Oil and Gas News Briefs
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LNG Canada CEO says unanimous support may not be possible

(Globe and Mail; Canada; Jan. 22) – LNG Canada's CEO said it may not be possible to gain unanimous support for Canadian energy projects as he vows to press ahead with building the venture's liquefied natural gas export terminal in Kitimat, British Columbia, even as a group of hereditary First Nation chiefs opposes the 416-mile gas pipeline that would feed the plant. "B.C. and Canada are resource rich, but at the moment those resources are having a very difficult time getting to market," Andy Calitz said on Jan. 22.

He said media coverage has focused on the Unist'ot'en protest camp and the battle against TransCanada's Coastal GasLink, but there is strong support among elected indigenous groups for the LNG terminal and pipeline. "Regardless of the headlines and the protests, LNG Canada has every intention to complete our project," he said. "We have every intention to deliver the jobs and economic benefits we committed for First Nations, for local residents, and skilled tradespeople across all northern communities."

Calitz spoke at the B.C. Natural Resources Forum in Prince George, B.C. "I'm not convinced that it's possible for major infrastructure projects in British Columbia to get unanimous support. Our project is a case in point," Calitz said. "The conversation about hereditary versus elected systems of governance, and which hereditary leaders speak for indigenous people, is a conversation I will leave to other people to resolve. … There is far too much at stake for LNG Canada not to defend our project."

Oregon County again comes out against gas pipeline

(KOBI-TV; Medford, OR; Jan. 23) - For the second time in the past couple years southern Oregon's largest county by area has come out against a proposed natural gas pipeline. Jackson County commissioners on Jan. 22 considered the Jordan Cove Energy Project's removal-and-fill permit application for the pipeline and the liquefied natural gas terminal it would serve. The county's opposition letter to the state addresses erosion control, wildfire risk, a lack of financial assurance, and other concerns.

Commissioners said the application lacks information on protecting lands the pipeline would cross. The line would extend 229 miles from an interconnection point near Malin, Oregon, to the coastal community of Coos Bay, where the Calgary-based developer, Pembina Pipeline, proposes to build an LNG terminal. Jackson County is about in the middle of the pipeline route. The LNG plant and pipeline are estimated at $10 billion.

“We did want to provide comment, and staff went through over 3,600 pages of this application and gave us recommendations of areas that are a concern to the county,” said Colleen Roberts, Jackson County commissioner. A public meeting this month in Jackson County saw overwhelming opposition to the pipeline.

FERC misses target date for LNG project decision

(S&P Global Platts; Jan. 25) - The Federal Energy Regulatory Commission's inaction on Venture Global LNG's application for its Calcasieu Pass export terminal in Louisiana is raising concerns about a broader impact on approval schedules set for other U.S. LNG projects. Developers are already facing strong headwinds on the commercial side from trade tensions between Washington and Beijing. Also, the partial government shutdown impacted several federal agencies involved in FERC’s environmental review process.

Any regulatory hurdles could further complicate developers' efforts at a time when they are racing to make final investment decisions so they can start up the second wave of U.S. liquefaction facilities by the early- to mid-2020s to meet expected global demand. Venture Global LNG acknowledged the urgency when it requested earlier this month that FERC keep to its previously stated schedule, which called for a decision on certification by Jan. 22. That date passed without a decision.

Commissioner Cheryl LaFleur said Jan. 25 she believes there is a path forward on the dockets for the projects: "I hope through constructive engagement by commissioners we can work toward that goal.” Rick Smead, RBN Energy managing director of advisory services, said missing the target date for Venture Global LNG is of concern. "What we've got is basically a 2-2 commission, and if they don't resolve how they're going to deal with greenhouse-gas issues, stuff is just getting held up.” The issue is whether FERC should consider a project’s emissions from gas production to gas consumption.

Ontario will invest in small-scale LNG plant for highway communities

(CBC News; Canada; Jan. 25) - The Ontario government said Jan. 25 it is investing C$27 million toward construction and operation of a $54 million liquefied natural gas plant 12 miles north of Nipigon, to serve several remote communities along the Trans-Canada Highway with a population totaling about 11,000. It is also providing the communities along the north shore of Lake Superior with $3.4 million to help with the engineering, permits, and approvals to bring that gas to homes and businesses.

"This is truly amazing news for northern Ontario," said Monte McNaughton, Ontario's minister of infrastructure. "We're talking about 5,000 households that will have access to natural gas and 550 businesses, so it's going to make job creators more competitive and it's going to lower the cost of energy bills for families in northern Ontario." The project could create jobs in a region hit hard by the downturn in the forestry industry.

The promise of employment and a reduction in home heating costs are the main selling points for Jody Davis, mayor of Terrace Bay, a town of about 1,500. "In the wintertime, over the past several years, heating bills in some of our homes have been up to $1,000 per month." Consumers currently burn diesel, fuel oil, or propane. The LNG plant will get its gas from an existing TransCanada pipeline. Tanker trucks will haul the fuel to depots in the communities, where the LNG will be regasified and distributed in small-scale systems. Construction is expected to begin this spring with a 2020 start-up.

Slower demand growth weakens LNG prices in Asia

(S&P Global Platts; Jan. 24) - Slowing LNG import growth in Asia is taking its toll on global prices this winter, leaving the Platts Japan-Korea Marker this month at its lowest in three years and presenting a sign of rising headwinds for U.S. LNG exporters. Though China in December imported a near-record volume of LNG, some of the region's other large buyers, including Japan, India, and Taiwan, saw cargo deliveries decline last month compared to December 2017 levels.

In Japan, LNG imports were down about 4 percent compared to December 2017, driven partly by warmer weather but also by a spate of nuclear power plant restarts. Weak demand from some of Asia's legacy importers is keeping prices in check this winter. From Dec. 1 to date, the prompt-month Platts' benchmark price for Asian LNG imports has averaged just $8.69 per million Btu — its lowest for the peak-winter period since 2015-2016. On Jan. 23, the contract tumbled to $8.04 for March-delivered cargoes.

With nearly 50 percent of U.S. LNG cargoes now targeting Asian markets, exporters are already facing tough profit margins. In early December, weak import prices in Northeast Asia and record-high shipping rates briefly combined to push U.S. LNG netbacks into negative territory. On Jan. 23, the profit margin on a U.S. cargo delivered from Cheniere Energy's Sabine Pass, Louisiana, terminal to Japan/South Korea was estimated at $1.98, with the margin to West India at $1.61.

Western Canadian gas producers brace for continued low prices

(The Globe and Mail; Canada; Jan. 22) – A slow-burning crisis for Western Canadian natural gas is starting to boil over with depressed prices and inadequate pipeline access forcing producers to brace for the worst. The price of Alberta gas is trading at a deep discount to rival North American gas prices at hubs in Ontario and Louisiana. As of Jan. 23, Alberta hub prices traded at less than half of the price of Ontario gas.

Some gas producers can no longer hold the line. Last week Peyto Exploration and Development unveiled a new three-year vision that included slashing its dividend by two-thirds and curtailing production to buckle down for a prolonged era of depressed prices. Peyto also plans to build its own storage facility, so that it can store gas produced during the warmer months when consumer demand isn't nearly as high.

"This is not a Peyto issue," CEO Darren Gee said. "This is a Western Canadian natural gas issue." The pain is particularly severe for those gas producers not in the liquids-rich Montney formation, which spreads more than 400 miles from north to south across the British Columbia and Alberta border. The Alberta government last year appointed a panel of industry veterans to develop a road map to recovery for the industry.

TransCanada said it is updating its pipeline system with a $9.1 billion expansion that will connect 25 percent more gas to new markets by the end of 2022. However, even with that, the U.S. shale gas boom is taking away market share. "Our dominant export market is now our primary competitor," the Alberta panel warned.

Maybe it's time for Alberta to consider cutting back gas production

(Calgary Herald columnist; Jan. 22) - If curtailing production has helped Alberta's oil producers, can a version of it also work for natural gas? Hal Kvisle, former CEO of TransCanada and a member of the province's Natural Gas Advisory Panel, asks the question rhetorically. However, other players in the industry are wondering if some proactive steps are needed — including restricting gas production to balance output with pipeline capacity — to help boost gas prices and kick-start the sagging sector.

"I am not advocating for this just yet, but I might soon. The province needs to really seriously look at prorationing of gas coming into the system, just as they have done for crude oil," Kvisle said last week. "We would be crazy not to examine that carefully when you look at how well it's worked on the crude oil side." Prices for Western Canadian crude rebounded this month after Alberta ordered producers to cut back their output.

Alberta Energy Minister Marg McCuaig-Boyd isn't ready to make such a dramatic move for gas, but hasn't ruled out her options as the government goes through the advisory panel report. "I am not closing any doors," she said. Alberta gas at the AECO hub sold at US$1.54 per thousand cubic feet on Jan. 18, fully $2 behind U.S. benchmark gas prices. Talk of lowering output by producers comes as Alberta's gas industry is facing difficult times, slashing 2019 spending plans and preparing for an extended tough slog.

Energy projects will add thousands of jobs in British Columbia

(Alaska Highway News; Fort St. John, BC; Jan. 22) - Starting this year, thousands of skilled laborers and tradespeople will be needed in British Columbia for construction of multibillion-dollar energy projects — provided they don't get halted by the courts. Over the next two years, depending on when the various construction schedules peak, an estimated 10,000 to 11,000 workers will be needed for the Site C hydroelectric dam, the LNG Canada project and its accompanying Coastal GasLink pipeline.

If the Trans Mountain oil pipeline expansion ever restarts, the number would rise to around 15,000. "There is some competition and a trickle-down effect in these big projects," said Bob de Wit, CEO of the Greater Vancouver Home Builders' Association. "They pull many laborers, and skilled laborers as well, from other parts of the construction industry. That's a good thing, but the negative part of it is that it does drive labor rates at a time when we're pretty much at full capacity."

The $10.7 billion dam project employed 3,746 people in September 2018 — a number that is expected to increase to more than 4,000 in 2019. In 2021, at peak construction, the $40 billion LNG Canada project and gas line will directly employ 7,000, according to Tracey MacKinnon, workforce development manager for LNG Canada. "We should have shovels in the ground, beginning this spring, on [LNG Canada]," said Tom Sigurdson, executive director of the BC Building Trades. According to Trans Mountain, 4,500 workers would be needed for its $7.4 billion project during peak construction.

Novatek's Yamal LNG encroaching on Gazprom's market in Europe

(Bloomberg; Jan. 24) - Russia's two biggest gas producers have for years competed only at home, but that rivalry has unexpectedly spilled into Europe. Instead of shipping liquefied natural gas to Asia, lower prices there meant that Novatek has sent most of its Arctic gas supplies to European markets. The shipments from Novatek's Yamal LNG encroach on a region state-owned Gazprom has dominated for decades with pipeline gas sales just as it faces increased competition from new suppliers including U.S. LNG.

"Many people think there was a truce between Novatek and Gazprom not to touch the European market, to save the price for Gazprom," said Jean-Baptiste Dubreuil, a senior analyst at the International Energy Agency. Although Gazprom is unlikely to lose its crown in Europe, where it is pumping record volumes to offset declining domestic production and meets more than a third of demand, the increased LNG supply may force it to pare back some flows or risk lower prices.

It would be another blow for Gazprom after Novatek last year briefly overtook it in terms of market capitalization. Shrinking prices for LNG in Asia have made it more attractive for shippers to land the fuel in Europe. That's expected to remain the case through next winter. The result is that most of the LNG shipped from Yamal has ended up in Europe since the facility started more than a year ago. The plan had been for those supplies to mainly head to Asian markets, which usually offer a premium for the gas.

U.S. LNG flowing to Europe for higher margins, not politics

(Reuters; Jan. 25) - Energy companies are flooding Europe with U.S. gas, establishing a foothold in a market dominated by Russia and seen as a key battleground in Washington's efforts to curb Moscow's energy influence. Europe is now the top buyer of U.S. liquefied natural gas after a near five-fold spike in U.S. LNG sales to the continent this winter, overtaking South Korea and Mexico, a Reuters analysis showed.

Profit rather than politics is driving the increase. Energy companies have switched sales to Europe after prices in Asia fell on lower-than-expected demand. Prices in Europe, traditionally seen as a market of last resort, have held firm. "It's all about commercial reasons," said James Henderson, director of the gas research program at the Oxford Institute for Energy Studies. "U.S. LNG will go where there is the biggest margin."

U.S. LNG shipments to Europe totaled 3.23 million tonnes, or 48 cargoes, in October to January, compared to 0.7 million tonnes, or nine cargoes, a year ago. The U.S. is currently second only to Qatar as a supplier to Europe. Traders had expected Chinese demand to soar this winter but Beijing has bought cargoes well in advance and a mild winter has kept stocks high. A 10 percent tariff imposed by Beijing on U.S. LNG also has hurt. Awash in supply, sellers of U.S. LNG have pivoted to Europe.

In December and January, the Dutch gas price, which is used as a benchmark for LNG delivered to continental Europe, has been around $7.70 per million Btu. In contrast, Asian spot prices for LNG dropped in December and January, averaging $8.80. That lower premium on sales to Asia is insufficient to cover the higher shipping costs.

Exxon may take capacity at Germany's first LNG import terminal

(Reuters; Jan. 25) - German utility Uniper on Jan. 25 said ExxonMobil had signed a preliminary deal to take a substantial share of the regasification capacity at a liquefied natural gas floating terminal planned for Wilhelmshaven on the North Sea coast. "The heads of agreement (a non-binding draft) is an important step toward the realization of the Wilhelmshaven floating storage and regasification (FSRU) project," said Keith Martin, Uniper's chief commercial officer.

"The FSRU will provide LNG suppliers from the United States, but also other countries from around the world, with the opportunity to deliver LNG into the German and European markets," he said. LNG is seen helping the German government diversify away from pipeline gas arriving from Russia, Norway, and the Netherlands. LNG suppliers, most notably Qatar and the United States, have expressed interest.

The Wilhelmshaven FSRU is expected to have a send-out capacity of 350 billion cubic feet of gas per year and will be Germany's first LNG import terminal. The deep-sea port is close to storage facilities and pipelines. It's expected to begin operating in the second half of 2022. Uniper and Exxon will continue discussions over the coming months to seek binding agreements, Uniper said. In December, Uniper entered into agreements with Japanese shipping group Mitsui OSK Lines to own, operate and fund the FSRU.

Growing domestic consumption threatens Algeria's gas exports

(Reuters; Jan. 24) - Algeria will struggle to keep its natural gas exports at 1.8 trillion cubic feet per year in the medium term unless it curbs rising domestic gas consumption, a government document and top energy official said. Domestic consumption is expected to rise by 4.7 percent per year to almost 2.4 tcf by 2028, according to a document from the Algerian Electricity and Gas Regulation Commission. In 2018 domestic consumption was 1.6 tcf, it said.

"We can't continue like this. The rise in domestic consumption is putting in danger our capacity to fill our commitment toward our foreign clients, said Abdelmoumen Ould Kaddour, CEO of state energy firm Sonatrach. Observers said officials want to alert the public that Algeria needs to tap its shale gas reserves, estimated to be the world's third largest. The OPEC member has been talking to foreign oil majors regarding exploration of shale gas in southern Algeria. Sonatrach wants to speed up exploration this year.

But it needs to ensure that international companies do not face protests from local communities like those that forced Sonatrach to temporarily halt shale exploration testing near the In Salah gas field in 2015. The North African country subsidizes domestic gas and electricity as part of its welfare system. Algeria moves about two-thirds of its gas exports by pipeline and one-third as liquefied natural gas. It was the world's sixth-largest LNG producer in 2017.

Texas ranch owner discovers 'water is the new oil'

(Bloomberg; Jan. 24) - The water rights were front-and-center in marketing Toby Darden's 37,000-acre West Texas ranch, which just went under contract for a hefty $32.5 million. Broken down per acre, the price is higher than any similar sale in the Permian Basin for at least a decade. Not many who are familiar with these parts were surprised. "Water is the new oil," said Laura Capper, a Houston oil field consultant.

“The value of water has changed.” The reason is fracking. It is a massive consumer of water.

Ranches that can sell excess water earn a steady revenue stream. That was reflected in the price fetched by the ranch. The land was opened to pre-bidding before an auction planned this week. The auction was canceled when no one offered to match the price from Paul Foster, co-founder of Western Refining, which Tesoro acquired in 2017.

In the Permian, America’s busiest oil patch, a driller needs to blast as much as 60,000 barrels of water into a well every day, along with sand and chemicals, to crack open the oil-bearing rock. Demand for fracking water in the Permian has more than doubled from 2016, according to industry consultant Rystad Energy. Annual demand could grow to over 2.5 billion barrels by next year, accounting for nearly half of all U.S. oil field needs.

Back in 2005 when Darden and his family bought the ranch, he figured the value was in oil and gas. Then he commissioned a study, which showed the ranch could pump out as much as 400,000 barrels of water a day for 20 years. Darden, the son of a water-flood engineer, changed plans. There is some concern, however, that aggressive water sales could deplete the aquifer that individuals and businesses rely on. “We don’t want it to be pumped dry,” said Greg Perrin, who runs the county groundwater conservation district.

Sanctions on Venezuela could present problem for U.S. refiners

(Reuters; Jan. 23) - Potential U.S. sanctions on Venezuela’s crude oil exports would cut off the nation from Gulf Coast refiners that are among its biggest customers, likely forcing it to send more crude to China, India, or other Asian countries, traders said on Jan. 23. However, U.S. refineries that depend on Venezuela’s crude would have trouble securing supplies of comparable heavy grades of crude as U.S., Canadian, and Mexican crudes are limited in availability and are commanding higher prices than Venezuelan oil.

The United States is considering moves to cripple Venezuela’s oil shipments, which account for nearly all of the country’s exports, in response to the re-election of President Nicolas Maduro that was widely viewed as a sham. Venezuela exported 500,000 barrels of crude a day on average to the United States in 2018. Shipments to the United States account for about 75 percent of the cash Venezuela gets for crude shipments, according to a Barclays research note published last week.

“It will be costly for Venezuela but eventually they’ll be able to sell that oil to Asia at a discount,” said Francisco Monaldi, a fellow in Latin American Energy Policy at the Baker Institute for Public Policy at Rice University in Houston. Though the U.S. produces nearly 12 million barrels of oil a day, complex Gulf Coast refineries need heavier crude to produce diesel and other high-margin products and cannot simply substitute in light U.S. crude. Prices of heavier U.S. grades have risen as buyers scramble for supply.

Sinopec’s oil-trading unit lost almost $700 million last year

(Bloomberg; Jan. 25) - China’s largest oil refiner said its trading unit lost almost $700 million last year after being wrong-footed by zigzagging markets, revealing one of the biggest losses by a commodity trader in the past decade. Sinopec blamed the losses at its Unipec unit in part on “inappropriate hedging techniques.” It closed its positions after discovering the problem. Oil fell sharply in November and December, prompting traders to speculate that Unipec may have contributed to the drop as it unwound positions.

It marks a sharp reversal of fortunes for Unipec, which has grown over the past 25 years to become one of the largest and most aggressive oil traders. With operations spanning London to Singapore, the company trades about 5 million barrels a day, according to people familiar with the matter, putting it ahead of other giant merchants such as Glencore and Trafigura Group.

Sinopec said its trading arm reported operating losses of $688 million for the full year of 2018. “Unipec played with probably lousy controls and lost as markets turned,” said Jean-Francois Lambert, a former commodity trade finance banker at HSBC Holdings and industry consultant. “Beijing will be very upset and Unipec, if it survives, will be given very tight guidelines: Ensure sufficient supply and that’s it.” The troubles at Unipec were unearthed as prices began to fall in the final quarter of last year. Brent crude, the global benchmark, plunged from nearly $87 in October to under $50 after Christmas.

Indonesia will consider changes to oil and gas laws

(Reuters; Jan. 24) - Indonesia's government is expected to meet soon with parliament to discuss a long-awaited revision to its 2001 oil-and-gas laws after a push by President Joko Widodo for changes. Among the proposals is creation of a new government agency with authority over the industry’s upstream and midstream sectors and which could undertake oil and gas exploration and production or enter into partnerships. Currently, a different government agency acts only as a regulator of upstream ventures.

Existing law allows private companies and Indonesia’s state-owned Petronas — but not the regulatory agency — to explore and develop oil and gas resources. The new agency also would be responsible for development of refineries in the country and could work with private or state-owned enterprises on refinery ventures. New rules for the country’s petroleum fund — deposits of a portion of Indonesia’s oil and gas revenues —

would set out standards for investing in exploration, infrastructure and research in oil and gas.