Oil and Gas News Briefs
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Oversupply could get worse in 2020, shutting down some U.S. LNG

(Australian Financial Review; Dec. 11) - The LNG supply glut that caused spot prices to slump to a three-year low in Asia this year will worsen in 2020, triggering the shutdown of 10 million tonnes a year of capacity in the U.S. and putting Australian exporters under pressure, said a respected energy forecaster. Fereidun Fesharaki, chairman of FACTS Global Energy, estimates that about 45 million tonnes of annual supply capacity came online in 2019 with 35 million tonnes more to start up in 2020, outstripping demand.

The market will take until the end of 2021 to absorb the new supply, he said, putting pressure on LNG prices that are not tied to crude oil. The price weakness would likely result in the temporary closure of some liquefaction plants in the U.S., where it is easier to shut export terminals as they aren't tied to specific gas fields. Australia is also in the firing line, although no capacity is likely to be shut in and exporters will mostly be spared as they sell most of their gas under term contracts rather than on the spot market.

About 316.5 million tonnes of LNG was traded last year, according to the International Gas Union, meaning the new supply this year represented an increase of more than 14 percent. While consumption of LNG grew, demand hasn't increased by that much as growth has slipped in China. Spot prices for LNG in northern Asia, the largest market, sank to $4.275 in July, and despite a modest increase have remained almost 41 percent lower than 12 months ago in what is usually the seasonal peak heading into the winter.

Many buyers in Asia are tied into long-term contracts that force them to pay about double the spot level because their prices are indexed against crude oil. Fesharaki said the wide gap meant some buyers that might otherwise have signed new one- to two-year contracts for firm supply would instead rely on spot buys, while less scrupulous smaller importers — in China and India — simply refused to pay the contract price.

Gas markets likely oversupplied for a few years, analyst warns

(New York Times; Dec. 12) - A decade ago, natural gas was heralded as the fuel of the future. In shale fields across the country, hydraulic fracturing uncorked a lucrative new source of supply. Energy giants like ExxonMobil and Chevron snapped up smaller companies to get in on the action, and investors poured billions of dollars into U.S. liquefied natural gas export terminals to ship gas to China and Europe.

The boom has given way to a bust. A glut of cheap gas is wreaking havoc on the energy industry. Companies are shutting down drilling rigs, filing for bankruptcy and slashing the value of shale fields they had acquired in recent years. While cheap gas continues to take market share from coal for power plants, supply has far outstripped demand. As a result, once-booming gas fields in Arkansas, Louisiana, and Texas have become quiet backwaters. The number of gas rigs deployed nationwide has dropped by 30 percent.

"In the short term the gas market is oversupplied and is likely to remain so for the next few years," said Andy Brogan, oil and gas global sector leader at EY, the firm formerly known as Ernst & Young. "It's a cyclical business, and we're at the bottom of the cycle." Some analysts said the slump could persist for some time because the cost of wind and solar energy has fallen, making those renewables more attractive to power producers. And while liquefied natural gas exports are climbing, growing LNG production in Qatar, Russia, and Australia threatens to drive down global prices over the next few years.

LNG exports are rising sharply, but future profits may be meager. "Natural gas is in the tank," said Patrick Montalban, president of Montalban Oil & Gas. "We're looking at a project right now of over 200 wells in Montana that are for sale but they're uneconomic."

Alberta landowners fight to collect oil and gas lease payments

(Financial Post; Canada; Dec. 12) - Andy Hofer and members of his Hutterite colony in northwestern Alberta have been embroiled in an increasingly common dispute in recent years. So common that the Hutterian Brethren Church of Grandview, where Hofer is the field manager, has been in at least eight such disputes this year. Like many farms in the province, the religious agricultural commune in an attempt to supplement its income has signed lease agreements with oil and gas companies that want to drill on their land.

But as commodity prices have tumbled for both oil and gas, those rental payments have either dried up or, in some cases, disappeared. In the past year alone, the Hutterite colony has won eight cases at the Alberta Surface Rights Board against energy companies that either weren't paying rent or tried to unilaterally reduce their rental payments. "It was a fight at the start," said Hofer, adding that his colony near Grande Prairie has 80 such lease agreements. "They tried to reduce (the rent)."

The once mutually profitable relationship between oil companies and landowners has become increasingly strained. Landowners and counties say they've had to fight for rent and municipal tax payments from a growing number of energy producers. The fights have resulted in drawn-out legal battles, while counties with municipal property tax arrears are having to dip into savings to balance their budgets or pass additional costs onto residents — sometimes the same farmers waiting on unpaid oil and gas rents.

Last year communities were unable to collect $81 million in municipal taxes — most of it owed by energy companies. The problem has become so prevalent that applications to recover unpaid rents filed with the Surface Rights Board, the provincial tribunal that assists landowners and operators resolve disputes, have soared. More than 2,500 applications were filed in the first nine months of 2019 compared to 505 in all of 2014.

FERC says Tellurian can start site work at Louisiana LNG project

(Reuters; Dec. 12) - U.S. energy regulators have approved Tellurian's request to start site preparation at its proposed $27.5 billion Driftwood liquefied natural gas export project in Louisiana. The Federal Energy Regulatory Commission said on Dec. 11 that Driftwood could start vegetation clearing, grading, demolition, removal of existing buildings, and dredging of marine berths among other activities.

"With FERC's approval, we are doing some preliminary work on the site," Tellurian spokeswoman Joi Lecznar said in an email Dec. 12. "We have progressed to completing over 27 percent of our engineering, and we have ordered some equipment in order to prepare for construction." Driftwood is designed to produce up to 27.6 million tonnes per year of LNG from about 3.6 billion cubic feet per day of natural gas.

Tellurian has said it plans to start building the liquefaction plant in early 2020 and produce the first LNG from the facility in 2023. Unlike most proposed U.S. LNG export projects that will liquefy gas for a set fee, Tellurian is offering customers the opportunity to invest in a full range of services from production to pipelines and liquefaction. Bechtel has a contract to build the $15.4 billion liquefaction facility. Pipelines, reserves, and other expenses make up the rest of the project cost.

FERC extends completion deadline to 2026 for Exxon-led LNG project

(Houston Chronicle; Dec. 13) - Federal regulators have given ExxonMobil an extension to complete construction and bring its Golden Pass LNG export terminal near Port Arthur, Texas, into full service. In an order released Dec. 11, the Federal Energy Regulatory Commission gave ExxonMobil until Nov. 30, 2026, to finish the $10 billion liquefied natural gas export project. When the company announced its final investment decision in February, it reported start-up was expected in 2024.

FERC approved the project in December 2016. Exxon's partner in the development is Qatar Petroleum. When finished, the plant will have capacity to produce 16 million tonnes of LNG per year. It is being constructed adjacent to an unused LNG import terminal. The Golden Pass import facility has not offloaded any LNG since 2011.

Houston's McDermott International, San Antonio's Zachry Group and Japan's Chiyoda International landed the contract to build the export facility. Construction started this spring. The developers requested the extension to allow sufficient time to bring all of the facility's production units and loading docks into service.

Nova Scotia grants 3-year extension for proposed LNG project

(Natural Gas Intelligence; Dec. 11) – The Nova Scotia Utility and Review Board has granted a three-year extension from a Dec. 31, 2019, provincial deadline to start work on a coastal liquefied natural gas export terminal. Perth-based Bear Head LNG now has until the end of 2022 on the permit for the LNG terminal and companion gas line. The company's extension request described formidable hurdles that Canadian East Coast export proposals face after offshore gas production ended and onshore replacements were ruled out by fracking bans in Nova Scotia, New Brunswick, and Quebec.

"(The project) has been delayed in initiating construction due to the difficulty in securing the necessary natural gas feedstock for the LNG facility," the company said. In addition, "Bear Head has been negatively affected by changes in the global energy market," the developer told the utility board. "These market condition changes include a substantial imbalance in the current LNG supply-demand situation, deferral of long-term purchase commitments by the market and instability in energy pricing including LNG."

The Australian firm bought the estimated C$5 billion ($3.8 billion) Nova Scotia project for $11 million in 2014 from Anadarko, which had given up on the development. Bear Head has had its federal export license since 2016, when it first proposed building a 1,000-mile pipeline to carry Western Canadian gas to the East Coast for LNG exports.

FERC plans to decide Kenai LNG import application by July 2020

(Reuters; Dec. 12) - Federal energy regulators have delayed to July 23, 2020, the date they expect to decide on Marathon Petroleum's plan to convert the Kenai liquefied natural gas export plant in Alaska into an import terminal. The Federal Energy Regulatory Commission said it has revised its environmental assessment schedule because the company is not able to provide certain information FERC needs for the assessment until January 2020.

In June 2019, FERC set March 12, 2020, for its decision on Marathon's application. In a filing on Dec. 12, FERC said it now plans to issue its environmental assessment on April 24, 2020. It has 90 days after the environmental assessment to issue a decision. Marathon's Trans-Foreland Pipeline unit asked FERC in March for permission to modify the unused Kenai LNG export facility so it could receive a cargo of LNG that would feed natural gas to the company's oil refinery across the highway from the LNG terminal.

Marathon officials were not immediately available for comment. The Kenai LNG export plant entered service in 1969, and was the only LNG export facility in North America for 47 years until Cheniere Energy's Sabine Pass export terminal in Louisiana entered service in February 2016. Nearly all of the LNG from Kenai went to Japan. The last operator, ConocoPhillips, mothballed the facility in 2015 before selling it to Andeavor in February 2018. Marathon completed its purchase of Andeavor in October 2018.

Nigeria takes another step toward LNG expansion project

(Reuters; Dec. 13) - Nigeria LNG (NLNG) said Dec. 13 it had signed a 20-year feed gas supply agreement with joint-venture partners for the long-awaited project to add a seventh production unit to its liquefied natural gas plant on Bonny Island. NLNG, which produces liquefied natural gas for export, is owned by state-run Nigerian National Petroleum Corp. and Shell, Total, and ENI. The gas-supply agreement is one of the key conditions for a final investment decision on the expansion.

The expansion project, which is expected to increase Nigeria's LNG production capacity by 35 percent to 30 million tonnes per year, has been delayed for several years. A previous deadline for a Train 7 investment decision in the fourth quarter of 2018 was not met. Nigeria was the fifth-largest LNG producer in the world last year, though its production is declining. It lost its fourth place to the United States in 2018, according to the International Group of Liquefied Natural Gas Importers.

Proposed LNG project in B.C. has gone through multiple owners

(Alaska Highway News; BC; Dec. 11) - Chevron is taking a US$10 billion to US$11 billion write-down and considering selling some of its assets, including its 50 percent stake in the proposed Kitimat LNG project in British Columbia. It isn't the first time the project has been on the block. Originally proposed for LNG imports, the project was sold by LNG pioneer Alfred Sorensen to Apache and EOG Resources. Later Encana bought a 30 percent share. None of those companies still own stakes in the project. Apache sold its stake to Woodside Resources, and Chevron later bought out Encana and EOG.

"I think it's important to note that ownership changes are not unusual in projects like this — large capital energy projects," said Bryan Cox, CEO of the BC LNG Alliance. "We're confident as an industry that should they divest, the next owner can move this over to a final investment decision." In his analysis, Findlay said a final investment decision on Kitimat LNG is not expected until around 2022 or 2023 with completion timed for 2029.

In a recent analysis for the Oxford Institute of energy Studies, Peter Findlay of Criterium Group in Calgary, predicted that Western Canada "is likely to offer one of the lowest-priced sources of global gas for decades to come." But said Canada has fumbled the ball, he said, allowing the U.S. to beat Canada in the race toward becoming a major LNG exporter. He said an "incoherent and ineffectual approach to regulating it" is largely to blame for Canada losing ground to the U.S.

Fight against Trans Mountain oil line goes to court this week

(Reuters; Dec. 15) - The Canadian government-owned Trans Mountain oil pipeline expansion faces its latest legal hurdle this week as indigenous groups continue their argument that the government did not adequately consult them before approving it. A three-day hearing begins Dec. 16 at Canada's Federal Court of Appeal in Vancouver, which agreed to hear concerns from the Coldwater Indian band, Squamish Nation, Tsleil-Waututh Nation, and others that the government's second consultation with them on the project this year was "window-dressing, box-ticking, and nice-sounding words."

The legal challenge is the latest setback for Trans Mountain, whose previous owner first proposed the expansion in 2013, as well as two other pipeline projects proposed by TC Energy and Enbridge that would provide badly needed capacity for Alberta oil producers. The Trans Mountain expansion would alleviate congestion by nearly tripling the pipeline's capacity to 890,000 barrels of oil per day to a coastal export terminal.

But the expansion has faced prolonged opposition from environmental activists and some indigenous groups, pitting them against the landlocked Alberta province, home to the world's third-largest oil reserves. The appeals have not stopped construction, which has been underway since late summer and accelerated this month. But the continuing legal challenges have created uncertainty, said Mark Pinney, manager of market economics at the Canadian Association of Petroleum Producers. "One thing the industry needs right now to help it through the difficult times is more certainty," he said.

Opponents say they will continue fight against Tacoma LNG plant

(Tacoma News Tribune; Dec. 11) - One day after the Puget Sound Clean Air Agency approved a permit for Puget Sound Energy's liquefied natural gas production and storage facility at the Port of Tacoma, environmental groups and representatives of the Puyallup Tribe appeared at a Dec. 11 news conference to oppose the decision. In addition, Todd Hay, president and founder of Advocates for a Cleaner Tacoma, a local environmental group, announced plans to file an appeal against the decision.

"We are especially disappointed that the agency continues to ignore the climate impacts of this project," said Melissa Malott, executive director for nonprofit Citizens for a

Healthy Bay. Michael Thompson, communications director for the Puyallup Tribe, also spoke at the press briefing to deliver a statement from the tribal council. It called on the city of Tacoma and the state to "assess the project's safety and the impacts a catastrophic event would have on the surrounding communities."

Puget Sound Energy on Dec. 10 defended its $310 million project and maintained it will improve air quality at and around the port. Appeals of the air quality agency's decisions are filed with the Washington State Pollution Control Hearings Board. The plant, which will source its gas from British Columbia, would produce up to 500,000 gallons of LNG per day, storing up to 8 million gallons on site to meet utility demand and provide about 900,000 gallons of LNG a week to TOTE for its two Alaska containerships.

Florida city council approves $23 million tax break for LNG plant

(Jacksonville Daily Record; Dec. 11) - The Jacksonville, Florida, city council approved $23 million in taxpayer-backed incentives for a proposed $542 million liquefied natural gas export facility in North Jacksonville. The 18-0 vote Dec. 10 will allow Houston-based Eagle LNG Partners to move forward with development of the terminal, first announced in 2013, on 200 acres along the St. Johns River. The company plans a groundbreaking in the first quarter of 2020, Eagle LNG President Sean Lalani said in November.

Lalani said the facility is part of the company's expansion into markets in the Caribbean and Central America. The city council approved a Recaptured Enhanced Value Grant for the project. It will refund Eagle LNG 50 percent of the increase in the site's property taxes the first 10 years the terminal is in operation. A project summary Nov. 8 said Eagle will invest $58 million in site facilities and install about $484 million in equipment.

Eagle LNG will be required to create at least 10 jobs by Dec. 31, 2023, or the grant will terminate. The original agreement called for 12 jobs. Lalani said the facility will contribute about $50 million to the Duval County tax base, split between the city's general fund and the school district. If the project stays on schedule, the plant would be online in 2023 and would have the capacity to handle about 135 million cubic feet of gas per day, producing 1.65 million gallons of LNG per day.

Growing gas exports to Mexico could help U.S. producers

(S&P Global Platts; Dec. 11) – U.S. natural gas exports to Mexico could see significant upside in 2020, thanks to recent infrastructure upgrades and growing demand south of the border. Any potential growth in volumes, though, will depend on completion of key pipeline projects required to access Mexico's new end users. With more gas moving into Mexico, U.S. producers can hope it might be enough to lift prices from the $2.30 per million Btu range, where they have largely remained over the past eight months.

In Mexico, however, additional gas supply could be expected to have the opposite effect, lowering prices — particularly in North and Northeast Mexico, where U.S. gas has its biggest reach. The biggest impact would likely come at the Los Ramones-Monterrey and Reynosa hubs. In 2019, prices at the two hubs have averaged around $3, well above nearby locations in South Texas, S&P Global Platts data shows.

Flows through a new pipeline have moved westbound into central Mexico and a ramp-up in gas deliveries to power generators in the region shows that U.S. supply is already accessing pent-up demand there. Additionally, Platts Analytics data shows that a marine pipeline is helping to deliver gas to the Altamira V power plant, displacing costly imports of LNG to the Gulf Coast terminal located there.

Japanese utilities to collaborate on LNG purchases

(Reuters; Dec. 12) - Japan's biggest city gas supplier Tokyo Gas and power utility Chugoku Electric Power said on Dec. 12 they plan to collaborate for the procurement of liquefied natural gas to help cut their fuel costs. The companies will consider collaborating in flexible LNG procurement, including possible cargo swaps and seasonal swaps, as well as helping each other during emergencies, in order to secure stable supply and lower costs, a Tokyo Gas spokesman said.

Tokyo Gas, a major LNG buyer, struck similar partnerships with Kansai Electric Power in 2016 and Kyushu Electric Power in 2017. Tokyo Gas, which imports about 14 million tonnes of LNG a year, aims to boost its LNG trading business to 5 million tonnes by 2030 from nearly nothing now, to generate 10 billion yen ($92 million) in profit, its president, Takashi Uchida, told Reuters in an interview earlier this week.

South Korean shipyards look to gain orders for LNG-fueled ships

(Business Korea; Dec. 10) - With the implementation of new international regulations coming Jan. 1 to reduce the sulfur content of marine fuel, an increasing number of countries are prohibiting ships equipped with exhaust scrubbers from entering their ports. Under the circumstances, South Korean shipbuilders are expected to win a number of new orders for ships fueled by cleaner-burning liquefied natural gas.

Malaysia recently announced it would prohibit the use of open-loop scrubbers in ships navigating within 12 nautical miles of its coast. An open-loop scrubber uses water-washing of exhaust gas, discharging the wastewater to the sea. In contrast, closed-loop scrubbers are designed to circulate the wastewater without discharging it. Scrubber installation is inexpensive and can be done quickly and, as such, many shippers have preferred it as a way of meeting the new environmental regulations for using fuel oil.

But more governments are prohibiting the use of scrubber-equipped ships due to the pollutant discharge. China and Ireland prohibit the use of open-loop scrubbers in coastal areas, and Singapore and the United Arab Emirates will prohibit open-loop scrubbers in ports starting in January. This trend has led to more orders for LNG-fueled ships. The Korea Trade-Investment Promotion Agency said LNG-powered ships are expected to account for 60 percent of the total new shipbuilding contracts by 2025. South Korean shipbuilders lead the LNG-powered ship market as well as the LNG carrier market.

Japan to launch world's first liquefied hydrogen carrier

(Bloomberg; Dec. 11) - The world's first liquefied hydrogen carrier made its debut at a shipyard in Japan, a small step toward tapping the carbon-free energy potential of the lightest element. Kawasaki Heavy Industries christened the tanker Suiso Frontier during a ceremony at the Kobe Works yard on Dec. 11. The ship will carry the fuel from Australia to Japan to demonstrate the technology for an international hydrogen energy supply chain, Kawasaki said. Construction is expected to be complete by late 2020.

Hydrogen can be produced using water and electricity, and then stored and shipped and used to generate power, allowing countries with little space for wind and solar to receive carbon-free power. It can also help decarbonize a range of sectors, from long-haul transport to steel making, from which it's otherwise difficult to remove emissions. However, it's volatile and flammable, while current production techniques are polluting and costly, the International Energy Agency said in a June report on the fuel's potential.

Policies and incentives should be put in place now to help reduce costs and scale up the sector, the IEA said. The ship will have storage capacity of about 1,250 cubic meters, less than 1 percent of a standard liquefied natural gas carrier. The vacuum-insulated, double-shell tank will be able to hold hydrogen at minus 423 Fahrenheit, shrinking the volume of the gas to 1/800th its normal size. The ship will run on diesel.