

Oil and Gas News Briefs

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Green Party threatens to bring down B.C. government over LNG

(Globe and Mail; Canada; Jan. 18) – B.C. Green Party Leader Andrew Weaver is threatening to bring down British Columbia's 6-month-old coalition government if Premier John Horgan of the New Democratic Party courts potential investors for a liquefied natural gas industry during his upcoming trade mission to Asia. The Greens agreed to an alliance with the NDP last July, allowing Horgan to take power. But on the eve of Horgan's tour, which includes meetings with the backers of a proposed LNG facility for the B.C. coast, Weaver warned that he is willing to walk away from the pact.

If the government continues "the generational sell-out" of promoting an LNG industry, "their government will fall," Weaver tweeted. In a social-media exchange, he said his party had joined up with the NDP because both parties had agreed to tackle climate change by reducing greenhouse-gas emissions — a goal, he said, that would be challenged by the significant greenhouse-gas output from an LNG industry.

Weaver's Twitter comments came as municipal and First Nations leaders were meeting in Prince George, B.C., to draft a letter demanding government support for the LNG industry. The mayors of Dawson Creek and Fort St. John in B.C.'s northeast — where gas for any export project would come from — joined with Kitimat Mayor Phil Germuth and Haisla Nation councillor Kevin Stewart (known as Tum'un'la'ha) to demand the province "strongly support" LNG development. Horgan is expected to promote the proposed LNG Canada project in Kitimat, led by Shell, during his Asian trade mission.

China had its own reasons to help finance and build Russian LNG

(The Diplomat; Asia-Pacific current affairs magazine; Jan. 18) - Russia's self-interests in the Yamal LNG project — the first such venture in the country's Arctic region — are clear. But what were the motivations that stimulated China's decision to join in the project? China National Petroleum Corp. and China's Silk Road Fund own a combined 29.9 percent stake in Yamal, which went online in December. The Export-Import Bank of China and China Development Bank allocated \$13 billion in credit on a 15-year term.

Yamal LNG was celebrated by Chinese news media as the first Arctic energy project within China's Belt and Road Initiative. The initiative was proposed and is being actively promoted by President Xi Jinping to create regional economic collaboration among the nations along the proposed trade route, while at the same time emphasizing China's growing role in global affairs. The Arctic part of the route — named the Ice Silk Road — is considered an important part of diversifying China's maritime trade routes.

China has at times driven a hard bargain for this level of investment. Although Russia's Novatek and China National Petroleum Corp. concluded an agreement for CNPC's 20 percent equity share in the project in 2013, it took several years of negotiations to reach consensus on the conditions of the investment. In addition to financing, China's role included technical support and a share of the work. Chinese Offshore Oil Engineering Co. manufactured \$1.6 billion worth of modules for Yamal, allowing Chinese companies to gain experience and knowledge of gas production in harsh climatic conditions.

China boosts domestic gas production to highest level since 2014

(Reuters; Jan. 18) - China's natural gas production rose in December to the highest monthly rate since at least 2014 as state energy firms rushed to fill a supply gap sparked by surging winter demand from a drive to switch millions of households to gas from coal for heating. Companies produced 480 billion cubic feet of gas in December, up from 445 bcf in November, pushing up output for all of 2017 by 8.5 percent to 5.2 trillion cubic feet, data from the National Statistics Bureau showed on Jan. 18.

Beijing last year ordered millions of households and industrial plants in 28 northern cities to change to gas heating from coal as part of its war against pollution. But the jump in demand and inadequate storage and pipeline networks led to a severe supply crunch, even with record gas imports. State majors maximized December production at key gas fields such as Changqing in the country's west and Fuling in southwestern Sichuan, while scaling back internal gas use and curbing fuel supply to industrial users. Sinopec said its 2017 gas output was up by 19 percent over 2016, and that it had recently started up 13 new gas wells.

China boosted coal-fired power to help cover winter demand

(Reuters; Jan. 18) - China's coal miners and thermal power plants ramped up output to the highest in years in December, data showed Jan. 18, in a rush to feed unexpectedly strong demand from millions of homes as natural gas shortages triggered a winter heating crisis. The jump came as millions of homes across northern China used more electricity and gas to heat their homes after being forced to switch from coal.

It also reflects a ramp-up in coal-fired power use due to the gas shortages, undermining the government's long-term plan to boost clean-energy use and wean the nation off its most-used fuel. The production of thermal electricity, generated almost entirely by coal-fired capacity, rose to 441.7 billion kilowatt hours, the highest in the National Bureau of Statistics' records going back to February 2015. Last month, the world's top coal miners churned out their highest tonnage since December 2015.

The data highlights the challenge for Beijing as it seeks to curb coal use, reduce excess mining capacity, and boost wind and solar power. In early December, Beijing cut back its conversion of households to gas from coal across northern China after provinces almost ran out of gas. It also eased restrictions on coal power. Thermal power accounted for 77.5 percent of total output in December, up from 72 percent in November, well above the government's target for coal-fired power at 55 percent of installed capacity by 2020.

India gains more flexibility in renegotiated LNG deal with Gazprom

(Platts; Jan. 18) - The new deal between India's state-owned LNG importer GAIL and Russian supplier Gazprom adds to a growing list of long-term contracts renegotiated by Indian buyers as they seek to take advantage of a structurally long global market and India's growing bargaining power as the world's fourth-biggest LNG consumer. GAIL renegotiated the timeline, volume, cost and price-indexation of its 20-year contract with Gazprom, including an 80 percent reduction in the volume to be delivered the first year.

The deferral will allow GAIL more time to grow India's domestic market for gas, which is constrained by a lack of storage, limited downstream access owing to infrastructure limitations, and the absence of a clear policy directive in the power sector amid cheap coal and declining costs of renewables. The renegotiated contract also provides additional flexibility by allowing diversion of cargoes if India does not need all the gas.

The deal shows the risk of pricing long-term LNG against oil, which is exacerbated by India's acutely price-sensitive gas market due to heavily regulated domestic prices and the financial weakness of its power distribution companies. The growth of new importers unrestricted by long-term deals, and increased third-party access to import terminals, is also encouraging more competition in India's downstream markets, presenting new risks for traditional importers and forcing them to prioritize price vs. long-term supply security.

Asia spot prices could fall to \$6.33 this summer, columnist says

(Reuters' columnist; Jan. 17) - There is little doubt that China's voracious appetite for liquefied natural gas is the prime mover behind the spot-market price for the fuel reaching its highest level in more than three years, but what happens next? The current market view seems to be that China will suck up the fuel as it continues efforts to switch to gas from coal as part of the government's efforts to lower air pollution.

But how will the Asian spot LNG price be affected by the seasonal drop in demand over the summer? Similar to other North Asia LNG buyers, China shows considerable seasonality in LNG imports. In the 2016/17 winter, China's LNG imports peaked at 3.73

million tonnes in December 2016 before dropping to a low of 1.99 million tonnes in March 2017. Data compiled by Thomson Reuters indicates record LNG imports for December 2017 of about 5.18 million tonnes. If the pattern of prior years is followed, the seasonal monthly low for 2018 imports would be about 3.1 million tonnes.

This may be somewhat optimistic given the nature of China's LNG consumption, which is mainly used in heating and industrial processes. With heating demand likely to tail off sharply after winter, and slower manufacturing growth expected in 2018, it's possible the fall from winter peak to summer lull may be larger than usual for China's demand. Another factor is new supply coming this year from projects in Australia and the U.S. The numbers suggest a spot market summer low in the region of \$6.33 per million Btu.

Spot LNG prices hit 3-year high in Asia; 6 U.S. cargoes on their way

(Reuters; Jan. 19) - Asian spot prices for liquefied natural gas hit their highest in more than three years this week as temperatures in the north of the continent are set to dip further. The cold wave in northern Asia — by far the world's biggest LNG-consuming region — has also opened up arbitrage opportunities for traders, attracting several LNG tankers from the United States, shipping data from Reuters showed.

Spot prices climbed to \$11.70 per million Btu, said traders in Asia and Europe. Asian spot markets are not only at their highest since November 2014, but they have been above oil-linked LNG prices since the beginning of last December, a sign the market is unusually tight. Most of Asia's LNG is supplied under fixed monthly volumes priced under a link to crude oil. When spot LNG becomes more expensive than oil-indexed gas — which currently costs around \$8.50 — traders say it points to a market that has become so tight that buyers are willing to pay more than usual to ensure supplies.

In preparation, utilities across the region have ordered extra cargoes in the spot market, especially from the only operating LNG export terminal — Cheniere's Sabine Pass, La., facility — in order to meet demand and stock up inventories. Shipping data in Thomson Reuters Eikon shows at least six tankers currently crossing the Pacific from the United States. Tankers are also coming in from Peru and Trinidad and Tobago.

Sabine Pass LNG has exported 59 cargoes since November

(Platts; Jan. 19) – With the ramp-up of the third liquefaction train and the onset of the fourth production train at Cheniere Energy's LNG terminal in Sabine Pass, La., feed-gas volumes to the plant have nearly doubled compared with this time a year ago. Over the course of the winter season thus far, feed-gas volumes have averaged 2.9 billion cubic feet per day, getting as high as 3.3 bcf a day, which represents full utilization of the facility, Platts Analytics data showed. The first train started output in February 2017.

Since November, 59 ships totaling 204 bcf of natural gas — about 4.25 million tonnes of LNG — have left Sabine Pass, compared with 28 ships and 91 bcf of gas over the same time last year. Four more U.S. LNG export terminals are under construction, while a dozen more have been proposed. Dominion Energy's Cove Point terminal in Maryland has started up operations but has yet to ship its first export cargo.

Platts Analytics' U.S. LNG feed-gas forecast for 2018 shows an average 3.8 bcf a day — assuming a February start-up of the single-train Cove Point facility — representing nearly full utilization of Sabine Pass and Cove Point liquefaction capacity. Additional LNG terminals in Louisiana, Texas, and Georgia are scheduled to enter service in 2018 and 2019. Global LNG demand has been on the rise, much of it driven by China as the country attempts to battle air pollution, in part, caused by burning coal for home heating.

U.S. could become next exporter of natural gas in 2018

(Houston Chronicle; Jan. 19) - The U.S. could become a net exporter of natural gas in 2018 for the first time since 1957 due to increased sales to Mexico, the opening of new markets through liquefied natural gas and declining imports from Canada, according to the U.S. Department of Energy. The United States is shipping LNG to at least 20 foreign markets, the Energy Department said, and exports of LNG will continue to grow as terminals on the Gulf Coast reach capacity and new export facilities come online.

Houston-based Cheniere Energy has been exporting LNG since early 2017 and is further expanding its Sabine Pass, La., complex and will open a terminal in Corpus Christi, Texas, by 2019. Two other Houston companies, Freeport and Kinder Morgan, are scheduled to begin exporting LNG later this year: Freeport LNG out of its terminal in Quintana Island, Texas, and Kinder Morgan from its Elba Island project in Georgia. Sempra Energy expects to start up its Cameron LNG project in Louisiana to 2019.

Several companies have proposed Gulf Coast LNG projects that would launch operations in the next decade. In addition, exports of natural gas — much of it produced in Texas shale fields — to Mexico are expected to grow quickly as the country shifts its power production to the cleaner burning fuel. Pipeline capacity to Mexico is projected to nearly double by 2019. Additional growth in gas pipeline exports to Mexico, however, will be contingent on the timely completion of Mexico's connecting pipelines.

Mozambique LNG project relies on international financing

(FTSE Global Markets; London; Jan. 17) - An \$8 billion investment in Mozambique's Coral South FLNG (floating liquefied natural gas) project marks the country's first step as an offshore gas producer and supplier. Coral is the first project sanctioned by the

Area 4 partners for development of the large gas resources discovered by Eni and its partners in the Rovuma Basin offshore. It gives momentum to resource development in Mozambique, one of the world's poorest countries, which has been struggling with debt.

Eni closed \$4.7 billion in project financing in mid-December. Eni's portion of the overall financing was shared between commercial bank loans with coverage from multiple government export credit agencies in South Korea, China, France, and Italy. South Africa's Standard Bank and its 20 percent shareholder, the Industrial and Commercial Bank of China, are the largest lenders to the overall project, which also involves Korea Gas, PetroChina, Portuguese, and Mozambique investments, as well as Eni.

LNG production is scheduled for start-up in 2022, at 3.4 million tonnes per year. BP in 2016 signed a contract to take 100 percent of the plant's output. "This game-changing transaction initiates a cycle of energy investment set to return Mozambique to growth while heralding the country's arrival as a key global liquefied natural gas supplier," said Paul Eardley-Taylor, head of oil and gas for Southern Africa at Standard Bank.

[Owners look to expand existing pipelines as new lines draw fights](#)

(Dow Jones Newswires; Jan. 17) - As environmentalists and local activists make it difficult to build new oil and gas lines, companies are working around the opposition by supersizing old pipes that already crisscross parts of the continent. Executives at some of the biggest pipeline operators in the U.S. and Canada, including Enbridge and Kinder Morgan, say they pivoted to the strategy as plans for new pipelines came under attack.

For decades, new pipeline projects rarely drew attention, much less ire. "We used to just show up with a map," said Al Monaco, CEO of Calgary-based Enbridge. But in recent years, groups with a goal of keeping fossil fuels in the ground have joined forces with Native American activists, landowners and other local opponents to stall numerous projects. Skipping new pipelines — and the environmental reviews and taking of land by eminent domain that they often require — and instead working under existing permits and rights of way is just common sense, Monaco said, adding it is often less expensive.

"Once the pipe is in the ground, you can do a lot of things: reverse flows, expand it, optimize it," he said. For example, Enbridge cobbled together two existing oil lines to create the first sizable spigot to bring Canadian crude to Texas. Its retooled network can move nearly 600,000 barrels a day. Further east, Enbridge is expanding its gas pipeline capacity from Pennsylvania's shale fields to Boston to Halifax, Canada. Where there was once a 26-inch line carrying gas to New England, there is now a 42-inch pipeline.

Kinder Morgan says oil sands pipeline to B.C. coast delayed one year

(Financial Post; Canada; Jan. 17) - Kinder Morgan Canada's controversial Trans Mountain pipeline expansion has encountered further delays, the company said Jan. 17, citing ongoing permitting issues. Kinder Morgan had initially expected the \$7.4 billion project, which will carry 590,000 barrels of oil a day from Alberta to a marine terminal in Burnaby, B.C., to be in service by late 2019, but now sees December 2020 for start-up.

"We expect the National Energy Board to issue another decision in the near future on establishing a fair, transparent, and expedited backstop process for resolving any similar delays in other provincial and municipal permitting processes ... and are now projecting an unmitigated delay to a December 2020 in-service date," Kinder Morgan Canada chairman Steve Kean said in a release.

Kean said a National Energy Board ruling in December was a positive development because it allowed Kinder Morgan to bypass some local permitting processes in places like Burnaby, just outside Vancouver, which had refused to grant construction permits. "It is essential for us to know that we can move forward even if local governments are opposed," Kean said. Kinder Morgan has applied to the board to establish a similar process for the company to get necessary permits from other opposed governments. Environmentalist groups in British Columbia have opposed the project, which they have said will contribute to climate change and create risks of tanker spills on the coast.

Alberta pledges to ship royalty oil to help Keystone XL pipeline

(Calgary Herald; Jan. 18) - Alberta's government is backing the Keystone XL pipeline with guaranteed oil. TransCanada said Jan. 18 it had won shipping commitments of 500,000 barrels a day from producers, allowing the project to proceed. The commitment includes 50,000 barrels a day for 20 years from the Alberta Petroleum Marketing Commission, a provincial corporation. Construction could begin in 2019, the company said, but a spokesman said TransCanada still hasn't made a "final investment decision."

The pipeline lacks key permits and remains bogged down in court in Nebraska. TransCanada still needs easements from landowners in the state and must secure water-crossing permits from the U.S. Army Corps of Engineers.

The provincial government said it is backing Keystone — which will connect Alberta's oil sands with U.S. Gulf Coast refineries — to help ensure the pipeline goes ahead and to help ease the differential between the lower prices of Canadian oil and higher U.S. crude. "We're pleased to be making this commitment to bring more Alberta oil to the world and expect it means Keystone XL will be built," Premier Rachel Notley said.

Alberta collects some of its energy royalties as production through its Bitumen Royalty-in-Kind program. In the face of a mammoth campaign by environmental groups against it, Keystone was rejected by the Obama administration in 2015 but revived by President Donald Trump. The Alberta government decision was lashed by environmental group Greenpeace, which called the commitment “reckless and disappointing.”

TransCanada moves ahead with new pipeline for B.C. shale gas

(Vancouver Sun; Jan. 18) - TransCanada is forging ahead with a revamped plan to build a \$1.4 billion North Montney Mainline gas pipeline despite the death of the liquefied natural gas project in coastal B.C. that was to have underpinned the line’s construction. The Montney project — now aimed at the North American market — enters National Energy Board hearings next week. The board has about three months for a decision.

Calgary-based TransCanada said the project is still justified by demand for gas in North America, noting it has signed up 11 North Montney producers in northeastern B.C. that want better access to markets. However, new approval of the North Montney Mainline faces resistance from pipeline competitors and some First Nations that have questioned the need for the project and have concerns over its effect on the environment — including the use of hydraulic fracturing to produce the gas that would go into the line.

The 185-mile line was initially meant to connect North Montney producers to a planned 560-mile pipeline that was to feed the Petronas-led Pacific NorthWest LNG plant, which was canceled in 2017 over market uncertainties. The NEB had approved the pipeline based on gas exports to Asia. The new application seeks approval independent of any exports. Analyst Edward Kallio said there is bottleneck preventing North Montney gas from moving to the North America market. This “world-class” gas play can compete with U.S. shale plays on cost, said Kallio, of Calgary-based Eau Claire Energy Advisory. “What it requires is economic pipeline infrastructure to connect to downstream markets.”