Oil and Gas News Briefs
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Shell-led LNG Canada project confirms prime contractors

(The National Post; Canada; April 27) - The consortium behind LNG Canada confirmed the prime contractors for its C$40 billion project April 27, moving the development forward amid concerns that steep Canadian import tariffs on some steel components could still make the project untenable. In a decision the consortium called a "significant milestone," it said U.S.-based Fluor Corp. and Japan's JGC Corp. would lead the $14 billion construction job for the liquefied natural gas plant in Kitimat, B.C. Construction would take about five years. Capacity could reach 26 million tonnes of LNG per year.

The consortium, led by Shell with partners PetroChina, Korea Gas, and Mitsubishi, has yet to make a final investment decision, but said it will come down some time this year. Shell has hinted in recent months that LNG Canada is among the top contenders for its next major project, as the company looks to maintain its position as the world's biggest LNG player. Shell currently controls nearly 40 percent of the global LNG market.

British Columbia has advantages due to its proximity to Asia and cost-competitive upstream gas production. But political dust-ups, environmental opposition, high labor costs and provincial taxes on LNG exports have dampened Canada's reputation for foreign investment. None of the major LNG projects proposed on the West Coast have moved forward. A major hang-up are Canada's steep tariffs that would be imposed on prefabricated modules from China and South Korea. Those import duties could reach as high as 45 percent. Shell and its partners have applied for a waiver.

Anadarko close to having enough customers for Mozambique LNG

(Bloomberg; April 26) - Anadarko said that "in principle" it has enough customers to proceed with its liquefied natural gas project in Mozambique, eight years after making a major deepwater discovery there. The development of Mozambique's LNG potential by Anadarko, Eni and ExxonMobil is key to stimulating growth in one of the world's poorest countries. Anadarko signed a 15-year supply deal with utility Electricite de France in February and now needs to finalize similar contracts with other potential clients, said Steven Wilson, vice president and country manager in Mozambique for the company.

"We effectively have agreement in principle for the volumes we need," Wilson said in an interview in Mozambique's capital. "Now the intention is to follow the EDF transaction" to convert those other deals into binding sales-and-purchase agreements before a final investment decision. Anadarko has received government approvals for onshore facilities needed to export the gas. The project, estimated to require investment of $20 billion, will start with two liquefaction trains with a capacity of more than 12 million tonnes a year with a view of increasing to as many as eight trains producing 50 million tonnes.

While Wilson is optimistic about financing, he said resumption of International Monetary Fund participation in Mozambique would help boost investor sentiment toward the southern African nation. Some of the biggest gas discoveries in a decade off Mozambique's northern coast has been overshadowed by the disclosure of hidden government debt in 2016, which prompted the international agency to halt funding.

Mozambique looks to raise $2 billion for its share of LNG ventures

(Bloomberg; April 26) - Mozambique's national oil company has appointed Lazard Frères and Lion's Head Global Partners as advisers to help raise as much as $2 billion to refinance its share of two proposed natural gas development projects. Empresa Nacional de Hidrocarbonetos (ENH) will begin a financing roadshow next month to regions including Asia, the Middle East and South Africa, Chairman Omar Mitha said.

Lazard will advise ENH on refinancing its portion of the proposed Anadarko-led LNG project, while Lion's Head will advise on the Eni-led liquefied natural gas venture. Societe Generale also will assist with refinancing for the Anadarko development. Mozambique is seeking to restructure $2 billion of commercial debt — which it hasn't made payments on since October 2016. The country is counting on the large LNG projects to help it repay the loans and started talks with creditors last month in London. ENH has a 10 percent stake in Eni's project and 15 percent of Anadarko's venture.

ENH had initially depended on its commercial partners at the gas projects to finance its portion of equity as it was not able to raise the money itself at the end of 2014 because of poor market conditions amid a gas-supply glut and the country's own financial problems. The market has since improved, and ENH is betting investors will see the projects as being less risky now that more progress has been made toward a final investment decision for the ventures and global LNG prices have rebounded.

China's gas demand growth could slow this year

(Platts; April 25) - China's natural gas demand growth could be tempered this year as the country pursues coal-to-gas switching objectives in a more measured fashion than in 2017, officials and company executives told an event in Beijing on April 25. Speaking at the 4th CWC China LNG & Gas International Summit, Wu Hongkun, CNOOC vice president of trading and marketing, said China's annual gas consumption growth rate in

2018 could slip below the 15.3 percent year-on-year growth seen in 2017. China's gas consumption is expected to grow by 11.8 percent in the first quarter of 2018, he said.

China's coal-to-gas initiatives "out-performed expectations" last year, leading to gas shortfalls in certain regions, said Zhang Yuqing, former deputy director of the National Energy Administration. "We are very optimistic about China's gas demand growth, but there needs to also be effective policies to ensure these targets are reached," Wu said.

The country's LNG demand surged last winter on greater coal-to-gas switching due to more stringent environmental policies. This led to gas shortages and a surge in trucked LNG prices in some regions. Chinese authorities have repeatedly said that power and gas companies need to guarantee security of supply and strengthen their pricing self-discipline to safeguard against extreme price volatility and shortages in the gas markets.

China plans to boost gas reserves, storage capacity

(Nikkei Asian Review; April 27) - China will expand its natural gas reserves and storage capacity to prevent a repeat of last winter's crippling shortage that froze the nation's economy. The National Development and Reform Commission, which guides national energy policy, announced April 27 a goal of boosting reserves to the equivalent of 16 percent of annual domestic gas consumption in 2020, up from below 6 percent today. The move could push up prices for liquefied natural gas worldwide, analysts said.

Chinese oil and gas companies, as well as regional governments, are required to maintain gas reserves. State-owned China National Petroleum Corp. is a big player in the field, running terminals to import LNG and operating underground facilities that store gas transported from abroad and inside China through pipelines. These suppliers will be punished if they do not sufficiently increase their storage capacities, according to the development commission.

China currently has 18 LNG terminals with a total annual receiving capacity of about 60 million tonnes. It plans to increase capacity to 77 million tonnes in 2020, a goal it might exceed. The country also plans to add more underground storage facilities to the current tally of 25, most of them operated by CNPC. Investment is expected to total about 10 billion yuan ($1.57 billion) for LNG terminals and about 3 billion yuan for underground storage. CNPC also plans to double domestic gas production in 2020.

South Korea plans to diversify its LNG supply portfolio

(Yonhap News Agency; South Korea; April 26) - State-run Korea Gas will diversify its imports of natural gas as the resource is expected to play a "bridging role" under the country’s new energy road map, its chief said. CEO Cheong Seung-il referred to South

Korea President Moon Jae-in's plan to boost the share of renewable energy in the country's energy mix from the current 7 percent to 20 percent by 2030 and phase out aged nuclear reactors and coal-fueled thermal power plants.

"Demand for gas is expected to rise as it needs to play a bridging role in the mid-term under the new energy policy," Cheong said in an April 25 meeting with reporters at the Pyeongtaek LNG import terminal southwest of Seoul. "We should fully prepare for the hike in demand and increased volatility in the market by diversifying import sources."

Demand for gas, a relatively clean source of fuel, is projected to grow at an annual rate of 0.81 percent to 40.49 million tonnes in 2031 from this year's estimated 36.46 million tonnes, according to the government's long-term gas supply plan. KOGAS has been seeking to diversify its import portfolio beyond its traditional sources in the Middle East and Southeast Asia, which account for about 70 percent of the nation's supply. South Korea imported about 30 percent of its LNG from Qatar last year. As its long-term contracts with Qatar and Oman expire in 2024, KOGAS will seek "maximum flexibility" when signing new deals to better deal with market fluctuations, the CEO said.

Papua New Guinea LNG resumes full production

(Platts; April 30) - ExxonMobil PNG has restarted the second liquefied natural gas train at the Papua New Guinea plant project nearly three weeks after the first train was restarted, as the project recovers from the impact of a February earthquake. "The plant is now operating at normal production rates, and exports of LNG have resumed," ExxonMobil, which is the main operator of PNG LNG, said in a statement April 30.

Market participants were watching for exports from PNG LNG to return to normal levels of about two to three cargoes a week. Two LNG carriers are currently offshore the marine terminal, S&P Global Platts' vessel tracking system, cFlow, showed. PNG LNG has a nameplate capacity of 6.9 million tonnes per year but has consistently operated above that level. Output is expected to remain above 8.5 million tonnes per year.

PNG LNG restarted its first processing train on April 12, more than two weeks ahead of schedule, following a shutdown after the 7.5-magnitude earthquake hit the Papua New Guinea Highlands on Feb. 26, causing widespread destruction. The $19 billion gas project started exports in 2014.

India plans to split up state-run gas utility; goal is to boost demand

(Reuters; April 27) - India plans to split state-run gas utility GAIL into two companies: one marketing gas, and another operating pipelines that can be used by consumers who buy direct from producers, the head of the sector's regulator told Reuters. GAIL

(India) is the country’s biggest gas marketing and trading firm and owns most of the nation’s pipelines, giving it a stranglehold on the market for the fuel.

By splitting GAIL, the regulator of India’s oil and gas sector hopes to increase the number of gas consumers and attract the billions of dollars needed to expand the pipeline network and build more liquefied natural gas import terminals. “All this unbundling should be done within this fiscal year (to March 31, 2019),” said D.K. Sarraf, chairman of India’s Petroleum and Natural Gas Board.

By unbundling GAIL and opening the sector, the government hopes to increase gas use and meet its objective of raising the share of the cleaner fuel as a part of the energy mix to 15 percent, from 6.2 percent now, in the next 12 years. Many power plants and small industries like ceramic, glass, and cement makers rely heavily on more expensive or dirtier fuels such as naphtha, diesel and coal. In the future, though, more companies will be able to buy gas via pipelines without having to go through GAIL. The regulator is also looking at how to open access to the pipeline network for smaller buyers.

Australia says posting LNG netback prices will help domestic buyers

(Platts; April 27) - Australia's competition watchdog has decided to go ahead with its plan of publishing monthly liquefied natural gas netback prices on its website, the Australian Competition and Consumer Commission said April 27. The commission said it has found that LNG netback prices are a key factor in influencing domestic prices for natural gas, and that improved transparency will assist to reduce an information imbalance between gas users and suppliers.

"At the moment, gas users haven't got enough information to assess how international prices are driving domestic gas prices," said commission chairman Rod Sims. "We believe that publishing LNG netback prices is an important step toward improving gas price transparency to improve the competitive bargaining process.”

The LNG netback price — which represents a domestic gas supplier's opportunity cost of selling into the domestic market when the alternative is exporting the gas as LNG — is calculated by taking the price that could be received by export and subtracting, or netting back, the costs incurred by the supplier to liquefy the gas and ship it to the point of delivery. Australia’s boom in LNG exports is blamed for rising prices paid by domestic consumers that must compete for the same gas supplies.

Australia’s oil-and-gas tax incentives ‘too excessive,’ report says

(Bloomberg; April 26) - Australia is on track to match Qatar as the world's biggest liquefied natural gas exporter next year. The boost to Australia’s budget bottom line?

Virtually nil. While the Persian Gulf nation is forecast to rake in as much as $26.6 billion in fiscal 2020 from taxes on LNG, Australia is set to reap a paltry $800 million, according to analysis by the Tax Justice Network's Australian office.

Australia's Petroleum Resource Rent Tax levies 40 percent on profits after a company recovers its capital investment, a system that works pretty well for oil projects but is a poor fit for LNG. That's because an oil venture can be cash positive within a few years of production, while LNG requires significantly more capital expenditure, prolonging the time before it generates enough cash to pay tax, a government report found.

The figures "are an indication the fiscal regime for Australia's LNG sector is broken," said Juan Carlos Boue, who made a submission to Australia's inquiry on tax avoidance while working as an oil industry consultant at the U.K.-based Oxford Institute for Energy Studies. "The incentives are simply too excessive." As politicians uphold the status quo, significant new LNG volumes are coming to market. Chevron's multibillion-dollar Gorgon and Wheatstone LNG projects off Western Australia will pay no resource rent tax until the end of the next decade, according to an estimate by Barclays Capital.

FERC to decide how much of tax cut goes back to pipeline customers

(Bloomberg; April 25) - Pipeline owners led by Enbridge and Williams Cos. could be forced to refund as much as $18.5 billion to drillers, utilities and even United Airlines for upfront payments they charged customers before new U.S. tax rules cut the corporate rate. Gas pipelines include the cost of future tax payments in customer fees. Because Congress lowered the tax rate to 21 percent from 35 percent earlier this year, pipelines have effectively been overcharging customers, said East Daley Capital Management.

The sides now await a ruling on whether refunds must be made, and how quickly. The outcome could be particularly damaging to master limited partnerships that own shares of pipeline companies. In March MLPs lost the ability to collect any taxes in their pipeline tariffs, after regulators issued a ruling following a court decision involving United Airlines. Now they face the prospect of paying back funds charged in the past.

“The worst-case scenario is pretty draconian” for pipeline owners, said Matthew Lewis, director of financial analysis at East Daley in Centennial, Co. “The Federal Energy Regulatory Commission has left pretty much every option open: You don’t have to pay back any or you have to pay it all back,” or something in between. It is unlikely that a full refund will be required, Lewis said. FERC will consider public comments before making its decision on potential refunds to pipeline customers.

Alberta says B.C. shutdown of oil line project would hurt economy

(Calgary Herald; April 26) - Canada's economy will "grind to a halt faster than you can say 'free trade'" if British Columbia gets the regulatory powers it's seeking under a court reference filed April 27, Alberta Premier Rachel Notley said. British Columbia wants the courts to rule that the province has the authority to regulate the flow of oil through the federally approved C$7.4 billion Trans Mountain pipeline expansion.

The province has sent draft legislation to the B.C. Court of Appeal asking whether it has the right to enact tougher restrictions on companies transporting heavy oil such as diluted bitumen from Alberta's oil sands through the province. The legislation would require companies transporting heavy oil to get permits, and those permits would come with restrictions from the B.C. government, such as requiring a spill response plan.

"B.C. should have a say over whether we put our coast, streams, rivers, and tens of thousands of jobs in harm's way," B.C. Premier John Horgan said. Notley argued B.C. is trying to exploit a constitutional loophole and harass the pipeline project, which is under construction. Environment is a shared jurisdiction, Notley said. "The way B.C. is framing this would effectively drive a truck — but not a train or a pipeline, apparently — through that loophole," she said. "The resulting consequences would be very, very damaging to our national economy."

Alberta will spend $2.1 million on oil pipeline marketing campaign

(Calgary Herald; April 27) - The Alberta government is looking for an advertising agency to develop a Canada-wide campaign to promote the controversial Trans Mountain oil pipeline expansion, and it's willing to pay $2.1 million. It's a drop in the bucket compared to the $4 million the economy loses each day due to a lack of market access for the province's oil production, which leads to lower prices and royalty revenues, the government said.

Premier Rachel Notley's communications director Cheryl Oates said Canadians need to know how the pipeline expansion boosts Canada's economy. "They also need to hear about the broader issue of market access, which affects Canadians from coast to coast," Oates said. The British Columbia government opposes the project, arguing that it would bring an increased risk of environmental damages. Alberta launched a competitive bid process for the marketing contract this week. It closes May 10.

According to the request for proposals, the contractor will be tasked with working out marketing and media strategies to promote the Kinder Morgan project that would almost triple the company's pipeline capacity from Alberta to an export terminal in Burnaby, near Vancouver. The work will include a national market-access advocacy campaign, paid advertisements, animated videos, social media graphics and infographics.