Oil and Gas News Briefs
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Pennsylvania governor will try 3rd time for gas production tax

(EnergyWire; Jan. 30) - President Trump is casting a shadow on Pennsylvania politics, empowering Republicans in a long-running battle with Democratic Gov. Tom Wolf over how to tax the state's natural gas industry. Wolf is preparing to ask the Legislature for a gas production tax for the third time since he was elected in 2014. The GOP-dominated House and Senate have rebuffed him twice, even though polls show the idea of a production tax is popular with voters. Pennsylvania is the only major energy-producing state that doesn't tax gas production. Instead, drillers pay an annual fee for each well.

Trump's odds-defying victory in Pennsylvania appears to tilt the field toward the GOP in the Legislature, and Republican candidates are already jockeying to challenge Wolf in 2018. That makes it unlikely the two sides will find a solution this year to the long-term budget problems that have led to underfunding in schools and layoffs at state agencies, said Christopher Borick, a political science professor at Muhlenberg College in Allentown, Pa. "This has all the makings of ugliness," he said.

Wolf pitched the production tax as a clean solution to the state's problems when he took office. Wolf's predecessor, Republican Tom Corbett, had cut funding to Pennsylvania's schools in the wake of the 2008 recession. Meanwhile, the gas industry boomed as companies drilled into the Marcellus Shale formation. Wolf's first budget proposal, for the 2015-16 fiscal year, would have raised about $1 billion in new revenue by taxing the gas industry. The state faces an estimated budget gap this year of $2.8 billion.

Japan looking at how it could reduce trade surplus with U.S.

(Reuters; Feb. 2) - Japanese Prime Minister Shinzo Abe is considering increasing energy imports from the United States, two sources familiar with the plan told Reuters, as he prepares to meet President Donald Trump, who has complained about Japan's trade surplus with the U.S. Abe's government also is pulling together options for Japanese companies to invest in infrastructure and job-creation projects in the United States for the prime minister to take to the Feb. 10 meeting with Trump in Washington.

Another idea is to offer to increase liquefied natural gas imports from the United States, a source in Abe's ruling coalition told Reuters. Still another option, if Abe determines that Trump is most concerned about the trade gap, is to increase imports of U.S. shale oil or gas on top of the investment package, according to a top executive at a major

Japanese corporation who is close to Abe. Japanese officials have been scrambling to respond to Trump's scattershot comments on trade since he took office.

"(Abe) wants to know what's the most important thing for Trump," said the executive, who declined to be identified. Japanese utilities, however, would be resistant to buying more U.S. shale gas because they have already committed to buying large amounts and Japan's demand for energy is falling, an executive at a Japanese LNG importer told Reuters. Once seen as a panacea for Japan's energy crisis after the Fukushima nuclear disaster in 2011 led to the shutdown of most reactors in the country, U.S. LNG is now just one of many options for Japan to meet its energy needs.

Canadian, B.C. governments give First Nations a role in LNG project

(Globe and Mail; Canada; Jan. 31) - The B.C. and federal governments say they have secured a deal to give First Nations a role in environmental monitoring of the proposed Pacific NorthWest LNG facility and export terminal. The pact, announced Jan. 31 with the Lax Kw'alaams Band and the Metlakatla First Nation, is designed to address indigenous opposition to the project near Prince Rupert, B.C., by providing the two communities with an oversight role in development and operation of the facility.

"This is historic in nature, typically it's not a role we share with First Nations," said John Rustad, B.C.'s Minister of Aboriginal Relations and Reconciliation. The First Nations, which hold the strongest aboriginal title claims to the territory where the facility is proposed, will each have a seat on an environmental-monitoring committee that will oversee compliance with regulations set down in the project's environmental certificate. Much of the opposition to the project has focused on potential damage to salmon habitat in Flora Bank, a sandbar located next to proposed LNG marine terminal site.

The project received environmental approval last fall, but has not yet received a green light from its backers, led by Malaysia's state oil and gas company Petronas. The final investment decision has been delayed due to weak markets; a decision is not expected until later this year. The Lax Kw'alaams remain divided over the project. In the spring of 2015, the community voted to reject the proponent's cash offer worth $1.1 billion over 40 years. A new agreement has not been announced, but Rustad said there has since been extensive consultation within the community about the project and benefits.

Chevron works to complete its two LNG projects in Australia

(Sydney Morning Herald; Jan. 29) - Chevron continues working to complete construction at its three-train, $54 billion Gorgon LNG project in Western Australia, while still targeting first production from its $34 billion Wheatstone project by mid-year. Once the three liquefaction trains at Gorgon are operational, the focus will shift to debottlenecking the plant in a bid to boost throughput, the company said. The first two trains started production last year, with the third scheduled to start up later this year.

A host of problems with the first unit at Gorgon resulted in lost exports from Australia into the key North Asian market, which created an opportunity for U.S. LNG projects to make some sales. Addressing securities analysts late last week, Chevron said 39 cargos have been shipped from Gorgon, with 10 shipments completed since the beginning of the year. Despite the difficulties in bringing the first production unit online, the second unit reached over 90 percent of capacity within a week, the company said.

"At Wheatstone, our outlook for first LNG remains mid-2017," the official said. Demand for gas remains firm, although concerns of a glut in export markets remain amid the planned launch of a series of export projects in the U.S. “I don't think we're yet at the place where you're going to see a lot of [final investment decisions] taken on new projects, but it's been encouraging to see a bump up in prices,” Chevron said.

Asia spot-market LNG prices fall back below $8

(Reuters; Jan. 27) - Asian spot LNG prices extended losses this week as oversupplied Japanese utilities sought to offload cargoes and as key European gas benchmarks softened. Asian prices for LNG delivery in March fell 25 cents to about $7.75 per million Btu, traders said. Prices tailed off even more sharply for April delivery, currently trading around $7, they said.

One trader said utilities in Japan "have overbought due to warmer-than-average temperatures at the end of 2016, and the current cold spell doesn't look like it will last," leaving them stuck with larger inventories. "This will put massive pressure on the market as I don't think the demand is there for March" to absorb excess supply, the trader said.

Kansai Electric, Osaka Gas and LNG importing giant Jera are expected to unload at least one cargo apiece for March delivery, he said. A second trader said Jera was already marketing two shipments from Indonesia's Donggi-Senoro LNG export facility. China's Sinopec put up for tender several cargoes for February and March delivery from the Australia Pacific LNG project, where it is a stakeholder with long-term supply rights.

Japan continues to build coal-fired power plants

(Australian Broadcasting Corp.; Jan. 31) - The Japanese government is moving ahead with plans to build up to 45 new coal-fired power stations. The plants will utilize high-energy, low-emissions technology that uses high-quality black coal. Japan is the largest overseas market for Australian coal producers, taking more than a third of all exports.

Tom O'Sullivan, a Tokyo-based energy consultant with Mathyos Global Advisory, said Japan has imported more LNG since the 2011 Fukushima disaster, but coal is cheaper.

"Japan needs to import 95 percent of its energy sources," he said. "It's trying to diversify its fuel sources and it doesn't want to be too reliant on any one market." Japan has ratified the Paris Climate Agreement and committed to a 26 percent reduction in carbon dioxide emissions by 2030, but Japan was yet to price carbon emissions, O’Sullivan said. "Although Japan spent $36 billion on commercial solar power last year, and is planning much more, there is no carbon price," deterring a move away from coal.

O'Sullivan said while community and environmental groups had expressed concerns about construction of a major coal power station, Prime Minister Shinzo Abe was firmly behind the plans. He said the decision would ensure that the use of coal in Japan would continue well into the middle of the century. "These guys [private companies] are not going to go ahead and [put money into] in large capital investments unless they have a 30-year depreciation period," he said.

Japanese power wholesaler looks to gas and wood biomass

(The Japan Times; Feb. 1) - Japan’s biggest electricity wholesaler knows it will take more than cutting-edge coal technology to save the environment. The Electric Power Development Co., known as J-Power, is looking to build its first major power plant that will burn natural gas as well as more woody biomass, Executive Officer Hitoshi Kanno said. That is because even the most advanced coal technology isn’t enough for companies like J-Power to meet Prime Minister Shinzo Abe’s emissions goal, he said.

Last April, Japan’s trade ministry put in force a regulation that requires power producers to increase the efficiency of thermal generation, defined as energy output divided by fuel input, to 44.3 percent or more by the year ending March 2031. Existing coal-fired facilities with the latest available technology have a generation efficiency of about 41.5 percent, according to a ministry report. Some plants fueled by natural gas imports have a generation efficiency of more than 50 percent.

Lacking the expertise for procuring LNG and the terminals for receiving it, J-Power may need to tie up with companies that have the infrastructure to expand its supply of gas. The company currently has two small-scale gas-fired plants with about 100 megawatts each in capacity near Tokyo. The fuel is supplied by Tokyo Electric and Tokyo Gas. J-Power plans to use woody biomass for as much as 10 percent of the fuel at a new 600-megawatt coal-fired unit at its Takehara plant in Hiroshima Prefecture, Kanno said.

India cuts in half its import duty on LNG

(Platts; Feb. 1) - India has decided to cut its import duty on liquefied natural gas to 2.5 percent from 5 percent to encourage more use of the fuel, Finance Minister Arun Jaitley said while presenting the national budget for fiscal 2017-2018 on Feb. 1. The lower rate will take effect April 1, a finance ministry official said. Oil Minister Dharmendra Pradhan last year said India would aim to raise the share of cleaner-burning natural gas in its energy basket to 15 percent from 6.5 percent over the next three to four years.

The country plans to more than double its LNG imports to 50 million metric tons by 2020 from 19.2 million tons in 2016, according to data from Platts Analytics. India's LNG demand is expected to grow 38 percent year on year in 2017 as infrastructure and regulatory barriers are eased, Platts Analytics data showed. Market sources said, however, that they had expected a complete removal of duty on LNG imports, bringing it in line with crude oil, on which no import tariffs are imposed.

BP forecasts India to lead major economies in energy demand growth

(International Business Times; Jan. 27) - India's energy consumption growth at 4.2 percent a year will be the fastest among all major economies by 2035, and even after an increase in domestic production the country of 1.3 billion people will remain import-dependent for its energy needs. It also is expected that India will overtake China as the largest growth market for energy by 2030, according to BP's latest energy outlook. China will still consume more energy than India, but at a slower growth rate.

"India's demand growth is more than double the non-OECD (Organization for Economic Cooperation and Development) average," the BP report said. In India, energy consumption in power generation will more than double. Oil consumption in the country will rise to 9.2 million barrels per day in 2035 from 4.1 million barrels per day in 2015. Natural gas consumption is expected to jump to 12.8 billion cubic feet per day from 4.9 bcf a day, while coal consumption is projected to more than double, the report said, with two-thirds of the coal destined for power plants.

Iran wants to get into global LNG business

(Financial Tribune; Iran; Jan. 30) - In line with its intent to break into the liquefied natural gas export trade, Iran is negotiating with European and Asian gas giants to restart incomplete LNG projects, said Gholamreza Manouchehri, deputy for engineering and development affairs at the National Iranian Oil Co. Russia, France, Romania, Lithuania and China have already shown interest in restarting LNG projects, Manouchehri was quoted Jan. 29 by the Iranian national news agency.

Manouchehri believes that Iran has the potential to break into the global LNG market, despite years of inactivity and a significant gap in production compared to rivals in the region. He said establishing small-scale, floating LNG units is a plausible scenario from Iran to move faster than building larger, more expensive onshore facilities.

Iran has close to 1.2 trillion cubic feet of gas reserves. It has been working for years on several major LNG projects to convert its rich gas reserves into revenue, but to no avail. Easing of international sanctions could help Iran attract needed capital investment.

Icebreaking LNG carriers at Yamal will cost $5 billion

(Maritime Executive; Jan. 27) - The world's first icebreaking liquefied natural gas carrier has arrived in Zeebrugge, Belgium, in preparation for sea trials. The ship is moored alongside an LNG import terminal that has the super-chilled fuel in storage, and some of that LNG will be loaded into the Sovcomflot ship to cool and test its storage tanks. The carrier is one of 15 ordered for the Yamal LNG project in the Russian Arctic. The icebreaking LNG carriers will cost a combined $5 billion to acquire.

Built by Daewoo Shipbuilding and Marine Engineering in South Korea, the carrier is designed to break through up to six feet of ice without assistance from an icebreaker escort, enabling it to serve the Arctic facility much of the year. The $27 billion Yamal LNG project is scheduled to start production late this year. The remote location and extreme environment impose additional expenses on the project.

Despite the expenses, the lead partner in the venture, Russian gas producer Novatek, said the cost of Yamal's natural gas is so low that it will offset the higher transportation and construction costs, and that its LNG will be competitive with gas sold by competitors from plants located in milder climates. Most of Yamal’s initial output is covered by long-term contracts, including deals with China, which is a major investor in the project.

Algeria expects to boost gas exports this year

(Reuters; Jan. 28) - Algeria expects to increase exports of natural gas in 2017 as it looks to build on its top spot in sales to Spain and strong sales to Italy and Portugal, a source at state energy firm Sonatrach said. Algeria’s gas exports are split about 60 percent pipeline gas sales and 40 percent liquefied natural gas exports. The country was the world’s first LNG exporter, starting deliveries in 1964, and its multiple liquefaction units have a total output capacity of about 28 million tonnes per year.

Gas exports are expected to grow to 2 trillion cubic feet in 2017, about a 5 percent gain from last year, the source said. The biggest customer is Spain, at 700 billion cubic feet last year, with Italy and Portugal high on the list for pipeline gas sales from the North African nation. Algeria has seen its oil and gas output stagnate in recent years, but last year made progress in boosting output. The nation exports about half its gas production.

The European Union and Algerian energy officials last year held a summit where EU officials and energy companies urged Algeria to adapt to more competitive energy markets to allow more gas to flow north. Algeria has taken a more flexible approach with foreign companies after several bidding rounds failed to attract new investment. The focus has shifted to improving existing field output and bringing delayed projects online.

Trade war with Mexico could knock down U.S. natural gas prices

(Bloomberg; Jan. 31) - Natural gas prices in the U.S. may tumble 40 percent if President Donald Trump's feud with Mexico turns into an all-out trade war. Prices could slide to $2 per million Btu or lower if U.S. gas exports to Mexico by pipeline are halted, according to Tudor Pickering Holt & Co. and Again Capital. While analysts with the companies don't anticipate a complete cutoff, they're watching for signs of disruption to the shipments, which accounted for as much as 5 percent of U.S. gas production last year.

Trump's push to impose a 20 percent tax on imports from Mexico to pay for a border wall is threatening to reverse a shift toward stronger alliances between the U.S. and its southern neighbor. The nations' economies have become increasingly intertwined as crude oil and gas from U.S. shale basins flow south to feed power plants and factories in newly deregulated Mexican energy markets.

"You could easily talk about dropping to the $2 area for sure, or below that," said John Kilduff, of Again Capital in New York. The U.S. is sending a record amount of gas south of the border, with exports via pipeline topping 4 billion cubic feet a day August through October. Mexico also became the largest importer of U.S. LNG, taking 11 cargoes from Cheniere Energy's Louisiana terminal since August. U.S. prices would slide by about a dollar if all pipeline exports to Mexico are stopped, leaving the U.S. awash in supply and forcing drillers to cut production, said Brandon Blossman at Tudor Pickering in Houston.

U.S. power generators continue to add new gas-fired plants

(U.S. Energy Information Administration; Jan. 30) - The U.S. electricity industry is planning to increase its natural gas-fired generating capacity by 11.2 gigawatts in 2017 and 25.4 gigawatts in 2018, based on information reported to the U.S. Energy Information Administration. If the plants come online as planned, annual net additions in gas-fired power plant capacity would be at the highest levels since 2005. The additions would add about 8 percent to the nation's gas-fired power plant capacity.

The new additions could help gas maintain its status as the primary energy source for power generation, even if gas prices rise moderately, the EIA said. The continuing expansion of gas-fired generating capacity follows five years of net reductions of coal-fired electricity generating capacity. Available coal-fired capacity fell by an estimated

47.2 gigawatts between the end of 2011 and the end of 2016, equivalent to a 15 percent reduction in the coal fleet over the five-year period.

The power industry has been retiring some coal-fired generators and converting others to run on gas in response to the implementation of environmental regulations and to the sustained low cost of gas. Expanded production from shale formations is one of the main reasons that natural gas prices have remained low in recent years. Many of the gas-fired power plants under construction are in Mid-Atlantic states and Texas, where the nation's major natural gas shale plays are located.

Shell sells fields that provide half its North Sea oil

(The Guardian; London; Jan. 31) - Shell has sold a large part of its North Sea oil fields for $3.8 billion to a company headed by Linda Cook, who left the Anglo-Dutch group more than seven years ago after missing out on the top job. She will now become chair of private equity-backed oil group Chrysaor after it snapped up the package of fields put up for sale by Shell. The deal will be partly funded by Harbour Energy, which is part of the U.S. investment giant EIG and where Cook has been managing director since 2014.

The assets sold by Shell accounted for more than half of the company's North Sea oil production last year and includes fields gained after Shell acquired gas giant BG Group. Chrysaor will become one of the U.K.'s biggest oil and gas producers after the sale is completed in the second half of this year. The move takes place two days before Shell is due to publish its 2016 full-year results and is part of its program to reduce its debts by divesting $30 billion of assets by 2018.

Oil majors have been reducing their footprint in the relatively high-cost North Sea in favor of lower-cost production elsewhere. Earlier this month, BP sold a 25 percent stake in the Magnus field to Enquest, a U.K. independent oil and gas company.