Oil and Gas News Briefs
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February 24, 2020

Saudis may break from oil-production alliance with Russia

(Wall Street Journal; Feb. 21) - Saudi Arabia is considering a break from its four-year oil-production alliance with Russia, according to people familiar with the matter, as China's coronavirus outbreak contributes to a drop in global oil demand. The Saudi kingdom, Kuwait, and the United Arab Emirates — which collectively represent more than half of OPEC's production capacity — are holding talks this week to discuss a possible joint output cut of as much as 300,000 barrels a day, the sources said.

The coronavirus outbreak has created a rift in the partnership between Russia and the Saudi-led Organization of the Petroleum Exporting Countries. The two sides have collaborated since December 2016 in an effort to balance global oil supply amid a surge of crude from U.S. shale producers. If the Saudis, Kuwait, and the U.A.E. break with the Russians, the split could further weaken OPEC's ability to influence oil prices.

The new tensions come ahead of the group's March gathering in Vienna, where it aims to reach a consensus on how much crude to deliver to an oversupplied market. At an emergency meeting earlier in February, Russia rejected a Saudi push to deepen the alliance's existing oil production curbs by 600,000 barrels a day. Russian officials still don't see a need for reductions, the sources said. Russian delegates said business activity in China is recovering and the impact of the virus on oil demand is limited.

FERC fails to approve LNG project in Oregon; may revote later

(Natural Gas Intelligence; Feb. 20) – The Federal Energy Regulatory Commission set aside a motion to authorize the Jordan Cove liquefied natural gas project in Oregon on Feb. 20, promising to revisit the issue in the near future, a day after the state for the third time denied a key approval for the $10 billion development. "I'm disappointed that we were not able to vote out Jordan Cove today, but I respect my colleagues' need for more time," said FERC Chairman Neil Chatterjee, following the 1-2 vote.

"I want to reassure people that today's vote is not a denial of Jordan Cove's application. The application remains pending before the commission and we will vote on this matter when we are ready," Chatterjee said. The motion before FERC would have authorized construction and operation of the LNG terminal at Coos Bay and a 229-mile pipeline across the state to deliver feed gas to the liquefaction plant. As proposed by Calgary-based Pembina Pipeline, the LNG terminal could fill about 120 LNG carriers per year.

The project faces fierce opposition from environmental groups. If built — which also depends on signing up customers and financing — Jordan Cove would be the first LNG export facility on the U.S. West Coast. FERC Commissioner Bernard McNamee, who joined with Richard Glick in voting no, said his vote was "not a hard 'nay,'" and was based in part on a Feb. 19 filing by the state, which concluded the project is not consistent with Oregon's Coastal Management Program. As a result, FERC and the Army Corps of Engineers "cannot grant any license or permit to this project unless this objection is overridden on appeal by the U.S. Secretary of Commerce," the state said.

Oil sands developer pulls application amid resource controversies

(National Post; Canada; Feb. 23) - Teck Resources has withdrawn its application to build the C$20 billion Frontier oil sands mine in Alberta, just days before Canadian Prime Minister Justin Trudeau was expected to issue a ruling on the contentious project. In a letter to Trudeau published late evening Feb. 23, Teck CEO Don Lindsay said the company made the decision as indigenous-led protests against a gas pipeline in British Columbia stretch into their second week, blocking rail lines across the country.

Lindsay said the Frontier project put his company "squarely at the nexus" of much deeper tensions in Canada between natural resource extraction and First Nations' land claims. "The promise of Canada's potential will not be realized until governments can reach agreement around how climate policy considerations will be addressed in the context of future responsible energy-sector development," Lindsay said in his letter.

"Without clarity on this critical question, the situation that has faced Frontier will be faced by future projects and it will be very difficult to attract future investment, either domestic or foreign," he said. The Frontier mine has gone through nearly a decade of regulatory review, and a decision by Trudeau's Cabinet, which was expected by end of this week, would have marked the final stage in the drawn-out approval process. Pausing the project offers immediate relief to the Trudeau government, whose caucus was deeply divided over the mine.

B.C. wants gas line developer to engage with Indigenous groups

(Bloomberg; Feb. 22) - British Columbia is delaying a decision on a controversial stretch of the Coastal GasLink pipeline and asking the developer, TC Energy, to take more time to engage with indigenous groups after weeks of debilitating protest blockades along the nation's rail network. The province's Environmental Assessment Office told TC Energy it needs more information before it can decide on an 11-mile stretch of the line. It gave the company 30 days to engage with Indigenous groups and update a report.

The office asked hereditary chiefs to share feedback with the company, particularly about the line's potential impact on a healing center. The agency said the additional information could "further minimize or avoid the effects of project construction." The letters were sent Feb. 18-19 as protest blockades entered their third week, shutting down freight traffic in eastern Canada and halting most intercity passenger service. Prime Minister Justin Trudeau on Feb. 21 acknowledged government's efforts to negotiate a solution have failed and signaled he would be open to police intervention.

TC Energy said it will "respond to the issues raised" and engage with the chiefs. If the agency makes a decision within the 30-day period, the company said, "this short delay will not impact our spring construction schedule." Environmental and indigenous-rights activists have obstructed rail lines in several provinces, protesting construction of the C$6.6 billion pipeline to move gas from northeastern B.C. to the LNG Canada project under construction in Kitimat. Wet'suwet'en hereditary chiefs indicated Feb. 21 they are firm in their demands that all construction stop before "nation-to-nation" dialog can start.

Anti-pipeline rail blockades move into British Columbia

(Bloomberg; Feb. 20) - Canadian Pacific Railway is the latest victim of rail blockades occurring across the country as protests against construction of a natural gas pipeline through British Columbia enter a third week. Demonstrators are now obstructing CP's tracks near Kamloops, B.C. Environmental and indigenous-rights activists have obstructed rail lines in several provinces, protesting construction of a C$6.6 billion pipeline to carry gas to an LNG export facility under construction on the coast in Kitimat.

The longevity of protests along CP's railways will be key. While the Canadian National Railway has been successful with obtaining injunctions to dismantle smaller blockades along its tracks in Ontario and elsewhere, it still had to cancel 400 trains last week and shut down its eastern Canada operations. CN said it will have to temporarily lay off about 450 workers due to the blockades restricting its ability to move freight trains.

Rail blockades create problems for Canadian economy

(Wall Street Journal; Feb. 20) - Canada's economy is facing a blow from two weeks of protests that have blocked multiple railway lines, stranding shipments and snarling supply chains in key commercial corridors. In the latest fallout from the blockades, the country's largest passenger-rail operator Feb. 19 issued layoff notices to 1,000 workers, a day after Canadian National Railway said it would temporarily lay off 450 workers of its own. Factories in central Canada could be next in sending workers home.

Protests obstructing rail lines in central Canada started Feb. 6, after police began enforcing a court order to remove people who were trying to prevent construction of a

C$6.6 billion natural gas pipeline from northeastern British Columbia to a liquefied natural gas terminal under construction on the B.C. coast. A group of indigenous leaders oppose the pipeline because of environmental concerns.

The blockades show no signs of dissipating in eastern Canada. Companies are either forced to deal with goods they can't ship to customers or struggling to find other ways to move their goods. Businesses fortunate enough to secure a truck to ship their freight are paying premium rates. A logistics broker said freight rates for trucks have climbed as much as 20% since the protests began. Canadian Prime Minister Justin Trudeau said Feb. 19 that the layoffs were "unacceptable," and his government was "doing everything we can to resolve this peacefully and quickly."

Opponents of Rio Grande LNG in Texas sue FERC

(Houston Chronicle; Feb. 20) - Opponents of the liquefied natural gas industry have sued a federal agency that issued permits for a controversial LNG export terminal in the Port of Brownsville. In a petition filed before the U.S. Court of Appeals for the District of Columbia Circuit, the Sierra Club, the City of Port Isabel and four other opponents are asking a federal judge to review and overturn authorizations issued by the Federal Energy Regulatory Commission for Rio Grande LNG and the Rio Bravo Pipeline.

No court hearing has been set in the lawsuit. FERC officials issued permits for the controversial projects in November and then denied a request by opponents to reconsider the agency's decision. Citing safety and environmental concerns, opponents of the projects say the LNG terminal will become the largest polluter in the Rio Grande Valley, an impoverished region along the U.S./Mexico border.

"FERC has consistently ignored concerns about how Rio Grande LNG and other fracked-gas facilities would harm already marginalized Latinx communities in the Rio Grande Valley," Sierra Club organizer Rebekah Hinojosa said. "This fracked-gas export facility would devastate our local economy and subject our families to dangerous pollution, and it's unacceptable that FERC has refused to take these threats into consideration." However, supporters say LNG exports will reduce flaring in the Permian Basin of West Texas by creating a market for gas that would otherwise be burned off.

East Coast gas pipeline goes before U.S. Supreme Court

(Washington Post; Feb. 23) - The Atlantic Coast Pipeline begins in West Virginia and will cross some of the most mountainous scenery in central Virginia before ending 600 miles later in North Carolina. But work in Virginia has been halted for over a year as the builders contend with a host of setbacks handed down by federal courts. None is bigger than the question of whether the U.S. Forest Service has authority to grant the gas line a right of way under the Appalachian Trail in the George Washington National Forest.

Judges from the 4th U.S. Circuit Court of Appeals for the 4th Circuit threw out a Forest Service permit in 2018, saying federal law prohibits any agency from allowing a pipeline on “lands in the National Park System.” That includes the trail, the judges said. The pipeline’s builders, led by Virginia’s Dominion Energy, appealed to the U.S. Supreme Court, saying the ruling could create an impenetrable wall along the trail’s course from Georgia to Maine. The Supreme Court hearing is scheduled for Monday, Feb. 24.

The Trump administration has spoken on behalf of the pipeline arguing that while the Park Service administers the trail, the land beneath it is controlled by the Forest Service. Environmentalists argue that no pipeline has been granted a right of way across the trail on federal land since it became part of the park system. Other crossings are on private or state lands or on easements that predate federal ownership. The high court’s ruling could determine the fate of the $8 billion pipeline, which was approved by the Federal Energy Regulatory Commission in 2017.

Sempra plans decision on Mexico Baja LNG export project in March

(Natural Gas Intelligence; Feb. 21) - Infraestructura Energetica Nova (IEnova), the Mexican unit of San Diego-based Sempra Energy, plans to make a final investment decision on its Energía Costa Azul gas liquefaction project in Mexico’s Lower California before the end of March, company officials said during a quarterly conference call Feb. 20. U.S. authorities have approved U.S. gas exports through Mexico, but the project still requires an export permit from the Mexican government.

“We are very close to being able to execute an EPC (engineering, procurement and construction) agreement and are making a lot of progress with our customers as well as the associated equity contract,” IEnova CEO Tania Ortiz said. The two-phase LNG export project, a joint venture between IEnova and Sempra LNG, would be built adjacent to Sempra’s 12-year-old LNG import terminal near the city of Ensenada.

In late 2018, Energia Costa Azul signed heads of agreement with Total, Mitsui & Co., and Tokyo Gas to take capacity in the export project’s first phase. The companies each could purchase 0.8 million tonnes per year. Ortiz and Executive Chairman Carlos Ruiz are bullish on the project despite the global glut in LNG supply and historically low gas prices. “We are 100% committed and we think this is going to move forward,” Ruiz said. “This is a … chance to bring gas to Asia, and we are in the last mile.”

Despite Trump's push, U.S. LNG exports have a hard time in market

(Wall Street Journal; Feb. 23) - President Trump is planning to push U.S. shale gas when he travels to India this week. So far, however, the gas exports have proven to be a tough sell globally. U.S. companies have struggled to line up foreign buyers willing to sign long-term deals for liquefied natural gas as the world is experiencing a glut of the fuel. Buyers including India have instead turned to a growing spot market for cheaper LNG, threatening the future of more than 24 proposed U.S. export facilities that need sizable commitments from buyers to secure the billions needed for construction.

Though the U.S. quickly become the world's third-largest supplier of LNG, companies have struggled in recent years to sell more than spot cargoes amid tough competition from rivals in Qatar, Russia, and Australia. From 2011 through 2015, U.S. suppliers struck 37 long-term sales deals with foreign buyers for a combined 67 million tonnes a year, according to S&P Global Platts. Much of that reflected deals to line up customers by early U.S. exporters. From 2016-2019, U.S. suppliers reached 19 long-term deals with foreign buyers, covering 24 million tonnes a year, S&P Global Platts data shows.

"The low-price environment makes it very difficult to sign long-term deals, and the market is evolving into a more commoditized market," said Robert Fee, Cheniere's vice president of international affairs and commercial development. Cheniere opened the first LNG export terminal on the U.S. Gulf Coast in 2016 in Louisiana and now operates a facility in Texas, too. Some analysts believe 2020 is a pivotal year for the U.S. LNG export industry, as low-cost rivals in the Middle East and Africa decide whether to move forward with huge export expansions that could reduce the need for more U.S. projects.

Spanish buyer cancels U.S. LNG cargoes amid bleak market

(Bloomberg; Feb. 20) - A buyer of liquefied natural gas has canceled two cargoes from the largest U.S. exporter of the fuel, Cheniere Energy, as a global oversupply pummels prices for the fuel and threatens to shut a key outlet for U.S. shale gas production. Spanish utility owner Naturgy Energy Group has decided not to take delivery of two shipments from Cheniere's terminal in Corpus Christi, Texas, according to people with knowledge of the matter. Cheniere's contract customers have to pay a fixed capacity reservation fee for the liquefaction plant regardless whether they actually take the LNG.

The cargoes, one of which was scheduled for April delivery, were rejected by Naturgy's clients Repsol and electric utility Endesa, both of which had originally purchased the volumes from Naturgy and will now pay a cancellation fee, the people said. The cancellation could be an early sign that global oversupply is poised to hammer the U.S. gas market, which is already straining under the weight of a domestic glut that has sent local prices for the heating and power-plant fuel crashing to 1990s-era seasonal lows.

Prices in Europe and Asia have also collapsed as storage levels rise amid a mild winter, making it tougher for LNG buyers to make a profit reselling U.S. cargoes abroad. The coronavirus outbreak in China, meanwhile, is stifling LNG demand from the world's fastest-growing importer. While China hasn't directly imported any U.S. cargoes in more than a year amid trade tensions, the virus has contributed to the global price rout.

Long wait on first LNG exports for British Columbia gas industry

(The Globe and Mail; Canada; Feb. 20) - This was supposed to be the year of LNG for British Columbia, the year that its new export industry started sending billions of dollars in royalties flooding into the province's coffers, allowing it to pay off its debt. That was the vision that then-premier Christy Clark touted ahead of the 2013 provincial election, in which she talked about the promise of liquefied natural gas exports to Asia and beyond as an economic breakthrough for B.C., with the takeoff point slated for 2020.

But the year of LNG has not arrived. Instead, there has been close to seven years of increasing struggle by B.C.'s gas producers just to stay afloat. The renaissance of U.S. energy production, driven by advances in drilling technology, has sent North American gas prices into the basement, making a global oversupply situation that much worse for Canadian producers. After seven years the promise of LNG exports remains just that.

A single project, LNG Canada, is under construction and slated to begin operation by 2025, assuming the Coastal GasLink pipeline is completed to connect with gas fields in northeastern B.C. The C$6.6 billion line is the target of continuing opposition, including some members of the Wet'suwet'en Nation, backed by most of its hereditary chiefs. But the project, which runs through Wet'suwet'en traditional territories, has garnered support from elected band leaders, as well as other indigenous councils along the route.

It may get worse if the industry can't find an export outlet beyond North America, since the U.S. — the traditional market for Canadian gas — is rapidly moving toward self-sufficiency, said Bryan Cox, president of the BC LNG Alliance. "The window is now."

India imports record volume of LNG, taking advantage of low prices

(Reuters; Feb. 20) - India is set to import record volumes of liquefied natural gas this month, data shows, taking advantage of the fuel's price hitting all-time lows due to the coronavirus outbreak dampening demand in China. India is estimated to import about 2.36 million tonnes in February, shiptracking data from Refinitiv Eikon showed. That would exceed October's imports of 2.3 million tonnes, the previous highest month.

The country's annual LNG imports are expected to rise by 10% to 15% this year, said Poorna Rajendran of consultancy firm FGE. "The low spot prices are creating some downstream demand especially from the city-gas sector," a source familiar with LNG imports into India told Reuters. India regasifies LNG and uses it primarily in the city-gas distribution, fertilizer, power, and industrial sectors.

Asian spot LNG prices fell to a record low this month after China's top LNG buyer declared force majeure on some deliveries following the coronavirus outbreak. That prompted some of the cargoes bound for China to be diverted to India and also some Indian buyers to issue tenders seeking spot cargoes, traders said.

Shell forecasts LNG demand to double by 2040

(Financial Times; London; Feb. 20) - Global demand for liquefied natural gas is expected to double to 700 million tonnes a year by 2040 as energy consumption, particularly in Asia, rises and as the world shifts away from dirtier burning fuels, Shell said Feb. 20. In its annual outlook for gas, the energy major said the fuel will play a significant role in shaping a lower-carbon future for the world. About 80% of global energy demand growth is forecast to be met by renewables and gas.

Shell has invested heavily into gas infrastructure in recent years as it aims to shift the balance of its portfolio away from oil and banks on surging demand for gas, led by rising electrification of energy systems. But while burning gas releases fewer emissions than oil and coal, it is still a fossil fuel and has come under attack by environmentalists who are calling for a rapid shift to renewable energy to prevent global warming.

Advocates for gas say the fuel will guarantee reliable power supply and will be essential for meeting energy demand for decades. In 2019, global demand for LNG grew by 12% from the year prior. Climate activists, however, criticize gas use because of its methane emissions. Methane is the main component of gas and is released into the atmosphere during oil or gas production or pipeline leaks. Even though it breaks down faster than carbon dioxide, methane is a bigger contributor to global warming.

Shell forecasts 2020 LNG production growth at half 2019 level

(Wall Street Journal; Feb. 20) - Shell, the global leader in liquefied natural gas sales, said Feb. 20 the coronavirus outbreak was hurting demand for the fuel and prompting Shell to reschedule or locate new buyers for cargoes previously allocated to the Chinese market. Separate from the outbreak's impact on the economy, growth in LNG production will halve this year, Shell said in its annual LNG outlook, forecasting an additional 20 million tonnes of supply after a record 40 million tonnes added in 2019.

The effects of the coronavirus outbreak weren't included in its projections, the company said. China — one of the top three global importers of LNG — had been expected to absorb up to 6 million tonnes, or about one-third of the additional supplies in 2020 before the outbreak. This volume is now expected to be lower, Shell said, without giving revised figures. New York-based ship broker Poten & Partners estimates China will cut LNG imports by 49 cargoes, or 3.3 million tonnes, between February and April.

Shell accounts for around a fifth of the world's LNG supply and, alongside Qatar Petroleum and Total, is one of China's top suppliers of the fuel. "We are affected and handling the situation," said Maarten Wetselaar, Shell's director of integrated gas and new energies. It would be "imprudent" to give any guidance on the volumes affected given the situation is ongoing, Wetselaar said. The Asian LNG price benchmark recently dipped to below $3 per million Btu hitting a record low in the wake of the coronavirus.

Coal losing cost battle to renewable power in India

(Reuters commentary; Feb. 20) - Coal-fired power in India is being increasingly priced out of the market by cheaper renewables such as solar, with the dirtier fuel abandoned by private capital and only projects with government support seen as viable. If there was one major theme at this week's annual industry gathering, Coaltrans India, it was that the domestic coal sector is under siege and probably faces a future of limited growth and eventual disbandment.

The reason is largely economic, with purchase agreements for renewable power coming in at levels at which even existing coal-fired plants cannot compete. Coal is in an "unfair fight" and is increasingly losing, said Tim Buckley, director of energy finance studies at the Institute of Energy Economics and Financial Analysis. While the institute is clearly pro-renewables, the numbers support the view that coal power generation is struggling in India, and that several newly built plants run the risk of becoming stranded assets.

Renewables can be offered at around 3 rupees (4.2 cents) per kilowatt hour, while existing coal generation comes in at around 4 rupees per kwh and new-build coal between 5 and 6 rupees. Once built, renewables also tend to force coal from the generation mix, as they have lower operating costs. As a result, India's fleet of coal-fired power plants has a utilization rate of 52% to 55%, well below a level considered economic in other countries. After a large build-out of coal-fired generation 2010-2016, construction has slowed to a near trickle, while investment in renewables has soared.

Petronas gets second LNG production ship ready to start up

(LNG Global; Feb. 18) – Malaysia's Petronas said its second floating gas liquefaction production vessel, the Dua, has left its South Korean shipyard and is on its way to the Rotan gas field offshore Sabah, Malaysia. The company expects the 2,100-mile journey to take about two weeks. After the Dua is moored over the gas field, installation, hook-up, and commissioning work is expected to last until mid-2020.

The 1,290-foot-long Dua will be operated by a crew of 120 and is expected to produce a liquefied natural gas cargo every two weeks. It has the capacity to produce 1.5 million tonnes per year. The Dua was constructed by Petronas and its partners, Japan's JGC Corp. and South Korea's Samsung Heavy Industries. It is the second floating LNG production vessel for Petronas. The Satu started production offshore Malaysia in 2017.

Global oversupply now extends to natural gas liquids

(Reuters; Feb. 20) - U.S. shale oil drillers could scale back investment in production more quickly than previously expected this year after prices slid for what had been a lucrative by-product of their wells — natural gas liquids (NGLs). Producers have already taken a hit from falling global oil and gas prices as the coronavirus outbreak destroys demand in China. Benchmark U.S. crude prices have fallen about 12% to date this year.

Many shale producers had announced reductions in their capital expenditures even before the coronavirus outbreak due to lower oil prices in the second half of 2019. And now shale producers now face another hit to their revenues because prices for NGLs, which include propane and butane, have also fallen. NGLs had helped prop up their bottom lines, providing lucrative returns when oil and gas margins were thin.

NGLs have a wide variety of uses, from feedstocks for petrochemical plants to heating, cooking, and gasoline blending. Shale producers have been victims of their own success. They have raised their output so quickly that they caused a supply glut and falling prices in global oil and gas markets. That has now extended to NGLs with production in November up 9% from a year earlier, after hitting a record 5 million barrels per day in October. Propane prices in the U.S. Gulf Coast fell nearly 10% since the beginning of the year to about 37 cents per gallon earlier this month.

Guyana sells its first cargo of oil

(The Associated Press; Feb. 21) - Guyana's government on Feb. 20 prepared to sell its first barrels of crude after the discovery of large quantities of oil and gas near the South American country's coast nearly five years ago. The government called the shipment a historic event, saying Guyana expects to ship four more cargoes this year as part of a deal with ExxonMobil and partners Hess Corp. and China National Offshore Oil Corp.

ExxonMobil, the field operator, started production in December at the offshore Liza field, projecting 120,000 barrels a day this year and ramping up to 750,000 barrels a day in the coming years. Guyana's Energy Department Director Mark Bynoe said he expected the country to directly earn $300 million from its share of oil sales this year. "This has been quite a momentous occasion," he said. Exxon and its partners have already sold their own shipments of crude since production began in late December.

The offshore fields are estimated to contain one of the world's largest reserves at more than 8 billion barrels. The revenue is expected to generate an estimated $168 billion over the life of the project, representing 120 times Guyana's annual budget. The population of the relatively poor nation is about 740,000 people.