Oil and Gas News Briefs
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Proposed LNG export terminal in Mexico could avoid Chinese tariffs

(The San Diego Union-Tribune; Nov. 7) - Sempra Energy's plans to construct a liquefied natural gas export facility near Ensenada, Mexico, to serve customers in Asia has a couple of advantages over proposed U.S. projects. It would be a lot closer to Asian markets than U.S. Gulf Coast projects that have to send their cargoes through the Panama Canal. And exports from Mexico could avoid China's tariffs on U.S. LNG.

China is expected to surpass Japan next year as the world's largest LNG buyer, attracting interest of gas suppliers around the world. However, China and the United States are in a trade fight, with each country imposing tariffs on many of the goods that cross the ocean between the two economies. China in September responded to U.S. tariffs by slapping a 10 percent fee on U.S. LNG imported into China, presenting a new hurdle for sales to that growing market.

As Sempra's proposed Costa Azul LNG terminal is located in Mexico — not the United States — the tariff may be avoided, although much of the gas liquefied at the terminal 55 miles south of San Diego would come from the United States. A Sempra spokeswoman did not directly address the tariff issue: "Trade issues are evolving." The company's decision on expanding the 10-year-old Costa Azul LNG import terminal to provide liquefaction and exports is expected in late 2019 with first deliveries in 2023.

China passes Japan in total natural gas imports

(S&P Global Platts; Nov. 9) - China has passed Japan to become the world's largest importer of natural gas in recent months and is expected to maintain that position as it continues to build out both its LNG and pipeline capacity to meet rising demand. In recent months, the growth of China's gas imports has been driven mainly by the pace of liquefied natural gas imports, which has grown faster than pipeline gas imports, while domestic gas production has struggled to keep up with demand.

In Japan's case, which only has access to seaborne LNG and doesn't have any pipeline flows, imports are slowing from the previous year due to nuclear power station restarts. China's total gas imports first exceeded Japan's in April 2018, when it posted 6.818 million tonnes of imported gas volumes compared with Japan's 6.079 million of LNG imports, according to official data from the two countries.

Cumulatively, China imported 72.06 million tonnes of gas over the January-October period, up 33.1 percent year on year, even higher than the full-year imports of 68.57 million in 2017, customs data showed. China's total gas imports are expected to keep rising as new LNG terminals will go online and with start-up of the Power of Siberia pipeline from Russia scheduled for December 2019. China takes more gas as LNG than by pipeline but that could change once the Russian pipeline starts up. It will be capable of supplying about one-quarter of China's current gas imports.

Sinopec unit wants to diversify away from oil-linked LNG deals

(S&P Global Platts; Nov. 9) - China's Unipec is looking to secure more spot and short-term LNG supply deals over 2019-22 to diversify away from more costly oil-linked long-term contracts and enhance its risk management capabilities in an increasingly deregulated and liquid global gas market. Unipec, the international trading arm of state-owned Sinopec, currently secures 20 to 30 percent of its LNG requirements from the spot market, Zhang Chunbao, general manager with the natural gas division of Unipec, said at the China International Oil and Gas Trade Congress in Shanghai on Nov. 8.

"We cannot depend 100 percent on the spot market to secure our supplies, as our calculation shows that an additional 3 million to 4 million tonnes of spot demand is able to lift spot prices by $1 per million Btu," he said. "Buyers prefer to price long-term supplies against spot LNG benchmarks … which leads to less price risk for reselling the cargoes," he said. "It used to be the buyers taking the risk for LNG project development, but this is increasingly being shared among suppliers, buyers and investment banks."

Over January-September, Sinopec suffered losses of Yuan 4 billion (about $570 million) in LNG imports, partly due to rising oil prices, Song Zhenguo, deputy director general of the corporate finance department, said of the state-owned company's third-quarter results. "Oil prices have increased, so our LNG term contract prices are higher," Zhenguo said at the time. Unipec currently trades around 2 million to 3 million tonnes per year of LNG in overseas markets, and targets to grow the volume to 10 million tonnes in the coming years in line with its expanding oil trading activities, Zhang said.

U.S. LNG investment did not work out as Toshiba had planned

(Bloomberg; Nov. 9) - Buy high, sell low and take a loss. It's not exactly what Toshiba planned when it dipped its toes into U.S. liquefied natural gas trading. Yet that's how it turned out as the Japanese giant capped off its five-year misadventure in LNG on Nov. 8 by paying ENN Ecological Holdings $806 million to take over Toshiba's obligation in the Freeport LNG plant in Texas. In relieving Toshiba of the commitment, the Chinese gas distributor will own the right at Freeport to liquefy and sell 2.2 million tonnes a year.

“Toshiba benefits by not having to deal with a business they never really felt comfortable with,” said Nicholas Browne, an analyst with Wood Mackenzie in Singapore. When Toshiba struck the agreement with Freeport in 2013, the outlook for profit seemed bright. LNG sold in Asia, mostly linked to $100-a-barrel oil, was priced at a significant premium to U.S. gas made cheap by abundant supplies from shale fields.

Toshiba agreed to pay for space in pipelines and the LNG plant regardless whether it used them. Toshiba never disclosed its costs, but Wood Mackenzie estimated its fixed costs at $360 million a year — a $7.2 billion liability for the 20-year contract. That was fine when the profit margin was wide. But oil prices crashed in 2014, bringing down the cost of most global LNG supplies to Asia. For much of the past four years U.S. LNG, after adding in liquefaction and shipping, would have had to be sold at a loss in Asia.

As well, falling costs for renewable power has slowed global demand for gas-powered turbines, hurting any plans Toshiba had of offering gas coupled with power generation equipment, said Zhi Xin Chong, an analyst with IHS Markit in Singapore. As a second wave of proposed U.S. exporters began offering lower costs for liquefaction, Toshiba would have been forced to grant extra incentives to make its deal look more favorable.

China’s LNG demand will depend on winter weather

(S&P Global Platts; Nov. 7) – China’s upcoming winter will define how the global LNG market evolves in the coming months, industry players said Nov. 7. China’s winter demand will likely be the single biggest swing factor in the global market. A cold winter would see Chinese LNG purchases grow further at the expense of other importing regions such as Europe, while a mild winter would see more cargoes available globally.

"The amount of Chinese LNG demand volatility is an unknown — it is completely unprecedented," Piero Ercoli, senior vice president at Italy's Eni, said at the European Autumn Gas Conference in Berlin. "It all comes back to the weather," Ercoli said, given that much of China's growing gas demand is in the heating sector. The development of Chinese demand — either to the up- or downside — would therefore have a "knock-on effect" on Europe's ability to attract LNG supplies this winter, he said.

Chinese LNG demand surprised many over the past few years with imports up by about 50 percent to 38 million tonnes in 2017 and purchases set to hit 50 million tonnes in 2018, according to Ercoli. Last year, global LNG imports totaled 290 million tonnes, according to industry group GIIGNL. But it is not the volumes that are important, rather it is the volatility of the demand, Ercoli said. "China is the player in the market to watch.”

U.S., Australia, Japan to cooperate on energy project financing

(Nikkei Asian Review; Nov. 11) - Government finance agencies from the U.S., Japan, and Australia are set to agree Nov. 12 on providing joint financing for infrastructure in Asia, part of three-way cooperation on projects in the Indo-Pacific Region. America's Overseas Private Investment Corp., the Japan Bank for International Cooperation, and Australia's Export Finance and Insurance Corp. will work together to support such energy projects as liquefied natural gas import terminals as well as undersea cables.

Support will include arranging syndicated loans and providing guarantees for private-sector financing. The three-way framework is expected to be discussed at the upcoming Asia-Pacific Economic Cooperation leaders' summit in Papua New Guinea. Ministers from the U.S., Japan and Australia agreed in Singapore this August to promote "quality infrastructure development" in the Indo-Pacific region "in accordance with international standards from the perspective of strengthening connectivity."

The effort appears intended partly as a counterweight to China's Belt and Road Initiative, which has seen Beijing provide money and engineering for roads, ports and other projects along the Indian Ocean seaboard. Developing Asia needs about $26 trillion in infrastructure investment from 2016 to 2030, according to the Asian Development Bank. Tokyo wants to help Japanese companies compete for Indo-Pacific contracts in areas of strength like LNG terminals and gas-fueled power plants.

Louisiana LNG developer claims it will start construction in 2019

(Reuters; Nov. 7) - U.S. liquefied natural gas project developer Tellurian said Nov. 7 it expects to start construction on its Driftwood LNG export terminal in Louisiana in the first half of 2019 and begin operations in 2023. CEO Meg Gentle said in the company's third-quarter earnings call that Tellurian will announce partners in the $27 billion project by the end of 2018. Driftwood is one of several proposed U.S. LNG projects seeking customers so they can start construction to meet growing global demand for the fuel.

However, Tellurian has not put together financing or taken a final investment decision. The Federal Energy Regulatory Commission plans to issue its draft environmental statement for the project in January 2019 with a decision by the full commission on the application by April 2019. Unlike most other proposed U.S. LNG export projects that will liquefy gas for a fee, Tellurian is offering customers the opportunity to meet their needs by investing in a full range of services from gas production to pipelines and liquefaction.

Tellurian's partners so far include French energy firm Total, equipment supplier General Electric and Bechtel, which has a $15.2 billion contract to build the liquefaction facility at the center of the project. Pipelines, reserves and other costs make up the rest of the $27.5 billion price tag of the project. Driftwood would have capacity to produce as much as 27.6 million tonnes of LNG per year.

Poland’s state-run gas company signs up for more U.S. LNG

(Reuters; Nov. 8) – Poland’s state-run gas firm PGNiG has signed a long-term deal with Cheniere Marketing International to secure liquefied natural gas supplies from the United States, it said Nov. 8, as Poland seeks to cut its dependence on Russian fuel. Poland consumes about 600 billion cubic feet of gas annually, more than half of which comes from Gazprom under a long-term deal that expires in 2022. PGNiG has said it does not intend to extend the contract and has taken steps to secure other supplies.

Under the terms of the new deal, PGNiG will receive a total of 0.52 million tonnes of LNG in the period 2019-2022 and 29 million tonnes in 2023-2042, to be delivered to an LNG import terminal in the Baltic Sea, the company said. That works out to an average of almost 70 billion cubic feet of gas per year starting in 2023. “The price is much lower than the one we have in the contract with Gazprom,” PGNiG Chief Executive Piotr Wozniak told a press conference, without providing specific prices.

Cheniere operates an LNG export terminal in Louisiana and is close to opening a project in Texas. The deal is the second for U.S. gas for PGNiG, which in October finalized the terms of a deal to buy LNG from Venture Global, which proposes to develop a gas liquefaction plant and export terminal in Louisiana — one of several proposed for the Gulf Coast as the U.S. climbs in the rankings of global suppliers.

Shell exec says Tanzania LNG not ready for investment decision

(The Citizen; Tanzania; Nov. 8) – While Shell and its partners in the LNG Canada project have decided to go forward with their C$40 billion liquefied natural gas venture in Kitimat, British Columbia, the west African nation of Tanzania is still waiting to see if it can attract a similar investment decision to develop the 57 trillion cubic feet of gas discovered offshore.

“Unfortunately, in Tanzania, we are not that far yet,” said Marc den Hartog, managing director of Shell Exploration and Production Tanzania. “The investors have completed the gas exploration phase successfully and completed all preliminary design work. However, what we do not have yet is the so-called host government agreement (HGA), which is needed to establish the commercial, fiscal, and regulatory framework to underpin the project,” Hartog said. “Discussions on this agreement started in October 2016 but still have a considerable way to go. … An LNG project is never easy.”

The executive said companies “submitted a comprehensive proposal for HGA terms to the government in March of last year, and this has been under discussion since then, with occasional stops and starts.” Part of the reason, he said, is that the tax structure and natural resource laws in Tanzania “have undergone a lot of changes in the past decade and continue to change still. In this context, it is not all that surprising that it is taking quite some time to come to a final investment decision for the Tanzania project.”

Court orders new environmental review of Keystone XL oil pipeline

(Wall Street Journal; Nov. 9) - A federal judge in Montana has blocked the president's approval of the Keystone XL oil line, blurring the future of a project that has faced years of delays due to fierce opposition from landowners and environmental and Native American groups. The judge ruled Nov. 8 that the president's 2017 cross-border permit for the pipeline failed to consider all impacts as required by federal law, and that construction could not move ahead until a supplemental environmental review is completed.

The decision means that Trans Canada's pipeline expansion to carry oil from Alberta to a connection point in Nebraska to reach the U.S. Gulf Coast is certain to face at least some additional delays, as the ruling is either appealed to a higher court or government officials complete the extra analysis. Keystone XL has already faced numerous legal and political hurdles and has become a rallying cry for environmentalists who want to keep fossil fuels in the ground. President Trump revived the pipeline after it had been blocked by former President Obama, but the project has continued to face challenges.

TransCanada said earlier this year it had enough customer support for the project, now pegged at about $8 billion, and that work could begin next year — pending a final investment decision. Chris Cox, a Toronto-based energy analyst with Raymond James, said the court ruling could delay construction into 2020 and possibly turn the pipeline into an issue in the next U.S. presidential election, adding uncertainty. Keystone XL would carry up to 830,000 barrels of oil a day, mostly from Canada's oil sands, more than 1,000 miles to Nebraska to link up with existing pipelines to Gulf Coast refineries.

Keystone court defeat comes at bad time for Canadian oil producers

(Bloomberg; Nov. 9) - A Montana federal judge's Nov. 8 ruling that threatens to further delay TransCanada's Keystone XL pipeline comes at one of the worst possible times for the Canadian oil industry. Canadian producers already are struggling with a shortage of pipeline space that has hammered prices for their oil, sending its discount to the U.S. benchmark price to the widest on record in recent weeks — as much as a $45-per-barrel discount. The situation has companies cutting production, shipping more oil via more-expensive rail and even turning to trucks to get their output to market.

Keystone XL was seen as a major step toward solving that problem. The pipeline would add 830,000 barrels of daily shipping capacity — about 4.2 percent of U.S. oil demand — when it comes into service, which had been expected for 2021. "There is a clear economic need for the project and we wonder whether TransCanada will choose to pursue the project with a stronger backstop from shippers and/or various levels of government," according to the Royal Bank of Canada's Robert Kwan.

The ruling is the latest setback for the company in its decade-long push to build the 1,179-mile line from Alberta's oil sands to a Nebraska junction, en route to refineries on the U.S. Gulf. Several environmental and Indigenous groups sued in 2017 shortly after President Donald Trump gave his approval for the project to cross the U.S.-Canada border. The judge agreed with the argument that the federal environmental impact assessment fell short of the National Environmental Policy Act and other standards.

Court orders halt to Army Corps permit for gas pipeline in W.Va.

(S&P Global Platts; Nov. 8) – The Atlantic Coast Pipeline faced another legal setback as a federal appeals court stayed a U.S. Army Corps of Engineers' permit allowing West Virginia water crossings for the natural gas project pending a legal review. The 600-mile pipeline with capacity to carry 1.5 billion cubic feet of gas per day stretching from Harrison County, West Virginia, to Virginia and North Carolina, is one of several projects that would send a total of 6.5 bcf of Appalachian gas a day to Mid-Atlantic markets.

Construction periodically has been held up as a result of legal challenges to federal permits in the 4th U.S. Circuit Court of Appeals by environmental groups. Permitting snags already have fed into the project's recent decision to postpone its targeted in-service date to mid-2020 for portions of the project, while a late-2019 target remains for some segments intended to meet peak winter demand. ACP said it is temporarily suspending waterbody crossings in the Huntington District until the case is resolved.

At issue are environmentalists' challenges to use of a general permit intended for projects that will cause only minimal adverse effects. The Army Corps' district permit includes 153 crossings. The challengers contend that one of the river crossings, the Greenbrier River, cannot meet two special conditions set by West Virginia regulators. They argued that the plan to dam the entire width of the river violates a condition barring in-stream structures that impede or prevent fish movement upstream or downstream.

Canadian oil and gas producers say U.S. a better place to do business

(National Post; Canada; Nov. 2) - Enerplus CEO Ian Dundas said he has not written off Canada as a place to do business, but he is not planning to shift spending back to the country from the U.S. anytime soon. "We've transitioned our business into the U.S. — dramatically transitioned it," he said. "This year and next, we will spend 90 percent of our capital in the United States." Dundas said Enerplus's capital budget was once more weighted toward Canada, but the company in 2015 started shifting its capital to the U.S.

"When you hear 'capital,' the synonym for that is 'jobs,'" he said, adding that Enerplus has staffed up considerably in the U.S. in recent years. The Calgary-based company in 2017 produced an average of 85,000 barrels of oil equivalent per day in the U.S. and

Canada. Dundas and other Canadian oil and gas executives point out that U.S. regulatory processes are more predictable and streamlined, its regulations change less frequently, and it takes less time to get regulatory approvals to develop a resource.

They also point to reports such as the World Economic Forum's Global Competitiveness Index ranking, which was updated Oct. 16. Canada fell two places and is now the 12th most competitive jurisdiction in the world. The index ranked the U.S. first overall, which oil and gas executives said is significant because it has become Canada's main competitor for investment dollars in the energy industry. Canadian Finance Minister Bill Morneau said the government is tracking business competitiveness and regulatory burdens relative to the U.S., but the government has not announced any changes yet.

B.C. gas line developer wants to limit intervenors in federal review

(Terrace Standard; BC; Nov. 10) - The company that's building the natural gas pipeline to supply the C$40 billion LNG Canada plant at Kitimat, British Columbia, is urging the National Energy Board to reject many if not all the multiple requests for standing as the agency considers whether the pipeline should come under federal jurisdiction. Coastal GasLink, a subsidiary of TransCanada, said the board should only consider requests from those who "demonstrate a specific and detailed interest rather than a 'general public interest'" in whether the pipeline should come under federal jurisdiction.

The jurisdictional issue was first raised in the summer by Smithers, B.C., resident Michael Sawyer who contends that because the new pipeline would connect to an existing federally regulated TransCanada pipeline system, it should come under federal jurisdiction and require NEB review. The Nov. 5 filing by Coastal GasLink follows an October decision by the board to hold hearings to consider the question of jurisdiction.

The 420-mile pipeline from the northeastern B.C. gas fields to Kitimat has provincial approval but Sawyer said the hearings that lead to that approval were inadequate. The prospect of a federal review has brought on concerns in the region about the status of the C$6.2 billion pipeline project. Among the more than 50 requests for intervenor status before the NEB are environmental groups, individuals, the majority of municipalities along the pipeline route, First Nations, and companies that will benefit from the project.

Canadian oil line review will consider traditional Indigenous evidence

(The Canadian Press; Nov. 7) – Canada's National Energy Board will hear oral traditional evidence from Indigenous groups in the coming weeks as part of its new review of the Trans Mountain oil pipeline expansion. The Federal Court of Appeal struck down the federal government's approval of the project in August, citing inadequate Indigenous consultation and the board’s failure to review the impacts on the marine environment of the seven-fold increase in tanker traffic off the British Columbia coast.

Canadian Prime Minister Justin Trudeau’s government ordered the energy board to review the marine impacts and submit a report. The board later unveiled its schedule to take oral traditional evidence. Thirty-one Indigenous groups or individuals from Canada and the U.S. are scheduled to participate. The hearings will be held in Calgary the week of Nov. 19, in Victoria the week of Nov. 26 and in Nanaimo, B.C., the week of Dec. 3. The project would almost triple the pipeline’s capacity from Alberta to the coast.

Some First Nations that won the court battle in August have said the process is too rushed and they’re considering filing fresh court challenges after the energy board issues its new report. The board said it will include oral traditional evidence because it “understands that Indigenous peoples have an oral tradition for sharing knowledge from generation to generation. … This information cannot always be shared adequately or appropriately in writing.”

Exxon looks to grow production in Permian and overseas prospects

(Bloomberg; Nov. 6) - The world’s biggest public energy company doesn’t worry about size when it comes to potential deal-making. The driver of any acquisition for ExxonMobil isn’t the scope of the target, it’s whether the company finds more value in it than the market does, CEO Darren Woods said at the New Economy Forum in Singapore. The explorer is looking for opportunities to purchase assets even as it plans to expand output at existing fields from West Texas to Mozambique.

“We have the capacity to do any size opportunity … so it’s really a function of looking at the value that ExxonMobil can extract and how we would integrate that in our portfolio,” Woods said. He declined to comment on any specific targets. Exxon spent $6 billion buying drilling rights from the Bass family in the Permian Basin last year and has been cited by analysts as a potential purchaser of Endeavor Energy Resources — the basin’s largest privately held oil producer — an acquisition that could total more than $10 billion.

Woods sees a bright future for the oil and gas industry with 2.5 billion people set to enter the middle class in the next 20 years. That means more liquefied natural gas for electricity, more petrochemicals for plastics, and more fuel to move consumer goods. The company is seeking to grow production with a focus on Guyana, Brazil, Papua New Guinea, Mozambique, and the Permian Basin in West Texas and New Mexico. Exxon had 38 rigs drilling Permian wells as of last week, a 40 percent jump in just six months.

Qatar’s new energy minister helped build country’s LNG industry

(Bloomberg; Nov. 5) - Saad Sherida Al-Kaabi was a teenager when he joined Qatar Petroleum (QP) in 1986, still an engineering student at Pennsylvania State University. He climbed slowly through the ranks, finally becoming CEO in 2014 and managing projects that cemented Qatar’s role as the world’s top exporter of liquefied natural gas. He was appointed minister of state for energy issues and vice chairman of Qatar Petroleum on Nov. 4. Qatar’s heft in the industry derives from its LNG and condensate exports, not the 600,000 barrels a day of crude it pumps or its OPEC membership.

Al-Kaabi preaches LNG’s environmental advantages over dirtier coal and oil, and Qatar’s reliability as a supplier. The son of a former QP employee, diplomat and businessman with interests in construction, trading and medical equipment, Al-Kaabi eschewed the family business to get in on one of the most lucrative energy prospects in history: the giant, offshore gas field that Qatar shares with Iran. Shell discovered the North Field in 1971, but the find was a disappointment because it showed no crude.

It took more than 20 years for QP to partner with Shell, ExxonMobil, and Total, among others, to build its LNG plants. The bet paid off. Qatar exported 77 million tonnes last year, 26 percent of global supply. It plans to boost output to 110 million tonnes by 2025. Al-Kaabi managed development of the field, overseeing the installation of 14 plants that produce some of the lowest-cost LNG in the world. He has often stated his plan to make Qatar more efficient and better equipped to exploit its domestic resources and grow abroad. QP plans to invest $20 billion in U.S. oil and gas fields in the next five years.