Oil and Gas News Briefs
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Shell-led LNG Canada project wants contractor to take overrun risk

(Globe and Mail; Canada; Oct. 1) – Four engineering groups competing to become the prime contractor for a proposed liquefied natural gas project in British Columbia have agreed to offer bids that will have them accept the risk of construction cost overruns. Under the LNG Canada consortium's request for proposals, the four have been asked to bid a lump-sum contract, agreeing to a fixed price for materials and labor.

The project's co-owners, led by Shell, would be left with little or no risk of extra costs beyond what has been agreed to in the contract. LNG Canada CEO Andy Calitz told employees in an internal newsletter earlier this year about plans for a lump-sum contract. An industry source familiar with the bidding confirmed that if expenses go over budget, the financial responsibility for overruns would shift to the winning contractor.

"There will be a mind-bending array of engineering, procurement and construction pricing that the bidding groups will have to take into account," a source said. Amid a global oversupply of the fuel, LNG Canada is pondering whether to forge ahead with the project in Kitimat, B.C. that could cost up to $40 billion. Reining in construction bills will be crucial in decision-making because the venture's gas needs to be price competitive.

The four groups in the running to serve as prime contractor are: Bechtel Canada Co. and Chiyoda Canada; Technip FMC and KBR; Saipem and Chicago Bridge & Iron; and JGC Corp. and Fluor Canada. Bids are due by Nov. 30. Shell holds 50 percent of LNG Canada. Korea Gas and Mitsubishi Corp. each have a 15 percent stake, while PetroChina owns a 20 percent interest. In July 2016, LNG Canada announced a delay in making its final investment decision; it's now expected by the end of 2018.

India targets U.S. LNG supply contracts to negotiate lower price

(Bloomberg; Oct. 4) - India is pushing to renegotiate more liquefied natural gas deals after its success in reaching price-cutting agreements with some of the world's largest suppliers. GAIL India, the nation's biggest gas utility, is working toward renegotiating two more long-term deals, the company's chairman said. Those would follow renegotiated deals with Qatar's RasGas in 2015 and ExxonMobil last month that saw the Indian buyer get lower prices in exchange for agreeing to purchase higher volumes.

"We have successfully renegotiated … two long-term contracts," Chairman B.C. Tripathi said Oct. 4. "We are now working on a third and fourth contract. This is how the market structure has changed. We are moving from a supply-constraint market to a supply-surplus market." Tripathi declined to provide details on the two contracts. But an official indicated they are with U.S. suppliers Cheniere Energy, from its terminal in Sabine Pass, La., and Dominion, which will soon open its terminal in Maryland.

The U.S. supplies are scheduled to begin moving to India next year. An official said GAIL wants to cut about $2 per million Btu from its Cheniere supply price, knocking it down to about $7 to $8. India, the world's fourth-largest LNG buyer, is increasingly relying on imports as it seeks to double use of the fuel by the end of decade amid falling domestic production. A global glut of LNG has emboldened buyers like India to seek more favorable deals for contracts signed several years ago.

B.C. willing to take another look at taxes on LNG industry

(Business in Vancouver; Oct. 3) - A global oversupply of liquefied natural gas that was expected to delay large LNG projects might be overstated, according to Shell, and prospects for an LNG industry in British Columbia might not be over after all, according to the CEO of LNG Canada. But before companies like Shell — the lead partner in the proposed LNG Canada project in Kitimat, B.C. — commit to its $40 billion venture, it needs the provincial government to rethink the way the industry would be taxed.

It's something that B.C. Minister of Energy, Mines and Petroleum Resources Michelle Mungall is open to considering. "We do need to address, on a broader scale, what's going on in terms of the global marketplace. … Is British Columbia competitive in this global marketplace as it stands right now?" Mungall said. "And that's a very good question and one that we're answering. I've directed my ministry to look into that and to begin to work with First Nations, local communities, as well as the industry."

She made the comments Sept. 22, following an address to the Greater Vancouver Board of Trade by Andy Calitz, CEO of LNG Canada, whose partners include Shell, Mitsubishi, PetroChina and Korea Gas. Calitz said LNG Canada will be submitting a "decision-support package" to the partners in 2018. He said the biggest hurdle for LNG Canada is tax competitiveness. It's not the province's current carbon tax that worries him, Calitz said, but where it could go. The venture is also discussing the province's LNG tax with officials. "That's a subject we're discussing with the government," he said.

Texas county approves $373 million tax break for LNG project

(Rio Grande Guardian; Oct. 4) - Cameron County Administrator David Garcia said Rio Grande LNG will receive a $373 million tax break for its proposed liquefied natural gas export terminal project in the Port of Brownsville, Texas. It is one of three LNG terminals proposed for the port; none have completed their federal approval process or reached an investment decision by sponsors. Cameron County commissioners voted to approve the tax abatement agreement at a meeting Oct. 3.

"It's roughly a 76 percent tax abatement, which would equal to about a $373 million tax break," Garcia said. "The county gets $37 million — $27 million in payment In lieu of taxes and $10 million in community benefits — plus a commitment of beneficial-use material from (project) dredging to use for beach nourishment and erosion control." The county predicted the agreement will "increase investment, grow the job and labor market, and provide economic opportunities for the county and region as a whole."

Port of Brownsville Director Eduardo Campirano said he is excited that Rio Grande LNG will work with the county to identify dredge material that can be used for the benefit of the coastline and beach "re-nourishment" to ensure the long-term viability of local dunes and beaches. Under terms of the tax deal, county officials said they have been guaranteed that a minimum of 35 percent of construction and permanent jobs will go to local residents. Rio Grande LNG proposes up to six liquefaction trains at the site.

Saudis move closer to oil and gas investments in Russia

(Bloomberg; Oct. 3) - Saudi Arabia is looking at unprecedented deals to acquire oil and gas assets in Russia, deepening ties between the world's largest energy exporters as the Saudi king prepares to visit Moscow this week. OPEC's biggest crude producer is considering investing in Russia's largest oil drilling contractor, Eurasia Drilling, sources said. Saudi Arabia and Russia plan to set up a $1 billion fund to invest in energy projects, Russian Energy Minister Alexander Novak said on Al Arabiya TV on Oct. 2.

Saudi investment in Russian assets would show continued commitment to cooperation between the two energy superpowers. The Saudi-Russian rapprochement marks a policy change, as Saudi Arabia is historically a staunch ally of the U.S., Russia's longtime adversary. The recent boom in U.S. shale oil production proved a turning point, however, with the Saudis and Russians recognizing their shared interest in defending against the U.S. shale contribution to a global oil-supply glut.

Sources said the Saudis are considering an investment in a liquefied natural gas project in Russia, but the Saudi Aramco CEO said the company has no current plans to do so. Novatek, which will start up its first liquefied natural gas plant, Yamal LNG, next month, is planning Arctic LNG-2 to follow in the 2020s. It will choose partners closer to a final investment decision, expected by 2019, CEO Leonid Mikhelson said. Both countries can gain from a gas venture, said Mazen Al-Sudairi, head of research at Riyadh-based Al Rajhi Capital. The Russians need to export LNG to a big consumer, and Saudi Arabia needs gas to expand its petrochemical industry and cut use of crude to generate power.

PetroChina signs $1 billion deal for Kazakhstan pipeline gas

(Reuters; Oct. 3) – Kazakhstan’s state-owned firm KazTransGas will ship 175 billion cubic feet of natural gas to China’s PetroChina for about $1 billion, the Kazakh company said Oct. 3, the first such deal between the two countries. Shipments will start on Oct. 15 and will be carried out over the course of one year, KazTransGas said. The price works out to about $5.70 per thousand cubic feet.

A gas pipeline completed in 2009 connects all of Central Asia’s energy exporters — Turkmenistan, Uzbekistan and Kazakhstan — to China. But Kazakhstan has until now exported gas only to Russia because additional pipelines were needed to link its fields to the China line. KazTransGas, which operates Kazakh gas pipelines and has no upstream assets, did not name the producers that would supply the gas.

China last year imported almost 1.2 trillion cubic feet of gas by pipeline from Turkmenistan and Uzbekistan, about equal to its imports of liquefied natural gas.

Tokyo Electric moves closer to first nuclear plant re-starts

(The Associated Press; Oct. 4) - The Japanese utility blamed for safety lapses in the Fukushima nuclear plant meltdowns has received its first approvals to operate reactors under stricter safety standards set since the 2011 disaster. The Nuclear Regulation Authority said Oct. 4 that two reactors in northern Japan met the new standards after measures taken by Tokyo Electric. The authority approved a draft certificate for the Nos. 6 and 7 reactors at the Kashiwazaki-Kariwa plant, a first step toward restarting them.

The approval becomes official after opinions are received from the public, regulators and the trade and industry minister. Then the reactors' start-up could take several months. Many people still oppose restarting the Kashiwazaki-Kariwa reactors because of concerns about TEPCO's safety records. Anti-nuclear activists rallied outside the regulation authority's building Oct. 4.

The commission decision is a milestone for TEPCO, which has desperately sought to restart Kashiwazaki as a crucial step to improve its business. The company must cover huge costs needed to decommission the wrecked Fukushima plant, a decades-long process, and to cover compensation payments for hundreds of thousands of residents who fled their homes. The decision is also good news for Prime Minister Shinzo Abe's pro-business government, which wants to restart as many reactors as possible.

Chinese provincial capital bans most sales and burning of coal

(Reuters; Oct. 2) - Taiyuan, the capital of China's northern province of Shanxi, which is known for its coal production, has banned the sale, transport and use of most coal as it tries to cut air pollution, the state news agency Xinhua reported Oct. 2. The ban took effect Oct. 1, restricting companies and individuals "other than major steel and power plants" from selling, transporting or burning coal in the urban area of Taiyuan.

The temporary ban was expected to cut coal use by more than 2 million tonnes, or 90 percent of the city's total consumption, the news agency said. China has ordered Beijing and nearby provinces, including Shanxi, to limit concentrations of airborne pollutants and meet key smog targets in more than two dozen cities starting this month and lasting until March. That period is when air pollution typically increases as more coal is burned to provide heat during the winter.

Coal is the biggest source of air pollution in Taiyuan in the winter, Xinhua quoted Dou Lifen, head of the city's environmental protection bureau. The prefecture of more than 4 million residents is replacing coal-burning household heating equipment with electric and gas heaters, Xinhua said. Taiyuan, which has also acted to control automobile exhaust and dust, was expected to see a reduction in the number of days of heavy air pollution to 22 days this year, 40 percent less than a year ago, the news agency said.

IEA forecasts stronger growth in renewables for power generation

(Reuters; Oct. 3) - The International Energy Agency has raised its forecast for renewable energy over the next five years following a record 2016, adding that renewables growth is squeezing natural gas and coal. In its medium-term renewables market report Oct. 4, the IEA said it expects global renewable electricity capacity to rise by more than 920 gigawatts, or 43 percent, by 2022, due to supportive policies for low-carbon energy and cost reductions for solar and wind power.

The projected growth is 12 percent more bullish than the IEA's forecast last year. In 2016, net additions to renewable energy capacity — including hydropower, solar, wind, bioenergy, wave and tidal — set another world record, growing by 165 gigawatts, 6 percent more than in 2015, the report said. Solar capacity grew by 50 percent to reach more than 74 gigawatts last year and it was the first time solar additions rose faster than any other fuel, surpassing the net growth in coal.

"Our expectation is that (growth in) renewable electricity generation in the next five years will be higher than electricity generation from coal and natural gas times two," said IEA executive director Fatih Birol. "Natural gas will continue to grow but moving toward the industrial and heating sectors," Birol said. "We still think LNG (liquefied natural gas) will be a key source for power generation especially in Asia, even though we expect renewables to grow as well," he said.

[LNG exports could drive U.S. prices more than weather, analyst says]

(Bloomberg; Oct. 1) - Whether it's hot or cold may be less of an issue for U.S. natural gas traders in the future as the nation exports record amounts of the fuel, said one analyst. Demand for cargoes of U.S. liquefied natural gas "is going to rival and could surpass weather as a core driver of electricity and natural gas prices in the U.S." in the next few years, Andrew Weissman, chief executive officer of EBW AnalyticsGroup in Washington, told a conference in Houston last week.

Cheniere Energy, which shipped its first cargo of LNG last year from its flagship Sabine Pass terminal in Louisiana, has become the biggest U.S. buyer of physical natural gas. It will be joined by Dominion Energy, which will soon open its LNG export facility on Chesapeake Bay. Several more LNG terminals are under construction, with more proposed. Weissman estimates that U.S. LNG exports could consume 12 billion cubic feet of gas a day by 2020, equal to about 13 percent of U.S. gas production in 2016.

[Oil and gas group opposes federal incentives for coal, nuclear plants]

(Reuters; Oct. 3) - The main U.S. oil and gas lobbying group joined forces with 10 other energy industry groups on Oct. 2 to oppose a call by the U.S. energy secretary for federal regulators to offer financial incentives for struggling nuclear and coal power plants. Energy Secretary Rick Perry on Sept. 29 called on the Federal Energy Regulatory Commission to issue a rule within 60 days to give many coal and nuclear plants a higher rate of return for providing reliable electricity to the nation's grid.

The American Petroleum Institute, Natural Gas Supply Association, American Wind Energy Association and eight other industry groups filed a motion with FERC opposing Perry's request. The motion said the deadlines in Perry's request for a so-called interim final rule are "wholly unreasonable and insufficient" and should be extended. It calls for a 90-day comment period followed by a conference for stakeholders to understand Perry's proposal and provide input.

Dena Wiggins, president of the Natural Gas Supply Association, said Perry's request of FERC was a "dramatic departure" from normal rulemaking. Nuclear and coal power plants have suffered a rash of permanent shutdowns in the face of competition from cheap, plentiful gas and stagnant electricity demand. Perry's plan could financially benefit some coal and nuclear plants by allowing them to recover a higher rate of return. Perry can only recommend the plan to FERC, which is an independent federal agency.

Offshore Louisiana LNG project plans 2018 investment decision

(Platts; Sept. 29) – Developers of what could be the first U.S. offshore LNG export terminal have been given the go-ahead by federal regulators to construct the onshore metering, compression and pipeline facilities that would deliver gas to the deepwater liquefaction facility. The Federal Energy Regulatory Commission on Sept. 28 approved the onshore facilities. The U.S. Coast Guard and the Department of Transportation's Maritime Administration in March approved the offshore portion of the project.

Delfin, owned by Fairwood Peninsula Energy, a Dallas-based company incorporated in 2013, is proposing a novel approach to build four floating gas liquefaction vessels that would be anchored about 40 miles off the coast of Louisiana and would be capable of producing 13 million tonnes of LNG per year. A final investment decision for the first floating liquefaction vessel is expected in 2018, with additional units depending on market demand, project officials have said. First output is planned for 2021 or 2022.

Scotland bans fracking after analysis shows little public benefit

(The Guardian; Oct. 3) - The Scottish government has banned fracking after a consultation found overwhelming public opposition and little economic justification for the industry. Scottish Energy Minister Paul Wheelhouse told members of parliament that allowing fracking would undermine the government's ambitions to deeply cut Scotland's climate emissions, and would lead to unjustifiable environmental damage.

Although Scotland needs natural gas for heating and its chemical industries, economists with KPMG estimated that allowing unconventional coal and gas extraction would only boost Scotland's gross domestic product by 0.1 percent, but would cause environmental ruin in areas where it occurred. A public consultation drew more than 65,000 responses, with 65 percent from towns in former coal mining areas of central Scotland targeted by the fracking industry. Of those, 99 percent opposed fracking, Wheelhouse said.

It would cause "long-lasting negative impacts on communities," he said. A longstanding moratorium in Scotland on hydraulic fracturing will be made permanent, Wheelhouse said. The decision follows nearly three years of delay by Scottish ministers. Ineos, which owns an oil refinery and petrochemicals plant in Scotland, was furious. Tom Pickering, managing director of Ineos Shale, said it was a disastrous decision that would damage Scotland's economy. "This decision, which beggars belief, means gas becomes a cost for the Scottish economy instead of an ongoing source of income."

[TransCanada cancels $15.7 billion oil pipeline to East Coast]

(The Canadian Press; Oct. 5) - TransCanada is cancelling plans for its Energy East oil pipeline and Eastern Mainline projects. The company suspended its application on Sep. 7 for 30 days on the $15.7 billion, 2,800-mile route that would carry Alberta oil sands production from Hardisty, Alberta, to Saint John, New Brunswick. The move came after the National Energy Board said its review would now consider indirect greenhouse-gas emissions. TransCanada warned Sept. 7 that the project could ultimately be cancelled.

TransCanada CEO Russ Girling delivered the company's verdict on the project in a statement released Oct. 5. "After careful review of changed circumstances, we will be informing the National Energy Board that we will no longer be proceeding with our Energy East and Eastern Mainline applications," Girling said. New Brunswick Premier Brian Gallant expressed disappointment in the cancellation and blames the company's decision on world market conditions and the negative impact of lower oil prices.

Montreal Mayor Denis Coderre, however, celebrated the announcement, suggesting in a series of tweets that citizen opposition and local politicians from the Montreal-area played a role in putting a stop to the project. Energy producers in Alberta had hoped the pipeline would help them diversify their markets from the U.S. and Western Canada, providing them with a way to move up to 1.1 million barrels a day to Eastern Canadian refineries and a marine export terminal in New Brunswick, on Canada's Atlantic Coast.

[Natural gas industry spent $46 million on lobbying in Pennsylvania]

(Philadelphia Inquirer; Oct. 1) - Over the past seven years, Pennsylvania lawmakers have introduced no fewer than 67 bills to tax natural gas production. In nearly every instance, those measures have died. Supporters of a tax say few other interests have managed to thwart legislation so successfully and for so long, earning Pennsylvania the distinction of being the only major gas-producing state without a severance tax. They point to the industry's ability to spend tens of millions of dollars on influence.

A Philadelphia Inquirer and Pittsburgh Post-Gazette analysis of lobbying disclosure and campaign finance records since 2010 shows that gas drilling companies and their industry groups have spent at least $46.6 million on lobbying and $14.5 million on political donations — many of the latter going to legislative leaders who control the flow of bills in the Capitol and the heads of committees that regulate their business.

That does not include donations from related industries, such as pipeline construction or utilities, which also spend generously on lobbying and political donations. "It's difficult to walk through the halls of the Capitol on a session day and not see [natural gas industry] lobbyists there," said Rep. Greg Vitali, a longtime supporter of a severance tax. Last week, the Republican-controlled House blocked another push for a tax on gas drilling.

The industry pushes back, arguing it is companies are unfairly singled out. Drillers do pay taxes, the industry says, including the impact fee legislators approved in 2012 in lieu of a severance tax. That money is largely parceled out to communities. Drillers paid about $173 million in impact fees last year. Pennsylvania produced an average of almost 15 billion cubic feet of gas per day last year — No. 2 in the U.S. behind Texas.

TransCanada's lower gas line tariff helps Ontario consumers

(Financial Post; Canada; Oct. 2) - Alberta natural gas producers aim to wrestle back market share from their U.S. counterparts in Eastern Canada after TransCanada slashed its tolls by 58 percent on its pipeline system that sends gas from Empress, Alberta, to southern Ontario. TransCanada agreed to cut its tolls to about 75 cents per thousand cubic feet for 23 shippers that committed to move 1.4 billion cubic feet of gas per day on the system for 10 years.

The new contracts were approved by the National Energy Board on Sept. 21, which led to an immediate drop in Ontario natural gas prices. Advantage Oil and Gas CEO Andy Mah said the agreement with TransCanada would benefit Calgary-based producers by providing economic access to the important Toronto-area heating market. "This approval is the first piece of reaching out beyond the Alberta border and accessing a market where we're going to compete head to head," Mah said.

Western Canadian gas producers can now compete directly against companies in Pennsylvania that are also shipping more gas to Ontario. Eau Claire Energy Advisory president Ed Kallio said Ontario is now at the center of "a battle between Western Canadian and Appalachian producers" to ship the lowest-cost gas to the province. There is still unused capacity on TransCanada's mainline, which ships about 3.5 bcf per day from Western Canada to a hub at Dawn, Ontario.

India's oil refiners want to get into the natural gas retail business

(Bloomberg; Oct. 2) - A push by the world's fastest-growing oil guzzler to use more natural gas is getting a boost from an unlikely source: the nation's gasoline and diesel makers. India's top three state-owned oil refiners are planning to use their gasoline and diesel fuel outlets to sell compressed natural gas for vehicles, increase investments in city-gas distribution projects and expand use of the fuel in their oil refineries, according to company executives.

"I have to ensure that the company is ready to meet the energy demand for the future," said Sanjiv Singh, chairman of India's largest refiner, Indian Oil Corp., which has more than 26,000 fuel stations in the country. "It is very easy for us to add gas to our existing retail outlets." The three state oil refiners — Indian Oil, Bharat Petroleum and

Hindustan Petroleum — control more than 90 percent of India's gasoline and diesel retail market through 54,000 outlets. The companies will be "key enablers" in raising the country's natural gas demand 50 percent by March 2022, said analysts at Morgan Stanley.

While global energy attention has been on India's role as the world's fastest-growing major oil consumer, Prime Minister Narendra Modi also aims to increase the share of natural gas in the country's energy mix to 15 percent by 2020 from about 6.5 percent now to curb pollution. India's gas goals rely on importing more of the fuel as liquefied natural gas. The country plans to increase its annual LNG import capacity to 55 million tons over the next four years from 16 million tons last year.

Petronas looks to sell off small slice of oil and gas assets in Alberta

(Reuters; Oct. 3) - Malaysian state energy firm Petronas is looking to sell a small piece of the oil and gas assets owned by its Canadian unit Progress Energy, its adviser BMO Capital Markets said. The potential sale marks a further retreat by Petronas in Canada after it scrapped plans for a multibillion-dollar liquefied natural gas export project in British Columbia in July. Petronas in 2012 spent about $6 billion to buy Progress Energy, in part to help supply gas to the LNG plant.

"BMO Capital Markets has been engaged by Progress Energy to assist with the sale of its Deep Basin assets in Alberta," the bank said on its website under a section on deals it was working on. Bids are expected in early November, BMO said. The assets on the block have a base production rate of about 5,500 barrels of oil equivalent per day — about 6 percent of Progress Energy's Canadian production — and include more than 400,000 gross acres in the Deep Basin with a 63 percent working interest, BMO said.

The sale would also include ownership in three gas plants and an extensive pipeline network. After cancelling the Pacific NorthWest LNG project, Petronas had said it was looking at other ways to generate revenue from its North American gas assets. BMO describes the Deep Basin as an "undercapitalized asset."