

Oil and Gas News Briefs

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India's largest gas company wants U.S. LNG supplier to cut its price

(The Times of India; Aug. 7) - State-owned gas utility GAIL India is seeking to renegotiate the price for liquefied natural gas it has contracted from the U.S. to reflect current market realities. GAIL, India's biggest gas distributor, has deals to buy 5.8 million tonnes of U.S. LNG per year for 20 years from export terminals on the Gulf Coast and East Coast. "We need to be in sync with the market. ... So, if market dynamics have changed and there is a glut of gas the world over with falling rates, the same should also reflect in our prices," a source said.

GAIL is approaching U.S. LNG sellers to reopen the contracts. It wants to renegotiate the 2011 sales and purchase agreement it signed with Cheniere Energy to take 3.5 million tonnes a year at the company's terminal in Sabine Pass, La., starting in 2018. The fixed liquefaction fee on that gas of \$3 per million Btu would cost GAIL almost \$550 million a year. The cost of buying the gas to feed the plant would be additional.

The source said GAIL wants the fixed portion reduced to bring down total landed cost of LNG (gas, liquefaction and shipping) to about \$7 to \$8 per million Btu as against more than \$9 at today's U.S. natural gas prices. LNG in the August spot market is available for less than \$6. In addition to the Cheniere contract, GAIL has booked 2.3 million tonnes of annual capacity at Dominion's Cove Point liquefaction facility in Maryland. GAIL in late 2015 successfully renegotiated a lower price under its long-term contract with Qatar, cutting the price by almost half but agreeing to take additional volumes over the years. GAIL also has asked to reopen its contract with Gorgon LNG in Australia.

China's independent companies get into LNG import business

(Bloomberg; Aug. 7) - China's independent energy firms are seeking to circumvent its state-backed giants as they cash in on growing natural gas use, buoyed by President Xi Jinping's drive for cleaner fuels and nimbler companies. Import facilities developed by firms including Guanghai Energy Co. and ENN Group offer access to cheap LNG and cut the reliance on supply and infrastructure controlled by the national oil companies. That may help new players tap China's booming gas demand, up 15 percent this year.

"The key thing about having your own terminal is that you can take advantage of potentially lower pricing in the market," said Neil Beveridge, an analyst at Sanford C. Bernstein & Co. in Hong Kong. "It's very difficult to get supply through the infrastructure of the Chinese oil majors because the access rules and regulations are not terribly

transparent and not terribly well enforced.” Guanghai Energy last month received the second LNG cargo at its new terminal north of Shanghai. At least three more terminals are being built or proposed, including a port by ENN Group scheduled to open in 2018.

Smaller gas distributors and importers have found an opening as the government seeks alternatives to coal and encourages private competition in the energy sector. They're poised to follow a similar trend in the oil industry, where independent refiners have been allowed greater freedom to import crude. China, which is forecast to more than double its LNG purchases by 2022, has more than a dozen import terminals owned by its three state energy giants, which buy most of their cargoes on long-term contracts. But given the global gas glut, new buyers can pick up cheaper shipments on the spot market.

Japan's lingering mistrust of Russia blocks any gas pipeline

(Reuters; Aug. 7) - Japan and Russia need to work on building a more trusting relationship before any plans to build a natural gas pipeline between the two nations can be fulfilled, Japan's Minister for Economy, Trade and Industry Hiroshige Seko said Aug. 7. Building a pipeline linking Russia and Japan is a long-standing idea, but a dispute over islands seized by Russia near the northern Japanese island of Hokkaido at the end of the World War II has kept relations testy at times.

"Without a sense of further sense of trust such as a peace treaty, a pipeline would be no good," Seko said during a speech in Tokyo while answering a question about Japan's energy relationship with Russia. The 900-mile pipeline has been estimated at \$6 billion, and possibly much more. Japanese gas and electric utilities that have invested heavily in liquefied natural gas import terminals may be reluctant to invest in a pipeline. Japan imports nearly all of its energy sources and is the world's biggest buyer of LNG.

Japan's Prime Minister Shinzo Abe said in April that Japan wants to resolve the territorial row that has overshadowed ties with Russia since World War II. Russia and Japan did not sign a formal peace treaty at the end of the war because of a dispute over the northern islands, called the Northern Territories in Japan and the Southern Kuriles in Russia. The islands were seized by Soviet forces at the end of the war and 17,000 Japanese residents were forced to flee.

Columnist says B.C. should learn a lesson from over-promising LNG

(Globe and Mail columnist; Canada; Aug. 6) - Right up to the most recent B.C. election in May, the British Columbia government had been promising three to five new liquefied natural gas plants that would generate between tens of billions of dollars in government revenue and create more than 75,000 jobs. Cancellation of the Petronas-led project,

which was among the most advanced and economically viable of the LNG projects proposed in the province, clearly exposes the fallacy of the government's promise.

The cancellation is not surprising. Private-sector forecasts as far back as 2012 warned there were three times more LNG projects planned worldwide than required, making development of a project in B.C. challenging. The Asian price boom that motivated the frenzy was a short-term phenomenon. B.C.'s response was to push development even faster on the grounds that if B.C. did not speed up, the opportunity would disappear.

What can we learn from all this? The first is that those promoting capital-intensive resource projects tend to exaggerate benefits and underestimate costs. Large projects are extremely risky and should not be developed based on short-term market conditions that are likely to change. Investors should be doubly wary if project promoters urge fast action to exploit a "window of opportunity." This means there are multiple competitors who collectively are likely to create excess capacity and drive down prices.

Second, governments should not make unrealistic promises that are subject to world markets they have no control over. Such promises are not only misleading, they are dangerous because governments will become increasingly desperate to deliver. The final lesson from the LNG experience is that we need independent assessments of major development projects so that the public knows all the costs and benefits.

Opponents continue lawsuit against canceled LNG project in B.C.

(Reuters; Aug. 7) - Canadian environmental and aboriginal groups said they will push ahead with a lawsuit seeking to scrap an environmental permit granted to Malaysia's Petronas for a liquefied natural gas facility in British Columbia, despite the oil and gas firm's announcement last month that it was scrapping the project. A representative for the groups filing suit against the Canadian government said they want the permit overturned so that the plan for an LNG export facility on Lelu Island in northwestern British Columbia can't be resurrected in the future by Petronas or any other operator.

The Malaysian state energy firm said last month that it was pulling out of the project, a consortium in which it has a 62 percent stake, due to weak LNG prices. It had received the environmental permit after a three-year wait but with 190 conditions that aimed to limit the environmental impact of the development. Still, minority stakeholder Indian Oil Corp., which owns a 10 percent stake in the project, said last week that the consortium was scouting for a new, cheaper location for the export terminal.

Environmental group SkeenaWild and two First Nations groups sued in October, claiming the Canadian government's environmental assessment was invalid and that the project would have significant adverse environmental effects. "We are continuing with the lawsuit until either they (Petronas) give up the environment certificate or the federal government revokes it," said Greg Knox, executive director of SkeenaWild.

U.S. LNG could benefit from coal-switching in China and elsewhere

(Forbes columnist; Aug. 8) - China is financing the construction of a growing number of coal-fired power plants in foreign nations, building a future market for more Chinese coal exports. The demand for Chinese coal, however, demonstrates an even greater opportunity for U.S. liquefied natural gas exports.

China is by far the world's largest producer of coal, producing five times as much coal as the United States. With Chinese citizens demanding cleaner air to alleviate heavy air pollution, Chinese coal consumption has been declining since 2014 as China turns more to cleaner-burning natural gas for its own needs. China's answer to its own declining market for coal, as reported by Foreign Affairs magazine, is to prop up its coal industry by exporting more coal to overseas customers and financing their power plants.

In addition to supplying LNG to China, U.S. natural gas producers are well positioned to displace Chinese coal in other overseas markets. Booming U.S. gas production has reduced the cost of the fuel, making it more competitive for import customers. In addition, many of the nations building Chinese coal plants and importing Chinese coal face growing air pollution of their own, and many are potential customers for U.S. gas.

LNG developers warn buyers not to wait too long for new contracts

(Bloomberg; Aug. 8) - A worldwide glut of natural gas has buyers of the fuel driving hard bargains and pushing for shorter supply contracts. The only problem with that, according to sellers, is that the market is about to turn against them. Gas buyers have become too focused on the short-term, turning away from long-term contracts, said Greg Vesey, CEO of Liquefied Natural Gas Ltd., an Australian company that wants to build a terminal in Louisiana and another in Nova Scotia to liquefy and export gas.

If buyers keep it up and don't lock in enough contracts next year to encourage the construction of more export terminals, the market could end up short supplies as soon as 2021, he said. "Things come to a head in late 2018," Vesey said in an interview at Bloomberg's headquarters in New York on Aug. 8. "By the end of 2018, people will realize they have to make a decision."

The global glut of LNG supplies and an ensuing plunge in prices have already killed plans for export terminals around the world. And more could follow as buyers take advantage of excess supplies to renegotiate contracts. "The reality is that a new facility needs to be backed by a 20-year contract," Kathleen Eisbrenner, CEO of export project hopeful NextDecade Corp., said in an interview Aug. 8. "There is starting to be a realization that, if those contracts aren't signed soon, we will go into a shortage."

Pakistan spends big to find new oil and gas reserves

(Bloomberg; Aug. 6) - Pakistan's state-owned companies are spending record amounts on energy exploration as old fields start to dry up. Oil and Gas Development Co. (OGDC), the nation's largest explorer, has more than doubled seismic activity, and Pakistan Petroleum has almost doubled wells drilled in the past two years.

"In exploration, there is absolutely no let-up," Zahid Mir, CEO at OGDC, said July 27. "Cost of services has come down. We see an opportunity here to do things a bit cheaply." The need for energy security and to end chronic electricity shortages is key to the re-election prospects of the ruling party ahead of the national poll next year. As South Asia's second-largest economy, Pakistan imports most of its fuel and its oil refining sector depends mainly on overseas crude supplies.

Meanwhile, Pakistan continues to deal with daily power blackouts. The government is trying to boost its generation capacity, with China financing construction of power plants fueled by coal or imported liquefied natural gas. Most of Pakistan's oil and gas fields are old and new finds are insufficient to replace natural declines. It's becoming critical as Pakistan hasn't made a gas discovery as large as 1 trillion cubic feet in decades.

Indonesia doubts its abilities after Total's operating contract expires

(Asia Times; Aug. 8) - For all of its past bravado, Indonesia's state-run oil company Pertamina is now privately expressing serious reservations about its ability to operate Indonesia's largest producing gas field when French oil giant Total's operating contract expires in December. "They realize that they are setting themselves up for failure," said one oil and gas analyst familiar with Pertamina's thinking. "It has become a poisoned chalice. The new management understands expectations have exceeded reality."

The signs have been there for a while. With Pertamina only able to drill eight of a planned 19 wells in the Mahakam block this year, it is already clear there will be a significant drop in production in 2018. Mahakam supplies 80 percent of the nearby Bontang LNG plant's natural gas.

Last March, Indonesia offered to increase Total's participating interest in a different block from 30 percent to 39 percent and also invited the company to continue as joint operator. It was the first sign of government flexibility in contract terms with a major Western resource company and signaled rising official concern over a feared slump in revenues ahead of 2019 elections. Total rejected the original 30 percent proposal and has yet to respond to the latest overture as the French firm prepares to withdraw from a project it has run since the early 1970s.

BP may have found a major new shale gas play in New Mexico

(Bloomberg; Aug. 7) - While other gas drillers are paying a premium for acreage in prized U.S. shale formations across Texas and Pennsylvania, BP may have just found a gem in a largely ignored corner of New Mexico. BP started producing from a well in New Mexico's Mancos shale that could be a "significant new source of U.S. natural gas supply," according to a statement Aug. 7. The well averaged 12.9 million cubic feet a day in its first month, the highest output in the San Juan Basin in 14 years, BP said.

The well could bring gas explorers one step closer to unlocking a shale play that, according to the U.S. Geological Survey, is home to one of the nation's largest reserves of the fuel. The shale boom that's turning the U.S. into a net exporter of the heating fuel has so far left the Mancos behind as explorers seek out cheaper plays. But with acquisition costs in proven fields rising, companies are turning to less popular regions to get more for their drilling dollars.

BP bought assets in the Mancos in 2015. At the time, there were no gas rigs operating in the basin, according to data from oil field service provider Baker Hughes. Despite the recent success, costs in the Mancos surpass those in other basins because drillers are dealing with difficult rock formations and have to bore deeper, said David Deckelbaum, an analyst at KeyBanc Capital Markets in New York. Typical Mancos well tests have cost \$13 million to \$15 million, he said. Most wells in Texas's Permian Basin cost \$8 million to \$10 million, while those in the Marcellus range from \$5.5 million to \$7 million.

Industry dislikes proposed gas production tax in Pennsylvania

(EnergyWire; Aug. 9) - A coalition of industrial groups has called on Pennsylvania legislators to oppose a package of energy tax increases that cleared the state Senate last month, saying it would hurt the state's economy and smother its budding petrochemical industry. The bill is unpopular with environmentalists, too, because it would roll back some of the state's environmental regulations. Some nonprofit groups have discussed suing to block portions of it.

The business groups have consistently opposed Democratic Gov. Tom Wolf's tax proposals, but they're sounding a more urgent alarm this year. A bipartisan compromise in the state Senate would impose a direct state tax on gas production for the first time. Most oil- and gas-producing states impose a production tax. The budget bill would impose a variable tax, in addition to the annual impact fee that producers pay for each well. An analysis by nonprofit group Resources for the Future estimated the production tax would have brought in \$90 million in 2015. The state budget is about \$32 billion.

A new tax would not only harm producers, it would raise costs for plastic manufacturers, factories and other big energy users, said Dave Taylor, president of the Pennsylvania

Manufacturers' Association. Environmentalists, too, are trying to kill the bill, which includes a series of measures aimed at speeding up permitting for gas production and would create a committee to review the state Department of Environmental Protection's proposed regulations aimed at controlling methane emissions from the industry.

U.S. pipeline developer strikes deal to restart construction

(EnergyWire; Aug. 10) - Energy Transfer Partners won permission Aug. 9 to restart construction on two gas pipelines that state regulators have blocked in Pennsylvania and West Virginia. Company officials said they are optimistic the projects will be finished on time. Environmental groups in Pennsylvania reached a settlement allowing Energy Transfer's Sunoco subsidiary to restart work on the Mariner East 2 pipeline system in exchange for concessions to reduce the risk of water pollution and other problems.

Separately, the West Virginia Department of Environmental Protection lifted a cease-and-desist order it issued last month that stopped work on Energy Transfer's Rover pipeline. The Federal Energy Regulatory Commission is still blocking work on Rover while it investigates a string of spills at construction sites.

Dallas-based Energy Transfer borrowed heavily to build the Rover and Mariner projects and is counting on revenue from the new lines to pay down debt and pay dividends to its investors. The \$4.2 billion, 713-mile Rover project is designed to carry gas from the Marcellus and Utica Shale fields to markets in Michigan. Mariner East 2 is a two-pipeline, \$2.5 billion expansion of an existing line that carries natural gas liquids across Pennsylvania from the Marcellus field to Philadelphia. Both projects have been dogged by complaints of sloppy construction, particularly around creeks and rivers.

U.S. on track to be net exporter of natural gas this year

(EnergyWire; Aug. 9) - The United States is rapidly becoming a net exporter of natural gas for the first time in 60 years. That's according to data from the Census Bureau and U.S. Energy Information Administration. While imports of gas are flat or falling, exports continue to rise, and the data give weight to analysts' conviction that the United States is on track to become a net energy exporter.

EIA noted in a report Aug. 8 that during the first half of 2017, the United States exported more natural gas than it imported in three of the first five months. New Census Bureau data show that, by value, the United States was again a net exporter in June 2017, selling about \$593 million worth of gas to the world while importing \$566 million via pipelines from Canada and a limited volume of liquefied natural gas.

That means the U.S. sold more gas to foreign trade partners than it imported for four of the first six months of the year. With new pipeline and LNG export capacity coming online soon, the country should close out 2017 as a net exporter, a situation that hasn't been seen since 1957. Pipeline gas exports to Mexico are climbing quickly as Mexico moves toward more gas-fired power generation. And gas pipeline exports to Canada have risen, too, while Canadian exporters have struggled to sell into the United States ever since the shale gas revolution unlocked huge new volumes of U.S. gas reserves.

U.S. gas production projected to top 77 bcf a day in 2018

(CNBC; Aug. 8) - U.S. drillers will produce more natural gas next year than previously expected as exports rise and gas-fired plants generate more electricity, the Department of Energy reported Aug. 8. The department's Energy Information Administration hiked its output forecast by 1.2 percent, or nearly 1 billion cubic feet per day, in its latest short-term outlook. EIA projected drillers would turn out 77.34 billion cubic feet a day in 2018, up from its prior estimate of 76.42 bcf. That would be 3.86 bcf above 2017's output.

"Forecast record natural gas production in 2018 coincides with an expected rise in electricity generation from natural-gas fired power plants and a 23 percent increase in U.S. natural gas exports," EIA Acting Administrator Howard Gruenspecht said. The United States will likely become a net exporter of gas next year, meaning it will ship out more natural gas than it imports, according to EIA.

LNG shipments from Cheniere Energy's export terminal in Sabine Pass, La., hit a record 1.96 bcf per day in May. Additional LNG export terminals re expected to be completed by 2021 would boost U.S. export capacity to 9.2 bcf per day.

Norway's Lofoten Islands likely to remain off-limits to oil and gas

(Bloomberg; Aug. 6) - The oil industry has been salivating for years over Norway's Arctic Lofoten Islands, which could hold billions of barrels of crude. It will likely have to keep dreaming. Next month's general election is unlikely to lift a deadlock that's keeping a ban on drilling off the environmentally sensitive islands as more and more Norwegians are turning their backs on the industry that helped make the country rich. "It's a dead issue," said Frank Aarebrot, a political science professor at the University of Bergen.

Backed by unions and business, Norway's two biggest parties, Labor and the Conservatives, have long favored opening the area for exploration. But so far, they have had to compromise with smaller parties determined to keep Lofoten oil-free. The waters off the rugged archipelago are home to the world's biggest cold-water coral reef

and a breeding area for 70 percent of all fish caught in the Norwegian and Barents seas.

The islands also host mainland Europe's biggest seabird colony. Opponents of oil exploration argue a spill could cause catastrophic harm. Oil companies led by state-controlled Statoil say gaining access is key if the country wants to maintain its oil and gas output, which is forecast to fall again from 2025 after already dropping 12 percent since a 2004 peak. While the government estimates Lofoten could hold about 1.3 billion barrels of oil equivalent, an industry group has said resources could top 3 billion barrels.

In a sign that drilling opponents are gaining traction, Labor in a "compromise" earlier this year said it would only seek to start an impact study in one area designated for potential oil blocks. But even such a small move is opposed by the Center Party and Socialist Left Party, which look to be Labor's potential ruling partners after the Sept. 11 vote.

Final hearings on Keystone XL start in Nebraska

(Financial Post; Canada; Aug. 8) - Final hearings on the controversial Keystone XL oil pipeline began Aug. 7 with testy exchanges between a lawyer for Nebraska landowners who oppose the project and a company executive and a local economist whose studies tout the benefits. The Nebraska Public Service Commission hearings are expected to last five days and pose the last major regulatory hurdle for proponent TransCanada in its nine-year quest to build the US\$8 billion pipeline to deliver oil from Alberta to Texas.

In tense exchanges, Dave Domina, the landowners' attorney, grilled a TransCanada executive and an economist about the benefits of Keystone XL. Domina questioned the rigour and methods used by Ernest Goss, an economist at Creighton University in Omaha, in studies supporting the economic benefits of Keystone XL. Goss answered pointed questions and said he was confident in his work. The line would deliver 830,000 barrels of oil per day, easing a pipeline crunch facing Canadian oil producers.

Despite the exchanges, the open session was quiet, attended by about 60 people. Officials had prepared for a far more fractious hearing process with a large police presence inside and outside the venue. Nebraska's five-member public service commission is expected to give its decision by November on whether the pipeline is in the public interest. The Calgary-based company already has approvals from other states Keystone XL crosses and from President Donald Trump.