Oil and Gas News Briefs
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Power of Siberia gas line start-up could affect China's LNG demand

(S&P Global Platts; Oct. 18) - Start-up of the Power of Siberia Russia-China natural gas pipeline in December is expected to weigh on the mid-term LNG demand growth potential of China, the world's second-largest importer of the fuel, adding another bearish factor to an already oversupplied Asian LNG market. The immediate impact on the region's spot-market fundamentals and prices for the winter will likely be limited, however, given the relatively small volume the pipeline will carry in its first full year.

Construction of the northern section of the China-Russia eastern route was completed Oct. 16, and PetroChina is expecting supplies into northern China to start Dec. 1, the state-owned major said Oct. 17. A source with one of China's major city gas suppliers said they would consider lowering LNG imports into northern China once the Russian gas is available. Two Chinese end-users said they were contemplating reselling some of their winter LNG cargoes into the spot market if the pipeline starts up as planned.

Russian pipeline gas supplies in the first year of operation are forecast at 175 billion cubic feet, which would account for only about 1.6 percent of China's total gas supply estimates in 2019, according to Platts Analytics and China's National Development and Reform Commission. Once the line reaches full capacity of 1.35 trillion cubic feet a year in 2022-23, it would account for about 9.5 percent of China's supply estimates for 2022.

The northern section will connect Russian supplies with customers in northeast China and Beijing-Tianjin-Hebei regions, helping improve supply options and energy security in the country's biggest winter demand center. The Russia-China line will run 2,090 miles before it ends in Shanghai. PetroChina's parent company, China National Petroleum Corp., signed a 30-year deal with Russia's Gazprom in 2014 to take gas.

China is creating new pipeline company to encourage production

(Bloomberg; Oct. 17) - Chinese President Xi Jinping has a plan to help meet the country's growing energy needs and clear its dirty air: Merge the tens of thousands of miles of pipelines held by three state-owned oil and gas giants into one new company. The firm — informally known as National Oil & Gas Pipeline Co. — would aim to attract private investors to help expand the $70 billion network and diversify energy supply.

Such an overhaul would radically reshape China's energy sector, although it still leaves control in a single pair of hands. But what's the point of a pipeline company? An independent company would be more likely, in theory, to decide on new routes based on national need rather than what serves an individual producer. It's part of Xi's strategy to enhance China's national energy security by encouraging domestic exploration and multiple sources of supply by ensuring open access to pipeline transport.

China imports about 70 percent of its crude and half its gas. Xi wants to produce more at home to enhance energy security. He also wants more private capital to get involved in exploration, since the Big Three oil and gas producers haven't moved fast enough to meet growing demand. Currently, pipeline access can be blocked or is prohibitively expensive for smaller private or foreign firms. Liberalizing pipeline ownership — out of the hands of the Big Three — is seen as necessary to attract outside investors.

LNG wealth will test Mozambique's ability to ease poverty

(Agence France-Presse; Oct. 16) - The discovery of vast natural gas reserves off Mozambique's remote northern coast has the potential to transform the economy of one of the world's poorest countries and lift millions out of poverty. That's the message President Filipe Nyusi has repeated at every opportunity as he campaigned ahead of this week's general election. "With this project, the children of farmers will become doctors and the children of miners will become lawyers," he said on the campaign trail.

But questions have been raised whether the colossal riches will benefit nearly half of the southeastern African country who live in poverty. The size of the discovery is staggering. Estimated at up to 175 trillion cubic feet, the deposits have the potential to turn Mozambique into one of the world's biggest exporters of liquefied natural gas. Energy consultancy firm Wood MacKenzie forecasts that state revenues from LNG will reach US$3 billion a year in 2030 — single-handedly doubling current revenue.

But development has been repeatedly delayed — in part due to deadly attacks by an insurgency in the area — and has only recently started to make headway. Work began in August on a US$25 billion LNG project that Total acquired from Anadarko. ExxonMobil is expected to finalize a US$30 billion gas project next year. The president, running for a second term, has been keen to talk up the projects. But history is littered with examples of countries with huge energy wealth that enriches only those in power. "Our forecast is that the poorest of the poorest in Mozambique are not really going to benefit," said Liesl Louw-Vaudran, of South Africa's Institute for Security Studies.

Canada's steel fabricators lose opportunity for LNG project work

(Financial Post; Canada; Oct. 17) - Since the early 1980s, Supreme Steel's fabrication plant in Delta, British Columbia, has often operated at peak capacity, pumping out complex steel segments that are loaded onto barges and incorporated into an impressive list of energy, industrial, and commercial projects in Western Canada. But times change. As capital spending in the oil and gas business steadily thinned over the years, so too did the order books for Supreme's five Canadian fabrication plants.

By this past summer, the decline was enough that Supreme announced plans to close the plant, cutting 130 jobs. A plant closure in Winnipeg will cut 60 jobs. Meanwhile, farther north in B.C., a Shell-led venture has broken ground on a C$40 billion liquefied natural gas project in Kitimat. Shell's LNG Canada is just the sort of anchor project that could keep beleaguered steel fabricators like Supreme running for years.

Yet much of that opportunity has been dashed, fabricators said, by a federal Finance Department decision to grant a rare exemption on anti-dumping duties — opening the door to large portions of the project being supplied by China. At issue are imports of fabricated industrial steel components, the massive modules outfitted with sophisticated equipment. Rather than ship steel and other building materials to remote sites, companies are increasingly building modules offsite and connecting them onsite.

Only a few yards in the world have the expertise to deliver all 200 components for LNG Canada, the consortium said. Building the modules in Canada "would not have allowed the project to be competitive with other projects in the world," said LNG Canada. The country's fabricators don't believe it. Without waiting for a court decision, the federal government stepped in and wiped out the 45.8 percent steel tariff for LNG Canada and another project, saying trade barriers should not get in the way of private developments.

Russia approves new ship-to-ship transfer site for Yamal LNG

(The Barents Observer; Norway; Oct. 16) - The Russian federal government has approved the establishment of a new reloading area for at-sea ship-to-ship transfers of liquefied natural gas cargoes in an Arctic bay south of Kildin Island, near Murmansk, Russia, about 100 miles east of the border with Norway. The operation will provide two mooring points for LNG carriers and a third moorage for a service ship to house workers, according to the Russian port authority Rosmorport.

Each of the mooring points will include eight buoys attached to the seafloor with steel and concrete anchors, Rosmorport said. The federal port authority will be responsible for escorts of the big tankers involved in the reloading. The transfer site will accommodate ice-class carriers hauling cargoes from the Yamal LNG export terminal, more than 1,200 sea miles to the east. The expensive ice-class carriers will transfer their cargoes to conventional carriers for delivery to customers in Europe or elsewhere.

By the end of 2019, a total of 15 ice-class carriers will shuttle to and from Yamal, with the lion's share sailing to the reloading facility in Kildin. The Kildin operation is meant as a temporary terminal until a permanent shoreside facility is built in Ura Bay, farther west on the coast. Novatek, the Russian gas producer that operates Yamal LNG, has said the Kildin at-sea operation would be ready by the end of this year with the Ura Bay facility planned to come online in 2022.

Russia may cover higher costs of Arctic shipping to attract customers

(Bloomberg; Oct. 20) - Russia wants to make its Arctic waters more attractive to shippers than the Suez Canal and could be willing to compensate for potential risks to make that happen. President Vladimir Putin has made development of the Arctic one of Russia's top long-term priorities and huge projects to export liquefied natural gas via the Northern Sea Route have already lured investors. But shippers of other products remain reluctant to make the detour from the Suez Canal toward the Arctic due to multiple risks.

To deliver a cargo through the 3,000-mile Northern Sea Route between the Bering Strait and Norway, a shipping company needs an ice-class vessel or an icebreaker and has to pay insurance costs more than double the Suez Canal route, said Russia's Deputy Minister of the Far East and Arctic Development Alexander Krutikov. His ministry, together with Russian think-tank Skolkovo, is working on a plan to create a state-run container ship operator researching potential infrastructure and budget costs by the end of this year.

The company would cover the cost of any risks in transporting international cargoes through the Arctic, including possible delivery disruptions and higher insurance rates charging shippers only the "regular" costs. The bill to shipping companies "should be lower than in the Suez Canal, at least at the first stage," to promote the route, Krutikov said. The state container ship operator would be responsible for transporting cargoes across the Arctic, while feeder ships from European and Asian ports could deliver and pick up cargoes at transshipment points at the east and west ends of the route.

Big LNG players don't face same struggles as small companies

(Reuters; Oct. 16) - A gap is emerging in the U.S. liquefied natural gas industry as big players such as ExxonMobil and Cheniere Energy race ahead to build export terminals without long-term sales contracts, while smaller developers struggle to find financing. LNG trade has traditionally been underpinned by long-term deals that finance the multibillion-dollar terminals. But this is changing. As the market grows and pricing mechanisms diversify, some buyers do not want to commit to 20-year contracts.

The prowess of oil majors such as Exxon, global commodity traders and first-movers such as Cheniere, which started up its Sabine Pass, Louisiana, LNG terminal in 2016, means there are suppliers that can offer buyers more flexibly, making it harder for smaller players. “The industry is moving away from long-term agreements to justify construction of a new facility to a true commodity business,” said Charif Souki, who ran Cheniere before he left and co-founded Tellurian, which is working to sign up customers and line up financing to build an LNG terminal in Louisiana.

Dozens of LNG export terminals are being planned in the U.S. with a total capacity exceeding 300 million tonnes per year — almost equal to the world’s entire consumption of LNG last year. “I’m not going to pick a winner or loser here, but I don’t think there is enough support for all of these projects by any means,” said Rich Redash, head of global gas planning at S&P Global Platts Analytics.

U.S. fisheries agency questions Sabine Pass LNG berth expansion

(S&P Global Platts; Oct. 14) - A proposed marine berth expansion at Cheniere Energy's Sabine Pass LNG terminal in Cameron, Louisiana, has drawn concerns from the National Marine Fisheries Service (NMFS) about the adequacy of fish habitat mitigation. The proposed expansion would add two berths, allowing the terminal to add about 180 LNG cargoes annually, bringing the total to 580 cargoes a year.

The expansion is tied to plans for a sixth liquefaction train at Sabine Pass. Cheniere, the largest U.S. LNG producer, in June announced a final investment decision for Train 6. According to NMFS, the project area includes essential fish habitat for a variety of federally managed species. In addition, wetlands and other water resources in the area provide nursery and foraging habitats for economically important fisheries, NMFS said.

In a letter to the U.S. Army Corps of Engineers made public Oct. 11, NMFS provided its preliminary assessment of the area where Cheniere proposes to dump 3.6 million cubic yards of dredged material from the berth expansion. “The currently proposed use of this site should be considered an impact to 597.8 acres of [essential fish habitat] marine non-vegetated bottoms and marine water column," NMFS said.

The agency also does not concur with the use of a Louisiana's In-Lieu Fee Program to mitigate unavoidable impacts to fish habitat, NMFS said. The comments from NMFS follow a favorable finding for the project by Federal Energy Regulatory Commission staff in August. FERC's environmental assessment said the project would not have major environmental impacts if the developer complies with recommended mitigation.

LNG terminal in Georgia expects to reach full capacity next year

(Reuters; Oct. 16) - Kinder Morgan expects to bring the remaining nine units of its liquefied natural gas export facility at Elba Island, Georgia, into service by the first half of next year, CEO Steven Kean said Oct. 16. The first unit of Kinder Morgan’s Elba

Island $2 billion facility began producing LNG for export last month and is one of several new U.S. projects adding to global supplies.

The company plans to bring three more liquefaction units into service this year, with another six to start up in the first half of 2020, Kean told investors on an earnings call. The facility has experienced periodic delays since late last year. Elba, backed by a 20-year offtake agreement with Shell, is by far the smallest of U.S. LNG export terminals, with 2.5 million tonnes annual capacity spread among its 10 small-scale modular units.

There are five other major U.S. LNG export terminals in operation. The same as all but one of those, Elba Island started life as an LNG import terminal. Confronted with the steep increase in U.S. shale gas production and their unused or underused LNG import terminals, the owners opted to get into the export business.

Woodside targets go-aheads for Australia gas projects in 2020, 2021

(Reuters; Oct. 17) - Woodside Petroleum has pushed out the final approval date for its Browse gas project but slightly advanced plans to sign off on its smaller Scarborough venture as it looks to fill a predicted global liquefied natural gas supply gap. Woodside, Australia's top independent gas producer, said Oct. 17 it is now targeting a final investment decision on the US$20.5 billion Browse project in the first half of 2021 as it continues to wrangle with its partners. It had previously expected approval in late 2020.

However, Woodside also said it now aims to sign off on the US$11 billion Scarborough gas project and expansion of the 7-year old Pluto LNG terminal in Australia in early 2020, as opposed to the first half of 2020. The faster timetable for Scarborough is dependent on Woodside reaching an agreement with its partner BHP Group on a price for processing gas at the Pluto plant. Pressure is on BHP to finalize a tolling agreement before the end of the year, said Sherry Duhe, Woodside's chief financial officer.

Talks on Browse, the biggest undeveloped gas resource off northwestern Australia, are more complicated as they involve several partners in the field and the North West Shelf LNG plant with only some overlap in ownership. Browse would provide a new gas supply for the 30-year-old LNG plant. Chevron and BHP are stakeholders in the plant but not Browse, while PetroChina is in Browse but not the plant. Woodside, Shell, BP and Japan's Mitsubishi and Mitsui are shareholders in both the gas and the LNG plant.

Nova Scotia LNG developer buys gas assets in Alberta

(Natural Gas Intelligence; Oct. 17) - Pieridae Energy has closed on its purchase of Shell Canada Energy's midstream and upstream assets in the southern Alberta foothills for C$190 million (US$142.5 million) in a deal that could provide much of the gas needed to supply the first train at Pieridae's proposed $10 billion Goldboro liquefied natural gas export facility in Nova Scotia. The deal substantially increases Pieridae's gas output to 210 million cubic feet per day by adding 119 million cubic feet of Shell production.

The Shell transaction is the latest step in a long campaign to start LNG exports from the Atlantic coast of Nova Scotia. When the project was announced in 2012, Pieridae projected the terminal would be in operation by late 2018. But prospects of eastern gas supplies dried up. Depleted offshore production ended last winter. Fracking bans also have stopped gas development onshore in Nova Scotia, New Brunswick, and Quebec.

Pieridae has a $4.5 billion German government guarantee and one German buyer, Uniper, for all 5 million tonnes a year from its first train, a large contract by industry standards. However, Germany has no facilities to import LNG, though three import terminals have been proposed. Pieridae also has to line up financing and pipeline access to bring gas from Alberta about 2,900 miles to the Nova Scotia terminal.

Proposed LNG import terminal in Ireland draws opposition

(Limerick Leader; Ireland; Oct. 18) - The Irish government has confirmed that it has put the Shannon LNG import terminal forward for inclusion on a special European Union energy list that critics warn will encourage the importation of fracked U.S. shale gas into Ireland and the EU. A protest against the decision, led by Friends of the Irish Environment, took place outside the Irish Parliament last week.

The proposed terminal at Tarbert Ballylongford, the Irish government argued, would enhance energy security by "increasing import route diversity." Its placement on the EU project list means it can gain access to a €5.35 billion fund (US$6 billion) and to a fast-track planning and permit process owing to its strategic and public-interest significance. The proposed terminal goes back 14 years and is now led by New Fortress Energy, an U.S.-based company that took over following the departure of the original backer, Hess.

Michael Harty, an independent member of Ireland's lower house of Parliament, said the LNG terminal in the Shannon estuary was "environmentally and morally unacceptable." Harty added, "It cannot be supported by a country that two years ago outlawed fracking. … It is not possible to be virtuous in Ireland while at the same accepting fracked gas from communities in the U.S. who face issues that we have outlawed here."