Oil and Gas News Briefs
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A lot at stake in Canadian tariff dispute over imported LNG modules

(The Globe and Mail; Canada; Jan. 23) - Ottawa is refereeing a complicated trade dispute that pits Canada's steel fabricators against an international consortium seeking to build a liquefied natural gas terminal in British Columbia. The Shell-led LNG Canada project is urging the federal Finance Department to look at the unintended domestic consequences of anti-dumping duties of up to 45.8 percent that Canada has levied that would affect imports of large components from China for the proposed LNG facility.

The massive steel modules with sophisticated equipment are needed for the proposed terminal in Kitimat in northwestern British Columbia, according to LNG Canada, which includes partners from China, South Korea, and Japan. LNG Canada asked the Finance Department to exempt the project from the anti-dumping tariffs on imports of fabricated industrial steel components. The Shell-led group wants to bring in the components from China, saying it cannot afford to wait years to see whether Canadian fabricators can create a domestic industry in the Vancouver region for constructing large LNG modules.

The Finance Department must decide whether to accept the domestic steel sector's argument that it is capable of building complex modules on the West Coast, or side with LNG Canada's view that for an LNG facility to be globally competitive, the components must be made in China. The Canadian Institute of Steel Construction says the sector requires protection from unfair foreign competition, lobbying Ottawa to maintain the duties. Industry observers believe the tariffs could inflate the project's costs by at least $1 billion, depending on how the duties are applied to specific imports from China.

B.C. premier will talk up LNG projects on trade mission to Asia

(Financial Post; Canada; Jan. 19) - British Columbia Premier John Horgan could emerge as the savior of Western Canada's delayed liquefied natural gas industry. Horgan is going on a 10-day mission to Asia and will meet in China, Korea, and Japan with backers of two projects: LNG Canada, proposed for Kitimat and led by Shell with partners PetroChina, Korea Gas and Mitsubishi; and Woodfibre LNG, proposed for Squamish, north of Vancouver, and owned by the Singapore-based RGE Group.

Meanwhile, Kitimat LNG, a joint venture between Chevron and Australia's Woodside Petroleum, is re-emerging as a player with Horgan's support and is working to improve the competitiveness of its proposal. The three projects are viewed as front-runners to build on the B.C. coast after years of market, regulatory and political setbacks that have led to the cancellation of two major LNG projects and the retreat of many others.

Hurdles remain, but improved LNG prices, rising global demand and First Nations' support seem to be fueling Horgan's interest after he criticized the LNG industry during the provincial election campaign last year. Horgan's newfound backing of LNG is somewhat surprising, given that his party needs the support of the anti-fossil-fuel Green Party to maintain a slim majority in the provincial legislature. Green Party leader Andrew Weaver has said the government would fall if it "continues to pursue LNG folly."

Agency orders review of full lifecycle emissions of Tacoma LNG plant

(The News Tribune; Tacoma, WA; Jan. 24) - Environmental activists and the Puyallup Tribe are chalking up a win in their fight against the $310 million Puget Sound Energy liquefied natural gas production and storage facility being built on Tacoma's Tideflats at the southern end of Puget Sound in Washington state. The Puget Sound Clean Air Agency announced Jan. 24 it would hire a consultant to do an in-depth analysis of the full lifecycle of greenhouse-gas emissions that would be caused by the plant.

That study would need to be completed before an air quality permit can be issued. The supplemental environmental impact statement will delay the permit by several months and could potentially change the outcome of the application. "What we identified … is to look at greenhouse-gas emissions leading up to the gas getting to the site — it's kind of like the lifecycle from the start of the fuel being produced to the end of the fuel being used," said Steve Van Slyke, compliance director for the four-county clean air agency.

A Puget Sound Energy spokesman said the company is disappointed by the delay, but still hopes to start up the plant by late 2019. The facility would produce 250,000 gallons of LNG a day, with 8 million gallons of storage capacity. The LNG would be sold to area utilities as a backup for peak-demand days and to maritime customers including TOTE, which is converting its Alaska ships to run on LNG. Critics say the plant would be dirty and pose safety risks. The Puyallup Tribe says the site was once tribal land, and they were not consulted about the project. Supporters of the plant say it would create jobs.

India's GAIL looking to sell some of its contracted U.S. LNG

(Platts; Jan. 22) - India's LNG importer and gas distributor GAIL has issued a tender looking to sell 24 cargoes it is contracted to take from Dominion Energy's Cove Point liquefied natural gas export terminal in Maryland in 2019-20, market sources said Jan. 22. GAIL has a contract to take 2.3 million tonnes of LNG a year from Cove Point, which is expected to start operations by spring. GAIL also has a contract to take 3.5

million tonnes of LNG per year for 20 years from Cheniere Energy’s Sabine Pass, La., terminal.

GAIL has been looking to defer LNG deliveries from several suppliers, to more closely match its purchases with demand in India. Domestic demand is price sensitive, and additional pipeline capacity is needed to move higher volumes of gas around the country. Last week, GAIL announced it had renegotiated terms of a purchase deal with Russia's Gazprom in which it will reduce its LNG buys for the first three years of a long-term contract, taking additional volumes of the fuel in the later years.

Majors show interest in gas expansion plans, Qatar says

(Reuters; Jan. 23) - U.S. and European oil majors are piling in with offers to help Qatar develop new gas projects, the country’s energy minister said, despite a protracted crisis in the Gulf region and pressure on firms to choose between Qatar and its neighbors. Mohammed al-Sada told Reuters that Qatar had seen unprecedented interest from majors as it seeks to expand its liquefied natural gas production capacity to 100 million tonnes a year from 77 million to cement its position as the world’s largest exporter.

“Both U.S. and EU majors have shown great interest. We did expect this, but they surprised us on the upside by the degree of keenness,” said al-Sada, when asked whether firms had expressed concerns about potential political pressure from Saudi Arabia and the United Arab Emirates not to cooperate with Qatar. OPEC kingpin Saudi Arabia and the UAE cut ties with Doha in June, saying Qatar backed terrorism and was cozying up to rival Iran. Qatar rejected the accusation.

Reuters reported last year that Qatar’s traditional partners ExxonMobil, Shell, and Total had all shown interest in new projects. “We have newcomers too,” al-Sada said. “We are happy to sit down with everyone.” Despite rising LNG exports from rivals such as the U.S. and Russia, a major global gas glut was unlikely to arise as demand is growing faster for gas than other forms of energy, al-Sada said. “Maybe for the next 4 to 5 years we may have a surplus, but it will be less than previously perceived. But beyond 2024-2025 the market will be tight again. That is why Qatar chose to start expanding now.”

Tokyo Gas will reduce LNG buy from Malaysia when contract expires

(Reuters; Jan. 23) - Tokyo Gas will reduce the volumes of Malaysian liquefied natural gas that it buys after a long-term contract expires this year, President-Elect Takashi Uchida said Jan. 23. The Tokyo utility’s 15-year contract to buy up to 2.6 million tonnes per year of LNG from a unit of Malaysian state oil-and-gas firm Petronas expires in March 2018. Tokyo Gas has three contracts with Malaysia and the contract that expires this year is the one with the biggest purchase volumes, Uchida told Reuters.

“We are going to renew the (expiring) contract,” he said, adding that it would be renewed at lower volumes since Tokyo Gas has diversified its supply sources to include North American shale gas and other sellers. Uchida, who is set to become president on April 1, also said the company would give careful consideration before giving the go-ahead to its Sodegaura coal-fired power plant joint-venture project with Kyushu Electric, reflecting the mounting public criticism against coal.

Japan’s coal imports set record in 2017; LNG imports up slightly

(Reuters; Jan. 23) - Japan's thermal coal imports rose to a record last year and liquefied natural gas purchases climbed for the first time in three years as the fuels filled the gap in power generation left by the country's slow restart of its nuclear plants. The figures underscore Japan's continued reliance on imported fossil fuels for power generation, as it slowly embraces renewable energy and while the majority of the country's nuclear reactors remain shut down following the Fukushima disaster nearly seven years ago.

Thermal coal imports rose 4.3 percent from a year earlier to 114.5 million tonnes in 2017, surpassing the 113.8 million tonnes imported in 2015, preliminary Ministry of Finance data showed Jan. 24. Imports of LNG inched up 0.4 percent to 83.632 million tonnes, the first annual increase since 2014, helped by a 5.4 percent rise in December imports as utilities stocked up purchases to prepare for colder weather. Coal and LNG imports rose last year as court orders and public opposition held up the return of nuclear plants with only four out of 42 operable reactors back up and running.

Tanker brings imported LNG to Boston harbor after brief delay

(PortNews; Jan. 24) - The LNG carrier Gaselys is expected to dock this week at the import terminal in Everett, near Boston, said a spokesperson for Engie, the French energy company that owns the ship and LNG terminal. Bad weather delayed the arrival, the company said. The ship was moored in the harbor on Jan. 24, according to news media reports. The destination was in doubt after it made a U-turn in the Atlantic Ocean on Jan. 18 to point back toward Europe, leading to speculation of the ship’s destination. Bloomberg later reported the company’s intent was to delay arrival due to the weather.

The ship is carrying LNG from storage tanks at a terminal near London, which last month received the first fuel from Russia’s $27 billion Yamal LNG plant. It’s a closely watched shipment because the Yamal project is under financial sanctions imposed by the U.S. in 2014 after Russia invaded Ukraine’s Crimea. It will be the first time the U.S. has imported LNG from northwest European storage. Some of the gas likely came from Yamal, as the storage tanks cannot segregate liquefied gas from different sources.

A spokesman for Novatek, the lead partner in Yamal, said the company sold its first LNG cargo to Malaysia's Petronas, "after which we have no relation to the shipment." Petronas sold it to Engie, which arranged the deal during a polar cold snap that gripped the U.S. Northeast earlier this month. Engie bought the gas to supplement its contracted volumes from Trinidad and Tobago into its Everett facility, the company said last week.

As the Gaselys sailed from the U.K. to Boston, at least two tankers of U.S. LNG were heading in the opposite direction toward Europe, the London-based Financial Times reported this week. The carriers took on LNG at Cheniere Energy's Sabine Pass, La., terminal, according to ClipperData. Under federal law, only U.S.-flagged ships can transport cargo between domestic ports — and there are no such LNG carriers.

BP signs 7-year deal to take Oman LNG output

(Reuters; Jan. 22) - BP's Singapore-based trading unit has signed a deal to buy 1.1 million tonnes of liquefied natural gas a year for seven years from Oman LNG, after BP helped boost Omani gas production. The signing on Jan. 21 in the capital Muscat was attended by Oman's Minister of Oil and Gas Al Rumhy and BP LNG Chief Operating Officer Jonathan Shepard. First production from BP's giant Khazzan gas field in September is reversing a decade-long decline in output from Oman's LNG plant.

Oman's LNG plant, which opened in 2000 and was expanded in 2005, is capable of producing 10.4 million tonnes per year. Oman exported 8.2 million tonnes of LNG last year, according to data on the Thomson Reuters Eikon terminal. Falling exports stem from a government policy of prioritizing gas for domestic electricity and industrial demand. Khazzan's estimated 10.5 trillion cubic feet in recoverable gas resources offers a new source of feedstock for Oman LNG.

The terms of the deal allow BP to ship the cargoes anywhere without destination restrictions. Oman LNG is 51 percent owned by Oman, with Shell holding 30 percent, Total 5.54 percent, Mitsubishi 2.77 percent, Korea LNG 5 percent, Portugal's Partex 2 percent, Mitsui 2.77 percent, and Itochu 0.92 percent.

Reuters reports 60 LNG carriers on their way to China

(Reuters; Jan. 22) - China is pulling in liquefied natural gas cargoes from all over to avoid a natural gas supply squeeze ahead of another cold snap and as the world's most populous nation prepares for Spring Festival celebrations. Fuel demand in January and February typically slows as temperatures improve compared with the busiest month, December, but data suggests this year could buck the trend.

Another cold wave is about to hit North Asia. Spring Festival, also known as Chinese or Lunar New Year, takes place later than usual this year, in mid-February. To ensure supplies before the longest holiday in the Chinese calendar, some 60 ships carrying more than 4 million tonnes of LNG are on their way to China this month (more than 190 billion cubic feet of gas), the third highest total behind December's 5.1 million and November's 4.36 million, according to shipping data in Thomson Reuters Eikon.

The shipments are coming from unusual origins — Equatorial Guinea and Angola in Africa, Peru in South America, and Trinidad and Tobago — and several are also coming from the United States. "The Chinese have bought loads of short-term delivery cargoes to meet an expected spike in demand," the head of LNG trading at a major fuel merchant based in Singapore said. China's domestic producers are also churning out more gas. China's December gas production was the highest since at least 2014.

China overtakes South Korea for No. 2 spot among LNG importers

(Bloomberg; Jan. 22) - China's General Administration of Customs just confirmed what liquefied natural gas industry insiders have been speculating for weeks: There's a new No. 2 in town. China imported 38.1 million tonnes of LNG in 2017, according to customs data released Jan. 23. That's more than the 37.6 million tonnes that South Korea imported last year, according to customs data released last week. In 2016, South Korea imported 33.5 million tonnes to China's 26.1 million, according to customs data.

Japan, the world's largest importer, had shipped in 72.3 million tonnes through the end of November, according to government data. China's surge stems from President Xi Jinping's efforts to clean the air in smoggy cities by replacing coal-burning furnaces with cleaner natural gas. The push resulted in winter gas shortages in parts of the country where infrastructure wasn't prepared to handle the increased demand.

Gas consumption in China is expected to continue its rise as the government still has room to improve air quality, Sanford C. Bernstein & Co. analysts including Neil Beveridge said in a Jan. 18 research note. China could overtake Japan as the world's No. 1 LNG importer as soon as 2025, according to Bloomberg New Energy Finance.

Gas supply shortage continues to hit China's manufacturers

(Wall Street Journal; Jan. 23) - China is replacing coal with gas, sucking up global supplies of the fuel and pushing up the price of liquefied natural gas to a three-year high. But limited gas supply has left large swathes of industry in China struggling, including giants like German chemical company BASF and local producer Yunnan Yuntianhua Co., as gas is diverted to households that had relied on coal for heating.

That’s good news for the LNG industry, at a time when large amounts of new supply have limited price gains. “We were optimistic on the opportunity in China, but the magnitude surprised us,” said Anatol Feygin, chief commercial officer at U.S. LNG exporter Cheniere Energy. Cheniere opened an office in Beijing in 2017 to market its LNG and is talking with China National Petroleum Corp. about a long-term sales deal.

On Dec.12, BASF stopped producing some chemicals at a Chongqing-based facility due to “a supply shortage of natural gas," it said. The company told The Wall Street Journal on Jan. 23 that it is unclear when production will resume. Yunnan Yuntianhua said Dec. 13 that its ammonia and urea production lines in the southwest province of Yunnan were halted due to “partial suspension in gas supply in southwest regions.”

China has been beefing up its LNG import facilities, according to consultancy Energy Aspects. At the end of last year, China had the capacity to import 56 million tonnes of LNG a year and that is set to rise to 74 million by 2020. A new gas pipeline from Russia to China is due to be completed in 2019, plus domestic gas production is ramping up.

FERC approves Marcellus Shale gas line; opponents do not concede

(NJ Biz; Jan. 22) - Hours before a deadlocked Congress failed to reach a deal to avoid shutting down the federal government, another brewing controversy once again came to the forefront: In a 4-1 vote, the Federal Energy Regulatory Commission on Jan. 19 approved the PennEast Pipeline project. The 116-mile pipeline will pump natural gas into Pennsylvania and New Jersey from the Marcellus Shale region in Pennsylvania.

The approval outraged politicians and environmental groups in New Jersey and Pennsylvania, who have been saying for years that the pipeline will displace residents in both states and harm local drinking water supplies. The $1.6 billion project has been in the planning stages by the PennEast Pipeline Co., a consortium of gas companies in both states, for the better part of the past decade. The consortium had been planning on starting construction in 2018, pending FERC approval.

Opponents of the project noted that it still must be approved by the New Jersey Department of Environmental Protection, which denied its application in June, citing environmental concerns. “[FERC’s decision] is just the beginning,” said Tom Gilbert, campaign director, NJ Conservation Foundation.

Alberta gas producers worry new pipeline could oversupply market

(Financial Post; Canada; Jan. 22) - Regulatory hearings for a gas pipeline that has divided the Canadian oil patch opened amid tense exchanges Jan. 22, as companies argue that the proposed pipeline will hurt rather than help the Western Canadian gas market. Lawyers packed a National Energy Board hearing almost to capacity as parties argued over the viability of TransCanada's North Montney Mainline, and the prospect of flooding the oversaturated Alberta gas market with volumes from British Columbia.

The line would connect the promising shale-rich Montney region to TransCanada's main NOVA Gas Transmission system. While it may seem ironic that some producers are against a new pipeline, their primary concern is that TransCanada is gathering more supplies from new production centers without expanding the system to move gas out of Canada. TransCanada said other initiatives are under way to expand the infrastructure to send more gas out of Western Canada into the larger North American market.

Alberta gas prices, measured as the AECO benchmark, plunged into negative territory for the first time ever last year amid a supply glut. Some producers believe that if the North Montney line proceeds, gas from British Columbia that had been committed to canceled LNG export projects will flood the Alberta market, further depressing prices. In its NEB filing, TransCanada subsidiary Nova Gas Transmission said it has contracted to move 1.485 billion cubic feet of gas for 11 companies, including Progress Energy Canada, which plans to move its gas out of northeastern B.C. after its Malaysian parent company Petronas and partners abandoned their LNG project on the B.C. West Coast.

Western Canadian oil trading at $30 discount to U.S. benchmark

(Calgary Herald; Jan. 24) - World oil prices are recovering, but Western Canadian oil prices are falling back to depressed conditions, the result of limited transportation capacity. Western Canadian Select, the Canadian benchmark, was changing hands for $33.57 a barrel Jan. 23, after losing about $8 in two days, while U.S. benchmark West Texas Intermediate was trading at US$64.75, up $1.35 over the same period.

Canada exports about 3.2 million barrels of oil a day to the U.S. The discount means a daily loss of tens of millions in revenue, taxes, and royalties for Canadian producers and governments. The U.S. is Canada's only export market. The latest scare to push down prices came from Canadian Pacific Railway last week, which said it has no interest in carrying big quantities of Canadian oil while producers wait for pipelines to get built.

"We understand crude is only going to be here for a limited period of time," CP Rail CEO Keith Creel told analysts in a conference call to discuss fourth-quarter results. "We are looking for strategic partners with long-term objectives that allows us to have a more stable book of business." Tim Pickering, chief investment officer of Calgary commodities trading firm Auspice Capital Advisors, said railroads have figured out that pipelines are not readily available for at least three years and are refusing to be a "swing shipper."

"This has put railroads in a negotiating position whereby they are asking for longer and longer terms," he said. Pipelines are so full that barrels are backed up in storage tanks.

U.S. shale oil producers could pull in profits if they restrain spending

(Wall Street Journal; Jan. 21) - U.S. shale companies are poised to earn real money this year for the first time since the start of the fracking boom. Crude prices have surged almost 40 percent in the past six months. Yet shale producers are touting cautious spending plans for 2018 — in contrast with past price spikes when companies mounted aggressive drilling campaigns that quickly increased supplies and pushed down prices.

Shale drillers are heeding growing calls from investors, who have chastened the companies for pumping ever more oil and gas, even as they incur losses in doing so. But some investors and analysts remain skeptical that U.S. wildcatters will fulfill promises to live within their means, saying that higher prices have almost always led them to boost drilling. “These companies can say that, but will they follow through?” said Norm MacDonald, vice president and portfolio manager at Invesco.

Several companies already have detailed plans to reduce 2018 spending. Continental Resources CEO Harold Hamm has said he would use excess cash to reduce debt, echoed by a dozen others. Executives have preached the gospel of moderation before, yet the companies behind the U.S. shale boom have spent $265 billion more than they generated from operations since 2010, according to a Wall Street Journal analysis. “There is always a risk that they will shoot themselves in the foot again,” said John Castellano, managing director in the energy practice of consulting firm AlixPartners.

Higher oil prices move big projects to approval, but backlog persists

(Bloomberg; Jan. 22) - The global oil-and-gas industry’s backlog of big drilling projects is starting to shrink as prices improve. From production vessels tapping Brazil’s deep-water reserves to pipes connecting rigs to underwater wells in China, the number of ventures delayed since the oil-price crash that finally won approval to get off the ground totaled 18 last year, according to a report by consultant Rystad Energy. That compares with only five in 2016 and two in 2015.

That’s a start, but there are still 104 delayed projects waiting for investment approval. “The industry has put in a lot of spadework to advance these delayed projects,” Readul Islam, an analyst at Rystad, said in the report. “With over 100 projects still in our tracker as we enter 2018, the hard work must continue to maintain 2017’s momentum.” The 25 delayed projects approved since 2014 are expected to develop the equivalent of about 16 billion barrels of oil at an estimated cost of $87 billion to first output, Rystad said.

Among big projects that received the go-ahead last year, Brazil’s Petroleo Brasileiro, France’s Total and their partners approved the next phase of development of the multibillion-barrel Libra field off Rio de Janeiro’s coast. The plan includes a floating production, storage and offloading ship by 2021 and a second by 2022. The slow pace of approvals for larger, higher-risk projects means that discoveries of new reserves in 2017 were the fewest on record and replaced just 11 percent of what was produced.

New England grid operator says power supply may come up short

(The Republican; Springfield, MA; Jan. 18) - The operator of New England's six-state electricity grid said it's possible that regional power plants won't be able to get enough fuel, including natural gas, to operate during a cold 2024-25 heating season, resulting in rolling blackouts. Such controlled outages could also be triggered by the season-long loss of a nuclear power plant or the failure of a natural gas compressor, ISO New England reported in a much-anticipated vulnerability analysis released this week.

The Operational Fuel Security Analysis modeled 23 future energy-mix scenarios, ranging from a worst-case scenario to the best. Of the cases, 19 resulted in "load shedding" during extended periods of high demand by the mid-2020s. In general, fuel procurement, transportation and storage remain the largest challenges to grid reliability in New England, according to ISO New England.

Fuel delivery to power plants is limited by pipeline capacity, the logistics of importing liquefied natural gas, and by winter storms that impede delivery trucks reaching dual-fired power plants when they are running out of oil. The report presumed that no new gas pipelines or coal-burning plants would be built, that a number of coal and oil-fired plants would retire, and that behind-the-meter solar power would continue to grow. ISO New England called for more LNG imports, aggressive development of renewables and the expansion of transmission lines to import more electricity.