Oil and Gas News Briefs
Compiled by Larry Persily
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Russia may delay 'Power of Siberia' gas line to China

http://www.reuters.com/article/2015/03/18/us-russia-gas-china-idUSKBN0ME19120150318

(Reuters; March 18) – Russia may postpone completion of a huge pipeline to bring natural gas from two new fields to eastern China's industrial heartland, three sources with direct knowledge of the plans of Gazprom said, delaying one of President Vladimir Putin's signature projects. The sources, speaking on condition of anonymity, said the "Power of Siberia" project may be put off until Moscow completes a separate, less costly project to send gas from existing fields to China through a pipeline further west.

Russia has denied it has any plans to postpone the $55 billion Siberian pipeline, despite a fall in global energy prices that has hurt the case for investment to develop the new fields it would serve. Energy Minister Alexander Novak told Reuters last week that Gazprom was sticking to its plan to deliver first gas through the new Siberian line by 2019. Gazprom is already clearing the route, and five Russian pipe producers have won contracts to supply around a third of all large-diameter pipes needed for the project.

The industry and banking sources said Moscow could postpone completion of the route until after it builds the cheaper Altai route from existing fields to China's west. Such a change would delay a project that had been a centerpiece of Moscow's plans to find new markets in Asia as Europe cuts back its reliance on Russian gas. But the global fall in energy prices hurts the case for investment to develop the new gas fields in remote eastern Siberia that would feed the Power of Siberia line.

Slowing Chinese energy demand could affect markets

http://business.financialpost.com/2015/03/17/chinas-great-energy-pause-could-have-big-impact-on-global-oil-and-gas/?__lsa=cc61-897b

(Financial Post; Canada; March 17) - As the world's fossil fuel producers geared up to meet energy-thirsty China's needs, the Asian giant's economy revealed a disturbing pattern last year: Coal demand fell for the first time this century, while crude oil slowed to its lowest level in a decade. Chinese demand for natural gas demand grew, but below expectations. The tepid data suggests China is witnessing an energy transformation that could have far-reaching consequences for global oil and gas markets.

China accounted for two of every five new barrels of oil produced and virtually single-handedly drove commodity prices during the past decade. But last year's data should give pause to companies hoping to secure Chinese investment or send oil and gas across the Pacific. “Something is happening in China. Will it lead to a deeper change in energy, or is it a short-term disruption?,” said Tao Wang, resident scholar, energy and climate program at the Carnegie-Tsinghua Center for Global Policy in Beijing.

“My feeling is that we will have to endure this for the next few years,” Wang said. “We will see energy grow much slower than before for the next few years and potentially some of the energy sources may not grow at all in the near future.” To be sure, China’s demand for energy will not fall off the cliff — it is widely expected to overtake the U.S. as the world’s largest oil importer by 2020. But China’s supply and demand for energy is going to be unpredictable over the next decade as it enters a period of deep reform.

Wood Mackenzie sees gas taking market share from coal in Asia

http://uk.reuters.com/article/2015/03/17/asia-coal-competition-idUKL3N0WJ29020150317

(Reuters; March 17) - Coal faces increasing competition from gas for power generation in Asia as prices for the cleaner-burning fuel are likely to stay low, energy consultancy Wood Mackenzie said March 17. Asian LNG spot prices have halved in the past six months to multi-year lows near $7 per million Btu due to weak demand. "We do not forecast any sustained price recovery above $10” with so much new LNG capacity set to come online by 2020, said Graham Tyler, research director for Asia gas and power.

"This looming supply glut will create an environment where coal-versus-gas competition in Asia is a real possibility," he said. Coal futures dropped to 9-year lows this week, forcing many miners to produce at a loss. As such, coal prices are unlikely to fall much further, according to Wood Mackenzie. Thermal coal currently accounts for about half of all power generation across Asia, with natural gas making up only 11 percent.

Environmental concerns and the introduction of carbon-trading schemes will favor more gas burning in China and South Korea, while Malaysia is also expected to increasingly turn to gas amid delays in construction of new coal-fired power plants and an oversupply of domestically produced gas, Wood Mackenzie said. The consultancy forecasts power demand in Asia to grow 5 percent per year on average to 2030, which will require an additional 2,000 gigawatt of power capacity.

Challenges pile up for Gazprom

http://www.themoscowtimes.com/business/article/russias-gazprom-braces-for-tough-year-as-demand-slumps/517578.html

(The Moscow Times; March 17) - Gazprom, the giant natural gas company that traditionally provides around one-fifth of Russia’s government revenue, is facing a challenging year. The state-owned company is confronting slumping revenues from its key European export market, a “black hole” of price and demand in Ukraine and massive debt inflation due to the steep devaluation of Russia’s ruble over the past year.

Added to these problems, sanctions imposed over Moscow’s actions in Ukraine have restricted Gazprom’s access to Western capital and advanced equipment and technology, just as the company embarks on a massive infrastructure development drive aimed at holding onto market share in Europe and entering the rising Asian market for LNG. As a result, analysts expect the firm to see its earnings continue to slide well into 2016.

The company will remain what Russian President Vladimir Putin described as “a powerful lever of political and economic influence in the world” — although its clout may be diminished for some time. Gas prices to Europe, Gazprom’s core market, are set to decline 35 percent this year, severely narrowing the company’s sales margins. The government forces Gazprom to sell gas inside Russia cheaply, so the company earns most of its cash through exports.

U.S. gas production hurting Canadian producers

http://www.platts.com/latest-news/natural-gas/houston/canadian-natural-gas-eampp-outlook-weak-analyst-21158732

(Platts; March 17) - The outlook for Canada's natural gas exploration and production industry will remain weak over the next several years as increased U.S. production, high North American storage levels and low prices continue to weigh on the profitability of the industry, the Conference Board of Canada said March 17. The dramatic rise in U.S. shale gas production in the past several years has led to less demand for imports of gas from Canada, said Michael Shaw, a CBC economist and co-author of the board’s study.

“I think the U.S. natural gas industry is going to do quite well," Shaw said in an interview. "I think that in doing so well it is going to push out Canadian imports and really hurt the Canadian industry." Canadian gas production, which last year averaged about 14.7 billion cubic feet per day, can be expected to drop to just under 13 bcf per day by 2018, Shaw predicted.

Producers should not expect much relief to come from liquefied natural gas exports, as here again the U.S. likely will gain the advantage, he said. "The U.S. is leaps and bounds in front of Canada in the LNG race," he said. "I think the U.S. is going to have four or five projects before the end of 2018-19. I think the best case for Canada is we start to see LNG exports in 2019-2020." The Conference Board of Canada analysts predict that North American natural gas prices will remain weak through 2016.

New wave of LNG supply coming to market

http://www.telegraph.co.uk/finance/newsbysector/energy/11473839/After-oil-a-glut-of-natural-gas-may-be-next-to-flood-energy-markets.html

(The Telegraph; London; March 15) - Thought you had seen the last of huge price movements in energy markets? Well, think again. The supply glut that led to a 50 percent slide in oil prices over the past year will begin to hit the other major hydrocarbon product vital to global economies — liquefied natural gas. This year will see a wave of new LNG production flooding international markets as several big projects in Australia finally come on stream after years of development and tens of billions of dollars.

According to BG Group, global LNG supply had remained stalled at 2011 levels until late in 2014. The U.K. energy company estimates that last year shipments grew by only 1.5 percent to about 243 million metric tons. However, by 2025, the company forecasts the global LNG supply will reach 400 million tons. This would represent a 5 percent annual increase in demand over the next decade and experts are now concerned the market will be unable to keep pace with supply, leaving some LNG projects redundant.

Andrew Walker, BG Group vice president of global LNG, said: “After four years of flat supply, we are entering a period of supply growth. 2014 marked the start of a new wave of supply from Australia. This will be joined by the first volumes from the U.S. Gulf of Mexico around the end of 2015.” A big issue is the pace of China’s economic slowdown and the knock-on effect this could have across Asia, including big LNG-consuming nations such as South Korea and Japan.

LNG projects without sales contracts are at risk, analyst says

http://www.platts.com/latest-news/natural-gas/houston/low-global-oil-prices-unlikely-to-slow-some-us-21150544

(Platts; March 16) - The wave of low oil prices is unlikely to halt proposed projects to export liquefied natural gas from the U.S., providing they have long-term sales contracts in place with customers, a veteran analyst and former Federal Energy Regulatory Commission member said March 16. However, LNG projects that have not already negotiated deals with customers are likely to face another obstacle to financing and an investment decision as a result of the drop in prices, Branko Terzic told Platts.

The recent precipitous drop in global oil prices has led some observers to speculate that proposed projects to export U.S. LNG would no longer be economic, but for those projects that have already secured all the necessary regulatory approvals and either are, or soon will be, under construction, oil prices are not a consideration, Terzic said. This is because those projects already have long-term LNG sales contracts in place.

“It'll be the next round of facilities that are still in the licensing stage that will be at risk of whether the investment will go ahead of not," he said. "There are only a limited number of large Asian buyers that are willing and able to sign 20-year, long-term contracts," he added. "We have lot more proposals for LNG facilities than the market can actually support." Canada faces a similar situation in its quest, Terzic said. "Canada has about 15 proposals for LNG facilities coming through British Columbia. None have been fully licensed. Some have said the Canadians are just going to be too late for the market."

Shell pulls back on shale gas exploration in South Africa

http://www.reuters.com/article/2015/03/16/us-shell-shale-idUSKBN0MC1K220150316

(Reuters; March 16) - Shell is pulling back from its shale projects in South Africa due to low energy prices and delays in obtaining an exploration license for the onshore Karoo Basin, the company said March 16. A more than halving of oil prices since June has put high-cost projects such as shale gas exploration in jeopardy around the globe, and Shell South Africa said waiting six years for a license for Karoo had not helped.

Shell South Africa Chairman Bonang Mohale told Reuters that oil prices would need to be between $60 to $80 a barrel and South Africa would need to present "excellent commercial terms" for the company to resume its operations. "Capital is mobile and is looking for the best commercial terms everywhere else in the world," he said. "We were hoping that we would have had a license (for Karoo) in 36 months."

The U.S. estimates South Africa has the world's eighth biggest shale reserves, with the potential to transform an economy dependent on oil and gas imports. Shell's retreat is a blow to the South African government, which has been criticized for delaying exploration licenses, most notably in the Karoo region which is believed to hold up to 390 trillion cubic feet of technically recoverable reserves. Green groups and land owners in the Karoo, a vast semi-desert wilderness stretching across the heart of South Africa, have argued that exploring for shale by fracking would cause huge environmental damage.

First Nation worries LNG plant would reverse marine life recovery

http://www.cbc.ca/news/canada/british-columbia/woodfibre-lng-worries-squamish-first-nation-amid-howe-sound-revitalization-1.2994161

(CBC News; March 13) - After years of heavy industry in Squamish, B.C., marine life is starting to return to Howe Sound, but the Squamish First Nation says it's concerned that trend could be reversed if the proposed Woodfibre LNG plant is approved. The project would export just over 2 million metric tons of LNG from a facility built at the site of the former Woodfibre pulp mill in an area of Howe Sound about 4.5 miles from Squamish (about 30 miles north of Vancouver).

Chief Ian Campbell said the Squamish First Nation is doing its own assessment of the Woodfibre LNG proposal to look at the environmental impact as well as potential economic benefits. "We've seen a resurgence of revitalization of Atl'kitsem, known as Howe Sound," he said. "This is considered a celebration of the return of the herring biomass, the whales, the orcas that are in the water as we speak. This hasn't happened for quite some decades due to cumulative impacts of industrialization in the early days."

Disputed B.C. gas pipeline permit heads to court

http://www.thetyee.ca/News/2015/03/17/Squamish-Pipeline-Permit-Petition/

(The Tyee; Vancouver, BC; March 17) - FortisBC Energy wants the B.C. Supreme Court to overturn the District of Squamish's decision to deny a permit needed to conduct test drilling for construction of a gas pipeline related to the proposed Woodfibre LNG plant. The Squamish District Council voted 4-3 on Jan. 20 to deny FortisBC the permit required to assess the feasibility of a natural gas pipeline across the Squamish River and part of the Skwelwil'em Squamish Estuary Wildlife Management Area.

FortisBC's petition asks for the court to grant the permit or order the council to hold a new hearing. City staff recommended the permit be issued, but a majority of councillors rejected the application because of the potential risk to the estuary and the plan for a compressor station in town. FortisBC says councillors acted without jurisdiction by failing to "apply the objective guidelines of Squamish's official community plan and instead made their decision based upon irrelevant and extraneous considerations."

The pipeline would feed gas to the proposed Woodfibre LNG plant on Howe Sound, about 30 miles north of Vancouver. FortisBC applied for the development permit last September so that it could gather subsurface soil conditions for the proposed pipeline.

Bank of America says U.S. natural gas prices could fall below $2

http://www.bloomberg.com/news/articles/2015-03-18/surprising-natural-gas-output-has-bofa-bracing-for-sub-2-prices

(Bloomberg; March 18) - Relentless U.S. production gains that caught many natural gas traders by surprise have triggered a 30 percent plunge in prices since November. Bank of America says the selloff isn’t over and is telling clients to brace for the possibility of sub-$2 prices for the first time in three years. Gas output will climb to an all-time high of 78.39 billion cubic feet a day this year, an increase of 50 percent over 2005, led by shale reservoirs in Pennsylvania, Louisiana and Texas, government data show.

The number of gas rigs has tumbled to the lowest level since 1993, yet supply has risen steadily because of improved techniques for extracting the fuel. Natural gas for April delivery traded as low as $2.82 per million Btu March 18 in electronic trading on the New York Mercantile Exchange, down from $4.46 a year ago. Futures were last below $2 in April 2012 and haven’t traded there for more than a handful of days since 1999.

“Production has definitely surprised,” Francisco Blanch, head of global commodity research at Bank of America in New York, said March 10. U.S. gas output has climbed to a record every year since 2011, driven by gains at shale formations from the Marcellus and Utica to Haynesville in Louisiana, and Eagle Ford and Permian in Texas. Operators in those basins have used techniques such as drilling multiple wells from the same pad to cut costs and boost production.

Interior secretary says new rules coming to reduce gas flaring

http://www.upi.com/Business_News/Energy-Resources/2015/03/18/US-working-to-cut-flaring-of-natural-gas/7971426676101/

(UPI; March 18) - The U.S. government will roll out new standards in the coming months to cut the amount of gas wasted through flaring, the Interior Department secretary said. Much of the gas associated with shale oil deposits is burned off, or flared, because of a lack of infrastructure to utilize the gas. Interior Secretary Sally Jewell said at the Center for Strategic and International Studies in Washington, D.C., that her agency would propose standards to cut emissions and cut the amount of gas wasted by flaring.

"We will be updating our decades-old standards to encourage the kind of infrastructure and technology that companies I've met with in the Bakken and Permian basins [in North Dakota and Texas, respectively] have demonstrated can reduce harmful emissions and capture the natural gas as a source of energy and revenue for the American people," she said. While the Interior Department will do its part, the secretary said part of the onus lies with industry and state leaders.

Jewel said many of the regulations on the books haven't kept pace with advances in shale basins behind the U.S. shale oil and gas boom. North Dakota producers at one point were flaring almost one-third of the natural gas coming up wells, though that number is headed down under new state rules and industry initiatives.

Union Pacific Railroad applies for federal approval to haul LNG

http://www.omaha.com/money/railroads/union-pacific-request-to-haul-liquefied-natural-gas-draws-criticism/article_ea761863-bd80-511d-8f87-e60245daa492.html

(Omaha World-Herald; March 19) - Union Pacific Railroad has applied for permission to haul liquefied natural gas, which would add another combustible cargo to a U.S. rail network already being criticized for transporting ethanol and crude oil through populated areas. The Omaha-based railroad said the application for a permit from the Federal Railroad Administration is in response to a request for LNG transportation from an existing customer.

If Union Pacific is granted the permit, it would be a first. The Association of American Railroads said none of the other major interstate freight railroads in the nation are hauling LNG. The permit application coincides with a major bump in railway ethanol and crude oil cargoes, which have attracted heavy opposition after a fatal oil train explosion in Canada in 2013 and three oil train fires this year in the U.S. and one in Canada.

“The timing … is awkward given recent accidents and mounting public apprehension,” said Joseph Schwieterman, a transportation sciences professor at Chicago’s DePaul University. “I am sure there will be pressure for a go-slow approach on it, but the fact is that railroads are the best bet to get significant amounts of natural gas to market given the decades it takes to permit and construct pipelines.” Details about the application are secret. A Federal Railroad Administration spokesman said the application and supporting materials are not available for public inspection during the review process.

North Dakota housing construction at risk with low oil prices

http://www.wsj.com/articles/oil-boom-swells-north-dakota-town-what-now-1426628879

(Wall Street Journal; March 17) - Shale oil turned the sleepy county seat of Watford, N.D., into a boomtown, drawing developers to build housing for a population that has more than quadrupled in five years. But with oil prices less than half of what they were nine months ago, land-rush euphoria is giving way to concerns that projects will stall and New York-level apartment rents could plunge as drillers cut production and jobs.

“A person would have to be somewhat blind to not be worried,” said Kent Roers, a Minneapolis-based investor who came to the area three years ago, and with his younger brother has built 200 apartments in Watford City. The brothers were readying three more projects, but “as soon as oil pulled through $60 a barrel, we shelved those.”

For now, Watford City and other towns in this region of western North Dakota are still humming with construction. Developers are building thousands of apartment units and homes, hoping to see the same demand that sent rents for two-bedroom apartments soaring to $2,800 a month — more than double what landlords got just five years ago.

But the oil industry has started cutting back. The count of drill rigs in the state has fallen to 110 from 191 a year ago, and state officials expect it to decline further. Employers are cutting hours, and while unemployment is still low, drilling companies have said they expect to slash expenses this year. Banks already are beginning to pull back on financing for local development projects, fearful of how the oil-price plunge will play out.

Japan’s oil-price benchmark falls to near 6-year low

http://in.reuters.com/article/2015/03/18/energy-japan-imports-idINL3N0WK1H020150318

(Reuters; March 18) - Japan's benchmark oil price fell to a near six-year low in February as imports dropped 11.6 percent from the same month in 2014, according to data released by the Ministry of Finance March 18. The price fall, which reflects slumping global prices, has helped cut costs for the country's struggling utilities that resorted to fossil fuels to replace nuclear capacity shutdown after the 2011 Fukushima disaster.

The Japan Crude Cocktail, the average price for customs-cleared crude oil imports, is used to price liquefied natural gas, which utilities have been burning at record volumes since the shutdown of nuclear reactors. The JCC price was at $49.42 a barrel in February, the lowest since April 2009. The benchmark was at $63.76 in January and $110.91 a year earlier, according to the Ministry of Finance. The decline in fossil fuel prices has also helped cut Japan's trade deficit.