

# Oil and Gas News Briefs

## Compiled by Larry Persily

### February 9, 2017

#### **TransCanada trying to protect market share against U.S. gas**

(Financial Post; Canada; Feb. 8) - TransCanada is back negotiating with gas producers to ship more Western Canadian gas to Ontario in a push to thwart plans for a competing pipeline from Pennsylvania approved by the U.S. government last week. The company confirmed Feb. 8 it is back in discussions with Calgary-based producers to lower tolls on its existing mainline system in an attempt to protect its market share in Ontario, which is threatened by growing supplies from the U.S. Marcellus and Utica shale gas formations.

TransCanada last fall offered to cut the tolls by 40 percent on its mainline between Empress, Alberta, and Dawn, Ontario, to encourage more Canadian producers to ship their gas to the East, but failed to secure enough volume commitments. TransCanada's mainline has spare capacity. Ed Kallio, an analyst with the Eau Claire Energy Advisory, in Calgary, said it's increasingly urgent for TransCanada to come to an agreement with its shippers following last week's U.S. approval of the competing Rover pipeline.

The Federal Energy Regulatory Commission approved Dallas-based Energy Transfer Partners' Rover pipeline, which would carry gas from the U.S. to the Dawn pricing hub in Ontario. The company said it expects the line, with a capacity of 3.25 billion cubic feet a day, to be fully operational by November. "As soon as you've got incremental pipe out of Appalachia into that region (Ontario), it's another nail in the coffin, a big nail in the coffin," Kallio said of Canada's mainline, which he said has lost shippers in recent years.

#### **FERC approves \$3 billion line to move shale gas into mid-Atlantic**

(Bloomberg; Feb. 3) - Williams Cos. has won federal approval to build its \$3 billion Atlantic Sunrise gas pipeline expansion in the mid-Atlantic, ending a review that ran almost two years and delayed the project. The 200-mile line will expand shipments of shale gas into the region. The Federal Energy Regulatory Commission approved the project Feb. 3, just hours before the scheduled resignation of Commissioner Norman Bay, whose departure will leave FERC without the quorum needed for major decisions.

The decision spares Williams further delays after already waiting for more than 670 days for clearance. Last year, the stocks of both Williams and a would-be shipper on the project, Cabot Oil & Gas, plunged on speculation that the expansion would face more regulatory setbacks. The average time it takes to approve such pipelines has jumped to 429 days from 359 days just in the past three years as environmental opposition grows, according to Bloomberg Intelligence.

Williams said it plans to start construction on the main portion of the project in mid-2017, allowing more gas to flow to markets along the Eastern Seaboard in time for the 2017-2018 winter heating season. Construction on another part of the project, the Central Penn Line, is scheduled to begin in the third-quarter 2017, allowing Williams to bring the entire expansion into service in mid-2018. Williams is among U.S. pipeline developers proposing massive expansions of America's gas pipeline system to accommodate supplies flowing out of the Marcellus and Utica shale basins in the eastern U.S.

### **Opponents will gather to protest gas pipeline in Pennsylvania**

(EnergyWire; Feb. 7) - A group of pipeline opponents in Lancaster, Pa., have set Feb. 10 as the kickoff date for a planned "large-scale encampment" to protest construction of the Atlantic Sunrise project, a \$3 billion pipeline to connect natural gas production in the Marcellus Shale formation to markets in the Mid-Atlantic and Southeast. The Atlantic Sunrise project is being developed by a subsidiary of Williams Cos. and involves almost 200 miles of new pipeline to be laid in Pennsylvania, as well as modifications to pipelines in Pennsylvania, Maryland, Virginia, North Carolina and South Carolina.

The project won conditional approval from the Federal Energy Regulatory Commission Feb. 3, but still needs to obtain approvals from the U.S. Army Corps of Engineers for wetlands crossings and from the Pennsylvania Department of Environmental Protection for wetlands and waterbody crossings. Work within the fence line of existing facilities is expected to start by April, and the company hopes to proceed with so-called greenfield construction by the second half of this year, once the permits are obtained.

A group called Lancaster Against Pipelines has been organizing opposition to the project based on concerns that it would bring safety and environmental risks to the area and threaten agriculture and the "rural way of life" of local communities. The group live-streamed on Facebook a gathering of protesters Feb. 6 at a farm that they said would be disrupted by the pipeline, inviting opponents to gather in opposition to the project.

### **Renegotiated trade deal could jeopardize U.S. gas exports to Mexico**

(CNBC commentary; Feb. 6) - In 2009, Russia cut off natural gas supplies to Ukraine, leaving thousands of homes and businesses without heat in freezing temperatures in parts of southeastern Europe. Russia has long been criticized by the United States for using its position as a monopoly supplier of gas for geopolitical leverage. These same concerns are mounting in another country that has rapidly become dependent for its energy on a single supplier that suddenly poses new political risk. Mexico worries that under an America First energy policy, the United States may become the new Russia.

Natural gas trade between the U.S. and Mexico over the past five years has soared as a result of the U.S. shale gas boom. This could not have come at a better time for Mexico, which, despite launching a series of energy reforms, has faced dwindling gas production. As a result, Mexico has become increasingly reliant on cheap U.S. gas. But this also creates risk. President Donald Trump's threats to impose a border tariff, and his demands for Mexico to finance a border wall and renegotiate NAFTA, have precipitated a fall in relations between the two countries to their lowest point in decades.

The last threat, to renegotiate or even end NAFTA, is especially consequential for the gas trade. U.S. law requires a permit to export gas, and for exports to free-trade partners that authorization is granted quickly. However, for exports to non-free-trade countries, authorization is given only after a finding that it is in the public interest and the opportunity for public comment and an environmental review. Losing its trade deal with the U.S. could put Mexico at more political risk and jeopardize U.S. gas sales.

### **Bank says trade war with Mexico could hurt U.S. gas producers**

(Reuters; Feb. 6) - Bank of America Merrill Lynch said the enactment of a U.S. border adjustment tax on Mexican imports could slash U.S. natural gas prices if its southern neighbor retaliates. A similar border tax scheme, if implemented by Mexico, could spark "a wider trade war," the investment bank said in a research note Feb. 3. "It could severely hurt U.S. natural gas exports and drive down prices at the Henry Hub."

In Washington, Republican proposals include a border adjustment tax intended to boost U.S. manufacturing by taxing imports while exempting U.S. business export revenues from corporate taxes. Last week, major U.S. exporters threw their support behind the border tax, but President Donald Trump has sent mixed signals and some U.S. Senate Republicans question whether it would pass muster under international trade rules. The United States currently sends 5 percent of its annual gas production via pipelines to Mexico, which also is the biggest buyer of U.S. liquefied natural gas, the bank noted.

### **Peru beats the U.S. with first LNG shipment to U.K.**

(Bloomberg; Feb. 7) - Almost a year after the first liquefied natural gas cargo left Louisiana, the U.K. is still waiting to claim a slice of new supply from the Americas. By the end of the month it will, but it won't be from the U.S. The Peru LNG plant loaded a vessel Feb. 6 destined for England. It's the first of the plant's 401 cargoes to head to the U.K. and the first fuel sale into northwest Europe since the single-train liquefaction facility opened in 2010.

That a South American supplier beat North America to Britain's energy market highlights changes in the way LNG is being shipped and traded worldwide. While

Peruvian LNG has a more natural home in nearby markets, it now has to compete with fuel from the U.S., which is expanding its export capacity. At the same time, an expansion of the Panama Canal means the shipping distance to Europe has shrunk.

“Geographically, you would think this is a strange deal,” said Nick Campbell, energy risk manager at Inspired Energy in the U.K. “The expanding LNG trade means the illogical can become logical.” It’s the seventh Peru LNG cargo this year, with the other six going to Spain. Peru’s biggest market has traditionally been Mexico, which received 34 of its 71 cargoes in 2016, but which has boosted its gas imports from the U.S. The shipment to England was priced on the U.K. benchmark, which was \$7 per million Btu on Feb. 7.

### **Thailand moving ahead with big plans to boost LNG imports**

(Nikkei Asian Review; Feb. 8) – Thailand’s state-run oil and gas company PTT plans to massively expand its LNG import capacity and ramp up overseas development, CEO Tevin Vongvanich said Feb. 7. The company is seeking supply alternatives to dwindling domestic resources. PTT plans to more than double the annual capacity of its only liquefied natural gas import terminal to 11.5 million tonnes. It also intends to build a second terminal nearby to handle an additional 7.5 million tons a year.

“We aim to break ground in three years and bring it online in 2023,” Tevin said of the second import facility. PTT recently signed a 15-year contract to buy 1.2 million tonnes of LNG annually from Malaysia’s Petronas, alongside existing agreements with Qatargas, Shell and BP. It is looking for long-term suppliers in Australia, North America and Africa as well. The company also plans to step up spot-market procurement, which accounts for a third of its LNG imports.

The company is the sole LNG importer in Thailand, Southeast Asia’s largest buyer of the fuel. The country boosted LNG imports by 50 percent last year to 3 million tonnes to substitute for domestic production — its proven gas reserves are on course to run out in seven years at current output. In addition to LNG imports, PTT is eyeing gas production outside Thailand. A subsidiary holds an 8.5 percent interest in the Rovuma offshore basin in Mozambique, and PTT holds interest in blocks in Algeria and Canada.

### **Growing demand could push Indonesia into gas shortage by 2019**

(Jakarta Post; Feb. 8) - The risk of a natural gas shortage is haunting Indonesia as demand continues to soar on the back of lower supply and poor infrastructure, with 2019 predicted to be the starting point of potential shortages. State-owned oil and gas giant Pertamina estimates that domestic demand for liquefied natural gas deliveries will increase 4 to 5 percent every year, mostly boosted by the power and industrial sectors.

The nation of 260 million people is spread over 34 provinces on multiple islands, stretching 3,200 miles east to west, making it difficult and costly to provide power and gas to many areas. Meanwhile, in line with the sharp increase in gas demand, domestic supply continues to drop due to aging fields and a lack of new discoveries, said Djohardi Angga Kusumah, Pertamina's senior vice president for gas and power. The country could begin seeing gas shortages of 500 million cubic feet a day in 2019, and climbing. At the same time, Indonesia has been one of the world's top LNG exporters since 1977.

Djohardi said LNG delivery is the answer for areas beyond the reach of pipelines, but Pertamina estimates \$70 billion to \$80 billion is needed to develop gas infrastructure through 2030. The country lacks LNG import terminals and storage facilities, whether for domestically produced or imported LNG. By 2030, most of the shortage will be centered in West Java, population almost 50 million. A gas shortage would be especially hard on the manufacturing and power sectors, which have been working to boost productivity.

### **Last year's LNG deal with Qatar more expensive for Pakistan**

(Daily Dunya; Pakistan; Feb. 4) – Pakistan could pay \$2 billion more to buy liquefied natural gas under its 2016 long-term contract with Qatar than it would have cost under new contracts recently signed with Italy's Eni and commodity trader Gunvor. Under the 15-year deal signed last year, Pakistan will pay Qatar for LNG at 13.37 percent of the price of a barrel of oil — about \$6.70 per million Btu if oil is at \$50. But the 15-year Eni contract and five-year Gunvor deal accepted last month priced LNG at 12.29 percent and 11.63 percent of a barrel of oil, respectively, or \$5.82 to \$6.15 per million Btu.

Over the 15 years of the Qatari deal, at a contracted volume of up to 3.75 million tonnes of LNG per year, Pakistan could find itself paying \$2 billion more than had the price been the same as this year's deals.

### **Politics dwarf engineering challenges for Israel's Mediterranean gas**

(Bloomberg; Feb. 5) - As the helicopter roars its way west from the Tel Aviv coast, two dots emerge from the featureless blue. Closer up, they begin to take shape: Giant platforms for extracting gas from under the Mediterranean Sea. "A few years ago, there was nothing to see around here," Yossi Abu yells from the front seats. And soon, according to the CEO of Israel's Delek Drilling, there'll be more. He points northward. "Over there, we'll build a new platform," he says. "To export gas to Egypt and Turkey."

Abu makes it sound easy. It won't be. Hundreds of miles of undersea pipelines will cost billions of dollars and pose a technical challenge. And even that task is dwarfed by the political engineering required to build stable routes through a conflict-ridden region. There's an ideal market nearby in Europe — rich, mostly lacking its own fuels, and

desperate to wean itself off energy dependence on Russia. It's just that getting the gas there will require collaboration between countries with a history of feuding or fighting.

"This is the kind of opportunity where either everybody rises or everybody falls," said Amos Hochstein, who served as former U.S. Secretary of State John Kerry's energy envoy. Hochstein acknowledges the "complicated relationships" involved, but says they can be overcome. Many analysts see an Israel-Turkey pipeline via Cyprus as the best way to move gas to Europe. It could also be piped to LNG plants in Egypt and shipped from there. "You definitely need both political and commercial will to coalesce," said Brenda Shaffer, a senior fellow at the Washington-based Global Energy Center.

### **Egypt plans up to 108 LNG import loads this year before cutting back**

(Bloomberg; Feb. 6) - Egypt plans to import as many as 108 cargoes of liquefied natural gas this year as the country expects to start producing at two new gas fields and move closer to its goal of self-sufficiency and even resuming LNG exports by 2019. The North African nation will import 100 to 108 LNG shipments this year, including 43 to 45 cargoes from Oman, Russia's Rosneft and France's Engie, according to a source.

Imports may be reduced later in 2018 as BP's North Alexandria concession moves toward starting gas production and Eni's giant Zohr field plans to produce by the end of the year, the source said. BP bought a 10 percent stake in Zohr from Eni last year, giving it access to the largest discovery in the Mediterranean Sea.

Egypt was a net exporter of LNG until 2014, when declining output and power shortages resulting from political upheaval forced the country to divert fuel for its own use and turned the most populous Arab nation into a net importer. Zohr, which Eni discovered last year, holds an estimated 30 trillion cubic feet of gas. The government expects the deposit to help ease Egypt's energy shortage and allow it to resume exports.

### **Qatar looks outside the country for more oil and gas opportunities**

(Bloomberg; Feb. 6) - Qatar Petroleum is exploring for oil and gas in Cyprus and Morocco as part of a strategy to expand the tiny Gulf emirate's global energy investments. The world's biggest producer of liquefied natural gas must cope with local limits on growth as it seeks to expand its LNG business and increase its production and reserves of crude oil and gas, Saad Sherida Al Kaabi, the company's chief executive officer, said Feb. 6 in Doha.

"We have been chasing a few deals," he said. "In Cyprus ... we won a bid for 40 percent of a plot for exploration. We negotiated a production-sharing agreement" for ExxonMobil to take a 60 percent stake, he said. Qatar Petroleum also is merging its LNG divisions,



Qatargas and RasGas, after cutting thousands of jobs in 2015 as prices slumped amid waning demand and an influx of new global supplies. By reducing costs, Qatar is trying to improve its competitiveness against rising LNG output from new suppliers.

Qatar Petroleum is seeking international opportunities as domestic output declines and the government bars drilling in the offshore North Field, the source of the gas that transformed Qatar into the world's top LNG supplier. Officials in the Persian Gulf state of 2.6 million imposed a moratorium in 2005 to assess the field's gas flow and longevity. "Now, with how big the market is, and the limitation on how much you can develop in Qatar, we want to go external to further develop our strength in LNG," Al Kaabi said.

### **Global consortium signs on for LNG import terminal in Pakistan**

(Natural Gas World; Feb. 7) - Qatar Petroleum, Total, Mitsubishi, ExxonMobil and Norway-based shipowner Hoegh LNG announced Feb. 7 their commitment to move forward with an LNG import project in Pakistan in collaboration with local developer Global Energy Infrastructure Ltd. Hoegh LNG said the five-company global venture would work as a consortium with the Pakistani company to develop the floating terminal.

Hoegh LNG signed a contract with Global Energy on Dec. 15 for the LNG import project in Port Qasim near Karachi. It will be the first private LNG import terminal in Pakistan, although it will be the third floating import terminal at the port. The project will include a storage and regasification unit, capable of sending out up to 750 million cubic feet of gas per day starting in 2018. Qatar Petroleum, ExxonMobil and Total signed a contract last year to supply 1.3 million metric tons of LNG per year to Global Energy for 20 years.

### **Trader says it'll take time for Asia to create an LNG benchmark price**

(Business Times; Singapore; Feb. 6) - It might take longer for a liquefied natural gas price benchmark to take off in Asia because buyers there are not used to leading in price-setting, said one of the largest independent traders in the fuel. "In the energy space, Asian consumers are still price-takers; they don't want to lead the market," said Kho Hui Meng, the Asian chief for Vitol, the largest independent oil trader in the world.

As an example, Kho pointed to how oil futures have always struggled to take off in Asia. The Singapore Exchange's fuel oil futures have seen little interest for years. China, which had been hoping to establish its own crude oil futures contract on the Shanghai International Energy Exchange and was working on the plans for a few years, has quietly shelved them due to market resistance, Reuters reported late last month.

The reason for the difficulty, Kho said, is that there is less risk-taking in Asian markets as compared to the West. In Asia, due to the oil-price shock in the 1970s and the

attendant concerns over supply security that persist still today, trades are often fixed well in advance, he said. Still, the LNG derivative market will grow in time. "We just have to be patient." Vitol was among the first to trade LNG when it started eight to nine years ago; the group delivered 2 million tonnes of the fuel in 2015.

### **Analyst sees U.S. LNG as game changer in global market**

(Natural Gas Intelligence Daily; Feb. 7) - The U.S. presence in the global liquefied natural gas market and Europe's key role on the demand side are likely to be game changers over the next five years, said a report released Feb. 6 by Societe Generale analysts. "The global LNG market is at the beginning of a very strong supply-growth phase," analyst Breanne Dougherty said in the report, which predicts both Europe and the U.S. will play "critical roles" over a five-year transition period for global LNG.

The report noted that the addition of the United States last year as a global supplier "introduced not just an entirely new supply region, but also an entirely new supply type — nondedicated 'untrapped' resource — to the global LNG supply mix." The entrance of U.S. gas into the global market incorporated liquid and transparent Henry Hub prices into the LNG pricing mix that could lead to more flexible types of supply contracts and a more "firm foundation" for the growth of a flexible global spot market.

"The U.S. is expected to see the greatest rate of LNG supply capacity growth of all regions through the medium-term horizon," Dougherty said. On the demand side, the analyst sees Europe being the most important import region over the next few years compared to Asia, not on sheer volume but by virtue of Europe's proclivity for weather-driven volatility and responsiveness to coal displacement. "Europe ... will be the best positioned ... with the ability to move with the ebbs and flows of global market shifts."

### **Border tax uncertainty concerns Canadian oil producers**

(Calgary Herald; Feb. 5) - Energy companies are set to release their latest earnings reports, offering a snapshot of the industry's financial health amid investor fears that a proposed U.S. border tax would punish Alberta's oil and gas industry. Ryan Lance, CEO of ConocoPhillips, said in a recent call with analysts that there is "a lot of uncertainty on the border adjustment tax and its potential impact on how crude and other products move across the border. There's a little bit to be seen yet, what that means."

ConocoPhillips hit record production at its Alberta oil sands operations in the last three months of 2016, averaging 213,000 barrels of oil per day. "Does it get exempted, or how are the details of that going to unfold?" Lance asked. "We're watching it closely." The border tax, proposed by U.S. House Republicans, would raise the costs of imports into



the U.S. The protectionist measure, part of a suite of tax changes that would also slash the corporate tax rate, is designed to bolster U.S. manufacturing by deterring imports.

“Given that Canada sends about 3 million barrels of oil per day to the U.S., its industry could get slammed,” Michael Gregory and Sal Guatieri, economists at BMO Capital Markets, said in a recent report. “The Canadian price of oil would fall, while the U.S. price would rise. ... The uncertainty about the tax impact would delay investments by Canadian producers.” The authors added, “The U.S. remains highly dependent on Canadian crude and U.S. consumers would likely balk at paying higher gasoline prices.”

### **BP says it needs \$60 oil this year to cover spending and dividends**

(Reuters; Feb. 7) - BP raised the oil price it says it needs to cover its costs and pay shareholder dividends this year to \$60 a barrel due to higher spending following a string of investments. After the market's average oil price fell to its lowest in 12 years at \$44 a barrel last year, BP said it expected prices to have found a floor for this year at \$50 a barrel following a decision by major OPEC and non-OPEC producers to limit output.

The company had previously targeted its breakeven oil price of \$50 to \$55. The new \$60 target reflects an uptick in planned spending to \$16 billion to \$17 billion from \$16 billion in 2016. "BP is not covering their dividend and they raised their cash breakeven point quite considerably," said Macquarie equities analyst Iain Reid. "They are having to pay for what they bought and they are the only company that actually raised their breakeven number," he said.

BP has been on a spending spree in recent months, including in Eni's giant Zohr offshore gas field in Egypt, contracts in Abu Dhabi and Azerbaijan and a stake in exploration areas off Mauritania and Senegal. The burst in activity marks a return to growth for the company whose deadly 2010 rig explosion in the Gulf of Mexico forced it to sell assets worth billions of dollars. But the growth also means higher costs. BP hopes to add 800,000 barrels per day of new production by the end of the decade.