Oil and Gas News Briefs
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LNG demand growth will depend heavily on emerging economies

(Wall Street Journal; Aug. 30) - Emerging nations in Asia are turning to liquefied natural gas imports to offset dwindling domestic supplies, bolstering LNG trade in the region as demand from bigger markets eases. Nearly 90 percent of global LNG demand growth will come from emerging and frontier economies by 2022, the International Energy Agency estimates. Natural gas prices fell to their lowest in a decade in 2016, according to the IEA, making it a more affordable source of energy for developing countries.

While most of the demand growth will come from economic behemoth China, as it competes with Singapore and Japan to establish itself as an LNG hub, the rest will come from smaller economies, the IEA said. Domestic gas reserves are running low in countries such as Bangladesh, Pakistan and the Philippines, forcing them to turn to imports. Bangladesh has 12 years of domestic gas left, said Lance Crist, head of oil, gas and mining at the International Finance Corp., a branch of the World Bank Group.

As demand growth slows in traditional consumers such as Japan and South Korea, those smaller players will make up 20 percent of the global LNG trade by 2022, the IEA said. “What really drives the demand is the shortages of electricity,” said Victoria Zaretskaya, lead operations research analyst at the U.S. Energy Information Administration. Metropolitan areas experience rolling blackouts to conserve energy. “They do load shedding. That means you don’t provide electricity 24 hours a day.”

While LNG prices will likely stay low for the foreseeable future, the real question is what happens to demand when prices rise, said Mel Ydreos, executive director of public affairs at the International Gas Union.

China approves merger to create world’s largest power company

(Bloomberg; Aug. 28) – China is creating the world’s largest power company. The government approved the merger of Shenhua Group, the country’s top coal miner, with China Guodian, among its largest power generators, the state-owned Assets Supervision and Administration Commission said Aug. 28. With assets of 1.8 trillion yuan ($271 billion), the entity will be the world’s second-biggest company by revenue and largest by installed capacity, according to Bloomberg New Energy Finance.

The Shenhua-Guodian tie-up may be the first of a handful of mergers in China’s power industry as top policy makers try to cut industrial overcapacity and the number of state-owned enterprises. “People have been waiting for the other shoe to drop,” said Tian Miao, a Beijing-based senior analyst at Sun Hung Kai Financial. “This confirms the direction of state-owned enterprise reform, with companies in the same industry merging to reduce redundant investment and improve efficiency.”

The new company, expected to be called National Energy Investment Corp., will have installed capacity of more than 225 gigawatts, topping world leaders Electricite de France and Italy’s Enel, said Frank Yu, an analyst at Wood Mackenzie. Shenhua will be able to reduce its reliance on coal-fired capacity, currently about 90 percent, by gaining Guodian’s clean-energy assets, Yu said in a research note. China is seeking to lower its reliance on coal and increase the use of gas, wind, solar, hydropower and nuclear.

Pakistani prime minister says LNG imports will fight energy crisis

(The Nation; Pakistan; Aug. 28) - Prime Minister Shahid Khaqan Abbasi said liquefied natural gas imports are the only solution to Pakistan’s energy crisis. “If we don’t add more gas into the system, we cannot fight the energy crisis.” Speaking at the Aug. 26 inaugural ceremony for the country’s second LNG import terminal, the prime minister said the government brought this source of energy to the country in record time of less than 14 months.

Like the country’s first LNG import facility, the second terminal is a floating receiving, storage and regasification facility. It is capable of handling an average of 600 million cubic feet of natural gas per day. The second terminal is expected to reach full operations in November. The prime minister said three more terminals could follow, developed by private parties. He said the government would stay out of buying LNG and building more terminals, as it would be done by the private sector.

Pakistan in 2016 produced about 1.46 trillion cubic feet of gas, while it consumed 1.6 tcf. As the supply gap grows, the country is stepping up its imports. Pakistan last year received most of its LNG from Qatar, though it also took cargoes from five other countries.

Australia LNG exporter makes second deal to help cover local needs

(Reuters; Aug. 30) - Santos is racing to boost natural gas supply to Australia’s eastern market to fend off government limits on exports of liquefied natural gas next year, with its latest deal good for three years. Australia is on track to become the world’s biggest LNG exporter by 2019, which has tripled demand for gas on Australia’s East Coast, straining supplies in the domestic market and driving up gas and electricity prices.

To help ease soaring energy prices, the government has put in place a controversial measure to curb LNG exports if it deems a shortfall of domestic gas supply is likely. The Australian Energy Market Operator is due to deliver its latest forecast on gas adequacy to the government Sept. 1. That report will be the basis for the government to decide whether to declare a gas shortfall for 2018 and trigger export curbs. Gas producers have warned the export curbs would raise sovereign risk in Australia and could backfire.

Santos' 2-year-old, $18.5 billion Gladstone plant is the most vulnerable to restrictions as the rules target any East Coast LNG project that is taking gas from the domestic market to help meet export contracts. To boost local supply, Santos on Aug. 30 announced a deal that could send an additional 17 billion cubic feet of gas per year to southeastern states. Santos declined to identify which company it was working with for the gas swap. Santos earlier announced a deal to supply 14 bcf a year to a South Australia power plant. Combined, the two commitments cover about 5 percent of the region's demand.

LNG imports force closure of China's domestic liquefaction plants

(Interfax Global Energy; Aug. 30) – Liquefied natural gas cargoes imported into China's state-owned terminals are putting pressure on domestic LNG plants in the eastern coastal province of Shandong, forcing all but one of the liquefaction plants to shut down, Interfax Global Energy reported Aug. 30. The province of about 100 million residents is approximately 150 miles south of Beijing.

Shandong's LNG consumption currently averages 190 tanker trucks per day, about 85 percent of which are loaded at Sinopec's 3-year-old import terminal in Qingdao, a major port city, and China National Offshore Oil Corp.'s 3-year-old import terminal in Tianjin, according to data from consultants SCI International.

China's first small-scale liquefaction plant opened in 2001 in Henan Province, just southwest of Shandong Province. The country has significantly expanded the number of liquefaction plants to allow truck deliveries of LNG to areas not served by gas pipelines. East China Engineering Science and Technology Co. in 2015 reported the country's liquefaction capacity could soon reach 7.5 million tonnes per year, about 1 billion cubic feet of gas per day. China last year consumed more than 20 bcf of gas per day.

Nigeria plans LNG transport by truck to create 'virtual pipeline'

(Reuters; Aug. 29) - Nigeria launched a program Aug. 29 to transport liquefied natural gas to regions not linked by pipeline, supplying power plants and industry with cheaper, cleaner fuel, officials said. Nigeria, a major oil producer, lacks refining capacity, so most of its crude is exported while the West African nation imports gasoline and other refined products. Lacking adequate natural gas pipelines, the country relies heavily on costly diesel generation. The government has said it wants to use more of its own natural gas.

Under the new plan, the state oil firm, the Nigerian unit of France's Total and Gas Aggregation Co. Nigeria, would deliver gas to a small liquefaction plant run by Nigeria's Greenville LNG, officials said. Greenville would deliver the gas to industries and companies nationwide using trucks which would themselves be powered by LNG, the officials said. The trucks could supply areas not linked by pipeline to create a "virtual pipeline" network, said Gas Aggregation Co. managing director Morgan Okwoche.

"This is not to take the need away from the pipelines, we are going to continue to work on providing pipelines," Okwoche said. Nigeria has been one the world's leading LNG exporters since it started shipping the fuel in 1999. The country exports about 60 percent of its natural gas production.

Industry waits to see how quickly shale output returns after storm

(Wall Street Journal; Aug. 29) - Tropical Storm Harvey, the most powerful storm to hit Texas in half a century, has shut down a big portion of the state's shale production, cutting off as much as 15 percent of U.S. oil supplies. Now, the big question is how quickly the sector can make a comeback. Before Harvey made landfall Aug. 25, many producers in the Eagle Ford shale fields near Corpus Christi, Texas, shut down their oil and gas wells, and initial estimates for lost production were up to 500,000 barrels a day.

As the hurricane's widespread devastation has become clearer, several analysts say it is almost certain that much, if not most, of the region's 1.4 million barrels a day of output is shut down. Shale producers also rely on a vast, multibillion-dollar network of energy infrastructure — from ports to train tracks to pipelines — that has developed in recent years along the Texas coast. Many pieces of that network appear to be swamped too. The need for infrastructure may slow shale's ability to bounce back.

In the past, hurricanes dealt a blow by knocking out offshore oil platforms in the Gulf of Mexico. But in many cases, once storms passed, those big installations could quickly return to pumping. The Eagle Ford shale in South Texas produces 1.4 million barrels of oil a day, second in output in the state only to the Permian Basin. Restarting wells may not guarantee that they flow at the same rate as before the storm, said Tony Sanchez, chairman of Eagle Ford operator Sanchez Energy. "It's not just a matter of flipping a switch. There is significant risk in those wells not coming back to previous levels."

Statoil signs on to explore Argentina’s shale basin

(UPI; Aug. 25) - Norwegian energy company Statoil said Aug. 25 it had signed an agreement with Argentina’s YPF to explore parts of the "world-class" Vaca Muerta shale basin. Under the agreement, Statoil took a 50 percent stake in the Bajo del Toro exploration permit in the Neuquen Basin alongside YPF. The Norwegian company said it would fund all costs associated with activities in the region. This is the first formal step for Statoil into one of the largest unconventional oil and gas basins in the world.

"This is a light-oil exploration project in a world-class unconventional resource play, the Vaca Muerta formation," Tom Dodson, Statoil's vice president for exploration and production, said in a statement. Vaca Muerta, located in Neuquen province, is considered one of the best shale basins in Latin America. The Vaca Muerta shale contains an estimated 20-plus billion barrels of oil and 308 trillion cubic feet of gas. Statoil last year signed a study agreement with YFP to map exploration opportunities.

RBC Capital Markets said shale reservoirs in Argentina may have development costs that are considerably higher than their U.S. counterparts, but higher productivity could offset some of the expense.

Newfoundland oil and gas industry criticizes new regulatory reviews

(The Financial Post; Canada; Aug. 29) - Ottawa’s push to beef up and centralize regulatory reviews of major energy projects is running into a big and unpredictable hurdle: Newfoundland and Labrador’s offshore oil industry. If history is any indication, messing with Newfoundland’s oil is fraught with risk, especially as the Atlantic Coast province struggles to get itself out a nasty recession. “Newfoundland has always been a fighting province,” said one observer who follows the sector in Atlantic Canada.

“Anything that goes against perceived ownership of resources, whether it’s fisheries or oil and gas, they will fight the federal government on it,” the observer said. At issue is the federal government’s plan to reform the National Energy Board and the Canadian Environmental Assessment Agency to strengthen environmental protection — including evaluating energy projects based on their impact on greenhouse gas emission reduction targets — as part of a campaign promise to restore public trust in energy regulation.

Just last week, the NEB said it would widen its study of the Energy East oil pipeline from Alberta to New Brunswick to include much broader climate-change impacts, a move that’s expected to make it harder for the $15.7 billion project to proceed. Sensing trouble, the Newfoundland and Labrador Oil & Gas Industries Association last week said the changes could stall industry exploration and development. It also said that under a 1988 accord with the federal government, it’s up to the Newfoundland and Labrador to decide if all regulatory requirements, including environmental, are met.

[Canadian regulator says pipeline project has not met all its conditions]

(Vancouver Sun; Aug. 29) - Canada's energy regulator said Kinder Morgan has to meet more conditions before it can start building its $7.4 billion Trans Mountain oil pipeline project. In an update to federal Natural Resources Minister Jim Carr last week, National Energy Board Chair Peter Watson wrote that all requirements must be met before the company can begin construction "on any portion of the project." However, the company is confident it will be able to start the controversial project in September as planned.

Postings on the National Energy Board's website Aug. 29 show that more than a dozen general and specific conditions must still be met. The project has regulatory approval from the federal government as well as the province under the former B.C. Liberal Party government, but faces opposition from the recently elected New Democratic Party-led government which was allowed to join legal action filed by several First Nations and environmental groups in federal court to halt the project. A hearing is set for Oct. 2-13.

The provincial government has said it does not believe construction will begin in September as the project does not have all its needed provincial permits, in part because the company's plans have not met a test of First Nations' consultation. The expanded pipeline and marine terminal, which would triple capacity to 890,000 barrels a day and increase tanker traffic six-fold, is meant to provide Canada's first West Coast export point for Alberta oil sands production to energy-hungry Asia.

[Colorado utility may close coal plants a decade earlier than planned]

(The Associated Press; Aug. 29) - Colorado's largest electrical utility said Aug. 29 it is considering shutting down two coal-fired generating units a decade earlier than planned and replacing them with power from wind, solar and natural gas. Xcel Energy said the plan calls for closing two older units at the Comanche Generating Station in Pueblo in 2022 and 2025. A third, newer unit would keep operating. Xcel said it would not go ahead unless the overall cost of electricity is the same or less than current costs.

David Eves, president of Colorado operations for the Minneapolis-based utility, said he believes the plan would save money, but he could not say how much. The plant now burns about 5 million tons of coal a year. If the two older units are retired, that would be cut in half, Xcel spokesman Mark Stutz said. The utility is asking the Colorado Public Utilities Commission, which regulates the industry, for the go-ahead to pursue the plan.

If regulators agree, Xcel would ask for bids for constructing solar, wind or gas-fueled generating facilities and for purchasing renewable or gas-fired electricity from independent companies. If the bids meet Xcel's price requirements, the utility would settle on a mix of power sources and ask regulators for permission to put the plan in place. The two units that would be retired have a combined capacity of 660 megawatts.

North Dakota tribe in dispute with state over oil tax rate

(The Associated Press; Aug. 29) – A tribe whose reservation lands supply a fifth of North Dakota's oil production has imposed a higher tax rate, a move the governor and state tax commissioner said is improper and industry officials fear may slash production. The Three Affiliated Tribes this month notified the more than 30 companies drilling on the Fort Berthold Reservation of the tax change. Tribal Chair Mark Fox said the taxes are needed to pay for law enforcement, road repairs and other impacts of oil activities.

State Tax Commissioner Ryan Rauschenberger said the move is "inconsistent with current state law." Gov. Doug Burgum said the dispute creates regulatory uncertainty that has the potential to "quell or squash investment" in the state. Burgum is scheduled to meet with legislative and tribal leaders this week to discuss the matter. The Three Affiliated Tribes and the state have long been at odds over shared tax revenue from drilling on the oil-rich reservation in western North Dakota.

The Legislature in 2007 authorized a tax agreement between the tribes and the state after oil companies said it would help promote reservation investment by setting up stable tax rates and rules. Then two years ago, the Legislature passed a measure that abolished some tax incentives in exchange for lowering the overall tax rate from 11.5 percent to 10 percent, including for output from reservation lands. Fox said the tribe never agreed to the change and the tribe still wants its share, which is half of the 1.5 percent rate that was cut by lawmakers. He estimated the sum to be about $17 million.