Oil and Gas News Briefs
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Yamal LNG expects to ship first cargoes in November

(Reuters; Oct. 10) - Yamal LNG in the Russian Arctic will ship its first two cargoes of liquefied natural gas in November, followed by another four in December, Russia's customs service said Oct. 10. The $27 billion Yamal project is co-owned by Russian gas producer Novatek (50.1 percent), as well as France's Total (20 percent), China National Petroleum Corp. (20 percent) and China's Silk Road Fund (9.9 percent). Construction started in 2013. Russian and Chinese lenders provided financing for the project.

The three-train liquefaction plant will have the capacity to produce 16.5 million tonnes of LNG per year, though only the first production train will be operating this year. The other two units are scheduled to come online in 2018 and 2019. All of Yamal's output is under contract to European and Asian customers under long-term deals. It will be Russia's second LNG export terminal. Sakhalin-2, in the Russian Far East, has been operating since 2009. The two-train facility can produce 10 million tonnes a year.

Japan's largest LNG importer makes progress on new contract terms

(Reuters; Oct. 11) - Japan's JERA Co., the world's biggest importer of liquefied natural gas, is set to sign a new LNG contract soon that will be free of destination restrictions as it looks to secure volumes to replace some of its expiring long-term deals, its top official said Oct. 11. JERA has been pushing to drop the so-called destination clause in long-term contracts that limits where a cargo can be delivered — giving JERA the flexibility to resell surplus volumes and even play the market for a resale profit.

President Yuji Kakimi said JERA has made progress in talks with existing long-term LNG sellers to revise clauses that would require splitting the profits from reselling LNG cargoes between JERA and the original supplier. Talks on the new contracts come as JERA faces the expiration of long-term contracts with Malaysia, Abu Dhabi and Qatar in 2018, 2019 and 2021, respectively, each with annual volumes of about 4 million tonnes.

JERA, a joint-venture between Tokyo Electric and Chubu Electric, takes in about 35 million tonnes a year of LNG. For the moment, JERA's supply contracts closely match its demand. "But some time ahead, there is some room (for new LNG) and we are in talks with some select sellers and expect to have a deal soon that is free of destination clauses," Kakimi said. Regardless, JERA plans to cut the volume of gas it buys under long-term contracts by 42 percent by 2030 from current levels, he told Reuters last year.

India will work with Japan on LNG deals, looking for lower prices

(Reuters; Oct. 11) - India will work with Japan to make long-term liquefied natural gas import deals more affordable for its price-sensitive consumers as the two big importers try to secure better prices and concessions from suppliers. The arrangement will help state-run GAIL India swap some of its 5.8 million tonnes of LNG a year booked from U.S. suppliers with that of Japan's contracted volumes in Asia and elsewhere, Sunjay Sudhir, joint secretary for international cooperation in India's oil ministry, said Oct. 11.

The world's biggest LNG buyers, all in Asia, are increasingly clubbing together to secure more flexible supply contracts in a move that shifts power to importers from producers in an oversupplied market. An alliance of big buyers puts pressure on exporters such as Qatar, Australia and Malaysia which prefer to have clients locked into fixed-supply contracts that run for decades and make buyers take fixed amounts of monthly volumes irrespective of demand, with no right to resell surplus supplies to other end-users.

India's cabinet Oct. 11 approved the proposal to sign a memorandum of cooperation with Japan to help diversify India’s gas supplies and lead to more competitive prices. Japan is the world's largest LNG buyer; India the fourth biggest. With the arrangement, the two countries will seek more flexibility in contracts and abolish destination restriction clauses that prevent them from reselling imports to other parties. "The agreement will have a swap clause as well … we can swap our Australian LNG from Gorgon project with LNG booked by Japan with Qatar," said Indian Oil Minister Dharmendra Pradhan.

Shell sees hope for its LNG Canada project in demand growth

(Globe and Mail; Canada; Oct. 9) - After Malaysia's Petronas and China National Offshore Oil Corp. scrapped their separate plans to build LNG projects on the British Columbia coast, the industry's attention has shifted to whether Shell might be the next to cancel. But Shell senses that the global tide has turned, and instead of fixating on new supplies that have flooded the market since 2015, Shell expects vigorous demand in the future from multiple countries such as China, Egypt, India, Pakistan and Jordan.

"Some people could tell you a story about a glut of LNG because of this record supply of LNG. We could equally tell a similar story about record demand for LNG," said Steve Hill, the Singapore-based executive vice president at Shell Energy. A flurry of new LNG projects will begin operations over the next couple of years in the United States, Australia and Russia. Hill, however, believes thirsty energy customers in Asia and parts of the Middle East will soak up supplies faster than what some analysts forecast.

Skeptics say the strong growth in supply will wreck the plans of latecomers such as Canada. But Hill emphasizes the importance of preparing for the next opportunity to fill energy demand amid population growth and improved living standards. Shell and its partners — PetroChina, Mitsubishi and Korea Gas — are expected to make a final investment decision by the end of 2018 for the $40 billion LNG Canada project in Kitimat, B.C. Construction would take five years, putting the first cargo into late 2023.

Delays can hurt chances for Canadian LNG projects, says exec

(Canadian Press; Oct. 11) – Plentiful, cheap gas is no guarantee that a Canadian LNG export industry will develop, said an executive with Progress Energy Canada, a division of Malaysia's state-owned Petronas which cancelled its proposed Pacific NorthWest LNG project in July. The decision was difficult, but the "headwinds were too great" to green light the West Coast project, said Dennis Lawrence, vice president of production for Progress, during a panel discussion at the Calgary Energy Roundtable on Oct. 11.

Lawrence said delays meant the project missed its opportunity to enter the global LNG market when it had a good chance to thrive. "We think it may be a bit of a wake-up call to us as an industry, to governments, to regulators within Canada that time is actually of utmost importance on these projects, that delays and long regulatory timelines can ultimately have an impact on whether projects go ahead or not," he said.

Divergent opinions expressed at the conference reflect the uncertainty of Canada's LNG industry. Andy Calitz, CEO of the Shell-led LNG Canada project, proposed for Kitimat, B.C., said he remains optimistic about the industry’s prospects despite weak global LNG prices and growing competition from new suppliers. He said he believes Canada's low-cost gas and relatively closer location to Asia makes it competitive. But he conceded the higher cost to build liquefaction facilities and pipelines in British Columbia will affect the LNG Canada project’s investment decision, which is expected next year.

Petronas looks at other options for monetizing Canadian gas reserves

(Reuters; Oct. 11) - Progress Energy, a wholly owned unit of Malaysia’s Petronas, will look at other liquefied natural gas opportunities as a way to monetize its Canadian gas assets after Petronas in July scrapped its proposed multibillion-dollar LNG plant on the British Columbia coast, a company executive said Oct. 11. Petronas abandoned plans to build the Pacific Northwest LNG project due to weak prices, leaving Progress with 800,000 acres of land rights in the Montney Shale and 50 trillion cubic feet of reserves.

Since the project was scrapped, Calgary-based Progress said it planned to make money out of its huge gas operations in the Montney, which spans northeast British Columbia and northwest Alberta, but has provided few details. Dennis Lawrence, Progress vice president of production, told an energy conference in Calgary on Oct. 11 that the company had spent a significant amount of money acquiring the land position over the past five years and it was time to get more of the gas to market.

“We are in the very early stages of this but we will look hard at other LNG opportunities, we will look hard at petrochemical opportunities,” Lawrence said. “That’s not a process you figure out in a month or two.” He did not name any possibilities, though a Shell-led LNG project in British Columbia is looking to an investment decision next year. Petronas bought Progress in 2012 to supply its LNG project, and although it has been selling gas in the North American market it has not been as much as it wanted to export as LNG.

Rosneft looks to break Gazprom’s monopoly on Russian gas exports

(Platts’ columnist; Oct. 9) - Rosneft has recently inked several deals that could boost the company’s ambitions to develop international gas trading and export operations, the latest stage in a long-running attempt to become a major gas player and access the lucrative export market. Rosneft, majority-owned by the Russian government, produced an average of 4.2 million barrels of oil and liquids per day last year and 6.5 billion cubic feet of gas per day, equal to about 1 billion barrels of oil on an energy-equivalent basis. Rosneft is sitting on a huge wealth of gas reserves that it is keen to monetize.

The most lucrative way to do this is via exports, but rival Gazprom enjoys a monopoly on pipeline exports of Russian gas. Increasing its gas output would bolster Rosneft’s claim that it should be allowed to export gas via pipeline independently, circumventing Gazprom’s monopoly. Recent decisions by Rosneft, including signing agreements on joint trading and infrastructure, and entering new upstream gas projects, demonstrate a desire to break that monopoly and launch its own successful independent exports.

Rosneft is aiming to ramp up its gas production to almost 10 bcf a day by 2020, though that still would be dwarfed by Gazprom, which is eyeing production of more than 43 bcf a day in 2017. Rosneft is also strengthening its case via trading deals. In June it signed an agreement with BP that envisages the long-term sale and purchase of gas produced by Rosneft to be supplied to European markets from 2019. BP officials have said they are ready to work with Rosneft on gas exports as soon as possible, provided that the Russian government grants Rosneft approval to export.

India still waiting to see if Iran will accept offer to develop gas field

(Live Mint; India; Oct. 9) - ONGC Videsh (OVL), the overseas arm of India’s state-owned Oil and Natural Gas Corp., on Oct. 9 said it had not heard from Iran on the $11 billion “best offer” it gave for developing the Farzad-B gas field. “We are ready to invest, provided we get reasonable returns,” OVL managing director Narendra K. Verma told reporters. OVL has offered to invest about $5.8 billion in developing the Farzad-B gas field and another $5 billion to build a liquefied natural gas export facility, he said.

Iran, however, wants a high price for the gas, making the investment practically unviable. “For me to go ahead and make such investments, it has to bring reasonable returns and make economic sense,” Verma said. Iran earlier this year signed an initial pact with Russia’s Gazprom for developing the OVL-discovered field of an estimated 12.5 trillion cubic feet of recoverable gas, but has kept the door open for awarding it to the Indian firm. “We have given them our best offer. Now, it is up to them,” Verma said.

Farzad-B was discovered by OVL in the Farsi block about 10 years ago. The project has so far cost the OVL-led consortium, which also includes Oil India and Indian Oil Corp., more than $80 million. New Delhi is keen that the gas from the field comes to India to feed its vast energy needs. And Iran is eager to export from its large gas reserves, now that international sanctions have eased on the country.

Opponents of canceled LNG project in B.C. continue battle in court

(Globe and Mail; Canada; Oct. 9) - A B.C. hereditary tribal leader is asking the Federal Court of Appeal to allow his legal battle to continue to protect an island and salmon habitat against energy development. Donnie Wesley filed his notice of appeal after Justice Robert Barnes of Federal Court said that Wesley's "application is dismissed on the basis that he lacks the necessary standing to bring it in a representative capacity" on behalf of the Gitwilgyoots — one of nine tribes of the Lax Kw'alaams First Nation.

Wesley and his supporters began a protest camp on Lelu Island in August 2015 to raise concerns over Pacific NorthWest LNG's contentious plans to construct its project near Prince Rupert on British Columbia's North Coast. Pacific NorthWest LNG, led by Malaysia's state-owned Petronas, announced cancellation on July 25 of its proposal to build an LNG terminal to ship gas to Asia. Wesley, however, is concerned about the possibility of future proposals to use Lelu Island as the site for a gas liquefaction plant.

Lax Kw'alaams Mayor John Helin backed the LNG project but his predecessor, Garry Reece, opposed the venture. Wesley is seeking a judicial review into whether the federal government acted properly in 2016 when it approved Pacific NorthWest LNG's plans for Lelu Island, which the Gitwilgyoots tribe claims as part of its traditional territory in the Skeena River estuary. The key concern is the ecological threat to Flora Bank, a sandbar that nurtures juvenile salmon in the waters next to Lelu Island.

B.C.’s opposition to oil pipeline, tanker traffic does not extend to LNG

(Bloomberg; Oct. 10) - British Columbia’s opposition to Kinder Morgan’s $5.8 billion oil pipeline expansion won’t stop Canada’s westernmost province from welcoming natural gas exporters. Kinder’s plan to haul more crude to the Pacific shore threatens coastal fisheries and tourism, Carole James, the province’s finance minister, said in an interview Oct. 10 at Bloomberg headquarters in New York. Her biggest concern is the seven-fold increase in oil tanker traffic that would occur as Asia-bound trade expanded.

That antipathy doesn't extend to liquefied natural gas. Undeterred by cancellations of two proposed multibillion-dollar LNG developments in the province, James said other investments seem likely to go forward. Shell is still pondering its proposed LNG project in the province, while ExxonMobil and Chevron have been quiet on their plans. "Let's just say I'm optimistic not pessimistic on at least a plant coming to British Columbia," James said, without raising objections to LNG tanker traffic along the coast.

In July, Malaysia's Petronas pulled the plug on its plan to ship LNG from Western Canada to Asia as U.S. export projects hawking ample supplies of shale gas crowded the company out of the market. Last month, China National Offshore Oil Co. followed suit, axing its LNG development. The cancellations were driven by economics and global prices, James said. Meanwhile, British Columbia is a participant in the legal challenge against the Kinder Morgan oil line, which won federal approval in November.

Algeria changes law to attract more foreign oil and gas investment

(Middle East Online; Oct. 9) - Algeria has announced bold changes to its hydrocarbon development policy, including resumption of a $70 billion shale gas project. The project would tap into the country's extensive shale reserves, but it has encountered resistance due to environmental concerns. A drilling program using fracking was suspended soon after it began in 2015 after violent protests broke out in southern Algeria. Opponents argued "the gas of death" poses environmental risks, including pollution of water.

Algerian Prime Minister Ahmed Ouyahia on Oct. 1 said the government would restart its shale gas development plan and revise the country's hydrocarbon laws, ending a stipulation that joint-ventures must provide Sonatrach, the national oil and gas company, with at least 50 percent of shares. Ouyahia, who is struggling to bring the country out of a financial crunch, said the government was encouraging "investment in the hydrocarbon sector, namely shale gas, because of its potential and capacity."

The country's failure to attract foreign investors to help develop its conventional oil could be attributed to the law, he said. "This law must be made more attractive because the sector is going through big changes … that are forcing Algeria to keep pace with the shifts." Foreign technology and money are crucial to boosting Algeria's conventional reserves and tapping into shale gas. The U.S. Energy Information Administration estimates that Algeria has 700 trillion cubic feet of recoverable shale gas reserves.

OPEC boss calls on U.S. shale producers to help cut global oil supply

(Reuters; Oct. 10) - OPEC's Secretary General Mohammed Barkindo on Oct. 10 called on U.S. shale oil producers to help curtail global oil supply, warning that extraordinary measures might be needed next year to sustain the rebalanced market in the medium to long term. "We urge our friends in the shale basins of North America to take this shared responsibility with all the seriousness it deserves, as one of the key lessons learned from the current unique supply-driven cycle," Barkindo said.

The comments by the Organization of the Petroleum Exporting Countries official came during a speech delivered at the India Energy Forum organized by CERAWeek in New Delhi. "At the moment, we (OPEC and independent U.S. producers) both agreed that we have a shared responsibility in maintaining stability because they are also not insulated from the impact of this downturn," Barkindo said.

While OPEC and some other producers, including Russia, have cut supplies this year in order to prop up prices, U.S. production has soared by almost 10 percent this year, driven largely by shale oil production. Barkindo said he hoped that new producers, not just U.S. shale drillers, would join production cuts. "Demand-supply is returning to rebalance through massive destocking that we have been witnessing … across regions in a very massive way," Barkindo said later, speaking to reporters.

One of the largest coal-fired power plants in Texas will close

(Dallas Morning News; Oct. 7) - One of the largest coal plants in Texas is closing, a victim of plentiful and cheap natural gas, plant owner Luminant announced Oct. 7. The Monticello Power Plant about 115 miles east of Dallas is expected to close in January after ERCOT, which manages the Texas electric grid, signs off on the decision. The plant, once seen as a key source of smog-causing pollution, has an operating capacity of 1,880 megawatts — enough to power about 940,000 homes in normal conditions.

The shutdown decision follows a year-long review of the plant's economic viability, said Allan Koenig, a spokesman for Vistra, Luminant's parent company. Ultimately, Koenig said, it was Texas' highly competitive electricity market, rather than environmental regulations, that led to the closure. "The plant guys tried everything they could to keep it open, but it was a money loser," he said. "In a competitive market, you've got to take these steps. This is a coal plant operating in a market that's flooded with cheap gas."

Even as President Donald Trump has promoted coal as a critical power source, cheap gas and plummeting prices for wind and solar energy have made coal a less financially viable fuel. Environmental groups say Monticello was once one of the nation's most polluting power plants. The Monticello units opened in 1974, 1975 and 1978.

BP signs on as customer for new Permian Basin gas liquids pipeline

(San Antonio Express-News; Oct. 1) - BP's energy trading division will be the first customer for a new natural gas liquids pipeline from New Mexico and West Texas. The 650-mile EPIC natural gas liquids pipeline is being built by a subsidiary of San Antonio-based EPIC Midstream Holdings, and will transport 220,000 barrels per day of natural gas liquids when completed. Natural gas liquids include propane, butane and ethane, which is used in plastics production and as a petrochemical feedstock.

The pipeline will extend from the Delaware and Midland basins in southeast New Mexico and West Texas to Corpus Christi, Texas, where a fractionation complex will be built to separate the various liquids. The Delaware and Midland basins are part of the larger Permian Basin field, which the U.S. Energy Information Agency estimates will produce daily 2.5 million barrels of oil and more than 8.6 billion cubic feet of natural gas.

The pipeline's initial phase is set for completion in February 2018, with full completion in 2019. The pipeline is at least the third oil or gas line this year to be announced from the Permian to Corpus Christi. The demand for gas in the Corpus Christi area is growing as Cheniere Energy is building a $10 billion liquefied natural gas export terminal, and ExxonMobil and Saudi Arabia Basic Industries are developing a $9.3 billion ethane steam cracker — the facility will be the largest of its kind in the world when completed.