Oil and Gas News Briefs
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Texas producer seeks state permission to flare nearly all its gas

(Wall Street Journal; July 17) - A pipeline company is challenging Texas' practice of allowing drillers to set unwanted natural gas on fire, in a case that could test state limits for how much of the fuel can legally go to waste. As companies turned America into the world's top oil producer, they unlocked massive quantities of gas as a byproduct. Texas has allowed them to freely burn off — flare — vast volumes of gas as pipelines fill up.

Now, shale producer Exco Resources is seeking to flare nearly all of the gas produced from a group of South Texas wells, even though its operations are already connected to a network of pipelines. Williams Cos., the operator of the pipelines, is challenging the request in what is believed to be the first such dispute on record. Williams' attorney told state regulators in a hearing last month that granting Exco's request would open the door to wasting gas any time doing so is more profitable than transporting it.

The Texas Railroad Commission has received more than 27,000 requests for flaring permits in the past seven years and has not denied any of them, records show. Exco has said that rejecting the company's permit application could force a shutdown of the wells. Attorney David Nelson argued at the hearing that doing so would potentially reduce long-term oil production. The company recently emerged from bankruptcy.

The case exposes a growing rift between producers and pipeline companies as the gas glut is set to worsen. In the region's two largest oil basins, the Permian Basin and Eagle Ford, operators flared or vented — releasing gas into the air —an average of 740 million cubic feet of gas a day during the first quarter, according to energy analytics firm Rystad Energy. That gas would be worth about $1.8 million a day at current prices.

LNG trucks would deliver 360 loads a day to N.J. export terminal

(New Jersey Spotlight; July 17) - The U.S. Army Corps of Engineers divulged new details July 16 about plans for New Jersey's first export terminal for liquefied natural gas, showing it would be supplied by as many as 15 trucks an hour — around the clock — to fill an oceangoing tanker every two weeks. The previously unpublished information about the proposed terminal at Gibbstown in Gloucester County came from new details the agency received after it published a public notice on the project in April.

The gas, produced from Pennsylvania's Marcellus Shale, would be liquefied at a proposed plant in Bradford County, Pa., built by New Fortress Energy. The new document said LNG would not be stored on site but would be pumped directly from the delivery trucks into ships. To limit the impact of the heavy truck traffic on residential areas, Gloucester County is proposing a new access road to a port that would be expanded to accommodate the LNG terminal, the document said.

The new road would be about 110 feet from the nearest residential area and the terminal's loading area would be built at least a mile away from those homes. Traffic would average 360 trucks a day, each carrying 12,000 gallons of LNG — about 1 million cubic feet of gas. The developer has also proposed moving the LNG to the terminal by rail but that idea hasn't yet been approved by the U.S. Department of Transportation, the Army Corps report said. The new information may fuel critics who question the project near a residential area and who oppose fracking in natural gas production.

Malaysia seizes funds, suspends China's work on two pipelines

(Reuters; July 15) - Malaysia seized more than 1 billion ringgit ($243.5 million) from a bank account of state-owned China Petroleum Pipeline Engineering (CPP) over incomplete pipeline projects, Prime Minister Mahathir Mohamad said July 15. The seizure comes nearly a year after Malaysia suspended two pipeline projects, valued at $2.3 billion, for which CPP was the lead contractor. CPP is a unit of state energy giant China National Petroleum Corp.

"I understand that money for 80 percent of the pipeline was paid, but the work completed was only 13 percent," Mahathir told reporters. "So the government is entitled to get back the money, since the project was canceled." In an email sent to Reuters late July 15, CPP said it understood Malaysia's Anti-Corruption Council had ordered the fund transfer and that it was made without the company's knowledge.

In 2016, CPP won a contract from the government of former Prime Minister Najib Razak to build a 375-mile petroleum pipeline along the west coast of peninsular Malaysia and a 410-mile gas line in Sabah, the Malaysian state on Borneo Island. Both projects were suspended by Mahathir in July last year after he defeated Najib in the 2018 national election. Mahathir had vowed to renegotiate or cancel what he calls "unfair" Chinese projects authorized by Najib, straining ties with Malaysia's biggest trading partner.

Papua New Guinea prime minister talks taxes at birthday party

(Reuters; July 16) - Papua New Guinea's new prime minister used Oil Search's 90th birthday party to press the country's biggest company and its oil-major partners to pay more tax to the impoverished Pacific island nation. Prime Minister James Marape's comments come as Oil Search and partners ExxonMobil and Total face potential delays on a $13 billion plan to double liquefied natural gas exports from the country, with the new government seeking to win a larger economic share from resource projects.

Oil Search has long prided itself on work it does in Papua New Guinea communities, including funding health care and literacy programs, but Marape said that is not the company's job. "Going into the future, we will not be asking much of you in terms of community-service obligation, but we will be asking you to pay your fair share of tax," Marape said in a speech at Oil Search's 90th birthday celebration in Port Moresby on July 12. Excerpts were released July 16.

"We will be asking of you and others in the industry for a greater participation in ... downstream processing. We'll be asking of you for a clearer, better definition of what local content is," he said. Oil Search said in a statement July 16 that it fully supports Marape's call for all companies operating in the country to pay their fair share of tax.

LNG developers meet with new Papua New Guinea prime minister

(S&P Global Platts; July 16) - Oil Search will revise the timeline for front-end engineering and design for its Papua New Guinea LNG expansion after the country's new government decided to review a project-related gas agreement, the company said July 16. Papua New Guinea's largest company had been expecting to make a FEED decision in the second half of 2019, but the country's new government intends to review the gas agreement signed in April with the previous government.

That agreement included a supply obligation to the domestic market, an acquisition of equity interest in the project by the state with a deferred payment mechanism, and support for local workforce development. "The Papua LNG Gas Agreement, which was signed by all joint-venture parties as well as the government, was a key prerequisite for entering the FEED phase of the Papua LNG project," Oil Search managing director Peter Botten said. Oil Search and joint-venture partners ExxonMobil and Total have met with the Prime Minister James Marape in recent weeks, Botten said.

Russia sees LNG sales to Asia as protection against U.S. sanctions

(Nikkei Asian Review; July 14) - Russia wants closer cooperation with Japan and China in developing the country's Arctic natural gas reserves, as establishing more buyers in Asia will help insulate its companies against additional Western sanctions. "U.S. sanctions against Russia are likely to expand this year," said Elizabeth Rosenberg, senior fellow and director of the energy, economics and security program at the Center for a New American Security, a Washington-based think tank.

In addition to protecting itself against more economic sanctions, Russia is boosting its Arctic production of liquefied natural gas to counter growing competition from U.S. LNG exports. Growing U.S. shale gas production has fueled Russian efforts to lift its own LNG exports. The lower liquefaction costs in the cold air of the Arctic makes Russia's gas price-competitive, said Andrey Polishchuk, an analyst at Raiffeisen Bank in Moscow. "The fact that companies have been able to attract investment, regardless of whether there are sanctions, shows the optimism about these (Russian) projects."

Russian gas producer Novatek agreed on June 29 to sell a 10 percent stake in its Arctic LNG-2 project to Japanese trading house Mitsui and state-owned Japan Oil, Gas and Metals National Corp. Two Chinese firms — China National Oil and Gas Exploration and Development Corp. and China National Offshore Oil Corp. — have a 20 percent stake in the project. The terminal is scheduled to go online by 2023 and will supply Japan with 2 million tonnes of LNG a year — about one-tenth of the project's capacity.

U.S. and China could take the leads as top LNG exporter, importer

(Reuters; July 16) - The U.S. and China will become the world's biggest liquefied natural gas exporter and importer, respectively, in five years, according to projections by the International Energy Agency. U.S. LNG exports are expected to rocket to more than 3.5 trillion cubic feet of gas in 2024, dislodging current market leaders Australia and Qatar, Jean-Baptiste Dubreuil, senior natural gas analyst at IEA, said July 16.

China's LNG imports, meanwhile, are expected to surge to more than 3.5 tcf in 2024, more than 75 million tonnes of LNG, topping those of current world leader Japan. Japan's LNG imports have mostly declined since peaking in 2014 as utilities restart nuclear plants shut down after an earthquake and tsunami damaged the Fukushima nuclear plant in 2011. Dubreuil spoke at an event sponsored by Columbia University's School of International and Public Affairs Center on Global Energy Policy in New York.

The IEA said it expects global LNG demand to grow about 4 percent a year through 2024. To meet that demand, developers have made final investment decisions on twice as much new LNG production capacity already this year as in all of 2018, Dubreuil said. Another doubling of projects could come in the second half of the year, he said, much of it driven by growing demand in China. The IEA, however, expects gas demand in China to slow to an annual rate of 8 percent through 2024 due to weaker economic growth.

Small LNG plant near Vancouver signs 2-year deal to supply China

(Bloomberg; July 17) - FortisBC is considering further expansions of its gas liquefaction facility on the Fraser River near Vancouver after landing its first term contract to send LNG to China. The utility company, which has operated its Tilbury LNG plant since

1971, said July 16 it has signed a two-year contract to ship 53,000 tonnes per year starting in the summer of 2021 to Chinese LNG distributor Top Speed Energy Corp.

FortisBC's recently completed $400 million expansion took the plant's capacity from 35,000 to 250,000 tonnes per year, allowing the facility that had been used mainly for gas storage for peak demand to become a commercial LNG production plant, said Doug Stout, vice president of market development. "This plant allows us to serve the local marine and transportation markets as well as the smaller-scale export opportunities."

He said the company is considering an expansion of similar size in the next couple of years. Marine demand for LNG fuel is expected to rise next January when the International Maritime Organization begins to enforce new emissions standards to curb pollution from ships burning high-sulfur heavy oil. Small-scale shipments are a growing component in the global LNG sector, especially when the customers are small or unconnected to a pipeline grid, said Alex Munton, an analyst for Wood Mackenzie.

The FortisBC shipments to China will be delivered in 60 specialized shipping containers per week. The volumes will go to smaller commercial and industrial customers that don't have access to gas, potentially displacing coal or fuel oil, Stout said. FortisBC has been selling small shipments of LNG in China on a spot basis since 2017.

Oregon questions fault line maps used for LNG project

(The Oregonian; Portland; July 16) - The state of Oregon says federal environmental impact findings for the proposed Jordan Cove liquefied natural gas project are inadequate and sometimes incorrect. Some of the most critical feedback came from Oregon's Department of Geology and Mineral Industries, which evaluated project plans to handle landslides, tsunamis, and a Cascadia subduction zone earthquake.

State agencies submitted 250 pages of comments on the Federal Energy Regulatory Commission's draft environmental impact statement for the $10 billion project in Coos Bay, proposed by Calgary-based Pembina. "Geologically, it's a very active area," said Yumei Wang, a resiliency engineer at the geology department. She said for natural disasters like a Cascadia earthquake, it's not if it's going to happen, it's when. "When it happens, has the facility been designed to be safe?"

Wang said the project relied on outdated information and technology in its analysis. For example, the department said the project relied on earthquake fault data from the U.S. Geological Service along the pipeline route. But by examining more recent maps, the department "identified dozens of previously unknown active faults." Because planners didn't do that, "they really can't propose mitigation that is acceptable," Wang said.

FERC approves LNG export project in Mississippi

(Midland Reporter-Telegram; Texas; July 17) - Federal regulators have given Kinder Morgan the green light to build its Gulf LNG export project in Mississippi, once again overcoming opposition from those concerned about LNG terminals' impacts on climate change. The Federal Energy Regulatory Commission approved Gulf LNG in a 3-1 vote on July 16. It's the fifth liquefied natural gas export project the agency has approved so far this year as it catches up with a backlog of applications for new LNG projects.

Developers are racing to build new terminals to take advantage of growing supplies of natural gas unleashed by the U.S. shale boom and increasing demand for LNG globally. Kinder Morgan originally developed the Gulf LNG site as a liquefied natural gas import terminal in 2009. But with record production from U.S. shale plays creating a surplus of gas, the Houston company filed an application with FERC in July 2015 seeking permission to redevelop part of the site as an export terminal.

The project would add 11.5 million tonnes of export capacity to the terminal in Pascagoula, Mississippi. FERC Commissioner Richard Glick voted against approving the project, raising arguments he has previously made against other LNG projects. "The commission is again refusing to consider the consequences its actions have for climate change," Glick, a Democrat, wrote in a dissenting opinion. The issue of counting greenhouse gas emissions has previously delayed FERC action on other LNG projects.

Australian LNG exports totaled $50 billion last year

(Australian Financial Review; July 15) - Liquefied natural gas has become a $50 billion-plus commodity export powerhouse for Australia after a 21.2 percent jump in shipments in 2018-19, with the country set to usurp Qatar as the biggest exporter this year. Figures from consultancy EnergyQuest show Australia exported some 75.1 million tonnes of LNG in 1,111 cargoes in the past fiscal year, generating an estimated $50.5 billion of revenues, behind only iron ore and coal. The bulk was sent to Japan and China.

Most of last year’s growth was from new LNG projects in Western Australia and the Northern Territory, but in findings that look set to inflame tensions in the overstretched East Coast domestic gas market, exports from Queensland also rose slightly. Queensland's exports grew to 21.8 million tonnes in 2018-19, up from 20.5 million the previous year. Last month the three LNG plants on Gladstone's Curtis Island increased output to 89 percent of their rated capacity, above the 80 percent seen in most of 2018.

However, no LNG from Queensland was sold in the Asian spot market, with all cargoes going to fulfill long-term contracts. That signals the LNG exporters, led by Shell, Santos, and Origin Energy, are adhering to an agreement with the federal government to offer any gas available beyond LNG contract commitments first to domestic customers. East Coast gas prices for domestic consumers have risen sharply since exports ramped up, creating financial hardships on industry and raising calls to protect local customers.

Chevron says its British Columbia LNG plant would be all electric

(Bloomberg; July 15) - Chevron is seeking approval to modify its plans for a proposed liquefied natural gas export facility in Kitimat, British Columbia, to an all-electric design that it said will result in the lowest greenhouse-gas emissions per tonne of LNG of any large project in the world. Chevron and its partner Woodside Petroleum earlier this year applied to expand the plant's capacity by as much as 80 percent to 18 million tonnes a year, triggering a new federal screening that's expected to "commence shortly," said a July 8 letter filed by Chevron with the provincial environmental assessment office.

As part of the proposal to expand the plant's output, the project is proposing to become an "all-electric plant" powered by hydroelectricity. LNG is created by supercooling gas to minus 260 degrees Fahrenheit in an energy-intensive process typically powered by burning gas. Chevron's Kitimat LNG instead proposes electric motors totaling 700 megawatts to run all liquefaction, compressors, pumps, and fans. It would buy the hydropower from the provincial utility, according to its revised project description. It will have backup diesel power generators onsite for emergencies. Chevron and Woodside expect to make a final investment decision in 2022 to 2023 with start-up in 2029.

Japan's Inpex to start engineering work next year on Indonesia LNG

(Reuters; July 16) - Japan's Inpex plans to start front-end engineering and design on the $20 billion Masela gas project in Indonesia next year, CEO Takayuki Ueda said July 16, with production from the giant field due to start by 2027-2028. Inpex has secured the Indonesian government's approval for the plan, as well as the company's request for a 20-year extension to the production-sharing contract, Ueda told reporters in Jakarta.

The project will focus on meeting Indonesia's domestic gas demand in the future, while Inpex is also looking at LNG buyers in Japan, China, and other Asian markets for most of the gas, Ueda said. The $20 billion Masela project, also known as the Abadi LNG plant, had been delayed for years after Indonesia asked the Japanese company to shift it from an offshore to an onshore facility. The Japanese oil and gas company aims to wrap-up its final investment decision in three to four years, Ueda said.

Under the revised plan, Inpex, which controls 65 percent of the project, will produce 9.5 million tonnes of LNG a year, as well as distribute 150 million cubic feet of gas per day through pipelines for local consumption. It would be the company's second LNG project. Inpex is the lead on Ichthys LNG in Australia, which shipped its first cargo last year after delays and cost overruns on the $40 billion venture.

Coal gets short-term boost in Japan, but it's not likely to last

(Reuters columnist; July 16) - The dilemma facing coal miners is neatly encapsulated by the current dynamics of Japan, where robust short-term demand contrasts with a diminishing long-term outlook. Japan, the world's third-biggest coal importer behind China and India, is planning on returning coal-fired power plants with a combined capacity of over 10 gigawatts in the next few weeks to meet peak summer demand.

The country's utilities are preferring to restart coal generation than use cleaner-burning liquefied natural gas, which is considerably more expensive. But while coal sellers, particularly Japan's biggest suppliers Australia and Indonesia, may relish the return of coal-fired power for summer, the longer-term outlook for Japan isn't nearly so rosy. Japan's pipeline of coal-fired power projects is shrinking as utilities, trading houses and banks become increasingly reluctant to propose and finance new coal projects.

Stricter environmental rules are a factor in the diminishing coal pipeline, with Japan's environment ministry saying in March it would likely be opposed to new coal projects or expansions at existing plants. It's likely that over the next decade or so Japan's demand for thermal coal will drop, although the long life of existing coal-fired plants will ensure it doesn't plummet. The greater risk to coal in Japan is that it loses some of its competitive edge against LNG, and that more idled nuclear power units are returned to service.

Permian Basin has its growing pains

(Bloomberg; July 16) - The engine of America's shale boom is beginning to sputter. The almost relentless drive that has doubled crude output from the Permian Basin in three years is showing some signs of waning. Oil flows from the formation spanning West Texas and New Mexico are set to increase by less than 1 percent in August from July, data from the U.S. Energy Information Administration show. So far this year, the monthly growth rate has exceeded 2 percent only once, compared to six times in 2018.

Producers are dialing back growth plans due to pipeline jams, slower flows from wells drilled too close together and higher costs for acreage. The dilemmas are killing returns, keeping investors at bay and pushing companies to merge. Gas also has its problems, with producers needing more pipeline capacity to get more of their output to market. Help is coming from a wave of multibillion-dollar petrochemical plants being built along the U.S. Gulf Coast to take advantage of cheap feed gas to make plastic raw materials.

The latest one is an $8 billion partnership between Qatar Petroleum and a Chevron-Phillips 66 joint venture. That follows ExxonMobil and Saudi Arabia's state-controlled petrochemicals company approving construction of a new chemical complex in Texas last month. Meanwhile, a dispute between Mexico and pipeline companies threatens a much-needed relief valve for gas from the Permian. Mexico's state-run power utility is considering $3 billion in arbitration claims against pipeline operators.

Alberta gas producers, pipeline company may have reached a truce

(Calgary Herald; July 16) - Natural gas producers in Alberta have pitched the provincial government on a plan to voluntarily limit their output. A group of five gas producers as well as TC Energy, the country's largest gas pipeline operator, have been meeting with provincial officials since the beginning of the year to work out a solution on how to fix the beleaguered gas industry hit hard by low prices.

The talks have touched on a range of issues, but the biggest and most fractious has been how to resolve a two-year fight between the gas producers and TC Energy, previously called TransCanada, over how the pipeline giant allocates space on its Nova gas system when certain lines are down for maintenance. The producers say TC Energy limits their access to gas storage during maintenance, which results in wild swings in the gas price and lower and/or unpredictable gas royalties for the province.

The battle has exposed deep divisions within the gas industry with some producers demanding TC Energy make immediate changes, others asking the province to force through a solution, and still others advocating for the government to stay out of it and let market forces do the work. After months of infighting, a truce between the producers and TC Energy has been reached, sources said, with a proposal that would allow producers to voluntarily scale back production during maintenance periods on TC Energy's pipelines in exchange for royalty credits from the province.