Oil and Gas News Briefs
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Saudis reportedly nearing investment decision in U.S. LNG

(Wall Street Journal; Jan. 8) - Saudi Arabia is nearing a deal to invest in U.S. liquefied natural gas, a landmark decision for the kingdom that has been a huge supplier of energy to America. Saudi Arabian Oil, known as Aramco, has narrowed its focus to a shortlist of at least four U.S. LNG projects and intends to announce a deal in the first half of this year, people familiar with the matter said.

Companies with projects being considered include Tellurian, an LNG developer based in Houston planning to build its Driftwood terminal in Louisiana, the sources said. In addition, San Diego-based Sempra Energy, which is developing at least three LNG projects on the U.S. Gulf Coast and Mexico's Baja Coast, has had talks with Aramco concerning its Port Arthur project in Texas, the sources said. Aramco is considering equity stakes in the projects. It wasn't clear the value of any potential investments.

Saudi Arabia's interest in U.S. LNG is two-fold, said Jason Feer, of the New York-based consulting firm Poten & Partners. "One reason is the geopolitical aspect of how to keep the U.S. close and maintain the strategic relationship, and secondly they see LNG as diversifying, investing in a fuel that would have perhaps more of a lifespan than a straight crude oil play."

While Saudi Arabia's own gas reserves are some of the largest in the world, they are hard to extract and high in sulfur, making them expensive. Nearly all of the kingdom's electricity is powered by oil or gas, but there are plans to diversify into more gas and renewables, in part to allow more oil to be exported. Saudi Arabia said in October it was considering investing in Russian energy giant Novatek's Arctic LNG-2 project.

Oil-price volatility creates uncertainty for long-term LNG pricing

(Petroleum Economist; Jan. 8) - The pricing of long-term liquefied natural gas contracts is becoming more unpredictable with wide swings in oil prices. Driven by rising supply in LNG export capacity from Qatar, Australia, Russia, and more recently the U.S., the diversification of supplies is driving an evolution in contract terms. Buyers have greater bargaining power when negotiating contracts, and with the recent volatility in oil markets there is more uncertainty about the level of oil-indexation used to price LNG.

Since the LNG industry's birth in the 1960s, when natural gas started being used in Europe and North East Asia as an alternative to oil products for power generation, contracts have been indexed to the price of a barrel of oil. With LNG production growing, buyers have managed to negotiate better terms. This has led to indexation dropping from 14 to 15 percent of a barrel of oil per million Btu of LNG for legacy contracts to 10 to 11 percent for some of the contracts signed most recently.

Some of the latest contracts were signed at 11 percent of oil prices. At $80 oil, the LNG would be $8.80 per million Btu. But at $60 oil, the LNG would be $6.60. In the race for final investment decisions on new projects, LNG suppliers must offer competitive terms. New projects in Qatar, Russia, Australia, and Africa need to compete against U.S. LNG that ranges between $8.60 and $10.20, with relatively stable U.S. gas prices expected. That's manageable when oil is $80 or more, but less so when it's under $60 as it is now, adding to the uncertainty of pricing terms that can meet the needs of buyers and sellers.

Platts expects China's LNG demand growth rate will slow in 2019

(S&P Global Platts; Jan. 8) - Australia's three East Coast LNG export plants in Gladstone, Queensland state, together shipped a record 20.58 million tonnes in 2018, up 2 percent from 20.21 million in 2017, as falling export volumes to Japan and South Korea were more than offset by growing appetite from China. Exports to China surged 23 percent year-on-year from 11.59 million to 14.25 million tonnes, while year-on-year exports to South Korea and Japan were down 18 percent and 40 percent, respectively.

Looking forward, China's LNG demand growth is expected to slow down in 2019, following a series of gas policies in 2018 aimed at relieving supply tightness and import dependency. S&P Global Platts Analytics forecasts China's 2019 LNG imports at around 58 million tonnes, up 14 percent from 2018 — much lower than the average growth rate of 40 percent over 2017 and 2018.

"China's natural gas demand will continue to climb, but other sources of supply such as domestic production and pipeline imports from Russia will help shoulder the load. However, we still expect Chinese LNG imports to continue to represent a significant portion of the global demand growth in the next several years," said Jeff Moore, manager of Asian LNG analytics at S&P Global Platts.

U.S. LNG sales to China fell 20% in 2018

(Reuters; Jan. 9) - The number of U.S. liquefied natural gas cargoes that went to China in 2018 fell by about 20 percent from the prior year as the trade war between Beijing and Washington heated up. In recent weeks, however, that dispute has cooled somewhat with talks in China this week between Chinese and U.S. trade teams, raising hopes additional tariffs can be avoided.

As the trade war escalated during the last six months of 2018, only six LNG cargoes went from the U.S. to China, down from 25 during the same period in 2017 — a much steeper drop in sales after China imposed tariffs on U.S. LNG in September. China, the fastest-growing consumer of the fuel, became the world's second-biggest LNG buyer in 2017 as the government weans the country off coal. In total, 24 U.S. cargoes went to China in 2018, mostly during the first half of the year versus 30 in 2017.

The United States meanwhile is on track to become the world's third-biggest LNG exporter by capacity in 2019 as additional export terminals enter service. The U.S. LNG export industry has been particularly vulnerable to the U.S.-China trade war, Mike Sommers, head of the American Petroleum Institute industry group, said Jan. 8. China imported about 15 percent of U.S. LNG shipments in 2017.

U.S. LNG industry vulnerable if trade fight with China persists

(Reuters; Jan. 8) - The nascent U.S. liquefied natural gas export industry has been particularly vulnerable to the U.S.-China trade war, the head of the American Petroleum Institute industry group said Jan. 8, adding that he hopes negotiators soon resolve the dispute. Mike Sommers, president and CEO of the industry group, said an escalating trade fight could harm U.S. LNG producers as other countries move in to fill any gap.

"This is a leadership vacuum that will be filled by many of the United States' opponents," Sommers told reporters in a teleconference. The United States is the world's fastest-growing exporter of LNG. China, the fastest-growing importer, bought about 15 percent of U.S. LNG exports in 2017, however, through much of 2018, China was on track to buy just 10 percent of U.S. exports.

Sommers said countries that elbow their way in to supply LNG to China may not produce the fuel as environmentally responsibly as U.S. companies and in some cases they may be countries that are not favorable to Washington's foreign policy. "A lot of times energy is used as a club by rogue nations, and I think (the United States) has proven itself to be a reliable supplier," he said.

CNOOC will build pipeline from coal-to-gas project to Beijing area

(Reuters; Jan. 9) - China National Offshore Oil Corp. is planning to build a pipeline to supply fuel from a coal-to-gas project to the Hebei-Beijing-Tianjin area, a top consuming region for gas, CNOOC said on its website Jan. 9. Huabei Pipeline Co., with CNOOC's gas and power unit holding a controlling stake, will build the 237-mile pipeline by end-November 2020 to supply the new economic zone Xiongan in Hebei province near Beijing. Other investors in the pipeline include Hebei Natural Gas Co. and Beijing Gas.

Huabei Pipeline will eventually build 800 miles of pipelines with annual transport capacity of almost 2 billion cubic feet per day, linking coal-to-gas projects in northern China's Inner Mongolia region and Shanxi province to a gas supply grid also fed by CNOOC's LNG import terminal at the port of Tianjin, CNOOC said on its website.

Following a severe gas supply crunch during the winter of 2017/18, China's national energy companies have been adding pipelines to connect grids operated by different companies and fed by different supply sources to boost supply security.

Southeast Asian nations should be wary of taking on debt with China

(Reuters; Jan. 6) - Southeast Asian countries should be cautious in negotiating with China on its flagship Belt and Road Initiative to avoid being trapped in unsustainable debt, 70 percent of respondents said in a policy survey released Jan. 7. Southeast Asia is increasingly skeptical of the U.S. commitment to the region as a strategic partner and a source of security, while China's reach is seen as growing both politically and economically, the study also showed.

"The conventional wisdom that China holds sway in the economic realm while the United States wields its influence in the political-strategic domain will ... need to be revisited in light of the survey results," the study said. The survey by the ISEAS-Yusof Ishak Institute, affiliated with the Singapore government, polled 1,008 respondents from all 10 of the Association of Southeast Asian Nations (ASEAN), drawn from government, academic and business communities, civil society and the media.

Nearly half said President Xi Jinping's Belt and Road Initiative would bring ASEAN "closer into China's orbit," while a third said it lacked transparency. Seventy percent said their governments "should be cautious in negotiating Belt and Road projects, to avoid getting into unsustainable financial debts with China," a view strongest in Malaysia and the Philippines. Fewer than one in 10 saw China as "a benign and benevolent power." Nearly half said China's intent is to "turn Southeast Asia into its sphere of influence."

Canadian Mounties arrest gas pipeline protestors at blockade

(The Canadian Press; Jan. 7) – The Royal Canadian Mounted Police said they arrested 14 people Jan. 7 at a blockade on a forest service road in northern British Columbia that was preventing access to a gas pipeline construction project. Mounties said the arrests at the Gitdumt'en checkpoint on Morice West Forest Service Road were for various offenses, including violations of a court injunction against the blockade. The opponents contend the line presents environmental and cultural risks to indigenous people.

Members of the Gidimt'en clan of the Wet'suwet'en First Nation had set up the camp and a checkpoint in the area, southwest of Houston, B.C. In a statement, the RCMP said its officers spoke with representatives of the remote camp about the removal of the roadblock and set up a meeting between hereditary chiefs and the 416-mile Coastal GasLink project. But by mid-afternoon, police realized the matter couldn't be resolved and made arrests. The RCMP has set up an exclusion zone on the road to keep it open.

Mounties were enforcing an interim injunction issued by the B.C. Supreme Court in mid-December, ordering removal of any obstructions interfering with the TransCanada pipeline project to deliver gas from northeastern British Columbia to the C$40 billion Shell-led LNG Canada project under construction in Kitimat, B.C. TransCanada said it has signed agreements with all First Nations along the route, but demonstrators argue Wet'suwet'en house chiefs, who are hereditary rather than elected, have not signed.

Supporters of gas line protesters rally across Canada

(The Financial Post; Canada; Jan. 8) - The arrest of 14 people at an indigenous blockade against a natural gas pipeline in a remote area of northern British Columbia became a flash point that sparked protests across the country Jan. 8. Protesters delayed Prime Minister Justin Trudeau's speech in Ottawa, stopped traffic in Vancouver and Victoria and prompted a counter protest in front of the Calgary headquarters of TransCanada, the company building the pipeline at the center of the dispute.

Grand Chief Stewart Phillip of the Union of B.C. Indian Chiefs told a crowd in Vancouver that it would be a watershed year for indigenous people in the fight against pipelines crossing their lands. "We're starting off 2019 with a bang. … I want to say to Prime Minister Trudeau: Welcome to battle ground British Columbia." Police concerns about a protest in Ottawa forced Trudeau to move to another building to give a speech at a forum. In Halifax about 150 protesters gathered at the regional police headquarters.

Protesters marched through downtown Toronto, chanting "TransCanada has got to go" and brought afternoon traffic to a halt. About 60 people attended a rally in support of the First Nation outside the headquarters of TransCanada. They were greeted by about the same number of pipeline supporters. Stephen Buffalo, CEO of the Indian Resource Council of Canada, which represents oil-and-gas producing First Nations, took part in the pro-pipeline rally. "The big thing is we've got to be able to support our communities that said yes to this (project) because it's their community that needs that financial benefit," he said. "It's about getting out of poverty and finding a way for our people."

Elected and hereditary chiefs disagree on B.C. gas pipeline

(The Globe and Mail; Canada; Jan. 8) - On a forestry road south of Houston, B.C., members of the Wet'suwet'en First Nation are running checkpoints to oppose a gas pipeline being built on their traditional territory. The Wet'suwet'en's elected band council has approved of the pipeline to a coastal LNG plant, but the checkpoints are backed by the hereditary leaders of the Wet'suwet'en clans. The hereditary chiefs and their backers are opposed to the pipeline, saying it could damage the watershed and wildlife.

Activity at the two camps — Unist'ot'en, which has been around since 2010, and Gidimt'en, which was built late last year — had been escalating after a B.C. Supreme Court ruling in December giving the builders of the Coastal GasLink pipeline an injunction so they could use the road unimpeded. The Unist'ot'en campers warned that attempts to remove them by force would be "an act of war." The Royal Canadian Mounted Police enforced the injunction and arrested 14 people at Gidimt'en on Jan. 7.

The dispute heightens the political differences within the Wet'suwet'en nation. In British Columbia, disagreements are common between elected leaders (who oversee on-reserve matters) and hereditary leaders (who claim jurisdiction over traditional territory). TransCanada has said it is not asking for the camp to be dismantled, only that it be allowed worker access to its pipeline right of way. The hereditary chiefs said they will continue to oppose the pipeline, despite the injunction.

B.C. premier restates strong support for gas line and LNG project

(Vancouver Sun columnist; Jan. 9) – British Columbia Premier John Horgan reiterated his endorsement of the C$40 billion LNG Canada project Jan. 9, saying it had met his government's test for securing consent from First Nations. "LNG Canada has shown they understand the importance of consultation and meaningful reconciliation with First Nations," Horgan told reporters. "All nations from wellhead to waterline had signed impact benefit agreements. … We believe that LNG Canada has met the obligations."

Those benefit agreements, valued in the hundreds of millions of dollars, figured prominently in Horgan's endorsement back in October when Shell and its partners decided to construct the gas liquefaction plant and LNG export terminal in Kitimat — and the 416-mile gas pipeline across the province that 14 First Nation protestors were trying to thwart when they were arrested at a blockade camp Jan. 7.

"When it comes to this project … there are First Nations that are wildly enthusiastic about the prospects that this opens up for their future and I think that that needs to be balanced in the coverage of the protests from yesterday," Horgan said. Protests were staged across Canada on Jan. 8 in support of the gas line opponents. "We have to find a way through reconciliation," he said. Horgan underscored the complexities of dealing with the particular First Nation involving in the pipeline protest camps. The nation has 13 houses, five clans and (by some estimates) more than 100 hereditary chiefs.

Oregon LNG project and pipeline draw 1,000 people to hearing

(Mail Tribune; Medford, OR; Jan. 8) - With his crisp Stetson and new ranch shirt, Shawn Jones stood out as an atypical — yet relevant — voice in the debate over a proposed gas pipeline through Southern Oregon. Jones, representing C2 Cattle Co., testified Jan. 8 to the Oregon Department of State Lands that the pipeline would be installed beneath four miles of C2 Cattle's property in the Upper Rogue — including meadows, pastures and under drains. "The soil is highly erodible," Jones said. "We oppose the pipeline."

Jones was among a crowd estimated at more than 1,000 who attended the state hearing at the Jackson County Expo Padgham Pavilion over concerns about the large quantities of soil that would need to be removed and replaced to install the 229-mile pipeline spanning across the state to serve a proposed gas liquefaction and LNG export terminal at Coos Bay. Calgary-based Pembina Pipeline is working to assemble permits, federal authorization, customers, and financing for the multibillion-dollar project.

The Department of State Lands' Ali Ryan Hansen said this latest application to install a pipeline across Oregon to the LNG plant site has rerouted sections away from private lands and into public lands. Dozens of project proponents, many in hardhats with union affiliation, also attended the hearing, such as Daniel Del Reao, who described himself as a "voice for working families." In a morning meeting before the hearing, the Jackson County Board of Commissioners reiterated its objection to the pipeline on the grounds that eminent domain could be used against unwilling property owners.

California developers propose gas line to LNG plant in Quebec

(Natural Gas Intelligence; Jan. 8) - A plan for a new natural gas pipeline across Quebec, sponsored by two California-based firms, could deliver Western Canadian gas into the global market as liquefied natural gas by the mid-2020s. Energie Saguenay, an export project proposed by Breyer Capital and Freestone International, has taken the first regulatory steps toward building the large-volume gas line, named Gazoduq. The same team also has proposed a US$7.5 billion LNG export terminal, GNL Quebec, at a year-round ice-free port near the junction of the Saguenay and St. Lawrence rivers.

The pipeline proposal filed with the National Energy Board and Quebec authorities as a formal pre-application description calls for a 450-mile, 42-inch-diameter line capable of delivering 1.8 billion cubic feet of gas per day. The companies have set 2021 as a target date to start construction. The gas shipments would start at an Ontario link-up with TransCanada's Mainline from Alberta and British Columbia. Preliminary estimates put the pipeline cost in the US$4.5 billion range.

The proposed GNL export terminal was granted a 25-year license by NEB in 2015. A 10-year sunset clause keeps the license valid if shipments start by mid-2025. The California partners sponsoring Energie Saguenay are incorporated in Delaware as Ruby River Capital. Two prominent entrepreneurs drive the project: Jim Breyer, an early investor in Facebook, and former Bechtel executive Jim Illich.

Alberta panel calls for coordinated response to low natural gas prices

(OilPrice.com; Jan. 6) - "Alberta and its natural gas producers face a daunting crisis," Alberta's Natural Gas Advisory Panel said in a report in December, highlighting the challenges that gas producers in Alberta face in market access and pricing for their output. Industry officials and analysts said the situation of steep price discounts for Canadian gas to the U.S. Henry Hub benchmark is similar to the huge discounts that Canada's heavy oil receives to U.S. benchmark West Texas Intermediate crude.

But the gas price discounts have been plaguing the industry for longer and have been "far worse than it is for oil," said Samir Kayande, director at RS Energy. Alberta has taken steps to address the gas price discounts, although they have not been as significant as the ones to ensure higher prices for oil, which include ordering a cutback in oil production. Last month Alberta set up a liquefied natural gas investment team "to work directly with industry on reducing barriers for securing final investment decisions on export projects that will increase the value of Alberta's gas resources."

The province's gas advisory panel had recommended the LNG team. "Traditional markets for Alberta natural gas are oversupplied. … Our dominant export market (the U.S.) is now our primary competitor, and Western Canadian gas will struggle to retain, let alone grow, its market share within North America. This reality represents an existential threat to Western Canadian gas production if not addressed emphatically by Canadian gas producers, pipeline companies, and governments," the panel said.

U.S. natural gas production hits record; up 43% since 2010

(Houston Chronicle; Jan. 8) - The U.S. was on track to export more natural gas than it imported for a second year in a row in 2018 as production and domestic consumption swelled in the first 10 months, according to the Energy Department. Through October dry gas production in the U.S. was 11 percent higher in 2018 than at the same time in 2017, with output for the full year expected to average 83.3 billion cubic feet per day — a record high and a 43 percent gain from 2010, when output averaged 58.4 bcf a day.

Much of the growth is coming in the Permian Basin in West Texas and New Mexico, the Appalachian Basin in the Northeast and Haynesville in Texas and Louisiana. Exports grew with expanded pipeline capacity to Mexico. In July 2018 exports to Mexico by pipeline exceeded 5 bcf a day. Additional liquefied natural gas production capacity on the Gulf and East coasts contributed to higher exports. The U.S. continues to import gas from Canada, and also a few LNG cargoes to meet winter demand in the Northeast.

At the same time Americans consumed more gas last year as gas-fired power plants continued to replace coal-fired power plants. Gas consumption as a power plant fuel was 17 percent higher in first 10 months of last year than in the same period in 2017. Increased demand for gas-fueled heating also contributed to an increase in consumption. As demand rose, so did prices. The average Henry Hub gas spot price rose to $3.16 per million Btu in 2018, a 15-cent increase from the 2017 average.

Equatorial Guinea pulls gas license for failed LNG project

(S&P Global Platts; Jan. 7) – U.K.-based Ophir Energy has lost the license to develop the Fortuna natural gas discovery offshore Equatorial Guinea after the permit expired at the end of the year, the company said Jan. 7. The government of Equatorial Guinea declined to extend the license for the block, which would have provided gas for Ophir's planned Fortuna LNG export project. Ophir had been struggling to put together the development the past year after anticipated Chinese financing failed to come through.

The $2 billion Fortuna LNG development had been widely expected to reach a final investment decision in 2018. "It is disappointing that the ministry has decided not to extend the license despite the amount of effort and cost dedicated to the delivery of the project and especially as we were still talking to highly credible potential co-investors," Ophir interim CEO Alan Booth said. The company’s write-down on the project totals $610 million, completely wiping out its value on Ophir’s balance sheet.

It is unclear how the government of Equatorial Guinea will proceed, though it will likely have the option to award the license to a new investor. The resources are estimated at some 3.7 trillion cubic feet of gas, and the floating LNG facility had been expected to produce 2.2 million tonnes of LNG per year at the field, almost 100 miles offshore the African nation. Equatorial Guinea's Energy Minister Gabriel Obiang Lima in May last warned Ophir that time was "running out" for it to reach a final investment decision.

Analysts lower their 2019 oil price forecasts

(Bloomberg; Jan. 6) - Goldman Sachs has cut its oil price forecasts for 2019, citing a re-emerging surplus and resilient U.S. shale production. Global benchmark Brent crude will average $62.50 a barrel this year, analysts said in a Jan. 6 note, down from a previous estimate of $70. U.S. benchmark West Texas Intermediate will average $55.50 a barrel, down from $64.50. Societe Generale also lowered its 2019 price outlooks by $9 a barrel in a Jan. 7 note, with Brent now seen averaging $64.25 for the year and WTI $57.25.

A surge in OPEC production in late 2018 means the oil market started this year better supplied than the last, and pipeline constraints in the U.S. Permian Basin will clear up faster than expected, adding more volume to the market, according to Goldman. Big projects in the works for years in Brazil and Canada will also ramp up output in 2019. Combined those increases mean fewer high-cost marginal barrels will be needed to meet global demand growth this year.

Crude prices ended 2018 after a roller-coaster ride, rising to a 4-year high of over $86 a barrel in October and then plunging as much as 42 percent by the close of the year. The oil market was hit by a spate of risk aversion because of economic growth fears spurred by U.S.-China trade tensions, rising interest rates, and tightening liquidity, Societe Generale analysts including Mike Wittner said in the research note.

China takes 3 tankers of U.S. crude after just 1 in previous 4 months

(Reuters columnist; Jan. 6) - U.S. crude oil is starting to trickle back to China with three cargoes slated to arrive next month, but volumes are still a long way off from levels prior to the outbreak of trade hostilities between the world's two largest economies. Vessel-tracking data compiled by Refinitiv shows three tankers carrying 3.94 million barrels are en route from the United States to China and will arrive in February. This is up from zero cargoes set to arrive in January, one in December, and zero in November and October.

Prior to the tit-for-tat tariffs being imposed from the middle of last year, crude oil was a success story in the U.S.-China trade relationship as Beijing bought increasing volumes of booming U.S. shale oil production. In the first nine months of this year, China imported about 328,000 barrels per day from the United States, representing about 3.6 percent of its total crude imports. China's imports of U.S. crude reached a record high of about 460,000 barrels in June, according to the Refinitiv data.

It's worth noting that China hasn't imposed any tariff on U.S. crude imports, unlike coal and liquefied natural gas, which were included in Beijing's retaliatory measures. What seems clear is that Chinese refiners decided to hold back on buying U.S. crude either because they were nudged by the government or because they were concerned that a tariff would be imposed. Using oil for politics is certainly nothing new, so the resumption of trade between China and the United States may well depend on the status of talks.

TransCanada will change name to TC Energy

(Bloomberg; Jan. 9) - TransCanada is taking the Canada out of its name. The Calgary-based firm that was created in 1951 as TransCanada Pipelines Ltd. to bring natural gas to Eastern Canada from Alberta, will change its name to TC Energy in the second quarter. "The name TC Energy clearly articulates our complete business — pipelines, power generation, and energy storage operations — and reflects our continued continental growth into an enterprise with critical assets and employees in Canada, the United States, and Mexico," CEO Russ Girling said in a statement Jan. 9.

Fittingly, the name change was announced at an employee forum in Mexico City. TransCanada is increasingly getting more of its revenue from outside Canada, where it built the 8,700-mile Mainline gas pipeline in the 1950s. The U.S. accounted for about 60 percent of TransCanada's revenue in 2017, according to data compiled by Bloomberg. About 36 percent came from Canada and the rest from Mexico. TransCanada, which diversified heavily into the U.S. with its $10.2 billion Columbia Pipeline Group acquisition in 2016, signaled a name change more than a year ago.