Oil and Gas News Briefs
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LNG buyers ‘not prepared to pay the price for long-term projects’

(Interfax Global Energy; Sept. 23) - The mood was largely somber at the Asia Pacific LNG Summit in Singapore, where buyers, sellers, traders and regulators gathered to talk about challenges facing bloated global LNG markets. "It’s no surprise the markets are oversupplied — maybe it’s just the beginning of the story," said Philip Olivier, CEO of global LNG at French utility Engie. Stephan Roeper, vice president of LNG marketing at ExxonMobil, conceded that global LNG demand has not increased as fast as the company had expected, particularly in China.

Roeper believes the oversupplied global market will last into the 2020s. However, new demand is emerging in countries such as Jordan, Egypt and Pakistan. In the longer run, Roeper believes LNG has bright prospects, with growing populations in emerging markets and the environmental advantage of gas over dirtier fuels such as coal. But more capital is needed to underpin long-term projects to prevent another boom-and-bust cycle, he warned. "Buyers are not prepared to pay the price for long-term projects.”

Meanwhile, the traditional long-term, point-to-point model is no longer relevant, said Jason Feer, global head of business intelligence at brokers Poten & Partners. The energy consultancy estimates that some 158 million tons of long-term LNG contracts will expire by 2026, which is "an enormous amount in a 250-million-ton market," he added. But new contracts are skewing toward shorter durations, typically two- to five-years and six-to ten-years, coupled with much smaller volumes, Feer said.

Alternative financing needed as traditional LNG lenders are reluctant

(Interfax Global Energy; Sept. 15) – Floating LNG developers are being forced to seek alternative financing because traditional players, such as trade partners and banks, are reluctant to invest as LNG prices are expected to remain low, experts say. U.K.-based Ophir has delayed a final investment decision on its Fortuna FLNG project in Equatorial Guinea, and Dallas-based Kosmos Energy has done the same with its Tortue project that it hopes to moor off the coast of Senegal and Mauritania. Convincing contractors and LNG buyers to invest is a potential solution, but will come at a cost to producers.

Ophir was looking to partner with oil field services provider Schlumberger, but talks fell through in April. The company announced it would continue with Fortuna on its own, but that it would remain open to offers for equity participation, vendor financing and pre-sales of gas. Tortue is still at the concept stage, but Kosmos is looking to partner with international oil companies or contractor developers that can offer the right blend of financial support and development expertise, company CEO Andrew Inglis said.

Contractors have an incentive to help fund projects to win contracts during the current industry lull, Gaurav Seth, managing director of the energy and project finance division at Société Générale, said at an LNG conference in London last week. Securing an LNG buyer that is also willing to finance an FLNG project is another option.

However, there are downsides to this approach. Financing a project with the help of buyers will come at a cost to the developers, Seth said. "The only way you will get [buyers] to invest is if you have a super-sweet offtake structure [such as lower prices], but you are smashing your revenue stream by agreeing to this," he told delegates.

Sources say B.C. LNG project will require major remedial measures

(Reuters; Sept. 23) - A Canadian federal review of a proposed Petronas-led liquefied natural gas plant has found the project would have a significant environmental impact that requires major remedial measures, two sources briefed on the report said. The government of Prime Minister Justin Trudeau has until Oct. 2 to decide whether to approve the Pacific NorthWest LNG export terminal near Prince Rupert, B.C.

Malaysian oil and gas company Petronas and its partners have been waiting about three years for a permit for the project, which depends on the review by the Canadian Environmental Assessment Agency, an independent body. The CEAA has no veto rights. Instead, it decides whether a project would have minor or significant adverse environmental impacts, and what measures must be taken to allow it to go ahead.

The agency has concluded the project — opposed by environmental and aboriginal groups — needs significant remedial work to counter the environmental impacts before it can be built, said the sources. Environment Minister Catherine McKenna must now present the report to the full Cabinet with her recommendation as to whether it should go ahead. Even if Petronas is granted permission, it may decide not to proceed. The slump in crude prices has squeezed the company’s finances and a global oversupply of LNG has challenged the project’s economics.

Uncertain LNG pricing hinders demand growth in India

(Interfax Global Energy; Sept. 22) - India has a massive latent demand for LNG that producers are hoping will help absorb the global glut of the fuel. However, uncertainty surrounding pricing will hurt the country’s uptake of LNG in the long term, said Darshan Hiranandani, managing director of Indian gas developer H-Energy, speaking at a gas conference in Singapore this week. Uncertain pricing and an abundance of domestically produced coal have left Indian buyers fearful of signing long-term LNG import contracts.

These need to be locked in to underpin much-needed investment in liquefied natural gas import terminals and distribution pipelines in India — the world's fourth-largest LNG importer. Gas covers about 7 percent of the country's primary energy demand, with coal the dominant fuel, though the government wants to boost the use of gas. Hiranandani said he hopes "the turbulent times facing the LNG industry would result in a global price marker," otherwise India's pent-up demand for the fuel may never be realized.

Hiranandani is hopeful that India can fulfill much of its demand-growth potential if LNG pricing issues are resolved. "If the LNG industry can figure out a way to narrow in on a global benchmark … I am sure India will be one of the largest offtakers in long-term contracts." The government wants to add almost 7,000 miles of gas pipelines to the country's 10,000-mile grid. However, Hiranandani said, "In India we have to deal with every farmer in every village, so construction will take five years instead of 12 months."

Beijing gas distributor boosts spending to meet growing demand

(Reuters; Sept. 23) – Beijing Gas Group said it plans to spend up to $1.2 billion a year in 2017 and 2018 to build gas pipelines and storage to meet a surge in demand for the cleaner-burning fuel in the Chinese capital. State-owned Beijing Gas, the dominant natural gas distributor to the city, wants to expand into upstream gas businesses as well as infrastructure to import liquefied natural gas, said Chairwoman Li Yalan.

The firm, which distributes 565 billion cubic feet of natural gas annually to Beijing's 23 million people, last month awarded its first tender to purchase LNG to France's Engie. With Beijing's gas consumption set to reach 700 billion cubic feet a year by 2020, up 44 percent from 2015, and with new demand from rural areas, the company plans annual spending of $750 million to $1.2 billion over the next two years, Li said.

Spending is being increased to help replace coal with gas, with Beijing expected to phase out completely coal for local power generation by next March, she said. As China prepares to free up the state-dominated gas market, Beijing Gas is also looking to expand into the terminal business, Li said. The company was scouting for a coastal site to build its own LNG receiving terminal. The firm currently owns a small share in a PetroChina-controlled terminal in Tangshang, near Beijing.

Egypt seeks 120 LNG cargoes until new field can meet local needs

(Bloomberg; Sept. 23) - The world's biggest liquefied natural gas traders will be lining up for what may be the last billion-dollar payday from Egypt. The country will be taking bids for about 120 LNG cargoes next year, worth about $2.4 billion at current spot prices in Singapore. That may be “the last big tender” if recent discoveries in the North African nation start production in 2018, according to Maggie Kuang, an analyst in Singapore at Bloomberg New Energy Finance.

The country’s soaring demand and short-term volume needs are helping to offset slumps in top LNG importer Japan amid a global supply glut, benefiting traders as well as producers. From 2018, Egypt may start regaining self-sufficiency in gas as the super-giant Zohr field starts production, leaving traders to seek other buyers. “As Zohr starts up, Egypt’s LNG import requirements may reduce, but it always takes time for new gas supply,” said David Ledesma, an independent energy consultant.

Egyptian LNG demand will climb 5 percent next year after a 60 percent jump in 2016, before dropping 40 percent from current levels in 2018, according to Bloomberg New Energy Finance. By 2021, the nation may stop LNG imports that started last year and two export plants may resume operations after gas was diverted to meet domestic power demand, according to the Oil Ministry and the Cairo-based Al Borsa newspaper.

Thailand wants waste-to-energy power plants to displace gas

(Reuters; Sept. 22) - Private companies have shown strong interest in Thailand's plan to add up to 50 megawatts of waste-to-energy power capacity to cut down on the nation's reliance on natural gas, the country’s Energy Regulatory Commission said. About 25 companies submitted applications to build and operate plants after the commission started seeking proposals Sept. 22. The commission will accept offers until Sept. 28.

The winning proposals will be announced Oct. 28, said commission director Viraphol Jirapraditkul. Thailand is aiming to double its waste-energy capacity for electricity to 600 megawatts by 2036, from 311 megawatts in 2014, according to its latest power plan. Winners of the 20-year contracts, to be based on feed-in tariff rates, will be required to start supplying power by December 2019, Viraphol said.

Each company winning a contract can build a plant of up to 9.9 megawatts in capacity, with an estimated investment per plant in the range of $35 million to $58 million, he said. Thailand uses natural gas for 65 percent of its power generation and wants to reduce its dependence to 40 percent over the next two decades and focus more on renewable power and other fuels, according to its latest power development plan.

Texas school district rejects property tax break for LNG project

(San Antonio Business Journal; Sept. 22) - Rio Grande LNG is moving forward with its proposal to build a liquefied natural gas export terminal in deep South Texas, company officials said, despite losing a property tax abatement vote that could have made the project more attractive to investors. The Point Isabel Independent School District Board on a 5-2 vote Sept. 20 rejected the company's request for a 10-year, multimillion-dollar tax abatement.

James Markham-Hill, spokesman for Rio Grande LNG's parent company, NextDecade, said the company was disappointed by the vote but is proceeding with the proposed project and its application before the Federal Energy Regulatory Commission. The Rio Grande LNG terminal and two similar projects by Annova LNG and Texas LNG all face stiff opposition from environmentalists, fishermen, shrimpers and community groups.

With the cities of South Padre Island and Port Isabel publicly against the projects and dozens of anti-LNG activists regularly packing its meetings, the Point Isabel school board voted down a similar tax abatement application for Annova LNG in September. Like the other terminals proposed for the Port of Brownsville, Rio Grande LNG is proposing to take natural gas extracted in the Eagle Ford Shale region south of San Antonio, liquefy it and export it to overseas customers.

[Mayor in gas-producing area critical of Vancouver plan to go gas free]

(The Mirror; Dawson Creek, BC; Sept. 22) – Lori Ackerman, mayor of Fort St. John, B.C., in the heart of the province's natural gas production region, said the City of Vancouver needs sober second thought when it comes to a proposed phase-out of natural gas consumption. The Vancouver city council recently passed a plan to stop using gas to power homes, businesses and institutional buildings by 2050 — part of its Renewable City Strategy aimed at making the city the greenest in the world.

According to a Vancouver presentation, gas currently accounts for about half of residential energy use in the city. Ackerman, mayor of the largest city in B.C.'s gas-producing region, said the implications of moving away from natural gas by 2050 "go beyond what may have been considered." The phase-out could disallow everything from patio heaters to barbecues, she said, and place "huge costs" on hospitals, school districts and businesses.

"I totally understand and respect the desire for the community to leave a lighter footprint," Ackerman said. But a natural gas phase-out "is certainly not something we would consider," she said of her community. Vancouver's proposal has encountered pushback from taxpayers' groups, as well as FortisBC, the province's gas provider. In a letter to the Vancouver city council, FortisBC CEO Michael Mulcahy called the plan "impractical" and said it "has the potential to increase costs for energy users in the city."

[Proposed Canadian mines see LNG as fuel of choice]

(Whitehorse Daily Star; Yukon Territory, Canada; Sept. 22) - Two mining companies in Canada's Yukon Territory have signed a memorandum of understanding with an LNG supplier for a production, storage and shipping facility in Fort Nelson, B.C. The deal between Casino Mining, Selwyn Chihong Mining and Ferus Natural Gas Fuels was announced Sept. 21. "Our project approval is dependent on the mining projects going ahead, so this is an early stage announcement," a Ferus spokeswoman said.

The $200 million small-scale LNG plant would be built solely to supply the two proposed mines at the start, filling and delivering 15 to 20 tanker loads of LNG a day to the mine sites about 500 miles away. But Ferus also expects that once the supply chain has been established, others in Canada's far north interested in saving money and reducing greenhouse gas emissions by displacing diesel generation would consider switching to liquefied natural gas, a company spokeswoman said.

The Casino copper-gold project would be the largest mine in the Yukon's history. The Selwyn project is a world-class lead-zinc deposit at Howard's Pass along the border of the Yukon Territory and Northwest Territories. Casino Mining is preparing its application for the first-ever full-panel review in the 11-year history of the Yukon Environmental and Socioeconomic Assessment Board. The Selwyn mine is in advanced exploration, though the company reduced activity this year in light of the weak commodity markets.

Maine solicits bids for small LNG plant to help meet winter needs

(Argus; Sept. 23) - Maine is soliciting bids for construction of an LNG production and storage facility to help meet peak winter demand with Marcellus shale gas. The state is also considering acquiring capacity in a gas pipeline expansion that would serve New England. Under a 2013 state law intended to reduce energy costs, the Maine Public Utilities Commission can contract for as much as 200 million cubic feet per day of pipeline transportation capacity. The commission can pass on the costs to gas and electricity customers, but any decision by the PUC must be approved by the governor.

The law was amended this year to allow the PUC to also contract for LNG storage capacity to be built in the state. Due to pipeline constraints and a lack of underground gas storage in New England, winter gas prices in the region can be significantly higher than the rest of the country. Prices in Maine are among the highest, as the state relies on Canadian gas and imported LNG from two pipelines to meet virtually all its demand.

Sparsely populated Maine has one small LNG peak-shaving plant, with capacity to turn about 10 million cubic feet of gas a day into LNG and hold it in storage for peak needs.

Scottish piper will welcome first delivery of U.S. shale gas ethane

(Reuters; Sept. 22) – The first shipment of gas fracked from U.S. shale will arrive in the U.K. next week, upping pressure on Scotland to reassess its opposition to hydraulic fracturing of shale wells. Petrochemicals giant Ineos is importing the ethane, which is used to make plastics, anti-freeze and detergents. The tanker is expected to dock in Scotland on Sept. 27, greeted by a lone Scots piper at sunrise, Ineos said.

The Zurich-headquartered company opposes the Scottish moratorium on fracking. Ineos is Britain's biggest shale gas company in terms of acreage and has promised to share six percent of any future shale gas revenue with local residents. Chairman Jim Ratcliffe, one of Britain's wealthiest men, has argued that shale fracking would create tens of thousands of jobs, putting pressure on the Scottish government grappling with an economy expected to be weakened by Britain's decision to leave the EU.

While the British government backs shale gas extraction, Scotland imposed a moratorium on fracking in 2015. It said more research was needed before a final decision. Environmentalists argue fracking damages the climate, can contaminate groundwater, and distracts industry from focusing on renewable energy. Public opposition to fracking is higher in Scotland than elsewhere in Britain, surveys show.

Oil pipeline likely headed back to consultation with First Nations

(Wall Street Journal; Sept. 20) - Enbridge's plans to build a pipeline linking the Alberta oil sands with the Pacific Coast are headed back to the drawing board after both the company and the Canadian government on Sept. 20 said neither would appeal a court ruling quashing the Northern Gateway project. Returning Gateway to the consultation phase is latest setback for the Canadian energy industry struggling with low prices and a lack of pipelines to ship oil and gas to the coasts for export to faster-growing markets.

Without new energy corridors, Canada will remain entirely dependent on U.S. demand. Analysts warn that prices for Canadian oil and gas will continue to trade at a discount to the U.S. benchmark price. Calgary-based Enbridge said it remains committed to the Gateway project, valued at 7.9 billion Canadian dollars ($6 billion) and first approved by the government in 2014. In June, Canada's Federal Court of Appeal overturned that approval, ruling the government did not fulfill its duty to properly consult First Nations.

Enbridge's struggles with Gateway highlight the clout that aboriginals are gaining. Aboriginals in British Columbia have been among the most vociferous opponents of the pipeline, arguing that its construction poses an environmental risk to their communities. Canada's Resources Minister Jim Carr on Sept. 20 said he was reviewing government options on how to proceed. Options could include a fresh round of consultations. Even before the court ruling, the Gateway project was under a cloud of uncertainty because of local opposition from aboriginals, environmentalists and lawmakers.

Record Canadian oil exports to U.S. may use rail as pipelines fill up

(Bloomberg; Sept. 22) - Canada is sending a record amount of oil to the U.S., filling pipelines to capacity and threatening to push more crude into rail cars. U.S. imports from Canada jumped 17 percent to 3.46 million barrels a day last week, the U.S. Energy Information Administration said Sept. 21. That's the most since the agency began collecting such data in 2010. Exports have surged as Alberta recovers from wildfires that disrupted oil sands production earlier this year.

Oil sands production is piling up as companies bring back output and projects that had been delayed by the fires come online. The glut highlights Canada's dependence on the U.S. market after TransCanada's seven-year fight to get approval for the Keystone XL link to the Gulf of Mexico failed and as the company's proposed Energy East line to the Atlantic Coast faces mounting opposition. The stress on existing pipelines means more crude will move by rail at higher costs and the discount on Canadian oil will likely widen.

"As volumes continue to build, so will the pressure on the constrained pipelines system," said Kevin Birn, a director at IHS Energy in Calgary. "At some point in the coming months those volumes could very well overtake available capacity and increased movements of rail should be expected." Western Canadian Select heavy crude is trading this week at a discount of $14.35 a barrel to West Texas Intermediate. The discount on Canadian crude could expand to a one-year high of $16 by year-end.