Oil and Gas News Briefs
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Shell still looks toward investment decision in 2019 for LNG Canada

(Bloomberg; July 27) - Shell said it hasn't written off its liquefied natural gas project in Kitimat, B.C., although a global supply glut killed off a competing project in British Columbia earlier this week. Shell-led LNG Canada, which is also backed by Mitsubishi, PetroChina and Korea Gas, is still weighing an investment decision that's expected by early 2019, Shell CEO Ben van Beurden said on a conference call July 27.

"We need to get the timing properly right — we think we can," he said. "If we look at an investment decision in the next 18 months or so, this is going to be a project that could start producing right at the moment when the spot market, the short-term market is getting very tight again." Low prices have thrown the economics of LNG projects worldwide into question as increasing exports from Australia and the U.S. inundate the market with so much supply that analysts say demand may not catch up until the 2020s.

Shell and its partners in 2016 delayed for the second time a decision on their Canadian project, citing industry challenges. Shell is trying to reduce costs to a "break-even price that is very resilient," the CEO said. "This needs to be a project that can survive under down cycles." He added, "If you have the best possible project on the cost-of-supply curve for new projects, then you are a little less obsessed with the timing because you will be able to get it into the market."

Problems, costs, delays piled up to kill Petronas LNG project in B.C.

(The Financial Post; Canada; July 28) - Though Petronas said the election of a new coalition government in British Columbia was not a factor in its decision to cancel the proposed Pacific NorthWest LNG project, sources said the Malaysian state-owned company and its partners — Japan's JAPEX, China's Sinopec, Indian Oil Corp. and PetroleumBrunei — had been losing hope for months and were distressed about the continuing legal challenges, local opposition that would have required police protection to proceed with work, coming policy changes and a sense that they were not welcome.

Worries about the project's viability escalated despite receiving a federal permit last year. LNG prices in Asia had collapsed along with oil prices and the global business was in turmoil. Meanwhile, U.S. Gulf Coast projects were nearing completion, stealing market share from projects planned for British Columbia that were mired in delays.

Faced with local opposition, the venture tried to reconfigure the project to avoid juvenile salmon habitat at the mouth of the Skeena River, adding further costs. It also doubled down on efforts to win aboriginal approvals, after one band rejected $1.2 billion in long-term benefits. Yet its efforts were met with continued pushback. A pipeline to carry gas from the Montney Shale was facing new regulatory hurdles after environmentalists won a case in federal court July 20 that the National Energy Board needed to reconsider the provincially approved pipeline because it involved gas exports overseas.

Project proponents worried over hostile comments about LNG projects made during the spring campaign by now-Premier John Horgan and his Green Party allies. Proponents were also concerns about escalating carbon prices in Canada that further undermined the project's economics, and that the new government wanted the carbon tax to be applied to methane emissions from gas production. Cameron Gingrich, director of gas services at Solomon Associates, said government delays affected the project's net present value. "Instead of nurturing an industry, they put a lot of additional risk on them."

Canadian gas producer blames government for LNG cancellation

(CBC News; Canada; July 28) - The CEO of one of Canada's biggest gas producers said "government dithering" played a role in the cancelation of a massive liquefied natural gas project in British Columbia. "They [Petronas] kept getting held up … all levels of government were trying to squeeze more money out of them," said Mike Rose, head of Tourmaline, among the largest gas producers in Western Canada.

Tourmaline was among a slew of shale gas producers in B.C. and Alberta that stood to benefit from LNG exports. "We're disappointed," Rose said. Petronas canceled its Pacific NorthWest project July 25, citing low prices in export markets in Asia. But Rose said a "more effective, streamlined approval process," would have seen Petronas make its investment decision on the project three years ago, when prices were much higher.

Canadian gas has traditionally been locked within North America, but liquefaction allows gas to be moved around the world by tanker. Five years ago, there were more than a dozen LNG projects proposed for the B.C. coast. Now, only two large plans remain, one led by Shell, the other by Chevron. Both are delayed and remain uncertain. Pacific NorthWest had been considered the most likely to proceed. But it suffered government delays, including additional time granted for Canadian Environmental Assessment Agency review. The B.C. government announced a special LNG tax at 7 percent of net income in 2014. Later it cut that figure to 3.5 percent after capital costs were recovered.

TransCanada looks to pipeline expansions in lieu of LNG projects

(The Canadian Press; July 28) - TransCanada is looking to boost its capacity to export natural gas east and south from the rich reserves of Western Canada as dreams fade of sending the gas to Asia. The company announced July 28 a $160 million program to add capacity with more compressors on its mainline system in southern Ontario so it can send more gas to the province and Atlantic Canada, adding to its $2 billion plan in June to expand its northeastern B.C. pipeline system to get more gas out of the region.

The pipeline capacity expansions come as the potential to move liquefied natural gas to Asia through West Coast terminals becomes more remote. Malaysia's Petronas and its partners July 25 gave up on the Pacific NorthWest LNG export terminal, while last year Shell and its partners indefinitely delayed a final decision on their LNG Canada project. TransCanada had big hopes of moving gas to the West Coast through two different pipelines proposed to serve the LNG terminals in Prince Rupert and Kitimat, B.C.

TransCanada CEO Russ Girling said it's important to continue to expand pipeline capacity wherever possible as the size of Western Canada's gas resource continues to grow, and the costs to extract it drop. "It appears there's a lot more gas than anybody ever anticipated that can be recovered at ever-decreasing costs," Girling said on an analyst call July 28. "The desire to access existing North American markets is becoming more and more important, as these folks determine they can produce more gas."

More Canadian gas could go out through U.S. LNG export terminals

(Bloomberg; July 26) - Malaysia's Petronas has pulled the plug on its plan to ship liquefied natural gas from Canada's West Coast to Asia, losing out to U.S. suppliers that got to market first. If it can't beat them, it may join them. Petronas needs to find a home for the gas produced by its Canadian unit Progress Energy in the Montney Basin in British Columbia and Alberta — and exporting from the U.S. might be its best bet.

"Given the high quality of Petronas' liquid-rich shale assets in Canada, it wouldn't be surprising if Petronas tried to monetize some of them into LNG through a U.S. Gulf Coast facility," said David Austin, a Vancouver-based energy lawyer at Clark Wilson who has advised clients working in the Montney, one of the continent's most prolific and cheapest sources of gas.

Petronas' decision to scrap the LNG project underscores how Canada's gas industry has struggled to compete with surging U.S. shale output. As U.S. cargoes to overseas buyers grow, and as Canada's export projects remain stalled, Canadian drillers may have little choice but to send their output through Gulf Coast LNG terminals. Petronas wouldn't be the first Canadian producer to turn to the U.S. for help in exporting gas.

Cheniere Energy, which owns two LNG terminals on the Gulf Coast, signed its first Montney supply deal with Calgary-based Seven Generations Energy earlier this year.

B.C. government says it supports LNG projects, but with conditions

(Globe and Mail; Canada; July 26) - British Columbia's new environment minister said his government will increase the environmental obligations for liquefied natural gas projects that want to do business in the province. While at the same time as Malaysia's Petronas canceled its plans for a multibillion-dollar LNG project on the B.C. coast, the province's new energy minister contacted proponents of other gas export projects to encourage their development.

Critics of the new provincial government have blamed its reservations about the environmental impact and economic potential of LNG for the Petronas cancellation — a suggestion the company rejected. Environment Minister George Heyman, a long-time opponent of fracking in oil and gas production and a former executive director of the Sierra Club BC, made plain that the government's support for the LNG industry comes with conditions of a fair return to the province, guarding First Nations interests, sufficient environmental protections and local jobs.

"I think, as a government, we want to focus on a broad, diversified modern economy. If LNG fits in there in some measure, that's good. But it's not the only option available to British Columbians," said Heyman, adding that he is focused on implementing a climate-action plan and meeting carbon-reduction targets in a way that helps British Columbia's economy grow. "We will not have a single-minded focus. We want to have a broad focus that neither excludes one sector nor focuses disproportionately on it," he said.

First Nations will lose out on LNG project benefit agreements

(Times Colonist columnist; Victoria, BC; July 27) - The liquefied natural gas dream has always been an abstract concept for most in British Columbia. The LNG plants and gas lines were far away. The billions promised in benefits would go more to governments than directly to individuals. But to numerous First Nations near the plants and pipelines, the benefits were much more real. They signed contracts with the government that quantify hundreds of millions of dollars that would flow once the gas starts shipping.

The deals based on the now-abandoned Petronas LNG project look to be defunct. And the Petronas retreat raises obvious doubts about the future of all the other proposals, as well as their corresponding benefits agreements. The one consolation to First Nations that are now writing off millions in anticipated long-term payments from the canceled project is that some got signing bonuses. That money has already been paid out.

The deals were key selling points as the provincial government extolled the virtues of a new industry. That included lifting remote First Nations out of poverty and dealing them into the employment scene. While there was high-profile talk about bands objecting to projects because of environmental risks, there were sizable benefits for First Nations that accepted the projects. There are at least six other deals with coastal First Nations related to 10 separate LNG proposals. The Petronas cancellation doesn't necessarily spell the end to all the proposals. But it certainly doesn't build much optimism for them.

LNG expansion projects hold advantage over greenfield development

(Reuters; July 27) - The shifting dynamics of the liquefied natural gas industry are neatly encapsulated in two recent decisions: The scrapping of a major project and expansion of an existing large-scale project. Malaysia's Petronas said this week it was canceling its Pacific NorthWest LNG venture in British Columbia, citing low global prices for the fuel. The decision not to proceed came after Qatar said July 4 it planned to boost its LNG capacity by 30 percent, allowing it to defend its title as the world's largest producer.

The Petronas decision was not unexpected, as the project has suffered engineering challenges, delays, and an LNG price only a quarter of what it was three years ago. What it does confirm is that it's going to be very difficult to develop any greenfield LNG projects in the next few years, and not just in Western Canada. Australian and U.S. projects, and others in East Africa and Russia, already are expected to boost global LNG capacity to 450 million tonnes a year by 2020, up from 340 million tonnes in 2016.

Qatar will be able to expand its output by boosting gas supply, de-bottlenecking its existing facilities and building new liquefaction units. While Qatar is blessed with some of the cheapest-to-extract gas, its ability to ramp up capacity also shows the advantage of merely adding to, or improving, existing facilities rather than starting from scratch. It's likely that any new LNG developments in the next few years will have to follow a similar path, with the era of greenfield mega-projects at an end for the foreseeable future.

Lack of new LNG projects could benefit Australia

(Australian Financial Review; July 27) – Australia is forecast to strengthen its position near the top of the liquefied natural gas export ladder for most of the next decade as a mix of low LNG prices and higher construction costs deter new projects worldwide. The latest casualty was a proposed multibillion-dollar project in British Columbia. Malaysia's Petronas this week abandoned the plan, citing "the extremely challenging environment brought about by the prolonged depressed prices and shifts in the energy industry."

That decision has cast a "negative" shadow over an LNG project proposed in British Columbia by Australia's Woodside Petroleum and Chevron, according to RBC Capital

Markets. Woodside in May again delayed an investment decision on Kitimat LNG. "The weak LNG market conditions have separated the wheat from the chaff," Citigroup's Dale Koenders said in a July 18 report. Of about 40 global projects assessing decisions in 2016-17, only two have proceeded and "perhaps only two others are still possible in this timeframe," said Koenders, head of Citi's energy and utilities research team in Australia.

The positive for Australia, which is the world's second largest producer of LNG behind Qatar, is a better match between supply and demand over the next decade, leading to some amount of price recovery. Global energy consultancy Wood Mackenzie forecasts that LNG oversupply will peak in Asia in 2019-20. Spot prices are forecast to drift lower to 2020, with a modest recovery by 2023.

Chevron's Australia Wheatstone LNG will start production next month

(LNG World; July 29) - The Chevron-led Wheatstone LNG project west of Onslow, in Western Australia, is expected to start production next month, Chevron CEO John Watson said July 28. Chevron said the offshore gas production platform is operational, with the 140-mile trunkline to the onshore liquefaction plant fully pressurized. It also said that work on the project's second liquefaction train is on schedule. with Train 2 expected to start production six to eight months following the commissioning of Train 1.

At full capacity, the two liquefaction trains will be capable of producing 8.9 million tonnes of LNG per year. Wheatstone LNG is a joint-venture between Chevron (64.14 percent), Kuwait Foreign Petroleum Exploration (13.4 percent), Australia's Woodside (13 percent), and Kyushu Electric Power (1.46 percent), together with PE Wheatstone (8 percent), which is part-owned by JERA Co., a joint venture of Japanese utilities. The most recent construction cost estimate puts the project at $34 billion. Wheatstone is one of six onshore Australia LNG plants started up in recent years or still under construction.

Offshore LNG facilities could unlock West Africa gas resources

(Reuters; July 27) - Cameroon plans to begin exporting liquefied natural gas later this year using a newly designed offshore plant that analysts say could cut production costs and unlock African reserves not previously considered economically viable. West and Central Africa's Gulf of Guinea has seen a wave of oil and gas exploration, particularly since Tullow Oil discovered Ghana's huge Jubilee gas field in 2007. But the cost of pipelines and onshore LNG plants means that few gas finds have been developed.

A specialized vessel owned by Golar LNG will dock offshore Cameroon's Atlantic coast in the coming weeks for testing. It will liquefy gas produced in nearby offshore fields for shipment overseas. Russia's Gazprom has signed up for the rights to ship the gas to customers worldwide. "Deploying offshore liquefaction facilities bypasses some of the difficulties associated with building infrastructure onshore. Sometimes, offshore is simply easier," said Jean-Baptiste Bouzard, an analyst at Wood Mackenzie.

Onshore facilities, which require large liquefaction units and storage tanks that cover acres, can be prohibitively expensive. The offshore vessels will do the same job as the onshore facilities, albeit in smaller volumes, for a fraction of the cost in infrastructure. Cameroon, Equatorial Guinea and Congo Republic are developing four such offshore plants. Together, they are expected to cost about $6 billion, producing about 7 million tonnes of LNG per year. In Senegal, BP is considering using similar technology to export newly discovered gas in deep waters there.

Kansai Electric says LNG consumption down 9% with nuclear restarts

(Platts; July 28) - Japan's Kansai Electric's liquefied natural gas consumption fell 9 percent from a year ago to 1.8 million tonnes during the April-to-June first quarter as its two nuclear reactors restarted in May and June, data released July 28 by the utility showed. Nuclear accounted for 5 percent of its energy mix, while thermal power and hydro represented 77 percent and 17 percent, respectively, according to the utility.

During the quarter to June, Kansai Electric's coal consumption rose 61 percent. Kansai Electric said the business environment remains challenging, with its power sales down 6 percent on the year during the first quarter.

Canadian court strengthens 'duty to consult' with aboriginals

(The Financial Post; Canada; July 26) - The Supreme Court of Canada ruled in favor of a small Inuit community in Nunavut on July 26, effectively overturning the National Energy Board's decision to allow seismic testing in Baffin Bay and signaling a growing willingness by the Crown to enforce the duty to consult with aboriginal groups. The court ruled in favor of Clyde River to block a Norwegian consortium's proposal to conduct seismic air-blast testing to look for pockets of oil and gas beneath the ocean floor.

The ruling could signal a critical shift in the duty for oil and gas companies to consult with aboriginal groups during development. Analysts say it underscores the duty to consult in so-called "expedited" review processes in which the NEB is given the final say on approvals. And the ruling could signal a growing willingness to override approval by regulatory bodies if the duty to consult is not fully met. The court said its ruling was not due to environmental risk, but because consultations did not properly address Inuit treaty rights that allow locals to hunt large mammals and fish in the region.

In a separate ruling July 26, the court upheld NEB approval of Enbridge’s expansion and reversal of an oil pipeline, which was appealed by the Chippewas of the Thames First Nation in southern Ontario. The court ruled that Enbridge’s consultation with local communities was “far more robust” than the Norwegian consortium’s consultations with residents of Baffin Island.

Landowners challenge eminent domain for FERC-approved pipelines

(EnergyWire; July 28) - A controversial Appalachian natural gas project is facing a new legal assault that takes aim at the standard federal process for pipeline approvals. A group of Virginia landowners July 27 asked a district court to block the Federal Energy Regulatory Commission from allowing the Mountain Valley pipeline to use eminent domain for the 300-mile line to cross from northern West Virginia to southern Virginia.

Their lawsuit, in the U.S. District Court for the Western District of Virginia, is a sweeping challenge to FERC's standard process for granting pipeline operators the power of eminent domain for projects that receive a "public convenience and necessity" stamp of approval. Attorney Justin Lugar, representing the landowners, said FERC's eminent domain process is unconstitutional and overdue for judicial review.

The plaintiffs are seeking a preliminary injunction that would block FERC from granting any eminent domain powers to Mountain Valley Pipeline and would block the company from attempting to use any such power. A similar lawsuit is moving forward involving the 255-mile Nexus pipeline in Ohio, where landowners have argued that the pipeline will transport gas destined for export and therefore does not serve a public use or purpose.

Pennsylvania Senate approves 2-cent natural gas production tax

(EnergyWire; July 28) - Pennsylvania state senators narrowly approved a budget plan July 27 that would impose a tax on natural gas production while reducing some environmental regulations as part of a compromise intended to break a three-week-old stalemate. The Legislature approved the spending portion of Pennsylvania's $32 billion 2017-18 budget in June, but has yet to come up with a revenue plan to pay for it.

The Senate approved a tax plan 26-24 that would balance the budget. It also would borrow heavily against future revenues from a nationwide tobacco settlement. The deal has drawn fire from both the gas industry and an environmental group. It now goes to the state House, where Speaker Mike Turzai has consistently opposed new taxes on the gas industry. State Sen. Jake Corman, the majority leader, defended the plan, saying it's time for the state to stop relying on one-time revenue sources to pay its bills.

Gov. Tom Wolf has asked for a tax on gas production since he was elected in 2014, but the Legislature has twice rejected the idea. Pennsylvania is now the second-biggest gas-producing state in the country thanks to hydraulic fracturing in the Marcellus Shale formation. Most other oil-and-gas-producing states impose a tax on energy production, but Pennsylvania has relied since 2012 on an impact fee imposed on each shale well. The Senate plan would impose a variable tax on Marcellus Shale gas, equal to about 2 cents per thousand cubic feet. It would raise an estimated $80 million in the first year.

TransCanada still looking for shippers on Keystone XL oil line

(The Financial Post; July 28) - TransCanada said July 27 that it's looking for more oil shipper commitments for its Keystone system, as expected oil sands growth slows and major international players continue to retreat from the region. Company spokeswoman Jacquelynn Benson said TransCanada is looking for 225,000 barrels a day of commitments on the Keystone XL project, which would have capacity to ship about 830,000 barrels a day from Hardisty, Alberta, to U.S. markets and the Gulf Coast.

She said TransCanada launched an open season for bidding by shippers on Keystone XL, which continues to work through the regulatory process in Nebraska, because it believes it has core support for the project. The chief executives of oil sands producers Suncor Energy and Cenovus Energy said July 27 that they remain supporters of the proposed pipeline, though Cenovus CEO Brian Ferguson said the company has alternatives for exporting its oil if Keystone XL doesn't go ahead.

TransCanada has been working to reconfirm shipper interest since President Donald Trump approved the pipeline in March, reviving a project thought dead after President Barack Obama rejected it in 2015. The Canadian Association of Petroleum Producers' forecast for Western Canada has, however, changed significantly in recent years after companies canceled or scaled back major projects, with the association now expecting about 1.5 million fewer barrels a day by 2030 than it had projected in its 2014 forecast.

Shell says oil demand could peak by end of 2020s

(Wall Street Journal; July 27) - Shell presented a pessimistic vision for the future of oil July 27, even as it reported success in generating cash during a lengthy price downturn. Shell has cut costs and said it is preparing for a world in which prices may never regain pre-crash levels and oil demand eventually declines. CEO Ben van Beurden said Shell has a mind-set that prices would remain "lower forever" — a riff on the "lower for longer" mantra the industry adopted during a price slump that has proved unexpectedly lasting.

"We have to have projects that are resilient in a world where oil has peaked," the CEO told reporters on a conference call discussing the company's second-quarter financial results. “When it will happen we don’t know, but that it will happen we are certain.” The views reflect the transition under way in a global energy industry grappling with the twin forces of an oil-supply glut and a looming consumer shift away from petroleum.

Experts differ on the timing of peak demand. In its most-guarded scenario, Shell sees oil peaking by the end of the 2020s. The International Energy Agency says it will be more like 2040. “It doesn’t mean it’s game over straight away,” van Beurden said. “There will be a continued need for investment in oil projects.” His comments are in line with Shell’s strategy of moving toward producing fuel for electricity, such as natural gas and even renewables, and focusing on keeping costs low. Shell now produces more gas than oil.