Oil and Gas News Briefs
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India close to renegotiating price for Qatari LNG

(Reuters; Nov. 20) - India's biggest gas importer Petronet LNG is close to renegotiating a major deal with its Qatari supplier RasGas to lower the cost of gas cargoes and avoid a $1.5 billion penalty for taking less gas than agreed, sources said. The renegotiation is another sign of how falling oil prices and a global LNG glut are bringing producers such as Qatar to the bargaining table.

Petronet, which has a 25-year contract with RasGas to buy 7.5 million metric tons of LNG a year, has reduced purchases by about a third this year due to high prices — even though it is only allowed to take 10 percent less, making it liable for a $1.5 billion penalty. According to sources, the two firms are exploring the possibility of altering the contract's pricing formula, which is based on a 60-month average of oil prices. Instead, a three-month average of Brent crude is being considered, which would be a major coup for Petronet by lowering its LNG costs in line with sharply lower, current oil prices.

Petronet currently pays about $12 to $13 per million Btu for Qatari LNG under a deal that began in 2004, compared with around $7 to $8 in the spot market. Petronet has been increasingly substituting costly Qatari LNG with spot shipments. Under the revised terms, RasGas would also grant relief to Petronet from paying the penalty on the condition that the firm lifts its full volumes in subsequent years, said one of the sources.

China looks for better LNG terms before approving Shell-BG merger

(Reuters; Nov. 19) - Chinese regulators vetting Shell's proposed merger with BG Group are pressing the company to sweeten long-term gas supply contracts in a move that could cast new doubt over the near-term benefits of the $70 billion tie-up. For China, the opportunity to renegotiate liquefied natural gas supply contracts with Shell, which when combined with BG would supply 30 percent of China's LNG by 2017, comes at an ideal time because the world's top energy consumer faces a supply excess through 2020.

For Shell, any revision of the contracts with China could dilute the near-term financial benefits of a merger that has already raised concern among some investors and analysts because of stubbornly low oil prices. Shell declared it wanted to become the world's top trader of LNG when it agreed to a takeover of BG in April. It expects global demand for LNG to grow by nearly 5 percent per year by 2030. Power plants, industries and vehicles are shifting to the less-polluting fuel.

The proposed merger has already won approvals from some nations but still requires the green light from China. As the regulatory approval process entered its third and final 60-day phase earlier this month, Beijing broached with Shell a request to review prices in LNG contracts worth tens of billions of dollars annually. China's ministry of commerce is also seeking to lower import volumes by extending the term of existing deals with Shell in order to thin out deliveries given low demand, according to several sources.

Russia says Yamal LNG financing deal is close

(Forbes; Nov. 18) - Russian Deputy Prime Minister Arkady Dvorkovich told reporters at an intergovernmental energy meeting in Beijing on Nov. 16 that a multinational deal to support Russia’s Yamal liquefied natural gas project will be signed next month. Russian gas producer Novatek is the lead on the project. Gennady Timchenko, a close ally of Russian President Vladimir Putin and one of Novatek’s key owners, said a week ago the company was in talks with Chinese banks to raise over $10 billion for Yamal LNG.

“Given the situation with the sanctions, we will work tightly with Chinese banks,” Timchenko said. Financing trouble for the project stems from U.S.-led sanctions against Russia’s oil and gas sector over Russia’s invasion of Ukraine. Since sanctions prohibit Novatek from raising long-term loans from capital markets in U.S. dollars, the company and its partners — France’s Total and China’s state-owned China National Petroleum Corp. — are having to seek more money from Chinese lenders than they had intended.

Not only are they forced to raise nearly $10 billion, mentioned by Timchenko, but to date the project has failed to secure additional needed funds. The project has considered Chinese funding before, but those efforts have proved problematic. Last month, Reuters, citing two banking sources, said efforts to secure financing for the Yamal LNG plant had stalled, with the owners baulking at costly Chinese loans. Novatek continues to report the first LNG shipments from the Arctic plant could start in late 2017.

Australia LNG projects can deduct overruns from tax bills

(Sydney Morning Herald; Nov. 17) - A tax designed to share profits from the oil and gas sector with the Australian public is barely raising a single extra dollar despite the industry's transformation to an export powerhouse. With Australia poised to become the world's biggest liquefied natural gas exporter by 2018, a Fairfax Media investigation has found that petroleum resource rent tax revenues will remain stuck at 2003-04 levels as producers use deductions to recoup some of the $200 billion they have invested.

The tax delivered $1.2 billion to government coffers in 2003-04 but will raise just $1.4 billion when the industry reaches peak production around 2019, the Australian Tax Office confirmed. Two university academics — one a former private-sector tax adviser

— who have reviewed the numbers believe there are too many available loopholes for "aggressive tax planning" by the multinational fossil fuels companies.

Despite winning a landmark tax avoidance case against Australia's biggest LNG producer, Chevron, last month, the Australian Tax Office allows the entire industry to self-determine its resource rent tax payments. Implemented in the late 1980s, the tax aims to tap "rents" — or excessive returns. After all available deductions are taken, it is supposed to extract up to 40 percent of profits from a project in recognition that companies have been granted the right to extract a finite national resource.

An expert with knowledge of the tax said companies wasted billions in places such as Queensland, where three LNG plants were built side by side and the combined cost blow-out has been $10 billion — most of which is deductible. The $54 billion Chevron-led Gorgon project in Western Australia is $17 billion over budget. The tax allows for capital spending to be deducted immediately, but deductions that cannot be used may be carried over to future years with a lift in value to account for the time value of money.

IEA will increase information on global gas markets

(Reuters; Nov. 18) - The International Energy Agency will increase its role in the global gas market to provide more information on trading, storage capacities and flows, aiming to improve transparency in the growing market, its executive director said Nov. 18. Fatih Birol, who took over as director in September, said there was a need to broaden the organization's work given the increasing role of natural gas in energy security.

The Paris-based IEA was founded in 1974 in the wake of the 1973 oil shock in order to advise western economies on how to deal with supply disruptions. "In addition to oil markets, given the growing LNG (liquefied natural gas) flows throughout the world, the IEA will now more and more work to coordinate the global gas security aspects," Birol told a news conference in Paris, following a meeting of ministers of member countries.

"There are many LNG facilities and we will have more in the future and there is no data worldwide on what are their capacities, what are their maintenance times and what are the cargoes going in and out," he added. Ernest Moniz, U.S. Energy Secretary, who chaired the IEA meeting, told reporters there were many concerns about energy security in gas supply, particularly in Europe, where Russia supplies some eastern European countries with all their gas.

U.S. company will invest in LNG import terminal for Jamaica Power

(Maritime Executive; Nov 16) – A U.S. company, New Fortress Energy, will invest more than $200 million to build an LNG import terminal in Jamaica to supply over 200,000 tons of LNG a year (about 9 billion cubic feet of gas) to the country's 190-megawatt Old Harbour gas-fired power plant. The terminal is expected to be commissioned by 2018. Earlier this year, New Fortress agreed to supply LNG for Jamaica's 120-megawatt St. James power plant that is being converted to run on gas as well as diesel.

The Port of Montego Bay will be used to accept LNG for the gas conversion project in St. James, scheduled for completion by the second quarter 2016. LNG will be delivered from Fort Lauderdale, Fla. The 12-year-old plant in St. James currently burns diesel. Jamaica is introducing gas into the country's energy mix as it is overly dependent on high-cost, oil-based fuel for electricity generation. Jamaica Public Service is the nation's sole provider of electricity. New Fortress is a diversified investment company.

Oklahoma regulators shut down wastewater wells after 4.7 quake

(Energy Wire; Nov. 20) - Oklahoma regulators shut down six drilling wastewater disposal wells Nov. 19 after residents were shaken out of their beds by the state's strongest earthquake since 2011. Two of the wells closed were around Cherokee, near the Kansas border, where a magnitude 4.7 quake hit shortly after 1:30 a.m. local time. It was felt from Dallas to Kansas City and was the largest quake since a magnitude 5.7 in 2011 destroyed homes and injured two people. An additional four wells directed to close by the state were closer to Oklahoma City, where a 4.0 quake was centered.

The state oil and gas regulatory commission also directed the owners of 23 other wells around Cherokee to reduce injections by up to half. Further reductions in wastewater reinjection are expected in the Crescent area, and other operators near Cherokee were told they may be directed to reduce operations. There were a total of eight earthquakes. No injuries or major damage was reported, though residents say earthquakes in the area have damaged exterior brick on houses, cracked walls and done other damage.

Scientists say favorably aligned faults and production methods that create uniquely large volumes of wastewater appear to have combined to create unprecedented swarms of man-made earthquakes in Oklahoma. The state has had more than 790 earthquakes of magnitude 3 or greater this year, an increase over the 585 last year. Cherokee sits atop the Mississippi Lime, an oil play that produces as much as 10 barrels of wastewater for each barrel of oil — a higher ratio than conventional wells.

Company proposes $5 billion line to move shale gas to Northeast

(MassLive.com; Nov. 20) - Tennessee Gas Pipeline, a Kinder Morgan company, filed a certificate application Nov. 20 with the Federal Energy Regulatory Commission for its proposed Northeast Energy Direct project. The $5 billion natural gas pipeline, which has met with stiff opposition from environmentalists and property owners, would transport natural gas from the Marcellus region of Pennsylvania to markets in the Northeast. Kinder Morgan hopes to start up the pipeline in late 2018.

New England's electric generators have had to rely on "high-priced natural gas, expensive imported LNG (liquefied natural gas) and costly fuel oil purchased on the spot market" because of pipeline constraints to the region, said Kimberly Watson, east region natural gas pipelines president for Kinder Morgan. The 321-mile line would include spur lines and several large compressor stations and other facilities.

Opponents include environmentalists, property owners and various elected officials. Tennessee Gas Pipeline has executed precedent agreements with seven New England gas distribution companies totaling about half of the line's maximum capacity. The company says it is "confident" it will secure additional commitments as five New England states take steps to let electric distribution companies contract for pipeline capacity and recover the costs in their rates.

North Dakota oil producers moving away from trucks to pipe and rail

(Oil Patch Dispatch; Williston, ND; Nov. 18) - More oil is now gathered by pipeline than truck in western North Dakota, taking pressure off oil patch communities faced with congestion, traffic fatalities and dust. New figures from the North Dakota Pipeline Authority show that for the first time in several years, more oil is leaving well sites by pipeline and that trend is expected to continue, director Justin Kringstad said.

“We’ve seen some significant progress in the major counties in western North Dakota getting crude off the roadways and into gathering pipeline systems,” Kringstad said. An estimated 441,644 barrels of oil left well sites by truck each day in April, while 725,743 barrels per day were transported by gathering pipelines to either a transmission pipeline or a rail-loading terminal, Kringstad said, using the most recent figures available.

All counties saw a reduction in oil truck traffic in 2015, with the exception of McKenzie County, which still had an average of 892 oil truckloads each day in April. “We’ll likely see that turn the corner here in the next year or so,” Kringstad said. McKenzie County, the state’s busiest oil county, saw significant growth with pipelines between 2012 and this year, but not enough to keep up with the growth in oil production. “We’re still behind the eight-ball on pipelines,” County Commissioner Ron Anderson said.

Construction cost climbs for oil sands pipeline to B.C. coast

(The Canadian Press; Nov. 20) - The Trans Mountain oil pipeline expansion from Alberta to the B.C. coast is getting more expensive, but the company planning to build it says the economic case for the project is still strong. Kinder Morgan, the U.S. company behind the pipeline project, doesn't yet have a formal estimate of how the price tag has changed since its regulatory application was filed in December 2013. Back then, the company pegged the cost at $5.4 billion, but $6.8 billion is the latest unofficial estimate.

That takes into account where the Canadian dollar was trading against the U.S. dollar on that particular day, in addition to changes to the project — and delays. Trans Mountain spokeswoman Ali Hounsell said the company will be able to pin down a more accurate figure once it knows what conditions may be attached to a federal permit if it's approved. The National Energy Board has already announced 145 draft conditions.

The existing pipeline has for decades shipped petroleum products from around Edmonton to the Vancouver area and Washington state. The expansion would nearly triple its capacity to 890,000 barrels a day, enabling oil sands crude to be shipped to Asian markets. The project has faced pushback in the B.C. Lower Mainland, much of it related to concerns over increased oil tanker traffic. It is one of several pipelines proposed to deliver oil sands production to coastal ports for export.