Oil and Gas News Briefs
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British Columbia offers significant tax breaks to entice LNG decision

(Vancouver Sun; March 22) – British Columbia Premier John Horgan is offering to exempt liquefied natural gas projects from the provincial sales tax on construction, reduce the carbon tax, and scrap an income tax surcharge levied by his predecessor in a financial effort to entice the Shell-led LNG Canada project to proceed to a final investment decision this year.

The move announced March 22 would roll back many of the LNG-related taxes set by former Premier Christy Clark, foregoing up to $6 billion in potential revenue to the B.C. treasury over four years should LNG Canada proceed with its C$40 billion project in Kitimat, B.C. But it could also imperil the future of Horgan's New Democratic Party-led government with a warning from its power-sharing partners the B.C. Greens that the plan could violate the agreement that keeps the New Democratic Party in power.

The proposals will likely be contentious, as Horgan previously spent years in opposition, accusing Clark's government of giving away too much to multinational LNG proponents during her efforts to spur investment. The new package would generate significantly less government revenue should LNG investments proceed, but the government argues that without the concessions the companies would simply choose not to build in B.C.

The proposal is contingent on LNG Canada making a final investment decision by November. If it does, the province would exempt it from sales tax on construction costs, recapturing that foregone revenue over 20 years in "operating performance payments" after start-up. The government would also rebate the scheduled $20-per-tonne carbon tax increase until 2021 if the company could prove it was the world's cleanest LNG facility, and repeal an income tax surcharge on LNG projects created several years ago.

Shell-led LNG Canada project almost ready for investment decision

(The Financial Post; Canada; March 22) - Four and a half years after moving to Vancouver to ready the massive LNG Canada project for a final investment decision, Andy Calitz likens the state of the mega-energy venture to that of a peak-performance Olympic athlete in the final seconds of a race: It's beating your competitors at that point that makes the difference between winning and losing, said the Shell executive.

The engineer is feeling optimistic about building an LNG export terminal in Kitimat, B.C. "Apart from this relentless, Olympic-style competition to the last moment of getting costs down, down, down, there is not a single other major stumbling block to getting this project to FID," Calitz, CEO of LNG Canada, said at Shell's Calgary headquarters. "I have spent the past four and a half years thinking of nothing else. Is there something that I am not seeing? No. It's the competitiveness at the time of the FID that will either do this or this," he said giving a thumbs up and a thumbs down.

The Shell-led project will cross that go/no-go sometime after June 30, when its team will finish preparatory work and the boards of the four energy giants backing the joint-venture — Shell, PetroChina, Korea Gas, and Mitsubishi — will convene separately to decide the project's fate. It's a highly anticipated moment, but it's not the first time the project has been here. In 2016 the partners decided to delay their decision on the $40 billion project after energy prices collapsed and demand in Asia weakened.

The investment involves developing gas stranded in Montney and Duvernay formations in Alberta and British Columbia; building a pipeline through two mountain ranges; and building a liquefaction plant and port in Kitimat. The project would be built in two stages with construction possibly starting later this year and the first phase completed in 2024.

Alberta calls B.C. 'environmental hypocrites' over LNG tax breaks

(The Canadian Press; March 22) - British Columbia is offering tax breaks and rebates to entice investment in a liquefied natural gas export project in the province — and Alberta's energy minister is not pleased. B.C. Premier John Horgan made the announcement March 22, ahead of a final investment decision on the Shell-led LNG Canada project, which would include building a natural gas pipeline from northeastern B.C. to a liquefaction and export terminal in Kitimat, B.C.

Alberta Energy Minister Margaret McCuaig-Boyd slammed the B.C. announcement, calling the province "environmental hypocrites." The minister added, "On one hand, they're willing to increase emissions in their own backyard, yet on the other they're trying to stop our efforts here in Alberta to diversify our markets by building an (oil) pipeline," she said. "B.C. is, frankly, speaking out of both sides of their mouth."

McCuaig-Boyd said B.C.'s move shreds any credibility it had around the environment and the economy. "No Canadian should take British Columbia's opposition to the Trans Mountain (oil) pipeline seriously," she said. "B.C. cannot have it both ways. You can't build your own energy industry yet block your neighbor's. It's not fair, it's not Canadian, and it needs to stop." The B.C. government has put up obstacles to the oil line project, which would triple the volume that could move from Alberta to a coastal export terminal.

B.C. Green Party backs off threat to topple government over LNG

(The Globe and Mail; Canada; March 22) - The British Columbia Green Party, which holds the balance of power in the legislature, has softened its threat to topple the New Democratic Party-led government over its pursuit of liquefied natural gas projects in the province. Premier John Horgan on March 22 unveiled tax breaks and other enticements to attract LNG investment. Green Leader Andrew Weaver said he would give Horgan until the fall to say how he would balance that with efforts to reduce greenhouse gases.

"If it doesn't come in the fall, we no longer have confidence in this government," Weaver told reporters in Victoria, hours after Horgan laid out the tax-break program. However, Weaver said it was too soon to say exactly what his party would do to express that lack of confidence. "There are many options we could take that would maybe happen in the fall or not. We're not there yet."

It was a shift from Weaver's pointed threats earlier this year when, in a tweet, he said the government "will fall in non-confidence if after all that has happened it continues to pursue the LNG folly." But on March 22 he said he was willing to give the NDP time to reconcile its climate-change goals with attracting LNG investment. B.C.'s long-term greenhouse gas-reduction goal is to cut emissions to 40 percent below 2007 levels by 2030 and 80 percent by 2050.

Canadian gas producers welcome B.C.'s tax incentives for LNG

(The Canadian Press; March 23) - B.C. government tax incentives aimed at enticing a much-delayed liquefied natural gas industry are being welcomed by Western Canada's hard-hit natural gas industry as a potential path to higher prices and better markets for their products. The provincial government said March 22 it hopes its money-saving offer will result in a positive investment decision later this year for the C$40 billion Shell-led LNG Canada export project in Kitimat, B.C., which has been on hold since 2016.

"I'm pleased because it shows the B.C. government is being proactive and has come forward with some inducements for the project," said CEO Dale Shwed of Calgary-based Crew Energy, which produces liquids-rich gas in northeastern B.C. "We need other routes to get hydrocarbons, both oil and natural gas, out of the country and that would be a big step. And once that first step is taken, hopefully, others would follow."

Canadian Natural Resources, one of Canada's largest gas producers, said March 23 it is also encouraged by B.C.'s commitment to building its LNG industry. "The global window to build LNG is closing, but these changes will help get Canada into the game," said Tim McMillan, CEO of the Canadian Association of Petroleum Producers. The western Canadian gas business remains in a deep funk due to low prices, tight pipeline capacity to North American markets — and no Canadian LNG option.

Oil and gas industry sees 'nothing beneficial' about U.S. tariffs

(Houston Chronicle; March 23) - The U.S. energy industry, producing record amounts of oil, natural gas and petrochemicals, has planned to grow through exports, especially to booming overseas markets in Asia. But the rising trade tensions between the United States and China could set back those plans. The Trump administration said March 22 that it would impose high tariffs on some $50 billion of Chinese goods each year. China quickly responded by announcing its own tariffs on about $3 billion in U.S goods.

Tariffs could be poorly timed for the oil and gas industry. The industry uses specialized machinery made in China, and costs could rise just as the U.S. shale boom is picking up again. That could slow the energy sector's recovery. "The tariffs are going to raise costs for the industry right as they are getting back into the game," said Praveen Kumar, director of the Gutierrez Energy Management Institute at the University of Houston.

"There is nothing about the imposition of these new tariffs that will be beneficial," said Karr Ingham, an economist who studies the Texas oil industry. The U.S. petrochemical boom, which has attracted tens of billions of dollars in investment in new or expanded plants, is predicated in part on meeting growing demand for plastics, particularly in China. U.S. companies also are planning several projects along the Gulf Coast to export liquefied natural gas, gambling in part that China will buy U.S. "These are the types of projects that could be in jeopardy," said Bob Harvey, president of the Greater Houston Partnership. "China can simply go to Russia, Australia, or the Mideast for their LNG."

U.S. Commerce Secretary says China should buy more LNG

(Bloomberg; March 22) - What would it take for China to reduce its trade gap with the U.S.? For a start, buy more liquefied natural gas, said Secretary of Commerce Wilbur Ross. Diverting its purchases from other countries to America would be the "simplest" solution, Ross said during an interview with Bloomberg TV after President Donald Trump ordered tariffs on Chinese imports.

"China needs to import very, very large amounts of LNG and from their point it would be very logical to import more of it from us, if for no reason other than to diversify their sources of supply," Ross said. "It would also have the side effect of reducing the deficit."

Though LNG imports may help the deficit, which reached $375 billion last year, they are unlikely to put a big dent in it, said Anastacia Dialynas, an analyst at Bloomberg New Energy Finance. China's LNG imports may grow to 82 million tonnes by 2030; if China bought all of that from the U.S., it could reduce the trade imbalance by $28 billion.

But that’s unlikely because China already has deals with other suppliers to buy most of what it will need. About 40 million tonnes of China’s projected 2030 imports are not under contract, according to Bloomberg. “Can LNG shipments solve the U.S.-China trade deficit? No. Could they help? Yes. Will they increase? Probably,” Dialynas said. “U.S. exporters are already courting Chinese buyers, and China is looking to diversify from Australia and Qatar, its current primary suppliers.”

Chinese energy expert says trade war would hurt U.S. LNG sales

(Global Times; China; March 23) - Commenting on Commerce Secretary Wilbur Ross' talk that China's simplest solution to reduce its trade gap with the U.S. is to buy more liquefied natural gas, a Chinese energy expert said the U.S. is being stupid. "China, in its huge demand for LNG, is naturally inclined to import more U.S. LNG and has actually imported some in 2017 and holds significant orders under long-term contracts," said Lin Boqiang, director of the China Center for Energy Economics Research. "However, waging a trade war against China will effectually stop such momentum."

Lin noted that despite the longer distance from U.S. Gulf Coast terminals, U.S. LNG could still be cheaper than the average price of other LNG bought by China, currently the world's second-largest LNG importer. "The U.S. enjoys a marginal competitiveness over other LNG suppliers. However, it is not so cheap that China will face significant loss if it opts for other buyers. China can pick who will be the seller," Lin said March 23.

"It would be a shame for the U.S." if it loses out on LNG sales to China because of the steel trade dispute, Lin said. "The LNG trade, at its current growth rate and volume, could likely grow larger than that of Sino-U.S. steel trade in the future," he said. His response came after Commerce Secretary Ross was quoted by Bloomberg on March 22: "China needs to import very, very large amounts of LNG and from their point it would be very logical to import more of it from us."

U.S. LNG executives critical of trade fight with China

(Reuters; March 22) - The Trump administration’s steel tariffs and a potential trade battle with China could hurt U.S. liquefied natural gas exporters just as a new wave of developments in the fast-growing market is gaining steam, company executives said. China is the fastest-growing buyer of LNG, making it a key customer for U.S. producers. It is also a significant exporter of the steel components used in LNG plant construction.

With an LNG shortage looming as early as 2022, a rush of off-take deals with China and other buyers had been looking likely, boosting U.S. construction prospects, said company executives at the CWC LNG Americas Summit in Houston. But the proposed steel tariffs, which will increase project costs and impact deal pricing, could make U.S. gas less attractive than international rivals.

"I think imposing steel tariffs at this juncture in the evolution of the second wave, right as we move into this very critical stage of the commercial process — locking in customer commitments — is a bad idea," said Patrick Hughes, a vice president with Gulf Coast LNG hopeful NextDecade. Hughes said the prospect of backlash from steel-producing customer countries was "not insignificant," adding to the risks around increased costs.

"The industry is really close to laying the golden egg and this could potentially — kill it is probably too far — but it could be a real setback for the second wave of (LNG) projects," said Charlie Riedl, executive director for the Center for Liquefied Natural Gas.

U.S. tariffs against China could help Canada's LNG hopes

(Bloomberg; March 22) - President Donald Trump may be helping to revive Canada's dream of a liquefied natural gas export industry to supply growing markets in Asia. The tariffs that Trump has ordered against Chinese goods threaten to raise construction costs for LNG projects in Texas and Louisiana and provide a boost to rival projects on Canada's Pacific shore. "Economics always talk," said Jackie Forrest, senior director at the ARC Energy Research Institute in Calgary.

LNG Canada — an estimated C$40 billion (US$31 billion) project backed by Shell, PetroChina, Korea Gas and Mitsubishi — proposes an export facility in Kitimat, B.C. The twice-postponed final investment decision is now expected by the end of this year. "From what I can see, I think there's a lot of optimism that they'll make a positive final investment decision," said Cenovus CEO Officer Alex Pourbaix, whose company produces gas at its Deep Basin deposit straddling British Columbia and Alberta.

Protectionist trade volleys could complicate which projects capture market share. Houston-based Tellurian warned last week that steel tariffs could "significantly increase" the cost of its proposed $15.2 billion Driftwood LNG plant in Louisiana. LNG terminals "are the types or projects that could be in jeopardy with these sanctions," said Bob Harvey, CEO of the Greater Houston Partnership, a pro-business civic group. "China can simply go to Russia, Australia, or the Middle East for their LNG."'

Pipeline expansion would help Petronas sell more of its Canadian gas

(Reuters; March 23) - Malaysia's Petronas said March 23 it is one of the producers involved in TransCanada's proposal to expand a pipeline system that would open up more markets for the energy company's gas produced in Western Canada. Pipeline operator TransCanada in February said it would go ahead with the C$2.4 billion

(US$1.9 billion) expansion of its Nova Gas Transmission Line, which moves gas from Alberta and British Columbia to markets across North America.

The Petronas subsidiary Progress Energy Canada is one of the 11 shippers involved in TransCanada's application to regulators. If the pipeline is approved, Petronas would be able to sell more gas. Last year, Petronas scrapped a plan to build a multibillion-dollar liquefied natural gas export terminal in British Columbia due to weak gas prices and after delays in regulatory approvals. Petronas said then that it would look at other ways to generate revenue from its gas resources in British Columbia.

The company's North Montney assets in British Columbia are rich in natural gas. More than 13,000 potential drilling locations have been identified in the area with about 215 wells drilled, according to information available on Progress Energy's website.

New entrants, floating LNG import terminals add to growth in Asia

(Nikkei Asian Review; March 22) - The Asian market for liquefied natural gas is being transformed as Thailand, Pakistan, and others join the ranks of buyers and consumption grows rapidly in China and India, resulting in a fundamental shift in a market that had long been dominated by Japan and South Korea. Economic growth has been a driver in the change, as has the introduction of inexpensive floating off-loading terminals for the fuel. Asia now accounts for 70 percent of global demand for LNG.

The growing demand for gas in Asia has completely transformed the landscape. In 2006, the only LNG importers in Asia were Japan, South Korea, Taiwan, India, and China, according to data from BP. The list had grown to 10 countries as of 2016. Asia's share of global consumption has jumped to 70 percent from 64 percent during that period. Japan and South Korea used to make up 86 percent of the region's LNG demand, but that ratio has shrunk to 63 percent as newcomers enter the scene.

China in particular has produced huge gains the past decade. The country brought in 740,000 tonnes of LNG when it started imports in 2006, but that ballooned to 25.22 million in 2016, based on BP's data. India became the world's fourth-largest LNG buyer after just starting imports in 2004. One vital piece of infrastructure is the floating storage and regasification unit, a ship-like import terminal. Floating terminals are about one-third the cost of onshore LNG terminals. At least 20 floating terminals are in the construction or planning stage in Asia, according to Japan Oil, Gas and Metals National Corp.

Gazprom looks at development of large Siberian gas field

(UPI; March 21) - Natural gas from basins in southeastern Siberia could start moving through a natural gas pipeline to China within the next five years, Gazprom said. Representatives from the Russian company have discussed development of the Kovyktinskoye field with officials from the Irkutsk region in southeastern Siberia. Estimates of the field's reserves are more than 70 trillion cubic feet of gas and more than 600 million barrels of condensate.

"Efforts are being made to design the site structures and facilities for production purposes, along with gas transmission capacities," the company said. "It is planned to start feeding gas from Kovyktinskoye into the Power of Siberia gas pipeline in late 2022." Gazprom has a 30-year sales agreement with China National Petroleum Corp. that calls for 1.3 trillion cubic feet of gas per year through the 2,500-mile pipeline.

Pakistan sets record for electricity produced from natural gas

(The Express Tribune; Pakistan; March 22) - Pakistan set a record in February for power production from environmentally friendly sources — domestically produced natural gas and imported liquefied natural gas — after launching new LNG regasification terminals. The government reported March 21 that combined electricity output from locally produced gas and imported LNG increased to 43.17 percent of the country's total power production in February.

It was 6.6 percentage points higher than the contribution of 36.57 percent in February last year, according to the National Electric Power Regulatory Authority. The jump in power production from gas is primarily due to the launch of three LNG regasification power projects in Punjab with a cumulative production capacity of 3,600 megawatts. Pakistan produced just under half of its gas-fueled power from imported LNG.

However, electricity from imported gas is much more expensive than power from locally produced gas — almost double. The tariff for electricity from regasified LNG was almost equal to the cost of power produced from expensive furnace oil.

Cheniere waits for federal decision after leaks at LNG storage tanks

(Bloomberg; March 22) - America's first exporter of liquefied natural gas from shale is awaiting a federal ruling on whether it can restart storage tanks it was forced to shut after a leak. Regulators ordered Cheniere Energy to take two of the five tanks at its Sabine Pass, La., LNG terminal out of service last month, citing a potentially "serious hazard to people and property" from a gas release discovered in late January. The agency may decide next week whether Cheniere can bring the tanks back online.

Since shipping the first cargo from Sabine Pass in 2016, Cheniere has been a key player in America's march toward becoming a major global LNG supplier. The shutdown of the two tanks has had no impact on production, a Cheniere spokesman said. During a hearing before federal regulators in Houston on March 21, Cheniere argued that the gas release posed no public threat and that any leak could be contained on-site.

A report from the manufacturer, Tulsa-based Matrix Service, showed almost a dozen instances of gas leaking from one Sabine Pass tank into the space between its inner and outer walls between 2008 and 2016. Such incidents can create cracks that would allow the gas to escape into the atmosphere. Though two tanks have been removed from service, a third made by Matrix remains in operation. Another two were made by a different manufacturer. All five tanks were designed by Mitsubishi Heavy Industries.

Qatar talks with Asian investors on bond sale to cover budget deficit

(Bloomberg; March 22) - Qatar has met with fixed-income investors in Asia to test their appetite for a potential bond sale in the next few weeks, according to people familiar with the matter. Government officials from the world's top liquefied natural gas exporter held a roadshow in Singapore on March 21, one of the sources said. They also met other investors in Qatar to discuss the possibility of a bond sale, a source said.

A sale would be the country's first international fundraising since a diplomatic spat with Saudi Arabia and other neighbors started in June. Qatar had planned to tap the debt market in the first quarter for about $9 billion to finance its budget deficit, sources said in January. Qatar expects its budget deficit to shrink this year as the economy absorbs the impact of the Saudi-led boycott.

The country's sovereign wealth fund, the Qatar Investment Authority, has injected billions of dollars into local banks as the Saudi-led campaign has hurt lenders. The wealth fund has been selling assets across the world to raise funds.