Oil and Gas News Briefs
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BP plans end-of-year investment decision on African LNG project

(S&P Global Platts; Oct. 30) - BP and its partner Dallas-based Kosmos Energy are on track to take the final investment decision for their West African Tortue LNG project by the end of 2018, BP CFO Brian Gilvary said in a conference call with analysts Oct. 30. The project — based on an estimated 15 trillion cubic feet of gas in an area straddling the Mauritania/Senegal maritime border — is expected to produce its first gas in 2022.

In February, BP and Kosmos moved a step closer to a final investment decision on Tortue LNG after the governments of Mauritania and Senegal signed an intergovernmental deal on the development. Tortue LNG would have a capacity of 2.5 million tonnes per year in its first phase before moving to peak production of 10 million tonnes, Gilvary said. Tortue would add to the existing LNG export capacity in West Africa that include the six trains in Nigeria, plus Angola and Equatorial Guinea.

New FIDs in the global LNG industry have been few and far between in recent years due to relatively low LNG prices and the slew of new projects starting up, but more investment decisions are expected as the LNG market looks likely to tighten starting around 2021. FIDs in 2019 could include the addition of four mega LNG trains in Qatar, the Novatek-operated Arctic LNG-2 in Russia, the Anadarko-operated Mozambique LNG project, and a handful of plants in the United States.

PetroChina signs deal to double gas imports from Kazakhstan

(Nikkei Asian Review; Oct. 28) - Annual gas exports from Kazakhstan to China are set to double in 2019, as Beijing moves to cushion the impact of its trade war with the U.S. Kazakhstan is expected to send 350 billion cubic feet of gas China's way next year, up from 175 bcf, based on an agreement that KazTransGas and PetroChina signed Oct. 12. Beijing is seeking alternative supplies now that liquefied natural gas imports have been caught up in the tit-for-tat tariff battle with Washington. The 350 bcf of Kazakhstan gas represents about 4 percent of China’s total expected gas demand in 2018.

China also wants a buffer against geopolitical instability on sea routes in Southeast Asia, which could threaten supplies of Middle Eastern LNG. The five-year deal with Kazakhstan became possible after three high-tech compressor stations were built on the 900-mile Beyneu-Bozoy-Shymkent pipeline from western to southern Kazakhstan, tripling its capacity. The line connects to the 1,136-mile Central Asia-China pipeline, which sends gas from Turkmenistan and Uzbekistan to China via Kazakhstan.

China’s biggest pipeline gas supplier, Turkmenistan, delivered 1.12 trillion cubic feet in 2017, according to BP’s annual energy statistics report, while Uzbekistan exported 120 bcf to China. Ruslan Izimov, head of the China and Asian research program at the state-run Institute of World Economics and Politics in Kazakhstan, said the country produces enough of gas to increase its exports to China and still meet domestic needs. "The previous volumes of Kazakhstan's gas exports to China were conditioned not by the lack of sufficient volumes but the limited capacity of its pipelines," Izimov said.

Chinese buyers feeling ‘reluctant’ to sign up for U.S. LNG

(Reuters; Oct. 30) - The delay of a U.S. Gulf Coast liquefied natural gas export project has crystallized fears that the U.S. trade battle with China is hampering efforts to line up buyers needed to move ahead with the multibillion-dollar ventures. The United States is trying to position itself as the dominant provider of the fuel as Asian nations shift away from dirtier power sources like coal, and this month's approval of a giant Canadian project led by Shell bolstered overall enthusiasm for the sector in North America.

But that optimism took a hit Oct. 29, when Australia's LNG Ltd. delayed until next year a decision whether to build its Magnolia LNG plant in Louisiana due to problems lining up Chinese buyers. It comes as bankers and analysts are questioning if new U.S. projects will pass muster with investors. "Chinese buyers have got to feel reluctant to commit to U.S. capacity when the U.S. government sees trade as a means of exerting political leverage," said Bob Ineson, managing director of North American gas at IHS Markit.

China’s tariffs on U.S. LNG are having a chilling effect, said two U.S. industry sources. China is not signing any long-term deals with U.S. projects until the spat is resolved, they said. That's not good news when there are at least six newbuilds or expansions in North America on the cusp of a construction decision, with a handful more eyeing go-aheads by 2020. With so many horses in the race, big builds backed by established players or expansions of existing export facilities will likely fare better than upstarts.

PetroChina lost $2.86 billion on gas imports in first 9 months of 2018

(Reuters; Oct. 30) - Third-quarter net profit for PetroChina, Asia’s largest oil and gas producer, surged to its highest since September 2014, boosted by higher global prices, the company said Oct. 30. And though the company’s natural gas sales volumes were robust during the first nine months of the year, PetroChina recorded net losses of 19.96 billion yuan ($2.86 billion) on imports of pipeline gas and liquefied natural gas, widening from 13.4 billion yuan during the first six months of the year, the company said.

While PetroChina enjoys decent margins on the sale of domestic gas production, sales of more expensive imported gas are often booked at a discount due to the country’s regulated prices. With demand rising for oil and gas, PetroChina's crude oil production in the first nine months of this year rose to 663.3 million barrels, up 0.5 percent from the same period in 2017. Gas output was up 4.8 percent year-on-year to 2.66 trillion cubic feet. Gas imports, however, increased at an even higher rate to meet growing demand.

Despite the loss on gas imports, net income climbed for the first three quarters of 2018 climbed 177 percent from the same period a year earlier to 48.12 billion yuan ($6.91 billion), the company said. China's second-largest oil refiner processed 825.6 million barrels of crude in the first nine months of the year, up 10.9 percent from a year earlier.

Cheniere's Corpus Christi LNG terminal close to first cargo

(S&P Global Platts; Oct. 30) - Cheniere Energy is planning to hold a commissioning event Nov. 15 at its LNG export terminal in Texas as it inches closer to shipping its first cargo, the CEO of the Port of Corpus Christi Authority, Sean Strawbridge, said Oct. 30. Strawbridge made the announcement at a conference in London. A Cheniere spokesman declined to comment. Cheniere has been flowing feed gas to the plant since August, as it tests out the equipment.

The Federal Energy Regulatory Commission on Oct. 30 approved Cheniere's request to export any LNG produced in commissioning activities at the plant. FERC approved Cheniere to begin commissioning one of its storage tanks and a mooring jetty. Typically, at start-up of LNG facilities, commissioning cargoes occur before the facility enters full commercial service. FERC has not yet approved "commencement of service."

Three liquefaction trains are under construction at Corpus Christi with a total capacity of 13.5 million tonnes per year. It will be Cheniere's second LNG facility and only the third such facility in the U.S. Cheniere's terminal in Sabine Pass, Louisiana, started up in February 2016, and Dominion Energy's Cove Point, Maryland, plant went online this past spring. There are four liquefaction trains in operation at Sabine Pass with a fifth set to go online before the end of the year. Planning is underway for a sixth train. Three other LNG terminals are under construction in Texas, Louisiana and Georgia.

U.S. maybe could help fund LNG export project in Mexico for U.S. gas

(S&P Global Platts; Oct. 31) – A proposed liquefied natural gas export facility on Mexico's Baja California Peninsula could get a boost if discussions underway result in partial U.S. government funding using new legal authorities. The Department of Energy is working with the Mexican government and is in discussions with the U.S. Overseas Private Investment Corp. about the possibility of funding facilities for the export of U.S.

gas or coal, a top Department of Energy official said Oct. 31. The potential LNG export project 55 miles south of San Diego would connect to U.S. gas supplies by pipeline.

The effort comes as the Trump administration has steadily promoted U.S. LNG exports as part of a broader energy, security and trade policy. LNG exports are seen as a key source of demand growth for the U.S. natural gas sector. Enactment in early October of the federal BUILD Act will allow a revamped version of the Overseas Private Investment Corp. to support projects with equity as well as debt and to double its total participation. U.S. officials have described the law as helping spur private-sector development.

"We're going to be putting together a list of potential projects that we would like to see OPIC consider," Energy Department Deputy Secretary Dan Brouillette said in an interview with several reporters. One project that looks to fit the initiative is Energia Costa Azul, where Sempra Energy subsidiary IEnova has been exploring options for development of an LNG export terminal. The company is looking at adding liquefaction and export capability to a 10-year-old import terminal owned by Sempra and Shell.

LNG Canada says tax structure a big reason for go-ahead decision

(Business in Vancouver; Oct. 26) - The British Columbia government's decision to scrap the previous administration's special LNG taxes and adopt a "competitive tax structure" helped the partners to approve the project for construction, said Rob Dakers, commercial director for the C$40 billion LNG Canada venture. Reaching the investment decision Oct. 1 was an eight-year process with multiple hurdles including a downturn in oil, gas, and LNG prices that put the project in a holding pattern. "If we had known all the difficulties at the outset of this project, I think we might have reconsidered," Dakers said.

One hurdle that remains is regulatory. Based on a jurisdictional challenge, the National Energy Board is considering whether the 415-mile pipeline from northeastern B.C. to the LNG plant in Kitimat, B.C., should be a federal decision or if the provincial approval was correct. If the NEB decides it has jurisdiction, the environmental and regulatory review could delay the start of construction. Shell, the lead partner in LNG Canada, has said it plans to start work in Kitimat immediately. TransCanada will build the pipeline.

The C$40 billion estimate includes the initial two liquefaction trains at the plant to produce about 13 million tonnes per year of LNG but with capacity at the site to double production. The LNG plant will add up to almost half the total cost. A good chunk of the spending outside of Canada will be for the prefabricated LNG modules, which will be built in China and Southeast Asia. "The largest fabricated steel structures in Canadian history will arrive in Kitimat" in 2021, said LNG Canada project director Steve Corbin.

Indian partner plans $800 million equity stake in Mozambique LNG

(The Hindu Business Line; India; Oct. 28) – India's state-run Bharat Petroleum Corp. will invest as much as $800 million equity in a liquefied natural gas project in Mozambique, where it holds a 10 percent stake as the project moves closer to a final investment decision. It will be Bharat's largest investment in an upstream project overseas and would be in addition to the $700 million it paid for a 10 percent interest in the Rovuma Offshore Area 1 concession where about 75 trillion cubic feet of gas was discovered.

Anadarko is the main operator of the gas field, with a 26.5 percent interest. The Area 1 consortium is developing an initial onshore LNG project of two liquefaction trains with total capacity of 12.88 million tonnes per year. To reach FID, the partners want a reasonably stable and robust contractual and fiscal framework with the Mozambique government; long-term LNG sale-and-purchase agreements for at least 9 million tonnes per year to back up financing for the project; and funding for the $20 billion project. Other partners include companies from Japan, India, Thailand, and Mozambique.

The partnership has concluded the legal and contractual framework with the Mozambique government and expects to reach its sale-and-purchase benchmark by the end of 2018 or early 2019. "Once that is finalized, we are good to reach the FID stage … sometime next year in the first half or second half," a Bharat executive said.

Oman LNG starts negotiations to replace expiring contracts

(S&P Global Platts; Oct. 29) - Oman LNG is inviting buyers to begin negotiations for contractual deliveries starting in 2025, a company official said Oct. 29, as the country is faced with the expiration of more than 8 million tonnes per year in long-term deals. The current contracts, largely based on destination-restricted, oil-price-linked contracts, are unlikely to be extended as LNG buyers increasingly prioritize flexibility and risk management over long-term supply security, Oman LNG's CEO Harib al-Kitani said.

"Buyers are now attracted to [suppliers] that can give them the lowest price, no more long-term relationships," al-Kitani said at the Gas and LNG Middle East Summit in Oman. Oman LNG has been moving away from long-term supply contracts, citing an increasingly fluid trading environment. The exporter will have sold more than 40 spot cargoes over the course of 2018, he said.

More than 7 million tonnes per year in long-term contracts from Oman, mainly with Japanese and South Korean utilities, are due to expire by 2025, and another 1.5 million tonnes per year by 2026. Oman LNG is on track to receive additional gas from BP's Khazzan field by 2025, which will add an extra 25 to 30 years to the export plant, al-Kitani said. Oman LNG went online in 2000 with two liquefaction trains, adding a third in 2005. Total capacity is 10.4 million tonnes per year.

Oman to boost LNG capacity 10% by 2022

(Bloomberg; Oct. 29) - Oman will increase its liquefied natural gas production capacity by 10 percent over the next four years, joining a wave of expansions to meet rising global demand. Capacity will be increased to 11.4 million tonnes per year by 2022, Harib al-Kitani, chief executive officer of Oman Liquefied Natural Gas, said Oct. 28. The expansion will be achieved by "debottlenecking" existing production facilities, he said. Oman opened a two-train liquefaction plant in 2000, adding a third train in 2005.

Global LNG demand is expected to rise by more than a third over the next decade to 416 million tonnes a year, according to Bloomberg New Energy Finance. Driven by rising Chinese imports and new buyers like Vietnam and Pakistan, gas producers from Qatar, Australia, Africa, and the United States are boosting output to capture a bigger share of the market. Oman hasn't exceeded 85 percent of its LNG production capacity in the past five years, according to Oman LNG. Production fell to 75 percent in some years as domestic gas demand for power generation and industrial uses surged.

But new gas fields, some which use the same technology that unlocked shale deposits in the U.S., have boosted supplies, allowing Oman to operate its LNG plants at full capacity this year and also plan for expansion. Rising export volumes allowed Oman LNG to sell spot cargoes and benefit from higher prices this year, al-Kitani said. Oman's gas fortunes have changed, shifting from considering imports in 2015 to now boosting exports, fed by the bounty from Oman's onshore Khazzan gas field operated by BP.

Japan likely to miss 2030 nuclear power target

(Reuters; Oct. 31) - Japan's resurgent nuclear industry will miss a government target of providing at least a fifth of the country's electricity by 2030, a Reuters analysis shows. With eight reactors running and one more set to come online in November, nuclear has this year overtaken non-hydro renewables in power output for the first time since the 2011 Fukushima catastrophe, when all of the country's nuclear plants were idled. The turnaround has exceeded expectations of analysts and the utilities themselves.

Yet operators can expect as few as six units to restart in the next five years, and fewer than 20 by 2030, the analysis shows — far short of the 30 needed to hit the government target. Based on the analysis, Japan may get about 15 percent of its power from nuclear in 2030, compared with a government target of 20 to 22 percent. "It's impossible to meet the target," said Takeo Kikkawa, an energy studies professor at Tokyo University of Science, who sat on an official panel that reviewed energy policy this year.

Nuclear remains an unpopular energy option in Japan. The industry's 54 reactors provided about 30 percent of the country's electricity before the shutdown. The Nuclear

Regulation Authority created new safety standards after the disaster highlighted failings in the industry and its overseers. All reactors must be relicensed before restarting. The government estimates costs for replacement fuel — mostly liquefied natural gas — to compensate for idled reactors totaled 14.6 trillion yen ($130 billion) in the past six years.

Southeast Asian nations consider standardized LNG contract

(S&P Global Platts; Oct. 31) - The Association of Southeast Asian Nations (ASEAN) and Japan have furthered their push for destination flexibility in long-term LNG contracts with standardized clauses, although implementation is likely to take time. Buyers have been pushing to gain control of LNG cargoes in contracts extending up to 20 years that were restricted to single destinations by large suppliers like Qatar. This ensured the gas could not be resold, limited the growth of trade and slowed the commoditization of LNG.

Last year, Japan's Fair Trade Commission declared restrictions on reselling contracted LNG were uncompetitive and this year the European Commission opened an antitrust investigation into restrictions on the free flow of gas sold by Qatar Petroleum in Europe. However, industry participants have raised questions about how new contracts would be introduced and implemented, and the extent to which they will be compatible with commercial realities. It is also unclear whether existing contracts would be altered or only long-term LNG contracts that are being renewed would be renegotiated.

The ASEAN Council on Petroleum has published a standardized LNG contract without destination restrictions after conducting commercial and legal studies, said Paramate Hoisungwan, chairman of the council's Policy Research and Capability Building Taskforce. The document was circulated to its member states including all key national oil companies in Southeast Asia. The proposal treats the 10 ASEAN nations as a single market, where the seller can deliver an LNG cargo to any terminal in Southeast Asia.

FERC issues draft EIS for another Gulf Coast LNG project

(Rigzone; Oct. 29) - The Federal Energy Regulatory Commission on Oct. 26 issued its draft environmental impact statement for Texas LNG's proposed liquefied natural gas production and export facility in the Port of Brownsville, Texas. The Houston-based company plans an initial project phase of 2 million tonnes per year capacity with the potential to double that.

Texas LNG is looking for FERC to issue the final EIS in March 2019, with the commission voting to authorize construction by June 2019. The company is planning for a final investment decision late 2019 and first gas in early 2023. South Korea's

Samsung Engineering owns a minority equity stake in Texas LNG and would oversee engineering, construction and procurement.

Texas LNG is the third Gulf Coast project to receive its draft EIS from FERC this month. It joins Rio Grande LNG, which also proposes to build on a site in the Port of Brownsville, and NextDecade, which proposes an LNG terminal in Louisiana.

Four LNG carriers move through Panama Canal to U.S. in one day

(Hellenic Shipping News; Oct. 29) – For the first time ever, four liquefied natural gas carriers moved through the expanded Panama Canal in the same direction on the same day. The ships were traveling to U.S. terminals Oct. 29, though they had different points of origin in Chile, South Korea, and Hong Kong. In the past month, an average 7.5 LNG carriers per day have transited the canal, which can handle the ships after a $5 billion expansion was completed in 2016. Four LNG carriers transited the canal Oct. 1, but two were headed to the Atlantic and two were going to the Pacific. LNG export terminals are operating in Louisiana and Maryland, with four more expected to start up by next year.

Naturally stressed zones more prone to fracking-induced quakes

(The Canadian Press; Oct. 29) - Research into why fracking causes earthquakes in some areas but not others may have found an answer. A paper published Oct. 29 in Geophysical Research Letters suggests the likelihood is heavily influenced by how stable the ground was before the energy industry showed up. That could help explain why western Alberta and northeastern B.C. have a high rate of fracking-induced earthquakes while Saskatchewan, which has thousands of fracked wells, doesn’t.

Scientists have known that injecting fluids to dispose of wastewater or to release oil and gas from rock formations can cause earthquakes. Regulatory records show there have been hundreds of seismic events since 2015 in a heavily fracked area of northwestern Alberta. Alberta’s energy regulator has tightened restrictions on fracking in the area. Meanwhile, other regions see thousands of wells fracked while the earth remains still.

“The background tectonic loading rate appear to be one of the predominant factors,” said Honn Kao, a seismologist with the Geological Survey of Canada and lead author of the paper. The shifting of tectonic plates creates zones where tension is concentrated and stored like a coiled spring. The sudden shattering of rock through fracking or the injection of high-pressure wastewater releases that pent-up energy in the form of an earthquake. Of all the fracking-induced quakes the researchers studied, 98 percent occurred in an around the Rockies where the subsurface rocks are naturally stressed.

Small tremor prompts U.K. driller to suspend fracking for 2nd time

(Reuters; Oct. 29) - British shale gas company Cuadrilla has paused fracking at its Preston New Road site in northwest England for the second time in two weeks, after a tremor with a magnitude of 1.1 was detected Oct. 29, the company said. The tremor is the third recorded at the Lancashire site over a 0.5 magnitude limit, set by the government, since the company restarted fracking for natural gas on Oct. 15.

The company first attempted to frack gas near the coastal town of Blackpool in northwestern England in 2011, but the work led to a 2.3 magnitude earth tremor. It said then that the quakes were caused by an unusual combination of geological features, but the tremors led to an 18-month nationwide ban on fracking while further research was carried out. The government has since introduced a traffic-light system that immediately suspends work if seismic activity of magnitude 0.5 or above is detected.

Cuadrilla said earlier this month it expects to spend at least three months fracking two wells to determine whether full-scale gas production would be viable.

BP profits from refining more low-cost Canadian crude

(Bloomberg; Oct. 30) - BP ran its oil refineries at the hardest rate in 15 years during the third quarter, racing to profit from unusually cheap Canadian crude. The oil major said its refining business delivered adjusted profit before interest and taxes of US$2.11 billion in the third quarter, up from US$1.46 billion during the second quarter. Much of the increase came from refining lower-cost crude it purchased at a steep discount.

BP is able to profit from cheaper Canadian crude better than its rivals after it spent US$4 billion in 2012 and 2013 to overhaul its largest refinery, located in Indiana just 17 miles southeast of downtown Chicago, to process the low-quality crude that arrives via pipeline from Canada. The refinery can now run on a diet of 85 percent Canadian crude, compared with 20 percent before. With capacity to process 413,500 barrels a day, it is the largest inland refinery in the United States.

Western Canadian Select crude traded at a discount of about US$28 a barrel to benchmark West Texas Intermediate crude during the third quarter, compared with US$10.50 a barrel in the same period last year. Booming Canadian production overwhelmed pipeline capacity and the discount widened to a record of US$52.40 a barrel in early October. BP said its refineries ran at a utilization rate of 96.3 percent during the third quarter, the highest since 2003.

Canadian producers moved 230,000 barrels by truck in August

(Bloomberg; Oct. 31) - The highways of Saskatchewan show just how desperate Canadian oil producers are to get their crude to market. Tanker trucks laden with oil are journeying almost 500 miles to pipeline and rail terminals. It's a phenomenon that Ken Boettcher, president of Three Star Trucking in Alida, Saskatchewan, started to see three or four months ago when oil shippers around Kindersley, near the Alberta border, began requesting trucks to move their crude, in some cases, as far away as North Dakota.

Pipeline bottlenecks are pushing Canadian crude prices to the lowest in at least a decade, which has made shipping oil by truck more cost effective. At Hardisty, Alberta, heavy Western Canadian Select sold for US$52.40 a barrel less than West Texas Intermediate crude futures earlier this month, the biggest discount in Bloomberg data going back to 2008. Almost 230,000 barrels were exported by truck in August, the most in data going back to January 2015, according to data provided by Statistics Canada.

Every month since December, more than 100,000 barrels have been exported by truck. Pipeline constraints in Canada, combined with a surge in oil sands production, have created more demand for oil trucks. As bottlenecks have worsened, crude by rail has picked up. A record 229,544 barrels a day was exported on trains in August, National Energy Board data shows. But the rise in crude-by-rail exports has been limited as rail companies demand long-term agreements at fixed volumes. Some oil-producers may be turning to trucks out of reluctance to submit to the terms of rail companies.