Oil and Gas News Briefs
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Equatorial Guinea LNG project seeks alternatives to China financing

(Reuters; Nov. 24) – London-based Ophir Energy has postponed its final investment decision on a proposed $2 billion liquefied natural gas project in Equatorial Guinea until early 2018 to explore alternatives to Chinese financing, the company said Nov. 23. Fortuna FLNG would be Africa's first deepwater floating liquefaction plant, moored above recoverable gas reserves of 3.7 trillion cubic feet, 93 miles off the coast.

FLNG is attractive to resource-rich but debt-burdened African countries. Projects can sail into place, drop anchor and begin exporting for much less than the cost of onshore plants, the price of which quadrupled in the 10 years to 2013. The Fortuna project — in which Ophir is partnered with shipping company Golar LNG and oil services group Schlumberger — is forecast to produce 2.2 million tonnes of LNG a year. An expected start-up date of mid-2019 had been based on an investment decision earlier this year.

In a competitive bid, commodity trader Gunvor edged out trader Vitol and Shell to buy up to 100 percent of the output for 10 years after pledging to help Equatorial Guinea's state-run Sonagas finance a 30 percent stake in the project. Ophir said persistent hold-ups on Chinese bank loans had forced it to seek alternative sources of funding. Ophir said it expects to finalize financing mid-December. China plans to pour almost $7 billion into floating LNG ventures in Africa including Mozambique, Congo and Cameroon.

In its annual report, Ophir said low LNG prices and rising production from low-cost U.S. shale gas producers have made it hard to find backers for costly, large-scale projects.

Small liquefaction plant in B.C. ships first container of LNG to China

(The Financial Post; Canada; Nov. 22) - A small container of liquefied natural gas is headed to China, marking the first Canadian export of LNG to Asia. FortisBC liquefied the gas at its Tilbury facility in Delta, B.C., across the river from Vancouver. The cargo is expected to arrive in China in early December. While the volume is small — just under 1 million cubic feet of gas as LNG — FortisBC vice president for market development Douglas Stout described it as a "significant first step for B.C.'s LNG export industry."

Stout said his company is sensing an opportunity to supply LNG in small batches to Asian countries, especially given some of the major projects cancelled in B.C. in recent months. "We're expecting to do more shipments in December and January," Stout said, adding that FortisBC's Tilbury facility, built in 1971, has enough capacity to supply its existing customers, such as BC Ferries, and customers looking to move LNG to Asia.

FortisBC is nearing completion early next year of a $400 million expansion of its Tilbury facility that will increase its liquefaction capacity to more than 30 million cubic feet of gas per day — a seven-fold increase. The expansion was sanctioned with the intention to supply LNG to domestic customers, including the long-haul trucking industry. Stout said the company did not expect it would be shipping LNG cargoes to Asia at this stage. Vancouver-based True North Energy approached FortisBC with a request for LNG and is handling the shipping to China, where demand for gas is growing.

China's LNG imports nearly doubled from a year ago in October

(Reuters; Nov. 22) - China's imports of liquefied natural gas in October nearly doubled from the same month a year ago to the second highest on record, according to customs data, as companies boosted imports of the fuel ahead of the winter heating season. Monthly LNG imports rose 95.7 percent from a year earlier to 3.57 million tonnes, second only to a record 3.73 million tonnes in December 2016, data from the General Administration of Customs showed Nov. 23.

The Chinese government's aggressive campaign to heat millions of homes in the Beijing-Tianjin-Hebei region with gas instead of coal this winter has spurred demand for the fuel and may cause a gas supply shortage. Wen Wang, a natural gas consultant with Wood Mackenzie, estimated China's LNG imports will rise 40 percent year-on-year to 20 million tonnes this winter, as companies bring in more spot cargoes on top of supplies under term contracts. The surge in demand is luring spot cargoes from places such as Norway and Nigeria that are not traditional LNG suppliers for China.

The customs data showed that China's imports for the first 10 months of the year climbed 47.9 percent from the same period a year ago to 29.09 million tonnes.

PetroChina cuts gas supply to local LNG plants

(Interfax Global Energy; Nov. 22) - China's LNG output has tightened after PetroChina cut the supply of gas to liquefaction plants in Shaanxi and Inner Mongolia. The two regions account for more than one-third of the country's liquefaction capacity. China relies on smaller liquefaction plants around the country to make LNG for delivery by tanker truck to areas not served by gas pipelines.

PetroChina's western gas sales branch notified LNG plants in the two regions that they will receive a total of just 210 million cubic feet of gas per day in November because gas is being conserved for residential use during the heating season, sources at three plants told Interfax Global Energy. The country is focusing this winter on getting residential customers to switch from coal to cleaner-burning gas in an effort to reduce air pollution.

LNG prices in China spike to 6-year high amid tight supplies

(Reuters; Nov. 27) - China's domestic prices for liquefied natural gas Nov. 27 topped 7,000 yuan ($1,061) a tonne (about $22 per million Btu), the highest since at least 2011, as demand soared with millions of homes burning gas for the winter instead of coal. Wholesale LNG prices have gained more than half their value from mid-November. "There are too many customers chasing too few supplies," said Qu Xiuzhi, a manager with privately run Xinkun Gas, a dealer in the northern province of Hebei.

Xinkun Gas hauls the fuel in hulking trailers to steel mills and porcelain makers in Tangshan, China's steel capital east of Beijing. Though China's state-owned firms are maximizing production at domestic gas fields and boosting LNG imports, the effort has not been able to keep pace as the surge in demand from Beijing's aggressive gas push is outpacing supply. "It's a huge challenge for us to secure every extra truckload of LNG," said Li Ruipeng, a manager with Tangshan-based dealer Huapu Gas.

Li said more than 20 percent of his company's tanker truck fleet of more than 60 are idle because supplies from import terminals and domestic gas liquefaction plants are falling short. That has forced Xinkun Gas and Huapu Gas to cut back or suspend deliveries to some of their clients, such as filling stations for compressed natural gas and steel mills.

China looks to Turkmenistan for more pipeline gas deliveries

(Eurasianet; Nov. 24) - China is expected to be a major presence at the 28th meeting of the Energy Charter Conference, scheduled for the Turkmenistan capital Ashgabat Nov. 28-29. Chinese officials are looking to catalyze efforts to secure more energy imports from Central Asian suppliers, especially Turkmenistan. The Energy Charter Treaty dates back to 1991 to provide a clear framework for all facets of cross-border energy development in Eurasia in the post-Soviet era. China gained observer status in 2001.

Chinese attention is focusing on expanding natural gas supplies from Turkmenistan, which controls the world's fourth-largest reserves of gas and shipped roughly 1 trillion cubic feet to China in 2016. According to the June 2017 BP Statistical Review, China imported about 1.3 tcf of gas from various countries via pipeline in 2016, while importing 1.2 tcf as liquefied natural gas. Turkmenistan accounted for the vast majority of China's pipeline imports in 2016 via the 2,278-mile Central Asia-China gas pipeline network.

China has invested billions of dollars in trying to develop Turkmen gas fields and is looking for more. Under a production-sharing agreement, Turkmenistan is supposed to export about 1 tcf per year to China for 30 years. But the two countries want to more than double annual gas deliveries and to include more Turkmen gas fields, sources said. The major challenge is Turkmenistan's lack of export capacity. The existing export pipeline network to China is operating near capacity and a major expansion is on hold.

Invites go out for Dec. 8 launch of Yamal LNG operations

(Reuters; Nov. 24) - Russia's Novatek has provisionally set Dec. 8 as the official launch date for its $27 billion Yamal LNG plant, two sources with knowledge of the event told Reuters. Novatek's partners on the project are France's Total, China National Petroleum Corp. and China's Silk Road Fund. The project, on the Yamal Peninsula above the Arctic Circle, will be Russia's second LNG plant — Sakhalin-2 on the Pacific island of Sakhalin, led by Russian gas giant Gazprom, started operations in 2009.

At full capacity, the Yamal facility will be able to produce 16.5 million tonnes of liquefied natural gas a year, which it will ship to Europe and Asia. It is being built in three phases of one liquefaction train each. One of the sources received an invitation for a Dec. 8 opening of Phase 1 and an industry source confirmed the date but both said the date may change, depending on the schedule of high-ranking officials expected at the event.

Poland signs deal for 9 U.S. LNG cargoes over 5 years

(Reuters; Nov. 21) - Poland's dominant gas distributor PGNiG has signed its first mid-term deal for liquefied natural gas deliveries from the United States as part of a wider plan to cut its reliance on Russian supplies, it said Nov. 21. State-run PGNiG said that as part of the five-year deal, signed with Centrica LNG, it will receive nine shipments in 2018-2022. The company did not reveal the volumes and prices agreed under the contract. Centrica is a U.K.-based multinational gas and electric utility.

The shipments will come from Cheniere Energy's Sabine Pass, La., LNG export terminal and will be delivered to Poland's LNG terminal at Swinoujscie on the Baltic Sea, which opened for commercial operations last year. "This is most likely the first contract in a series. In a year and a half we want to build a portfolio of such contracts. It could be with the U.S., it could be from other directions," said PGNiG deputy Maciej Wozniak. PGNiG received its first LNG from the U.S. in June on the spot market.

PGNiG's sole LNG supply deal so far is with Qatargas, which in March agreed to double deliveries to Poland to 2 million tonnes per year until 2034. PGNiG's plan is not to extend its long-term pipeline gas deal with Russia's Gazprom when it expires in 2022 and instead replace the supplies with pipeline gas deliveries from Norway and LNG imports. Poland consumes about 560 billion cubic feet of gas annually.

FERC approves pipeline expansion to serve 5th train at Cheniere LNG

(Platts; Nov. 21) - The Federal Energy Regulatory Commission on Nov. 20 approved a Kinder Morgan pipeline expansion that will deliver feed gas to a fifth liquefaction train at Cheniere Energy's Sabine Pass LNG export terminal in Louisiana. The $151 million Sabine Pass Expansion Project will add about 600 million cubic feet of gas a day of north-to-south firm delivery service.

It will add a tap and lateral to connect to the export terminal in Cameron Parish, make changes to three delivery interconnects to allow receipts of gas as well as delivery, and add 15,900 horsepower of compression. Kinder Morgan Louisiana Pipeline and Cheniere’s Sabine Pass Liquefaction have signed a precedent agreement for the full capacity of the project under a 20-year term, according to the FERC order.

Russia comfortable with its competitive gas pricing vs. U.S. LNG

(Platts; Nov. 24) - Russia's Gazprom expects its European gas export price to average about $5.25 per million Btu through the end of 2017, a price that its deputy CEO Alexander Medvedev said demonstrates the competitiveness of Russian gas especially versus U.S. liquefied natural gas deliveries. In Gazprom's in-house magazine this week, Medvedev also said the company had begun supplying gas to countries in Europe it does not reach via pipeline — such as Spain — through LNG deliveries.

Gazprom is set to hit a new record export level for its pipeline gas to Europe and Turkey in 2017, with volumes expected to reach as much as 6.7 trillion cubic feet. Medvedev said the company is happy with its competitive position. "Under current market conditions, the full cost of delivering U.S. LNG to the European market for winter 2017-18 is in the range of … $7.50 to $8.35 per million Btu … significantly higher than both current and forward prices on European hubs and the price of Russian gas," he said.

However, there have been geopolitical elements to some U.S. LNG deliveries to Europe, with Lithuania taking two cargoes and Poland one in an attempt to prove their increasing independence from Russian gas. Further, U.S. LNG offtakers can still deliver cargoes to Europe even if they don't cover their costs by applying a sunk-cost methodology — they are committed to pay the liquefaction charges regardless if they take any gas, so they might as well take the gas, pay for liquefaction, and make a sale.

Russian energy minister warns of risk for ‘crisis’ in natural gas prices

(Reuters; Nov. 24) - Global gas supplies currently exceed demand, a situation that could lead to a “crisis” drop in prices similar to what occurred in the crude oil market, Russian energy minister Alexander Novak said Nov. 24. “The current excess supply of natural gas brings risks ... of entering into the same crisis that affected oil prices," Novak said at the Gas Exporting Countries Forum in Bolivia, where top officials of major gas-producing countries have been meeting this week.

Gas prices remain under pressure due to growing supplies of U.S. shale gas and increased availability of liquefied natural gas that can be shipped overseas. Novak said the threats to global gas prices underscore the importance of long-term supply contracts, in which producers can be assured a stable price over the course of years instead of being subject to the ups and downs of the market.

Russia is the world's second-largest gas producer, behind the United States. The United States has vastly increased its output of both oil and gas in recent years as improved drilling technology opened previously inaccessible reserves. While the Gas Exporting Countries Forum has called for increased "cooperation" to defend its gas market, it has not applied production limits as OPEC has done to buoy crude prices.

Gas exporters want 'fair price' for their resources

(Agence France Presse; Nov. 26) – Grappling with collapsed markets, gas exporting countries on Nov. 24 called for a fair price for the fuel after a summit in Bolivia. The Gas Exporting Countries Forum seeks a "fair price for natural gas," taking into account its environmental benefits and energy efficiency, the declaration said. The price of natural gas is linked to that of petroleum and its derivatives, and is down 50 percent from three years ago — partly from rising shale gas output. The U.S. does not belong to the forum.

Bolivian President Evo Morales, one of the last Latin American leftist leaders, said producers should combat "those who want to appropriate our resources through abusive price manipulation." In coming decades, the role of petroleum in the global energy mix will fall from 32 percent to 29 percent, while gas will rise to 26 percent from 22 percent, Seyed Mohammad Hossein Adeli of Iran, the forum's secretary general, told the group's opening session.

The 12-country group, which aims to strengthen collaboration among members, includes Venezuela, Russia and Qatar, the world's largest exporter of liquefied natural gas. Forum members hold about 70 percent of global natural gas reserves.

Exxon evacuates some staff from Papua New Guinea gas project area

(Reuters; Nov. 23) – ExxonMobil has evacuated non-essential staff working in the highlands of Papua New Guinea due to unrest in the area, but operations are continuing at its liquefied natural gas project, the company said Nov. 23. "Due to recent community tension in the Highlands … ExxonMobil PNG has suspended non-essential work," the company said in a statement. It declined to specify the nature of "non-essential" work.

It said its gas conditioning plant at Hides, which processes gas before it is sent via a 472-mile pipeline to the LNG export plant at Port Moresby, is continuing to operate. Violence has escalated in the highlands where gas is produced for the LNG project due to anger among locals over the nation's election process earlier this year and disputes over royalties from the project, an observer said. The $19 billion LNG project went into operation in 2014.

Oil Search, which operates oil and gas fields in the area and is a partner in PNG LNG, said there has been no impact on its operations and that its staff are working as normal.

Oil ministers say OPEC needs to extend cutbacks to cure oversupply

(Reuters; Nov. 22) - OPEC will need to extend its supply cuts when it meets next week if it is to end years of global oil oversupply, oil ministers from two OPEC members said Nov. 22, just over a week before the group meets to discuss supply policy. The Organization of the Petroleum Exporting Countries, non-member Russia and nine other producers agreed to curb oil output by about 1.8 million barrels per day until March 2018. They are expected to extend the deal at a Nov. 30 meeting in Vienna.

"In my view, an extension of the agreement will help us in stabilizing the market," Qatar Oil Minister Mohammed al-Sada said on the sidelines of a gas exporter meeting in Santa Cruz, Bolivia. OPEC has been successful in bringing global oil inventories closer to their five-year average, but the group needs more time to tighten supply further, he said. The oil market has found some balance as inventories decline.

In addition to agreeing with his Qatari colleague, Venezuela Oil Minister Eulogio Del Pino put the optimal price for crude at between $60 and $70 a barrel to encourage investment. U.S. crude hit a two-year high of $58.05 a barrel Nov. 22, while Brent crude rose to $63.12 a barrel. Rising U.S. shale oil production has made it harder for OPEC to reduce the global supply glut. U.S. output hit a weekly record this week at more than 9.6 million barrels a day, approaching the 10-million-barrel record reached in the 1970s.

Canadian drillers 'can't make a nickel' at low prices for their services

(Financial Post; Canada; Nov. 21) - Canadian drillers are still offering their customers deeply discounted prices even though oil prices have improved and more rigs are active in the field. The Canadian Association of Oilwell Drilling Contractors released its forecast for 2018 on Nov. 21, which showed the industry group expects its members will drill 6,138 oil and gas wells next year — a roughly 2 percent increase from the year before — but still expects drillers to struggle with low prices for their services.

Association president Mark Scholz said drilling companies are running rigs that cost $30 million to build but earning the same day rate they once would have expected on a $9 million rig. "They can't make a nickel," he said, adding that drilling companies have barely been able to earn enough money to cover their costs and pay for maintenance. "We underestimate how much cost savings the producer has generated on the back of the drilling contractor and the well-servicing contractor."

Some companies have been able to raise their prices, but that has been inconsistent and on a "region by region, customer by customer" basis, Scholz said. "They have generated a market that is unsustainable." Raymond James analyst Andrew Bradford said the oversupply of well-maintained rigs in the market place makes it difficult for service companies to raise their prices meaningfully.

Editorial calls on Pennsylvania to adopt natural gas production tax

(The Citizens Voice editorial; Wilkes-Barre, PA; Nov. 25) - The Pennsylvania House went home Nov. 21 for its Thanksgiving break without passing a means to provide reliable, recurring sources of state revenue. The Legislature passed a budget that irresponsibly achieves supposed "balance" by borrowing $1.5 billion to cover most of a $2.2 billion deficit. It also vastly expands gambling to provide another $200 million, but that is not guaranteed to produce any new revenue. As a result, the Independent Fiscal Office already has estimated that next year's deficit will be at least $1 billion.

After passing the borrow-and-gamble budget, the House took up — but did not pass — a bill to establish a long-overdue tax on natural gas extraction. A version of such a tax, which passed the Senate with Gov. Tom Wolf's support, would produce about $100 million a year under current market and production conditions. Pennsylvania produces almost 20 percent of U.S. gas output, yet lawmakers continue to treat the industry as a fragile startup that will go screaming into the night if the state imposes a fair tax.

After the bill was introduced, legislators filed more than 300 amendments. Many have been defeated, rendered moot or withdrawn. When they slouch back to work in the Capitol on Dec. 4, House members should approve a fair severance tax without larding it with gifts to the industry. Pennsylvania is the only gas-drilling state that does not have a severance tax.

Review says risks of Columbia River oil terminal cannot be avoided

(The Associated Press; Nov. 22) - A major oil-by-rail terminal proposed on the Columbia River in Washington state poses a potential risk of oil spills, train accidents, and longer emergency response times due to road traffic, an environmental study has found. Many of the risks could be lessened with mitigation measures, but the study released Nov. 21 outlined four areas where it said the impacts are significant and cannot be avoided.

The study said what while “the likelihood of occurrence of the potential for oil spills may be low, the consequences of the events could be severe.” The state’s Energy Facility Site Evaluation Council has been evaluating the project since 2013 and released its review a week before it is scheduled to vote to support or oppose the project before sending the file to Gov. Jay Inslee to decide whether to approve or reject the facility.

The $210 million terminal in the city of Vancouver would receive about 360,000 barrels of crude oil a day by train. Oil would temporarily be stored on site for Vancouver Energy, a joint venture of Tesoro and Savage Cos., and then loaded onto tankers bound for West Coast refineries. Critics say the project is a risk to the environment and people, while developers promote the terminal as an opportunity to bring oil from North Dakota and other areas to a western U.S. port and bring jobs and money to the region.

Coastal tanker ban biggest obstacle for First Nations-led oil pipeline

(Financial Post; Canada; Nov. 23) - As proposed Canadian crude oil export pipelines struggle to get built, one project is gaining momentum — the First Nations-led, $16 billion Eagle Spirit Energy pipeline and energy corridor between Alberta and the northern British Columbia coast. The project has secured support from First Nations from Bruderheim, Alberta, through Northern British Columbia to Grassy Point, B.C.

Major Canadian oil producers want it to go ahead, while investment broker AltaCorp Capital has been lined up to organize financing**.** The right of way would be in an energy corridor pre-approved by First Nations to also house natural gas pipelines, hydro lines and fiber optic cable. Oil producers have been waiting years for more pipeline capacity to move their output to market, especially to buyers in Asia through West Coast ports.

The major obstacle, however, is the federal government and the tanker moratorium for B.C.’s northern coast announced by the prime minister last year. The ban, now before Parliament, has support from environmentalists who want to keep oil tankers away from the West Coast. Prime Minister Justin Trudeau may have to re-think the moratorium if Eagle Spirit gains significant indigenous support, said Ken Coates, Canada research chair at the University of Saskatchewan’s School of Public Policy. The project could turn out to be “the only one that has a significant chance of succeeding,” he said.

French government supports switch to LNG as marine fuel

(Reuters; Nov. 21) - France will support the uptake of liquefied natural gas as a cleaner fuel for ships by encouraging ports to develop the necessary infrastructure, its prime minister said Nov. 21. LNG has been promoted as an alternative to fuel oil for a shipping sector facing tougher emissions standards in 2020, and French-based container shipping giant CMA CGM said this month it would be the first to use LNG to power giant container ships.

France will modify regulations to allow LNG refueling to occur in port and will consider changing fiscal rules on amortizing investments in new ships or engine technology, Prime Minister Edouard Philippe said in a speech to a maritime conference in the port town of Le Havre. “We have to use this (energy) transition to differentiate ourselves on the market in transport and in port services,” he said. “We want French ports to be equipped ... with LNG installations and the capacity to electrically charge ships.”

LNG is a relatively minor ship fuel, but with companies facing high costs to adapt traditional bunker fuel to upcoming emissions standards it has attracted more attention. CMA CGM has pointed to the supply chain as a key challenge for LNG fuel and said it is in discussions with partners including ports on how to adapt infrastructure.