Oil and Gas News Briefs
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Exxon drops proposed LNG project in British Columbia

(Reuters; Dec. 20) - ExxonMobil has withdrawn its West Coast Canada LNG export terminal from an environmental assessment, it said Dec. 20, signaling that the project has been shelved. The decision to pare its development portfolio while focusing on LNG projects in Asia, the Middle East, and the United States follows on the decision by a Shell-led group to build a giant liquefied natural gas project in British Columbia to supply Asian customers. The Exxon project was proposed for near Prince Rupert, B.C.

Exxon's WCC LNG export project was expected to produce around 15 million tonnes per year with plans for eventual expansion up to 30 million tonnes per year. British Columbia rules require large projects to obtain an environmental assessment certificate before they can be developed. The Canadian Environmental Assessment Agency has been reviewing the Exxon-led project since February 2015, though the company had not filed any major documents for the $25 billion development since 2016.

"After careful review, ExxonMobil and Imperial have withdrawn the WCC LNG project from the environmental assessment process," a spokeswoman for ExxonMobil said in an email. Exxon's decision signaled that it is concentrating on its planned LNG project in Texas with partner Qatar Petroleum and a proposed expansion of its plant in Papua New Guinea, said Jason Feer, head of business intelligence at Poten & Partners, LNG tanker brokers and consultants. "They have got a pretty robust pipeline of liquefaction projects globally. It'd be natural to review that and see which would be competitive."

Sempra Energy says it can deliver U.S. LNG to Asia for $6.50 - $8.50

(Houston Chronicle; Dec. 19) - Sempra Energy, which is building the Cameron LNG liquefied natural gas export terminal in Hackberry, Louisiana, and looking to develop another in Port Arthur, Texas, is pursuing a two-coast strategy that would mostly target Europe from its two Gulf Coast plants while its proposed Energia Costa Azul LNG facility in Baja California, Mexico, would mostly serve customers in Asia. Sempra plans to take advantage of record U.S. gas production with its three export terminals.

The San Diego-based company said its 20-year LNG supply contract with Poland signed Dec. 19 helps bolster that strategy. The contract is to supply 2 million tonnes of LNG per year from the Port Arthur terminal. Federal regulators are expected to make a permit decision for the project in May. Meanwhile, the three production units at Cameron LNG are expected to start exporting to long-term buyers in Japan and France over the next 12 months. If approved by regulators and Sempra's final investment decision is made by the end of 2019, the Port Arthur facility could be online by 2023.

The Baja terminal will receive gas from the Permian Basin of West Texas and the San Juan Basin of New Mexico and Colorado, Sempra Energy CEO Jeff Martin said. By shipping from the West Coast, Sempra cuts the trip to Asia by more than half, down to 12 to 15 days from about 35 days from the Gulf Coast. "If you can get Texas gas to the West Coast of Mexico, you've got a real opportunity and an advantage in the Asian market," Martin said. Sempra said it can liquefy and deliver LNG for between $6.50 and $8.50 per million Btu, a competitive price with other suppliers in overseas markets.

Lack of local production forces Canadian North to truck in LNG

(Financial Post; Canada; Dec. 20) - The 49-hour drive from FortisBC's liquefied natural gas facility near Vancouver, British Columbia, to Inuvik, Northwest Territories, winds through mountain passes and frequent avalanche zones. Trucks carrying LNG routinely make the 2,246-mile trip to supply Inuvik, population 3,000, an arctic outpost close to the Beaufort Sea, with fuel for power generation. An increasing number of remote communities in Canada's northern region are using LNG as a power source because it's cheaper and produces less emissions than diesel, which is still widely used.

In the eyes of the Northwest Territories government and the energy industry, it's painfully ironic that the Beaufort Sea contains an estimated 56 trillion cubic feet of gas and 8 billion barrels of oil while remote communities rely on LNG or diesel shipped in from southern Canada for power. Onshore and offshore oil and gas development in Canada's North has come to a standstill in recent years due in part to low oil prices and abundant supplies in less expensive regions like Alberta and B.C. A federal moratorium on new offshore Arctic licenses in 2016 ensured that drilling has all but ceased.

Even before the moratorium, oil and gas activity in the region had been on the decline for years. There has been only one well drilled in Canada's Beaufort Sea in the past 20 years. Meanwhile, there are abundant oil and gas supplies in Canada's other regions, where operating costs are generally lower, which makes investing in the Arctic less attractive for companies. "Why produce something in the North when you get it so much cheaper throughout the rest of Canada and in the U.S.?" said Paul Barnes, Canadian Association of Petroleum Producers director.

LNG Canada project argues against limits on steels imports

(Regina Leader-Post; Saskatchewan; Dec. 20) - In a submission to the Canadian International Trade Tribunal, LNG Canada — the joint venture behind the largest private-sector investment in Canadian history — argues that extending the current, temporary safeguards against imported steel would have negative repercussions on Canada's "attempts to develop a reputation as a leader in global energy markets." The tribunal's hearings on the steel safeguard measures will begin Jan. 7 in Ottawa.

"The various procurement decisions and actual project construction are expected to take place over the next five years, almost all of which would be while the provisional or, if imposed, definitive safeguard measures are in place," according to the filings. The Shell-led LNG Canada venture plans to spend C$40 billion on a liquefied natural gas project in Kitimat, British Columbia. "Subsequent phases of the project (including the construction of two additional trains, doubling plant capacity) require continued investor certainty, which is at risk due to safeguard measures … and compounded by other recent trade restrictive measures taken by Canada," the venture said in its filing.

In October, Finance Minister Bill Morneau introduced immediate provisional safeguards on seven steel products in an effort to block a flood of imports from being diverted into Canada because of U.S. steel and aluminum tariffs. The combination of tariffs and quotas are to remain in place for 200 days pending an independent investigation by the tribunal — the quasi-judicial body charged with making a recommendation on whether the evidence warrants the imposition of "final safeguards" lasting three years.

New England governors want Jones Act relief for U.S. LNG deliveries

(Sentinel & Enterprise; Fitchburg, MA; Dec. 19) - As cold weather leads to higher electricity prices, Massachusetts energy officials want to lobby the federal government to ease restrictions on liquefied natural gas imports into New England in hopes of controlling power costs and improving reliability in the energy grid. Demand for gas to heat homes and generate electricity exceeds supplies of pipeline gas. Instead, power generators must rely on oil and imported LNG to generate enough electricity for the grid.

Even though affordable U.S. LNG is available, New England has to get its shipments from overseas because of a 1920 federal law, the Jones Act, which bars the transport of cargo between U.S. ports unless the ship was built in the country, crewed by U.S. seamen and owned by U.S. citizens. "The issue is magnified with regards to natural gas because the U.S. has cheap and plentiful gas, but no Jones Act-qualified carriers," said a report last week by the Massachusetts Office of Energy and Environmental Affairs.

Massachusetts Gov. Charlie Baker, with the support of other New England governors, is planning to try "working with federal officials to explore modifying the Jones Act to facilitate shipping of LNG from domestic sources," the state Energy Resources Commissioner said last week. The Jones Act has been suspended before, often in the wake of a natural disaster when the government wants to maximize the number of ships that can help deliver relief aid. New England is one of the only regions that still imports large quantities of foreign LNG. Last year's deliveries included Russian gas.

Growing U.S. LNG exports could influence domestic gas prices

(Reuters; Dec. 19) - U.S. liquefied natural gas export capacity is on the brink of doubling in 2019, boosting its influence on the U.S. gas market where volatility surged in 2018 after several years of slumber. LNG terminals have been the fastest-growing source of gas demand since the U.S. started exports in 2016, with more projects soon to start up. The U.S. gas futures market in November experienced its longest stretch of extreme volatility in nine years due to demand, low inventories, and unseasonably cold weather.

LNG accounts for just a small amount of overall domestic gas demand. But as more plants come online, analysts said more ups and downs in prices are expected. Prices at the Henry Hub benchmark in Louisiana hit $4.929 per million Btu in November — their highest in 4½ years and well above the five-year average from 2013-17 of $3.25. The U.S. is on track to export about a trillion cubic feet of gas as LNG by year-end, about 3 percent of overall U.S. demand in 2018. LNG exports are expected to reach 5 percent of U.S. demand in 2019 and 10 percent in 2024, boosting its potential to affect prices.

Three more terminals are expected to start up in 2019, boosting U.S. export capacity to 8.9 billion cubic feet of gas per day, making it third-largest LNG supplier in the world behind Australia and Qatar. "Pressure on U.S. gas prices at peak demand mounts with every additional LNG export," said Paul Cicio, president of Industrial Energy Consumers of America, an industry lobby group. He said the U.S. should not approve new LNG terminals until the government determines the country can first meet domestic demand.

Newly elected Colorado legislators want tougher drilling restrictions

(Reuters; Dec. 19) - Colorado oil and gas producers could face tougher permitting as newly elected state officials take office and revamp regulations, the incoming House speaker said Dec. 19. The change comes after voters in the fifth-biggest oil-producing state in November elected a wave of Democratic lawmakers who want restraints on fossil-fuel production. At the same time, however, voters rejected a proposal that would have required at least 2,500 feet between new wells and homes, schools and parks.

Newly elected officials want increased local control over oil and gas activities, potentially creating new hurdles for some projects, KC Becker, House speaker-elect, told oil industry analysts and investors on a conference call hosted by Robert W. Baird & Co. "Some things the industry is not going to like," she said during the call. This week the state revised drilling setbacks near school properties. The change requires measuring the 1,000-foot setback from playgrounds and athletic fields rather than from buildings.

Colorado's oil output is nearing half a million barrels per day, according to the latest federal data. Newly elected state officials have outlined plans to diversify the state's energy mix and environmental groups have pledged to bring tougher regulations to the oil industry. Colorado Gov.-elect Jared Polis, a Democrat, has said he wants all the electricity on the state's grid to come from renewable energy by 2040.

Lithuania will buy LNG storage vessel after lease expires

(Reuters; Dec. 18) - Lithuania has given the go-ahead to state-owned Klaipedos Nafta to purchase a liquefied natural gas storage vessel by late 2024, as it shores up energy supplies and reduces its reliance on Russian pipeline gas. Klaipedos is currently leasing a floating storage and regasification unit, named the Independence, from Norway's Hoegh LNG. The ship has allowed Lithuania to import LNG since 2014, breaking Gazprom's monopoly on gas to the country as well as neighboring Latvia and Estonia.

"This will keep us able, beyond 2024, to strengthen our energy security and ensure pricing pressure for the Russian gas," Lithuania Energy Minister Zygimantas Vaiciunas said, as parliament voted to operate the country's LNG import facility until at least 2044. Gas use has been dwindling in Lithuania, partly in response to high prices before 2014. The government said LNG imports have forced Russia to cut its gas prices by a third and removed its ability to use fuel costs as a means of political pressure.

Klaipedos Nafta will run an international tender for a floating LNG storage unit. The 10-year lease on the Independence runs out at the end of 2024, and one option is to purchase the vessel. The state will guarantee a loan to Klaipedos Nafta to finance the purchase of an LNG storage vessel. Lithuania's state-owned energy company Lietuvos Energija has a contract with Norway's Equinor to supply LNG until 2024.