Oil and Gas News Briefs
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Canadian government will buy controversial oil sands pipeline

(The Canadian Press; May 29) - The Canadian government plans to spend $4.5 billion to buy the Trans Mountain oil pipeline and all of Kinder Morgan Canada's core assets. In return, Kinder Morgan will proceed this summer with work to triple the line's capacity while the sale is finalized, which likely will not happen until August, Finance Minister Bill Morneau said May 29. Once the sale is complete, Canada will continue construction, finishing the job to move more oil sands output from Alberta to a coastal export terminal.

The federal government would eventually sell everything down the road, once market conditions would allow it to get the best price. Morneau presented the options during an early-morning cabinet meeting to discuss saving the controversial C$7.4 billion, 712-mile, 890,000-barrel-a-day pipeline project. Export Development Canada will finance the purchase, which includes the pipeline, pumping stations, and rights of way along the route from Edmonton to the marine terminal in Burnaby, B.C., near Vancouver.

Morneau said the government does not plan to be a long-term owner and is negotiating with interested investors, including indigenous communities, pension funds and the Alberta government — which has agreed to provide funding for any unexpected costs during construction. The plan includes a new federal corporation to manage the project.

The deal brings some certainty to a project that has been on the rocks ever since British Columbia went to court in hopes of blocking it, fearing the impact of an oil spill. The federal government approved the project in 2016. The litigation, paired with strong opposition from environmental groups and some Indigenous communities in B.C., prompted Kinder Morgan to stop work this spring and insist on regulatory certainty.

France's Total will buy a share of Russia's second Arctic LNG project

(Reuters; May 24) - French energy major Total will buy a 10 percent stake in Russia's second Arctic liquefied natural gas project under a deal signed during French Premier Emmanuel Macron's visit to St. Petersburg for an economic forum. The deal shows the Kremlin's ability to find foreign partners despite Western sanctions. Total will buy into the proposed Novatek-led Arctic LNG-2 project, Leonid Mikhelson, the head of Novatek, said May 24. The agreement solidifies Total's footprint in Russia, the world's second-largest gas producer after the United States.

Though companies are hit by the sanctions, Russian LNG production is not sanctioned. However, Russian companies' ability to raise financing is constrained by the punitive measures imposed for Moscow's role in the Ukraine conflict and alleged meddling in U.S. elections in 2016. Novatek is also in talks with Saudi Arabia about possible participation in Arctic LNG-2 on the Gydan Peninsula. The plant would produce up to 20 million tonnes of LNG per year, with start-up at the three trains projected for 2022-2025.

Novatek, Total and their Chinese partners started output at Yamal LNG in December. Work continues on that $27 billion Arctic venture, bringing into production two more liquefaction trains to reach capacity of 16.5 million tonnes per year. Mikhelson valued Arctic LNG-2 at $25.5 billion. He said the deal with Total, which owns almost 20 percent of Novatek and 20 percent of Yamal LNG, could be completed in the first quarter of 2019. The final investment decision on Arctic LNG-2 is expected in the second half of 2019. Total has an option to boost its stake in Arctic LNG-2 by an additional 5 percent.

Novatek says it is ahead of schedule on Yamal LNG completion

(Arctic Today; May 23) – Russian natural gas producer Novatek said it is ahead of schedule for starting up liquefaction trains two, three, and four at its Yamal LNG project, which started exports from its first production train last December. The company also said it is moving ahead on its second liquefaction plant, Arctic LNG-2, and an LNG transshipment hub in the Far East at Kamchatka, both without government support.

This week Novatek said the second liquefaction train at Yamal will come online in September, three months ahead of schedule. The third train will start up by early 2019, nine months ahead of schedule. Each of the first three trains will have the capacity to produce up to 5.5 million tonnes of LNG per year. A smaller fourth train, which will test new technology for LNG production in cold climates called "Arctic cascade," will open by the end of 2019 at 1 million tonnes annual capacity.

In contrast to Yamal LNG, Novatek will not ask for ask for subsidies from the Russian government, Mark Gyetvay, deputy chairman of the board of directors, said this week. The company confirmed that indirect support for Arctic LNG-2, in the form of icebreaker support, will remain important. For Yamal, the company received tax breaks for 12 years and direct subsidies in the amount of 150 billion rubles ($2.5 billion). In addition, the government helped pay for construction of the Port of Sabetta to serve Yamal LNG.

Woodside boosts planned expansion capacity for Pluto LNG

(Reuters; May 23) - Australia's biggest liquefied natural gas producer, Woodside Petroleum, on May 23 outlined plans to accelerate and expand its Scarborough gas project off northwestern Australia, now expected to cost A$10 billion. Fresh from buying out ExxonMobil earlier this year to gain control over the Scarborough field, Woodside is looking to start producing gas in 2023, two years earlier than previously flagged, with production from an expansion of its Pluto LNG plant starting in 2024.

First gas would be piped to the North West Shelf LNG plant, operated by Woodside, via a link from the Pluto facility, allowing Woodside to earn revenue on up to 3 million tonnes of LNG a year ahead of completing a second liquefaction unit at Pluto, which would handle Scarborough gas long term. Woodside also said it has boosted the size of the second train at Pluto to as much as 5 million tonnes per year, doubling the plant's capacity. The original expansion plan was to add 2 million to 3.3 million tonnes.

The expanded Pluto LNG plant also could take gas from other stranded fields in the area, which have substantial reserves but no way of getting the gas to market. Woodside operates Australia's biggest liquefaction plant, North West Shelf LNG, which started up in 1984 and now has five production trains, as well as Pluto LNG, which opened in 2012 with one train, Woodside sees other companies relying on it to help them develop remote, deepwater fields discovered over the past 40 years to fill what an expected global LNG supply gap opening up around 2023 as Asian demand soars.

Kansai Electric cuts back on LNG as nuclear power returns

(Reuters; May 25) - Japan's Kansai Electric will cut its spot purchases of liquefied natural gas and is cautious about signing new long-term LNG supply contracts as it slowly lifts the share of nuclear power in its generation mix, a senior official said. The Osaka-based utility was the most reliant on nuclear energy in Japan, using reactors for about half of the power it produced before the Fukushima nuclear disaster in 2011.

Of the eight reactors in Japan that have resumed generating power after passing tougher safety standards imposed following the disaster — a fifth of all available units — four are from Kansai Electric. The company, which has seven reactors in all, ramped up its nuclear plant utilization rate to a six-year high of 18 percent in 2017-18 after three years of almost no usage. The nuclear restarts helped reduce Kansai Electric's LNG consumption by 16.3 percent to 7.56 million tonnes.

The utility will adjust LNG volumes by first cutting spot and short-term LNG purchases, which now account for about 20 percent of its total, Shingo Shimada, general manager of Kansai's fuel planning group, told Reuters. "We see LNG requirements to be declining slightly. … That is because it's difficult to project demand due to the power liberalization and the restart of nuclear plants. We have to be cautious on that."

Lack of long-term contracts challenges LNG developers

(The Fuse commentary; May 23) - Strong demand for liquefied natural gas, particularly in Asia, has fueled renewed interest in new LNG export projects. Rising demand from China in particular is helping to reduce the supply surplus. LNG prices are rising again, marking an end to a several-year market downturn. A glut had been expected to grow through the end of the decade and into the 2020s, but now it may not materialize at all.

Fears of a global oversupply led to a dramatic slowdown in new export projects over the past few years. Now, however, there is a growing number of analysts predicting the opposite problem. By 2025 global LNG demand could outstrip supply by as much as 50 million tonnes annual capacity, according to Wood Mackenzie, equivalent to about 20 percent of the entire volume of LNG traded in 2016. That is a sharp turnaround from the surplus predicted by many analysts up until recently for the early- to mid-2020s.

The disappearance of the supply glut and the increase in LNG prices have opened possibilities for new projects to move forward, but the challenge is that developers typically greenlight export facilities only after signing long-term contracts with fixed pricing arrangements with buyers — and those contracts are harder to get. A nuanced shift in the market is likely, as new capacity comes online with more flexible conditions compared to years past and as LNG exporters have to assume more risk.

India moves more toward short-term LNG deals

(Reuters; May 24) - Gas utility GAIL (India) has switched its focus to short-term and spot deals for liquefied natural gas imports to meet rising demand and hedge against price volatility, its chairman said. The move away from longer-term deals comes as India builds infrastructure, including import terminals and distribution pipelines, to raise the share of gas in its energy mix to 15 percent by 2030 from the current level of about 6.5 percent.

New long-term contracts are not a priority, as the global LNG market is moving from long-term deals to short-term and spot deals, said Chairman B. C. Tripathi. GAIL owns a diversified portfolio of the fuel, with about 60 percent linked to oil prices and the remainder linked to U.S. natural gas prices. Cargoes under GAIL’s long-term deals with U.S. LNG projects began this year. The company’s two U.S. deals total 5.8 million tonnes a year.

In 2018-19 the state-run firm will take 100 LNG cargoes, mostly through long-term deals, compared with 52 cargoes a year ago, Tripathi said. GAIL will bring 68 cargoes of the cargoes to India and trade the remainder on the global market.

Turkmenistan works to finish financing on gas pipeline to India

(Reuters; May 23) - Turkmenistan plans to secure within a few months all the necessary funding to complete construction of an $8 billion, 1,127-mile natural gas pipeline to South Asia, including the growing market in India, the project's chief executive said May 23. The Central Asian nation is building the TAPI pipeline — named for Turkmenistan, Afghanistan, Pakistan, and India — to diversify its gas exports, which have mostly gone to China.

"We expect the financing to be completed in the third quarter," Muhammetmyrat Amanov, chief executive of TAPI Pipeline Co., told an industry conference in the Turkmen resort of Avaza. He said his company was in talks with several export credit agencies such as Italy's SACE and France's Hermes, as well as Greek export credit insurer ECIO.

Proponents have talked about the pipeline for 30 years. TAPI Pipeline Co. said it hopes to open the line next year, although security risks, including an attack this week by unknown gunmen on TAPI mine-clearing workers in which six were killed, has raised doubts among analysts whether it will be finished on time. Many analysts expect it will be 2020 or later before gas starts flowing. Turkmenistan has the world's fourth-largest gas reserves, listed at 617 trillion cubic feet in BP's 2017 global energy statistics book.

Gazprom makes concessions to settle EU antitrust case

(Wall Street Journal; May 24) - The European Union settled its multiyear antitrust case against Gazprom on May 24, clinching promises of cheaper and freer gas flows from Russia as President Donald Trump pressures the bloc to tap U.S. energy exports and cut its dependence on Moscow. Gazprom pledged to set gas prices in line with open Western European markets, allow buyers to more frequently ask for price revisions and remove limits on reselling gas across borders, according to the European Commission.

In exchange, the Russian state-owned energy giant was able to avoid billions of dollars in penalties. The EU's agreement with Gazprom drew fire from some member countries and risked stoking trans-Atlantic tensions by widening bilateral clashes on issues ranging from trade to foreign policy. "This case is not about the flag of the company — it is about achieving the outcome that best serves European consumers and businesses," said EU antitrust chief Margrethe Vestager.

Gazprom will "significantly change" the way it operates, she added, preventing it from squeezing former Soviet Union states Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia with higher prices. The company would face a fine as high as 10 percent of its annual revenue if it reneges on its promises. "Today's decision puts an end to this behavior by Gazprom," Vestager said. "I know that some would have liked to see us fine Gazprom instead no matter the solution on the table."

B.C. government works to open path for gas pipeline

(Vancouver Sun columnist; May 24) – British Columbia's Indigenous Relations and Reconciliation Minister Scott Fraser was in Smithers, B.C., on May 24, meeting First Nations leaders in hopes of clearing one of the remaining obstacles to a multibillion-dollar liquefied natural gas project. The obstacle is the Unist'ot'en, a protest encampment directly in the path of the proposed 416-mile Coastal GasLink pipeline that would feed the Shell-led LNG Canada plant proposed for Kitimat.

A final investment decision by the LNG Canada partners is expected later this year. Despite buy-ins by virtually all of the First Nations in the region, the Unist'ot'en remain dug in against the pipeline. They have also opposed other pipeline projects since the encampment was established almost 10 years ago. Looking for a resolution, the minister and his officials have reached out to the Wet'suwet'en First Nation, within whose traditional territories the Unist'ot'en camp is located.

For all of the minister's good intentions, he appears to face an uphill fight, judging from material prepared for the provincial cabinet earlier this year. The Unist'ot'en is a faction of one of the 13 houses that comprise the Wet'suwet'en. Though a minority, they have support within the community. The protest camp has been up for almost a decade, going back to the fight against the Northern Gateway oil line. Judging from the material given to the cabinet, it will probably take a court injunction to get access to the site.

Regulator approves new pipeline to move British Columbia gas

(The Canadian Press; May 23) – Canada's National Energy Board on May 23 approved construction of a gas pipeline originally intended to supply the Pacific NorthWest LNG export terminal near Prince Rupert, B.C., even though that project was canceled last July. The NEB said it will grant an amendment to Nova Gas Transmission, a subsidiary of Calgary-based TransCanada, to remove the requirement for a positive investment decision on the liquefied natural gas export terminal to precede pipeline construction.

The approval allows TransCanada to construct the majority of its North Montney Mainline project at a cost of about $1.4 billion to bring gas from northern B.C. through almost 200 miles of pipeline to connect with the existing pipe system in Alberta. The line would move gas east into Alberta, rather than the original plan to go west to a coastal LNG terminal. The company has proposed beginning construction this year and bringing the pipeline into service over a two-year period.

In NEB hearings several producers and pipeline companies argued the new pipeline should not be approved because it will add more gas to an oversupplied western Canada marketplace. Nova responded that the need for the line is demonstrated by its 20-year contracts with 11 North Montney gas producers to move almost 1.5 billion cubic feet per day. Producers with assets in B.C. said they need the line to reach markets, especially in the absence of any LNG export projects. But producers with assets in Alberta opposed the project, arguing it would add to a market glut, depressing prices.

Canadian competition looks to turn CO_2 into valuable products

(Calgary Herald; May 25) - Proponents are hoping a southeast Calgary power plant and a handful of innovators will transform carbon dioxide into valuable products. Montreal engineer Mehrdad Mahoutian, one of 10 finalists in a race to commercialize the suspected driver of global warming, is confident of building a viable business model by using the colorless gas to make concrete that's up to 30 percent stronger than normal.

"Instead of using cement we're using slag, which is a byproduct of steel plants and introducing it to CO2," said Mahoutian, of the company Carbicrete. "We're able to make it cheaper, stronger, and for sure cleaner." As the gas-fueled, 860-megawatt Shepard Energy Centre, the largest in Alberta, hummed nearby, Mahoutian and others vying for the $20 million NRG COSIA Carbon XPRIZE competition posed with a ceremonial valve. Canadian power and energy companies are sponsoring the competition.

But the real work will begin when five of the 10 finalists split 25 tonnes of CO2 between them to craft products that also include building material chemicals, alcohol and plastics that will have proven market value. The two-year test project is unique, said Ross Chow, manager director of project partner Alberta InnoTech. "It's a vital step in the process of converting waste to product … this is the final stage before the commercialization of the technology," Chow said.

B.C. Supreme Court rules in favor of oil pipeline project

(Calgary Herald; May 24) - The Supreme Court of British Columbia threw out two challenges against the B.C. government's environmental approvals of the C$7.4 billion Trans Mountain oil pipeline project, adding to Kinder Morgan's near-perfect record of winning legal cases even as the project faces stiff opposition on the ground. The court dismissed separate applications by the city of Vancouver and Squamish Nation to overturn the provincially approved environmental certificates for the project.

In a decisive victory for the company, Justice Christopher Grauer ruled that Vancouver would need to pay Kinder Morgan unspecified legal costs. Grauer ruled that provincial authorities acted within their legal rights in issuing the permits. The former B.C. government supported the pipeline, while the new coalition that took office last year is fighting the project. Prior to these two cases, Kinder Morgan had won 14 court challenges in a row for its Trans Mountain pipeline project.

The company continues to face other legal challenges to its project that would triple its oil-moving capacity from Alberta to the B.C. coast. The company cited obstructionist legal challenges from various levels of government in British Columbia when it announced last month it would suspend all non-essential spending on the project until the federal government steps in to provide assurances that it can build the pipeline.