Oil and Gas News Briefs
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Natural gas demand growth showing weakness in Asia

(S&P Global Platts; Nov. 20) - An anticipated softer approach by some Asian governments in pushing coal-to-gas switching because of feeble economic growth and rising oil supplies due to stricter marine fuel rules may cast a shadow on the region's appetite for natural gas, analysts said. While Asia's top energy consumers struggle due to slowing growth — China is witnessing its slowest GDP growth in decades and India's economy is facing headwinds — the argument to speedily replace coal with relatively expensive gas under the current economic climate is a tough sell for policy makers.

This could result in Asia's hunger for gas slowing down in the near to mid-term, contrary to robust growth that analysts were expecting earlier. "No end in sight for Asia-Pacific's growth slowdown. China says goodbye to growth above 6 percent as policymakers show welcome restraint. India's soft patch should firm but slowly. Japan's resilience will be tested by the global slowdown," S&P Global Ratings said in a research note.

In Japan, there was a year-on-year decline in power demand for July, caused by mild weather and lower-than-expected GDP growth. As a result, demand for gas in power generation dropped 1.7 billion cubic feet per day from a year ago, while demand for coal barely changed. "This is a good example of coal's resilience in Asia's power industry, especially in deregulated markets where providers of low-cost electricity are expected to gain market share," said Andre Lambine, a power analyst at S&P Global Platts Analytics.

After several years of strong growth, Asian LNG demand is expected to grow by less than 2 percent in 2019, according to Platts Analytics, far less than the 20 percent average growth in the region over the past three years.

Biogas another headache for beleaguered U.S. natural gas producers

(Wall Street Journal; Nov. 22) - It isn’t just Appalachian shale drillers that are swamping the natural gas market. Chicken slaughterhouses, pig farms, expired yogurt, and leftover bits from your last meal are contributing to the glut. A new batch of projects around the country promises to add so-called renewable natural gas to the supply of methane that is used to produce much of the country’s electricity, heat homes, and fuel buses.

Anaerobic digesters, which break down organic waste into usable fuel and fertilizer, are being built among chicken houses on the East Coast, at a defunct Philadelphia refinery to be filled with old food, and at a remote Utah site to collect fumes from a hog-manure lagoon. Capturing methane that would otherwise seep into the atmosphere reduces greenhouse gasses, but the added gas supply creates another problem for drillers already dialing back production to save themselves amid a years-long slump in prices.

U.S. natural gas futures are down 40 percent from the same time last year on record production volumes, robust stockpiles and forecasts for milder-than-usual winter weather. Though renewable natural gas, also known as biogas, is usually more expensive than the fuel extracted from shale formations — and often subsidized — it appeals to utilities, municipalities, and others because it can be used to meet carbon-reduction mandates and goals, as well as earn low-carbon fuel standard credits.

Though biogas production is only 1.1 billion cubic feet a day — 1 percent of total U.S. gas production — output is growing about 4 percent a year, analysts wrote in a recent report. "Any biogas growth adds to the already oversupplied gas market," they said.

FERC approves four LNG project applications in one day

(Bloomberg; Nov. 21) - Four liquefied natural gas export projects were cleared by the top U.S. energy regulator in a single day as a global supply glut casts doubt on whether they all will be built. The Federal Energy Regulatory Commission voted 2-1 for three terminals in the Port of Brownsville, Texas: Exelon-backed Annova LNG, NextDecade's Rio Grande LNG and Texas LNG. FERC also approved Cheniere Energy's expansion of its terminal in Corpus Christi, Texas. Democrat Commissioner Rich Glick, who has repeatedly criticized the agency for ignoring climate change, dissented.

Combined, the projects, if built, could almost double current U.S. LNG export capacity. The nation is already sending more gas overseas than ever as shale output surges. But prices have collapsed amid the U.S.-China trade war and a worldwide glut of the heating and power-plant fuel, making buyers increasingly unwilling to sign the long-term contracts needed to develop multibillion-dollar terminals.

FERC, which has approved about a half-dozen LNG projects so far this year, has faced repeated calls by developers to speed up reviews. It has added staff and is opening a Houston office to cope with the workload. Citing safety and environmental concerns, a coalition of environmentalists, Native Americans, shrimpers, fisherman, and communities working under the banner Save RGV From LNG oppose the Brownsville projects. "Today's approval is far from the end of the fight," Sierra Club Brownsville Organizer Rebekah Hinojosa said. FERC gave several opponents of the projects legal status in the permit applications, which allows them to request a rehearing or file a lawsuit.

U.S. LNG exporters signed deals this year for 22.3 million tonnes

(Natural Gas Intelligence; Nov. 20) - U.S. liquefied natural gas projects have signed the highest volume of global long-term export contracts this year as the next wave of facilities locks in customers seeking supply security. A report released Nov. 20 by analytics firm GlobalData shows the long-term contracts inked by U.S.-based exporters so far in 2019 have amounted to 22.3 million tonnes per year, accounting for 67 percent of all the long-term contracts signed worldwide.

The finding comes as no surprise, said Patrick Rau, director of strategy and research at National Gas Intelligence, "if for no other reason than the U.S. has the largest number of potential LNG export facilities on the drawing board right now." He said those projects, expected to come online in the coming years, "are still being underpinned by longer-term contractual obligations, since construction costs for the trains are astronomic."

The U.S. became the world's third largest LNG exporter this year behind Australia and Qatar. Send-outs have increased as several new liquefaction units have come online since last November. But even as a global supply glut is taking shape, long-term contracts remain in favor with buyers of U.S. LNG. Since 2016, more than 3.42 trillion cubic feet of gas as LNG has departed the U.S., but just 13.6 percent of that volume has been shorter-term spot cargos, according to the Department of Energy.

LNG project protestors arrested in Oregon governor's office

(The Associated Press; Nov. 23) - Authorities have released 21 people protesting a proposed 229-mile gas pipeline and coastal liquefied natural gas export terminal who were arrested Nov. 21 during a sit-in at the Oregon governor's office in the state Capitol. The demonstrators had demanded that Gov. Kate Brown publicly oppose the controversial $10 billion gas project in Coos Bay, which she has refused to do.

Southern Oregon Rising Tide, which organized the protest, said the 21 spent the night in jail and were out by 5 a.m. the next day. The Federal Energy Regulatory Commission earlier this month issued its final environmental impact statement on the project, concluding there would be no significant, long-term impact on the state's waters or wildlife. Opponents argue the project would encourage further use of fossil fuels, adding to global warming and increasing the risk of spoiling the land and ocean with spills.

"Jordan Cove would be a disaster for local streams and rivers that people and wildlife rely on, but regulators appear willing to ignore these impacts to bring dirty fracked gas to market," said Jared Margolis, senior attorney with the Center for Biological Diversity. FERC will not decide on the project application until February, and the project is still working through the state permitting process. The project sponsor, Calgary-based Pembina, is also continuing to look for customers and financing.

Papua New Guinea says Exxon unwilling to accept terms on gas deal

(Reuters; Nov. 22) - Papua New Guinea's petroleum minister on Nov. 22 flagged a standoff in talks with ExxonMobil tied to a $13 billion gas expansion effort, saying the U.S. oil giant was unwilling to negotiate on the country's terms. The state's negotiating team had set out draft terms for negotiations on developing the P'nyang gas field, which Petroleum Minister Kerenga Kua said would ensure a "fair deal" for the country.

"It is disappointing Exxon has refused to even consider these terms and we urge them to reconsider their position," Kua said. The new delay to the P'nyang agreement will make it harder for Exxon and its partners Total, Oil Search, and Santos to reach a final investment decision in 2020 on their plans to double LNG exports from the country. An ExxonMobil spokesman said discussions with the PNG government were ongoing.

An agreement is needed before decisions on preliminary engineering and design for the expansion of its PNG LNG plant. The P'nyang gas deal is one of two agreements needed for Exxon and its partners to go ahead with their plan to expand LNG exports. The other agreement, the Papua LNG pact, was sealed with Total in September.

PNG's new government came to power in May promising to extract greater benefits for the impoverished Pacific nation from its abundant energy and mineral resources. Kua had said the state would press Exxon for better terms than it secured from Total. A source said Exxon refused to disclose cost details and other information the government needs to gauge what would be a fair share of revenue for the country.

Exxon reportedly plans to sell $25 billion in assets

(Reuters; Nov. 21) - ExxonMobil plans to sell up to $25 billion of oil and gas fields in Europe, Asia and Africa in its biggest asset sales for decades, seeking to free up cash to focus on a handful of mega-projects, according to three banking sources. The sell-off would be a marked acceleration of the U.S. major’s previous divestment plans. It would represent an ambitious attempt by CEO Darren Woods to catch up with competitors who carried out sweeping portfolio reviews and sold assets after the 2014 market crash.

Exxon’s shares have underperformed its major rivals in recent years. The disposals would help the company increase its spending on new developments and appease investors unhappy with weak cash generation and oil output. The sales would see Exxon effectively quit its upstream oil and gas business in Europe, according to the banking sources with direct knowledge of the plans. They would free up cash to invest in new developments in Guyana, Mozambique, Papua New Guinea, Brazil, and the U.S.

An Exxon spokesman declined to comment on specific assets offered for sale. In recent months, the company has drawn up an extensive list of assets that it wants to divest, spanning at least 11 countries, the sources said. Exxon has struck a number of deals in recent months including a $4.5 billion exit from Norway, and is also offering assets in Australia, Nigeria, and Malaysia. The expanded plan will see Exxon also sell out of operations in the British North Sea, Germany, and Romania, according to the sources.

India may develop strategic reserve of natural gas

(Economic Times; India; Nov. 21) - India is set to build up a strategic reserve of natural gas, to further strengthen country's energy security and shield itself from supply disruptions coming from perennial political risk in the energy-supplying countries of the Middle East and Africa. The reserve will also help the country cope with demand and price spikes in the event of border skirmishes. For building strategic gas reserves, the plan is to inject gas into depleted fields or develop storage in large salt caverns.

The plan emerged from an official study that suggested consumption of gas would grow two-folds by 2030, resulting in a large gap between demand and domestic production. This would increase gas imports and take it closer to oil import levels, where the country has depended on overseas supplies to meet over 80 percent of domestic consumption. At present, almost of half of domestic consumption of gas is met from imports.

A petroleum and gas ministry panel is studying various suggestions for building the gas reserve. It also plans to hire consultants to evaluate options. "The strategic gas reserve would work well for the country as it would ensure uninterrupted fuel supply to key infrastructure projects. However, the cost structure for storage should be such that fuel price for customers is kept low," said a power sector analyst.

Critics say Australia needs to overhaul oil and gas taxes

(News Corp. Australia; Nov. 22) - Australians are being shortchanged on oil and gas taxes and royalties and the Institute for Energy Economics and Financial Analysis (IEEFA) has recommended overhauling the royalty and tax system. “Australia is literally giving away its natural wealth,” IEEFA analyst Bruce Robertson said. “There is so much that can be done to fix this situation. All it requires is a small amount of political will.”

While the federal corporate tax on oil and gas companies is relatively small, they are also expected to pay state royalties and the federal Petroleum Resource Rent Tax (PRRT). But in 2017, The West Australian reported that Japanese oil and gas company Inpex would export $195 billion worth of liquefied natural gas, liquefied petroleum gas and condensate from its Ichthys project over 30 years. However, analysis commissioned by the company revealed no PRRT would be paid, even after 30 years.

IEEFA argues there should be a thorough review of how royalties are calculated and the PRRT should be replaced with a 12.5 percent royalty. Associate Professor Roman Lanis from the University of Technology, Sydney's accounting school said the way the PRRT was structured is part of the problem. It allows offshore oil and gas projects to deduct their exploration costs as well as other expenses they incur before production. It also allows them to multiply these costs to take into account inflation and other factors. "They can accumulate billions (in offsets) to reduce their PRRT," Lanis said.

Report says Canadian, Alberta governments subsidize oil pipeline

(The Canadian Press; Nov. 19) - The Trans Mountain Alberta-to-British Columbia oil pipeline received C$320 million in subsidies from the Canadian and Alberta governments in the first half of 2019, according to a report by an economic institute that analyzes environmental issues. The money included $135.8 million in direct subsidies and $183.8 million in indirect subsidies not clearly disclosed to taxpayers, said the report by the Institute for Energy Economics and Financial Analysis.

"This is a very large subsidy. It really does require more public discussion and public disclosure," said Tom Sanzillo, the group's director of finance. The report analyzed the second-quarter financials of the Canada Development Investment Corp., a Crown corporation that counts Trans Mountain Corp. among its subsidiaries. The Canadian government gave the development corporation just over $5 billion to finance the acquisition of Trans Mountain in 2018, the report said. The government decided to buy the pipeline to complete a controversial expansion, then sell it back to the private sector.

Trans Mountain must make regular interest payments to the Canadian government at a rate of 4.7 percent. The cash was provided to Trans Mountain in two sections: a $2.8 billion loan and a $2.3 billion equity investment. The interest on the loan must be paid from the pipeline's business activity. For its part, the Alberta government reduced corporate taxes on the line starting in January 2019. This allowed Trans Mountain to save $54.1 million in taxes, a direct subsidy that the development corporation uses to turn the corporation's pre-tax loss into a post-tax gain, according to the report.

Russia wants condensate excluded from its OPEC target

(S&P Global Platts; Nov. 20) - Russian Energy Minister Alexander Novak said Nov. 20 he wants new volumes of gas condensate to be excluded from Russia's quota as part of its oil output pact with OPEC. Novak's remarks come as Russia's output of condensate — a potentially high-value petroleum liquid — is expected to grow strongly in coming years as it expands its output of liquefied natural gas from new projects in the Arctic.

"The start of operation of new gas fields also increases gas and gas condensate output. We think that gas condensate shouldn't be included in the total volume of (oil) production," he said. "We think this should be discussed with our partners, since gas condensate is not being exported, we think it shouldn't be included."

Under the current OPEC+ agreement, Russia committed to cut around 230,000 barrels per day from its October 2018 crude and condensate output of 11.42 million barrels. Condensate output was previously an issue of friction between Qatar and its former partners within OPEC before the gas-rich Gulf sheikhdom decided to leave the cartel. Russian has been producing above the target since August. Earlier this month Novak said that Russia's output cut in October was only 211,000 barrels per day. The current OPEC+ agreement is due to expire at the end of the first quarter of 2020.

LNG-pricing index could cost suppliers in marine fuel market

(Rigzone; Nov. 21) - Sellers of liquefied natural gas with contracts indexed to the Japan Crude Cocktail (JCC) benchmark could lose several billion dollars in unearned revenues after a U.N. agency's stricter marine fuel regulation takes effect, according to Wood Mackenzie. Starting Jan. 1, the International Maritime Organization will require that marine fuel oil used to power ships outside certain emission-control areas contain no more than 0.5 percent sulfur – compared to the current 3.5 percent sulfur cap.

The rule is expected to promote greater adoption of LNG as a marine fuel, with ship owners increasingly converting their vessels to run on gas rather than fuel oil. "We forecast that this new market will drive a 23 percent annual growth in LNG demand for marine bunkering, reaching 22 million tonnes per annum by 2030," Otavio Veras, research analyst with Wood Mackenzie, said in a written statement. "This represents about 11 percent of marine fuels globally by then, up from only 1.1 percent in 2019."

However, Wood Mackenzie contends that LNG suppliers with sales contracts based on JCC — the weighted average price of a mix of crude oil imported by Japan, primarily sour Dubai and Oman crudes — will miss out on benefiting from the demand growth. The consultancy expects JCC to be, on average, US$1.20 per barrel cheaper than the Brent oil price. Nearly 50 percent of LNG contracts worldwide are indexed to JCC, Wood Mackenzie said. LNG sales linked to the JCC index will earn less for the suppliers than contracts linked to Brent crude. Suppliers may try to renegotiations their deals, but "this may be difficult to achieve in today's oversupplied market," Veras said.

Strike by railroad workers threatens Quebec's propane supply

(Calgary Herald; Nov. 22) - Quebec is poised to run out of propane within four days as the ongoing strike at Canadian National Railway chokes off supply, creating an “emergency” situation for hospitals, farms and nursing homes, Premier Francois Legault said. The province’s dwindling propane reserve, 85 percent of which is supplied by rail, comes as the work stoppage by 3,200 conductors, train, and yard workers continues.

Legault urged the federal government to “accelerate negotiations” between the union and the company and, if necessary, to pass back-to-work legislation ahead of Parliament’s return on Dec. 5. “We cannot afford a strike for many days,” Legault said. “We have to be open to a special law. I am asking the opposition parties in Ottawa” to support a back-to-work law “if we cannot conclude an agreement with the union soon.”

Quebec has already begun rationing its propane reserve of 12 million liters and is trying find trucks to bring more of the fuel into the province, Legault said. Daily use has been cut to 2.5 million liters from a typical 6 million. The reserve will go to hospitals and retirement homes first, as well farmers who depend on propane to dry grains and heat facilities. About 92 percent of Canada’s propane is extracted from gas plants in Alberta, British Columbia, and Saskatchewan. With no pipelines to carry the fuel into Quebec, the province is particularly reliant on rail transportation.