Oil and Gas News Briefs
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Canadian producers band together to find an LNG project

(Financial Post; Canada; Feb. 20) - Frustrated by persistently low prices for their gas, Seven Generations Energy, Peyto Exploration and Development, Advantage Oil & Gas, and seven other producers have formed a consortium with the aim of building a new liquefied natural gas export project on Canada's West Coast. "Companies are excited about it. There's momentum there," said Advantage CEO Andy Mah. "No one company is so large that it can look at an LNG project on its own," said Peyto CEO Darren Gee.

The producers are hoping to revive one of several mothballed LNG projects, underpin it with gas supply and eventually find a larger company with enough capital to fund its construction. "We wanted to get the ball rolling," Gee said. The group is "a collaboration amongst competing producers" that collectively produce 20 percent of Canada's gas and 40 percent of gas products such as propane, butane, and ethane, said Greg Kist, former president of Pacific NorthWest LNG. He declined to name all 10 companies.

Western Canadian gas prices have suffered widening discounts relative to U.S. prices in recent years and LNG exports would open new markets. "The producers want to deal with the challenge we have today with weak prices," said Kist, hired by the new group as a consultant to either revive the canceled Pacific NorthWest LNG project near Prince Rupert, B.C., or find other options. The C$36 billion Pacific NorthWest venture, backed by Malaysia's Petronas and other Asian producers, was canceled in 2017. Petronas then bought into the Shell-led LNG Canada project under construction in Kitimat, B.C.

Novatek courts Japanese companies to invest in Arctic LNG-2

(Nikkei Asian Review; Feb. 19) – Russian gas producer Novatek has asked Mitsubishi Corp. and Mitsui & Co. to invest in the company's second Arctic liquefied natural gas project, expected to cost 3 trillion to 4 trillion yen ($27.1 billion to $36.1 billion). If the companies agree, they would be asked to cover 10 percent of the cost. The Japanese government is examining the possibility of using state funds to pay for half of what Novatek is requesting if both trading companies decide to participate in the project.

Prime Minister Shinzo Abe thinks the possible economic assistance could help Japan's negotiating position in talks with Russia on the return of four Russian-held islands north of Hokkaido. The fate of any deal, however, hinges on what Mitsubishi and Mitsui decide. Novatek already operates one Arctic gas plant, Yamal LNG, and is planning to build a second nearby, Arctic LNG-2. An investment decision could come this year on the facility to produce 20 million tonnes per year.

Novatek plans to take 60 percent of the project. French oil major Total is on board for 10 percent. Novatek is talking with Saudi and Chinese companies to buy into the venture and has stepped up efforts to persuade Mitsubishi and Mitsui to finalize deals by spring. Russian President Vladimir Putin nudged Abe on the matter when the two men met in January, according to a Japanese government official. Moscow is offering tax incentives and other preferential treatment to the companies, the official said.

Anadarko signs up another buyer for Mozambique LNG

(S&P Global Platts; Feb. 19) - Anadarko Petroleum has signed a 20-year deal with Indonesia's Pertamina to take 1 million tonnes per year of LNG from its planned Mozambique project, bringing the project one step closer to a final investment decision, the Texas-based company said Feb. 19. The deal is the fifth sales agreement signed this month for the 12.88-million-tonne-per-year LNG project, and brings the total signed agreements to seven, covering more than 9.5 million tonnes per year.

"The Anadarko-led Mozambique LNG project is well positioned to make a sanctioning decision in the first half of this year, as we remain on track to complete the project financing process, secure the necessary approvals, and have executed a sufficient volume of long-term sales-and-purchase agreements," Anadarko vice president Mitch Ingram said in a statement.

Already this month, Anadarko has signed up India's Bharat Petroleum, China National Offshore Oil Corp., Shell, and a joint deal with the U.K.'s Centrica and Tokyo Gas. A non-binding heads of agreement was signed in 2017 with Thailand's PTT for 2.6 million tonnes. Partners in the project include Anadarko (26.5 percent), Mitsui (20 percent), Mozambique's state-owned Empresa Nacional de Hidrocarbonetos (15 percent), India's ONGC Videsh (10 percent), Beas Rovuma Energy Mozambique (10 percent), India's BPCL (10 percent), and Thailand's PTT Exploration & Production (8.5 percent).

Papua New Guinea LNG partner expects expansion decisions in 2020

(Reuters; Feb. 18) - Australia’s Oil Search is confident that its partners ExxonMobil and Total will be ready to sign off on two big projects in 2020 that would double liquefied natural gas exports from Papua New Guinea. Oil Search, with a 29 percent stake in the ExxonMobil-led PNG LNG plant, had hoped the expansion projects would be approved in 2019, but talks with the government took longer than expected after an earthquake hit the country a year ago. "It was a very tough year in Papua New Guinea for a range of reasons and it started with the earthquake," said Oil Search CEO Peter Botten.

The quake killed more than 100 people in the rugged highlands region of one of the world's poorest countries, destroyed homes, roads and runways and knocked out gas and oil facilities. It also stoked long-running antagonism against the LNG project, as the country's take from the development has been much lower than anticipated and the government has been slow to pay out royalties to local communities and landowners.

Total is set to sign an agreement with the government by early April on its gas project, and ExxonMobil is expected to follow soon after on terms for an expansion of its LNG plant and development of a new gas field, P'nyang, Botten said. Total's Antelope and Elk fields, along with the PNG LNG fields and P'nyang would send gas to three liquefaction trains, roughly doubling the plant's output to 16 million tonnes a year, at a cost of around $13 billion, according to analysts. "I'm very confident that a 2020 final investment decision is very achievable," Botten said.

Coal-seam gas reserves falling short at Australia LNG plants

(Reuters; Feb. 21) - Australia's three East Coast liquefied natural gas plants are unlikely to ever run at their full capacity of 25.3 million tonnes a year as there is not enough gas to feed them and meet local demand, a study released Feb. 21 said. The three plants — Queensland Curtis, Australia Pacific, and Gladstone — were the world's first LNG exporters to use coal-seam gas rather than gas from conventional fields. But the wells in the Surat and Bowen basins in Queensland state are less productive than expected.

As a result, the three plants have been running below capacity, operating at average 82 percent in 2018. "Unfortunately, there are serious headwinds coming and the outlook is less rosy as the industry overreached by building three projects of six trains," EnergyQuest CEO Graeme Bethune said. Queensland Curtis LNG, run by Shell, averaged 87 percent capacity, and Gladstone LNG, run by Santos, only 65 percent, EnergyQuest, an industry consultancy, said.

"The emerging and critical shortages are resulting from the fact the coal-seam gas LNG projects were sanctioned on ambitious estimates of proved and probable reserves, not proven reserves," Bethune said. He predicted that by 2025 at least two liquefaction trains would have to be shut down, reducing medium-term exports to around 17 million tonnes a year. Exacerbating the problem, the producers have come under pressure to step up gas sales into the domestic market with supply in Australia's southeast falling as aging offshore fields dry up and as states restrict new drilling onshore.

Columnist praises Exxon/Qatar LNG project in Texas

(Financial Times' columnist; London; Feb. 17) – Once again, Qatar has defied the logic of its size and geographic situation. A tiny country economically blockaded by its larger neighbors has come up with a global deal that strengthens its position in geographic and commercial terms. The announcement this month of a joint venture with ExxonMobil to build a $10 billion liquefied natural gas export facility at Golden Pass in Texas demonstrates the intensely competitive nature of the international gas market.

With new LNG supplies coming online worldwide, there is fierce competition for market share. The logic of two major suppliers coming together is unanswerable. Working together, Qatar and ExxonMobil could dominate the world's growth markets over the next two decades. As the International Energy Agency pointed out in a summary note produced earlier this month, by 2025 one in every four cubic feet of gas produced worldwide will come from the United States.

Together, the U.S. and Qatar could be supplying more than 50 percent of global LNG trade by the middle of the next decade. For ExxonMobil, the advantage of the deal comes through their attracting a large investment from a partner willing to fund 70 percent of the $10 billion needed to build Golden Pass. The deal significantly enhances ExxonMobil's position in a sector of the industry currently dominated by Shell. For Qatar, the gain is even greater. By investing capital in the U.S., it secures the attention and support of the Trump administration, which warmly welcomed the deal last week.

Yet another Louisiana LNG hopeful claims 2020 investment decision

(Reuters; Feb. 20) – Commonwealth LNG has received commitments from European buyers to take almost half of the liquefied natural gas from its planned 8.4-million-tonne-per-year export terminal in Louisiana, CEO Paul Varello said Feb. 20. The project is one of many LNG terminals under development or construction along the U.S. Gulf Coast. The company said it plans to make a final investment decision by late 2020, though it has not yet even filed an application with the Federal Energy Regulatory Commission.

"We are exchanging documents with counterparties that will represent three to four million tonnes" of capacity, Varello said, adding he expects to sign so-called heads of agreements shortly. "We have to work hard to get closer to the full 8 million tonnes in heads of agreements to allow us to feel good about getting 6 million tonnes in final agreements," he said, noting that prospective buyers are overcommitting to projects.

"Our bankers say that if we can decent pricing with 6 million tonnes that will give us enough debt coverage to make it work," Varello said. The prospective buyers are European end-users with their own importing terminals, he said. Varello said the company will liquefy gas at “well below” $2.50 per million Btu for buyers signing 20-year supply contracts. That is less than many other LNG developments on the Gulf Coast.

Vancouver Island LNG project developer suspends plans

(Globe and Mail; Canada; Feb. 18) - A liquefied natural gas project proposed for Vancouver Island has been halted. “We’re talking about a pause,” said Nigel Kuzemko, CEO at Steelhead LNG, which oversees the Vancouver Island project, called Kwispaa LNG, at Sarita Bay on the west coast. “Certainly for us, it’s a timeout.” Kuzemko said a final investment decision for Kwispaa had been scheduled for next year, but the timing for such a decision will be delayed indefinitely.

Huu-ay-aht First Nations leaders, who backed plans to build the LNG export terminal on their traditional territory, said they were “deeply disappointed” to learn that the project has been suspended. Kuzemko said he has shifted his attention away from plans for an LNG export terminal and is now devoting his efforts to developing plans for a gas pipeline from northeast British Columbia to Vancouver Island, which could someday feed the LNG plant. The LNG terminal and pipeline are estimated at $18 billion.

Kuzemko said he holds out hope that the Kwispaa terminal could eventually be revived — if the pipeline gains support from First Nations along the route. “The ability to build and get approval for pipelines in British Columbia is challenging,” he said. The majority owner of Steelhead LNG is Azimuth Capital Management, a private-equity firm based in Calgary. In a regulatory filing last year, Calgary-based gas producer Seven Generations Energy said it had invested $25.8 million and made other commitments for a 24.4 percent stake in Steelhead LNG, but had written down half of its investment value.

TransCanada wants to send western gas to New Brunswick

(Digital Journal; Feb. 19) - TransCanada is asking federal regulators for permission to sign new long-term supply contracts to ship gas from Western Canada through existing pipelines to eastern markets, including to Atlantic Canada. TransCanada said it already has the support of two gas distributors in New Brunswick — Enbridge Gas New Brunswick and Irving Oil — according to CBC Canada.

TransCanada said the gas from western provinces would fill the void left after ExxonMobil’s Sable Island platform shut down its gas production at the end of December 2018. When the Sable project started up in 1999, it led to the building of the Maritimes and Northeast Pipeline to carry its gas down to New England. More recently, the pipeline has reversed its flow to bring U.S. gas north to the province. But energy industry analyst Tom Adams said the gas coming north has to go through a bottleneck near Boston, causing higher prices in the winter when it is most needed.

“From a consumer point of view it’s really sad news,” Adams said. “The consequence is that now … almost all the gas supplied is coming in from New England. That means severe price volatility.” If TransCanada’s plan is approved, "it gives access to more capacity and more access to the Alberta-based gas,” said Enbridge general manager Gilles Volpé. “That gas is plentiful … but it's also very stable from a price point of view."

Nova Scotia LNG developer signs project labor agreement

(The Canadian Press; Feb. 19) – The developer of a proposed liquefied natural gas project said it has signed agreements with the Assembly of Nova Scotia Mi’kmaq Chiefs, the Nova Scotia Construction Labour Relations Association and unions in Cape Breton, Nova Scotia. Bear Head LNG said the benefits agreement with the assembly is its commitment to develop the project in an environmentally sustainable manner.

CEO John Baguley called it a “significant milestone” for the project. The company said its project labor agreement with the unions ensures a stable work environment for construction. The labor agreement governs the terms of employment for workers represented by unions at the project and gives priority to qualified residents of Cape Breton Island and mainland Nova Scotia.

The LNG terminal would have a nameplate capacity of 8 million to 12 million tonnes of LNG per year. Bear Head LNG still needs final regulatory approvals, financing, LNG sales contracts and gas supply contracts to feed the plant. The feed gas likely would have to come by pipeline from U.S. shale fields or Western Canadian gas producers.

Alberta goes ahead with oil-by-rail plan, without federal assistance

(Calgary Herald columnist; Feb. 19) - Alberta is making a costly bet on trains to help fix the province’s oil-transportation bottleneck. Premier Rachel Notley announced Feb. 19 that her government has reached agreements with Canadian National Railway and Canadian Pacific Railway that will allow the province to increase the movement of crude by rail from Alberta. The province has decided to lease about 4,400 rail tank cars, allowing it to ship an additional 120,000 barrels of oil a day out of Alberta by next year.

Alberta’s total investment is put at C$3.7 billion over three years — a lot of money for a province wrestling with a massive deficit. The province said the plan should generate $5.9 billion in increased oil royalties, taxes, and commercial revenue over three years — ultimately earning Alberta a profit. The intent is to help prevent another costly blowout in the price differential between U.S. crude and Western Canadian Select heavy oil.

Due to growing oil sands output and Canada's continued inability to build new pipelines, the price discount on Western Canadian Select soared above US$50 a barrel last fall.

Rail will play an important role as an intermediate solution, even though it is more costly and not as safe as shipping through pipelines. Alberta will buy oil from producers and use rail to ship it to other markets — potentially international and U.S. customers on the Gulf Coast. Meanwhile, Alberta has no assurance the feds will help with funding the program, almost four months after making its initial pitch to the government in Ottawa. "There comes a time where debating the number of angels on a pin with the federal government is not of value," Notley said. "We're going to go ahead."

Coal losing out to lower-cost renewables in India

(Reuters' columnist; Feb. 19) - India's demand for electricity is expected to double in the next two decades, and coal has long been forecast as the fuel of choice for power generation. But this may no longer be the case. It's not that India doesn't have plentiful reserves of coal. It does, and it's the world's second-largest coal producer and importer following China. It's not even that India's reserves are expensive to mine. They aren't.

The main reason coal may battle to fuel India's future energy needs is that it's simply becoming too expensive relative to renewable energy options such as wind and solar. In recent months, power-supply auctions have shown that renewables can be offered at less than 3 rupees (4 U.S. cents) per kilowatt hour, a rate that coal-fired generators have difficulty matching.

Rajit Desai, the head of engineering, procurement, and construction at private generator Tata Power, told a forum at this week's Coaltrans India conference that his company wasn't looking at developing any new coal plants. A further issue is that banks are becoming reluctant to lend to new ventures, and insurers are also becoming less keen to offer cover. This is largely because the risk that new coal plants are unviable is rising.

The question then is whether renewables can really meet the expected increase in demand for electricity. Coal won't disappear in India, with the existing fleet likely to generate power for at least two more decades. But coal's share of generation is likely to slip, and power companies will have to do more to prepare for the increasing likelihood that renewable energies are going to provide most of the new capacity in coming years.

New gas find may reduce Indonesia's need to import LNG

(Reuters; Feb. 20) - The discovery of a major gas field in Indonesia may push back the day the country's gas consumption outpaces its production while it reduces its reliance on imported liquefied natural gas, officials and analysts said Feb. 20. A consortium led by Spain's Repsol found new gas resources at the Sakakemang block in South Sumatra in Indonesia estimated to contain at least 2 trillion cubic feet, the company said Feb. 19. Repsol said it is among the 10 largest finds in the world over the past year.

"We hope early production can start the latest five years from now," said Arcandra Tahar, Indonesia's deputy energy minister. If the new find at the Kali Berau Dalam-2 well shows good results, Indonesia may be able to push back the estimate of 2025 for when it has a gas deficit, when consumption is greater than domestic supply, he said.

To protect against the looming gas supply deficit, Indonesia's state-owned energy company Pertamina recently signed a long-term contract with Anadarko to buy 1 million tonnes per year of LNG for 20 years from Mozambique. Anadarko is expected to make a final investment decision soon on the project, which could be operational by 2024. In the near- to medium-term, the Kali Berau Dalam-2 discovery will partially offset declining output from other Indonesian fields.

Ethiopian gas may go out as LNG via Djibouti

(Reuters; Feb. 17) - Ethiopia and Djibouti have signed a deal to build a pipeline to transport Ethiopian natural gas to an export terminal in Djibouti on the Gulf of Aden, officials said. Ethiopia found extensive gas deposits in its eastern Ogaden Basin in the 1970s, and China's POLY-GCL Petroleum Investments has been developing the Calub and Hilala fields since signing a production-sharing deal with Ethiopia in 2013. The landlocked country's gas resource is estimated at more than 8 trillion cubic feet.

The agreement between Djibouti and Ethiopia comes more than a year after POLY-GCL signed a memorandum of understanding with Djibouti to invest $4 billion to build the pipeline, gas liquefaction plant, and export terminal in Damerjog near the country's border with Somalia. The Ethiopian government said work could begin in 2020. "The two parties have reached an agreement in principle to allow them to benefit from the project in an equitable manner," Djibouti's Energy Minister Yonis Ali Guedi said Feb. 16.

POLY-GCL is a joint venture between state-owned China POLY Group and privately owned Hong Kong-based Golden Concord Group. Africa's eastern seaboard could soon become a major global producer of liquefied natural gas, with one smaller, floating LNG export terminal already under construction for Mozambique and two more larger, onshore LNG projects proposed for the country.

Payment dispute delays idle Egyptian LNG plant from restarting

(Reuters; Feb. 19) – Union Fenosa Gas said it had not received sufficient guarantees over a $2 billion payment it is owed in ongoing talks with Egypt to restart a liquefied natural gas plant that has been idle for several years due to a lack of gas supply. UFG said in September that it was "in conversations with Egypt to restart the plant as soon as possible." A World Bank arbitration body had ordered Egypt to pay the company.

Egypt was ordered to pay the money to the Spanish company for the lack of gas supply to the Damietta LNG plant, which opened in 2005. The single-train facility has capacity to make 5.5 million tonnes of LNG per year. Union Fenosa Gas holds an 80 percent stake, while two Egyptian companies hold the remaining 20 percent.

"Progress has been made but the guarantees offered are not sufficient to reach the comprehensive agreement required to bring the dispute to its end," UFG said in a statement Feb. 18, adding that the talks are continuing. UFG said in 2013 that Egypt was restricting gas supplies to the plant as it diverted gas to its domestic market. The plant has been idle since 2013. It is one of two LNG export terminals in the country. The other, with Shell and Malaysia's Petronas as majority owners, also was idled for lack of supply but resumed limited exports last year.

U.S. shale oil producers continue growth, but at slower pace

(Bloomberg; Feb. 20) - Surging U.S. shale oil production shows little sign of abating, despite industry spending cuts, as explorers learn to do more with less. Almost all the independent producers have reduced spending for 2019, but many still expect to deliver double-digit growth in output this year, fourth-quarter earnings reports show. Growth is slowing but still strong: The U.S. will add 1.45 million barrels of oil a day on average this year, down from 1.6 million in 2018, said the Energy Information Administration.

"The machine still has enough cash available that it can continue to grow," said Raoul LeBlanc, a Houston-based analyst at IHS Markit. The world "is not going to be flooded with oil, but still mildly glutted." The tumble in oil prices at the end of 2018, combined with investor demands for fiscal discipline, has prompted companies to only invest what they earn in cash flow, ending years of debt-fueled growth. But the scale of past investments and low costs mean the cutbacks will only put a dent in growth projections.

On average, U.S. explorers have cut their capital budgets 4 percent but are predicting a 7 percent increase in production in 2019, according to RS Energy Group, a Calgary-based researcher. The U.S. will likely pump a record 12.4 million barrels of crude per day this year, 13 percent higher than in 2018, according to the EIA. Most of the growth will come from the Permian Basin of West Texas and New Mexico.

China could face trouble funding its Belt and Road Initiative

(Nikkei Asian Review columnist; Feb. 15) - The news for China's grand Belt and Road Initiative has been unrelentingly bad. Malaysia Prime Minister Mahathir Mohamad has cancelled two mega Belt and Road projects, including a $20 billion railway, citing high costs. Pakistan's new leader has called for a review of the China-Pakistan Economic Corridor, to which China has committed more than $60 billion. Myanmar's government has said work on a suspended China-funded hydropower dam will not resume.

The Maldives, the tiny island nation in the Indian Ocean, is trying to renegotiate down the $3 billion debt it borrowed from China to fund projects. But inside China, it is hard to detect overt signs against the initiative to span half the globe with infrastructure. Beneath the surface, however, there is growing unease. With the country feeling an economic squeeze, fighting a trade war with the U.S. and facing criticism from nations receiving the funds, China's sceptics, including academics, economists, and business people, are quietly asking if government is putting its scarce resources to the right use.

Factoring in the trade war's impact on China's balance of payments in the future, China will unlikely generate sufficient foreign exchange surpluses to finance the initiative on the same scale as in the past. As a result, Beijing will have to review its commitments carefully. Grandiose projects conceived and launched when it was flush with foreign exchange will be reassessed. Some will have to be curtailed or even abandoned.