypt launched the world's biggest tender for liquefied natural gas Oct. 23 as officials from top energy companies and trading houses converged on Cairo, undeterred by new rules forcing them to wait even longer to get paid. After months of speculation and delay, state-run Egypt Natural Gas Holding released bid documents to secure 96 LNG cargoes in 2017 and 2018, sources told Reuters. A dozen optional cargoes were included in the tender, which EGAS may decide not to award, they said.

It is the biggest mid-term LNG-buy tender ever issued, trade sources said. Egypt, a major importer of commodities from wheat to diesel, helped buoy global gas markets last year after emerging as the fastest-growing new LNG consumer. Once an LNG exporter, Egypt turned into a net gas importer just as global spot prices plunged. The country's domestic gas production has failed to keep pace with growing demand.

Commodity traders are competing to supply Egypt as the country looks to import LNG until new gas finds can be developed offshore. But Egypt's worsening credit profile has tempered initial enthusiasm as suppliers fret over payment difficulties given the country's sinking economy and shortage of U.S. dollars. Under the latest tender terms,

LNG suppliers may have to wait as long as six months after delivery to get paid, according to sources. LNG shippers previously got paid 90 days after delivery.

### **Pakistan looking toward 3 bcf a day of LNG imports by 2018**

(The International News; Pakistan; Oct. 25) - Pakistan, largely dependent on imported fuels for its energy, will be importing a total of 3 billion cubic feet per day of gas by 2018 to bridge the supply gap that has already crossed the 4 bcf mark, a government minister said Oct. 24. The country's current natural gas production is about 4 bcf per day, while the demand has crossed the 8 bcf mark, said Shahid Khaqan Abbasi, minister for Petroleum & Natural Resources. Liquefied natural gas imports will help fill the gap.

"One LNG (import) terminal is already operational, while another would be ready by January 2017 and a third by July 2017, while two private-sector terminals would be operational by 2018," Abbasi said. He said the country is already importing 0.6 bcf of gas per day as LNG, and an additional 0.6 bcf per day will come by January 2017 to be followed by 0.6 bcf in July 2017, taking imports to 1.8 bcf per day. As two private-sector terminals would be commissioned in 2018, total gas imports would reach 3 bcf per day.

"The government is in negotiations with six countries including Russia, Malaysia, Oman, Azerbaijan and two other countries for LNG supplies," Abbasi said. In addition to boosting imports, the minister said about 30 exploration blocks would be put up for bidding soon, in an effort to boost domestic gas production. "The government is in talks with China's largest exploration company, Sinopec, and a couple of other companies of Hungary and Poland for strategic allotment of exploration blocks," Abbasi said.

### **Singapore grants three-year license for LNG imports**

(Reuters; Oct. 24) - Pavilion Gas and Shell have been named as importers of liquefied natural gas into Singapore, the trade minister said Oct. 24, as the city-state gears up to take more LNG. Singapore relies almost exclusively on gas for electricity generation, and currently takes the bulk of its gas via pipelines from Malaysia and Indonesia, but is expected to boost LNG imports in coming years. The exclusive franchises will last three years, or until the firms import 1 million metric tons a year, depending which comes first.

Pricing terms were not disclosed. Singapore also plans to allow other firms to import and sell LNG cargoes on a case-by-case basis, and it is also considering new imports of piped gas, trade minister S. Iswaran said at Singapore's International Energy Week. Pavilion Gas is a unit of privately held Singapore-based Pavilion Energy. The Pavilion and Shell supply contracts will start up in 2017.

Because most imports come via pipeline, the new LNG approvals are unlikely to lead to a jump in LNG demand in the short-term, but demand is expected to rise once pipeline contracts with Malaysia and Indonesia expire in the early 2020s. Singapore wants to use its geography and stature as Asia's oil-trading center to also be a pricing and supply hub for LNG in the region. The nation has built a large receiving terminal.

## **Global LNG trading platform opens up in Singapore**

(Financial Review; Australia; Oct. 25) - The founder of the world's first online trading platform for liquefied natural gas says "the time is right" to break up the cozy club of producers and buyers in the commodity, where a single cargo can be worth up to \$30 million. The GLX global exchange, formally launched in Singapore on Oct. 25, means sellers can be satisfied they are securing fair market prices for their spot cargoes, rather than relying on the strength of their relationships and their own market intelligence, said founder Damien Criddle, one of the Australian developers of the venture.

The oversupply dogging the LNG market, expected to last until early next decade, and the growing numbers of buyers and sellers have created an opportunity for the trading platform, Criddle said. The exchange, funded by high-net-worth backers, will facilitate auctions of LNG cargoes on behalf of buyers and sellers worldwide and is also expected to support the emergence of transparent price benchmarks for the commodity.

"The LNG market is in a state of flux and change," Criddle said. "This is the right time for this initiative to be put to the market." He said LNG producers, buyers and traders are among the parties testing the system, with a view to starting live trading in March next year. As an incentive to encourage participants, GLX is waiving fees for traders for the first 12 months. About 1,200 cargoes a year worldwide are now traded through short-term sales, representing almost 30 percent of the market, according to GLX.

## **LNG promoted as cleaner-burning marine fuel**

(Reuters; Oct 25) - Demand for liquefied natural gas as a shipping fuel could soar over the next 10 to 15 years if authorities this week agree a global cap on sulfur dioxide emissions, an executive of French energy firm Engie said. If the cap is approved, LNG demand for the sector could climb to 30 million metric tons a year by 2025-2030, said Denis Bonhomme, vice president of business development in Asia, up from marginal volumes today. That would be about 6 percent of expected 2025 total global demand.

Suffering from a large oversupply following new production and export capacity, especially in Australia and the United States, the LNG industry is looking to create new demand to find a home for the surplus. Previously dominated by deals between major producers and large utilities that import LNG for use in big power stations,



alternatives include developing smaller electricity projects for use in more remote regions, such as Southeast Asia's many islands, and using LNG as a transport fuel.

Using LNG as shipping fuel would be more effective in reducing oversupply than investing in small-scale LNG power projects, given the high fixed costs of such facilities, Bonhomme told Reuters during the Singapore International Energy Week. Shippers should invest in LNG when they renew their fleet, he said. Shipping fuel now is dominated by diesel and bunker fuels, but that could change if the International Maritime Organization supports a switch toward less polluting sources.

### **Oil cutback could hinder Saudi Arabia's plan to boost gas production**

(Interfax Global Energy; Oct. 21) - OPEC's oil production cut will be a major stumbling block to Saudi Arabia's efforts to increase its natural gas output, most of which is associated with oil fields. Saudi Arabia looks set to absorb the bulk of OPEC's proposed oil cutback, which was negotiated in Algiers last month, while Saudi strategists want to increase the country's gas supply to keep pace with rising domestic consumption.

Saudi Aramco CEO Amin Nasser has been talking up the role of gas in the country's energy supply mix. He told the World Energy Congress in Istanbul on Oct. 11 that, under the kingdom's new "Energy 2.0" roadmap, his company would invest more than \$300 billion in the coming decade to reinforce its pre-eminent position in oil, "massively expand" its conventional gas production and exploit unconventional gas resources.

The nation's energy reform plan calls for gas production to rise nearly 50 percent to 18 billion cubic feet per day by 2020, up from about 12 bcf currently. The plan envisages reducing oil consumption in the power sector and providing more gas to petrochemical plants. But while Saudi Arabia has sizable unassociated and unconventional gas reserves that could be developed, it needs to work out whether investing in them would be justified. Most of the country's proven associated gas reserves lie in the giant onshore Ghawar field and offshore fields, which would be expensive to develop.

### **Chinese company restarts LNG plants to serve local markets**

(Reuters; Oct. 25) - Kunlun Energy has resumed or was in the process of resuming production at seven liquefied natural gas plants, including China's largest, to meet upcoming winter demand, its parent PetroChina said Oct. 25. The plants are fed by domestic gas production and deliver LNG by truck to local markets not connected to a pipeline grid. The plants supply transport, industry and other users.

The biggest plant, located in Huanggang in central Hubei province, was opened in 2014 and has a liquefaction capacity of 175 million cubic feet of gas per day. It was reopened

earlier this month after a 10-month shutdown, according to a report carried on the website of China National Petroleum Corp., that state giant that is the parent of PetroChina. The report gave no details on the reason for the shutdown.

News of the restarts came days after the government called on producers to ramp up gas output ahead of the winter to ensure plentiful supplies. Kunlun is one of China's largest players in onshore LNG facilities, having spent billions of dollars on a dozen LNG plants, mainly in the country's west and north, and building over 600 gas refueling stations. Since around mid-2014, Kunlun was forced to shut several of its key LNG plants as gas lost its relative market competitiveness after a plunge in oil prices.

### **New England gets temporary relief from natural gas price spikes**

(Argus Media; Oct. 21) - New pipeline infrastructure should lower natural gas prices in the Northeast U.S. this winter, according to federal regulators. But the trend will prove short-lived as reliance on gas for power generation grows in New England at the same time as public opposition and economic challenges block construction of new pipelines. Spectra Energy's pipeline expansion into the region should start service in November.

As a result, spot prices at Algonquin citygate — a key Northeast U.S. hub — could be \$4 to \$5 per million Btu lower on normal winter days than they would have been without the pipeline addition, the Federal Energy Regulatory Commission said in its 2016-17 winter assessment. Algonquin citygate spot prices averaged \$3.41 last winter, peaking at \$8 during an unusually mild winter. That compares with a high of \$30 in winter 2014-15 and a peak of \$75 in winter 2013-14. Cold weather this winter likely will bring back price spikes, but the added pipeline capacity should mitigate the spikes, FERC said.

The new infrastructure is noteworthy as other pipeline expansions in New England have been shelved or cancelled in the face of local opposition. New England already relies on gas for about half of its power generation needs, up from 15 percent a decade ago. "The environmental community and the keep-it-in-the ground folks really have struck a chord with the public, and it makes it really hard to build infrastructure" in New England, U.S. Energy Information Administration chief Adam Sieminski said Oct. 21.

### **Rising prices could prompt producers to tap uncompleted wells**

(Wall Street Journal; Oct. 23) - U.S. oil and gas companies have drilled thousands of wells they have yet to tap, creating a ready reserve of fuel that could surge onto the market when energy prices recover. While the industry often has an inventory of drilled wells awaiting completion, the backlog has grown significantly during the past two years as companies deliberately delayed tapping wells to wait for higher energy prices.



Federal estimates show the number of such wells in the nation's seven most prolific drilling regions stood at 5,069 in September, up from 3,768 in January 2014, before oil prices began falling. Because companies have already spent the money to drill the wells, bringing on the supply from those wells is cheaper than drilling and fracking a new well. That means the wells are an economic proposition for many companies, especially with U.S. crude now trading at around \$50 a barrel.

Ryan Duman, a senior analyst at energy consulting firm Wood Mackenzie, said he expects to see companies completing many of the delayed wells in the next 18 months. "You're at a point where pretty much every one that's sitting out there is in the money," he said. Wood Mackenzie estimates the industry has about 2,000 more wells awaiting completion than it normally would. Those 2,000 wells are capable of producing over 250,000 barrels of crude a day and 4 billion cubic feet of gas a day, the firm estimates.

### **Pennsylvania, Ohio, West Virginia produce 30% of U.S. natural gas**

(Forbes; Oct. 23) - Led by the surge in Appalachia's Marcellus and Utica shale plays, U.S. natural gas production has increased more than 50 percent since 2005 — but the pipeline capacity to move the gas has not kept pace. Combined, Pennsylvania, Ohio and West Virginia have rapidly evolved from producing 2.5 percent of U.S. gas in 2005 to nearly 30 percent today. The entire U.S. gas industry is being flipped from its decades-old operating flow, which was basically west-to-east and south-to-north.

The Northeast is still a highly constrained gas market because there aren't enough pipelines to deliver all that shale gas to markets. Combined with low prices, the lack of pipelines often has companies in the region curtailing production because there's no way to move the gas. Cabot Oil & Gas, which has been ranked as the second-biggest Pennsylvania producer, had to hold back 75 billion cubic feet of gas production in 2015.

New England, in particular, has suffered and is easily the highest-priced gas and power market in the country, with respective rates of 45 percent and 55 percent higher than the national average. But despite paying high prices, the region is not so friendly to new pipelines. Residents aren't used to the infrastructure required to move gas, unlike, say, Texans or Oklahomans. Moreover, the Northeast is generally more environmentally conscious and has a higher population density, which makes it tougher to lay pipelines.