Oil and Gas News Briefs
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Qatar, Exxon expected to give go-ahead for LNG export plant in Texas

(Reuters; Feb. 1) - Qatar Petroleum and ExxonMobil are expected to announce plans next week to proceed with a $10 billion investment to construct a liquefied natural gas export project in Texas, building on to the unused Golden Pass LNG import terminal at the site, three people familiar with the transaction said. ConocoPhillips, the third partner in the import terminal, plans to sell its 12.4 percent stake and does not plan to participate in the LNG export development, the sources said.

The export project, first announced in 2014, would produce up to 15 million tonnes of LNG per year. It is part of Qatar Petroleum's plans to invest some $20 billion in the United States as the company seeks to increase its overseas oil and gas footprint. The most likely buyer for ConocoPhillips' stake is ExxonMobil, two of the people said, adding that Exxon and Qatar don't want to bring in another participant as plans for the project are in advanced stages. The import terminal opened in 2010 but has not received a cargo since 2011 as the U.S. shale gas boom essentially put an end to LNG imports.

Currently, Exxon has a 30 percent stake in the LNG export project. Qatar Petroleum holds 70 percent. The two have been strengthening their global alliance across LNG projects from the United States to Mozambique. Exxon expects this year to "sanction" the Golden Pass export terminal and an LNG export project in Mozambique, CEO Darren Woods said Feb. 1 on a call with analysts. The company has been "working very closely with Qatar Petroleum, our partner in Golden Pass, to advance that investment and look forward to announcing something here in the very near term," Woods said.

Anadarko signs up Chinese buyer for Mozambique LNG

(Reuters; Feb. 1) – Anadarko said Feb. 1 it has signed a long-term agreement with the trading division of state-owned China National Offshore Oil Corp. to supply liquefied natural gas from the U.S. company's Mozambique development. The deal will bring it one step closer to making a final investment decision for its East African LNG project, with the decision expected in the first half of this year. Other signed offtakers include a joint agreement with the U.K.'s Centrica and Tokyo Gas, as well as France's EDF.

Mozambique LNG1 Co., the jointly owned sales entity of the Mozambique Area 1 partners, signed a sales and purchase agreement with CNOOC's gas and power Singapore Trading and Marketing unit, Anadarko said. The deal is for 1.5 million tonnes per year for 13 years. The agreement demonstrates the progress Anadarko is making toward its goal of taking a final investment decision in the first half of this year. The company is expected to announce further contracts in the near future.

The Anadarko-operated LNG project would be Mozambique’s first onshore LNG development, initially consisting of two liquefaction trains with total capacity of 12.88 million tonnes per year to support development of the Golfinho/Atum gas fields located entirely within offshore Area 1. Development costs for the fields and the LNG plant are estimated at $20 billion to $25 billion. In addition to Anadarko, other partners are from Japan, India, Thailand, and Mozambique.

Novatek signs equipment contract for Arctic LNG-2

(S&P Global Platts; Feb. 1) - Russia's Novatek said Feb. 1 it has signed a deal with Germany's Siemens for the provision of compressor equipment for the planned Arctic LNG-2 project in Siberia. The deal moves the Arctic LNG-2 project — Novatek's second export facility after Yamal LNG — closer to the final investment decision planned for the middle of this year. The contract includes feed-gas and boil-off compressors, as well as providing for locating some of the equipment fabrication in Russia.

"The supply contract envisages new prospects for localizing the compressor equipment fabrication for the LNG industry, which is consistent with our strategic aim of creating and developing an LNG center of excellence in Russia." Novatek Deputy Chairman Alexander Fridman said. Arctic LNG-2 would include three liquefaction trains, each with 6.6 million tonnes annual capacity.

Novatek Chief Financial Officer Mark Gyetvay, speaking this week at the European Gas Conference in Vienna, said Arctic LNG-2 has finished front-end engineering and design work with 25 percent of its equipment contracted. Though earlier estimates put the project at $25.5 billion, Gyetvay said the capital cost could come in below $20 billion. Yamal LNG cost $27 billion. Gyetvay said the company would finance more of the construction cost from its balance sheet than it did with Yamal.

Qatar will double its LNG carrier fleet with 60 new orders

(S&P Global Platts analysis; Feb. 1) - Qatar's plan to double its liquefied natural gas carrier fleet by 60 vessels will be critical to the evolution of trade flows and market dynamics in the next decade. Qatar, the world's largest LNG exporter, already operates the largest fleet through its shipping subsidiary Nakilat, which has pushed economies of scale with its Q-Flex and Q-Max vessels, the largest LNG carriers in operation in the world. Orders for 60 LNG carriers are expected to total more than $12 billion.

The fleet expansion underscores a favored tactic among Middle East producers, such as Saudi Aramco and National Iranian Oil Co., wherein shipping is strategic to market dominance. Even Malaysia's Petronas, a top LNG exporter, controls its own fleet. Most of Qatar's LNG is supplied through long-term contracts, where the seller arranges for shipping. This business model has been challenged by the growth of the spot market, but Qatar is unlikely to make a drastic shift. This is reaffirmed by the fleet expansion.

When Qatari LNG producer RasGas signed a deal to supply Italy's Adriatic terminal in 2001, the 25-year contract was market changing. It was the first time Qatar took control of shipping, and it led to the formation of Nakilat. Qatar hasn't looked back since then. A recent Qatari delegation to South Korea was studying the options for ordering 60 new LNG carriers, corresponding with the planned expansion by 2023/2024 of Qatar's LNG export capacity to 110 million tonnes per year from 77 million, and Qatar Petroleum's anticipated plans to go ahead with the Golden Pass LNG export terminal in Texas.

Asia spot-market LNG prices fall to $7

(S&P Global Platts; Feb. 1) - Asian spot prices for liquefied natural gas fell to a nine-month low this week as the region remains oversupplied amid a warmer-than-usual winter. Spot prices for March delivery to Asia this week fell to $7 per million Btu, down $1 from the previous week, the lowest since April 6, trade sources said. They are also seasonally at the lowest for this time of the year since 2016, Reuters data showed.

BP offered a cargo for late March delivery into Japan, South Korea, Taiwan, or China at $7.10 per million Btu during the Platts pricing process on Jan. 31, industry sources said. Falling prices in Asia are prompting some traders to redirect cargoes to Europe for a higher margin. “The market’s getting kind of crazy,” a Singapore-based source said.

FERC delay on Louisiana LNG project leads to speculation

(Houston Chronicle; Jan. 31) - The delay in voting on a $4.5 billion liquefied natural gas export project on the Louisiana coast has turned a case before the Federal Energy Regulatory Commission into a Washington guessing game, raising fears that what had been a predictable approval process for the nation’s booming gas exports is becoming mired in partisan politics. Following the death of Commissioner Kevin McIntyre, FERC commissioners are split 2-2 between Democrats and Republicans.

Typically, that’s not a problem for the independent commission, which has a reputation for bipartisanship. But suspicions were piqued when, without explanation, FERC pulled from its Dec. 20 agenda a final decision on Calcasieu Pass LNG, funded by the Virginia private-equity firm Venture Global LNG, and then left it off again at their Jan. 22

meeting. “That is incredibly uncommon. It’s an indicator they didn’t have the votes for approval,” said Charlie Riedl, executive director of the Center for Liquefied Natural Gas.

Should the impasse on Calcasieu Pass continue, it will raise questions not only about that project but a dozen others slated to come before FERC in the years ahead. The cause of the delay is unknown. FERC has declined to comment, and that has led to speculation about what is holding up the decision, including theories of hardening political lines over how to consider climate-change impacts from more gas production and LNG exports. FERC’s next meeting is Feb. 21. The agenda is due out a week prior.

FERC issues final EIS for Sempra’s Port Arthur LNG in Texas

(Reuters; Jan. 31) - Sempra Energy’s Port Arthur liquefied natural gas export terminal in Texas took a step toward federal approval for construction on Jan. 31 when the U.S. energy regulator issued its final environmental impact statement for the project. The Federal Energy Regulatory Commission review determined that the development “would result in some adverse environmental impacts, but these impacts would be reduced to less-than-significant levels.” The project will next go to FERC for approval.

Port Arthur would include two liquefaction trains and three LNG storage tanks, and would produce about 13.5 million tonnes per year of LNG, equal to about 1.8 billion cubic feet per day of natural gas. Port Arthur is among more than a dozen proposed LNG export terminals in the United States, Canada, and Mexico that are seeking regulatory approval, customers, and financing.

Sempra said in December that Polish Oil & Gas Co. entered into a 20-year deal to buy 2 million tonnes per year from Port Arthur. And it has a memorandum of understanding with Korea Gas for potential participation in Port Arthur. The San Diego-based energy company has selected Bechtel to build the project. Sempra is nearing completion later this year of its first export terminal, Cameron LNG in Louisiana. Sempra also is looking to add LNG exports at its Costa Azul LNG import facility in Baja California in Mexico.

Australian company has no customers for Louisiana LNG project

(S&P Global Platts; Jan. 31) - Australia's LNG Ltd. acknowledged a level of urgency on Jan. 31 to secure offtake agreements with potential buyers of capacity from its proposed Magnolia LNG export terminal in Louisiana, after its only publicly disclosed long-term deal lapsed in December. The developer's CEO, Greg Vesey, in a letter to shareholders posted on the company's website, did not specify a timeframe for when LNG Ltd. expects to make a final investment decision on the project.

The company had planned to reach final investment decision last year, but in October delayed that until 2019 amid China's imposition of a 10 percent tariff on imports of U.S. LNG. Vesey's latest letter said only that the company envisions an FID, and that it is moving expeditiously toward that goal. He said commercial discussions "with select Asian counterparties progressed substantially in the period despite uneven trade discussion rhetoric." The project is approved for 8 million tonnes per year capacity.

Magnolia LNG won approval from the Federal Energy Regulatory Commission in April 2016, and since then has vied, along with multiple U.S. LNG project developers, to line up contracts and financing to support construction. Magnolia LNG had a long-term offtake agreement with an investment fund-backed company for 2 million tonnes per year, but the deal expired in December.

China’s energy companies boost spending on gas production

(Reuters; Jan. 31) - China’s state energy giants are set to raise spending on domestic drilling this year to the highest levels since 2016, focusing on adding gas reserves in a drive to boost local supplies. Responding to President Xi Jinping’s call last August to boost energy security, China’s trio of oil majors — PetroChina, Sinopec, and CNOOC — are adding thousands of wells in the remote deserts of the northwest region of Xinjiang, shale rock in southwest Sichuan province, and deepwater fields in the South China Sea.

Firms are showing greater risk appetite, expanding investments faster in exploration than production, emboldened by Beijing’s political push and oil near $60 a barrel, said state oil executives and analysts at consultancy Wood Mackenzie. China’s offshore specialist CNOOC has pledged to spend twice as much this year in domestic exploratory drilling as in 2016. “With oil prices at $50, $60 and $70 ... we’re making decent profits,” Yuan Guangyu, CNOOC’s chief executive officer, said last week.

PetroChina’s parent company is boosting risk exploration investment five-fold to 5 billion yuan ($741 million) this year from 1 billion yuan last year. With Beijing pushing to reduce energy import dependence and hit environmental targets, domestic gas output is forecast by analysts to rise 6 to 8 percent a year through 2020. Even with production gains, China still will need to significantly boost its liquefied natural imports to meet demand. Analysts predict it will pass Japan as the world’s top LNG buyer in a few years.

Indian gas importer looks to sell some of its U.S. LNG

(Reuters; Jan. 30) - State-owned gas distribution company GAIL (India) is hitting the liquefied natural gas market this month with offers to sell several cargoes from the U.S. due to a shortage of carriers available to ferry to fuel to India. The importer has 20-year deals to buy 5.8 million tonnes a year of U.S. LNG, split between Dominion Energy's Cove Point plant in Maryland and Cheniere Energy's Sabine Pass, Louisiana, terminal.

On Jan. 30, GAIL issued two tenders to sell U.S. LNG this year, trade sources said. GAIL is unable to “lift all the cargoes they have from the U.S. on the tonnage they have," a shipbroker said. The two tenders came less than two weeks after GAIL offered cargoes from Cove Point and three from Sabine Pass for loading in 2020. Last year the Indian importer struck deals to swap several cargoes of its U.S. LNG commitments.

Wood Mackenzie report says floating LNG projects may have peaked

(OilPrice.com; Jan. 30) - Floating LNG projects may have peaked amid intensifying competition, a new report from Wood Mackenzie suggests. After the oil-price collapse in 2014 floating gas liquefaction projects were all the rage as the global LNG market became oversaturated and prices tanked. Between 2015 and 2018 three of the seven large-scale projects that won final investment decisions were floating production and storage facilities, said Wood Mackenzie research analyst for global LNG Liam Kelleher.

Since then, however, investors seem to have turned their attention toward higher-capacity onshore projects concentrated in the United States, with lower capital and operating costs than the complex floating production units, Kelleher said. “We expect this trend to continue, with high-capacity projects in the U.S., Russia, Qatar, and Mozambique looking to take final investment decision. The lack of economy of scale is likely to limit floating LNG projects to small-scale and remote developments as it competes for buyers, financing and partners in a busy LNG market,” the analyst said.

However, not all is bleak on the floating front, Kelleher said. If LNG producers manage to lower the costs, chances are the segment could see a revival in the future.

Shell resumes regular LNG exports from Egypt

(S&P Global Platts; Jan. 31) - Shell hopes to increase liquefied natural gas exports from its Idku plant in Egypt in 2019, Maarten Wetselaar, the company’s head of integrated gas operations, said Jan. 31. Speaking to reporters following the release of Shell's quarterly earnings, Wetselaar also said Shell sees potential to expand its LNG business through new project approvals and participation in Qatar’s LNG expansion.

Egypt is now self-sufficient in gas, enabling Shell to resume regular LNG exports after being restricted to just occasional cargoes the past few years. According to S&P Global Platts data, Idku has exported 12 cargoes since October last year, having only shipped nine in the first nine months of the year. The ramp-up of the Eni-operated Zohr field has allowed Egypt to stop importing LNG and become a regular exporter again. Egypt's other LNG export plant, the Eni-operated Damietta facility, remains idled, however.

Shell also remains active in looking at expanding existing projects and taking part in new ones. In particular, Wetselaar said Shell wants a stake in Qatar's expansion from 77 million tonnes of LNG per year to 110 million. "Qatar is scouting for investors," he said. "It would make a lot of commercial sense for us to be part of that development and we will participate and hope to win." Wetselaar also said it is possible a final investment decision on the seventh train at Nigeria LNG could be taken by the end of 2019.

South Korea cuts tax on LNG, boosts tax on coal

(S&P Global Platts; Feb. 1) - South Korea has decided to lower taxes on liquefied natural gas by as much as 74 percent, while raising taxes on thermal coal by 27 percent starting in April this year as part of efforts to reduce the country's heavy reliance on coal in power generation, government officials said Feb. 1. "The government approved the tax rate revision so as to reduce consumption of coal-blamed worsening air pollution," a senior official at the Ministry of Trade, Industry and Energy said.

Under the measure, taxes on LNG that include consumption and import taxes will be lowered to Won 23 ($20 per tonne) from Won 91.4 ($80 per tonne), he said. "Furthermore, the import tax will be refunded for LNG used for combined heat and power," the official said. Taxes on thermal coal will further increase to Won 46 per kilogram from Won 36 currently, he said.

"The tax rate revision is aimed to encourage consumption of the cleaner fuel in power generation by boosting LNG's price competitiveness against coal," the ministry official said. The tax revision is in line with President Moon Jae-In's push for to transition from nuclear and coal to renewable sources and LNG. Currently, coal-fired power plants generate a little more than 40 percent of the country's electricity supply, while LNG accounts for about 20 percent. Nuclear reactors provide about 30 percent.

Imperial blames government as it cuts back oil-by-rail from Canada

(The Canadian Press; Feb. 1) - Imperial Oil is cutting its Canadian crude-by-rail shipments from 168,000 barrels per day in December to "near zero" this month and its CEO is placing the blame squarely on the Alberta government's oil production curtailment order. The higher prices for Western Canadian oil prices since the cutbacks were announced in early December has ruined the economic case for costly rail shipments to customers in the United States, Rich Kruger told a conference call Feb. 1.

“Crude-by-rail should be helping to alleviate this situation in the province,” he said, referring to the government’s goal of supporting local prices by reducing production to free up pipeline space and draw down overflowing storage. “But now, because of the drastic, dramatic manipulation and impact on differentials, (rail) take-away capacity is now being idled. That is a sad state, a very tangible example of what we believe is ill-advised, ill-informed, negative consequence of this curtailment order.”

The difference in price between Western Canadian Select bitumen-blend oil and U.S. benchmark West Texas Intermediate widened to as much as US$52 per barrel in October, but shrunk to single digits in December and January after Alberta ordered producers to cut their output. In order to support the higher cost of rail over pipelines to reach refineries, the price differentials need to be higher than US$15 to $20 per barrel, Kruger said. Imperial has opposed the curtailments from the start.

Canadian court says bankruptcy doesn’t end well clean-up obligation

(The Canadian Press; Jan. 31) – Canada’s Supreme Court said the trustee for a bankrupt Alberta energy company cannot simply walk away from unprofitable wells on agricultural land without having to clean up the site. The high court’s 5-2 ruling on Jan. 31 comes with a recommendation from Chief Justice Richard Wagner for Parliament to clarify the confusion between federal bankruptcy law and the regulations provinces rely on to protect the environment.

“Bankruptcy is not a license to ignore rules,” Wagner wrote. The decision overturns an Alberta Court of Appeal ruling that upheld a 2016 decision in the Alberta Court of Queen’s Bench that allowed a bankrupt energy company to sever its connection with unprofitable and unreclaimed wells when the company’s assets were sold off to creditors — as if the wells were debts that the company couldn’t cover.

The Supreme Court ruled that Redwater Energy’s bankruptcy trustee cannot walk away from the company’s obligations to make abandoned wells environmentally safe. When Redwater went bankrupt, Alberta’s provincial energy regulator ordered the trustee to comply with end-of-life requirements to make abandoned properties environmentally safe. The trustee did not comply and filed its own counterclaim that included a challenge to the regulator’s action, citing the paramountcy of federal bankruptcy law.

Alberta’s energy regulator and the industry-funded Orphan Well Association that cleans up wells appealed to the high court. Since the case went to court, an estimated 1,800 wells representing more than $100 million in liabilities have been abandoned in Alberta.

Landowners win court victory over orphan wells in Canada

(Calgary Herald columnist; Jan. 31) - It has always seemed unfair that insolvent petroleum producers could dump their environmental liabilities onto other companies and Albertans without consequence. The principle of polluter-pay hinges on the concept that companies pick up the environmental freight for their damage. After a legal case surrounding bankrupt Redwater Energy that went to the Supreme Court of Canada, the top judges said Jan. 31 that bankruptcy does not cleanse away a well's clean-up costs.

For the province, taxpayers and the industry itself, this is a welcome development. But it now ramps up the pressure on the provincial government to take action and establish timelines on when inactive oil and gas wells should be cleaned up, rather than letting them linger for decades as a testament to feeble regulation. "It is good news for Alberta, it's good news for landowners, taxpayers, and the environment," said lawyer Keith Wilson, who represents private landowners with orphan wells on their property.

"A major problem has been addressed," Wilson said. "Still, the core problem is no timelines to deal with old wells." The case is important in a province that has seen roughly 450,000 oil and gas wells drilled over the past century. In the Redwater case, the bankruptcy trustee wanted to sell off the producing wells to pay creditors, but disclaim the inactive wells and their clean-up liability. The provincial regulator said no. The case went to court and the nation's highest court sided with the regulator.

Oil majors see results from multibillion-dollar Permian investments

(Houston Chronicle; Feb. 1) - Big Oil is starting to see its billions of investments in the Permian Basin pay off as production soared and the fourth quarter of 2018 brought higher-than-expected profits. Chevron, one of the biggest producers in the region, as well as ExxonMobil and Shell, all reported higher profits thanks to the increased flow out of West Texas. They were mocked for nearly missing the shale boom when they lost out to faster-moving independents a few years ago, but they have since bought hundreds of thousands of acres in West Texas, investing billions in land, rigs, and drilling programs.

Chevron pumped 2.93 million barrels a day in 2018, the most in the company's history. Exxon's production crested 4 million barrels a day for the first time in almost two years, with its fourth-quarter Permian production soaring 90 percent from last year. In the Permian alone, Chevron saw its annual output jump 71 percent last year, hitting 310,000 barrels a day. Shell saw its production hit 145,000 barrels of oil equivalent per day in the region, a 200 percent increase compared to January 2017, the company said.

"The growth they've been able to achieve in terms of their Permian output is pretty spectacular," said Lysle Brinker, director of equity and energy research IHS Markit.

With deep pockets to develop technologies and snatch up additional acreage, plus strong relationships with service companies, majors will see the Permian become in an even bigger part of their portfolios, Brinker said. “We think there’s going to be more consolidating in the Permian and the big guys could be bigger players.” Majors also can benefit from integration of Permian output into their refining and downstream portfolios.