

Oil and Gas News Briefs

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South Africa looks to LNG imports to reduce coal-fired power

(Bloomberg; May 16) - South Africa is creating a unit to import liquefied natural gas for power plants. The Gas Industrialization Unit will initially focus on importing LNG as the country seeks to reduce its dependence on coal-fired power, Garth Strachan, a deputy director general at the Department of Trade and Industry, said May 16 in a presentation in Cape Town. Eventually, the new unit will also seek to tap domestic sources of natural gas, he said.

Cheniere Energy, which operates the first U.S. Gulf Coast LNG export terminal, is among the companies interested in supplying South Africa's gas-to-power program, which plans to add 3,126 megawatts of capacity between 2019 and 2025. That could require annual LNG imports worth about \$530 million, said Trevor Sikorski, an analyst with Energy Aspects in London. "Almost anyone with gas is looking for demand at the moment," Sikorski said. "The most competitive supply" for South Africa would be from Nigeria, Angola, the U.S. and possibly Qatar, he added.

Sri Lanka drops plans for coal plant and picks LNG instead

(Reuters; May 18) - Sri Lanka will cancel plans for a 500-megawatt Indian-built coal-fired power plant at its strategic eastern port city of Trincomalee and will instead opt for a liquefied natural gas-fueled power plant, a cabinet minister said May 17. Chandima Weerakkody, Sri Lanka's petroleum minister, said President Maithripala Sirisena told Indian Prime Minister Narendra Modi of the decision at a meeting May 15 during Sirisena's visit to Sri Lanka's larger neighbor.

"We do not want to hurt India. So President Sirisena in his visit has offered an LNG plant instead of the coal plant," Weerakkody told Reuters. "This has been discussed at the highest level and there is consensus." Sri Lanka, population 21 million, is trying to increase its power generation capacity after a recent blackout that was the worst in 20 years, government officials said.

B.M.S. Batagoda, energy ministry secretary, said the switch to LNG was proposed after 10 years of opposition to a coal-fired power plant by the residents of Sampur, a village near Trincomalee, where India has proposed to build South Asia's largest petroleum hub. Residents and environmental groups have resisted the coal power plant ever since it was originally proposed in 2006 due to worries about land clearing and pollution.

Total CEO opposes proposed French import ban on U.S. shale gas

(Bloomberg; May 18) - Total CEO Patrick Pouyanne said plans to ban imports of U.S. shale gas into France may be unworkable. "I don't know how it would be possible to do it," Pouyanne said May 18 at a hearing of the French Senate. "The gas is liquefied in the U.S., and shale and conventional gas are mixed together in pipelines." You can't then separate them, he said.

Energy and Environment Minister Segolene Royal said this month that she will "examine from a legal standpoint" ways to ban imports of shale gas, and has asked Electricite de France and Engie to import only conventional gas. France barred fracking in 2011 on environmental grounds. Houston-based Cheniere Energy, which operates the first LNG export terminal on the U.S. Gulf Coast, has contracts to deliver liquefied natural gas to Engie, EDF and Total.

Regasification units in Europe are running at just 25 percent of capacity, and will attract U.S. LNG imports, Pouyanne said. "We'll buy American gas in one year or two. We plan to import it in Europe or elsewhere in the world." He added, "The price of gas in Europe has dropped because of American LNG."

Green Party leader vows to stop LNG project north of Vancouver

(Squamish Chief; Squamish, BC; May 14) - The fight against liquefied natural gas facilities such as the proposed Woodfibre plant on Howe Sound north of Vancouver, B.C., will need more people in the streets to make their voices heard, said Elizabeth May. Canada's Green Party leader was one of the featured speakers at the Break Free from Fossil Fuels rally May 14 in front of the Woodfibre office. "We need more people in the streets," May told the rally of about 100 people. "We need more citizen activism."

May touched on topics ranging from problems associated with LNG water-cooling systems to the politics behind LNG support. People need to keep up pressure on the government to abandon LNG as an option, she said. "Do not abandon the political process. Do not become too cynical too fast." She spurred on the crowd with a message to project supporters: "You will never build a plant on Howe Sound," she said. "Never."

Woodfibre LNG, a small-scale, \$1.8 billion LNG export project, has received all of its major environmental permits and is waiting on a decision by the project sponsor, a company based in Singapore, whether to go ahead.

Japanese government may help finance more oil and gas investment

(Bloomberg; May 16) – Private energy companies in Japan — a country almost entirely reliant on fossil-fuel imports — are slashing their investments by more than one-third following the collapse in commodity prices, increasing pressure on Prime Minister Shinzo Abe’s government to supplement exploration budgets. Private spending will plunge 37 percent to about 1.2 trillion yen (\$11 billion) in the year to March 2017, the country’s Ministry of Economy, Trade and Industry forecast in a report May 17.

The drop adds urgency to the government’s plans to sustain investment by the country’s explorers and accelerate efforts to get 40 percent of its oil and gas from domestic firms. The world’s biggest consumer of liquefied natural gas and fourth-largest crude buyer relies on imports for 94 percent of its primary energy supply. Japan may allocate 3 trillion yen (about \$3 billion) over the next five years to help large-scale oil and gas developments with state-run Japan Oil, Gas and Metals National Corp. (JOGMEC).

“The government must provide seed money through institutions like JOGMEC” and the Japan Bank for International Cooperation, said Nobuo Tanaka, former executive director of the International Energy Agency. “The government should do it as part of investment for the future to ensure energy security,” Tanaka said. “We will support companies to the extent possible through measures including investment in projects and debt guarantees,” said Tomohiro Arai, a Tokyo-based spokesman for Jogmec.

Gorgon LNG to restart production ‘in the coming weeks’

(Reuters; May 18) - Chevron has begun to restart its Gorgon liquefied natural gas export facility in Australia following an unplanned shutdown in April, the company said, adding that production would resume “in the coming weeks.” The \$54 billion Gorgon project shut down in April following technical problems, shortly after starting up first production. Sources said the facility’s return to operation would be gradual, and that the next export cargo was still weeks away, possibly not until June or later.

Gorgon’s first cargo, shipped in March, was exported to Japanese utility Chubu Electric. The Gorgon project on Barrow Island off the northwest coast of Western Australia is a joint venture involving the Australian subsidiaries of operator Chevron with 47.3 percent, ExxonMobil and Shell with 25 percent each, Osaka Gas at 1.25 percent, Tokyo Gas at 1 percent and Chubu Electric Power at less than 0.5 percent. Gorgon will have the capacity to produce 15.6 million metric tons of LNG per year once all three production trains are operating. Only the first train was in production at the March start-up.

Pennsylvania, West Virginia produced 5.2 tcf of gas in 2015

(Akron Beacon Journal, Ohio; May 16) - In 2010, the Marcellus Shale in Pennsylvania and West Virginia was dubbed the “Beast in the East” by analysts because of its impressive natural gas treasure. In 2013, Ohio’s neighboring Utica Shale was described as “Son of the Beast in the East” by analysts because of its growing gas potential. Since 2012, Ohio, Pennsylvania and West Virginia have accounted for 85 percent of U.S. shale gas growth, according to the U.S. Energy Information Administration. Shale gas today represents two-thirds of U.S. gas production, the agency reported recently.

The three-state region, also known as the Appalachian Basin, has switched from being among the biggest users of natural gas to its biggest producer. Natural gas from the Utica and Marcellus shales is heading to Virginia, the Carolinas, New England, the Gulf Coast, St. Louis, Chicago, Detroit and Ontario. Pipelines are being reversed to get the gas to market. Soon, more of it will be heading to new liquefaction terminals on the U.S. Gulf Coast and Chesapeake Bay for export as LNG to overseas buyers.

Drilling began in the Marcellus in 2003 in Pennsylvania. To date, 14,022 shale wells have been drilled in the Utica-Marcellus in an arc that runs from southern Western Virginia to the north into Ohio and Pennsylvania and then east into northern Pennsylvania. In Pennsylvania alone, production in 2015 totaled 4.18 trillion cubic feet of gas. West Virginia produces about 1 trillion cubic feet annually.

Goldman Sachs now 7th largest gas marketer in North America

(CNBC; May 15) – Goldman Sachs has overtaken Chevron and ExxonMobil to become one of the biggest gas merchants in North America, expanding in physical commodities trading even as other banks pull back. The Wall Street institution last year bought and sold 1.2 trillion cubic feet of gas in the U.S. — equal to one-quarter of U.S. residential consumption and more than twice its volumes in 2013. Goldman is now the seventh-largest gas marketer in North America, according to Natural Gas Intelligence.

The gas utility serving households in Buffalo, N.Y., last year purchased 11 percent of its supply from Goldman, a securities filing showed. Power plants that produce electricity for copper mines in northern Mexico also buy gas from the bank, according to government reports and industry executives. Goldman's commodities division, known as J Aron, is listed as a shipper on huge pipelines.

Goldman has grown the business even as banks await fresh rules on handling physical commodities such as oil, gas and aluminum. While the bank has sold off infrastructure such as power plants and metals warehouses, its rise as a gas middleman highlights a commitment to commodities. Goldman moved into the gas merchant business when it acquired the North American gas marketing operations of Nexen, a Canadian oil company, in 2010.

Russian gas, cheap coal could cut into U.S. LNG exports to Europe

(Kallanish Energy; May 18) - The average utilization of U.S. liquefied natural gas export capacity between 2017 and 2020 could vary from 54 to 100 percent, according to a new study by global energy consultancy Wood Mackenzie. Numerous factors, including prices for U.S. natural gas, crude oil and coal, combined with Russia's gas pricing strategy could have a severe deleterious effect on shipments from U.S. LNG export facilities, Wood Mackenzie said.

"With European LNG imports, including from the U.S., set to grow over the next five years, there is much speculation about Russia's likely response," said Stephen O'Rourke, research director of global gas supply for Wood Mackenzie. "Will Russia's gas strategy mimic that of Saudi Arabia's oil strategy, will it seek to retain market share in Europe, pushing European gas prices to levels that force the shut-in of U.S. LNG exports?"

"Our analysis shows that while Russia's export strategy is important, ultimately U.S. LNG export utilization will be influenced more by the price of other commodities: U.S. gas, oil and, particularly, of coal, which will determine European spot prices through coal-gas switching in the power sector," said Noel Tomnay, head of global gas and LNG research at Wood Mackenzie. If coal prices also remain low, European gas prices could fall to \$3.85 per million Btu, cutting into U.S. LNG sales, O'Rourke said.

Carnival cruiseships test out LNG for port power

(Ship & Bunker; May 17) - In a sign of the changing times for the cruise industry, Carnival has hailed its in-port use of liquefied natural gas for two vessels berthed in the Port of Hamburg, Germany. The 3,250-passenger, 984-foot-long AIDAprima, the first cruise ship to operate on LNG while in port, was bunkered by an LNG truck at the cruise terminal May 7. At the same time, Carnival's 2,174-passenger, 827-foot AIDA Sol while in port plugged into a barge with an LNG-fueled electricity generator.

"This is an important contribution to environmental protection," an improvement over dirtier fuels, Carnival said. Last year Carnival announced it would build four mega-cruise ships and power them using LNG, and earlier this year MSC Cruises said it, too, would build four large cruise ships and power them with LNG.

Finland builds world's first LNG-powered icebreaker

(Ship & Bunker; May 17) - Arctech Helsinki Shipyard has announced that Polaris, a newbuild low-sulfur diesel and liquefied natural gas hybrid propulsion icebreaker — said

to be the first LNG-powered icebreaker in the world — left the Finnish shipyard April 22 for the vessel's first sea trial. The 360-foot-long vessel, which was built for the Finnish Transport Agency and will be delivered later this year, is said to be capable of reducing emissions and fuel costs through the use of LNG and low-sulfur diesel.

"Polaris will be the most environmentally friendly icebreaker in the world," the Finnish agency said. Following delivery later this year, the \$140 million vessel will be employed as an icebreaker, and will also conduct oil spill response operations, emergency towing and rescue operations year-round.

Construction starts on pipeline to bring Azerbaijan gas to Europe

(CNBC; May 17) - Greek Prime Minister Alexis Tsipras will inaugurate the start of construction for the TransAdriatic natural gas pipeline in Thessaloniki, Northern Greece, on May 17. Representatives of the European Union and U.S. State Department as well as high-ranking officials from Greece, Turkey, Albania, Italy and Bulgaria will attend the ceremony. The pipeline will transport Azerbaijan gas from the Shah Deniz-2 field in the Azeri sector of the Caspian to Western Europe through Greece and Albania.

It is part of the Southern Gas Corridor, one of the most complex gas value chains ever developed, stretching over 2,174 miles. First delivery of Azerbaijan gas is scheduled for 2020. The project is estimated at \$45 billion. The shareholders are: Azerbaijan's state-owned oil company, Socar, 20 percent; BP, 20 percent; Italian pipeline operator Snam, 20 percent; Belgium pipeline operator Fluxys, 19 percent; Spain's Enagas, 16 percent; and Swiss-based energy company Axpo, 5 percent.

This project opens broad opportunities for transportation of Azerbaijani gas to such European markets as Italy, Germany, Great Britain, Switzerland and Austria. It also will help Europe diversify its sources of natural gas. Currently, Russia is the major gas supplier for the continent. The pipeline's initial capacity will be 1 billion cubic feet of gas per day. In the future, the addition of two additional compressor stations could double throughput as additional gas supplies come on stream in the wider Caspian region.

Australia rejects LNG project request to trim environmental programs

(Australian Broadcasting Corp.; May 17) - The Australian government has refused a request from the \$34 billion Ichthys LNG project to drop \$30 million in environmental programs the company had promised to complete in the Northern Territory. The INPEX-led venture, which will produce gas off the coast of Western Australia and pipe it 550 miles underwater to a liquefaction plant in Darwin Harbor, asked last year to change its environmental contract with the government. Ichthys is scheduled to start up late 2017.

A Department of the Environment spokesperson said May 17 the decision to hold INPEX to its commitment had been carefully considered. INPEX received clearance for the project in 2011 on the condition it deliver \$91 million of environmental-offset projects over the 40-year life of the project. An INPEX official in April said the company asked to scale back the programs because the project's environmental impacts had been "either completely removed ... or were not applicable based on expert advice".

Australia's opposition party wants gas set aside for domestic use

(Bloomberg; May 18) – New liquefied natural gas projects in Australia, which is forecast to become the world's largest exporter of the fuel this decade, may need to set aside supplies for domestic use under a policy proposed by the opposition Labor Party. Rising gas demand in Asia is set to lead to higher prices at home, hurting households and businesses, Chris Bowen, the party treasurer, wrote in a letter published May 18 in the Australian Financial Review. If elected, Labor would introduce a policy to ensure that new LNG plants, or significant expansions, are in the national interest, he wrote.

"Australia's abundant gas resources could and should be an affordable and relatively clean source of energy for our plants and factories," Bowen wrote with Scott McDine, national secretary of the Australian Workers' Union. Prime Minister Malcolm Turnbull has called elections for July 2, seeking to convince voters he can best steer the economy. Standing in his way is the union-backed Labor Party leader Bill Shorten.

Under the plan, an independent board would make a recommendation to Australia's Treasurer after evaluating the impact a new project would have on government revenue and local gas consumers. The government would then assess whether any restrictions should be imposed, including reserving some gas for domestic use, Bowen wrote. The policy would discourage investment in developing gas reserves, the Australian Petroleum Production & Exploration Association wrote in an e-mailed statement.

Bankruptcy claims fifth U.S. oil and gas producer in five days

(Wall Street Journal; May 16) – SandRidge Energy, an early player in the American shale boom and one-time Wall Street darling, became the latest oil and gas company to file for bankruptcy May 16 in what is becoming the largest wave of corporate restructurings since the financial crisis. The Oklahoma City-based driller is the fifth energy company to file for bankruptcy in five days, part of an accelerating parade of defaults in a sector that has been struggling with low oil prices for more than 18 months.

Some 77 North American energy companies have declared bankruptcy since the start of 2015, soon after oil prices collapsed from a peak of more than \$100 a barrel and began weighing on balance sheets, according to Houston law firm Haynes & Boone.

This year, 175 oil-and-gas producers around the world are in danger of declaring bankruptcy, and the situation is nearly as dire for another 160 companies, many in the U.S., according to a report from Deloitte's energy consultants.

Casualties will continue even though the price of crude rebounded to more than \$47 on May 16 since hitting a 13-year low of around \$26 a barrel in mid-February. For many U.S. oil companies, the market's revival is too little, too late. Most facing financial duress are small and midsize U.S. shale producers and the service companies that help them drill. Fueled by cheap debt, the companies rapidly expanded over the past decade as the U.S. unlocked vast reserves with advanced technologies like hydraulic fracturing.

Goldman Sachs boosts oil forecast to \$50 by second half 2016

(Financial Post; Canada; May 15) - Oil prices are surging after Goldman Sachs joined the bandwagon of forecasters predicting oil's chronic issue of oversupply is finally being resolved. The influential Wall Street bank has been stubbornly bearish on oil for the past few months even as rivals Citigroup, Barclays, Bank of America Merrill Lynch and RBC Capital Markets have been predicting a recovery in the past few months.

"The physical rebalancing of the oil market has finally started," Goldman said. The bank upgraded its U.S. crude price forecast for the second half of 2016 to \$50 a barrel from \$45 forecast in March. U.S. crude benchmark Western Texas Intermediate for June shot up \$1.44, or 3.1 percent, to \$47.65 a barrel on the New York Mercantile Exchange on May 16, its highest level since Nov. 4. Oil has now climbed more than 75 percent from its low of \$26 in mid-February.

Goldman and other analysts say outages in Canada, Nigeria and declining production in the U.S., Venezuela and Libya are key factors draining excess supply from markets in recent weeks, leading to a balance that has eluded markets for the past 18 months. But oil's rally could be halted if U.S. shale output rebounds or Saudi Arabia boosts its production. While Bank of America Merrill Lynch is predicting Brent crude benchmark to reach \$61 per barrel by 2017, "an increase in Saudi supplies could spoil our view."

N.D. rig count lowest in 11 years; oil production off 10% from record

(UPI: May 16) - At 27, the number of rigs actively exploring for or producing oil or natural gas in North Dakota as of May 16 is the lowest it's been in more than a decade, state data show. The rig count ties the all-time low reported in July 2005 and comes at a time when energy companies worldwide are spending less on exploration and production because of lower crude oil prices. The statewide rig count is down 88 percent from its peak in 2012.

In North Dakota, state data show oil production in March, the last full month for which figures are available, at 1.11 million barrels per day, a decline of about 1 percent from February and down about 10 percent from the record high in December 2014. That production record was 1.23 million barrels a day. Since then, the state's producers have been cutting back on investments in new wells amid the two-year downturn in prices.

Producers learning to drill more wells at lower cost in the Bakken

(Wall Street Journal; May 17) - Amid the abandoned work camps, idled drilling rigs and empty field office parking lots of western North Dakota, a shale industry reshaped by the oil-price collapse is beginning to emerge. As the number of failed operators mounts, the surviving companies are laying the groundwork for what they forecast will be an era of slower but steadier growth in the state at the epicenter of the U.S. energy boom.

Cash-strapped operators are dialing back or abandoning North Dakota. But the survivors — many of which are bigger and more diversified — are finding ways to make the Bakken Shale formation pay even at low oil prices by trimming budgets, improving field logistics and focusing on their best assets. “You can’t shut down the Bakken. The American oil industry is getting smarter and more efficient” in how and where it drills, said Kathy Neset, a veteran geologist who owns a consulting company in Tioga, N.D.

Active drillers include a number of diversified companies with deep pockets, targeting their richest reservoirs, getting better at pinpointing where to drill and improving rig logistics so they can drill more wells faster than ever. Average well drilling and completion costs have come down by nearly a third across all major U.S. shale plays from peak levels in 2012. Bakken producer Hess said it is implementing lean manufacturing techniques borrowed from Toyota such as just-in-time supply chain logistics and greater use of standardized parts.