Chevron considers selling part of its 50% stake in B.C. LNG project

(Reuters; March 5) – Chevron is exploring options including the sale of a minority stake in its liquefied natural gas project proposed for Kitimat, B.C., three people familiar with the matter told Reuters. Among the parties in talks with Chevron for a possible stake in Kitimat LNG are Malaysia’s Petronas, which scrapped its own $36 billion LNG project in British Columbia last year due to challenging market conditions, two of the people said. The sources said there is no certainty that Chevron would proceed with the sale.

Chevron declined to comment, and Petronas did not respond to a request for comment. Chevron is also considering selling a stake in the project to a financial investor such as a Canadian pension fund or a private equity firm, the sources added. While a deal with a financial investor would be strictly a cash infusion to help support the cost of building the multibillion-dollar project, a deal with a producer such as Petronas could include a commitment to supply gas to the plant for a period of 20 to 25 years, the sources said.

Canadian pension funds have a huge appetite for infrastructure-style assets that offer stable cash flows over a long period. Kitimat LNG, proposed at 10 million tonnes per year, is a 50-50 venture with Chevron and Australia’s Woodside Petroleum. Taking such a large investment decision has been difficult in weak global LNG market conditions the past few years. Fierce opposition in Western Canada to pipelines and other energy projects has also escalated in recent years. However, surging gas demand from China and Southeast Asia is reassuring developers that the market cycle is beginning to turn.

Woodside drops plans for LNG project in British Columbia

(Reuters; March 7) - Australia’s Woodside Petroleum has dropped plans to build a liquefied natural gas export plant at Grassy Point on Canada’s British Columbia coast, choosing to focus on another proposed Canadian project, Kitimat LNG, run by Chevron in a 50-50 venture with Woodside. The Australian company’s rights to develop the Grassy Point LNG site, about 20 miles north of Prince Rupert, expired Jan. 15, and the company said March 7 it had decided not to renew the agreement.

“The decision was made after careful consideration of our long-term development strategy in Canada,” Woodside said. “We are focusing on the Kitimat LNG project in which we are a 50-percent partner with Chevron.” Woodside had done little work on the Grassy Point project to export up to 20 million tonnes of LNG a year. The decision to
scrap Grassy Point adds to a string of LNG projects that have been delayed or shelved in British Columbia due to a global LNG supply glut, weak economics, and local issues.

The Kitimat LNG project, about 100 miles southeast of the Grassy Point site, is not yet at the stage of a final investment decision, and Reuters reported last week that Chevron is considering selling part of its stake in the venture.

**Chinese companies want tax breaks to build more gas storage**

(Reuters; March 7) - Top officials from China's two largest oil and gas producers have urged the government to offer tax breaks for building natural gas storage facilities and importing liquefied natural gas to help avoid another supply crunch in the winter ahead. Sinopec Vice President Ma Yongsheng said the central government should subsidize the construction of underground gas storage, LNG storage tanks, and other facilities.

China National Petroleum Corp. President Wang Yilin urged the government to also refund its value-added tax on LNG imports to help lower gas costs for consumers. The proposals from Sinopec and CNPC come as the nation looks for ways to increase gas storage capacity to avoid a repeat of this past winter's heating crisis. Millions of households in northern China switched from coal to gas ahead of this past winter, leading to sky-rocketing gas consumption as well shortages across many regions.

The fuel shortages over the past three or four months deepened China's worries over whether it can secure enough gas and LNG supplies in winters ahead. Sinopec's Kong Fanqun said a lack of storage facilities contributed to China's gas shortages this winter, according to a transcript of a speech sent to Reuters by Sinopec Group. The country needs an additional 1.8 trillion cubic feet of storage facilities by 2020 to meet demand, Kong said. That is five times the capacity of China's current gas storage facilities.

**China emerging as massive creditor in developing countries**

(Wall Street Journal; March 4) - China is emerging as a massive creditor as it funds projects to upgrade roads, harbors and airports. China is financing as much as $8 trillion in deals as part of its "Belt and Road Initiative" in 68 countries winding through Asia, Africa, and Europe. New data from the Center for Global Development, an international think tank, estimate the program has left eight countries financially vulnerable: Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.

Montenegro is using Chinese funding to build a super highway. Tajikistan and Kyrgyzstan are getting rails, roads, hydropower plants, and a major gas pipeline. Mongolia will receive funding to build hydroelectric power plants and a major highway
from the airport to the capital. In the process, debt and dependence on China are rising.

These trends will place Chinese authorities at the center of financial decisions if debt in these countries becomes unsustainable, said report author Scott Morris. “The rules of the road are really that whoever holds the most debt is going to be calling the shots,” said Morris, who served as deputy assistant secretary for development finance at the U.S. Treasury from 2009 to 2012. Two more countries — Cambodia and Afghanistan — could soon owe more than half their external debt to China.

In Pakistan, China’s projects have sparked protests from locals in Baluchistan, including fishermen being displaced by Chinese developments around the port. “No one gives anybody free money,” said Kaiser Bengali, the former economic adviser to the Chief Minister of Baluchistan. “The Chinese companies are getting blanket tax concessions,” he said, and “instead of buying materials from here they buy in China.”

**Cheniere sends first LNG cargo to India under long-term contract**

(Houston Chronicle; March 5) - Cheniere Energy announced March 5 that it has started exporting liquefied natural gas to India. The Houston-based company in 2011 signed a 20-year contract with GAIL (India), a state-owned gas distributor, to take 3.5 million tonnes of LNG a year from Cheniere’s Sabine Pass, La., terminal. The first shipment under that contract left the terminal this week. The LNG plant started exports in 2016.

The first cargo to India follows Cheniere’s announcement last month that it will sell about 1.2 million tonnes of LNG a year to state-run China National Petroleum Corp. as part of two sales agreements that extend through 2043. The deals marked the first long-term contracts to export U.S. LNG to China. Cheniere intends to construct up to six trains at Sabine Pass with each train expected to have a capacity of about 4.5 million tonnes per annum. Most of the output from the fourth train is dedicated to GAIL (India).

Train 5 is under construction and is expected to begin exporting in the second half of 2019. Train 6 has its necessary regulatory approvals and Cheniere is still marketing its output capacity before making a final investment decision. Cheniere Energy is also developing a liquefaction and export terminal in Corpus Christi, Texas, where Trains 1 and 2 are under construction and Train 3 has been commercialized. The first train is expected to come online in 2019.
Global commodity traders turn focus to LNG market

(Financial Times; London; March 2) - The world’s biggest independent commodity traders have carved out reputations and built their billion-dollar balance sheets on a willingness to take calculated risks in oil and metals markets. Now trading houses, including Trafigura, Vitol, Glencore, and Gunvor, are focusing on a new arena they see as rich with potential profit: liquefied natural gas, a once-sleepy corner of the energy industry that is becoming the next major commodity for swashbuckling trading houses.

For decades the market was dominated by state-owned producers, international energy companies and long-term contracts that restricted freewheeling trading. However, new supply from the U.S. and Australia is starting to make the market truly global, handing power to buyers and creating the opportunity for traders to provide short-term deals.

“The old model of LNG trading has broken down,” says David Fyfe, chief economist at Gunvor. “The market is no longer only confined to long-term bilateral trades between producers and consumers.” The four commodities houses traded about 27 million tonnes of LNG in 2017, representing 10 percent of the market and a jump of two-thirds from 2016, according to estimates from consultancy Wood Mackenzie. The explosive growth in their activity comes as they extend credit lines to new buyers in developing countries and help build infrastructure such as import terminals and storage facilities.

While long-term deals still account for about two-thirds of the LNG that is traded, many of the traditional buyers signing new agreements are turning to shorter contracts.

Novatek boosts size of its proposed second Arctic LNG plant

(Interfax Global Energy; March 6) – Russia’s Novatek has increased the planned capacity of its proposed Arctic LNG-2 project by 1.5 million tonnes per year to 19.8 million tonnes, Deputy Chairman Denis Khramov said at a meeting of Russia’s Far East Development Ministry. The first stage of the plant is planned for a 2023 start-up, with the second stage in 2024. Novatek is working to put together financing, partners and customers for Arctic LNG-2, just east of its Yamal plant that went online in December.

Novatek plans to build a transshipment facility in Kamchatka in Russia’s Far East to reduce the cost of shipping cargoes from Yamal and Arctic LNG-2 to Asia. The terminal would allow costly ice-class LNG carriers to offload their gas to traditional carriers for deliveries to customers, reducing use of the more expensive ships in ice-free waters.
Shell doubles its purchase commitment to Louisiana LNG developer

(The Financial Times; London; March 6) - Shell has agreed to double its liquefied natural gas purchase agreement with Venture Global, taking the U.S. developer one step closer to a final investment decision on its LNG project in Louisiana. Shell’s move takes the total purchases for Venture Global’s Calcasieu Pass project to 3 million tonnes per year, out of the project’s total capacity of 10 million.

Venture Global had initially signed a 1 million tonne, 20-year agreement with Shell in 2016, followed by a 1 million tonne deal with Italy’s Edison last year. Mike Sabel and Bob Pender, co-heads of Venture Global, said the latest signing with Shell was a “breakout event” as they look to start construction at the end of this year.

Venture Global applied to the Federal Energy Regulatory Commission in September 2015 for authority to build and operate the LNG plant in Cameron Parish, La. FERC in November 2017 issued its schedule for preparing the project’s environmental impact statement, with the final EIS scheduled for July 2018. A FERC decision on the application would be due 90 days after the final EIS.

LNG carriers divert from picking up cargoes in Papua New Guinea

(Reuters; March 4) – An empty liquefied natural gas carrier bound for Papua New Guinea from Taiwan has diverted to Singapore, following a powerful earthquake a week ago that has halted LNG supply from the South Pacific country, data from Thomson Reuters Eikon showed. A second LNG tanker, which left Japan last month for Port Moresby, has also flagged it is now looking for a cargo, while a third remains in Papua New Guinea’s Kumul Marine Terminal zone after arriving on Feb. 24, the data showed.

The destination change reflects the disruption from the Feb. 26 quake. Papua New Guinea LNG operator ExxonMobil said March 5 it would take about eight weeks to restore production. The three LNG carriers now looking for cargoes had been destined to transport the fuel for buyers in Taiwan, Japan, and China. Taiwan’s CPC Corp., China’s Sinopec, and Japan’s Osaka Gas and JERA Co. have long-term contracts for supplies from PNG LNG.

Some in Papua New Guinea blame LNG project for earthquake

(Reuters; March 7) - A deadly earthquake that struck ExxonMobil’s $19 billion liquefied natural gas project in Papua New Guinea is sparking a backlash against the energy giant that could prove harder to fix than buried roads and broken pipes. Some locals blame Exxon and its partners for causing, or at least magnifying, the 7.5 magnitude quake Feb. 26 and a series of aftershocks that continue to pound the isolated region.
While firmly denied by Exxon and debunked by geologists, the accusations suggest that the project is sorely lacking goodwill from at least parts of the population. Concerns about the project — the country’s biggest revenue earner — are even being expressed at senior levels in the government. Papua New Guinea’s Vice Minister for Petroleum and Energy, Manasseh Makiba, told Reuters there should be an inquiry to respond to local concerns that Mother Nature had reacted after the ground was disturbed by drilling.

“It could be man-made but that cannot be confirmed until a proper scientific inquiry can be done,” said Makiba, who represents parts of the quake-hit area. PNG’s Minister for Finance James Marape has also demanded answers from the company. “In a world of science and knowledge, I now demand answer(s) from Exxon and my own government as to the cause of this unusual trend,” wrote Marape on Facebook. Led by Exxon, with a one-third stake, and its Australian partners Oil Search and Santos, PNG LNG could be shut down for months to inspect pipelines, liquefaction plant, and gas field for damage.

B.C. needs to get past politics to win LNG investments

(Globe and Mail columnist; Canada; March 4) - One reason why the government of British Columbia is so vocal in its unconstitutional opposition to federally approved oil pipelines is because its New Democratic Party partners in government are tied at the political hip to the Green Party. A razor-thin legislative majority for the two parties exists with the Greens at three seats and the NDP at 41, with the opposition Liberals at 42 and one for an independent.

The Greens oppose not only oil but also further natural gas development and exports of the same, a position opposite that of the NDP government. Thus, in political calculations, B.C. Premier John Horgan more fiercely opposes oil to satisfy the Greens — that, and much of Horgan's own fervent anti-oil base and caucus. That's politics, and it is driving investment away from British Columbia.

For example, B.C. Green Party Leader Andrew Weaver has slammed potential liquefied natural gas exports as a fantasy, as akin to believing in "unicorns." Of course, the reason B.C. was unable to develop an LNG export industry had much to do with a fervent minority of British Columbians such as Weaver who reflexively oppose oil and gas development. That position is in stark contrast to the reality of a B.C. government that needs to prove to the majority of voters that it does not share Weaver’s unreality.

The province may soon have a chance to profit off the growing gas market instead of missing out again. If the B.C. government can maneuver their way past Weaver's continued negativity, there is a chance for British Columbia to profit from gas exports.
**Vancouver Island LNG developer starts to map out pipeline route**

(Victoria News; BC; March 3) - A potential rough corridor has been mapped out for a proposed pipeline that would transport gas across Vancouver Island to Sarita Bay on the west side near Bamfield, B.C., about 85 miles northwest of Victoria. A new route is needed after the original development plan was shelved last year. The liquefied natural gas facility at Sarita Bay would be co-managed by the Huu-ay-aht First Nation and Vancouver-based Steelhead LNG, which wants to break into the global LNG business.

Plans call for the liquefaction and storage facility to be moored to shoreside jetties. The project's first phase would export 12 million tonnes of LNG per year, largely to countries such as China and India. Trevor Boudreau, director of communications and government affairs with Steelhead LNG, said plans for the pipeline corridor are still in the early stages of development. He said the pipeline would travel from the B.C. mainland, under the Strait of Georgia, and then overland before terminating at the LNG site.

“We’re going to be sourcing our gas from Canadian producers in northeastern B.C. and northwestern Alberta,” a company spokesman said. “It would be subject to provincial reviews through the B.C. Environmental Assessment Office and regulated by the B.C. Oil and Gas Commission.” Steelhead LNG said it expects to make a final investment decision on the project in the first half of 2020.

**Oil and gas investment in Canada down fourth year in a row**

(Bloomberg; Feb. 28) - Canadian business investment is being weighed down for a fourth straight year by weakness in Alberta’s energy industry. Spending plans for oil and gas capital projects nationwide this year are down 12 percent to $33.2 billion (US$26 billion) from 2017, according to a Statistics Canada survey published Feb. 28. The spending total has declined in each of the past four years from a peak of $76.1 billion. Alberta was the biggest contributor to the decline.

Finance Minister Bill Morneau said the discounted price paid for Canadian oil "has a significant impact on people’s investments," and he hopes that government measures to overhaul pipeline reviews will turn around a decline in energy-sector spending. “Our intent is to follow through to get to an assessment approach that will give people more project certainty, and we hope that will lead to more investment over time.” The shortage of pipeline capacity out of Alberta’s oil sands has cut deeply into the price that producers earn for their output.
Lack of pipeline capacity a problem for Canadian oil, IEA says

(The Financial Post; Canada; March 5) - Canada will continue to pump out more barrels from the oil sands over the next few years, but delays to pipeline approvals and uncertainty over the possibility of more export capacity is undermining the next wave of development, according to the International Energy Agency. In its annual five-year oil forecast published March 5, the Paris-based IEA warned that Canadian oil pipeline constraints are part of a wider capacity crisis brewing across North America.

“Colossal growth in North American supply from 2018 to 2023 raises the crucial question of whether there is enough pipeline capacity to transport and sell all of that oil," the agency said. “If sufficient capacity is not built, the increase in production we foresee could be at risk, with serious implications for global markets.” Despite the pipeline shortages, Canada will be among the countries leading growth in oil output, taking its production to 5.6 million barrels per day by 2023, compared to 4.8 million this year.

The surge would come at a time of limited export options. “During 2018-19, West Texas and West Canada are likely to face shortages in midstream capacity,” the IEA said. “The situation will be much more severe in Canada than West Texas as legal delays mean (pipeline) capacity is unlikely to increase before the end of 2019.” Choked pipelines means Canadian heavy oil is currently trading at a $31-per-barrel discount against the West Texas Intermediate U.S. crude oil benchmark, compared to $12 at the same time last year, according to Petroleum Services Association of Canada data.

U.S. tariffs could hurt oil and gas exports — or not, columnist says

(Reuters’ columnist; March 4) - At times when fear and loathing are amped up, it often pays to take a more dispassionate look at what is likely to happen as opposed to what is feared will happen. The planned U.S. tariffs on steel and aluminum certainly had the effect of raising political and economic temperatures across the world amid fears that President Donald Trump is taking the first step in a global trade war.

And while steel tariffs won’t directly increase the cost of crude oil, liquefied natural gas and coal in the United States, these industries use steel as an input. Pipelines, import and export terminals, railroads, and mines are all significant steel consumers, and higher costs for U.S. producers of oil, LNG and coal will serve to erode their margins against competitors elsewhere in the world. U.S. exporters that are enjoying good times in crude, LNG, and coal are likely to be more cautious in planning capital expenditure.

And buyers of U.S. exports may subtly change their buying patterns in favor of other suppliers, given the increasing view in the rest of the world that Trump’s America isn’t a friendly place to do business with. For example, a South Korean buyer of LNG or coal may choose to buy from Australia instead of the United States, if the price differential is
small, as a subtle way of getting back at Trump for hurting South Korea’s steel industry. But nothing is certain and behavioral economics are not an exact science.

**U.S. steel tariffs spark fears in Canada’s oil and gas industry**

(Bloomberg; March 2) - The threat of U.S. tariffs on Canadian steel sent shivers through the northern nation’s oil industry, sparking fears of higher costs for everything from pipelines to drilling equipment. President Donald Trump’s 25 percent levies on foreign steel and 10 percent duties on imported aluminum are a “troubling development” that will require close attention, said Nick Schultz, vice president of pipeline regulation and general counsel for the Canadian Association of Petroleum Producers.

“Steel is important in every part of the oil and gas industry from drilling, production, processing, storage, and transportation utilizing pipelines,” Schultz said. “If Canada is not exempt, these proposed tariffs on steel imports will add a significant burden to the industry on both sides of the border and there could be unintended consequences if there are retaliatory measures taken.”

Canada is the top provider of U.S. steel and aluminum imports, while the U.S. is a major provider of equipment to Canada’s energy industry. Specifics of Trump’s plans are still unclear, but Canadian Foreign Minister Chrystia Freeland has vowed that the country would take “responsive measures” if it’s not exempted from Trump’s tariffs.

**U.S. oil and gas industry says tariffs would boost costs 3% to 10%**

(Reuters; March 6) - Energy executives say the Trump administration’s proposed steel and aluminum tariffs could bump up the cost of big-ticket projects needed for rapidly rising U.S. shale oil and gas output by three to 10 percent. Higher construction costs could slow growth in production and exports of oil and gas from shale formations that has made the U.S. the world’s largest gas producer and second-largest oil producer.

The president’s proposal is emerging as a potential spoiler for new U.S. pipelines, drilling rigs, offshore platforms and refineries to handle oil and gas production. Companies including ExxonMobil, pipeline operate Kinder Morgan and others have outlined tens of billions of dollars of new steel-intensive petrochemical and pipeline expansions. Steel accounts for as much as 30 percent of new drilling project costs.

If the tariffs were in place when Freeport LNG started to build its liquefaction and export terminal at Quintana Island, Texas, they would have raised the project’s construction cost by about $200 million, or between 3.5 percent and 5 percent, CEO Michael Smith said. The first of the plant’s three LNG trains is expected to come online late this year.
Washington, Oregon governors oppose offshore federal leasing

(The Associated Press; March 5) - The Trump administration’s proposal to expand offshore drilling off the Pacific Northwest coast is drawing vocal opposition in a region where multimillion-dollar fossil fuel projects have been blocked in recent years. The governors of Washington and Oregon, many in the states’ congressional delegation, and other top state officials have criticized Interior Secretary Ryan Zinke’s plan to open 90 percent of the nation’s offshore reserves to development by private companies.

Opponents say drilling would jeopardize the environment and the health, safety and economic well-being of coastal communities. Opponents spoke out March 5 at a hearing that a coalition of groups organized in Olympia, Wash., on the same day as an open house run by the federal Bureau of Ocean Energy Management. In announcing the plan to open federal waters to oil and gas drilling, Zinke said it would boost jobs.

Washington Gov. Jay Inslee met with Zinke over the weekend while in D.C. for the National Governors Association conference and again urged him to remove Washington from the plan, Inslee spokeswoman Tara Lee said March 5. There hasn’t been offshore oil drilling in Washington or Oregon since the 1960s.

U.S. projected to pass Russia as world’s top oil producer by 2023

(Wall Street Journal; March 5) - The U.S. is likely to overtake Russia to become the world’s largest oil producer by 2023, an industry monitor said March 5. U.S. output is expected to reach a record 12.1 million barrels a day in 2023, up from 10.6 million this year, said the International Energy Agency, which advises governments and corporations. Russia is the world’s largest producer at 11 million barrels a day.

The IEA’s five-year forecast showed the U.S. hitting new strides in its oil-and-gas boom, helped by technological advances, improved efficiency and a fragile recovery in oil prices that is encouraging companies to ramp up drilling. Once heavily dependent on imports from the Middle East, the U.S. is getting closer to achieving its goal of producing enough crude to meet domestic demand for refined products such as gasoline.

American influence on global oil markets is also expected to rise, with U.S. oil exports more than doubling to 4.9 million barrels a day by 2023, according to the IEA. Until 2015, the U.S. didn’t export any crude oil by law, but in five years it is expected to be among the world’s biggest exporters.
Saudi Arabia plans to start producing shale gas this month

(Bloomberg; March 7) - Saudi Aramco, the world’s largest oil exporter, is set to join the shale revolution with plans to start producing unconventional gas this month and exploit a deposit that could rival the Eagle Ford shale formation in Texas. Saudi Arabia’s gas resources from shale and other alternative supplies are “huge,” Khalid Al Abdulqader, general manager of unconventional resources at Aramco, said March 7. Production at the North Arabia basin will start by the end of March, he said, without giving details.

Aramco is also drilling for unconventional gas in the South Ghawar and Jafurah basins. Jafurah, in eastern Saudi Arabia, is similar in size to Eagle Ford, the second-biggest U.S. shale play, Al Abdulqader said, without giving an estimate of Jafurah’s gas reserves. “It’s completely believable,” Robin Mills, CEO of Dubai-based consultant Qamar Energy, said of the comparison. “Can they make a commercial proposition of it? That’s the question.”

State-run Aramco plans to spend $300 billion over the next 10 years to maintain its spare production capacity for oil and boost exploration and output of conventional and unconventional gas, CEO Amin Nasser said in July. Any increase in gas supplies would free up crude that Saudi Arabia burns in its power plants, enabling the country to export the oil for a bigger profit. Aramco plans to double its gas production to 23 billion cubic feet a day over the coming decade, Nasser said. Jafurah is located between Ghawar, the world’s largest oil field, and the Persian Gulf.