

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Partners dissolve Canada's Mackenzie Valley gas pipeline venture**

(CBC News; Dec. 28) - The much anticipated but long-doubted Mackenzie Valley gas pipeline in Canada's Far North has gone out with a sigh. Imperial Oil posted a press release to its website Dec. 22, announcing the proponents had dissolved the joint-venture partnership driving the Mackenzie Valley Gas Project. The joint-venture included Imperial, ConocoPhillips, ExxonMobil, and the Aboriginal Pipeline Group.

Advocates have talked of the pipeline since oil and gas were discovered in 1970 where the Mackenzie River mixes with the Beaufort Sea. Multiple proposals failed over the decades due to aboriginal rights issues and weak economics. By 2016, when Canada's National Energy Board approved an extension of the project's deadline to begin construction to 2022, the estimated cost of had grown to more than \$16 billion. As the cost was going up, however, shale gas was pushing prices down across North America.

"We all knew that was coming," said Merven Gruben, mayor-elect of Tuktoyaktuk, the small Northwest Territories coastal community with much to gain if the 758-mile pipeline from the river delta to northern Alberta had been built. "We had a lot of high hopes, we even built a new hotel in Inuvik ... in the hopes [the pipeline] was going to take off," Gruben said. The hotel struggled in the beginning but had since found its legs, he said, unlike others that invested in the hopes of a pipeline. "This pipeline was really just a pipe dream. We gambled on it and a lot of people lost." An Imperial Oil spokeswoman said: "We recognize this is a disappointing day for the people of the North. This is a disappointment to ... the joint venture, as well." Exxon owns 70 percent of Imperial.

#### **Shell says market conditions will dictate its decision for LNG Canada**

(Globe and Mail; Canada; Dec. 28) - Shell says market conditions will dictate when it will make an investment decision on a \$40 billion venture to export liquefied natural gas from British Columbia. Shell is playing down expectations that it will set 2018 as make-or-break for the project in Kitimat. The timing will be based "on global energy markets and the competitiveness and affordability of the project," a Shell spokeswoman said.

Industry analysts have been forecasting that Shell and its three partners will announce their long-awaited decision in 2018 on whether to forge ahead. But Shell's cautious statement about timing underscores the rigorous process that the LNG Canada venture faces in lining up a prime contractor and trying to persuade Ottawa to exempt the project from anti-dumping duties levied against imported steel modules. Cutting costs will figure prominently in whether the proposal is approved.

Shell holds 50 percent of LNG Canada. Korea Gas and Japan's Mitsubishi each have 15 percent, while PetroChina owns 20 percent. Only a handful of B.C. LNG projects remain active, down from over 20 proposals in 2014. In 2017, cancellations included Shell's Prince Rupert LNG project on Ridley Island, the Petronas-led Pacific NorthWest LNG venture on Lelu Island, the Aurora LNG consortium led by China National Offshore Oil Corp. on Digby Island, and Steelhead LNG's Malahat proposal on Vancouver Island.

A major hurdle for LNG Canada is federal anti-dumping duties of up to 45.8 percent on imports of fabricated industrial steel components, primarily targeting China and South Korea. LNG Canada applied for a judicial review of the Canadian trade tribunal decision in 2017 to deny the group's request to be exempted from the new tariffs. LNG Canada is hoping to import massive modules from China and assemble them in Kitimat.

### **Higher prices push LNG sellers to run ships faster for more deliveries**

(Platts; Dec. 28) - Average LNG carrier speeds have raced to the highest since February 2015 as sellers seek to make faster deliveries and capitalize on surging liquefied natural gas spot-market prices, a S&P Global Platts LNG market outlook report released Dec. 27 said. Analysts at PIRA Energy Group, a unit of Platts, estimated that tanker speeds from liquefaction to regasification terminal range between 19 knots and 21 knots, depending on the age of the ship.

The trend has been driven by LNG traders arranging faster and shorter voyages amid seasonally strong spot prices. "With so much money on the line and wholesale pricing in Asia eclipsing \$11 per million Btu, cargo owners are incentivized to churn their tankers as much as possible to cover increasing costs, but also the prospect of increased margins per cargo," said PIRA analysts, including Ira Joseph and Madeline Jowdy.

Higher rates have also led to more short-haul deliveries. Platts said the LNG carrier charter rate in the Asia-Pacific was \$85,000 a day Dec. 27, up from the year-low of \$25,000 in April. The higher rates have boosted the cost of long-haul deliveries, with PIRA estimating that the cost of delivering an LNG cargo from the Cheniere Energy terminal in Sabine Pass, La., to Beijing has risen by \$1 per million Btu. Qatar, the world's largest LNG seller, has benefited from its strategic geographical location where it can flexibly deliver to countries in the Middle East, Mediterranean, and South Asia.

### **Commitment to gas over coal will drive LNG demand in near term**

(Argus Media; Dec. 28) - Government attempts to reduce air pollution by cutting the use of coal in favor of natural gas are likely to be the biggest drivers of Asia-Pacific LNG demand in the near term, potentially helping absorb supplies from new liquefaction

projects scheduled to hit the market in 2018. Three of the world's four largest LNG importers — China, India, and South Korea — are aiming to boost gas demand in their efforts to cut reliance on coal and nuclear power for environmental and safety reasons.

China's appetite for LNG has tightened spot supplies in recent months and has been a key factor in the steep rise in spot LNG prices to a three-year high. Prices have strengthened despite the addition of almost 20 million tonnes per year of new liquefaction capacity in 2017 in Malaysia, Australia, Russia, and the U.S. Gulf Coast. Even more capacity is on track to come online in 2018 in Australia and the U.S.

Like China, South Korea, and India are targeting a higher proportion of gas in their energy mixes. Seoul is calling for a move away from coal and nuclear in favor of renewables by 2030 in a new plan for the power sector. India is seeking to increase the share of gas in its energy mix to 15 percent from around 6 percent, while also doubling LNG regasification capacity in the next three years. But India needs to install new pipelines, as well as add more gas-fired plants and regasification facilities. And the government will have to maintain its commitment to gas despite potentially higher costs.

## **[China plans to start up natural gas trading exchange in 2018](#)**

(Reuters; Dec. 28) - China plans to launch a natural gas exchange in Chongqing in early 2018, aiming to create an Asian price benchmark as the nation's use of the fuel surges amid its shift from coal. China is the world's third-biggest gas consumer behind the U.S. and Russia. An exchange in its fast-growing market would be a solid contender as an Asian gas-price marker, on which other sales in the region could be based.

The Chongqing Oil and Gas Exchange — supported by state energy majors, and private and local government-backed gas distributors — would provide a trading platform for domestic output, pipeline imports from Central Asia and Myanmar, and imports of liquefied natural gas. An Asian price benchmark to stand next to those of the U.S. and Europe is a key missing piece in establishing a truly global market for gas.

The exchange expects to launch electronically based spot trading of pipeline gas and LNG imports in the first half of next year. The exchange is appraising 200 potential members, mostly from the consuming hub of eastern China, and will be open to foreign participation in the longer run, said exchange executives. But there are challenges to overcome. “The biggest would be that the government is still heavily involved in ‘guiding’ prices,” said Jeff Brown, president of consultancy Facts Global Energy. China currently sets wholesale and city-gate gas prices.

## **Beijing set to record biggest gain in air quality in 9 years**

(Reuters; Dec. 29) - Beijing may have turned a corner in its battle against the city's notorious smog, according to Reuters calculations, and environmental consultants say the Chinese government deserves much of the credit for introducing tough anti-pollution measures. The Chinese capital is set to record its biggest improvement in air quality in at least nine years, with a nearly 20 percent change for the better this year, based on average concentration levels of hazardous breathable particles known as PM2.5.

The dramatic change, which has occurred across northern China, is partly because of favorable weather conditions the past three months but also shows the government's tactics have had an impact. The Reuters' estimates show that average levels of the pollutants in the capital have fallen by about 35 percent from 2012, with nearly half the improvement this year. The plan for winter in northern China included switching millions of households and some industrial users to natural gas from coal for their heating and some other needs. There were also mandated cuts in steel production in some areas.

Government officials this week signaled they were confident they were starting to get on top of the problem. But environmental experts say that while they are optimistic, it may be too early to celebrate. "The turning point is here but we cannot rule out the possibility we can turn back," said Ranping Song, developing country climate-action manager for the World Resources Institute. "We need to be cautious about challenges and not relax now that there have been improvements. There are lots of issues to be solved."

## **China's insufficient gas storage, pipeline network adds to shortages**

(Nikkei Asian Review column; Jan. 1) - Families living in northern China are having a cold winter, and the government's plan to cut air pollution appear to have come unstuck. A ban on residential coal use and an overly ambitious roll-out of gas-fired boilers has led to a 14 percent nationwide leap in gas demand and severe shortages. As winter hits, many families have been left without sufficient gas or a gas boiler. Combined with the coal ban, they have been effectively blocked from heating their homes.

What is more, despite these efforts, air pollution targets remain in danger of being missed. On Dec. 12, the country's second-highest pollution alert was sounded for 10 of Hebei Province's industrial cities. But while overzealous officials may have pushed through short-term measures without due care, the real story is not one of missed targets: It is one of unintended consequences and a lack of coordination.

Attempts to plug the shortfall with gas diverted from other provinces merely extended shortages south. Curtailing gas use by non-residential users has, by some measures, affected economic output and led to three-hour waits for compressed natural gas at fueling stations. Relaxing the prohibition on coal burning and restarting some coal-fired

power stations subverted the intent of the clean-air push. It appears China has neither the gas available nor the infrastructure necessary to handle the necessary volumes.

There has been prolonged underinvestment in gas storage; it's certain how companies will be compensated for building and operating the facilities. In addition, local gas distribution pipelines are insufficient. And although China boosted its LNG imports, the country's poor gas infrastructure has hobbled efforts to get the fuel to where it's needed.

## **Russia allows Gazprom to undercut price of U.S. LNG**

(Forbes; Dec. 28) - From a purely commercial perspective, the real "war" being waged between Washington and the Kremlin is not over Ukraine, it's over Europe. Russia and the U.S. are the titans of oil and gas. Russia wants to make sure that its natural gas does not eventually get undercut by the Americans. U.S. liquefied natural gas exporters are already encroaching on long-held Russian markets in Europe, particularly in countries whose governments tend to be anti-Russia.

So, to retaliate for a recent five-year deal signed between Poland and U.S. LNG exporters, the Russian government said that its state-controlled gas giant, Gazprom, can undercut the Americans in Europe by selling LNG "at any price." The executive order, approved Dec. 27 by President Vladimir Putin's administration, allows Gazprom to sell gas to companies engaged in the production and export of LNG starting Jan. 1 at an "unregulated price," the Kommersant business daily reported Dec. 28.

The decree will primarily effect Gazprom's planned Baltic LNG project and its 8-year-old Sakhalin-2 project in the Russian Far East. The move can be seen as a means for Russia to compete with new LNG import terminals in Lithuania and Poland, both of which have been receiving shipments from Cheniere Energy's LNG export terminal in Sabine Pass, La. Gazprom, which depends on pipeline gas sales to Europe, can now sell gas for LNG exports at less than the government's regulated rate.

## **Russia looks to continue strong gas exports to Europe in 2018**

(Bloomberg; Dec. 28) - Gazprom is working to keep its natural gas exports to Europe near record levels in 2018 after reaching a high point in 2017, expected to total 6.7 trillion feet of gas. The state-controlled gas giant, Europe's largest supplier, plans to ship a minimum of 6.35 tcf next year to Europe, Deputy CEO Alexander Medvedev said. Gazprom supplies more than a third of Europe's demand for gas, Russia's biggest and most lucrative market worth some \$37 billion in revenue this year.

Tighter trade links with the Kremlin-backed company contrast with increasing tensions on the military and political front. Officials across Europe accuse Russia of everything

from meddling in elections to menacing coastlines and airspace with warships and planes. Earlier this month, the U.K warned of a growing threat to Atlantic undersea communications cables, the internet and international trade from Russian submarines.

European Union lawmakers have had their hearts set on diversifying energy supplies away from Russia and are urging expansion of ports to handle liquefied natural gas cargoes from the U.S. Executives in Russia have so far shrugged off the threat of serious competition in Europe. While Europe's gas demand depends on weather and economic growth, it's likely to increase next year as domestic production falls and coal prices recover, making imports from Gazprom more competitive, Medvedev said.

### **Abundant shale gas prompts power plant construction boom**

(Wall Street Journal; Dec. 28) - A glut of gas from U.S. shale fields is fueling a power-plant construction boom in several northeastern states, despite fierce competition that has caused wholesale electricity prices to plummet. The key for electricity producers is location. Having access to transmission lines to move megawatts to market is vital, along with easy access to cheap fuel supplies by building close to gas fields.

In Pennsylvania and Ohio, which sit above the prolific Marcellus Shale formation, companies including Invenegy and Calpine are building gas-fired power plants capable of generating a combined 8.6 gigawatts when they come online between now and 2020, according to federal data. That output, which is enough to power up to 8.6 million homes, would require about 1.5 billion cubic feet of gas a day. The build-out comes as U.S. shale drillers continue pumping so much gas that the price of the fuel has plunged from highs of over \$13 per million Btu in 2008 to less than \$3 today.

The power is bound for PJM Interconnection, a power grid that serves some or all of 13 states, including Illinois, Michigan, and New Jersey, as well as Ohio and Pennsylvania. Competition among power producers in the market served by PJM — which stands for Pennsylvania, Jersey, Maryland — has become so fierce that a megawatt hour traded at \$29.23 last year, the lowest since 1999. Though electricity demand remains stagnant, the closing of aging coal plants has left some areas in need of new generating capacity.

### **New England cranks up oil-fired power as natural gas prices spike**

(Springfield Republican; MA; Dec. 29) - As frigid weather grips the region, wholesale prices for natural gas in New England are driving up the cost of power generation. The settled price for natural gas in spot market trading tripled Dec. 26 to \$35.35 per million Btu, making New England the world's priciest market for the fuel, Bloomberg News reported. By Dec. 29, the price had dropped to \$19.75, but that's still four

times paid by power generators in the Chicago area, where temperatures have also fallen.

The problem is limited gas pipeline capacity into New England. But Kathryn Eiseman, president of the Massachusetts Pipeline Awareness Network, said the temporary winter price spike should not be used as an argument to build more pipelines. Despite the cold, power plants have had no problem providing reliable power to New England, she said. "Have we seen widespread blackouts? No." Eiseman said New England needs to flatten its peak-demand curve by deploying energy efficiencies.

This week, many dual-fuel power plants in New England switched to burning oil as temperatures plummeted and the cost of gas skyrocketed. The arrangement keeps the lights on but increases air pollution. New England usually relies upon gas for about 49 percent of its power generation. Oil generally provides 1 percent. But on Dec. 29, gas was generating 24 percent of the region's power, and oil a full 30 percent, according to real-time data on the ISO New England website.

### **Bleak price outlook for Canadian natural gas producers in 2018**

(Business News Network; Canada; Dec. 28) - Industry experts don't have high hopes for Canadian natural gas producers heading into 2018, with low prices expected to remain a challenge. While winter had created some hope prices would recover, Martin King, director of institutional research at GMP FirstEnergy Securities, said that optimism has been "completely demolished" by the weak start to the heating season as well as increasing concerns the problems that plagued producers 2017 will continue into 2018.

"Canadian natural gas prices have deteriorated significantly in recent months and now appear to be plagued by numerous problems spanning the poor start to the current winter, deliverability issues, high storage, surging supplies ... (and) erosion of market share," King wrote in his quarterly report. The investment bank expects the benchmark Canadian gas price to average just \$2.19 (Canadian) per 1,000 cubic feet in 2017 (\$1.75 U.S.), down from its previous forecast of \$2.57. The price is significantly below the benchmark for U.S. gas, which has been trading around \$2.75 for January delivery.

Dan Tsubouchi, chief market strategist at Stream Asset Financial Management, sees low prices persisting longer than many anticipate. "It (2018) is going to be like last year, but uglier." Like Canadian oil, the lack of pipeline capacity for gas is a concern. This past summer, pipeline maintenance cut off some storage options and caused supplies to increase.

## [Russia turns its attention to vast shale oil formation in Siberia](#)

(Wall Street Journal; Dec. 29) - The western Siberian oil field Krasnoleninskoye is called "Red Lenin," but its reserves have a clear American ring: shale. The future of Russia's oil industry could lie in the vast Bazhenov shale formation, the world's largest. Russia has become the top oil producer with almost no contribution from shale, a sometimes technically difficult and expensive resource to pump. Only Americans have really gotten shale right so far, but the Kremlin is taking the first steps to unlock Russia's potential.

Companies like Gazprom Neft are leading Moscow's drive to replicate the U.S. shale boom, experimenting with a uniquely Russian state-controlled approach to fracking that contrasts with the free-for-all among independent producers in Texas and North Dakota. "The Bazhenov is a huge prize," says Alexei Vashkevich, Gazprom Neft's exploration director. The Kremlin is offering tax breaks for shale production and encouraging collaboration among companies. Challenges include an underdeveloped service sector.

No significant shale production is expected before the mid-2020s. With the Bazhenov's complex and varied geology and other risks facing companies, executives and analysts are wary of making output forecasts. But the size of the Bazhenov — which holds almost as much oil as all the known U.S. shale plays, according to the U.S. Energy Information Administration — offers a chance for Russia to maintain its prized position as the world's top producer of crude in coming decades.

## [Regional leader says Russian Arctic littered with scrap metal, oil](#)

(UPI; Dec. 28) - Development in Russia's Arctic has left its environment at risk from scrap materials and oil residue, a regional leader said. Sakhamin Afanasyev, the minister of ecology for the Sakha Republic, the largest in Russia and, at about 1.2 million square miles, almost twice the size of Alaska, said companies working in the East Siberia region have spent about \$138 million this year on environmental work, mostly on treatment, waste management, and emission abatement strategies.

"Over the time of the north's development, the environmental damage has been significant," the minister was quoted by Russian news agency Tass. "The biggest damage comes from scrap metal and oil residues." Some of Russia's largest oil and gas projects are in the Arctic. Tass reported that parts of northern Russia are littered with unattended facilities and scrap metal. The Sakha Republic is also known as Yakutia.

The Russian branch of Greenpeace said in a 2014 report that Russia has advanced eagerly on oil and gas opportunities "while failing to comply with Russian safety and environmental regulations." That year, Russian oil company Gazprom Neft was fined about \$1 million for oil spills in parts of Siberia.