Oil and Gas News Briefs
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Chinese power generator will add low-emission coal plants

(Reuters; July 18) - China Energy Group, the country's biggest power generator, will add more than 6 gigawatts of new ultra-low emission coal-fired capacity this year as it works to meet growing electricity demand, a senior company official said July 18. The company also expects to build an additional 5 gigawatts of low-emission capacity next year, said Xiao Jianying, the head of the state-run firm's coal-fired power department.

"China still has quite a big demand for electricity. The government now supports regions with poor wind and solar resources to use coal-fired power ... it's a more practical measure, as gas is still too expensive," Xiao said. China Energy's coal plants as of the end of 2018 had a capacity of 175 gigawatts of power, 77.4 percent of its total capacity. Xiao said it would gradually shut down small and polluting coal-fired units and replace them with efficient ones. Total coal capacity would continue to grow but at a slower rate.

The firm is also planning to launch another carbon capture and storage (CCS) project in Northwest China next year as part of its efforts to reduce the environmental impact of burning coal, company officials said. It already runs a CCS plant at its coal-to-oil facility in Inner Mongolia. China has vowed to control coal production and new coal-fired power capacity as part of its commitments to curb pollution and fight global warming. However, it's shown signs of relaxing restrictions in recent months amid an economic slowdown.

Market awaits results of Pakistan's long-term LNG supply bids

(Reuters; July 19) - Italian oil major Eni, China's overseas energy unit PetroChina, and two trading houses are vying to supply liquefied natural gas to Pakistan in one of the largest tenders ever worth billions of dollars, two sources familiar with the matter said July 19. The 240-cargo, 10-year tender, which is likely to be worth $5 billion to $6 billion according to Reuters calculations and the estimates of another source based on current market conditions, was issued last month and closed July 18.

Pakistan is expected to be a significant growth driver in global LNG demand, with Wood Mackenzie estimating it will need 25 million tonnes a year as domestic gas supplies dwindle and its economy grows. That would make it a Top 5 LNG buyer. The bidders are Eni, the trading arm of Azerbaijan state oil company SOCAR, PetroChina International Singapore, and global trading house Trafigura, the sources said.

The tender is keenly watched due to its size and because Pakistan, gripped in an anti-corruption drive, is expected to publish the lowest prices offered. This will give valuable insights into opaque LNG markets characterized by closed bilateral trades, secret long-term supply agreements and over-the-counter spot trades. In Pakistan's last short-term tender, the low bids came in at 7.13 and 8.54 percent of a barrel of Brent crude, around $4.40 to $5.30 per million Btu at the prices of that day June 14. But multi-year contracts in the past year have tended to use a higher oil-linked price slope — 11 to 12 percent.

Start-up of Russian pipeline to China could cut into Australian LNG

(The Global Times; China; July 17) – December's scheduled start-up of Russia's Power of Siberia gas pipeline to China could be a bad omen for Australian liquefied natural gas exports. More than 1,200 miles of the 2,000-mile line have been tested, a top Gazprom executive said July 16. In China construction is underway to bring the gas south to Shanghai, the nation's largest industrial city. At peak operation in a few years, the line will be able to deliver more than 3 billion cubic feet of gas per day into China.

Because of the higher cost of liquefied natural gas imports and regasification expenses and the country's strained ties with China, Australian LNG exports stand to lose from the upcoming era of Russian pipeline gas, said Jin Lei, an associate professor at the China University of Petroleum. Australia has been China's largest source of imported LNG. In April, its shipments to China surged 61.3 percent year-on-year, as demand in China rose and Australia expanded its LNG export capacity.

"Australian LNG shipments to China will face a very big challenge when the Russian pipelines begin to channel gas," Jin said July 17. "If the price of the Russia-China natural gas deal is reasonable, then pipeline gas will squeeze the LNG market," Jin said. In 2014 Russia and China signed a $400 billion, 30-year supply deal. Pricing terms were not disclosed. China currently is supplied by pipelines from Turkmenistan and Myanmar in addition to LNG imports and domestic gas production.

Senator skeptical of Chinese investment in West Virginia gas

(The Herald-Dispatch; Huntington, WV; July 18) - As U.S. relations with China remain tense, questions continue to swirl around the supposed multibillion-dollar natural gas investment that China said in 2017 it planned to make in West Virginia, the latest coming from Sen. Joe Manchin, D-W.Va., who said he wonders about China's motives. In a hearing of the Senate Committee on Energy and Natural Resources last week to discuss U.S. liquefied natural gas production, Manchin — the ranking Democrat on the committee — said he was dubious over China's good will toward the Mountain State.

“Our budget is only $4 billion a year and they're going to invest $83 billion. What would be their interest?” the senator said of the natural gas and petrochemical production investment announced after President Trump met with Chinese officials in Beijing. “We cannot find out one iota of what the (memorandum of understanding) is. I have asked them directly and cannot get a direct answer about their investments."

Machin said he is concerned about sending U.S. propane, ethane and butane to China. "It could take away our building stock for manufacturing," he said. "And I can't believe that this administration would allow in any way, shape or form for this project to go on.” Since the 2017 announcement, few details have been unveiled and China has not put any money into the state. Though Gov. Jim Justice could not be reached for comment for this story, he said in 2017 that anticipated shovels in the ground within 10 months.

Traders hold LNG in storage, waiting for higher prices

(Reuters; July 18) - Traders in liquefied natural gas trying to find the best destination for the fuel in an oversupplied market are having problems delivering into Spain, where storage tanks are already full in anticipation of higher prices later in the year. The situation, which puzzled some traders, illustrates how the global LNG market has been upturned by soaring production in the Atlantic Basin and benign Asian demand.

Storage tanks in regasification terminals typically see fairly swift turnover as LNG is regasified before being sent into the transmission network. However, importers are increasingly holding off on regasifying the LNG as they await higher prices, creating a block in the supply chain. LNG storage tanks at Spain’s three busiest import terminals are expected to be significantly fuller this month and in August than a year ago and close to the brim, according to data from technical manager Enagas.

“The tanks are practically full because operators are playing a contango,” said a senior gas trader in Spain. Contango is when today’s LNG fetches a lower price than in the future, prompting some traders to try to store the fuel and deliver it at a more attractive price later in the year. “A lot of the guys treat the regasification terminals in Spain as storage,” said a European-based trader. Spain is part of the Atlantic Basin trade in LNG, which has been inundated with new production from the U.S. and the Russian Arctic.

Louisiana LNG developer raises money from over a dozen lenders

(S&P Global Platts; July 18) - Venture Global LNG has secured additional financing commitments that when combined with previously announced capital will more than cover construction of its Calcasieu Pass export terminal in Louisiana and feed-gas pipeline, the company said July 18. The commitments from more than a dozen Asian, European, and North American lenders — terms were not disclosed — give a significant boost to the developer which, despite its success signing offtake agreements with LNG buyers, has faced questions about whether it would be able to pay for construction.

Venture Global estimated in 2014 and 2015 that the terminal, at 10 million tonnes annual capacity, and affiliated pipeline would cost $4.5 billion. In its July 18 statement, the company said the new commitments raise its total capital to $8.6 billion, allowing it to continue full construction and fabrication for Calcasieu Pass, which will use mid-scale, modular, factory-fabricated liquefaction trains. Site work is underway. Venture Global has also proposed two other Louisiana LNG terminals. The funding commitments should allow it to support some of the early costs of those projects.

One key issue not addressed in Venture Global's statement was uncertainty about its agreement with its contractor, Kiewit, which is responsible for designing, engineering, constructing, commissioning, and guaranteeing Calcasieu Pass. Some analysts have questioned whether the agreement protects Venture Global against cost overruns. The company, which plans to start production in 2022, has long-term offtake contracts with Shell, BP, Italy's Edison, Portugal's Galp, Spain's Repsol, and Poland's PGNiG.

Start-up delayed at $2 billion LNG export plant in Georgia

(Savannah Morning News; Georgia; July 18) - The LNG liquefaction project on Elba Island in Georgia's Savannah River has been delayed by difficulties in getting the first of 10 liquefaction units to cool the gas uniformly. Federal regulators authorized the $2 billion Kinder Morgan project in June 2016, at 2.5 million tonnes annual capacity. Work started that November, with start-up planned for late 2018, later delayed to May 2019. No new date has been set. Shell has a 20-year contract to take all of the plant's output.

The project uses a new technology developed by Shell called Movable Modular Liquefaction System. When finished there will be 10 small-scale liquefaction units. "We expect to be in service on unit one soon," Kinder Morgan CEO Steven Kean said in a July 17 earnings call. The Elba LNG import facility, about five miles from Savannah City Hall, opened in 1978 and closed in 1980. It reopened in 2001 but there have been few imports over the past decade as fracking increased U.S. gas production. Owners Kinder Morgan and EIG Global Energy are adding liquefaction and exports to the plant.

The project has run into problems getting the gas to the right temperature. "We've had some mechanical issues … with having LNG at actually too low of a temperature and solidifying," Kean said. "The issue that we had was making sure that we had a uniformly cold box where we make the LNG. … We need to get the top of the box cool uniformly with the bottom and what that required was a slower start-up." Kean said full commissioning of the 10 liquefaction units could continue into 2020.

Freeport LNG gets approval to start commissioning first train

(S&P Global Platts; July 19) - Freeport LNG was given the go-ahead July 19 to begin flowing gas to its first liquefaction train for commissioning the unit as it prepares to start production at the export facility in Texas. The terminal south of Houston will be the sixth major LNG export facility to begin operations in the U.S. when it starts production.

In a letter to Freeport LNG, the Federal Energy Regulatory Commission said the operator can now introduce hazardous fluids for the commissioning of Train 1 and associated utility systems. It must apply for and receive separate permission to place the unit — one of three being built at the facility — into service. At full operations, the plant will have capacity to produce 15 million tonnes of LNG per year. Earlier in July, Freeport LNG said the first commissioning cargo would be ready to load in August.

Persian Gulf tensions a concern as China relies on LNG imports

(Eurasia Review; July 18) - Analysts are divided on the degree of China's risks from its growing reliance on imports of liquefied natural gas as threats to shipping through the Persian Gulf grow. As the world's largest oil importer, China already faces questions about its rising reliance on imported crude at a time of tensions in the Gulf and recent attacks on tankers near the Strait of Hormuz. In the past decade, China's dependence on foreign oil has climbed from 50 percent of consumption to 70 percent.

With China's push to curb air pollution from coal, its growing reliance on imported gas may not be far behind oil. Last year, imports covered 44.5 percent of China's gas consumption, up from 30 percent in 2015. Much of that growth has come from LNG. In 2018, LNG imports totaled more than 53 million tonnes, 170 percent higher than in 2015. China's LNG imports are expected to rise by an additional 30 percent to 2020, according to a recent report from the Oxford Institute for Energy Studies.

Rough calculations suggest that China would have to increase LNG imports by at least 130 cargoes annually just to meet the 2020 forecast, even using the largest class of vessels available, prompting concerns about risk, logistics, and vulnerability. "In theory, an extended conflict along the lines of the so-called tanker war of the 1980s could have a serious impact on the LNG trade," wrote Bloomberg columnist Liam Denning, noting that 26 percent of the world's LNG cargoes pass through the Strait of Hormuz.

U.K. adds new gas storage to meet demand

(Bloomberg; July 17) - Two years after the U.K.'s largest natural gas storage site slipped into retirement, demand for new places to keep the fuel is ratcheting up. InfraStrata, which is planning a 265 million pound ($330 million) storage facility in

Northern Ireland, said the need for space is so strong that commodities firm Vitol Group last month booked the entire capacity of the Islandmagee site. The project's seven salt caverns have enough room to more than meet U.K. winter gas use for an entire day.

"There is more demand in the market than we can satisfy with Islandmagee," said John Wood, CEO of InfraStrata. With Britain's Rough storage site now permanently shut, Islandmagee is expected to provide about 25 percent of the nation's reserve capacity. Gas storage that can respond quickly to balance the ebb and flow of renewable generation will help ease the nation's reliance on gas imports. It will also provide more security when a winter cold blast strikes, an event that roiled energy markets last year.

Islandmagee is one of several gas storage projects proposed for the U.K. and Ireland. Plans for floating storage and regasification units to bring in liquefied natural gas are being explored by InfraStrata and others. So-called fast-cycle facilities such as Islandmagee can quickly switch between storing gas and supplying it to heat homes or offset swings in renewable power generation. Islandmagee can store almost 18 billion cubic feet of gas. InfraStrata has identified three potential sites with similar capacity.

Canadian bank sees LNG oversupply continuing into mid-2020

(S&P Global Platts; July 19) - The Royal Bank of Canada expects the oversupply in global gas markets to continue at least into mid-2020 and has cut its European gas-price forecast for next year as a result. In a report, "European Gas Strategy — Tug of War," the bank said it saw few bullish signals for this year. "We see the market as clearly oversupplied in 2019 and more moderately oversupplied in 2020 with really only China able to rebalance the market through continued demand growth," RBC said.

RBC said any spikes in demand — which could push up prices — were likely to be weather-dependent and therefore "difficult to forecast." RBC has updated its gas price call for 2020, forecasting the U.K. pricing hub at about $5.60 per million Btu, down almost 14 percent from its earlier forecast. "Hub pricing in Europe and Asia has fallen well below our expectations, and with European gas storage filling at levels ahead of historical norms it paints a pretty ugly picture for gas markets," RBC said.

"We do not expect many positive data points until we get through the summer, and we expect some of these headwinds to continue into 2020," the bank said. Another sign of an oversupplied market is high LNG deliveries to Europe versus weakened demand in Asia. LNG has grown to become a key supply to Europe, RBC said, accounting for 10 to 15 percent of Europe's gas consumption so far in 2019 — well up on previous years.

Berkeley, California, bans natural gas lines to new homes

(San Francisco Chronicle; July 18) – Berkeley, California, has become the first city in the nation to ban installation of natural gas lines in new homes. The city council on July 16 unanimously voted to ban gas from new low-rise residential buildings starting Jan. 1. It's not the first time Berkeley has passed pioneering health or environmental legislation. In 1977 it was the first in the U.S. to ban smoking in restaurants and bars. In January it banned single-use disposables at restaurants, requiring compostable utensils.

The natural gas ordinance, introduced by Councilwoman Kate Harrison, requires all new single-family homes, town homes and small apartment buildings to have electric infrastructure. "It's an enormous issue," Harrison told The Chronicle. "We need to really tackle this. When we think about pollution and climate-change issues, we tend to think about factories and cars, but all buildings are producing greenhouse gas."

The ordinance allocates about $550,000 for a two-year staff position in the Building and Safety Division for implementing the ban. Mayor Jesse Arreguin called the ordinance innovative and groundbreaking. "I'm really proud to be on this city council to adopt this groundbreaking ordinance. ... We know that the climate crisis is deepening and is having cataclysmic impacts," he said at the meeting.

New Hampshire utility will demonstrate LNG safety

(Seacoast Online; Portsmouth, NH; July 18) - Liberty Utilities, which is trying to win regulatory approval for a liquefied natural gas storage facility in New Hampshire, will host a safety demonstration at the Epping Middle School gym on July 31, led by LNG expert Erik Neandross. Liberty Utilities wants to build LNG storage in West Epping as part of its proposed Granite Bridge project to help meet growing demand in the state.

"New Hampshire's existing gas infrastructure has reached capacity and will hinder future economic growth unless it's expanded," said John Shore, Liberty Utilities' senior manager of communications. "Part of the project includes the sitting of an LNG storage facility in an abandoned quarry," Shore said. The proposed storage facility would allow Liberty to purchase gas when prices are low, liquefy and store it for later use, especially during peak winter demand. The 170-foot-tall tank would hold 24,000 gallons of LNG.

"We're bringing experts to Epping so the public can learn about LNG and its inherent safety first-hand," Shore said. The demonstration will include pouring LNG onto the floor and into water, and attempting to light LNG. Neandross is a former professional firefighter with specialized training in LNG spill control and fire suppression.

IEA cuts global oil demand forecast due to slowing economy

(Reuters; July 18) - The International Energy Agency is reducing its 2019 oil demand forecast due to a slowing global economy amid a U.S.-China trade spat, its executive director said July 18. The IEA is revising its 2019 growth forecast to 1.1 million barrels per day and may cut it again if the global economy and especially China shows further weakness, Fatih Birol said. Last year the IEA predicted 2019 oil demand would grow by 1.5 million barrels per day but cut the growth forecast last month to 1.2 million.

"China is experiencing its slowest economic growth in the last three decades, so are some of the advanced economies. … If the global economy performs even poorer than we assume, then we may even look at our numbers once again in the next months to come," Birol told Reuters. He said oil demand was hit by a trade war between the U.S. and China at a time when markets are awash with oil, due to rising U.S. shale output.

Birol said current prices around $65 a barrel for Brent already have taken into account the tensions relating to supply from Iran, Libya, and Venezuela, as well as concerns about the U.S.-Chinese trade fight. He does not expect a big jump in prices because there is "a lot of oil and this is mainly thanks to the shale revolution in the U.S."

Canada's energy board says work can resume on oil pipeline

(Financial Post; Canada; July 19) – Canada's National Energy Board has cleared the way for construction to resume on portions of the Trans Mountain pipeline expansion by re-validating all the orders and decisions it approved before its permits were overturned last year. The NEB announced July 19 that "decisions and orders issued prior to the Federal Court of Appeal decision will remain valid." With that, 73 percent of the pipeline route has been approved and 64 of 98 pre-construction conditions have been met.

Among those previously issued and now still-valid orders are clearances for Trans Mountain to begin construction on "portions of the pipeline route," on temporary infrastructure sites along the route and at the Westridge Marine Terminal in Burnaby, British Columbia. The NEB did not say when full construction could begin on the project to almost triple capacity of the line to move 890,000 barrels a day between the oil sands in Alberta to an export terminal on the West Coast.

Construction stopped in 2018 after the Appeals Court ruled that Ottawa hadn't properly consulted with First Nations or studied the project impact on marine wildlife. Since then, Ottawa has undertaken additional study of the impact of the project and tanker traffic on marine wildlife and held additional consultations with First Nations. Prime Minister Justin Trudeau announced in June reapproval of the project. While work resumes, opponents continue to challenge the C$7.4 billion project, which the federal government took over last year after the owner was ready to abandon it amid regulatory and legal delays.

Enbridge will switch oil line to contract carrier, delays open season

(Reuters; July 17) - Enbridge has delayed the start of an open season to solicit bids for contracted space on its Mainline oil pipeline system, North America's largest oil-shipping network, three market sources told Reuters. The reason for the delay was not immediately clear. Calgary-based Enbridge plans to turn the Mainline system from a common carrier system where shippers submit monthly bids for capacity to one where the line's capacity is mostly taken under contract for up to two decades.

The open season, a period in which shippers can submit bids for contracted space, was meant to start in mid-July and last for two months. Three sources said the start of the open season has been pushed back. "We have been in discussions with interested shippers and are working to accommodate their needs. We anticipate holding the open season soon," Enbridge spokeswoman Tracie Kenyon said.

The Mainline is vital to transport barrels out of Canada, which has grappled with delays in pipeline projects because of environmental and legal opposition. The Mainline currently operates under a system in which customers nominate the volume they want to move each month, generating criticism that some larger shippers inflate their nominations to game the system. Smaller producers have raised concerns they will not be able to meet Enbridge's minimum-term and volume commitments in the switch to operating as a contract carrier and will be shut out by larger competitors.