Oil and Gas News Briefs
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U.S. has plenty of gas but lacks pipelines to get it where it's needed

(Wall Street Journal; July 7) - America is awash in natural gas. Yet in parts of the country there's hardly a drop to burn. Earlier this year, two utilities that serve the New York City area stopped accepting new customers in two boroughs and several suburbs. Citing jammed gas lines running into the city on the coldest winter days, they said they couldn't guarantee they'd be able to deliver to additional furnaces. Never mind that the country's most prolific gas field, the Marcellus Shale, is only a three-hour drive away.

Meanwhile, in West Texas, drillers have so much gas they're burning it. U.S. production rose to a record of more than 37 trillion cubic feet last year, up 44 percent from 10 years ago. Yet the infrastructure to move gas around the country hasn't kept up. Pipelines aren't in the right places, and when they are, they're usually decades old and too small.

This spring the price of natural gas at a trading hub near Midland, Texas, dropped as low as negative $9 per million Btu — meaning that producers were paying people to take it off their hands. Elsewhere, prices soared due to bouts of cold weather coupled with supply disruptions. At a trading hub in Sumas, Washington, gas rose to $200 per million Btu in March, the highest ever recorded in the U.S. In Southern California prices went as high as $23; the average over the winter was a record $7.23.

One reason for the problem is that pipelines have become political. Proponents of reducing the use of fossil fuels have had little luck limiting drilling in energy-rich regions. Instead, they've turned to fighting pipeline projects on environmental grounds in regions like New York and the Pacific Northwest, where they have a more sympathetic ear.

LNG exports provide outlet for growing U.S. natural gas production

(S&P Global Platts; July 2) - Growing exports of U.S. LNG will help prop up domestic gas prices despite surging production that has created a years-long glut, according to a report from Moody's. Analysts at the credit rating agency said global demand for LNG will not be enough to force U.S. prices beyond the agency's projected range of $2.50 to $3.50 per million Btu for the foreseeable future. But demand will be enough to prevent gas prices from dropping below that as production continues to increase, Moody's said.

"We believe the growing U.S. export market will help maintain a floor under natural gas prices, without which prices could tumble, threatening production," Moody's said. LNG export capacity could climb above 7 billion cubic feet per day by early 2020, reflecting continued production increases at Cheniere Energy's Sabine Pass terminal in Louisiana and start-up of additional terminals, Moody's said. In May the Sempra-led Cameron terminal in Louisiana became the fourth major U.S. LNG export facility, with two more expected in 2019: Kinder Morgan's Elba project in Georgia and Freeport LNG in Texas.

U.S. gas production is expected to keep outpacing domestic demand. The U.S. Energy Information Administration projects production will grow to about 115 bcf per day in 2040, Moody's said. LNG exports will serve as a critical outlet for U.S. gas because demand in other areas, such as power generation and pipeline exports to Mexico and Canada, will not be enough to balance out oversupply, Moody's said. For now almost 10 bcf a day of liquefaction capacity is under construction in the U.S. across six projects that are scheduled to go into service between 2020 and 2025, according to the report.

No U.S. LNG to China in second quarter of this year

(S&P Global Platts; July 2) - No U.S. LNG export cargoes were delivered to China in the second quarter, a plunge from nine during the same period a year earlier as the tariffs battle between Washington and Beijing escalated. Shipments to Spain, France, and Chile helped pick up the slack as the U.S. saw a 55 percent increase in worldwide export deliveries during the three-month period that ended June 30, S&P Global Platts Analytics trade flow data showed July 3.

The shift in trade flows to Europe and South America reflects efforts by U.S. exporters to look beyond Asia, the world's biggest importer and for a long time seen as key to U.S. liquefaction capacity growth. Besides the trade tensions with China, low prices for LNG in Asia also have contributed to the shift. There are four major U.S. LNG export facilities operating along the Gulf and Atlantic coasts. Two more — one in Texas and the other in Georgia — are expected to start up later this year with several more in the 2020s.

The market dynamics and the prospects for projects that have yet to start construction, however, have changed due to the U.S.-China trade battle. The American Petroleum Institute (API) fears that if there's no agreement to the U.S. dropping its tariffs and China dropping its retaliatory tariffs, the standoff will have a lasting impact on flows across the global LNG market, said Aaron Padilla, API senior adviser for international policy.

August spot-market LNG in Asia slips to $4.30

(Reuters; July 5) - Spot liquefied natural gas prices in Asia tumbled this week after a three-week rise as new supply hit the market amid continuously subdued demand for the fuel. The price for LNG in Northeast Asia in August is estimated at $4.30 per million Btu, a 50-cent drop from last week. LNG traders said demand from key buyers in Asia is likely to stay thin, with some market sources decreasing their price expectation for the upcoming winter to as low as between $6.50 to $7.50 from earlier forecast of above $8.

In the past week, projects in Angola, Australia, the United Arab Emirates, and Papua New Guinea were among those that issued spot-market sell tenders. An August cargo from the ExxonMobil-led Papua New Guinea project was sold earlier this week at $4.50 and a September cargo at $4.55, a market source said.

Market may push LNG traders to divert more cargoes

(Bloomberg; July 5) - A tanker traveling from the Arctic to Belgium with a cargo of Russian liquefied natural gas was instead sent to Israel at the last moment. The ship changed destination just before arriving, indicating how quickly traders need to act in a market where healthy inventories and robust supply have sapped prices to near their lowest in almost a decade.

It may well be a sign of things to come for the rest of the summer, as the Asian benchmark Japan-Korea Marker spot price stays low and Middle East demand for cooling increases. “You can see room for more diversions,” said Jean-Christian Heintz, head of LNG brokering at SCB Brokers in Nyon, Switzerland. “It might rapidly become more attractive for cargoes to go to India and Southeast Asia — they could be good opportunistic buyers in coming weeks.”

As European inventories are filling rapidly, traders may start looking at filling underground storage in the U.S. or choose to store LNG cargoes on the water, according to consultancy Energy Aspects.

Alberta will cover property tax break for shallow gas producers

(Calgary Herald; July 3) – Alberta will offer tax relief this year for shallow gas producers suffering from a “broken” property tax assessment system, the government said July 3. The move will reduce municipal taxes on the wells and pipelines by 35 percent. The province will pay for the one-time reduction. “It’s well established that the gas industry is in bad shape, particularly when gas is selling at a negative price,” a government official said. “We’ll commit to a proper full review of that system for the next municipal tax year.”

The province will offset the revenue shortfall by reducing the amount of education tax receipts municipalities are required to send to the province. “It’s an interim measure. The property taxes model should not be the one used for relief year-after-year,” said Al Kemmere, president of Rural Municipalities of Alberta. “This is a one-time thing that the province has decided to take on and it should not become a regular norm." The program is expected to save producers about C$23 million this year.

Alberta's new minister in charge of gas said last month that a large price differential was hurting Western Canadian producers — with gas prices in Alberta measuring less than a tenth of the benchmark U.S. gas price — and could lead to more companies failing. "Some days we are almost giving this product away for free," said Dale Nally, associate natural gas minister. Gas at the Alberta price benchmark, AECO, averaged just 17 cents per 1,000 cubic feet at times last week and averaged just 69 cents on July 3.

LNG project near Vancouver wins provincial permit

(The Star; Vancouver; July 3) - The British Columbia Oil and Gas Commission has approved a controversial liquefied natural gas project planned for the site of an old pulp and paper mill about 30 miles north of Vancouver. Woodfibre LNG is licensed to export 2.1 million tonnes a year of liquefied natural gas for four decades, which would require three or four tanker trips a month through Howe Sound, according to the company.

The permit granted this week by the oil and gas commission is one of the key approvals the company needs to move forward. Woodfibre LNG is a subsidiary of Pacific Oil & Gas, of the Singaporean conglomerate RGE. In May the company said it anticipated making a construction decision sometime this year with production to start in 2023. Woodfibre estimates the project will range from C$1.4 billion to C$1.8 billion. "This is a positive step forward," David Keane, Woodfibre LNG's president said July 3.

That's not how Tracey Saxby sees it. "We simply cannot develop new fossil fuel infrastructure if we want to have a livable planet. We're facing a climate emergency and developing natural gas for export makes absolutely no sense," said Saxby, executive director of the environmental organization My Sea to Sky. LNG carrier traffic is a major worry for people who live along Howe Sound, Saxby said. "We're going to be watching them every single step of the way. This is not going to be an easy path for them."

Pakistan will seek bids for country's third LNG import terminal

(S&P Global Platts; July 5) - The Pakistani government has given approval to the country's third liquefied natural gas import terminal, after the International Monetary Fund on July 3 granted the country a $6 billion, three-year loan. However, start-up of the facility is likely to suffer delays beyond its initial 2019-end target, as the government has prioritized using the cash to shore up foreign exchange reserves that have been falling over the past 10 months, an official with the petroleum ministry said this week.

The government will issue a tender next month seeking expressions of interest from potential companies to develop the floating LNG terminal, which will be located at the port of Karachi. The facility will increase the country's regasification capacity by 600 million cubic feet per day. The country's fourth LNG terminal was originally scheduled to commence operations in 2020, but it remains unclear if those plans have changed.

Pakistan, which began LNG imports in 2015, received 6.8 million tonnes in 2018, according S&P Global Platts Analytics. The government is targeting up to 21 million tonnes of LNG imports by 2025, in a bid to bridge the gap between rising domestic gas consumption and declining domestic gas reserves.

Bangladesh apparel makers object to 38% natural gas price hike

(Nikkei Asian Review; July 5) - Apparel makers such as Dhaka-based Ananta Group are powering Bangladesh's economic expansion, the fastest in Asia, but a record natural gas price spike threatens to derail the industry's growth. In an attempt to cut losses from imported liquefied natural gas, the government raised gas prices by almost one-third on average, effective July 1. The country subsidizes gas, selling it below production costs.

With annual sales of more than $300 million, Ananta employs 26,000 people and churns out bottoms, sweaters and men's suits for top Western retailers such as H&M, Gap, Levi's, Marks & Spencer, Jack & Jones, and Zara. The gas price hike will make it difficult for the company to sustain its growth, said managing director Sharif Zahir. For industrial users like Ananta, prices went up 38 percent and for power operators the increase was as high as 43.97 percent. Households will see their prices rise by almost 25 percent.

The decision has sparked an outcry from businesses, consumer rights groups and opposition parties. With gas costs constituting about 1.5 percent of manufacturing expenditures in the apparel industry, a 38 percent hike in gas price means an almost 1 percent increase in production costs, said Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association. "This may not sound much in terms of percentage, but for an industry struggling for every penny this will be another blow."

LNG carrier on first summer 2019 voyage through Northern Sea Route

(Reuters; July 5) - A liquefied natural gas tanker carrying a cargo from the Yamal LNG plant has spent this week making its way through arctic waters north of Russia toward Asia, marking the first voyage of the 2019 summer season across the Northern Sea Route. The Vladimir Rusanov, an Arc7-class LNG carrier that can plough through semicleared waters, left the Sabetta port on June 29 and is in the Chukchi Sea close to the Bering Strait, Refinitiv Eikon shipping data showed on July 5.

The route is frozen for most of the year but is increasingly used during the summer as ice clears quicker and for longer as the climate changes. Vessels are now able to cross the route without the use of icebreakers to clear their path. Russian gas producer Novatek began operations at Yamal with the aim to ship some of its LNG eastward with its ice-class tankers. Last year four such tankers were sent eastward.

For Novatek, the route is attractive because it gives a much more direct access to the world's largest LNG consumers in Asia. For other shipping companies, the route has the potential to cut the costs and time to access Asian markets.

Yamal LNG moves reloading from Norwegian port to Murmansk

(Barents Observer; Norway; July 5) – "It has become more quiet," harbor inspector Oyvind Larssen said. "We especially feel that the tugboats are gone, they had become a part of town," he said. Larssen is harbor inspector at Norway's North Cape seaport, the site that over the past half-year has handled several million tonnes of liquified natural gas from Russia's Yamal LNG plant. Since late last year, the Norwegian town has hosted transfer operations from ice-class LNG carriers to conventional ships.

The last LNG carrier left Honningsvag on June 29, Larssen said. And they will not come back. "It looks like they will move to Murmansk," a Russian port to the east of Norway. The first Russian LNG carrier came to Honningsvag and the North Cape port in November 2018. Since then more than 300 carriers have sailed into the local Sarnes Fjord and reloaded several million tonnes of LNG.

At most, six LNG carriers were simultaneously involved in reloading in the Sarges Fjord, the bay outside Honningsvag. At the same time, a number of additional tankers were waiting in nearby waters for their turn. The transfers enabled Yamal LNG operator Novatek to reduce costs. Ice-class tankers shuttled from Yamal to Honningsvag, where the LNG was reloaded to conventional tankers. Novatek earlier this year signaled it would move the ship-to-ship reloading operations to Russian waters in 2019.

Canadian Indigenous-led group says it will make offer for oil pipeline

(Reuters; July 2) - An Indigenous-led group plans to offer to buy a majority stake in the Trans Mountain oil pipeline from the Canadian government, a deal that could help Prime Minister Justin Trudeau mitigate election-year criticism from environmentalists. The group, called Project Reconciliation, aims to submit a C$6.9 billion offer, managing director Stephen Mason said. The group hopes to buy 51 percent of the pipeline for

C$2.3 billion and roughly half the expansion project for C$4.6 billion. It would finance the deal through bank loans underwritten by commitments from oil shippers.

The government would retain 49 percent. Mason declined to say how many communities support Project Reconciliation. The group said the investment will alleviate First Nations poverty, a watershed for indigenous people who have historically watched Canada's resources enrich others. Expansion would triple capacity of the pipeline to almost 900,000 barrels a day for moving crude from Alberta to British Columbia's coast, helping to resuscitate an industry depressed by low prices and congested pipelines.

The government, which bought the pipeline last year after its owner, Kinder Morgan, gave up trying to get the expansion past regulatory and legal hurdles, has been touting First Nations participation. A deal ahead of the fall election could ease criticism from voters who complain of broken promises on the environment and aboriginal rights. Still, not all First Nations are on board. Some in British Columbia have pledged to keep fighting the expansion, saying ownership makes no difference to the risk of oil leaks.

Australia power plant operators adapt to growth in renewables

(Bloomberg; July 2) - When an old gas turbine comes up for major maintenance at Origin Energy's Quarantine power station in South Australia, the company doesn't do the repair work. Instead, it replaces the turbine with a new lightweight version that can deliver power to the grid within five minutes of firing up. That rapid-response technology can help the company manage the transition to cleaner energy because it can quickly offset intermittent power from wind- and sun-powered generation.

"That's what we need in our portfolio to back up renewables," said Greg Jarvis, who runs Origin's generation business. The shift from coal, which provides nearly 70 percent of Australia's electricity, is proving tricky for plant operators. That's partly because renewables don't always produce steady levels of power, requiring backstop supplies with quick-release sources. That can include batteries or so-called peaking plants, like Origin's Quarantine station, which is being upgraded with new gas turbines.

As well, increasingly hot summers have led to demand spikes on an aging grid that still suffers from blackouts. The government plans to proceed with a retailer reliability obligation that requires generators to guarantee they have enough dispatchable power to meet demand. It has also embarked on a program to underwrite investment in new generation, focusing on gas and hydro projects that can provide power on demand.

China eases restrictions on foreign investment in oil and gas

(S&P Global Platts; July 3) - China has lifted some restrictions on foreign investment in its conventional oil and gas upstream and city gas distribution sectors, in an attempt to boost resource development, and setting the stage to break the monopoly of national oil companies. The new policy, which will take effect on July 30, is part of a wider swathe of ongoing market reforms aimed at opening up Chinese industries to foreign companies, and comes on the backdrop of the trade conflict with the U.S.

China's policy regulator National Development and Reform Commission and the Ministry of Commerce on June 30 published the 2019 edition of the Special Management Measures for Foreign Investment Access, also known as the "Negative List," which details restrictions on foreign companies in China. The new policy removes ownership restrictions under which foreign companies were required to enter a joint venture or partnership with Chinese companies for upstream oil and gas activities. They will now be able to operate fully owned entities in the country.

It is aimed at boosting production of conventional oil and gas that has plateaued in recent years due to depleting reserves, forcing China to rely increasingly on imports. Ownership controls on unconventional resources were removed in 2017. Attracting upstream investment to China could still be challenging because oil majors have been diverting capital budgets to high-growth areas like U.S. shale.