Oil and Gas News Briefs
Compiled by Larry Persily
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Malaysia’s Petronas buys into Shell-led LNG Canada project

(Reuters; May 31) - Malaysia’s state-owned oil and gas company Petronas said on May 31 it is buying a 25 percent stake in a Canadian liquefied natural gas export project, nearly a year after canceling its own gas project in British Columbia. Petronas said in a statement that it would buy a 25 percent equity stake in the Shell-led LNG Canada project, proposed for the port city of Kitimat, B.C. The purchase is expected to close in the next few months, Petronas said. It did not give a value for the acquisition.

The C$40 billion LNG Canada project will consist of two liquefaction trains in the initial phase, with a combined production capacity of almost 13 million tonnes per year of LNG. The plant may later be expanded. Petronas is joining as Shell and its partners prepare for a final investment decision on the project. Shell will continue as the biggest owner in LNG Canada, holding a 40 percent stake. Other partners include PetroChina (15 percent), Mitsubishi’s Diamond LNG (15 percent) and Korea Gas (5 percent).

Since scrapping plans for its own project, Pacific NorthWest LNG, near Prince Rupert, B.C., Petronas had been looking for ways to generate higher revenue from its North Montney gas assets in British Columbia. Petronas and its North Montney joint-venture partners are one of the largest gas resource owners in Canada, with more than 52 trillion cubic feet of reserves and contingent resources, the company said.

Petronas scrapped plans for its own project over concerns of a glut in the market and local permitting issues. Since then rising demand, particularly from China, has bolstered the market. “We expect the global LNG market to tighten post 2022,” said Prasanth Kakaraparthi senior analyst at Wood Mackenzie. The Shell-led venture is planning an investment decision this year with construction soon thereafter.

Mitsui plans $1.5 billion investment in Mozambique LNG

(Nikkei Asian Review; May 30) – Japanese trading house Mitsui & Co. plans to invest roughly $1.5 billion in a Mozambique LNG project to jointly develop what is reported to be the world's largest gas discovery in recent years. The company is shifting its trading focus from coal to liquefied natural gas as demand for environmentally friendlier energy sources grows. It plans to supply LNG from the African project to Tohoku Electric under a long-term contract and is negotiating with customers in Thailand and China as well.

Mitsui will work with the project's leader, Texas-based Anadarko Petroleum, along with Mozambique's state-owned oil company and others to develop the offshore field, which has an estimated reserve of 50 trillion to 75 trillion cubic feet of gas. The cost of field development and the initial phase of the LNG plant is estimated at $15 billion. Mitsui obtained an interest in the field in 2008, but its decision to invest in the LNG project had been on hold as oil prices had fallen.

The company now aims to take advantage of growing LNG demand in emerging countries. A final investment decision on the Mozambique project will likely be made by the partners within this fiscal year. LNG production is scheduled to begin around 2023, with an initial annual capacity of 12 million tonnes. Contracted buyers are being secured for roughly 9 million to 10 million tonnes, said Mitsui President Tatsuo Yasunaga.

Even in slack period, rising demand pushes up LNG prices

(Reuters' columnist; May 27) - The slack period for liquefied natural gas demand in the top-consuming market of Asia is usually the shoulder season between winter and summer, but the familiar pattern hasn't really repeated itself this year. The spot price of the fuel in Asia has been on a rising trend since the beginning of April, and hit $9.20 per million Btu at the end of last week.

What the numbers show is that while seasonality is still in place, the price lows aren't as deep as in previous years and the rally from that low appears to be steeper and higher. The easy explanation for this dynamic is China, which has continued to buy LNG at a frantic pace this year after a 46.4 percent jump in imports in 2017 to a total of 38.1 million tonnes, making it the world's second-biggest buyer behind Japan. China's LNG imports rose 58 percent to 15.8 million tonnes in the first four months of this year compared to the same period a year earlier, according to customs data.

This would put China on target to import 47 million tonnes for the full year, but this is likely to be a conservative estimate given LNG buying tends to ramp up in the months ahead of the peak winter demand. And it's not just China that is sucking up more LNG with South Korea making a bid to reclaim its former place as the world's second-biggest importer. In the first four months of the year, South Korea brought in 16.2 million tonnes of LNG, up 18.2 percent from the same period last year, according customs data.

China waiting to take larger stake if Total loses Iranian gas project

(Reuters; May 30) - French oil major Total has two months to seek an exemption from U.S. sanctions after Washington's withdrawal from the international nuclear deal, Iran's oil minister told state news agency SHANA on May 30. The minister, Bijan Zanganeh, said failure to secure a sanctions exemption for Total's work in Iran would mean that state-owned China National Petroleum Corp. could take over Total's stake in Iran's South Pars gas project, lifting its own interest from 30 percent to more than 80 percent.

The United States this month said it would impose new sanctions against Iran after abandoning the 2015 agreement that limited Tehran's nuclear ambitions in exchange for sanctions relief. "Total has 60 days to negotiate with the U.S. government," Zanganeh said. Total signed a contract in 2017 to develop Phase 11 of the South Pars field with an initial investment of $1 billion — a contract Tehran repeatedly has hailed as a symbol of the nuclear deal's success.

Total's CEO Patrick Pouyanne said last week that the only way for the company to continue its project in Iran would be to get a special waiver from the U.S. government, but added that "it's quite unlikely."

Residential natural gas prices could go up 20% in China

(Platts; May 29) - China's National Development and Reform Commission (NDRC) has announced plans to harmonize residential and industrial city-gate natural gas prices, as part of a push toward market liberalization that could see residential gas prices rise by as much as 20 percent by June 2019, according to a statement released May 25.

This will be the first time the NDRC has raised residential gas prices in eight years, a move that could boost domestic gas output and also ease pressure on state-owned LNG importers such as PetroChina and China National Offshore Oil Corp., recently faced with growing gas consumption and procurement costs. "LNG procurement costs in the international market have remained persistently high this year, which means sending imported LNG to downstream residential users is currently a loss-making business," said a gas distributor in southern China.

"Residential users will now have to pay up to match the price levels of industrial users, increasing price competitiveness," said a gas distributor in eastern China. The policy presents a major reform to the residential pricing system in an attempt to better reflect rising upstream procurement costs, while incentivizing upstream suppliers to boost both gas imports and domestic production. It's a "major win for PetroChina, who has lobbied for this for years," said Sanford C. Bernstein & Co. analysts including Neil Beveridge.

B.C. will continue fight against oil line, even with federal purchase

(Bloomberg; May 29) - British Columbia insists the sale of Kinder Morgan's oil pipeline to the Canadian government won't sway its opposition to a project seen as a lifeline to Alberta producers. But it may mean the province is powerless to stop the project that would boost the pipeline's capacity to 890,000 barrels a day. In an extraordinary move May 29, the federal government said it will buy the Trans Mountain pipeline system and its expansion project for C$4.5 billion (US$3.5 billion) to ensure it gets built.

The announcement ended weeks of speculation sparked by Kinder Morgan's threat to abandon a project facing "unquantifiable risk" as the British Columbia government has vowed to use every tool to block it. "Does this change anything? It might," said David Austin, a lawyer at Clark Wilson in Vancouver who has appeared before regulatory tribunals and advised on energy project development. "A senior government being subject to a regulation by junior government — typically that just doesn't happen."

British Columbia, the birthplace of Greenpeace, provides ocean access to get Canada's landlocked exports out of oil-rich Alberta. But the B.C. government — elected last year on a pledge to block the project — filed a legal case seeking jurisdiction to impose additional marine protection measures that would effectively derail the project. The federal government's acquisition "has not changed the course of the government of British Columbia" and the province has "no intention" of withdrawing its legal case, Premier John Horgan said. But he acknowledged: "It will be a federally owned project and that has some difference in terms of the paramountcy of the federal government."

Canada's decision to buy oil pipeline spurs renewed protests

(Vancouver Sun; May 29) – The Canadian government's plan to buy the Kinder Morgan oil pipeline was met with outrage May 29 by protesters in Vancouver and Burnaby, B.C., who vowed to step up their efforts to block the project. More than 1,000 people gathered near Science World on False Creek to cheer indigenous leaders as they excoriated Canadian Prime Minister Justin Trudeau and his cabinet. Meantime, activists at an encampment said they would stay put near the gates of Kinder Morgan's tank farm.

Anti-pipeline activists vowed to stay put at protest camps on Burnaby Mountain, near the end of the pipeline route to the coast, including Will George of the Tsleil-Waututh First Nation and watch-house camp leader, who said his group will not relent after the federal government's announcement. "It doesn't change anything, we will remain here, and we'll be the fierce opposition," George said. "We're going to increase our movement and demonstrations and put a call out to brothers and sisters across Canada."

The federal government decided to buy the controversial pipeline to ensure completion of Kinder Morgan's plans for a C$7.4 billion expansion to move more Alberta oil sands output to an export terminal. "They'll face a little more pressure because now taxpayers are going to have to foot the bill," said Johnny Lee, who continued to build new structures at the protest camps the day of the announcement. The Union of B.C. Indian Chiefs said they would continue their support for the protests on Burnaby Mountain.

U.S. pipelines, export facilities strain to keep up with shale output

(Bloomberg; May 30) - The U.S. shale surge is crashing headlong into a barrage of bottlenecks. From West Texas pipelines to Oklahoma storage centers and Gulf Coast export terminals, the delivery system for American crude is straining to keep up with soaring production. That's limiting the industry's ability to take full advantage of growing worldwide demand, with U.S. oil forced to take a $9-a-barrel price discount to international crude.

Barclays analysts on May 29 predicted “a new shock" for energy markets as a dearth of pipeline capacity near a key Oklahoma storage hub threatens the flow of oil. Pipeline shortages in Texas' Permian basin, meanwhile, may not clear until late 2019. “When you're forced to truck barrels about 500 miles to the Gulf Coast — yes, that's as inefficient as it sounds — the price differential ‘blows out' to levels seen recently," Raymond James & Associates analysts wrote in a May 29 note.

To account for higher shipping costs, crude from Midland, Texas, the Permian's unofficial capital, sold for $19 below Gulf Coast prices on May 30, according to data tracked by Bloomberg. Pipelines aren't the only problem. The U.S. has only one export terminal that can accommodate the 2-million-barrel supertankers preferred by Asian and European customers, and expansions at other ports aren't expected to be done before 2020, said Sandy Fielden, director of oil research at Chicago-based Morningstar.

LNG developer's timeline slipping for project in Oregon

(Platts; May 29) – U.S. regulators have not issued a scheduling order for Pembina Pipeline's second application for its Jordan Cove LNG export terminal, an executive said May 29, raising doubt about the company's plans to make an investment decision next year. During a presentation to investors in Toronto, Stuart Taylor, Pembina's senior vice president of marketing and new ventures, said there continues to be interest from Asian buyers in liquefaction capacity at the facility proposed for Coos Bay, Ore.

While talks continue with potential offtakers in China and elsewhere, Taylor said, there is uncertainty about when the Federal Energy Regulatory Commission will produce a draft environmental review and then a final review and decision. FERC in 2016 denied the previous permit application for Jordan Cove LNG, prompting the owner to make changes and reapply last year. Calgary-based Pembina said it will wait for all permits before making a final investment decision (FID) whether to proceed with construction.

"We don't have a (FERC) schedule at this time," Taylor said. Pembina took control of the five-year-old Jordan Cove project following its acquisition of Veresen in October 2017. The company previously said it expected to make an FID in 2019 and targeted starting production in 2024. To meet that timeline, it requested that FERC reach a decision by the end of 2018. However, FERC has yet to issue its schedule for the project's environmental review, likely forcing Pembina to delay its timeline.

Company drops interest in floating LNG import terminals

(Reuters; May 29) - Flex LNG, a liquefied natural gas shipping company and part of the nautical empire of Norwegian billionaire John Fredriksen, has dropped its interest in operating floating regasification units (FSRUs) due to project failures and low returns. The ships, which are cheaper to build than traditional onshore import terminals, have been lauded by analysts as transformative for the LNG industry by opening up emerging markets. But over the past year, several projects have either stalled or been delayed.

FSRU projects are still very complex — they tend to involve governments, state companies, private traders, shipbuilders, and FSRU owners and a host of contracts and financing — so they do not always come to fruition. "A while back, we looked at the FSRU market and it was very interesting with the (shipping) rates obtained," Flex LNG Chief Financial Officer Oystein Kalleklev told Reuters on May 29.

"Since then a lot of projects have failed and there are several open FSRUs in the market, which is depressing the rate, while the LNG (carrier) market is recovering and has very good fundamentals, so we'd rather focus our attention and capital on the LNG carrier fleet," Kalleklev said. U.S.-based Excelerate Energy and Golar LNG pioneered the development of FSRUs 15 years ago and there are now about 28 vessels stationed around the world, accepting, storing, and regasifying LNG cargoes.

Ghana signs 12-year deal to buy LNG from Rosneft

(Platts; May 30) - Rosneft gave Ghana's energy industry a boost May 25, signing a package of documents to supply natural gas to Ghana National Petroleum Corp. Russia's biggest energy producer will deliver about 1.7 million tonnes per year of liquefied natural gas (averaging about 250 million cubic feet per day) to the port of Tema over 12 years. Rosneft's gas supplies will satisfy a quarter of Ghana's energy demand and reinforce the country's position as a key LNG hub in the region.

"The signed documents open a new stage in the development of cooperation between Russia and Ghana," Rosneft CEO Igor Sechin said. "Further, the documents open up wide exploration, production and trading possibilities for the company." Ghana, a country of about 28 million people, is on West Africa's Gulf of Guinea. Rosneft and GNPC also signed a framework agreement that envisages a joint study of high-priority cooperation in the development of oil and gas fields, oil and oil products.

Gazprom rail subsidiary will get LNG-fueled locomotives

(The Independent Barents Observer; Norway; May 28) - Sinara Transport Machines, a Russian company based in Yekaterinburg, will build and deliver locomotives that run on liquefied natural gas for use on Gazprom's railway line in the Yamal Peninsula. The deal, which was signed during last week's St. Petersburg Economic Forum, calls for the company to deliver 24 locomotives by 2024 with the largest rated at 2,000 horsepower.

Sinara Group said the locomotives will be able to pull up to 8,200 tons of cargo, will be more environmentally friendly than conventional engines, and can help reduce fuel costs up to 40 percent from diesel. A Gazprom subsidiary, GazpromTrans, operates the 350-mile railway between Obskaya and Karskayab stations. The world's northernmost railway could in the future be extended to Kharasavey, as well as the port of Sabetta on the Yamal Peninsula. It opened in 2011 in connection with Gazprom's development of the Bovanenkovo gas field and is a key part of the company's logistics in the area.