Oil and Gas News Briefs
Compiled by Larry Persily
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Anadarko could make decision on Mozambique LNG next year

(Houston Chronicle; Sept. 16) - Six years ago, Anadarko struck a huge pocket of natural gas off the coast of Mozambique, stirring speculation that the find could transform the poverty-stricken East African country into one of the largest gas exporters in the world. At the time, China, India and Japan were eagerly snapping up contracts for cargoes of liquefied natural gas. Now, Asia and other parts of the world are overflowing with LNG, which has sharply curtailed investors' appetite for major LNG developments like the $15 billion project that Anadarko wants to build in a remote, poor region in Mozambique.

But in an interview Sept. 16, Anadarko CEO Al Walker said the project may come into production at just the right time, around 2022 or 2023. That's when energy research firms IHS Markit and Wood Mackenzie forecast that global economic growth will have risen enough to spur another wave of demand for LNG. Depending on the market, Anadarko may make its final investment decision by next year, Walker said.

The company has all but completed a key part of its negotiations with the Mozambique government, which involves resettling families living in fishing villages — it could cost some $300 million. Once negotiations are complete, the project will likely face the same challenges that other companies have faced in building LNG plants in regions with little infrastructure or skilled labor, said Bob Fryklund, chief upstream strategist at IHS Markit. The heightened competition in coming years could leave the company little margin for error in a market that will likely get crowded again as rivals expand their LNG plants, he said. "It's not an insurmountable challenge, but this is Anadarko's first LNG project."

BP warns Trinidad and Tobago it must compete with gas incentives

(Platts; Sept. 16) - BP Trinidad and Tobago President Norman Christie on Sept. 15 urged the country's government to improve incentives for companies to develop natural gas projects, or risk losing billions of investment dollars. Addressing a BP forum in the country, Christie warned the government's efforts to update the nation's gas master plan "must result in clear policy decisions regarding matters such as gas allocation and price and must incentivize upstream investments in an increasingly competitive environment."

"Failure to bring clarity to these matters quickly will result in a sharp decline in investments," he said. Christie said the prolonged gas supply shortfalls Trinidad has experienced in recent years were due in part to pauses in investment by upstream operators. The shortfalls have hurt production at the Atlantic LNG gas liquefaction facility and at petrochemical plants. The LNG plant started production in 1999.

Christie said BP's plans for upcoming major gas projects, including the Angelin offshore gas field, will depend on how quickly the government acts on the policies. "No sensible business person recognizing the context we are in is going to invest approximately $5 billion over the next three to four years into natural gas projects without knowing where the gas is going to go and under what pricing mechanism." BP is the largest producer of gas in Trinidad and Tobago and a major stakeholder in all four trains of Atlantic LNG.

LNG demand growth in China not enough to offset global oversupply

(CNBC; Sept. 15) – China aims to shut almost half a million small-scale coal boilers in its industrial sector by 2018, in what should be a positive move for liquefied natural gas suppliers in search of new demand and higher prices. However, LNG prices will continue to struggle as massive new supplies come online in an oversupplied market, ANZ analysts wrote in a recent report. The world's second-largest economy aims to cut its use of coal as an energy source in order to clean up its polluted air.

China's annual LNG import growth is expected to increase as the country retires 400,000 small-scale coal boilers, some of which will be replaced by gas boilers, the Melbourne-based banking group report said. A reduction of $3 per million Btu in China's regulated gas prices and lower domestic gas prices will also help encourage coal-to-gas switching as the East Asian giant aims to control air pollution, the ANZ report added.

But China's LNG imports will still fall behind those of Japan and South Korea, which together account for almost half of global imports, ANZ calculated, though demand is softening in those two countries. Meanwhile, the forecast rise in China's imports will likely be offset by a bigger jump in global supply. Prices hit their lowest level in almost two decades earlier this year and have since rebounded but the longer-term price outlook isn't positive, with global LNG supplies expected to rise 50 percent by 2020, wrote ANZ research strategists Daniel Hynes and Natalie Rampono.

No decision on small-scale floating LNG project offshore Africa

(Platts; Sept. 15) - Fortuna LNG, the planned floating LNG project offshore Equatorial Guinea, is "technically ready" for a final investment decision, its operator, U.K.-listed Ophir Energy, said Sept. 15. But obstacles still remain after U.S. oil services giant Schlumberger in April walked away from a preliminary agreement to take a 40 percent stake in the half-billion-dollar project on the western Africa coast.

Despite the Schlumberger setback, Ophir still sees the project as economic, calling it the "lowest-cost greenfield LNG project in the market today." Ophir has shortlisted four "high-quality, high credit-rated" potential gas off-takers, though it has not disclosed their names or details. It also continues to work with partner Golar LNG on the project's floating liquefaction and storage facility, which would have capacity to produce 2.2 million metric tons of LNG per year.

Only one final investment decision on an LNG export project has been taken in 2016 — BP's third train at Tangguh in Indonesia, which will devote 75 percent of its production to the local power generation market. Fortuna LNG had been expected to progress to FID this year. "We have made significant progress in maturing the project and value chain to the point where it is technically ready to FID," Ophir said in a statement.

Contractor hands over second train at Cheniere's LNG terminal

(The Maritime Executive; Sept. 16) - American LNG pioneer Cheniere Energy announced Sept. 16 that the second liquefaction train at its Sabine Pass, La., terminal has reached "substantial completion," and contractor Bechtel has handed over control of the facility. The turnover is being done at the same time as a planned outage to improve performance of the facility's flare systems, as well as to perform scheduled maintenance to Train 1, which started commercial operations in February.

The firm had previously announced a four-week shutdown in order to fix flare systems that were not working as intended at the first train — but it may not affect exports, Argus Media reports, given that Cheniere may have a considerable volume of LNG already in its storage tanks. The production of the second train is already spoken for under a 20-year agreement with Gas Natural Fenosa of Spain. The first commercial delivery is expected August 2017. Three more production trains are under construction.

"The second quarter of 2016 saw Cheniere's continued transition from a development company into an operating one," said CEO Jack Fusco. "We exported five cargoes of LNG under our contract with Shell as of the end of the second quarter [and] our remaining trains under construction continue on time and on budget." Cheniere posted a loss of $620 million over the first half of the year, up from a loss of $380 million during the same period in 2015.

Canada to decide on LNG project without guarantee of construction

(Bloomberg; Sept. 15) – Canadian Prime Minister Justin Trudeau's government will decide on final environmental approval of the Pacific NorthWest liquefied natural gas project without any guarantee that the lead sponsor, Malaysia's Petronas, will actually proceed, Canada's resources minister said. The LNG plant proposed for near Prince

Rupert, B.C., remains under political review while similar gas projects on the province's west coast are being scaled back or delayed amid low prices.

Trudeau's government has committed to a decision by Oct. 2 and is balancing a desire to grow the economy with toughening environmental regulations and lowering carbon emissions. "I don't think we're in a position to get guarantees from the company," Natural Resources Minister Jim Carr said. "We know other LNG projects in B.C. that are not proceeding. Those decisions will be made by boards and by executives."

The company's final decision will also hinge on any conditions — and costs attached to them — that the government places on its approval, Carr said. Pacific NorthWest LNG is one of several major energy projects Trudeau is considering in the province. LNG remains a priority for the B.C. government, which is heading into an election next spring. Petronas, facing falling profits amid a commodities slump, said it will review the project, its cost and the market conditions after Trudeau's government makes its call. "The decision to proceed to the construction phase of the project rests with Pacific NorthWest LNG's shareholders," spokesman Spencer Sproule said Sept. 14 by e-mail.

Canadian prime minister faces hard decisions on oil and gas projects

(Bloomberg; Sept. 13) - Canadian Prime Minister Justin Trudeau plans to approve at least one new oil pipeline project in his first term, with Kinder Morgan's Trans Mountain expansion to the Pacific Coast the most likely candidate, people familiar with his plans said. The prime minister is seeking to strengthen environmental standards and build confidence in new regulatory rules while also stoking growth in Canada's sluggish economy by backing a pipeline.

Trudeau therefore plans to neither approve all the projects under consideration nor reject them all, according to sources who spoke on condition of anonymity. Trudeau faces a series of high-profile energy decisions over the next three months, including a final Cabinet ruling on Kinder Morgan's Trans Mountain proposal and a legal appeal related to Enbridge's Northern Gateway pipeline. Both propose to move Alberta oil sands production to export facilities on the British Columbia coast.

Trudeau will also decide on the Pacific NorthWest liquefied natural gas project proposed for near Prince Rupert, B.C., while TransCanada's Energy East oil sands pipeline to the East Coast is due for a decision in about two years. The 715-mile Trans Mountain expansion already has conditional regulatory approval. The project would expand an existing pipeline; not build an entirely new route. Trudeau's government believes it must demonstrate to investors the country is capable of reaching consensus to build major energy projects, while not alienating environmentalists who make up a key constituency.

[B.C. credit unions association forecasts weak economy through 2018]

(Dawson Creek Mirror; BC; Sept. 15) - Weak commodity prices, an underperforming global economy and a struggling province next door will continue to hamper growth in northeastern British Columbia over the next three years, according to economists with Central 1 Credit Union. The credit union released its three-year economic forecast for the region Sept. 15, painting a “bleak” economic picture through at least 2018.

“I think the overall tone is that we’re having a weaker period,” said Bryan Yu, senior economist for Central 1, a liquidity manager, payments provider and trade association for 42 B.C. credit unions. “Not only on the employment side — that filters into less population growth, less housing activity, and dampening in home prices going forward at least into next year, before we start to stabilize quite a bit.”

The region’s unemployment rate is expected to hover around 8.8 percent through the end of 2017. Activity in the housing market is set to bottom out in 2017 after a 29 percent drop in real estate transactions this year. Low coal and natural gas prices will continue to drag down growth, while analysts predict the multiple liquefied natural gas projects proposed for the B.C. coast are “uneconomical” at current global prices.

[Pro-industry groups battle B.C.’s anti-development reputation]

(B.C. Journal of Commerce; Sept. 8) - Many industry watchers in British Columbia are concerned that the province is getting a reputation as a jurisdiction where it's hard to get large infrastructure projects approved, such as oil and gas pipelines, a bridge and a hydroelectric dam. A growing number of organizations have been formed to combat the province's negative perception and to get large projects into construction.

"B.C. has developed a reputation in some quarters as a place where nothing can get built," said Phil Hochstein, Independent Contractors and Businesses Association of BC president. "That's troubling to us. No projects, no construction industry." To help turn thing around, in early 2016 the association began a public opinion campaign called Growing the Economy.

David Keane, president and CEO of the BC LNG Alliance, said the goal of his organization is to educate British Columbians about the benefits of a liquefied natural gas industry. "One large, new LNG plant would be the single largest private investment project in B.C.," Keane said. The alliance advocates for the industry as a whole, rather than for individual projects.

[Australia creates problems by restricting natural gas development]

(Reuters' columnist; Sept. 15) - When government policies are driven by populist politics, it is almost certain to lead to poor outcomes and a low standard of debate, as shown by the current conundrum in Australia's natural gas sector. The gas-rich Northern Territory is now the latest of Australia's eight state and territory governments to restrict the development of the industry by placing a moratorium on hydraulic fracturing of wells.

The Northern Territory move came as part of a campaign commitment by the newly elected Labor Party government, which has promised an inquiry into the effects of fracking. But by stopping the development of new natural gas ventures, the Northern Territory has joined the populous southeast states of New South Wales and Victoria, as well as the island state of Tasmania, in stymieing a vital energy source.

The main motivation is seemingly to avoid conflict with environmental groups opposed to fossil fuels, as well as farmers who have concerns about the impact of fracking on water tables and the availability of farmland. But by caving into the pressure, politicians are setting themselves up for bigger problems down the track, as a lack of gas supply will drive gas prices higher, threatening industries and causing energy prices to spike.

All of this exposes one of the greatest ironies of the campaign against fracking. By ensuring that gas supplies will be limited, and therefore prices high, environmental activists are keeping coal-fired power competitive. Victoria has some of the most-polluting coal plants on the planet in terms of emissions per kilowatt-hour, as they rely on poor-quality lignite mined next to the plants. For the moment, activists and farmers appear to have some of Australia's state and territory governments running scared.

Gazprom sees no need to buy gas from rivals for its pipeline to China

(Reuters; Sept. 15) - Russia's Gazprom plans to use only its own natural gas for the Power of Siberia pipeline to China and sees no need to buy gas from domestic rivals, Gazprom Deputy CEO Alexander Medvedev said Sept. 15. Gazprom's domestic peers such as state oil company Rosneft are lobbying for access to the Power of Siberia line. "We see no need (to buy gas from others)," Medvedev said.

Gazprom is building the 2,500-mile pipeline and developing the fields needed to fill the line at a total cost of $55 billion. Gazprom plans to supply China with up to 3.5 billion cubic feet of gas per day for 30 years, starting in 2019. In a sign of a growing rivalry over the line and the China market, little-known UDS Energy last month beat Rosneft, Surgutneftegas, Novatek and Fund Energy of ex-energy minister Igor Yusufov, among others, for a field close to the Gazprom pipeline in Russia's Yakutia region.

As work on the pipeline continues, Gazprom is getting some help from its customer. The gas giant earlier this month signed a contract with China National Petroleum Corp. for the company's pipeline unit, China Petroleum Pipeline, to construct the line as it crosses under the Amur River, which forms the border between Russia and northeastern China.

Ohio high court upholds rejection of anti-fracking ballot measures

(EnergyWire; Sept. 15) - Ohio's highest court struck a blow to hydraulic fracturing opponents Sept. 13, refusing to put anti-fracking measures on the November ballot. In a 6-1 opinion, the Ohio Supreme Court ruled that local election boards and Ohio Secretary of State Jon Husted acted legally when they rejected proposed ballot measures in three counties. The measures aimed to turn local governments into charter systems with more control over oil and gas development within their boundaries.

Local election boards and Husted tossed the measures from the ballot, finding that they did not meet criteria for ballot initiatives attempting to change a form of government. The high court upheld the decision. "Their determinations were consistent with our prior decisions authorizing election officials to determine whether a proposal exceeds the scope of the authority under which it is placed on the ballot," the majority wrote.

"There is no indication that the boards of elections or the secretary of state attempted to thwart the principles of local self-government," the ruling said. "They merely examined the charter initiatives to determine whether they met the threshold requirements for inclusion on the ballot." Justice William O'Neill dissented. He suggested Husted and other government officials were bowing to pressure from the oil and gas industry, an accusation he has lodged before.

Drop in global oil and gas investment worst in almost 50 years

(Wall Street Journal; Sept. 13) - Investment in the world's oil and gas fields tumbled in 2015 and 2016 in the longest period of retrenchment in almost half a century, the International Energy Agency said. Spending fell 25 percent in 2015 to $583 billion and is set to drop by a further 24 percent to about $450 billion in 2016, said the IEA, a Paris-based group that advises developed nations on energy policy. "It may well be the case that investment will fall in 2017," said IEA executive director Fatih Birol. "We have never seen [a three-year decline] in history."

The pullback in funding has delayed new oil projects, led to tens of thousands of layoffs and decimated the profits of energy companies that were once reliable cash machines. Overall, tightening spending across the board could lead to a new bout of volatility in oil prices. Some analysts have warned that lower investment could lead to falling production in the future and a price spike. "This huge drop is not good news for the stability of the oil market," Birol said.

The biggest losers have been debt-laden U.S. operators in the shale oil industry, where investments fell 52 percent in the past two years, the IEA said. The number of operating rigs in the U.S. fell to 450 in May 2016, the lowest level recorded and down 80 percent from 2012, the IEA said. But even with the American investment cuts, U.S. production has surprised many with its resilience, falling less and not as fast as once predicted by rivals such as the Organization of the Petroleum Exporting Countries.