Oil and Gas News Briefs
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Ichthys LNG start-up delayed to first-quarter 2018

(The Australian; April 29) - Japan's Inpex has sent its big Ichthys LNG floating processing platform sailing from its South Korean shipyard to Western Australia's offshore Browse Basin, but also has announced more delays for the $US37 billion project. Inpex said April 28 that the first LNG output is now expected by the end of the first-quarter 2018 instead of a previous estimate of third-quarter 2017. The two liquefaction trains will be capable of producing 8.9 million metric tons of LNG per year.

The original timetable when the project was approved in 2012 at a budget of $US34 billion was for first gas late 2016. The latest delay is expected to see a small increase in development costs. Inpex is Japan's largest oil and gas company. The announcement was made as the Ichthys central processing facility, one of two big offshore vessels built for the project in South Korea, set sail for the gas field off the West Australian coast. The processing facility will separate the gas from condensate, or light crude oil.

The gas will be piped 528 miles to Darwin for liquefaction at an onshore LNG plant, while the 100,000 barrels a day (peak production) of condensate will be loaded directly aboard tankers from a floating production and storage vessel anchored near the shallow-water field. The start-up delays come after contractual disputes at the LNG plant at Darwin and construction at the Korean shipyards. Inpex holds a 62.245 percent interest, with France's Total at 30 percent and six Asian partners sharing the rest.

Australia's LNG industry concerned with possible export controls

(Platts; April 27) - The Australian government's decision to impose export controls on the LNG industry to protect the domestic gas supply has raised concerns among Queensland LNG exporters that have international contractual commitments for more than 25 million metric tons a year, mainly with northeastern Asian buyers. The government has decided it will block LNG exports if there is not adequate supply of gas domestically, Prime Minister Malcolm Turnbull announced April 27.

The move comes in response to concerns that the eastern seaboard of the country could face gas shortages by the end of the decade. "Out to around 2021, we do not think a gas shortage is likely," said Matt Howell, senior research analyst for Australasia upstream oil and gas with Wood Mackenzie. "However, that is not to say that there might not be short-term shortages in periods of high demand or if there are supply disruptions." The risk of gas shortages increases post-2021, Howell said.

A northeast Asian long-term buyer of Queensland LNG said renegotiating deals or obtaining alternate supplies from other sources would come at a significant cost if Australia restricts its exports. And the CEO of the Australia Pacific LNG project in Queensland said this week: "APLNG does not support additional regulation such as export permits, as these sorts of interventions will not increase supply or decrease price in the near or long term."

Cheniere will send first U.S. LNG cargo to Poland in June

(Reuters; April 27) - Poland will receive its first liquefied natural gas supplies from the United States in mid-June as a result of a deal Polish gas firm PGNiG signed with Cheniere Energy, state-run PGNiG said April 27. Cheniere Energy, which operates the only LNG export terminal in the Lower 48 U.S. states, will make the spot-sale delivery at the Swinoujscie terminal on the Baltic Sea.

Poland, which consumes about 530 billion to 560 billion cubic feet of gas annually, built its first LNG terminal in Swinoujscie as part of a bigger plan to reduce reliance on gas it imports from Russia's Gazprom. The terminal, which started commercial operations in 2016, has a capacity to accept 175 bcf per year. Since opening, it has been receiving LNG from Qatargas, and one delivery on the spot market from Norway.

"This is a very important agreement, favorable in financial terms," Polish Prime Minister Beata Szydlo told public broadcaster TVP Info. He did not disclosure the terms.

Western Canada-to-Chicago gas pipeline looks at capacity expansion

(U.S. Energy Information Administration) - Owners of the Alliance pipeline, one of the longest natural gas pipelines in North America, are in the early stages of assessing interest in an expansion to move more gas from Western Canada to near Chicago. The pipeline is unique because, unlike other pipelines that only carry gas after it has been processed, Alliance moves unprocessed gas. Such wet gas contains ethane, propane, butane and gas liquids, as well as methane, the primary component of natural gas.

The Alliance pipeline, which started operations in 2000, has capacity to carry up to 1.6 billion cubic feet per day of wet gas from production sites in Alberta and British Columbia along 2,391 miles of pipeline to the Aux Sable natural gas liquids extraction and fractionation plant near Chicago. The expansion would add up to 0.5 bcf per day of capacity, with a target start-up of November 2020. If there is sufficient interest from gas producers and shippers, Alliance may hold an open season for formal bids in fall 2017.

Alliance is the only pipeline of its kind that transports wet natural gas prior to processing over long distances at high pressure. Because demand for natural gas liquids is limited in Western Canada, the original designers of the Alliance pipeline determined that it would be economically favorable for Western Canadian producers to transport the growing volumes of gas to Illinois for processing and marketing rather than to build processing facilities in Western Canada and ship the liquids and dry gas separately.

Move away from natural gas an election issue in Vancouver

(Global News; Canada; April 29) - The City of Vancouver, B.C., is moving ahead with plans to eliminate the use of natural gas as a fuel, but the BC Liberal Party is fighting back against the controversial move, pledging to repeal the ban if it wins provincial elections in May. “Vancouver City Council wants to ban natural gas from the city and we think that is wrong and needlessly adds costs to consumers, home buyers and restaurateurs,” said BC Liberal candidate for Vancouver-Quilchena Andrew Wilkinson.

In July, the city faced a backlash after quietly voting in a plan that would ban natural gas in the city by 2050 — part of the city’s Renewable Energy Strategy. The plan, which goes into effect May 1, applies only to new construction and buildings that are applying for rezoning. It’s part of a broader strategy that plans to eventually completely eliminate the use of natural gas in the city.

During consideration of the policy, gas provider FortisBC sent a letter to Mayor Gregor Robertson and the city council, saying a family of four in Vancouver currently saves about $1,500 a year in energy costs by choosing gas over electricity for space and water heating. The Liberal Party, which controls the provincial government but not Vancouver city government, says if it wins the election it will change the city charter — which allows the city to dictate its own building codes — in order to repeal the ban.

U.S. coal-fired power plant closures continue

(ClimateWire; April 27) - Many of the U.S. coal plants retired in recent years were geezers by industry standards. They trended old and small, and ran a fraction of the time. But in a vexing sign for the industry, those in the next round of retirements are larger and middle-aged. Utilities have announced plans to close at least five coal plants since the start of the year. Of those, four boast a generating capacity greater than 1,000 megawatts, and all were built after 1970. By comparison, just eight plants out of more than 150 retired between 2010-2015 listed generation capacity over 1,000 megawatts.

Experts say it is too soon to say whether the upcoming retirements constitute a trend. Nevertheless, it represents a troubling development for an industry battered by years of low wholesale power prices, tepid demand and increasing competition from natural gas and renewables. "More and more people seem to feel comfortable saying we should invest in these other things rather than putting money in the coal plant or the nuclear plant," said Paul Patterson, a utility analyst at Glenrock Associates.

Natural gas plants, he said, "are popping up like mushrooms after a rain." Retirements of larger coal plants hint at one of the fuel's greatest challenges. At a time when power prices are mired in the doldrums, coal plants are running less and less. Coal facilities generally shoulder high operating costs, have large payrolls, consume millions of tons of fuel and are costly to maintain. Low wholesale power prices have ruined the math for coal power, regardless of the status of any climate-change rules.

Chevron's tax defeat in Australia could influence other countries

(Bloomberg; April 26) – Chevron hopes to raise as much as $10 billion this year from global asset sales to counter the profits-sapping slump as benchmark oil prices have been stuck at around $50 a barrel since the start of the year. In addition, the company now has to deal with losing an appeal in Australia over a long-running tax dispute that could "influence and empower" other countries to combat tax avoidance strategies used by multinational companies, said Zara Ritchie, of global accountancy firm BDO.

"More and more" tax authorities will likely target multinationals over corporate interest deductions at the center of Chevron's dispute with the Australian Taxation Office, said Daniel Head, of the London office of accountancy firm KPMG. The Federal Court of Australia ruled that a $2.5 billion inter-company loan that Chevron Australia received in 2003 to finance a Western Australia LNG export project violated the arm's-length principle, which aims to ensure cross-border transactions are priced on a fair basis.

A Chevron subsidiary borrowed money at 1.2 percent and charged its Australian unit 9 percent, keeping the profit away from Australian tax authorities. The Australian Tax Office is seeking US$257 million in taxes, interest and penalties. As part of its anti-avoidance project, the Organization for Economic Cooperation and Development will deliver guidance on the arm's-length principle for intra-group loans. The ruling is going to have multinational companies "looking over their shoulder," said David Sayers, an international tax partner and transfer pricing specialist at accountancy firm Mazars.

Canadian oil and gas industry outlook has improved since last year

(Calgary Herald; April 27) - Oil and gas drillers, frackers and other service companies in Canada have been through the depths of "hell" during the downturn but now appear to be in purgatory, industry forecasters said April 27. A new oil and gas drilling outlook suggests the sector is performing far better than previously expected as momentum continues to build after a prolonged price slump that sowed widespread pessimism.

Alberta is expected to lead the way as nearly 6,700 wells are forecast to be drilled across Canada this year, up by 30 percent over a January outlook, according to the Petroleum Services Association of Canada. Mark Salkeld, the group's president, said stabilized oil prices, improved confidence among oil and gas producers and a drive to cut costs in the oil field services sector are behind the latest surge in activity. "It's been hell. It's just been absolutely hell on the pricing. We're coming out of it," Salkeld said.

After OPEC and non-OPEC countries agreed to limit their production to stabilize oil prices, drillers and other service companies have seen a resurgence of activity and improved prices, though several companies have reported prices remain below sustainable levels. Despite the momentum, drilling activity is far below what the industry reported in pre-recession 2014, when 11,200 wells were drilled. "It's not heaven or hell, but somewhere in between," said Jon Morrison, analyst at CIBC Capital Markets.

Australia decides against changes in profit-based oil and gas tax

(Reuters; April 28) - The Australian government said on April 28 it won't revise upward its petroleum taxes in next month's federal budget, allaying industry fears after the government last year raised concerns about declining tax revenues. The decision will come as a relief to oil and gas producers that have been battling a collapse in prices after spending $180 billion on mega-projects to produce liquefied natural gas for export.

The government said last November that its revenues from the nation's petroleum resource rent tax had halved to A$800 million (US$600 million) since 2013, while revenue from crude oil excise taxes had more than halved due to a slump in oil and gas prices and falling output. The months-long government review concluded that the tax based on profits from oil and gas production on- and offshore Australia should be revised for new projects, but not existing ones, and only following talks with the industry.

The tax allows companies to fully recover their capital investments before the profits-based tax kicks in. "The report finds the decline in tax revenue does not, in itself, indicate the Australian community is being shortchanged in receiving an equitable return from the development of its resources," Treasurer Scott Morrison said in a statement. Major oil and gas producers and the Australian Petroleum Production and Exploration Association were all vehemently opposed to changes to the tax regime.

Bangladesh turns to Japan for LNG import terminals feasibility study

(Financial Express; Bangladesh; April 29) - A Japanese energy conglomerate is set to conduct feasibility studies in coastal areas of Bangladesh as part of that government's plan to set up more land-based liquefied natural gas import terminals, energy ministry sources said this week. Tokyo Gas Engineering Solutions recently inked an initial agreement with Petrobangla under which the company would carry out feasibility studies for constructing the terminals, each capable of handling 1 billion cubic feet of gas per day.

Under the agreement, the Japanese company would conduct preliminary feasibility studies at a cost of about $6 million for the three coastal areas. Later, based on the result of the preliminary studies, it would conduct full-scale studies in two of the three locations. Bangladesh is currently looking to LNG imports as a possible energy solution for the future as the country faces depleting domestic reserves and rising demand in the nation of more than 160 million people.

The country's gas supply stands at about 2.7 bcf a day against a total demand of 3.3 bcf. The nation’s Energy Division estimates that demand could grow to 8 bcf a day by 2041. While waiting for onshore import terminals, Bangladesh has contracted for two floating LNG receiving, storage and regasification vessels, with the first expected to start service next year.