Oil and Gas News Briefs
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Analysts speculate which B.C. LNG project survives Shell-BG merger

http://www.biv.com/article/2015/4/shell-merger-likely-kill-one-lng-project/

(Business in Vancouver; April 9) – Shell's takeover of BG Group could bode well for Shell's proposed liquefied natural gas export project in Kitimat, B.C., but not so well for BG's own LNG proposal in Prince Rupert, B.C., say industry analysts. "I certainly agree the deal casts a lot of doubt on the BG project … and I had heard that it was probably not one of the more likely ones to go ahead anyway," said Brad Hayes, president of Petral Robertson Consulting. "Shell will focus on what they've already got there."

Some analysts have speculated the company will be occupied with the merger for months to come, which could push back Shell's LNG Canada project. There were also concerns that might happen anyway, given current energy prices. But Hayes said Shell has already made significant investment in the LNG Canada project, and in making the BG announcement Shell's CEO confirmed that LNG will be an important part of the company's business going forward.

Christopher Goncalves, the LNG, natural gas and power group leader for Berkeley Research Group, said Shell and BG Group each have substantial global footprints, shipping capabilities and marketing networks in the LNG sector. He characterized the merger as "a doubling down" on Shell's LNG business. He said a rationalization of some of the companies' projects is to be expected. "There may be one project instead of two, but the strength behind that project will be much more substantial," he said.

Shell takeover looks to be bet on growing role for gas over coal

http://www.bloomberg.com/news/articles/2015-04-10/shell-s-huge-gas-bet-underscores-big-oil-s-push-to-replace-coal

(Bloomberg; April 9) - BP coined the slogan "Beyond Petroleum." The new industry mantra might be "Beyond Oil and Into Gas." Oh, and while we're at it, "Down with Coal." Consider Shell's recent acquisition of BG Group — clearly a huge bet that natural gas will prove to be its cash cow of the future. Shell's move is an emphatic confirmation that some among Big Oil believe gas will play a growing role in meeting energy needs of emerging nations such as China and India that are trying to move away from dirtier coal.

"Gas will likely overtake coal as the world's second fuel by the late 2020s," said Jonathan Stern, head of the gas program at the Oxford Institute for Energy Studies. Until recently, coal was the world's fastest-growing major energy source, averaging a 5 percent annual rate. The Paris-based International Energy Agency has forecast the rate will slow down to 1 percent from 2012 to 2020, and decelerate further to 0.3 percent in the 2020s as China and other emerging countries battle pollution.

Shell CEO Ben van Beurden said in February that “a shift from coal to gas” was needed to battle climate change. “When burnt for power, gas produces half the CO2 coal does.” For Shell, the BG move is the second gas-focused deal in so many years. In early 2014, it bought the LNG business of Spain’s Repsol for $4.1 billion. “This deal potentially kicks off acquisitions of other gas-focused companies the size of BG or maybe smaller,” said Trevor Sikorski, head of natural gas, coal and carbon for consultant Energy Aspects.

Shell’s focus on LNG has its risks

http://fortune.com/2015/04/09/shell-bg-merger/

(Fortune commentary; April 13) - While being bigger is usually better in the energy world, it may not pay off as well in the world of liquefied natural gas. It is LNG, not oil, that’s truly behind Shell’s $70 billion acquisition of BG Group. LNG suppliers used to have the upper hand, but that advantage has degraded sharply over recent years as demand growth has waned and new supplies crowd the market. Contracts are shorter and less rich for suppliers at the same time as LNG plant construction costs are rising.

Shell has bet big on LNG over the years and believes in its growth potential. Shell has major investments in Australia and the Middle East and owns and leases around 40 LNG tankers. BG Group has invested in LNG as well, with projects in Egypt, Trinidad and Australia, and a fleet of about 25 owned and leased LNG carriers. BG also has an agreement to pay for 3.5 million metric tons of annual liquefaction capacity at Cheniere’s LNG export plant under construction in Sabine Pass, La.

The market has gone from a seller’s market to a buyer’s market over the years. Shell and others could require customers to sign long-term take-or-pay deals. Customers would agree to take a specified amount of LNG per month for a long time, usually 20 years, and agree to pay the supplier even if it didn’t necessarily want or need the gas that second. But buyers are now demanding shorter commitments and a more rational pricing structure based on supply and demand in the LNG market, not the oil market. This means many LNG projects may end up being less lucrative than planned.

Shell-BG merger comes amid low point in global LNG market

http://www.wsj.com/articles/shell-bg-merger-comes-as-lng-prices-fall-in-main-market-asia-1428845951

(Wall Street Journal; April 12) – The tie-up of the world’s two biggest producers of liquefied natural gas, Shell and BG Group, comes just as conditions for the fuel in Asia, the region that consumes more LNG than any other, are at their worst in years. Until recently, prices for the gas — supercooled so it can be liquefied for export — have been much higher in Asia than in either the U.S. or Europe. In part, that is because demand for gas has been growing in countries such as China and Japan.

But LNG prices have tumbled in recent months in tandem with the slide in global oil prices. Sales of LNG in Asia are often based on long-term contracts, with prices linked to oil. About 25 percent of sales are on a shorter-term basis, with spot prices pressured by both cheaper oil and new supplies. Spot Asian LNG prices have now fallen to levels last seen before the 2011 Fukushima nuclear accident. They dropped from a peak of about $20 per million Btu in February last year to less than $7 this spring.

Shell and BG executives dismissed concerns about falling LNG and oil prices at a news conference April 8. BG Chairman Andrew Gould echoed the opinion of some analysts who say an LNG behemoth could withstand the industry's problems. Shell's acquisition of BG is a bet that countries such as China and India will eventually use less coal and more cleaner-burning natural gas. The weakness in Asia's LNG market is expected to reverse in the longer term, but the price drop has, for now, put the economics of some major global LNG projects in question — including those owned by Shell and BG.

Tokyo Gas writes down Australia, U.S. gas investments

http://www.reuters.com/article/2015/04/10/tokyo-gas-results-idUSL4N0X728A20150410

(Reuters; April 10) - Tokyo Gas, Japan's biggest city gas supplier, has cut its net profit estimate for the past fiscal year by 29 billion yen ($241 million) to 122 billion yen, hurt by write-downs for projects in the United States and Australia due to falling energy prices.

Worries about a global oversupply of oil led to a 60 percent slide in prices between June and late January, forcing oil refiners and upstream developers worldwide to re-evaluate energy development projects and slash their profit forecasts. Tokyo Gas projected an impairment loss for its shale gas project in the Barnett Shale basin in Texas and for its participation in the Queensland Curtis liquefied natural gas project in Australia.

Total CEO will visit Yamal LNG project

http://www.reuters.com/article/2015/04/08/yamal-total-ceo-idUSL5N0X53PN20150408

(Reuters; April 8) - Total's chief executive will travel this week to northwest Siberia to visit Russia's showcase $27 billion Yamal gas project in which the French oil major owns a 20 percent stake, a Total spokeswoman said. It's CEO Patrick Pouyanné's first visit to the facilities under construction in the Arctic — slated to supply 16.5 million metric tons per year of liquefied natural gas at full capacity early next decade — a sign Total still regards Russia as an important source of future production growth.

Russia's top independent oil and gas producer, Novatek, owns 60 percent of the project, which is trying to complete financing as sanctions against Russia have frozen U.S.-dollar funding due to the Kremlin's role in the Ukraine crisis. Novatek is subject to some of the most severe U.S. and European Union sanctions, and its billionaire co-owner Gennady Timchenko was added to the U.S. sanctions list in March last year.

While dozens of Russian energy ventures are in jeopardy due to the sanctions, the Kremlin is bent on saving Yamal no matter what. If it stays on track, it will also show the West that the world's largest energy industry is not cracking under sanctions. Total, Novatek and China National Petroleum Corp., which also owns 20 percent in Yamal LNG, are looking for funding for the project, with construction about a quarter complete.

Qatar's share of LNG market fell in 2014; first decline since 2006

http://www.bloomberg.com/news/articles/2015-04-07/qatar-lng-exports-shrink-from-record-as-australia-u-s-expand

(Bloomberg; April 7) - Qatar, the world's biggest producer of liquefied natural gas, in 2014 cut exports of the fuel for the first time since at least 2006 as Australia and the U.S. prepare to erode the Middle Eastern nation's dominant position. Qatari volumes dropped 2.1 percent from 2013 after at least eight years of gains, the International Group of Liquefied Natural Gas Importers said in its annual report.

Qatar's share of global LNG imports shrank to 31.9 percent from a peak of 32.9 percent in 2013, according to data from the Paris-based lobby group known as GIIGNL. "The industry is waiting for the wave of new exports from the U.S. and from Australia," Domenico Dispenza, GIIGNL president, said in the report. "The dominant market share and role of Middle East producers will diminish."

Qatar dominates the global market with output from its 14 LNG trains. The nation has the capacity to produce 77 million metric tons a year of the fuel. Global LNG trade rose 1 percent to 239.2 million tons in 2014, still less than the record 240.8 million tons in 2011, according to GIIGNL.

Australia LNG plant looks to sell early cargoes during commissioning

http://www.reuters.com/article/2015/04/10/australia-lng-supply-idUSL5N0X71U420150410

(Reuters; April 10) - Australia's latest liquefied natural gas export project coming on stream this summer at Gladstone has begun sounding out potential buyers as it seeks to place its first six months of output into already oversupplied spot markets, sources said. Australia Pacific LNG, a joint-venture between local player Origin Energy, ConocoPhillips and China's Sinopec, expects to begin loading tankers late in the third-quarter for sale before long-term delivery contracts kick in April 2016, the sources said.

In the commissioning phase of the project, exports are estimated at between two to three cargoes per month, with seven to 10 cargoes planned by the end of the year, the sources said. At plateau, the project could export eight cargoes per month, feeding into a market already overwhelmed by supply from other new facilities, such as BG Group's Queensland Curtis in Australia and ExxonMobil's in Papua New Guinea. More supply will come online later this year from Australia and starting next year from the U.S. Gulf.

Attempting to get ahead of the surge, Australia Pacific LNG is gauging interest from Indian, Chinese and some South American buyers, such as Chile, traders said. The plant, which will liquefy gas from underground coal beds in the Surat and Bowen Basins of southwest and central Queensland, will produce a leaner form of LNG with lower heating value, making it difficult for some potential importers to handle large volumes.

Spot-market LNG in Japan up slightly to $8

http://in.reuters.com/article/2015/04/09/lng-japan-spot-idINL4N0X61PV20150409

(Reuters; April 9) - Average liquefied natural gas spot prices for buyers in Japan rose for the first time in five months in March, but were still down 56 percent year-on-year, trade ministry data showed April 9, in another sign of weak global demand. Spot contracts in March for delivery to Japan averaged $8 per million Btu, up from $7.60 a month earlier, but down from $18.30 a year ago, the Ministry of Economy, Trade and Industry said.

Gas consumption stayed slack during the typically low-demand period, as incremental demand from Taiwan, India, China and Japan struggled to put a dent in ample supply availability coming from Indonesian and Australian production plants, among others.

The ministry started surveying spot LNG prices in March 2014 to add transparency to the market amid concerns about rising costs in the wake of the shutdown of nuclear plants after the Fukushima crisis. The trade ministry survey looks at samples of fixed prices for LNG sold to power companies and utilities among others, and excludes spot deals linked to benchmarks such as the U.S. natural gas Henry Hub price.

Brazil’s LNG imports jump amid worries over hydro power capacity

http://www.platts.com/latest-news/natural-gas/houston/brazilian-lng-imports-rise-48-month-on-month-21253492

(Platts; April 7) – Brazil’s imports of liquefied natural gas increased to 24.1 billion cubic feet in March, a jump of nearly 48 percent compared with February, data from Platts’ unit Eclipse Energy showed April 7. The 7.8 bcf boost in imports comes as the nation begins preparing for the dry season, which runs from April through November and brings with it a reduction in hydroelectric power.

"During the dry season Brazil only gets about one-third the amount of precipitation that the country receives during the humid season," a Brazil-based market analyst said. "We're entering unknown territory — typically the reservoirs are closer to 60 percent this time of year." But as of April 6, aggregate reservoir levels in the critical Southeast-Midwest region, where 70 percent of Brazil's hydro generating capacity is installed, stood at 30 percent, according to data from Brazil's National Electric System Operator.

Hydroelectric power accounts for as much as 80 percent of Brazil's total domestic power generation under normal climatic conditions. During the recent drought, Brazil has been using natural gas and alternative fuels to shore up the nation's energy supply.

Maryland lawmakers send fracking moratorium bill to governor

http://www.law360.com/energy/articles/640261/md-senate-sends-2-year-fracking-moratorium-to-governor

(Law360; April 7) - The fate of hydraulic fracturing in Maryland is now in Republican Gov. Larry Hogan's hands after the state Senate overwhelmingly passed a bill April 6 that would put a moratorium on fracking for the next two years. Forty-five members of the Maryland Senate approved the bill requiring the Department of Environment to lay down rules for fracking in the state by 2016. The bill also prohibits the department from issuing fracking licenses until October 2017. Only two members of the Senate voted no.

The Senate bill is a watered-down version of the measure that passed the Maryland House in March, which would have put a hold on fracking for three years and required a panel of scientific and public health experts to study the environmental and health impacts of fracking. Amendments in the Senate's version nix the panel and give Maryland regulators the go-ahead to begin crafting new rules.

A spokesperson said she was unsure if the governor would sign the bill, but she reiterated the governor's position that anti-fracking advocates not get in the way of economic development in Western Maryland. "The governor is currently reviewing" the legislation, she said, "However, as he has repeatedly said, if fracking can be done in an environmentally safe way, then he would want to move forward with it."

Proposed Pennsylvania rules would govern drilling wastewater, noise

http://www.law360.com/energy/articles/641222?nl_pk=f2a768f9-c043-4dfe-835d-231b1a2d527b&utm_source=newsletter&utm_medium=email&utm_campaign=energy

(Law360; Philadelphia; April 9) - New noise control requirements and a prohibition on wastewater impoundments are two of the changes that oil and gas drillers will face in new rules proposed for Pennsylvania well sites. The head of the state Department of Environmental Protection has called the rules a “great step forward for responsible drilling.” But attorneys and industry said the proposed rules for surface operations at well sites could throw up serious roadblocks for development in the Marcellus Shale.

“It’s difficult to overstate it,” said law firm Steptoe & Johnson’s government relations coordinator Gary Slagel. “It’s going to have a significant negative impact on the future of oil and gas development in Pennsylvania.” The agency began drafting the rules after legislation in 2012 imposed increased environmental protections on oil and gas drilling. After they were first unveiled in 2013, the draft regulations received more than 24,000 public comments from environmentalists, industry voices and others.

In response, the department issued a revised set in March. The rules are expected to be finalized and take effect sometime in 2016. Among the major changes in the revised rules are a prohibition on future centralized in-ground wastewater impoundments and a requirement that existing impoundments either be phased out within three years or else seek new permits under the state’s solid-waste management program. The rules also require operators to complete noise-control assessments and develop mitigation plans.

Hawaiian refinery owner says LNG not economical for the state

http://www.bizjournals.com/pacific/news/2015/04/08/lng-doesnt-make-economical-sense-for-hawaii-par.html

(Pacific Business News; Honolulu; April 8) - Liquefied natural gas, seen by many as a replacement for oil for power generation in Hawaii, is not economical for the state, the head of Par Petroleum, which owns Hawaii’s largest oil refinery, said April 8. Joseph Israel, president and CEO of Houston-based Par Petroleum, contends that LNG is still a fossil fuel, and, as a bridge fuel for a state moving closer to integrating more renewable energy, doesn’t make sense.

“[Hawaii] is just too far away and too small of a market,” he told Pacific Business News. “The market is comfortable with [oil] pricing in the mid-term. [The] combination of the long distance and the small market cannot justify a $300 million to $500 million infrastructure” to receive and store bulk shipments of LNG. Both Hawaii Gas, the islands’ gas utility, and Hawaiian Electric are looking at LNG as an alternative fuel.

TransCanada says Energy East oil sands pipeline delayed two years

http://www.calgaryherald.com/TransCanada+Corp+decision+shelve+Quebec+terminal+plans+delay+Energy+East/10941678/story.html

(Financial Post; April 8) - TransCanada's decision not to build a crude oil export terminal near beluga whale habitat on the St. Lawrence River will delay its $12 billion Energy East pipeline by two years and could run up costs. TransCanada announced April 2 it was scrapping plans for a marine terminal at Cacouna, Quebec, and looking for an alternative site in the province that wouldn't affect dwindling beluga whale populations. As a result, the company doesn't expect Energy East to ship crude oil until 2020.

"This decision is the result of the recommended change in status of the beluga whales to endangered and ongoing discussions we have had with communities and key stakeholders," TransCanada president and CEO Russ Girling said in a release. Spokesperson Tim Duboyce said the company is not forecasting an increase in the project cost — but some analysts were not so sure.

"It is possible the cost and/or schedule could change when the amended application is filed with the NEB," CIBC World Markets analyst Paul Lechem said in a research note following TransCanada's announcement. The Energy East line would move Alberta oil sands production to eastern refineries and to port for delivery overseas.

TransCanada may drop plans for pipeline's controversial oil terminal

http://calgaryherald.com/business/energy/transcanada-willing-to-forgo-quebec-terminal-to-gain-support-for-energy-east

(Bloomberg; April 9) - TransCanada and its oil-producer customers are prepared to forgo plans for a marine terminal in Quebec to win support for the $12 billion Energy East oil pipeline. The Calgary-based company is weighing whether to build Energy East with a single marine outlet in New Brunswick, CEO Russ Girling said April 8. The company delayed the line's start-up to 2020 by dropping plans last week for a terminal on the St. Lawrence River because of risks to endangered beluga whales.

Cancelling a port in Quebec may allow TransCanada to overcome environmental and political opposition to the oil sands pipeline project as it battles to push through regulatory approval for three other North American pipelines. The delays, including to the Keystone XL line that would link Canada's oil sands to the U.S. Gulf Coast, have crimped TransCanada shares compared with its peers in the past 12 months.

"As an industry, we need to be more cohesive in our thinking of trying to find the project that has the least amount of resistance and is most socially acceptable," Girling said. That may mean shippers on Energy East only get access to one marine terminal, in New Brunswick, he said. "They're mature enough in this conversation to know that the most important issue for them is waterborne access." Energy East would be North America's largest crude pipeline, stretching 2,800 miles. The line would carry as much as 1.1 million barrels of crude a day, which could then be shipped to foreign markets.