Oil and Gas News Briefs
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Oil and gas companies target smaller projects with faster payback

(Bloomberg; April 5) - The biggest energy companies are ready for big projects again. They just need to be cheaper this time. Energy companies will approve spending for about 30 major projects this year, consultancy Wood Mackenzie said in an April 5 report. That's in line with the 32 sanctioned last year and more than were approved in 2015 and 2016 combined, when oil prices bottomed out amid a global price crash.

Projects launched this year are expected to cost about $2.2 billion each, down from $2.7 billion in 2017 and $9.3 billion in 2009, Wood Mackenzie said. The average break-even price for this year's projects, which target reserves of more than 50 million barrels of oil equivalent on average, will be about $44 a barrel of oil, down from $52 last year.

"A couple of years ago, company break-evens were incredibly high, and they've worked really hard to reduce spending, reduce workforce, and bring down costs," said Angus Rodger, director of Asia-Pacific upstream research at Wood Mackenzie. "They don't want to go on a massive spending splurge now." That means companies are targeting brownfield projects, expansions and subsea tie-backs, Rodger said. Such projects cost less and are quicker to complete and pay back their investments, he said.

The shift to small projects could reverse in 2019 with several big liquefied natural gas projects — new plants and expansions — in places like Qatar, British Columbia, Papua New Guinea, and Mozambique nearing final investment decisions. If several mega-projects launch simultaneously, companies will have to plan carefully to avoid cost overruns that hit similar ventures earlier this decade, Rodger said.

Pipeline opponents see opening to challenge eminent domain

(Houston Chronicle; April 4) - Pipeline companies have long had the power to take land under eminent domain in the public interest to transport energy to heat homes, generate electricity and produce fuels. But what if the public is in Europe, South America, or Asia? As U.S. oil and gas exports are increasing, environmental and property rights advocates are promoting a legal argument to block pipelines, asserting that projects that help ship fuels overseas don't help the U.S. public and shouldn't be eligible for eminent domain.

In fact, they note, exporting energy may hurt the public interest by decreasing domestic supplies and raising costs. Australia, for example, exported so much liquefied natural gas that domestic supplies dwindled and prices doubled for Australian consumers. “Public use does not include shipping (gas) to China,” said David Bookbinder, chief counsel for the Niskanen Center, a property-rights advocacy in Washington.

The argument has not been tested in court, but the Niskanen Center is preparing challenges against land takings for pipelines to LNG export terminals and considering intervening to aid property owners fighting eminent domain actions. Analysts said the issue of whether energy exports are in the public interest also could provide a new line of attack for environmentalists, who have been largely unsuccessful in legal challenges based on the impact of pipelines on natural resources and climate change.

Luke Ellis, an Austin, Texas, eminent domain lawyer who represents landowners, sees an opening to challenge land takings in court. "If we can show that gas that comes out of the Permian Basin and goes into the pipeline and is processed into LNG and then gets shipped overseas with no use by the public and no intention to do it any differently, I think there is a legitimate public use challenge," Ellis said. "I’d love to take it on."

U.S.-China tariff battle has not hit oil or gas, but propane on the list

(CNBC; April 4) - As the U.S. and China do battle over trade, there's one sector that has been largely left out of the tit-for-tat for now — that's energy. The U.S. has plenty, and China wants more. China took 20 percent of U.S. oil exports last year and importantly, as the fastest-growing importer of liquefied natural gas in the world, it’s a ready buyer of U.S. LNG. In fact, if not for the boom in U.S. energy production over the past decade, the U.S. trade deficit would have been larger by as much as $400 billion.

The U.S. oil and gas sectors have boomed — using new technologies to find and drill oil and gas that should someday make the U.S. not only the world’s largest gas producer but the largest oil producer, too. The oil sector last week produced a record 10.5 million barrels a day and exported an all-time high of 2.2 million barrels a day. Meanwhile, the first ever long-term contract between a Chinese state-owned company and a U.S. LNG producer (Cheniere Energy) was signed this winter for 1.2 million tonnes per year.

Though the tariffs imposed by China in reaction to U.S. tariffs on Chinese goods do not include crude oil, natural gas, gasoline or diesel fuel, they do include petrochemicals and propane. Unless reversed by China, those new tariffs could cause pain for U.S. producers of those refined products. The U.S. exported 1.4 million barrels a day of propane and propylene last week.

China has other options if trade war extends to U.S. oil, analyst says

(Bloomberg; April 6) - China's tariffs in one corner of the energy market signal U.S. shale fields could become a target if a trade war escalates. Beijing on April 4 took aim at America's heartland by proposing levies on politically sensitive farm commodities such as soybeans, which were among 106 U.S. products targeted. The list also included petrochemicals and liquefied propane, indicating that the world's biggest oil buyer is willing to use energy as a weapon to retaliate against U.S. duties on its high-tech goods.

While officials from the world's two largest economies had sought to calm markets by showing a willingness to negotiate, President Donald Trump on April 5 ordered his administration to consider tariffs on an additional $100 billion in Chinese imports. The Asian nation is the biggest regional buyer of U.S. oil as well as liquefied natural gas, and the critical energy commodities may be swept up in the trade war if tensions flare.

"China can ditch American energy at any time because there are plenty of supplies elsewhere," said Will Yun, a commodities analyst at Hyundai Futures Corp. in Seoul. While China's proposed tariff on U.S. propane probably won't hurt American companies as much as intended, Yuanta Securities Co. predicts duties on oil would rattle investors. "If China shows its willingness to impose tariffs on crude, it will send a shock wave through markets," said Min Byungkyu, a global strategist at the brokerage.

South Korea forecasts small gain in LNG demand by 2031

(Reuters; April 5) - South Korea expects its natural gas demand to surpass 40 million tonnes in 2031, driven by higher household and industrial consumption of the fuel, the energy ministry said April 5. The world's third-largest liquefied natural gas importer had previously forecast gas demand falling to 34.65 million tonnes of LNG equivalent in 2029 from 36.49 million tonnes in 2014 due to lower power generation demand.

The increased demand forecast of 40.49 million tonnes in 2031 from an estimated 36.46 million tonnes in 2018 comes as South Korea shifts away from coal and nuclear fuel. The country has long been reliant on coal and nuclear power to produce electricity. The share of gas-fired power generation made up about 17 percent of the country's total electricity needs in 2017 and is estimated to increase to 18.8 percent by 2030.

Reflecting the country's growing gas demand over the next 13 years, South Korea also plans to spend about 5.8 trillion Korean won ($5.48 billion) by 2031 expanding its gas supply infrastructure including storage tanks and pipelines. To ensure gas supply security, South Korea also seeks to diversify gas supplies and have more flexible LNG contracts that do not include restrictive destination clauses or take-or-pay terms.

The Philippines still wants to import LNG, but will not dismiss coal

(Platts; April 5) - The Philippine government is keen to push ahead with an LNG import terminal to make up for falling gas production from older fields and is likely to select a developer from seven interested consortiums in the coming year, according to energy department officials. Apart from the power plants totaling 3,300 megawatts that need an alternative source of gas before domestic production collapses, LNG is a tough sell in the country's energy mix for multiple commercial, regulatory and technical reasons.

For most power utilities in the supply chain, the practicality of coal-fired power generation is hard to ignore. Coal remains the cheapest, most abundant and most easily accessible fuel source, compared with LNG and its supply uncertainties and high barriers to entry. The Philippines has not imported any LNG to date. The government has made it clear that it will not implement any exclusive pro-gas policies, and that it remains in favor of a merit-based energy mix.

"Our general policy is that in terms of technology, we are agnostic," Zenaida Monsada, former secretary in the Department of Energy, said last month in Manila, adding that all fuel sources would be considered. Department officials said that 70 percent of electricity demand on the island of Luzon, where the capital Manila is located, has a baseload capacity that needs a low-risk fuel source like coal. Luzon is home to more than half of the country's population and economic activity.

Papua New Guinea LNG moves toward restart after February quake

(Platts; April 5) - Papua New Guinea LNG operator ExxonMobil is adhering to its initial restart plan for the second half of April, with activity ramping up at the site including the delivery of a cooling cargo from Indonesia and the imminent arrival of an empty tanker to fill up at the facility. The carrier Kumul, loaded with LNG from Indonesia, arrived April 1 to offload its supercooled gas to maintain the cold temperature of the facility's tanks and loading infrastructure to avoid a lengthy recooling period once production restarts.

Elsewhere, an LNG carrier assigned to the project, the Papua, is heading toward Papua New Guinea at close to full speed, according to Platts' trade flow software cFlow, signaling a potential imminent restart. PNG LNG closed Feb. 26 after a 7.5-magnitude earthquake in the country’s highlands. Exxon and the project’s gas field operator shut down production until they could determine and repair any damage for a safe restart. ExxonMobil had earlier talked of an eight-week shutdown of the facility.

Kinder Morgan suspends work on Alberta-B.C. oil pipeline

(The Canadian Press; April 8) - The future of the Trans Mountain pipeline expansion was cast in doubt April 8 as Kinder Morgan suspended all non-essential activities and spending on the project in the face of mounting opposition from British Columbia. With the company pinning its decision largely on the B.C. government's challenges to the oil line and the need to protect its shareholders, the federal and Alberta governments are pushing B.C. Premier John Horgan to drop his promise to stop the C$7.4 billion project.

"The government of Canada calls on Premier Horgan and the B.C. government to end all threats of delay to the Trans Mountain expansion," federal Natural Resources Minister Jim Carr said. "His government's actions stand to harm the entire Canadian economy." Alberta Premier Rachel Notley said her government would consider taking an equity stake in the pipeline if Kinder Morgan investors are considering backing away. "Alberta is prepared to do whatever it takes to get this pipeline built," she said.

Kinder Morgan's decision will be seen as a blow to Prime Minister Justin Trudeau, who insists the line will be built. The federal government in 2016 approved the expansion, which would triple the amount of oil flowing from Alberta to Burnaby, B.C., to almost 900,000 barrels a day. The company said it will consult with stakeholders to try reaching an agreement by May 31 that might allow work to proceed. Kinder Morgan has spent about $1.1 billion on the project, which has become a major irritant in the relationship between Alberta and B.C., where there is strong environmental opposition to the project. Alberta went as far as to temporarily ban the import of wines from its neighbor.

Newspaper editorial calls out B.C. for oil line opposition

(The Globe and Mail editorial; Canada; April 8) - It was good to see Canadian Prime Minister Justin Trudeau vigorously defend the expansion of the Trans Mountain oil pipeline in British Columbia last week. "It will be built," he said. It is critically important that this pipeline expansion go forward, and not just because it will finally give Alberta's landlocked oil producers a safe way to transport their crude and refined petroleum products to tidewater and then on to foreign markets by tanker.

As important as that is, the more pressing issue is one of jurisdiction. It is the federal government's constitutional right to approve the transport of energy resources across provincial borders. It can't allow a province to usurp its authority — especially one that is being so nakedly hypocritical in its opposition to the Trans Mountain project.

Since taking power last summer, B.C.'s New Democratic Party-led government has used its stated desire to protect the environment as a reason for delaying Trans Mountain. At the same time, however, it is supporting development of the province's gas reserves, offering tax breaks to an LNG project that includes, wait for it, a new pipeline and a new tanker terminal on the B.C. coast. The message is clear: B.C. will develop its lucrative resources while stonewalling Alberta's in the name of the environment. Hypocrisy often has a way of catching up with those who practice it.

Tribal leader tells Sierra Club that many First Nations support LNG

(Dawson Creek Mirror; BC; April 5) - When it comes to oil, anti-pipeline activists from Canada and the U.S. have found some strong allies among First Nations in British Columbia. But when it comes to natural gas and liquefied natural gas, it's a different story. There is generally strong support for an LNG industry among B.C. First Nations, and some take exception to the anti-fossil fuel coalition opposing a C$40 billion project like LNG Canada, which would generate an estimated 10,000 jobs at peak construction.

One First Nation leader has even told the Sierra Club to back off. In response to a letter to the Times Colonist in January by Sierra Club campaigner Caitlyn Vernon, who warned of damage to tourism from the LNG industry, Haisla Nation Chief Councillor Crystal Smith fired back: "Before the Sierra Club writes any more about LNG in B.C., I invite them to spend time with the many First Nations who support LNG development." She also plans to talk with the B.C. Green Party leader about his opposition to LNG.

Along the route of the proposed pipeline to bring gas from northeastern B.C. to Kitimat to supply the LNG Canada project, most First Nations have signed benefits agreements that typically include opportunities for their businesses and contractors to bid on contracts for work like site clearing and supplying work camps, said Karen Ogen-Toews, former chief of the Wet'suwet'en First Nation and current CEO of the First Nations LNG Alliance. "This is our own-source revenue,'" she said. "We're able to increase the quality of life in terms of education and training. We're able to look after health and wellness."

Cost-cutting improves competitiveness of U.K., Mexico and Norway

(Platts; April 5) - The U.K., Mexico and shallow-water Norway are now the most competitive locations for new oil and gas projects following cost-cutting by the offshore industry globally, consultancy Wood Mackenzie said April 5. In a new report, Wood Mackenzie forecast that break-even costs for major new investment projects would fall by an additional 15 percent this year to $44 per barrel of oil equivalent, and said it expected 30 major projects to be approved this year, in line with last year's 32.

It gave a cautious view on spending levels, predicting that investment per barrel of reserves would rise slightly this year for deepwater projects, to almost $10 per barrel of oil equivalent. It noted that already in the first quarter six of the 30 projects that it forecast would be approved this year had received the go-ahead in the U.K., Norway, Israel, the Netherlands, Malaysia, and China.

The report matches recent surveys and comments from industry leaders applauding improvements in the North Sea, which was long viewed as exceptionally expensive. "The primary focus has been to reduce project footprints through fewer wells, smaller facilities, and the greater use of subsea tie-backs and existing infrastructure," Wood Mackenzie said. "Lower costs, lower break-evens, higher prices and improved corporate finances all contributed to an upgrade in industry sentiment."

Conoco sells Texas assets and invests in Canadian shale

(Financial Post; Canada; April 4) - ConocoPhillips is selling off land in the world's hottest oil play and buying up natural gas assets in Canada amid a flurry of deals in the gas sector and in emerging Canadian energy plays. Houston-based ConocoPhillips announced this week it had sold off multiple land packages in Texas' extremely active Permian basin for US$250 million and, at the same time, bought 35,000 acres of land in the Montney shale play in northern Alberta and British Columbia for US$120 million.

Companies such as BP, Total, and Shell have been selling Canadian assets in a hurry over the past few years given pipeline constraints and higher taxes, but analysts said ConocoPhillips is preparing for major growth in the Montney and the company sees an opportunity to buy low. "Right now, Permian sales are getting pretty good prices so it's probably looking like an opportunity to sell high there a little bit and buy low elsewhere and improve your portfolio," said Edward Jones analyst Brian Youngberg.

Activity in the Montney, abundant in gas and liquids like butane, propane, and pentane, is ramping up. ARC Energy Research Institute forecasts $30 billion will be spent in conventional and tight oil and gas formations in Canada this year, though still below the peak $46 billion spent in conventional oil and gas production in 2014. ConocoPhillips, which did not respond to a request for comment, is just one of multiple companies striking deals in the Montney and emerging Duvernay and Horn River formations.

Qatar may buy stake in Eni's 2-billion-barrel offshore Mexico prospect

(Bloomberg; April 5) – Eni is in talks to sell a stake in its giant oil discovery in Mexico to Qatar Petroleum International, according to people with knowledge of the plans. The Italian oil major, which currently holds 100 percent of the offshore find in Campeche Bay and expects to start production in 2019, would sell 20 to 35 percent to Qatar Petroleum, the sources said. Eni is also in talks with other potential suitors, the people said.

The deal would mark the first Mexico farm-out — a joint venture in which help in developing an oil area is exchanged for a stake — by companies other than Petroleos Mexicanos since the country opened its oil industry to competition in 2013, ending three-quarters of a century of state monopoly over exploration and production. Such agreements could become more common in Mexico.

If negotiations are successful, Qatar Petroleum would hold an interest in an area comprising the Amoca, Mizton, and Tecoalli shallow-water oil fields in the southern Gulf of Mexico, which Eni estimates may hold the equivalent of 2 billion barrels of oil. The Italian driller has picked up blocks in subsequent tenders in Mexico, including a deep-water prospect in partnership with Qatar Petroleum. For its part, Qatar Petroleum nabbed three other blocks in the same bidding round in January.