Oil and Gas News Briefs
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PetroChina says shorter deals will replace long-term contracts

(OilPrice.com; March 28) - State-owned oil and gas giant PetroChina is planning to replace its oil-price-linked, long-term liquefied natural gas contracts with shorter, more flexible deals, a senior company official said late last week as the company announced its 2017 financial results. PetroChina Vice Chairman and President Wang Dongjin said existing oil-linked long-term deals with Qatargas, Russia's Yamal LNG project, and the Chevron-led Gorgon LNG project in Australia will not be renewed.

S&P Global Platts Analytics said the contracts — covering a combined 4 million tonnes per year — will expire over the 2025-2038 period. Last year, China bypassed South Korea to become the world's second largest LNG importer, after Japan. The demand growth comes as Beijing ramps up its goal of replacing coal with cleaner-burning gas for electrical power generation and industrial use. China's LNG imports averaged 5 billion cubic feet of gas per day in 2017, about 38 million tonnes of LNG for the year.

PetroChina reported 4.8 billion yuan (US$766.9 million) in net profit in the fourth quarter 2017, the worst quarter last year and down from 6.7 billion yuan in profit in the third quarter. Huang Lili, an analyst with CITIC Securities, attributed the lower earnings to losses on costly LNG imports in the fourth quarter when China suffered gas shortages. These supply shortfalls came in large part due to Beijing's rapid and arguably premature push to replace more coal usage with gas, just as harsh winter temperatures set in.

Ichthys LNG close to first gas after five years of construction

(Australian Financial Review; March 27) - After more than five years of construction work, the delayed $US40 billion ($51.6 billion) Ichthys LNG project in northern Australia is on the cusp of completion — but the ambitious venture may take another few months to ship its first cargo. The project leader, Japan's INPEX, said March 26 that the first production unit at the onshore LNG plant in Darwin has completed commissioning and the 550-mile pipeline from the offshore field to the plant is ready to go online.

The offshore processing platform for the gas, about 135 miles off Western Australia, will complete commissioning between April and May, enabling production at the field in the Browse Basin to commence, INPEX said. "Thereafter, the project will begin production and shipment of condensate, liquefied natural gas, and liquefied petroleum gas in sequence," the company reported. Only once gas starts to flow into the liquefaction plant on Darwin Harbor can final preparations be made to ship the first LNG cargo.

Ichthys is the second-to-last of Australia's $200 billion-plus wave of LNG projects to go online, with only Shell's floating Prelude venture still to go. Exports from the new plants are expected to make Australia the world's top LNG exporter in 2019 or 2020, passing Qatar. Ichthys is already more than a year late and several billion dollars overbudget.

Production at the two-train project should eventually reach 8.9 million tonnes a year of LNG, 100,000 barrels a day of condensates, and 1.6 million tonnes a year of LPG. INPEX said it expects gas production to start in April or May and condensate production in June or July. INPEX holds 62.245 percent, with France’s Total at 30 percent and Japanese and Taiwanese utilities holding a combined 7.755 percent.

Bloomberg forecasts new LNG supply needed mid-2020s

(Sydney Morning Herald; March 26) - China’s shift away from coal will see this year’s demand for LNG surpass 300 million tonnes for the first time ever, raising concerns of short supply. Data from Bloomberg New Energy Finance shows a growth of 7.2 percent in LNG demand, lifting from 285 million tonnes in 2017 to 305 million tonnes in 2018 as China shifts to gas-fired power plants and domestic gas production slows in Europe.

The Bloomberg report predicts demand will stabilize in the short term, at between 314 million and 330 million tonnes between 2019 and 2022 before increasing again. "From 2023, imports will rise at a compound annual growth rate of 5 percent till 2030," the report said. BNEF forecast demand will hit a peak in 2029 before slowing once more, outstripping supply between 2024 and 2026 unless new projects are brought online.

Wood Mackenzie analyst Saul Kavonic said there is still the expectation that planned supply coming online the next few years can outpace demand, but this could be at risk if support is not given to the industry. "We really need to see new projects sanctioned today to avoid this shortage," Kavonic said. Those sanction decisions will not be easy. RBC Capital Markets said the coming years will be marked by shorter contract lengths and smaller volumes: "The traditional model of sanctioning a project on the basis of more than 80 percent contract coverage for 15 plus years seems to be dead or dying.”

Bank report forecasts LNG supply crunch mid-2020s

(Platts; March 27) - The global LNG market has avoided a supply glut thanks to strong Asian demand, but the dearth of new export project approvals is set to lead to a supply crunch around 2022-23, analysts at HSBC said in a report published March 27. The start-up of a slew of new LNG projects in the United States, Australia, and Russia was expected to result in a global supply glut since around 2016 with excess LNG cargoes forecast to end up in the liquid European markets of last resort.

But market observers are increasingly forecasting that demand will keep up with supply in the coming years. HSBC's report — “The glut abates, the crunch awaits" — said there are reasons to believe the global LNG market would be well supplied, rather than oversupplied, to 2021-22. "That's partly a reflection of seasonality — the market may be oversupplied in summer, but undersupplied in winter," said HSBC, a U.K.-based multinational banking and financial services firm.

HSBC said it expects global LNG demand to grow at 4.5 percent per year, translating into growth of 50 percent by 2025, with consumption reaching 425 million tonnes a year from last year's 280 million. The solid outlook for demand, HSBC said, is underpinned by multiple factors including economic growth, government policy and climate and environmental concerns. The bank believes the industry has run out of time to avert a supply crunch 2022-2025. The market could become tight as supply flat-lines — a result of new project approvals having stalled for over two years — while demand grows.

As Brazil’s domestic gas production soars, its need for LNG falls

(Bloomberg; March 26) - As the global liquefied natural gas trade expands amid a boom in supplies from the United States to Australia, at least one major energy consumer may be sitting on the sidelines: Brazil. The nation’s imports of LNG sank 75 percent over the past two years as domestic production climbed, government data show. The main culprit: Explorers from state-owned Petroleos Brasileiro to Shell are extracting more gas as a byproduct of soaring oil output from Brazil’s offshore pre-salt region.

The surge in gas production means Brazil, which now supplies 67 percent of its demand for gas, is poised to remain a minor player in the fast-growing worldwide LNG market, leaving exporters like the U.S. and Qatar to look elsewhere for buyers. It also has Bolivia, Brazil’s biggest gas supplier, searching for another home for much of its supply.

Pre-salt drilling has unleashed a flood of Brazilian gas, helping to push production almost 60 percent higher in the past five years and sending LNG imports tumbling to the lowest since 2011 last year, according to the energy ministry. The country’s demand for foreign gas fell so sharply that by the end of 2016, one of its three floating LNG import terminals had stopped regasifying LNG for delivery to pipelines.

Report says many First Nations support LNG for economic benefits

(The Financial Post; Canada; March 27) - A new report has found that First Nations in British Columbia support the establishment of a liquefied natural gas sector, further discrediting the green movement’s narrative that Canada’s indigenous communities are opposed to fossil fuel projects. According to a joint report co-authored by the B.C.

government and the First Nations LNG Alliance, the sector enjoys such high indigenous support many are upset that projects have not been built.

“There have been many positive impacts to First Nations communities related to LNG development prior to any construction,” said the March 26 report. “First Nations leaders are trying to deal with their constituents’ frustration because of delays or cancellation of these projects.” The findings are based on sessions held last fall with indigenous communities. Karen Ogen-Toews, president of the First Nations LNG Alliance, said many communities view LNG as an opportunity to improve their economic conditions.

The B.C. government should partner with First Nations and indigenous organizations to improve communication, information sharing and ongoing engagement on the LNG industry, the 16-page report suggests. It also proposes that the B.C. government do more to improve investor confidence in the province. British Columbia was recently ranked as the worst province in Canada for oil and gas investment, according to the Fraser Institute’s 2017 Global Petroleum Survey.

Opponents want Texas hearing on LNG project air quality permit

(The Brownsville Herald; Texas; March 26) - Opponents of the proposed Rio Grande natural gas pipeline near South Padre Island delivered nearly 2,000 public comments on March 26 to the Texas Commission on Environmental Quality headquarters in Austin. The pipeline would serve a proposed liquefied natural gas project. “There is tremendous opposition to LNG in the valley,” Rebekah Hinojosa, Rio Grande Valley Sierra Club organizer, said in a press release.

“Not only are local residents sending public comments, city council members representing them have passed resolutions opposing LNG, intervened on the company federal permit applications, and cities are demanding contested case hearings from the Texas Commission on Environmental Quality for the LNG air permits.” Rio Grande LNG has applied to the state and the Federal Energy Regulatory Commission for permission to build and operate an LNG export plant in the Port of Brownsville, Texas

The City of Laguna Vista voted March 19 to request a hearing by the state commission for Rio Grande LNG’s air permit. In its press release, the Sierra Club reported that Port Isabel City Manager Jared Hockema said that city, too, will request a hearing. “As a community that depends on tourism and commercial fishing, preservation of the environment is very important to us. The visual blight created by these plants, alone, could have a devastating impact on our economy,” Hockema said.

Fracking opponents say LNG revenues not worth environmental risks

(CBC News; Canada; March 26) - A proposed liquefied natural gas export terminal in Kitimat, B.C., is slated to add billions to provincial coffers, but critics think the environmental risks from fracking don't justify the financial boost. British Columbia Premier John Horgan last week announced plans to move forward with tax breaks for LNG developers. But getting at gas buried deep underground requires hydraulic fracturing and forceful fluid injections, propelling a medley of chemicals into the ground.

Critics say that without tough regulations on hydraulic fracturing, gas leaks — known as "fugitive" emissions — could cancel out the benefits of using cleaner-burning gas when compared to other fossil fuels. "When a well is drilled and fluids are injected into the well to release the gas, there's a big blowback of a massive amount of natural gas and volatile organic compounds that come out of the well before it's capped," said John Werring, a policy adviser for the David Suzuki Foundation.

Last month, the province's auditor general said meeting greenhouse gas reduction targets depends heavily on the size of the gas industry in the coming decades. But Werring thinks the "sheer volume" of fugitive emissions would cancel out any environmental benefits of using gas. "Unless they control emissions at source and put in some kind of strong regulatory mechanism ... and force this industry to clean itself up, they shouldn't be doing anything to expand the problem."

North Dakota flared 310 million cubic feet of gas per day in January

(Bismarck Tribune; ND; March 25) - As North Dakota oil production is poised to hit a record this year, the industry has major infrastructure challenges ahead. Reducing gas flaring is the most pressing obstacle as increasing volumes of gas production strain existing pipelines and gas processing capacity. Industry leaders say pipeline and processing plant construction in the Bakken Shale is expected to increase in 2018 in response to the infrastructure needs and stronger oil prices.

North Dakota produced an average of more than 1.17 million barrels of oil per day in January, just shy of the record 1.2 million barrels set in December 2014. The growth of oil production could be tempered, however, if the industry can’t keep up with capturing and processing gas. The state frequently breaks records with gas production, with nearly 2.07 billion cubic feet per day produced in January. That month, companies flared 310 million cubic feet of gas per day.

To address this challenge, the North Dakota Petroleum Council has reinstituted its gas capture and infrastructure task force with more than 60 people participating. Several projects have recently been announced, including a gas liquids pipeline and expansions of gas processing plants. Justin Kringstad, director of the North Dakota Pipeline

Authority, projects the state will need an additional 1 billion to 1.5 billion cubic feet per day in gas processing capacity, beyond the projects currently in development.

Alberta-to-B.C. oil line opponents still in court, even after 14 defeats

(Financial Post columnist; Canada; March 28) - Barely a year after threatening to use every tool it could to stop the Trans Mountain oil pipeline expansion from going ahead, the B.C. government's toolbox is looking pitifully empty. The setbacks have been big and embarrassing. The next one could be the ugliest. The province and its anti-pipeline allies are waiting for the result of lawsuits in federal court challenging the National Energy Board's permit. Arguments were made last fall; a ruling is expected this spring.

The record is not promising. Since 2014, the courts ruled in Trans Mountain's favor 14 out of 14 times in cases challenging the regulatory process or decisions related to the project, according to Kinder Morgan, the owner/operator that wants to triple the volume of the Edmonton-to-West Coast line. Yet the string of legal failures hasn't discouraged opponents from continuing to threaten more lawsuits. With so many tools having failed, the strategy seems to be to throw mud on the wall to see if anything sticks.

The latest case involved the province of British Columbia supporting the city of Burnaby denial of municipal permits for pipeline construction. Last Friday, the court dismissed the city's appeal of a National Energy Board ruling to ignore the city's obstructionist tactics. Undaunted, Burnaby Mayor Derek Corrigan said March 27 he intends to keep fighting and to go to the Supreme Court of Canada. The province has retained a lawyer to prepare a case to test the B.C.'s right to protect its land, coast, and waters.

First Nations in B.C. sue to block federal ban on oil tankers

(The Financial Post; Canada; March 22) - As protesters in British Columbia's Lower Mainland go berserk over the thought of more oil tankers serving the federally approved Trans Mountain pipeline expansion, First Nations in the Northern Coast are suing to stop efforts to ban the ships. The Lax Kw'alaams Band has filed in the Supreme Court of British Columbia against the federal and provincial governments. It seeks to declare the proposed federal ban "an unjustified infringement" on their aboriginal rights and title.

It also knocks British Columbia's establishment of the Great Bear Rainforest, which the oil tanker ban aims to protect but which the band argues was adopted in its traditional lands without its consent. The Lax Kw'alaams are among 30 First Nations that launched a GoFundMe campaign in January to challenge the tanker ban in court; it has raised $33,000 so far — a third of its target. Other First Nations that support the oil pipeline are expected to file similar lawsuits against the federal ban on coastal oil tanker traffic.

According to the 11-page claim filed March 22 by the Lax Kw'alaams, the tribes have title over a vast region of the Northern Coast and weren't consulted about the ban. For Canadian Prime Minister Justin Trudeau, who made indigenous reconciliation and the environment a priority, the lawsuit is a problem. First, it demonstrates yet again that many First Nations have their own ideas about reconciliation and environmental protection. They look at responsible energy development as a way to take charge of their destiny and become less dependent on government income and control.

Columnist says British Columbia not the only political hypocrite

(Calgary Herald columnist; March 24) - It's time to pull out the old BS meter. It's going to get a heavy workout tracking some Grade A political baloney. The B.C. government announced March 22 it would take action to get its stalled liquefied natural gas industry off the ground, offering to relinquish up to $6 billion in potential government revenues over four decades to get an export project built. Yes, this is the same government using every tool it can to block Alberta's oil industry from getting pipelines built to the coast.

B.C. Premier John Horgan wants to give the LNG industry relief from taxes, improving the economics for big-ticket energy investments. An LNG plant would provide an outlet to export gas into Asia, but it also would increase greenhouse gas emissions in British Columbia. How is this stance consistent with B.C.'s firm opposition to Kinder Morgan's Trans Mountain oil pipeline expansion, which would triple the amount of oil moving from Alberta to the coast? Alberta's premier called it environmental hypocrisy.

But Alberta might want to be careful about alleging hypocrisy. Its provincial budget will, for the first time, use some of its carbon tax dollars to fund operating expenditures. Back in 2015, the government said the tax would be used to help reduce Alberta's carbon footprint, such as new technology and transit. In last week's budget, the government changed course. Any carbon tax cash above the $30-a-tonne mark will go into the general fund, beginning in 2021, rising from $100 million to $1 billion a year by 2023. Political baloney is funny. It only seems to smell when the other side is frying it up.

Planned 2018-20 capital spending in Mozambique totals $9 billion

(OilVoice.com; March 23) - Capital spending on eight oil and gas fields in Mozambique will average $3 billion per year between 2018 and 2020, according to GlobalData, a leading data and analytics company. Ultra-deepwater projects will take more than 65 percent of the $9 billion of upstream capital expenditures in Mozambique.

GlobalData expects that Italy's Eni and ExxonMobil will lead Mozambique in capital spending, each investing $1.4 billion into the country's upstream projects by 2020. Both are actively involved in developing the country's offshore gas resources to feed liquefied natural gas exports. China National Petroleum Corp. will follow with $1.1 billion in investment between 2018 and 2020.