Oil and Gas News Briefs
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Oil-by-rail volumes expected to keep growing in Alberta

(Bloomberg; Dec. 19) - Canadian shipments of crude by rail are poised to surge next year, spurring investment in new loading terminals. Crude-by-rail capacity in Alberta is expected to grow by an additional 100,000 barrels a day in December after the provincial government eased production limits for oil moved by train, the Energy Ministry said Dec. 18. Western Canadian rail loadings already had climbed to 411,000 barrels a day in November despite a week-long Canadian National Railway worker strike.

Calgary-based Gibson Energy became the latest company to announce new rail projects in response to the rising demand. The company on Dec. 18 said it plans to build a million barrels of new storage tanks at its Hardisty, Alberta, terminal, where it also plans to construct and operate a diluent recovery unit that will allow it to send more of the thick oil sands crude by train. And SunCoke Energy and Summit Terminaling are developing a rail terminal to deliver Canadian heavy crude to Louisiana refineries.

Rail has become critical to Alberta oil exporters after pipelines filled to capacity two years ago, causing prices to collapse and prompting the provincial government to impose limits on some oil production at the start of the year. With no new pipelines scheduled to be built before late next year and projects such as the Trans Mountain pipeline expansion from Alberta to a coastal export terminal in British Columbia facing legal challenges, exports by train have picked up.

‘Freedom gas’ wins award as worst phrase of 2019

(Bloomberg; Dec. 19) - The U.S. Department of Energy has won an unusual accolade — inventing the worst phrase of 2019. The department’s rebranding of liquefied natural gas as “freedom gas” took the top honor from Australia’s Plain English Foundation, edging out competing stinkers “voluntary employee separations” and “non-consensual sex.” America’s growing muscle as an energy exporter has been used as a foreign policy tool by the Trump administration, which is trying to block a gas pipeline from Russia to Germany and touts U.S. LNG as an alternative source of supply for Europe.

The phrase Freedom Gas appears to have made its debut in May, tucked into an Energy Department announcement about approving the expansion of a U.S. LNG export project, which it said “is critical to spreading freedom gas throughout the world by giving America’s allies a diverse and affordable source of clean energy.” There was also a reference to “molecules of U.S. freedom.”

“When a simple product like natural gas starts being named through partisan politics, we are entering dangerous terrain,” said Neil James, executive director of the Australian foundation, which seeks to encourage clear communication. “Why can’t natural gas just remain natural gas?” Previous winners include 2017’s “alternative facts” and Gwyneth Paltrow’s “conscious uncoupling” to describe her separation from Chris Martin in 2014.

Partners in Russian Far East LNG project expect decision in 2021

(Nikkei Asian Review; Dec. 20) – The Japanese government and a group of companies are closer to launching a new liquefied natural gas project in the Russian Far East in a move that may shift the power dynamics of the growing global LNG market. The project involves ExxonMobil, Russian state oil company Rosneft and Sakhalin Oil and Gas Development, a Japanese consortium that counts Japan's Ministry of Economy, Trade and Industry, Itochu, Japan Petroleum Exploration, and Marubeni as shareholders.

The parties are in talks to produce LNG from the Sakhalin-1 project, which has been producing crude oil since 2005 while waiting for a commercially viable plan to produce and market gas. The proposal is to send gas via a 125-mile pipeline to the Russia mainland, where a liquefaction plant would produce 6.2 million tonnes of LNG a year, nearly a tenth of Japan's total LNG procurement.

An earlier plan was for the Sakhalin-1 partners to sell their gas through the Sakhalin-2 project, a 10-year-old LNG terminal on Sakhalin Island owned by Russian gas company Gazprom and Shell. But a disagreement over pricing scuttled that option, turning the Sakhalin-1 partners toward their own LNG venture. Rosneft CEO Igor Sechin confirmed the decision with Japanese counterparts during a recent visit to Japan. The project is expected to cost $9.1 billion. The parties plan to award an engineering design contract in the spring of 2020 with a final investment decision in 2021 and start-up in 2027.

Opponents file appeals against Tacoma LNG project

(KNKX radio; Dec. 20) - The Puyallup Tribe and a coalition of environmental groups have filed separate appeals against the permit for a controversial liquefied natural gas production and storage facility at the Port of Tacoma. Puget Sound Energy's project got approval from the Puget Sound Clean Air Agency on Dec. 10. It's meant to replace marine bunker fuel with cleaner-burning LNG and serve area utilities on peak-demand days. The appeals were filed Dec. 20 with the state pollution controls hearing board.

The law firm Earthjustice is representing the environmental groups. The appeal alleges that the project's environmental impact statement is flawed, especially regarding how it accounts for greenhouse-gas emissions. Regardless of the appeals, work continues on the $310 million project. “We expect the Tacoma LNG project to be operational in 2021,” PSE spokeswoman Janet Kim said on Dec. 11.

“The tribe continues to be frustrated that the Puget Sound Clean Air Agency is not considering the appropriate science and putting dangerous impacts on an already disproportionately impacted community,” David Z. Bean, chairman of the Puyallup Tribal Council, said Dec. 19.

Company plans small-scale LNG plant in northeastern B.C.

(EnergeticCity; Fort St. John, BC; Dec. 19) - Plans are in the works for a small-scale liquefied natural gas plant to operate near Fort Nelson, British Columbia, Stuart Crawford, project manager of Cryopeak, said in a presentation to a regional council. The project is planned in two phases, starting with production of 25,000 gallons per day of LNG and later ramping up to approximately 65,000 gallons per day. At full production, the plant would consume almost 5.5 million cubic feet of natural gas per day.

K2LNG is a Canadian subsidiary of Cryopeak, focused on providing natural gas to remote communities and mines in northern Canada, transporting the fuel from a hub in Fort Nelson. The company expects the plant to be in operation by the end of 2020. Fort Nelson is a supply and service hub for the rich gas fields of northeastern British Columbia, about 100 miles from the borders with Alberta and the Yukon Territory.

New tanker encounters thick ice in Russian Arctic

(The Barents Observer; Norway; Dec. 20) - Ice conditions in Russia’s Arctic waters were increasingly difficult as the 751-foot-long condensate tanker Yuri Kuchiev sailed on its maiden voyage this week through the Kara Sea toward the loading terminal on the Yamal Peninsula. The tanker is capable of breaking 6-foot-thick ice. According to ice data from the Russian Arctic and Antarctic Research Institute, the northern parts of the Kara Sea, as well as parts of Ob Bay at Yamal, now have ice closer to 7 feet thick.

The Yuri Kuchiev was designed to work in the Russian Arctic. It was built in a Finnish shipyard and owned by Dynagas, a Greek company. According to the Northern Sea Route Administration, the tanker is due to arrive at Yamal this month. The Yuri Kuchiev is named after the captain of nuclear-powered icebreaker Arktika. In 1977, Kuchiev sailed the Arktika to the North Pole.

Work stops on Russia-to-Germany gas line after U.S. sanctions

(Wall Street Journal; Dec. 21) - U.S. sanctions have temporarily stopped the construction of a pipeline that is set to increase the flow of natural gas directly from Russia to Germany under the Baltic Sea. The sanctions would target all businesses and individuals participating in construction of the pipeline and would effectively cut off those companies from doing business in the U.S. or with U.S.-linked companies.

Washington has long opposed the project on grounds that it would increase Germany's and Europe's dependence on Russian energy and boost revenues for the Kremlin. Allseas Group, the Swiss-based contractor building the pipeline on behalf of a group headed by the Russian state-owned Gazprom, said it would suspend work on Dec. 21, hours after President Trump signed a bill that included a provision to unleash sanctions targeting any entities working on the link. As of Dec. 19, when work was about to cease, the project was about one month from completion, an Allseas spokesman said.

The $10.5 billion Nord Stream 2 pipeline, which runs parallel to the existing Nord Stream pipeline and will double the capacity for direct Russian gas exports to Germany, has long caused tensions between Washington and Berlin. "The federal government rejects such extraterritorial sanctions that affect German and European companies and interfere in our internal affairs," a spokeswoman for Chancellor Angela Merkel said in a statement issued in reaction to the stoppage of the work on the pipeline.

Columnist questions lack of new pipelines in Canada

(Financial Post columnist; Canada; Dec. 19) – The Russian and Chinese governments this month jointly turned on a 2,000-mile gas pipeline that runs from Siberia to Northeast China. The Power of Siberia line is "a symbol of Moscow's diplomatic pivot toward Beijing at a time of worsening relations with the West," the London Financial Times noted. It was that. But it was also a real-time rebuttal to critics of Canadian pipelines.

Pipelines have been a political football since at least 2009 when Barack Obama entered the White House. Over the next eight years, he artfully blocked the Keystone XL line from moving Alberta oil to the U.S. Gulf Coast. Meanwhile, in Canada, pipelines have been killed by politics and regulation or delayed by court judgments, while Canada's main competitor for energy investment, the U.S., has barreled ahead with new pipelines.

From 2014 th rough summer 2019, four Canadian oil lines were built or are now under construction. Their capacity is 890,000 barrels a day. In the U.S. during that time, 68 oil lines have been completed and five more started — representing capacity of 16 million barrels per day. As for natural gas, the one pipeline Canada has under construction will add 2.1 billion cubic feet per day in new capacity. In the U.S. since 2014, 118 gas lines have been completed and another 25 are under construction, a total of 58.5 bcf a day.

The question is whether the majority of Canadians who support responsible energy development will one day see renewed investment in Canada’s own energy sector.

Louisiana LNG developer negotiating with major buyer/investor

(S&P Global Platts; Dec. 18) - Tellurian is negotiating with a large buyer to take a $2 billion partnership stake in its Driftwood LNG export project and give it the remaining equity it needs to begin full construction of the Louisiana terminal's first phase, CEO Meg Gentle said Dec. 18. While Gentle wouldn't name the company, she said the potential customer is among the cadre of utilities, commodity traders, portfolio players and national and international oil companies that Tellurian has been courting.

The talks, she said, involve the right to lift 4 million tonnes per year of supply from Driftwood for the life of the facility, at an equity price of $500 per tonne. If a firm agreement is reached with the buyer, and Tellurian finalizes a preliminary agreement reached earlier this year with India's Petronet, the developer will have the 12 million tonnes per year in equity partnerships, or $6 billion, it needs to advance the project.

Tellurian's pitch — unlike most other U.S. developers that rely on traditional long-term offtake contracts to get to a final investment decision — calls for buyers to make a minimum $500 million equity investment in the holding company that includes Driftwood and four gas pipelines. That would give buyers the right to lift 1 million tonnes per year of LNG from Driftwood for the life of the facility. Investors would also be responsible for underwriting a portion of the total project debt proportional to their volume commitment.

Tellurian expects to finish its commercial efforts for Driftwood's first phase by the end of March and complete project financing by the end of May. Tellurian has previously said it was working with approximately 20 banks. It expects to issue a full notice to proceed to construction contractor Bechtel sometime after getting financing, Gentle said.

PetroChina low bidder to supply LNG cargo to Pakistan

(Bloomberg; Dec. 18) - One of China’s top liquefied natural gas buyers has offered to sell a cargo on the cheap — and in the throes of winter — a fresh sign of the massive global oversupply that has weighed on the market. PetroChina offered the lowest price in Pakistan LNG’s tender seeking a cargo for Feb. 16-17 delivery. This follows a move by China National Offshore Oil Corp. (CNOOC), the largest buyer, to swap multiple December and January cargoes for later supply to help manage brimming inventories.

Chinese companies stocked up on LNG for the heating season but warmer temperatures have curbed demand at the same time global supply is ramping up at new projects. Prices in North Asia are more than 40 percent lower than they were a year ago, and none of China’s major buyers are currently seeking prompt deliveries for the winter, according to traders surveyed by Bloomberg.

PetroChina offered the cargo to Pakistan at an 8.594 percent slope to Brent oil, beating out three other firms. At $65 oil, that would mean LNG landed at $5.58 per million Btu. Pakistan, which doesn’t always award its tenders, will notify PetroChina of its decision by Dec. 30. This is at least the second time PetroChina has offered the cheapest price in a Pakistan tender. The company, which has traditionally been a buyer but has trading ambitions, was low bidder on a Nov. 30 cargo, which Pakistan later chose not to take.

Japanese utilities will boost LNG buys when nuclear plants go off-line

(Reuters; Dec. 20) - Japanese utilities face hundreds of millions of dollars in extra fuel costs in 2020 as they buy additional liquefied natural gas and coal while nearly half the country’s working nuclear reactors go off-line for government-ordered security upgrades. Analysts expect four of Japan’s nine operating reactors to close temporarily next year while utilities make changes required under stricter anti-terrorism rules adopted after the 2011 Fukushima disaster.

Operators Kyushu Electric and Kansai Electric are among the utilities that have been mandated to build emergency off-site control rooms to serve as backup to keep nuclear reactors cooled and prevent meltdowns in the event of a terrorist attack. Serving the southernmost of Japan’s four main islands, Kyushu Electric said its Sendai No. 1 reactor will be shut from March 16 to Dec. 26 next year, with No. 2 to be off-line from May 20 to Jan. 26, 2021.

The utility has estimated the suspension of the two 890-megawatt units — the first plants to be restarted under stricter regulations after the 2011 disaster led to the shutdown of Japan’s nuclear power industry — would boost its monthly costs by 8 billion yen ($74 million) as it purchases fossil fuels such as LNG and coal as alternative fuels for power production.

China’s new pipeline company will face consolidation challenges

(S&P Global Platts; Dec. 20) - The recent launch of China's national oil and gas pipeline company is a key step toward energy market reform, but still a long way from having any discernible impact on oil and gas markets. While the National Oil & Gas Pipeline Network Group Co. announced on Dec. 9 it will combine pipeline assets unbundled from the three state oil giants, a tougher exercise lies ahead in formulating precise third-party access rules, appointment of the pipeline regulator and enforcement.

This is tricky because of the nature of China's energy sector. The lack of a designated energy ministry means that the national oil companies control large parts of the oil and gas sector, and decision-making is shared with planning entities like the National Development and Reform Commission and the National Energy Commission. Any move toward gas market liberalization will take time. In addition to pipelines, the new company will control nine LNG import and regasification terminals, plus gas storage facilities.

The new company's shareholders include the Assets Supervision and Administration Commission of the State Council with a 40 percent share, PetroChina at 30 percent, Sinopec at 20 percent, and China National Offshore Oil Corp. at 10 percent, according to state-owned news agency Xinhua. Managing the sheer size of the oil and gas network will be a daunting task. The company's assets include oil and gas pipelines with a total length of 87,000 miles. The network is expected to expand to 155,000 miles by 2025, which S&P Global Ratings said will require $28.4 billion in annual investment.

Japanese utilities' LNG joint venture will work with PetroChina

(LNG Industry; Dec. 19) – JERA, a joint venture of Japanese utilities, has entered into a memorandum of understanding with PetroChina International Co., a subsidiary of China National Petroleum Corp., for cooperation in the liquefied natural gas business. Under the MOU, PetroChina and JERA will discuss opportunities to cooperate in generating new demand for LNG, including overseas LNG value-chain investments and joint sale and procurement of the fuel.

U.S. natural gas prices continue dropping, despite winter

(Reuters' columnist; Dec. 20) - Not even a relatively cold start to the winter heating season and a record volume of gas-fired power generation has been enough to prevent U.S. natural gas prices getting hammered since the start of November. Traditionally severe seasonal swings in inventories and prices are being softened by surging domestic production and the increasing international integration of the U.S. gas market through LNG exports.

Futures prices for gas delivered to the Henry Hub in March 2020 have slumped to just above $2.20 per million Btu, down from $2.70 early last month and $2.90 a year ago. Working stocks in underground storage amounted 3.411 trillion cubic feet on Dec. 6, up by 618 billion cubic feet compared with the same period last year. That is a more-than-adequate supply despite colder-than-average temperatures across many of the major population centers in the United States during the first half of November.

The subsequent spell of warmer-than-normal temperatures kicked away the last support for prices and sent the March 2020 contract plunging to its lowest level since it began trading in 2008. Meanwhile, the volume of U.S. gas exported in September was equivalent to 14 percent of all domestic production, up from less than 12 percent in the same month last year, 10 percent in September 2016, and 6 percent in September 2014.

Busy orderbook could strain oil field service industry

(LNG Industry; Dec. 20) - A dark cloud of capacity constraints is casting a shadow over the global oil field service industry heading into 2020, mirroring the sharp growth in the number of new projects being brought forward by oil and gas companies. Approximately 250 new oil and gas projects are likely to be sanctioned for development in 2020, up from 160 in 2016, and bottlenecks and constraints among suppliers appear inevitable.

According to Rystad Energy's latest report on the global service market, floating-production contractors, subsea installation players and fabricators of liquefied natural gas facilities will all likely struggle to keep up with the surge in demand for their services, thus causing project schedules to slip. Exploration and production companies will find themselves in a fierce competition to secure capacity, the consulting firm said.

For example, the orderbook for installation of subsea umbilicals, risers, and flowlines is swelling and players are racing to keep pace given the vast number of Christmas trees — nearly 600 in all — that were ordered for undersea installations in 2018 and 2019. In addition, marine contractors are already scheduled to install about 2,500 miles of subsea oil and gas flowlines and umbilicals in 2020.

Another factor is the massive push to move ahead with offshore wind projects. Rystad said 25 gigawatts of offshore wind capacity is now operational, with the total to double by 2022. This implies a large increase in demand for installation of offshore wind power cables, surpassing the amount of subsea cable installation from the oil and gas industry.