Oil and Gas News Briefs
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First U.S. shale-gas LNG arrives in Japan

(Kyodo News; Jan. 6) - A ship carrying liquefied natural gas produced from U.S. shale arrived at a power plant in central Japan on Jan. 6 — the first such import to the country. The voyage lasted almost a month, covering more than 10,000 miles, after the carrier loaded about 3 billion cubic feet of natural gas as LNG at the Cheniere Energy terminal in Sabine Pass, La., on Dec. 7. The buyer, Jera Co., is a procurement joint-venture of Tokyo Electric Power and Chubu Electric Power.

Japan has been buying most of its LNG from the Middle East, Australia, Asia-Pacific producers and Russia, and it hopes that the addition of U.S. supplies will help diversify its sources. Jera, the world's largest single buyer of LNG, has plans to take additional supplies of U.S. gas. The delivery is "the first step in cracking the LNG market wide open," said Hiroki Sato, senior executive vice president at Jera.

The first delivery was offloaded at Chubu Electric's Joetsu thermal power station in Niigata Prefecture, on the west side of Japan. The Joetsu plant is the first major power plant Chubu Electric built outside of its central Japan service areas. The Cheniere LNG plant is one of five at differing stages of construction in the U.S. The Sabine Pass plant started operations from its first liquefaction unit in February, and has sent cargoes to South America, Europe and China.

Bank says production growth could help drop LNG prices to $4.50

(Natural Gas Intelligence; Jan. 6) - The tide of factors that lifted spot prices for liquefied natural gas last year is easing up, and analysts at Bank of America Merrill Lynch say they are pessimistic on LNG prices relative to rising oil prices. LNG production growth in the U.S. and Australia is more than offsetting declines elsewhere, and that is set to continue, they said. "Meanwhile, Asian LNG consumers are massively over-contracted to 2020. … Whatever structural demand growth in Asia and [elsewhere] cannot absorb, European utilities will have to take. But this will only happen at the right price."

Spot LNG prices in Asia could go as low as $4.50 per million Btu during the first half of this year, the analysts said, in order to reach a level attractive for coal-to-gas switching in Germany. Spot LNG prices rose 38 percent during 2016 and finished at $9.50, the highest in two years, the bank said. China's decision to cut its coal output sparked a rally in that commodity, which also lifted LNG. And a cold start to the winter in 2016 and restocking by Asian LNG buyers also helped. The party for LNG, however, is ending.

"Going forward we are bearish on spot LNG prices," the analysts said. "The seasonally bullish factors on LNG are starting to wear off, and the underlying fundamentals are still bearish on new LNG supply in the coming months and for the rest of 2017."

Most of this winter's U.S. LNG has gone to Asia

(Argus Media; Jan. 6) - Northeast Asia has emerged as the primary destination for liquefied natural gas exports from the year-old export terminal still under construction at Sabine Pass, La., an indication of how quickly flexible U.S. supplies can respond to global price signals. One of the main advantages of U.S. LNG is that it does not have destination restrictions as LNG from other producing regions. Customers of U.S. gas can more easily send the cargoes to whatever market provides the best value.

At least 11, and possibly 12, of the 21 Sabine Pass exports since mid-November likely will go to northeast Asia, according to an Argus Media analysis of shipping data. Each cargo is equivalent to about 3 billion to 3.5 billion cubic feet of gas, depending on the size of the vessel. The trend has become more pronounced as the northern hemisphere winter has progressed, with nine or 10 of the 15 cargoes loaded since December likely headed to northeast Asia.

Since Dec. 1, the northeast Asia delivered spot-market price has averaged $9.09 per million Btu, 25 percent higher than the average of $7.25 during the same time last year. Argus Media in December assessed the U.S. Gulf LNG price for January loading at an average of $7.30, putting the delivered cost to northeast Asia at about $8.95.

Increased winter demand could push U.S. natural gas prices higher

(ICIS News; Jan. 6) - The U.S. natural gas market entered this year's winter demand season with storage near record high levels. But with exports to Mexico expected to increase, fewer coal plants supplying the power grid and gas production predicted to slip for the first time since 2005, there are concerns that a colder-than-expected winter could lead to spikes in domestic gas prices.

According to the U.S. Energy Information Administration, estimated current working gas in storage for the week ended Dec. 2 was 3.95 trillion cubic feet, about 91 percent of total capacity. The Natural Gas Supply Association cited forecasts of colder weather and increased demand as potential drivers for higher natural gas prices this winter. "I think that this decline in production is really a sign that this market is going to get very tight next year," Phil Flynn, a senior analyst with the U.S.-based Price Futures Group.

Flynn said $4 is a soft target and could very well end up being the floor for natural gas prices in the U.S. “The exports (pipeline gas to Mexico and LNG exports) will lead to a significant part of the U.S. production that isn’t going to be available at a time when we are going to see a tighter market,” Flynn said. “I think the possibility of price spikes this winter are very high.”

Judge rejects property tax break for Cameron LNG in Louisiana

(American Press; Lake Charles, LA; Jan. 5) - A plan that would allow the Cameron LNG export project under construction in Hackberry, La., to pay a negotiated amount to Cameron Parish instead of paying valuation-assessed property taxes after its 10-year tax exemption is up in 2029 was shot down in district court this week. The judge said the Cameron Parish Police Jury (equivalent to a county’s governing council) does not have the authority to replace taxes with a fixed negotiated amount, for any business.

The judge ruled that the PILT program — payment in lieu of taxes — went beyond the scope of the law. Baton Rouge attorney Brian Eddington, who represented opponents of the tax plan, called the parish deal “an alternative taxing scheme … they would pay this negotiated amount which is significantly less than what they would pay in taxes.” Based on the potential assessed value of the $10 billion liquefied natural gas project, he said, Cameron LNG would have saved 75 percent on its tax bill.

But Parish Administrator Ryan Bourriaque said estimates of future property taxes are notoriously unreliable due to changes in property size, market and legislation. Under the deal rejected by the court, Cameron LNG would have paid the parish $4.5 million each year for the first two years after the 10-year tax holiday expires, and then $24.5 million each year for the next 20 years. The project, led by Sempra Energy, is scheduled to start up operations in 2018. “What that decision has done is given us a reason to step back, regroup and see things from a different perspective,” Bourriaque said.

Energy, environment ministries want India to drop LNG import tax

(Reuters; Jan. 5) - India's energy and environment ministries want the government to scrap a 7.5 percent import tax on liquefied natural gas and impose a levy on use of pet coke and furnace oil to promote cleaner fuel, they told Prime Minister Narendra Modi. India is the world's third largest emitter of greenhouse gases and relies heavily on coal, gas and oil imports to meet its energy needs and fuel its economic expansion.

India’s energy consumption is bound to grow as it targets 8 to 9 percent annual economic growth, up from about 7 percent in 2016-2017. To cut the country's carbon footprint, New Delhi wants to raise the use of natural gas in its energy mix to 15 percent in three to four years from 6.5 percent now. LNG imports, which account for 44 percent of gas use in the country, are duty free only if shipped in for the power sector. All other LNG imports are taxed.

At a meeting with Modi on Jan. 4, top officials from the power, coal, mines, oil and gas, renewables and environment ministries made a series of demands and suggestions ahead of the government budget budget on Feb. 1. The group asked for a tax on furnace oil/pet coke to promote use of biofuels. They also sought continuation of tax incentives and benefits for the renewable energy sector beyond March.

Calgary company will build propane export terminal in Prince Rupert

(North Coast Review; Prince Rupert, BC; Jan. 4) – Calgary-based AltaGas has announced it will go ahead with its proposed propane export terminal at Ridley Island, in front of Prince Rupert, B.C. It would be the first propane export terminal on Canada's West Coast, with construction to start next year, the company said Jan. 3. The plan is to deliver propane by rail from gas producing areas in British Columbia and Alberta, shipping out 1.2 million tonnes per year. Start-up is expected in 2019.

AltaGas said the short shipping distance from Prince Rupert to Asia will give the project a strategic advantage over competing facilities on the U.S. Gulf Coast. Key to the company's investment decision was its ability to obtain a multi-year contract with the Japanese firm Astomos, one of the largest propane players in the world. The Tokyo-based company provides an entry point into the Asia market for the Canadian company. AltaGas in early 2016 estimated the project cost at $400 million to $500 million.

AltaGas has received approval from federal regulators. The project site is on land leased from the Prince Rupert Port Authority. "We are consulting and working with the First Nations … collaborating closely with First Nations and communities to create sustainable social value, said AltaGas CEO David Harris.

U.S. oil and gas growth bad news for Canada

(Financial Post; Canada; Jan. 5) - The U.S., a net energy importer since 1953, is on a path to become a net energy exporter in the next decade, the U.S. Energy Information Administration said in its 2017 energy outlook. But growing U.S. production of tight oil and shale gas, combined with flat U.S. oil demand, is bad news for Canada, which will have no alternative export market for its oil and gas until it builds new oil pipelines to the coasts and liquefied natural gas plants, and even faces competition from U.S. supplies.

"U.S. imports of natural gas from Canada, primarily from the West where most of Canada's natural gas is produced, continue to decline, while U.S. exports to Canada — primarily in the East — continue to increase because of Eastern Canada's proximity to abundant gas resources in the Marcellus basin,” the EIA said in its outlook. Meanwhile, U.S. gas exports are set to soar by 2020, thanks to a growing U.S. LNG sector. Five LNG facilities are expected to be up and running by then – the Sabine Pass export facility began operations in 2016 and four more are expected to be completed by 2020.

Meanwhile, only one small LNG facility, Woodfibre LNG, is moving ahead on Canada’s West Coast, while two dozen others that had been proposed remain uncertain due to opposition, regulatory delays and changing market conditions.

Oil market should tighten later in 2017, but non-compliance an issue

(Reuters analysis; Jan. 6) - OPEC and non-OPEC members have pledged to cut their combined oil production by an average of just over 1.7 million barrels per day in the first six months of 2017. Saudi Arabia and its Gulf allies are expected to implement most of their cuts immediately, but other producers both within and outside the Organization of the Petroleum Exporting Countries are likely to phase in the reductions gradually.

The collective cuts should increase progressively over the first half of 2017 and have their biggest impact on the supply-demand balance from the second quarter onward. Market tightening should be felt at the start of summer as output cuts are fully phased in and U.S. refineries ramp up demand for the driving season. Continued underlying growth in oil consumption in both OECD and non-OECD economies during the first six months should also help progressively tighten the supply-demand balance.

OPEC and non-OPEC members also have given themselves the option to extend the cuts for a further six months depending on market conditions. But the different pace of production cuts for different countries increases the risk of non-compliance, especially toward the end of the first half and in the second half of 2017. If the agreement succeeds in raising prices and drawing down inventories, some countries may not deliver all the cuts they have promised. Compliance is likely to be greatest by Saudi Arabia and its allies at the start, and least by countries such as Russia toward the end.

Economist says Texas may be nearing bottom of oil bust

(EnergyWire; Jan. 5) - Texas may be nearing the end of the oil bust, a prominent petroleum economist says. The Texas Workforce Commission has reported an uptick in oil and gas employment in the state, as companies move to increase payrolls with the steady improvement in the oil price. The active land drilling rig rate has also improved. But a broader index gauging the overall health of the oil industry is at an all-time low.

The author of the Texas Petro Index sees a bottoming ahead, along with the possibility of two straight years of contraction coming to an end. "Momentum continued building during November for higher levels of exploration and production activity and higher prices in 2017 for both crude oil and natural gas," said Karr Ingham, an economist with the Texas Alliance of Energy Producers, a trade group.

In the latest calculation, incorporating statistics for November 2016, the index declined for the 24th straight month. The index is a composite of measurements of oil and gas industry performance, including oil price, active drilling rig rate, permitting activity and workforce strength. With at least three of those items showing improvement — better oil prices, new industry hires and rising rig utilization — Ingham suggests that November 2016 may have been the bottom. Permitting has also perked up as the industry has gained efficiencies, enabling well operators to turn a profit with oil above $50 per barrel.

Wisconsin tribe wants pipeline removed after 64 years of operations

(The Associated Press; Jan. 6) - A Chippewa tribe in Wisconsin is calling for 12 miles of pipeline to be removed from its reservation after 64 years of operation, saying they want to protect their land and water from oil spills. The Bad River Band of the Lake Superior Chippewa's tribal council approved a resolution Jan. 4 refusing to renew easements for 11 parcels of land along a section of Enbridge's Line 5 pipeline, which carries oil and natural gas liquids almost 650 miles from Canada to eastern Michigan.

The resolution also calls for decommissioning the pipeline and removing it from the tribe's reservation along the shores of Lake Superior in far northern Wisconsin. "We depend upon everything that the creator put here before us to live … a good and healthy life," Bad River Chairman Robert Blanchard said. "These environmental threats not only threaten our health, but they threaten our very way of life as (Chippewa)."

It isn't clear if the tribe can force removal of the pipeline. Brad Shamla, Enbridge's vice president of U.S. operations, said it was too early to speculate on what authority the tribe may have. Shamla said there's never been a spill on the reservation since he joined the company in 1991. The resolution was a surprise, Shamla said, because Calgary-based Enbridge and the tribe have been negotiating renewal of easements on the 11 parcels — which expired in 2013 — for the past three years. The easements for the majority of other parcels on tribal land extend until 2043 or last in perpetuity.