Oil and Gas News Briefs
Compiled by Larry Persily
April 17, 2017

Total signs short-term LNG contract with Japanese buyer

(Reuters; April 13) - French oil and gas major Total has signed a short-term liquefied natural gas supply contract with Japan's JERA Co., signaling its willingness to offer flexible terms to traditional buyers amid a global glut and lower prices, Total's president for gas, renewables and power told Reuters. JERA, the world's biggest single LNG buyer, will purchase six cargoes, about 400,000 tonnes of LNG, four of them priced on a traditional oil-indexed formula and two others based on spot-market gas prices.

"We are the first to negotiate a new contract with them. The current market situation favors this type of creativity," said Philippe Sauquet, giving details about the agreement for the first time. Spot LNG prices in Asia have tumbled from over $20 per million Btu in 2014 to currently under $6 due to oversupply. This has put buyers, particularly power producers in Japan and South Korea, in a strong position to impose on suppliers and demand more flexibility because of uncertainty over future demand, Sauquet said.

It is very difficult, he said, for Japanese power producers buying LNG to have certainty whether in 10 years or 15 years nuclear power plants will resume production. While LNG buyers traditionally were locked into 20-year oil-indexed contracts, Sauquet said Total is open to shorter contracts with more flexibility and various price indexes. He said the JERA deal is part of Total's strategy to find new markets critical for development of major LNG projects. JERA is a partnership between Tokyo Electric and Chubu Electric.

Spot-market LNG prices in Asia fall to upper-$5 range

(Nikkei Asian Review; April 14) - Spot prices for liquefied natural gas deliveries to Asian markets slid 40 percent from the latest high in January, foreshadowing a possible drop in Japanese electricity prices if weak demand and rising output abroad exacerbate a glut of the fuel. Spot LNG is currently trading in the upper-$5 range per million Btu, a steep fall from early January, when prices approached $10.

"There are no longer factors supporting buying like problems in Australian production [seen at the end of 2016], or halts in South Korea's nuclear plants caused by an earthquake last fall," said Tatsufumi Okoshi, senior economist at Nomura Securities. Furthermore, additional LNG production in the U.S. and Australia will come online this year. By about 2020, global LNG output is forecast to grow by 100 million tons, equivalent to 40 percent of the fuel's trading volume in 2015.

Japanese power companies — major consumers of LNG — find little need to buy on the spot market, thanks to large stockpiles of the fuel purchased through long-term contracts. Japan's overall LNG imports fell 2 percent in 2016, declining for a second straight year. "With electricity demand below projected levels, companies will continue scaling back LNG use, consumption of which is easier to adjust than nuclear power or coal," said a source at a Japanese power company.

B.C. premier in re-election run insists LNG industry merely delayed

(Calgary Herald; April 13) - B.C.'s dreams of a prosperous liquefied natural gas industry might be delayed but are not dead, insisted British Columbia Premier Christy Clark as she took her re-election campaign to the province's north coast on April 13. Clark toured Kitimat, Terrace and Prince Rupert, where she attempted to prop up her unfulfilled 2013 election campaign promises on LNG riches by showcasing a business that makes money from all the planning work being done by LNG proponents.

"We are not giving up," she told a crowd at Kentron Construction in Kitimat, which had done prep work for LNG proponents and is hoping for more business in the future. "Quitters can't be leaders. Yeah, market conditions have been tough for LNG, but we are going to get there." Her party's promise during the 2013 campaign was for three operational LNG facilities by 2020 and almost 100,000 jobs. She also campaigned on the LNG industry revenue being used to create a $100 billion so-called Prosperity Fund and the industry accounting for $1 billion in economic growth within the next 30 years.

But no LNG facilities are under construction, as the sponsors struggle with a global oversupply and plunging prices. Still, Clark has charged ahead. Her government spent much of its early term after the 2013 election courting the LNG industry, developing a tax regime and setting environmental standards. "Global markets are slow, and that has slowed us down. But that will not stop us. We are determined to grasp this opportunity." Clark said she still hopes to see three LNG plants "under construction by 2020."

Life is better for Canadian gas producers; LNG would help even more

(Financial Post; Canada; April 12) - Canadian exploration and production companies that made it through the oil downturn are cautiously returning to growth. Many are in the gas side of the business, where the price outlook is encouraging and where they are digesting acquisitions that transformed the survivors into sizeable players. They also have slimmed down costs to keep themselves competitive with their U.S. counterparts.

Life would be close to perfect if they could get a liquefied natural gas industry off the ground on the West Coast to open new export markets for Canadian gas. "We need (Canadian) provincial and federal governments truly behind the LNG business," Mike

Rose, president and CEO of Tourmaline Oil, which has grown into a senior producer, said at the CAPP Scotiabank Investment Symposium in Toronto on April 12. "It's the best thing Canada can do to replace coal generation in Asia," he said.

The Canadian LNG sector remains stalled, however, with only one small export terminal moving toward construction out of more than 20 proposed developments on the British Columbia coast, following regulatory delays, aboriginal opposition and changing market conditions. Regardless of an LNG industry, Rose expects drilling activity in Western Canada to rebound if gas prices keep strengthening. "At the current price, I don't think activity is really going to ramp up. … If gas goes up by 30 or 50 cents, I think it will."

Canadian gas producer says lower pipeline tariff 'just in time'

(EnergyWire; April 13) - TransCanada and Western Canadian natural gas producers reached an agreement for lower-cost and higher-volume pipeline transport "just in time," according to one of the deal's key backers. The agreement came at the right moment to help stave off competition from rising U.S. shale gas production, said Mike Rose, CEO of Tourmaline Oil, Canada's second-largest natural gas producer.

Under the terms of the deal, which was hashed out early this year, producers will move about 1.5 billion cubic feet of gas per day on TransCanada's underutilized Mainline pipe from Western Canada to Ontario. Negotiations dragged on for months before the parties eventually settled on a price of about 55 cents per 1,000 cubic feet of gas. "We both ended up a little grumpy in the end, which probably says it's the right toll," Rose said.

The lower tolls for new contracts on TransCanada's Mainline west-to-east gas pipeline — a discount of about 50 percent from existing tolls — will help Canadian producers compete with U.S. suppliers looking for markets to buy their surplus of shale gas.

Conoco sells San Juan basin gas assets to Hilcorp for $3 billion

(Reuters; April 13) - ConocoPhillips, the largest U.S. independent oil producer, said on April 13 it would sell natural gas-heavy assets in the San Juan basin to privately held Hilcorp Energy for about $3 billion. ConocoPhillips has been selling assets to reduce its exposure to profit-sapping natural gas assets and shore up its balance sheet.

The assets, which span New Mexico and Southwestern Colorado, produce 124,000 barrels of oil equivalent per day, about 80 percent of which is gas, ConocoPhillips said. Conoco will receive $2.7 billion in cash from the San Juan basin asset sale, which is expected to close in the third quarter. The deal also includes a contingent payment of up to $300 million. Conoco, which said the assets being sold had a book value of about $5.9 billion at 2016-end, expects to record an impairment charge in the second quarter.

As part of its divestiture effort, Conoco said last month it would sell oil sands and western Canadian natural gas assets to Cenovus Energy for $13.3 billion. Houston-based Hilcorp has a partnership with private-equity firm Carlyle Group to acquire and develop North American oil and gas properties.

Marcellus, Utica gas pipeline projects will add 12 bcf a day to capacity

(Bloomberg; April 12) - U.S. energy firms are scrambling to finish a slew of pipelines that will unleash rich reserves of shale gas in Pennsylvania, West Virginia and Ohio as the nation prepares to become one of the world's top natural gas exporters. The pipelines are expected to boost output in the three states by giving producers access to new domestic and international markets. The states could supply about one-third of all U.S. gas once the pipeline projects are complete, up from about 25 percent now.

The expanded network will deliver cheaper fuel for power generation and industry in the eastern half of Canada and the U.S., and along the Gulf Coast. It will also transport the huge volumes of gas needed to feed facilities that will produce liquefied natural gas for overseas exports. The additions address a lack of pipeline capacity that has stunted development of two of the largest U.S. shale fields, the Marcellus and Utica formations. The pipelines should allow output to increase by about 50 percent in the next two years.

Among the largest projects under construction are Energy Transfer Partners' $4.2 billion Rover pipeline from Pennsylvania to Ontario; TransCanada's $1.4 billion Leach XPress; and Williams Cos.' $1.6 billion Atlantic Sunrise. Pipeline capacity from Pennsylvania, Ohio and West Virginia was about 23 billion cubic feet per day in 2016, according to the U.S. Energy Information Administration and Thomson Reuters data. If all the pipelines under construction are completed, that would rise to more than 35 bcf a day.

U.S. manufacturers argue LNG exports could reduce domestic supply

(Houston Chronicle; April 14) - American manufacturing companies are worried that a boom in liquefied natural gas exports will reduce domestic gas supply and raise prices. The Industrial Energy Consumers of America sent a letter to Energy Secretary Rick Perry on April 13, asking his department to deny expedited approval for export permits. Cheap natural gas will create more jobs in the U.S., the manufacturing association said.

"Accelerating LNG exports is inconsistent with President Donald Trump's 'America First' pledge and the desire to build a sustainable manufacturing sector with growing middle-class jobs," the association said in the letter. "Instead of a focus on LNG exports, U.S. natural gas policy should focus on how to use natural gas to maximize job growth." Low-cost gas, the association said, is the driver behind petrochemical projects totaling more than $161 billion in new investment announced since 2010.

LNG advocates, meanwhile, argue that there is plenty of gas to serve industry and exports at the same time. “Numerous independent academic papers have shown that LNG exports will be advantageous for the United States,” said Charlie Riedl, executive director of the Center for Liquefied Natural Gas, an arm of the Natural Gas Supply Association. “The U.S. has more than enough natural gas to benefit from exports and provide affordable natural gas to consumers and manufactures at home.”

Merger and acquisition spending on U.S. shale jumps in 2016

(Bloomberg columnist; April 12) - Global upstream oil and gas merger and acquisitions reached $136 billion in 2016, according to Evaluate Energy's 2016 review. One area seeing a big jump in activity was the U.S. Marcellus shale, where close to eight times more was invested in asset and corporate acquisitions in 2016 than 2015. The Marcellus, which primarily lies in Pennsylvania, West Virginia, New York and Ohio, is considered the world’s second-largest gas field, after the North Field in Qatar and Iran.

Marcellus holds an estimated 500 trillion cubic feet of gas. In 2015, the U.S. shale industry was one of the main casualties of the oil price downturn, suffering a 75 percent drop in year-on-year merger and acquisition spending to $13 billion. This amount was the lowest M&A U.S. shale spend since 2009. A reshuffling of asset portfolios in 2016 redirected investments toward the Marcellus. M&A spend in the shale industry bounced back to $48 billion during 2016, representing a 269 percent increase year on year.

Overall, the Marcellus 2016 deals totaled $7.25 billion. This kind of year-on-year increase usually reflects one or two mega deals but not in 2016, when the total included 13 large deals (over $100 million). Both figures are a significant increase on 2015 activity, when only $920 million was spent and only three large deals took place. The M&A trend in Marcellus should continue through 2017, as there are remaining energy assets still ripe for targeting that took a hit during the energy market slump.

New pipelines, technologies enable gas producers to manage output

(Bloomberg; April 10) - Natural gas drillers in America’s biggest shale play are getting more bang for their buck. With new pipelines and technological advances, producers in the Marcellus can now tailor their output to the rise and fall of gas prices. Six months after Northeast gas prices plunged to a record low as pipeline bottlenecks left supplies trapped in the region, new links like Spectra Energy’s Algonquin project are allowing drillers to send their production to different markets in response to regional price moves.

Meanwhile, remote-controlled well heads make it possible for explorers to fine-tune their output. The developments may help producers prevent another supply glut. Responsiveness to prices is "just one more lever that the market can pull to make sure things balance," said Het Shah, an analyst at Bloomberg New Energy Finance. In a matter of weeks, producers "were able to swing from dropping overall production in that area by 1.5 billion cubic feet to bringing it all back online," Shah said.

Producers have perfected the art of choking wells, or restricting output. Computer control of wells has allowed producers to remotely expand or cut production, a practice that used to be done manually by adjusting a well's diameter. "Field technology has gotten a lot better and I think the companies have invested a lot in it" since last year's price rout, said James Sullivan, an analyst at Alembic Global Advisors in New York.

India will use charters to carry U.S. LNG after shipyard bids rejected

(Financial Express; India; April 10) – State gas utility GAIL India will hire ships on short-term charters to deliver liquefied natural gas from the United States after it was forced to scrap bids for building some of the LNG carriers in India, Oil Minister Dharmendra Pradhan said April 10. After trying for more than two years, GAIL last October scrapped a plan for newbuild tankers after bidders did not agree to the "Make-in-India" terms. The company wanted shipbuilders to manufacture one out of three ships in India.

Two Japanese bidders had sought several deviations from the tender conditions, which GAIL rejected. The company is scheduled to start taking delivery of LNG in 2018 under contracts with the Cheniere Energy terminal in Sabine Pass, La., and Dominion's terminal on Chesapeake Bay in Maryland. Pradhan said GAIL has initiated action to charter ships on a short-term basis for a period of three to four years.

Oil and gas groups say U.S.-made pipe would drive up costs

(CNBC; April 13) – President Donald Trump's plan to make pipeline builders use American materials would potentially lead to higher costs, production delays and canceled projects if implemented without substantial exceptions, says a group of six oil and gas associations. It would force the industry to fundamentally retool its supply chain and expose companies to risks that come with relying on a single market for materials.

Requiring the nation's pipelines to be built and repaired with U.S.-made steel is a pet project for Trump. But the oil and gas associations warn the plan would send rising steel prices even higher. In some cases, U.S. mills would be unable to meet the demand, they said. "Relying solely on U.S. pipeline-grade steel and pipe production could lead to long construction delays and higher costs, potentially canceling planned pipeline projects or blocking new projects," the associations told the Department of Commerce.

The U.S. steel industry currently does not make the type of steel used in many pipelines, but says it is ready, willing and able. "We have all the necessary high-cost materials that would go into cost-effectively making steel, but we've got to have a leveled playing field to compete," said Doug Matthews, senior vice president at U.S. Steel. "That's [why] we're excited about with the administration's push right now."

Chevron looks at selling its stake in Canadian oil sands project

(Reuters; April 13) - Chevron, the second-largest U.S.-based oil producer, is exploring the sale of its 20 percent stake in Canada's Athabasca oil sands project, which could fetch about $2.5 billion, according to people familiar with the situation. The company has discussed with investment banks the prospect of selling its share of the Alberta development, a source said. Shell holds a 60 percent stake in the project, which started operations in 2003. Marathon owns 20 percent. Capacity is 255,000 barrels a day.

The possible sale comes after Shell last month agreed to sell most of its Canadian oil sands assets to Canadian Natural Resources for $8.5 billion. Chevron does not find the oil sands business appealing in the current environment, as low oil prices make it more challenging for global producers to generate profits, the sources said, declining to be named as the matter is confidential. The California-based company is close to making a decision, taking into account factors such as price, the sources added.

The possible move comes as international players are pulling back from the Canadian energy market, particularly the capital-intensive oil sands. A range of factors are contributing to investor apathy toward Canada, including weak oil prices, the higher cost of Canadian operations compared with cheap U.S. shale and limited export pipeline capacity out of Western Canada. In March, ConocoPhillips agreed to sell its oil sands and natural gas assets to Calgary-based Cenovus Energy for about US$12.9 billion.