Oil and Gas News Briefs
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INPEX says gas production to start at Australia LNG project

(Reuters; March 9) - Japan's biggest oil and gas explorer INPEX said it has started trial operations at its Ichthys liquefied natural gas and condensate export facility in Australia and is set for gas production by end-March despite reports of further delays. An INPEX spokesman said the company has been conducting trial operations of offshore processing units and floating production, storage, and offloading facilities, as well as its onshore liquefaction and liquefied petroleum gas plants.

The spokesman said Ichthys is on course for the start of gas production by the end of this month, followed by condensate exports, most to be shipped from the offshore facility. Exports of LNG and liquefied petroleum gas would take some more time following condensate exports, as gas needs to be transported to onshore plants through a 556-mile pipeline, a spokesman said.

The comments from INPEX come a month after partner Total suggested delays and hinted at further cost overruns. INPEX expects minimal cost overruns of up to a few percent on the $37 billion project, a senior executive told Reuters last month. At full production, the project is expected to produce up to 8.9 million tonnes of LNG per year and 100,000 barrels a day of condensate. INPEX holds a 62.245 percent stake, with Total at 30 percent and the rest spread among Japanese and Taiwanese partners.

Floating LNG project delayed 2 years in Equatorial Guinea

(Bloomberg; March 7) - OPEC member Equatorial Guinea suffered a double blow this week to its ambition of revitalizing its energy industry. The International Energy Agency said March 5 that the West African nation's crude production is on a "downward slope," with capacity expected to drop 15 percent over the next six years to 110,000 barrels a day. That's little more than a third of its peak output of 300,000 barrels a day in 2004.

Equatorial Guinea hopes the acquisition by Dallas-based Kosmos Energy and U.K.-based Trident Energy of oil fields operated by U.S.-based Hess Corp. will stem a decline in production after years of under-investment. Meanwhile, the government's plans to stimulate spending by license holders took a blow March 7 when London-based Ophir Energy said first output from its Fortuna liquefied natural gas project would be delayed two years to 2022 as the venture has struggled to secure financing from China.

The project would position Equatorial Guinea as a "real LNG hub in West Africa," Ophir CEO Nick Cooper said. The country has been an LNG producer since 2007, at 3.4

million tonnes annual capacity. The $2 billion Fortuna floating liquefaction and storage project would add 2.2 million tonnes of annual capacity to the nation's output. The addition could become a "stepping stone into becoming a pivotal part of the LNG world, and therefore has a very high priority for the government," Cooper said.

Japanese trading houses expand reach in LNG business

(Nikkei Asian Review; March 8) - Japanese trading houses are making big bets on liquefied natural gas as a relatively clean form of energy as regulations on greenhouse gases tighten worldwide. Companies such as Marubeni, Mitsui, and Mitsubishi have all been expanding their LNG trading businesses in Asia and elsewhere. This could put them in a good position to take advantage of efforts by China to address its air-pollution problem by switching from coal to natural gas.

Marubeni, for instance, has partnered with an Australian pipeline builder and is conducting preliminary work on an LNG receiving terminal — a floating storage and regasification unit — in the state of New South Wales. The trading house may tap the Australian company to sell the gas. In Thailand, Marubeni is considering operating an LNG tanker together with state-owned oil and gas giant PTT. It plans is to start supplying gas to LNG-powered ships at the country's largest port as soon as 2019.

Marubeni and Russian gas supplier Novatek are also set to begin a feasibility study on building an LNG transshipment terminal in the waters off the Kamchatka Peninsula in the Russian Far East. The company may reach a decision to move ahead with the project this year. And in Indonesia, Marubeni is building an offshore LNG storage and regasification facility that it hopes to bring online in 2021. Mitsui in 2017 took a stake in a floating storage and regasification project in Pakistan, led by a Norwegian company.

U.S. LNG developers want to get moving on new projects

(Platts; March 7) – U.S. LNG export developers acknowledged March 7 that they need to get more creative in how they go after buyers to sign up for their plant's capacity amid strong competition for supply contracts and a continued slowdown in new liquefaction terminals. Executives gathered at the CERAWeek by IHS Markit conference in Houston said more investment decisions will have to be made soon or it will impact growth prospects for producers of the feed gas that would be delivered to liquefaction plants.

A lack of new LNG investment also could lead to global shortages around the early to middle part of the next decade, many said. But with the billions of dollars it costs to build new liquefaction and export terminals and buyers still hesitant to sign the big long-term contacts that were traditional just a few years ago, there is a growing sense of urgency in the marketplace about getting more projects going, especially in the United States.

Hendrik Gordenker, executive chairman of JERA Co., an LNG-purchasing joint venture of Tokyo Electric and Chubu Electric, said projects around the world, both on the export and import side, are taking too long to get off the ground. "That makes it very difficult to connect the supply of the fuel to demand in the market," Gordenker said. He also said that gas still faces competition as a fuel source in Asia from coal and, more recently, from renewables, and he noted the big expense of LNG projects.

Exxon says 8-week shutdown for Papua New Guinea LNG an estimate

(Australian Broadcasting Corp.; March 7) - Papua New Guinea faces a long recovery after the powerful earthquake that hit the nation's rugged highlands more than 10 days ago, with the death toll now believed to have climbed past 100, its leader said. Prime Minister Peter O'Neill flew over the worst-hit areas after a magnitude 6.7 aftershock struck the mountainous region already reeling from the 7.5 quake. "There will be no quick fix. The damage from this disaster will take months and years to be repaired."

The quake forced ExxonMobil to shut all its gas facilities in the country, which it expects will be down for about eight weeks while it carries out inspections and repairs. Exxon's LNG plant, which exports more than 8 million tonnes of liquefied natural gas a year, is the nation's biggest export earner. The company has said its facilities in the highlands, where it produces and processes gas, and the 435-mile pipeline that snakes through the jungle to the coast to feed the LNG plant, all stood up well to the earthquake.

"It has essentially come out unscathed," ExxonMobil senior vice president Neil Chapman told analysts in New York on March 7. He said the main challenge to restoring operations was moving people back into the quake-hit area and fixing their living quarters. The eight-week estimate for restarting PNG LNG was preliminary, he said. "It could be shorter than that."

Chinese companies look to sell off some of their excess LNG

(Reuters; March 9) - Falling industrial demand and mild weather have turned China’s energy giants into sellers of liquefied natural gas for the first time since last year’s import spree. China was on the paying end of last year’s doubling of LNG spot-market prices, largely driven by its rapid shift to gas to combat coal smog as well as elevated regional demand for the fuel. Despite the recent reversal from buyer to seller, industry executives said they are not concerned, saying Chinese demand will continue to grow.

However, some traders were caught off-guard by the speed of the demand downturn in the aftermath of China's Lunar New Year holidays last month. LNG producer profits soared with spot prices hitting three-year highs above $11 per million Btu as China's buying spree peaked in December and January. But a slump set in as milder weather settled over Japan and other major gas consumers in the region and expectations that Chinese buyers returning from the holiday break would take up the slack fell through.

Plunging demand turned oil companies like China National Offshore Oil Corp., Sinopec, and PetroChina into sellers and they are now offering cargoes for March and April delivery, sources said. Meanwhile, spot LNG prices have sunk to the $8 range. "The heating season is almost over and some buyers are getting more balanced, including small buyers. So, yes, Chinese companies have cargoes for offer," a source said.

Bangladesh expects much higher prices after LNG imports start

(Bangladesh News 24; March 2) - Bangladesh regulators are gearing up for another round of natural gas price hikes as the country is set to start importing liquefied natural gas. Officials at the state-run energy corporation Petrobangla anticipate that prices may have to double when imports start in late April or early May. "Prices for industrial and commercial gas supplies as well as power have to be revised after LNG imports start," State Minister for Power, Energy and Mineral Resources Nasrul Hamid said March 2.

He did not make clear, however, whether prices for household gas deliveries will go up, too. "The Bangladesh Energy Regulatory Commission will make the final call after holding public hearings," he said. Natural gas prices went up by an average 22.7 percent in February last year, with households hit with a 50 percent increase for gas for cooking. The start of LNG imports has triggered plans for a second round of price hikes to cover the higher cost of imported gas vs. domestically produced supplies.

The government hopes to start imports soon, as construction of the country's first import terminal is almost finished. The floating facility will be able to regasify up to 500 million cubic feet of gas a day. Petrobangla said the country faces a gas supply deficit of as much as 1 billion cubic feet per day, mostly at power plants and fertilizer manufacturers. Bangladesh in 2016 produced an average 2.7 bcf a day from domestic gas fields.

East Timor and Australia settle border dispute over gas fields

(Reuters; March 6) - East Timor and Australia this week signed a treaty at the United Nations setting their maritime boundary for the first time and striking a deal on sharing an estimated $65 billion in potential revenues from the Greater Sunrise gas fields in the Timor Sea. For impoverished East Timor, with a population of just 1.3 million, development of the fields is crucial. The Bayu Undan gas field, East Timor’s main source of revenue since 2004, is set to run out of gas by 2022.

The treaty marked the first conciliation under the U.N. Convention on the Law of the Sea — a process U.N. Secretary-General António Guterres said could offer other countries a path toward solving contentious maritime boundaries. Development of the gas reserves has been held back by the border dispute between Australia and East Timor, a former Portuguese colony that gained independence from Indonesia in 2002.

However, the Greater Sunrise joint-venture, led by Australia’s Woodside Petroleum, said it was disappointed the treaty did not contain a full development plan for the gas reserves. It is likely that East Timor insisted on the gas being processed and liquefied for export at a new onshore plant in East Timor, while the joint venture would prefer to pipe the gas to an existing liquefaction plant in Australia. The fields were discovered in 1974 and, according to Woodside, hold more than 5 trillion cubic feet of gas.

Oil majors continue moving their portfolios toward natural gas

(Platts; March 9) - Western oil majors continue to rebalance their upstream portfolio toward natural gas, albeit at a slower pace than in recent years as the U.S. shale boom and a shift to monetize short-cycle oil projects plays out, according to analysis by S&P Global Platts. The world's top seven integrated majors saw oil production average 55 percent of their upstream portfolios last year, down from 56 percent in 2016 but above a historical low in 2014, according to an analysis of annual company filings.

The figures showed two producers in particular, Chevron and Eni, made significant strides in reducing their exposure to oil last year. For years the most “oily” of the majors, Chevron brought on stream two major LNG projects in Australia last year, bringing its oil exposure in line with BP at 63 percent. Meanwhile, the start-up of Indonesia's Jangkrik LNG project and Egypt's giant Zhor field saw Italy’s Eni pump more gas than oil on a barrels-of-oil-equivalent basis for the first time in 2017.

Over the past decade, the figures show the structural shift toward gas projects driven by expectations of fast-rising demand and climate concerns over emissions from high-carbon fossil fuels. The International Energy Agency forecasts natural gas consumption will rise 45 percent by 2040 as oil demand growth slows and coal consumption nears a halt. The pivot to gas production by international oil companies is also the result of changing company strategies and declining oil output from historic resource basins.

China continues shift from coal to gas and renewables

(OilPrice.com; March 7) - China expects to set new records for coal and natural gas production this year but will be cutting the share of coal consumption in its total primary energy mix while raising the natural gas share, the Chinese National Energy Administration said March 7. In 2018, China's natural gas production is expected to rise by 8.5 percent over 2017 to a record high, while coal production is also expected to reach an all-time high, rising by 7.3 percent year on year, according to the NEA.

Nevertheless, China's push to reduce pollution will result in lower coal consumption out of the total mix, with plans to lower it to about 59 percent this year and to half of the energy mix by 2020 by increasing renewable energy production.

The National Bureau of Statistics of China said coal consumption last year ticked up 0.4 percent, oil consumption grew 5.2 percent, and gas rose 14.8 percent. According to the recently released BP Energy Outlook 2018, China's energy mix will continue to evolve with coal's dominance declining to 36 percent in 2040, gas nearly doubling to 13 percent, and renewables soaring from 3 percent in 2016 to 18 percent in 2040.

Nova Scotia worries about price after offshore gas supply dries up

(CBC News; Canada; March 8) - Homes and businesses that use natural gas in Nova Scotia can expect price hikes when the province's offshore supply dries up in the next two years, according to the region's pipeline company. Mike Whalen, of Maritimes and Northeast Pipeline, said there is plenty of cheap natural gas in Western Canada and the United States, as well as pipelines to get it to Nova Scotia. But that cheaper gas will not offset the increased pipeline charges to move it the longer distance into the region.

"The big question is whether the local markets can bear this cost increase," Whalen told an energy conference March 7. "We know our supply is running out domestically. We know the table is set to bring gas north to us from the United States. But will the markets be able to bear this increase?" The industry is grappling with what happens after the ExxonMobil-led offshore Sable Project winds down by 2020. Encana's Deep Panuke field is also being decommissioned.

Nova Scotia's natural gas utility, Heritage Gas, has secured two long-term transportation contracts to bring cheaper gas into the province and is pushing ahead with its project to store gas bought when prices are cheap in the summer for use in winter. But Heritage Gas president John Hawkins acknowledged uncertainty remains over the cost of pipeline tolls when Exxon exits the Maritimes pipeline. The Sable Project gas flow and shipping agreement is the economic underpinning of the pipeline.

Oregon county sheriff plans new division assigned to LNG project

(The World; Coos Bay, OR; March 5) - Oregon's Coos County sheriff's office plans to hire nine employees starting in July to begin staffing up its new unit assigned to the proposed Jordan Cove LNG project. At preliminary budget hearings last week, the sheriff's office purposed its LNG division budget at just over $3 million for the 2018-2019 fiscal year. The division would be completely funded by the Jordan Cove LNG developer — no county dollars would be used.

The LNG division deputies, although funded by Jordan Cove LNG, would be employed by the county sheriff's office. "They will be paying for full-time deputies and part of their jobs will be providing the security around the facility out there since obviously it would be a high-target area for terrorists or others," said Coos County Sheriff Craig Zanni. One of the everyday responsibilities of the new unit would be to provide security for LNG carriers traveling in and out of the marine terminal.

Even though the Canadian-based proponent of Jordan Cove LNG has not decided whether to build the project, and though it is still waiting on regulatory approval, financing, and customers, the sheriff plans to start staffing the new division. He said it could take three to five years to recruit and train all the new deputies. If the project does not go ahead, most of those hired to the LNG division will lose their jobs, he said.

Industries start looking for exemptions from tariffs on steel imports

(Bloomberg; March 8) - Across corporate America, the race is on to dodge the tariff. Just as President Donald Trump left the door open for countries to apply for exemptions to the 25 percent levy on steel and 10 percent on aluminum, his official proclamations March 8 also offer some workarounds for companies. Under the new rules, an importer can ask the Commerce Department for a waiver if there's a limited supply of the product in the U.S. or national security is at stake. How that'll be interpreted is anyone's guess.

Aluminum can makers, pipeline builders and car companies are building their cases for why the tariffs shouldn't apply to them. The Center for LNG, a liquefied natural gas industry group, plans to seek an exemption because some of the five kinds of steels LNG projects use are not available from U.S. sources. For example, steel used for tanks where LNG is stored after it's been chilled to minus 260 degrees Fahrenheit is hard to come by domestically, said Daphne Magnuson, a spokeswoman for the group.

Andy Black, president of the Association of Oil Pipe Lines, said that pipeline developers would be seeking exemptions for when they can't get sufficient materials sourced domestically. Pipeline builders argue that many U.S. steel mills haven't invested in producing the kind of specialized pipe that is needed to meet industry standards for integrity and strength, making it usable in oil and gas pipelines. Fewer still produce large pipe with very thick walls — the kind used in long-distance pipelines.

Another failed company adds to orphaned wells in Alberta

(The Canadian Press; March 8) - A massive number of oil and gas wells, facilities, and pipeline segments stand to be added to the already bulging files of the Alberta Orphan Well Association in the wake of the likely failure of Sequoia Resources. All of the Calgary-based company's operating licenses were ordered suspended after the privately held company warned the Alberta Energy Regulator last month it was ceasing operations "imminently" and would not be able to afford to reclaim all of its properties.

The regulator said Sequoia owns licenses for 2,300 wells, almost 200 facilities and nearly 700 pipeline segments. That list doesn't include 700 to 800 Sequoia wells where production has been stopped and the wellbore has been cleaned up but the surface has not been restored, said Lars De Pauw, executive director of the Orphan Well Association. That means the list may rise to almost 4,000 properties. He expects most of those will end up as orphaned wells, in need of clean-up.

Last spring, the province announced it would lend $235 million to the association to speed up remediation of about 700 orphan wells over the next three years. Through an annual industry levy, producers are to pay the principal back over 10 years, while $30 million provided to the province by the federal government will be used to pay interest. The association already listed nearly 2,900 orphan wells awaiting abandonment or reclamation as of Feb. 28, along with 2,350 pipeline segments set for abandonment.

Alberta says it is ready to escalate pipeline war with British Columbia

(The Financial Post; Canada; March 8) - Alberta signaled March 8 it is prepared to escalate its fight with British Columbia over the Trans Mountain pipeline by cutting off Alberta's oil deliveries to the coastal province if B.C. continues its obstruction of the $7.4 billion pipeline expansion. The drastic option is both a throwback to the past and a sign of things to come: Regardless who wins power in the next Alberta election in just over a year, expect the province to be more aggressive to protect its interests.

Alberta Premier Rachel Notley, who is in the final stretch of her four-year term, said the province intends to do whatever it takes to end British Columbia's pipeline blockade. "Some people have asked how far we are willing to go," Alberta Lt. Gov. Lois Mitchell said in the throne speech, which had the flavor of a campaign. "Every option is on the table. We will not hesitate to invoke similar legislation if it becomes necessary owing to extreme and illegal actions on the part of the B.C. government to stop the pipeline."

It's the latest play in the trade war between the neighboring provinces, triggered by opposition by the B.C. government to allow an increase in Alberta oil sands exports through British Columbia, regardless of federal authority and approval. Alberta's producers want to boost pipeline capacity to the coast to tap export markets. Cutting the delivery of oil from Alberta would wreak havoc in British Columbia. Motorists would face even higher gasoline prices and Vancouver Airport would have to line up new suppliers.