Oil and Gas News Briefs
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China approves bigger tax rebate to ease losses by gas importers

(Reuters; Jan. 29) - China announced retroactive adjustments in government-set reference prices that are used as a base for tax rebates for gas importers, a policy that started in 2011 to give importers a break on taxes. To meet a surge of demand spurred by Beijing's aggressive gasification campaign, China's imports of liquefied natural gas soared by 46 percent last year, and the nation overtook South Korea as the world's second-largest buyer after Japan. Pipeline gas imports rose nearly 9 percent last year.

The reference prices for liquefied natural gas will be set at about $4.10 per million Btu, retroactive to Oct. 1 of last year, and slightly more for pipeline gas, according to a statement from the Ministry of Finance. The prices are a little lower than before, allowing gas importers a bigger tax rebate. Companies are allowed to claim a rebate on a percentage of the difference between the reference price and the cost of the imported gas. The lower the reference price, the larger the spread and the bigger the tax rebate.

"Companies are still suffering big losses in imports, both of pipeline and LNG imports. So the lower reference prices mean the government is offering bigger financial support," said an official with a state oil-and-gas major involved in the gas import business. The majors tend to lose money on gas imports due to higher LNG import prices and lower government-regulated prices to China's consumers.

BP expects gas to overtake oil as primary energy source around 2040

(Reuters; Jan. 31) - BP expects gas to overtake oil as the world's primary energy source in around 2040 as demand for the least-polluting fossil fuel grows, its vice president for strategic planning said Jan. 31. "We see it (gas) take over from coal in the early 2030s. … We think there is a very good case for gas actually overtaking oil post-2040 or just before 2040," Dominic Emery told a gas conference in Vienna.

Emery highlighted estimates for demand growth for gas in China of around 15 percent year-on-year last year and said BP expects overall gas demand to grow worldwide about 1.6 percent a year for years to come, compared with 0.8 percent for oil. "We do see a very strong chance that (gas) is going to be the largest source of primary energy into the future. ... By gas we mean natural gas, but also ... we mean biogas, we mean biomethane, we mean power-to-gas."

BP is due to reveal more details in its next energy outlook on Feb. 20. In its last outlook, it said it saw gas overtaking coal's share in the primary energy market to become the second-largest fuel source by 2035. Emery said one of the biggest challenges for the gas industry is reducing methane leakages from pipelines, which he said was estimated at around 1.3 to 1.4 percent. "We're getting a lot of pressure ... and rightly so, to get our act together in terms of managing methane in the supply chain."

Yamal LNG plans to start up second liquefaction train in September

(Reuters; Jan. 31) – The Yamal LNG project in Russia's Far North will start up production from its second liquefaction train in September, a Russian news agency quoted the plant's majority owner on Jan. 31. Novatek, Russia's largest non-state-owned natural gas producer, holds a controlling stake in Yamal, which in December shipped the initial cargo from its first liquefaction unit. A third LNG train is expected to start up next year, bringing the plant's capacity to 16.5 million tonnes per year.

Novatek owns a 50.1 percent stake in the $27 billion Yamal LNG venture. France's Total and China National Petroleum Corp. each control 20 percent, while China's Silk Road Fund owns 9.9 percent. The partners plan to later add a smaller, fourth production train at the plant, taking capacity to 17.5 million tonnes of LNG per year.

Boston Globe editorial bemoans reliance on Russian LNG

(Boston Globe editorial; Jan. 30) – With the arrival of Russian liquefied natural gas in Boston Harbor on Jan. 28, New England's energy politics took a bizarre turn. As an unintended result of restrictive U.S. shipping laws, along with efforts by local officials to stop new gas pipelines that could bring bountiful U.S. shale gas into the region, customers will now instead burn gas extracted from the delicate Arctic ecosystem by a firm linked to one of Russian President Vladimir Putin's cronies.

The 950-foot tanker carried the equivalent of 3.3 billion cubic feet of gas, a portion of which came from Russia's Yamal LNG export facility in Siberia, and was purchased by Distrigas, owner of the LNG import facility during the recent cold snap. The majority owner of Yamal, Novatek, has been subject to U.S. sanctions since 2014, when one of its biggest shareholders, Russian billionaire Gennady Timchenko, was identified by the Treasury Department as part of Putin's inner circle (and, reportedly, his judo club).

"It's a political victory for Putin," said Agnia Grigas, author of "The New Geopolitics of Natural Gas" and a senior fellow at the Atlantic Council. "This project the U.S. didn't want to come about, and not only is it successful, but its first cargo is actually going to go to Boston." Meanwhile, a second shipment of Yamal LNG is loading at the French port of Dunkirk, again bound for Boston. Russia’s dirty fuels — and dirty oligarchs — are suddenly our problem.

Houston editorial says new pipelines are better than Russian LNG

(Houston Chronicle editorial; Jan. 30) - If any New England Patriots fans feel a slight chill while watching the Super Bowl and decide to turn up the thermostat a few notches, they might want to consider thanking Russian President Vladimir Putin. After all, their gas could have come from Russia. A tanker of Siberian-produced liquified natural gas emptied its cargo over the weekend at a Boston Harbor import terminal. Another load of Russian LNG is scheduled to reach the U.S. Feb. 15, according to Bloomberg News.

So why are dorms at Harvard being powered by Putin instead of American shale gas? U.S. oil production is on the path to a new record, and gas is following right behind. There's little reason to look across the ocean. But one problem: All that gas can't get to the people who need it because New England never built enough pipelines. Gas line opponents have their reasons — safety, pollution, global warming. When gas supply gets tight, wind or solar doesn’t fill the gap. People just end up paying for imported LNG.

And there's no guarantee Russia or Qatar impose the same environmental protections as the U.S. Meanwhile, the money that consumers pay for the Russian gas eventually ends up in the pockets of Moscow-linked oligarchs that the U.S. has struggled to sanction after Putin's 2014 invasion of Ukraine. It's time for pipeline opponents to face the reality: If you want to want to undercut Russian oligarchs and Saudi theocrats; if you want to replace coal and oil with a cleaner alternative; if you want to avoid paying the same exorbitant price for LNG gas as Japan — then you have to build gas pipelines.

Yamal LNG’s Russian owner, not the gas, subject to U.S. sanctions

(Boston Globe; Jan. 30) - The Russian gas has finally arrived in Boston. A giant tanker of liquefied natural gas that unloaded at the Distrigas terminal in Everett over the past two days included fuel from a plant in Siberia owned by a Russian company under U.S. sanctions. Located far above the Arctic Circle, the $27 billion Yamal LNG plant opened in December, and some of its first output ended up in the cargo that will be used to heat homes and generate electricity in the Boston area.

The majority owner of Yamal is a Russian company, Novatek, whose shareholders include an ally of Vladimir Putin, Gennady Timchenko. The U.S. Treasury imposed sanctions that prohibited U.S. companies from providing new financing to Novatek in 2014, in response to Russia’s destabilization of eastern Ukraine and its annexation of

Crimea. Energy industry experts said the financial sanctions do not prevent Western companies from buying the gas produced at the Yamal LNG plant.

"The company that developed the project was sanctioned, but the gas itself was not sanctioned," explained James Henderson, director of natural gas research at the Oxford Institute for Energy Studies in the U.K. It's unclear how much of the LNG transported to the U.S. came from Russia because it was mixed with liquefied gas from other countries while temporarily stored at a U.K. facility. The owner of the import terminal, the French company Engie, bought the fuel on global markets when the extreme cold spell earlier this winter sapped gas inventories in New England. A second Engie shipment of LNG scheduled to arrive in February will probably include gas from Russia.

Yamal LNG starts shipping valuable natural gas condensates

(Reuters; Jan. 29) - Russia's largest non-state-owned natural gas producer Novatek has sold its first gas condensate cargo from the Yamal LNG project in Russia's Arctic, the company and traders said Jan. 29. The first cargo was 18,000 tonnes, about 162,000 barrels. Market sources named commodity trader Vitol as the buyer. Valuable natural gas liquids — condensate — can add value to a costly liquefied natural gas project. Yamal's price tag totaled $27 billion.

At its peak, Yamal LNG will produce more than 9 million barrels of gas condensate a year. At a peak of almost 25,000 barrels a day, the condensate would be worth more than $1.5 million a day if priced at $60 a barrel. Novatek owns a 50.1 percent stake in Yamal LNG. France's Total and China National Petroleum Corp. each control 20 percent, while China's Silk Road Fund owns 9.9 percent. Yamal LNG started producing liquefied natural gas in December.

LNG contract reviews likely to increase in Asia, analyst says

(Sydney Morning Herald; Jan. 29) - Australia has been ramping up its liquefied natural gas output and is expected within a year to take the world's No. 1 spot from Qatar. This will be driven by Chevron's second Wheatstone LNG train coming online in the second quarter of 2018, Inpex's Ichthys project starting production, and Shell's floating LNG project Prelude coming into operation. Wood Mackenzie Australasia oil and gas leader Saul Kavonic recently outlined trends for the LNG industry in 2018.

A contract-renewal cliff is coming, and the price gap between existing legacy contracts and new agreements is beginning to widen, Kavonic said. Asian buyers have about 20 million tonnes of annual contracted LNG supply that is under price review, and with the ability of utilities to pass on costs to the consumer diminishing, this contract-pricing review activity is only likely to increase. Gas buyers are pushing back against the market, seeing themselves as over-contracted and existing agreements as inflexible.

"Australian projects are particularly exposed, with many project sale-and-purchase agreements signed at linkages to oil above 14 percent, compared to recent contracts signed at around 11 percent," Kavonic said. Such a 3 percent reduction in the linkage between LNG prices and a barrel of oil can mean a savings of $1.80 per million Btu for LNG. S&P Global Platts has forecast volatility ahead for Australia's LNG sector and a shift to short-term, flexible models.

China's power producers ask for help to ensure coal supply

(Bloomberg; Jan. 29) - In the latest reminder that coal still dominates the world's biggest energy consumer, China's power producers are warning of fuel-supply tightness, while one northern province plans to pause switching homes and industries to gas to avoid further heating shortages. Four of China's biggest generators sent an emergency report dated Jan. 22 to the National Development and Reform Commission, the top economic planner, requesting help with thermal coal supply, according to China Business News.

Meanwhile, Hebei, which surrounds Beijing, will stop approving coal-to-gas conversions in rural areas until new gas supplies can be secured. China has struggled for two years with President Xi Jinping's drive to reform the country's coal industry and use cleaner fuels. Efforts to limit coal supply in 2016 and encourage gas use last year overshot goals, causing price spikes and gas supply squeezes that sent regulators scrambling to restore balance.

"With or without the urgent call from the power utility companies, the government is already doing what it can to ensure coal supply, including relaxing limits on imports and asking miners to take fewer days off around Lunar New Year," said Zeng Hao, an analyst with Shanxi-based Fenwei Energy, referring to the week-long holiday that starts mid-February.

Nigeria wants to eliminate tax deduction for gas-flaring fines

(Bloomberg; Jan. 28) - Africa's top oil-producing nation plans to make gas flaring more costly for companies that have escaped payment of billions of dollars despite being fined for the practice, Nigerian Finance Minister Kemi Adeosun said. The "legal framework for the gas-flaring penalty" treats the fines as a tax-deductible expense, Adeosun said Jan. 23. "So, what do the international oil companies do? They flare, they pay the charge on which they get tax relief. That's just bad drafting."

The government is approaching lawmakers to amend the law and have the word "penalty" replace "charge" for the flaring fines, eliminating the tax deductibility, the minister said. "Just that one word has potentially cost us billions of dollars." Oil companies flare gas that is produced along with crude instead of harnessing it because that can be costly or difficult to collect and move the gas. Nigeria has sought to limit the practice over the years as the flaring pollutes the air and contributes to global warming.

The West African nation is recovering from a contraction of its economy in 2016, the first in 25 years, and is seeking revenues to plug a $25 billion infrastructure gap and fund a record 2018 budget presented in December by President Muhammadu Buhari. Nigeria in the past never focused much on tax revenue because of its reliance on oil income that funds most of government spending, Adeosun said. The OPEC member produced 1.8 million barrels per day in December, according to data by Bloomberg.

Egypt wants to boost domestic output and end LNG imports this year

(Bloomberg; Jan. 31) - Egypt is working with Italy's Eni, operator of the giant Zohr gas field, to fast-track output and end the country's need to import liquefied natural gas as early as this year, Oil Minister Tarek el-Molla said. Zohr, the largest undersea gas discovery in the Mediterranean, will pump 1.7 billion cubic feet per day before the end of 2018, el-Molla said in a ceremony to inaugurate the field. Egypt is talking with Eni to increase output to reach the 2019 production target this year instead, he said.

Zohr's reserves — estimated at about 30 trillion cubic feet — may offer a permanent solution to the power shortages in the most populous Arab nation. The field's output will also help ease pressure on Egypt's economy, which has struggled with a shortage of foreign currency since a 2011 uprising. Egypt now imports liquefied natural gas at a high cost to meet its energy needs, and Zohr's production could put an end to that.

"The 350 billion cubic feet that we're now producing can save us from buying three cargoes of LNG, which means we can save $60 million per month — about $720 million a year," el-Molla said. "By the end of 2018, when the country reaches self-sufficiency, it will be able to save $250 million a month." Zohr, which Eni discovered in August 2015, has had a target of pumping 2.7 billion cubic feet per day by the end of 2019. Russia's state-owned producer Rosneft and BP are partners with Eni.

Reuters poll puts 2018 oil price at $62.37 a barrel for Brent crude

(Reuters; Jan. 31) - Oil prices are unlikely to advance much higher than $70 a barrel in 2018, with the market caught between the opposing forces of OPEC-led production cuts and surging U.S. output, a Reuters poll showed Jan. 31. The survey of 34 economists and analysts forecast that Brent crude, a global benchmark, will average $62.37 a barrel in 2018, up from the $59.88 forecast in the previous monthly poll.

“Steady demand growth, a clear commitment to supply restraint by key OPEC producer Saudi Arabia and persistent geopolitical risks will all help to keep a floor under oil prices,” said Cailin Birch, an analyst at the Economist Intelligence Unit. “We expect strong production growth from the U.S., as well as some opportunistic selling by both OPEC and non-OPEC members later in the year, to prevent prices from rising much higher than $70 per barrel on average.” The $65-plus price environment is encouraging non-OPEC exporters, such as Brazil and Canada, to ramp up output from new projects.

The analysts said U.S. production, which has risen more than 17 percent since mid-2016, could top 10 million barrels per day — a level surpassed only by Saudi Arabia and Russia. The higher U.S. production has paved the way for a widening gap between U.S. crude prices and the Brent and Dubai benchmarks, making it is cheaper for Asian countries to import U.S. crude despite high freight costs. U.S. light crude is forecast to average $58.11 a barrel in 2018, up from the $55.78 predicted in the December poll.

Canada looks to tap its large shale oil and gas resources

(Reuters; Jan. 28) - The U.S. shale oil revolution has battered Canada’s energy industry in recent years, ending two decades of rapid expansion and job growth in Canada’s vast oil sands. Now Canada is looking to its own shale fields to repair the economic damage. Canadian producers and global oil majors are increasingly exploring the Duvernay and Montney formations, which they say could rival the most prolific U.S. shale fields.

Canada is the first country outside the U.S. to see large-scale development of shale resources, which already account for 8 percent of Canada’s total oil output. China, Russia, and Argentina also have ample shale reserves but have yet to overcome the obstacles to full commercial development. Canada, by contrast, offers many of the same advantages that worked in the United States: numerous private energy firms with appetite for risk; deep capital markets; infrastructure to transport oil; low population in regions that contain shale reserves; and plentiful water to pump into shale wells.

Together, the Duvernay and Montney in Alberta and British Columbia hold marketable resources estimated at 500 trillion cubic feet of gas, 20 billion barrels of natural gas liquids and 4.5 billion barrels of oil, according to Canada’s National Energy Board. Canada’s shale output stands at about 335,000 barrels per day, according to energy consultants Wood Mackenzie. The pace of output growth could quicken and the estimated size of the resources could rise as activity picks up and knowledge of the fields improves, according to the Canadian Association of Petroleum Producers.

Newest oil sands project goes online; maximum 194,000 barrels a day

(CBC News; Canada; Jan. 29) - The Fort Hills oil sands project in Alberta achieved its first production on Jan. 27. Operator Suncor Energy said Fort Hills remains on track to reach 90 percent capacity by the end of 2018. With its maximum output of 194,000 barrels per day, Fort Hills will be one of the biggest oil sands' projects, accounting for nearly 10 percent of current production. Delays caused by the Fort McMurray wildfire in 2016, along with construction changes to boost capacity, added between $1.4 billion to $1.9 billion to Fort Hills' estimated cost, taking it to almost $17 billion.

The development, about 55 miles north of Fort McMurray, Alberta, had been contending with unexpected delays in operations. The mine was scheduled to begin producing oil by the end of 2017. The go-ahead was given in 2013, after the project was shelved for five years due to the 2008 financial crisis.

Once fully operational, the operation is expected to generate 1,600 jobs and have a lifespan of 50 years. Calgary-based Suncor holds a 53.06 percent interest in the project, while France's Total owns 26.05 percent. Vancouver-based Teck Resources, a diversified resources company, holds the remaining 20.89 per cent.

Alberta premier upset with B.C.'s opposition to oil sands pipeline

(Edmonton Journal; Jan. 30) - Alberta Premier Rachel Notley blasted British Columbia's provincial government on Jan. 30 over its latest attempt to stall progress on the Trans Mountain oil sands pipeline expansion, calling the move an overreach of constitutional authority that will erode investor confidence. "It is so far beyond the scope of what they have the legal authority to do they are creating a mockery out of our legal system," an angry Notley told reporters in Edmonton.

"The B.C. government has every right to consult on whatever it pleases with its citizens. It does not have the right to rewrite our constitution and assume powers for itself that it does not have. If it did, our confederation would be meaningless." Notley was reacting to British Columbia's new proposal to restrict increases in bitumen shipments from Alberta until more spill-response studies are conducted. The expanded Trans Mountain line from Alberta to a coastal export terminal would carry up to 890,000 barrels a day.

The announcement was squarely aimed at Kinder Morgan's $7.4 billion pipeline project, which was approved back in 2016 by Canadian Prime Minister Justin Trudeau. B.C. Premier John Horgan, who assumed power last spring with backing from the province's Green Party, has vowed to use every tool to block the project. His government's new proposal calls for the province to establish an independent advisory panel to make recommendations whether heavy oils can be safely transported and cleaned up. Notley said the issues have been decided, and the delayed project needs to move forward.

Saudi Arabia focuses on building up its refinery business

(Wall Street Journal; Jan. 26) - Saudi Arabia's state oil company is building an oil-refining empire, a major shift for the world's No. 1 crude producer as it tries to shore up its balance sheet ahead of the world's biggest-ever initial stock offering and make up for income lost to OPEC oil production cuts. Over the past five years, Saudi Arabian Oil Co., known as Aramco, has boosted its global refining capacity by more than a third to 5.4 million barrels a day, according to U.K.-based energy consultancy Wood Mackenzie.

These moves and others, including taking full control of the biggest U.S. refinery in Port Arthur, Texas, have vaulted Aramco's global refining capacity beyond that of Western rivals such as ExxonMobil, Shell and BP. Unlike Aramco, the oil majors already had strong downstream businesses — including fuel and petrochemicals — to bolster their earnings when crude prices plummeted just over three years ago. Saudi Arabia wants to do the same, and is now one of the top three exporters of diesel fuel to Europe.

Rising Saudi shipments of fuels have helped soften the financial blow of decreased oil production and exports. Saudi Arabia's oil exports in November were down 15 percent from a year earlier, but exports of refined products were up nearly 28 percent, according to an international group that tracks energy markets. Saudi refining investments were years in the making but were accelerated by 2014's oil-price collapse and the kingdom's subsequent plans to wean itself off dependence on crude exports for revenue.