Oil and Gas News Briefs
Compiled by Larry Persily
September 10, 2015

Short-term LNG trade will increase, says BP Asia manager

(Platts; Sept. 9) - Growing supply, new market participants and increasing shipping availability are likely to boost spot- and short-term trade in global LNG markets, BP's LNG trading manager for Asia and the Middle East said at an industry event Sept. 9. Tetsuro Toyoda said the result of that increase in liquidity was already being felt, and will become more apparent as new participants enter the market and new projects start or ramp up operations.

"The number of participants in the LNG markets has dramatically increased," he said at the Asia Pacific Summit held in Singapore, adding that shipping availability was also on the rise. "In the past, LNG ships ... were there to move from point A to point B and that was all," he said. "Now, BP has a fleet of eight ships, none of these dedicated to [specific projects] ... but to find optimal shipping movements, depending on the market, the arbitrage, and contractual agreements."

Buyers are also enjoying more flexibility, according to Toyoda, as their shipping capabilities grow and long-term contracts become more flexible. "Before, security of supply was a key factor of their operations," Toyoda said, adding buyers will now likely start to become more confident in the spot- and short-term markets as supply increases.

Analysts say low costs make Papua New Guinea LNG attractive

(Bloomberg; Sept. 8) - With sliding energy prices threatening liquefied natural gas projects around the world, it doesn't seem like a great time to make an $8 billion bet on the fuel. The Pacific nation of Papua New Guinea, however, is seen as one of the few places where new plants will probably succeed because it costs less, said Deutsche Bank and Bloomberg Intelligence. That helps explain Woodside Petroleum's bid for Oil Search Ltd., ExxonMobil's partner in the $19 billion Papua New Guinea LNG project.

"Oil Search has the lowest-cost LNG growth opportunities globally," John Hirjee and Andrew Lewandowski, Deutsche Bank analysts in Melbourne, wrote in a report after Woodside's $8.2 billion (U.S.) offer for Oil Search was announced Sept. 8. Developers of LNG plants face growing concerns of a glut as Japan's return to nuclear power and China's cooling economy raise speculation that demand growth may slow. Revenue for existing projects is also falling, as most LNG sold in Asia is linked to oil prices.

The quality of the gas resources, higher production of associated liquids known as condensates, cheaper labor and lower taxes give Papua New Guinea an advantage, Credit Suisse Group analysts said earlier this year. Oil Search owns 29 percent of the Exxon-led PNG LNG development, which started production last year. The partners are considering adding capacity. Oil Search is also in a venture with Paris-based Total and InterOil for Papua New Guinea’s second LNG export development.

Former government official says Australia must learn to control costs

(Sydney Morning Herald; Sept. 7) - Former Australian resources minister Martin Ferguson said the high cost of building liquefied natural gas facilities in the country has pressured the profitability of projects and raised doubts over whether a second wave of developments will ever be built. He said while there was little local producers could do about the plunging oil price, which cuts into earnings of LNG sales, they must heed the lessons of the resources boom where cost inflation in Australia ran out of control.

"The lesson from the boom is that we have to focus more on delivery and keeping costs down, while streamlining regulatory processes if we are to again attract anywhere near the $200 billion investment we achieved since 2008," Ferguson said. "Even as a minister I saw it coming and I tried to warn the industry and the Australian community about paying attention to construction management."

Ferguson, a former president of the Australian Council of Trade Unions, said extravagant union demands and stupidity from some of the union movement were partly to blame for projects in the process of being built facing cost blowouts and delays. "I tried to send a message to the unions to just be very careful because extracting a premium now might kill investment in the future. I think if Australia is not very careful, that is where we are at now in terms of future investment in Australia's LNG sector."

Russian lender says it will decide on Yamal LNG financing this month

(Reuters; Sept. 8) - Russia's Sberbank, one of the lenders for the Novatek-led Yamal LNG project, will take a decision about the deal's terms before the end of this month, Maxim Poletayev, first deputy chief executive with the state-controlled bank, told Reuters. Novatek, Russia's largest independent natural gas producer, has been hit by Western sanctions imposed over Moscow's role in the Ukraine crisis. It had expected to get up to $20 billion from Chinese banks by the end of 2014, but later said the deal had been delayed until mid-2015 and the amount of financing cut to “over $10 billion.”

Banking sources told Reuters earlier that Chinese lenders had become more cautious about disbursing funds because of the sanctions. The $27 billion LNG export project, on the remote Yamal Peninsula, is set to start first-phase production late 2017. "Sberbank has signed specific obligations and will decide by September-end under which terms it will take part in a deal … how much money it will provide," Poletayev said.

Novatek signed an initial agreement last week with China's Silk Road Fund to sell a 9.9 percent stake in Yamal. Commenting on the deal, the head of China's Silk Road Fund, Wang Yanzhi, said in a statement at the time that he hoped the fund's entry into Yamal LNG would "facilitate an expedited closing of the project's general external financing." Russian banks have already pledged $4 billion in financing.

Chesapeake says Chinese buyers looking at its U.S. gas properties

(Bloomberg; Sept. 8) – U.S. natural gas producer Chesapeake Energy, which has been selling assets to reduce its debt by more than $3.8 billion, said Asian utilities have begun kicking the tires at fields the company might sell off. Utilities seeking a hedge to gas they've contracted to import as LNG have shown "significant interest" in "the things we are going to potentially sell," Chesapeake CEO Doug Lawler said Sept. 8 in a web cast from the Barclays CEO Energy/Power Conference in New York.

To raise cash, Chesapeake has been selling assets including gas fields, pipelines and buildings, and has said it will consider partners for joint ventures. Lawler's predecessor, Aubrey McClendon, had an affinity for Asian deals. Under McClendon, Chesapeake sold stakes in fields to CNOOC in 2010 and to China Petroleum & Chemical Co. in 2013. Chinese firms are among the Asian buyers signing up for deliveries of North American LNG, looking to diversify their supply portfolios and hoping for lower prices.

Lawler did not name any of the utilities interested in the Chesapeake properties. He said other Asian buyers and domestic producers also are looking at Chesapeake assets. The company operates in some of the nation's most prolific gas-producing regions including the Marcellus Shale, the Utica Shale and the Eagle Ford Shale of Texas.

Canadian oil pipelines face legal hurdle in First Nation consultations

(Montreal Gazette; Sept. 6) – The field near an industrial airport just north of Montreal stretches across a plot of land the king of France ceded to Kanesatake's Mohawks in 1733. For centuries, they hunted deer, gathered medicines and buried their dead along the southern banks of the Rivière du Nord. The field is now privately owned and might one day be used as a route for TransCanada's Energy East pipeline — a $12 billion project that would carry Alberta oil to terminals in Quebec and New Brunswick.

"I think when push comes to shove, if the Mohawk nation comes together to fight this thing, you're going to see a hell of a force in the path of that pipeline," said Serge

Simon, grand chief of the Kanesatake Mohawk Council. “We never gave this land up and it’s our duty to protect it, not just for us but for everyone in this country.”

The proposal is one of four major pipelines in the works that would link the Alberta oil sands to markets across the globe. Some legal experts say Canada’s indigenous peoples represent the only real threat to those plans. Through court battles in the 1980s and 1990s, indigenous peoples have enshrined environmental protection into Canadian law. Under the Constitution, the federal government has an obligation to consult with and accommodate First Nations affected by pipelines. “There’s no way around that,” said Signa Daum Shanks, who teaches aboriginal rights at York University’s law school.

First Nations call for more scrutiny of impacts from energy projects

(Globe and Mail; Canada; Sept. 8) - Ten First Nations leaders in northern British Columbia have formed a new alliance to draw attention to their environmental concerns that range from hydraulic fracturing to exporting liquefied natural gas. One project that is raising ecological alarm bells is Pacific NorthWest LNG, said Donnie Wesley, a hereditary chief of the Gitwilgyoots, one of nine allied tribes of the Lax Kw’alaams.

Pacific NorthWest LNG, led by Malaysia’s state-owned Petronas, wants to take gas from northeastern B.C. and pipe it to a planned export terminal on Lelu Island, in front of Prince Rupert. Wesley appeared with other Native leaders Sept. 8 at a news conference in Vancouver. Two weeks ago, he helped set up a protest camp on Lelu Island in what he calls the peaceful occupation of land that is part of the traditional territory of the Lax Kw’alaams. The First Nation contends the project would damage juvenile salmon habitat. Federal environmental authorities are still reviewing the project’s application.

The Native leaders also say they are worried about the pace of hydraulic fracturing in northeastern B.C. Critics have expressed worries about potential water contamination. First Nations leaders signed a statement to B.C. Premier Christy Clark: “A more civil, legally consistent and logical approach to major project development that recognizes our laws and legal orders, and addresses the failures, is needed,” the statement said. The leaders are calling for greater scrutiny of the cumulative impacts of energy projects.

Oregon city council prepares for appeal of LNG project permits

(The Daily Astorian; OR; Sept. 9) - While Warrenton City Commissioners are carefully taking steps to insulate themselves from public opinion on the Oregon LNG project so they can remain unbiased if the permits come to them on appeal, the Astoria City Council has come out against the proposed $6 billion project. City commissioners in Warrenton have been advised by legal counsel not to open or read LNG-related emails and, if they do, to forward them to the city manager so staff can collect the emails.

Warrenton's planning staff has recommended that Oregon LNG's permit applications be approved with conditions to offset the impact of the coastal liquefaction plant, storage tanks and export terminal and gas pipeline on traffic and public works. Public hearings wrapped up last week, and the decision by a private attorney appointed by the city to review the applications is widely expected to be appealed to the City Commission.

"We know this is something that might come to us, and more than likely will come to us," Mayor Mark Kujala said. The commissioners' "ultra-conservative approach," as Kujala put it, is in contrast to the Astoria City Council. The council, which has no regulatory role over Oregon LNG in the nearby town, voted 4-1 Sept. 8 to oppose the project and to urge local, state and federal decision-makers to deny the terminal and pipeline. The resolution depicts the project as a threat to public safety and the environment.

Gazprom holds auction for short-term gas sales in Europe

(Bloomberg; Sept. 6) - Gazprom will this week hold auctions to sell gas in Europe as the world's biggest exporter of the fuel takes unprecedented steps to defend its market share in the region. The Moscow-based company will hold three auctions for short-term gas sales. Gazprom is seeking to boost supplies to Europe and Turkey by 7 percent this year to make up for an anticipated 30 percent drop in the price it will receive, Valery Nemov, a deputy department head at the company's export arm, said Sept. 1.

Gazprom faces falling prices in Europe, its biggest market by revenue, and plunging deliveries to the former Soviet Union after Ukraine stopped imports from Russia in July. While Europe's appetite for the company's fuel rebounded after the oil-price drop was priced into pipeline gas sales contracts, competition from other sources including liquefied natural gas has intensified amid stagnating demand.

"The move represents a fairly historic shift in Gazprom's marketing of gas to Europe," Trevor Sikorski, head of gas, coal and carbon at Energy Aspects, a London-based consultant, said by e-mail Sept. 2. The Russian state-owned company, which supplies about 30 percent of Europe's gas, will seek buyers Sept. 7 - 10 for 114 billion cubic feet of gas for delivery in the six months starting Oct. 1, according to details published on Gazprom Export's website. The price will be fixed and determined by the auction.

Supply growth could push prices down for oil sands production

(Financial Post; Canada; Aug. 31) - Thousands of new barrels of oil sands production flowing into the North American oil market could exacerbate the discounted price Canadian producers get for their crude, analysts say. ConocoPhillips and Total Aug. 25 announced the start-up of the second phase of their Alberta oil sands joint venture. The second phase of the Surmont oil sands project will add 118,000 barrels of production per day, after a ramp-up period. In total, the project is designed for 150,000 barrels.

Similarly, Husky Energy announced Aug. 25 it had begun steaming at the 30,000-barrel second phase of its Sunrise oil sands project, a joint venture with BP, with first oil expected by the end of the year. Sunrise is designed to produce 60,000 barrels per day at full production. TD Bank economist Leslie Preston said incremental production from the oil sands could affect the price of Western Canada Select, the heavy oil benchmark. The latest supply additions were planned before oil prices started their dive last year.

West Texas Intermediate benchmark prices have collapsed after stabilizing around $60 (U.S.) per barrel in May and June. Over the same period, the Western Canada Select discount to U.S. crude briefly widen to $20 per barrel, before falling back to around $14. FirstEnergy Capital analyst Martin King on Aug. 31 updated his firm's oil price outlook, noting that "wider Canadian light-heavy crude oil spreads are expected" as a result of the fall in WTI prices and more competition for Gulf Coast heavy oil refining capacity.

U.S. oil pipeline building boom slows down

(Wall Street Journal; Sept. 9) - Falling U.S. oil production and low crude prices are casting a shadow over one of the bigger energy-infrastructure building sprees: pipeline construction. The shale boom that began in 2008 created a huge need for new pipelines in places like North Dakota and West Texas — but many of those lines now have been built. Meanwhile, oil output has finally started to decline, according to federal estimates, in the wake of a 50 percent drop in the price of crude.

"It's hard for us to paint a scenario where, at least for the foreseeable future, any additional long-haul pipelines are needed," said Michael Mears, chief executive of Magellan Midstream Partners, which has built and expanded oil arteries in Texas. A slowdown is bad news for investors in pipeline partnerships that pay out dividend-like payments. Pressure to grow those distributions means the companies are constantly on the prowl for new sources of income — which is harder to find without new projects.

That wasn't the case a few years ago. Between 2009 and 2014, the U.S. added nearly 14,000 miles of crude oil pipelines, a 26 percent boost. That doesn't necessarily mean projects already on the drawing board will be canceled, especially those backed by contracts that allow developers to recoup their investments no matter what. But enough pipelines have been built or are in the works to connect all the large shale formations to energy markets. New construction will be limited to specific geographic areas of need.