Oil and Gas News Briefs
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U.S. Gulf Coast likely to load up on more LNG capacity in 2019

(Houston Chronicle; Jan. 1) - The growth of the U.S. Gulf Coast liquefied natural gas industry is set to accelerate in 2019 as at least three major projects are expected to get the go-ahead from developers. Those include a sixth liquefaction unit at Cheniere Energy's Sabine Pass complex in Louisiana; Golden Pass LNG, a joint venture of ExxonMobil and Qatar Petroleum, on the Texas side of Sabine Pass; and Calcasieu Pass LNG in southwestern Louisiana, developed by Venture Global, of Arlington, Va.

Within the next six months developers behind each project are expected to make final investment decisions, said analysts at Wood Mackenzie. The addition at Sabine Pass would boost its liquefaction capacity to 27 million tonnes per year, ranking it among the world's largest. At least two more Gulf Coast projects could receive FIDs later in 2019, Wood Mackenzie said: Houston-based Tellurian's Driftwood LNG, south of Lake Charles, La.; and a fourth liquefaction unit at Freeport LNG on Quintana Island, Texas, where the first of three trains under construction is scheduled to start up in September.

"North America is set to lead an expected record year for LNG project sanctions," said Alex Munton, principal analyst for Americas LNG at Wood Mackenzie. Developers are racing to build LNG export terminals to capture growing demand from Asian countries shifting from coal to cleaner-burning gas. The flurry of activity has the United States on track to become the third largest exporter of LNG in the world, behind Australia and Qatar. LNG investment has "sprung back to life" after a lull in 2018 due to increased activity from buyers willing to sign long-term contracts, Wood Mackenzie said.

Analysts say LNG supply could tighten up by 2025

(Forbes' columnist; Dec. 31) - Few doubts are expressed over short-term availability of liquefied natural gas, especially as new U.S. export terminals come onstream. Research and analysis firm GlobalData forecasts global liquefaction capacity to grow by 61 percent from 412.6 million tonnes per year in 2018 to 664.3 million by 2022. Much of the new capacity will come from North America with the region projected to add about 200 million tonnes — with 80 percent of that capacity coming from the United States.

Soorya Tejomoortula, an oil and gas analyst at GlobalData, said the figure is impressive but is expected given abundant U.S. gas production, especially from shale. "We are witnessing the reshaping of the global LNG landscape." However, despite billions of dollars that will be spent on new LNG capacity, Ashutosh Shastri, director at EnerStrat

Consulting, urges caution amid strong long-term demand growth projections. "Absence of viable offtake could result in projects not taking off as planned," Shashtri said.

“The market appears to be in a good balance till 2022, but beyond that there are clouds on the horizon,” Shastri said. Analysts at Rystad Energy share the same concern. "Expectations of a tighter LNG market set the scene for a major shortfall looking ahead to 2025,” said Sindre Knutsson, a senior analyst at Oslo-headquartered Rystad. “While the market is projected to see very strong supply growth centered on flexible U.S. LNG volumes over the next two years, global demand is growing even faster."

LNG carrier shortage drives spot-charter rates to $190,000 a day

(Nikkei Asian Review; Jan. 2) - A shortage of transport vessels could become a bottleneck in the growing market for liquefied natural gas. While demand for LNG shipments to Asia is steadily increasing as China and other nations look to boost their consumption of eco-friendly gas, the supply of ships is not keeping pace with growing demand for spot charters. Spot-charter rates for LNG carriers stood at the $190,000 per day range in November, five times higher than in early May.

The market has changed considerably since 2015-2016, when the rates were around $20,000 to $30,000 per day amid anxiety about a glut of vessels. "We did not expect that we would run short of vessels so quickly," said a person in charge of LNG carriers at a major Japanese shipping company. In addition to demand growth in China, other countries in Asia are also turning to gas. In 2018 Bangladesh began importing LNG and the Philippines also set up plans to build its first LNG import terminal.

Bloomberg New Energy Finance estimates global LNG demand will grow to 450 million tonnes by 2030, from 284 million in 2017. About 600 LNG carriers are in use worldwide with about 40 more expected to enter service in 2019. However, most are chartered for new projects under long-term contracts and only a limited number will flow into the spot-charter market. "The risk of a lack of timely investment in the LNG carrier fleet could pose a threat to market development," the International Energy Agency said in a report.

Canadian gas producers, government losing out to low prices

(Ottawa Citizen; Dec. 31) - Natural gas has become Alberta’s “forgotten commodity,” quietly suffering through the same steep price discounts that have plagued Alberta’s oil but has not received the same government attention or assistance as oil. “It’s absolutely a similar situation,” Advantage Oil and Gas CEO Andy Mah said of the challenges facing the gas and oil sectors. Alberta’s spot-market gas prices traded for just under $2 per 1,000 cubic feet on Dec. 28, almost $1.50 less than the benchmark

Henry Hub price in Louisiana. At various times through December the discount has been as much as $3.

“The discounting problem for gas is far worse than it is for oil and it’s persisted for longer,” RS Energy director Samir Kayande said. Gas was previously the main driver of Alberta’s budget surpluses, but a years-long decline in prices and lack of new export markets for producers has caused gas to fall out of favor with investors. Mah said the steep discounts for gas equate to about $23 million per day in foregone revenues for Canada’s economy or $9 billion per year. “It’s not as big as oil but it’s still substantial.”

By comparison, when Western Canadian Select oil prices suffered record-breaking US$50-per-barrel discounts relative to the U.S. benchmark through the fourth quarter of 2018, the Alberta government estimated the loss to Canada’s economy at $80 million per day. The government commissioned a report published in December by former TransCanada CEO Hal Kvisle that laid out a series of steps the province could take to fix the gas-price situation – from demanding changes in how the gas pipeline networks operate to direct provincial investments in liquefied natural gas export facilities.

Shell slows down gas drilling until LNG Canada project starts up

(CBC; Jan. 2) - Construction is underway on the Shell-led C$40 billion LNG Canada project in Kitimat, British Columbia, but patience is needed since it will take five years to build. Meanwhile, Western Canada’s gas industry seems stuck with low prices, a lack of pipeline capacity and stagnant demand. "The mood is definitely one of excitement," said Rej Tetreault, Shell Canada’s manager of gas projects. "It's a bit muted because the current market is very low and that's curtailing our own short-term activities."

Tetreault overseas the Groundbirch gas operation near Fort St. John, in northeastern B.C. The company has 500 wells in the area that produce gas. Even though Shell is spending billions of dollars to construct the LNG terminal, in the interim the company is limiting its spending on producing gas. Over the next two years, no new wells will be drilled. As a result, production will drop by about 15 percent because of natural declines.

For much of the past year, prices in Alberta have been less than $2 per million Btu. In 2014, prices were over $5. "It's still a big challenge out there [for natural gas producers]," said Martin King, a commodities analyst with GMP FirstEnergy. "I think they're kind of hanging on with their fingernails." While the industry waits for the LNG plant to be built, King said companies have to "batten down the hatches."

Maryland board rejects controversial gas pipeline

(Washington Post; Jan. 2) - Maryland officials voted Jan. 2 to block the use of state land by a gas pipeline that activists have been fighting for two years. The unanimous vote by the Board of Public Works came after more than 60 members of the Maryland General Assembly wrote a letter urging the board to deny a request from Columbia Gas to build the 3.5-mile line. The connector line would bring shale gas from Pennsylvania to West Virginia, crossing the narrowest point at the western end of Maryland's panhandle.

The board decision presents a serious hurdle for the project, which had been approved by federal and state regulators. Columbia Gas, a subsidiary of TransCanada, could challenge the decision. "Today's vote denying our easement request is unfortunate," TransCanada spokesman Scott Castleman said. "That being said, it does not change the need for, or the company's commitment to," the gas distribution expansion project.

Environmentalists said the pipeline could jeopardize the drinking water supply of about 6 million people, many of them in the Washington metropolitan area even though the proposed route is about 100 miles away. Opponents who came to the Board of Public Works meeting applauded after the vote. In a letter sent to the board on Jan. 1, state lawmakers said the pipeline would "reverse course on our state's efforts to protect the health of our residents and combat climate change. … Moreover, enabling fossil fuel production runs counter to our state's goals of increasing renewable energy production."

Boston editorial questions wisdom of LNG imports vs. new pipelines

(Boston Globe editorial; Dec. 28) - Massachusetts' aversion to expanding gas pipelines — originally driven by geography but now on the belief that stopping them helps fight climate change — has forced residents and businesses to rely on places where gas is produced with looser rules. More than 2 trillion cubic feet of gas has been liquefied and shipped since 1999 as LNG to a terminal in Boston harbor from Trinidad and Tobago.

But in interviews with residents, lawyers and members of Trinidad's environmental community, a picture emerges of a plant that has created jobs but also upset residents who live in its shadow; induced more offshore drilling that hurts fishing; worsened air quality; and critics say fails to fairly compensate the twin-island state of Trinidad and Tobago for its resources. Whether it's really a less expensive and disruptive option than pipelines for Massachusetts may depend on whose expense and disruption matters.

Skepticism about the LNG industry in Trinidad and Tobago extends to the government — in part because revenues have failed to live up to expectations. While LNG was envisioned as a moneymaker, tax receipts have plunged, which the government attributes in part to oil and gas companies skirting the country's net-tax structure. "Trinidad and Tobago is not benefitting as we should from our natural gas resources, in the way that it was envisaged that we would," the nation's prime minister, Keith Rowley, said in March. Massachusetts has what it wants: a way to make its symbolic stands against fossil fuels — while still getting them through someone else's backyard.

Tanzania wants to learn from past mistakes in negotiating LNG deal

(All Africa; Jan. 1) - The fear among Tanzanian government officials of repeating past mistakes in mining pacts is cited as the main cause of delays in starting negotiations with companies seeking to build a liquefied natural gas export project. The companies and the government have yet to sign a commercial framework agreement, with the government saying it needs time to make the right decisions for the benefit of the country. Officials are cautious not to sign deals that may prove costly in the future.

"Even if we take 40 years to finalize, the agreements should benefit the country and its people," said Energy Minister Medard Kalemani. Equinor (formerly Statoil) has said it is ready to start talks with the government on developing an LNG project. But companies have said any investment decisions will have to wait on the outcome of the negotiations. Other producers with interests in Tanzania include Shell, ExxonMobil, and Ophir Energy.

Shell said its focus is the host government agreement, which will set out the legislative, regulatory and fiscal terms of any project to develop the more than 50 trillion cubic feet of offshore gas reserves. Tanzania's minerals, oil, and gas could transform the country's economy if utilized effectively, but the sector has been clouded with uncertainties, suspicion, and vague contracts. Since 2015 the government has gone through a series of events ranging from amending laws to firing officials involved in shady deals.

Alberta residents rally for new oil pipelines

(The Canadian Press; Dec. 29) - Speakers at a pro-pipeline rally in Alberta continued their attacks on the Canadian prime minister Dec. 29, saying if leaders in Ottawa don't hear their message now, they will when a convoy arrives there in February. Chad Miller, with the group Oilfield Dads, told the rally in Rocky Mountain House, 100 miles northwest of Calgary, that Alberta is suffering its "worst recession turned depression" in a generation due to low oil prices, worsened by a lack of pipeline capacity.

"Even those that put away for the rainy days and then some have had to use their savings, and more, to try to weather this never-ending, hard-times scenario," Miller said. Numerous rallies and truck convoys have been held across Alberta and Saskatchewan in recent weeks to protest against federal actions that critics said make building new pipelines more difficult. Those include legislation to revamp the National Energy Board and a bill that would ban oil tanker traffic on British Columbia's northern coast.

A convoy in Medicine Hat, Alberta, last weekend attracted 650 vehicles, according to police, and groups are planning one in February that will travel from Western Canada to Ottawa. “Today I say to Ottawa, can you hear us yet?” Miller asked the crowd during the Dec. 29 rally. “Don’t worry, you’ll see us in February when we convoy to Ottawa!” Jason Nixon, who represents Rocky Mountain House in the provincial legislature, said what Alberta really wants is new pipelines to move oil to more buyers for better prices.

U.S. oil prices last year fell for first time since 2015

(Bloomberg; Dec. 31) - Oil suffered through its first annual price decline since 2015, slumping more than 20 percent in a turbulent year that saw fears of scarcity turn to expectations of a surplus. The U.S. benchmark price closed Dec. 31 at under $46 a barrel, down from almost $58 at the start of the year amid growing concern the U.S.-China trade dispute and tightening Federal Reserve monetary policy are weakening global demand for crude.

Highlighting the muscle of U.S. crude producers, stockpiles at a key oil storage hub in Oklahoma probably rose 1.2 million barrels last week, according to a Bloomberg survey of analysts released Dec. 31. U.S. oil exports “have saved the day recently, but if that’s not going to continue and you’re going to build storage, that’s not a good sign,” said Bob Yawger, director of futures at Mizuho Securities USA.

Even with less drilling, U.S. still on track for record oil output in 2019

(Wall Street Journal; Dec. 30) - Some frackers are scaling back next year’s drilling plans amid weak crude prices, a quick reversal for an industry that months earlier saw 2019 as a banner year. Still, the cuts so far have been modest and shale drillers remain on track to push U.S. crude production to new highs next year, further pressuring a global market straining due to oversupply. Several producers have reported they plan to operate fewer rigs in 2019 or recently reduced their production plans in the country’s most active drilling region, the Permian Basin in Texas and New Mexico.

Analysts expect similar announcements from more shale drillers in the weeks to come, as companies revise their capital budgets for the year. Many shale companies are under pressure from investors to show financial discipline and live within their means. “Operators are in a world where they don’t have a lot of budget flexibility,” said Matthew Portillo, a director at energy investment bank Tudor Pickering Holt & Co. Even with those budgets, producers can still add 1 million barrels a day or more, Portillo said.

U.S. oil prices have fallen around 40 percent since their October high, reaching their lowest price in more than a year. Texas-based Parsley Energy had expected to generate free cash flow for the first time by the end of 2019, but now anticipates spending up to $250 million more than it takes in. The U.S. Energy Information Administration in early December said it anticipates oil production will average 12.1 million barrels daily in 2019, up from an average of 10.9 million barrels this year.

U.S. shale oil wells not always as productive as forecast

(Wall Street Journal; Jan. 2) - Thousands of shale wells drilled in the past five years are pumping less oil and gas than their owners forecast to investors, raising questions about the strength and profitability of the fracking boom that turned the U.S. into an oil superpower. The Wall Street Journal compared the well-productivity estimates that top shale-oil companies gave investors to projections from third parties about how much oil and gas the wells are now on track to pump over their lives, based on public data.

Two-thirds of projections made by the shale producers between 2014 and 2017 in America's four hottest drilling regions appear to have been overly optimistic, according to the analysis of some 16,000 wells operated by 29 of the biggest producers in oil basins in Texas and North Dakota. Collectively, the companies that made projections are on track to pump nearly 10 percent less oil and gas than they forecast for those areas, according to the analysis of data from Rystad Energy, an energy consulting firm.

The shale boom has lifted U.S. output to a record 11.5 million barrels a day, shaking up the geopolitical balance by putting U.S. production on par with Saudi Arabia and Russia. The Journal's findings suggest current production levels may be hard to sustain without greater spending because operators will have to drill more wells to meet growth targets. Yet shale drillers, most of whom have yet to consistently make money, are under pressure to cut their spending in the face of a 40 percent fall in oil prices since October.

Flawed forecasting doesn't mean U.S. output is about to drop, but if thousands of shale wells produce less over their lifetimes, companies will need to spend more to sustain output — making it harder for them to reach profitability.