Oil and Gas News Briefs
Compiled by Larry Persily
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New tariff threats could hurt Chinese investment in U.S. LNG

(S&P Global Platts; May 6) – U.S. LNG export project developers face new challenges securing financing after President Donald Trump's threat to escalate his trade war with China, at a time when some are already having trouble signing deals with Asian buyers. The heightened tensions come during a key moment in America's evolution as a major LNG supplier to global markets. Most of the dozen or so projects under development for start-up in the 2020s were hoping to make final investment decisions this year or next.

U.S. LNG shipments to China have fallen off dramatically in the seven-and-a-half months since Beijing imposed a 10 percent tariff on U.S. gas in retaliation over an earlier round of duties on Chinese products that Washington implemented. "Increasing tariffs will only slow the discussion and could have real long-term impacts on the pace of U.S. LNG export project development and the many benefits these bring," said Charlie Riedl, executive director of the Center for Liquefied Natural Gas, an industry group.

The trade dispute between the U.S. and China would add more risk, possibly limiting Chinese investment in additional U.S. LNG capacity. "It further deters Chinese LNG buyers from signing long-term deals with U.S. LNG projects," said Edward Chow, of the Center for Strategic and International Studies. "Such 10- to 20-year contracts require stability of terms for both sides and provide the financial underpinnings for investors in new U.S. LNG projects to reach a final investment decision and to obtain financing."

Trump's tariff threats come as China was buying more U.S. oil

(S&P Global Platts; May 6) - President Donald Trump's threat over the weekend to raise tariffs on Chinese goods took traders by surprise as Chinese companies had begun increasing purchases of U.S. crude and readying U.S. LNG supply deals in the run-up to final trade negotiations. U.S. crude cargoes were being arranged for July delivery even as Trump's tweets roiled markets on May 6, with traders saying it was difficult to ascertain if the threats were rhetoric or an official stance ahead of trade talks.

A senior executive at a Chinese state oil company, who declined to be named, said U.S.-China trade talks would be impacted as the discussions had become more complicated amid Trump's escalating tariff rhetoric. Executives from state-run oil and gas companies were scheduled to be a part of the delegation accompanying Vice Premier Liu He to Washington on May 8.

Unipec, the trading arm of China's state-run Sinopec, had bought two cargoes of U.S. crude for delivery in late April and early May, its first such imports since September when purchases stopped due to trade tensions. Sinopec has just completed its crude purchasing schedule for July arrivals, and the Sinopec Hainan refinery has secured 1 million barrels of U.S. crude for July delivery, a refinery source said. "If the government adopts a tit-for-tat tariff approach and imposes additional tariffs on U.S. crude, we may have to switch back to using West African crude," another source said.

Anadarko says it will authorize Mozambique LNG on June 18

(Houston Chronicle; May 8) - Anadarko Petroleum said May 8 that its multibillion-dollar Mozambique liquefied natural gas project is expected to move forward in mid-June. The question is which company will own the $20 billion LNG project in eastern Africa: Chevron or French energy major Total. Houston's Occidental Petroleum is currently winning its bidding war against Chevron to buy Anadarko for nearly $40 billion.

If Occidental wins out, it will sell Anadarko's Africa assets to Total for $8.8 billion with the Mozambique LNG project as the primary component of the contingent sale. If Chevron ups its bid and wins Anadarko, then Chevron would develop the project on its own. Regardless, Anadarko said it plans to authorize the project on June 18 and commence heavy construction. Anadarko had been finalizing financing for the huge LNG export terminal when Chevron announced a bid for the company.

"With commitments for financing in place, off-take secured, and all other issues under negotiation successfully addressed, we are excited to take the next step with the expected announcement of a final investment decision for the Mozambique LNG project on June 18," said Anadarko CEO Al Walker. Anadarko's partners in the project — at 12.88 million tonnes annual capacity — are Mitsui, Mozambique state energy company ENH, Thailand's PTT, and Indian energy firms ONGC, Bharat Petroleum, and Oil India.

Chevron drops out of bidding for Anadarko

(CNBC; May 9) - Chevron said May 9 it will not submit a new offer to acquire Anadarko Petroleum, walking away from the deal after Occidental Petroleum pulled ahead in a battle to take control of the driller with prized assets in the top U.S. shale oil field. The decision means Chevron will collect a $1 billion break-up fee, a windfall that it could use to purchase another driller in the Permian Basin, the engine of the U.S. shale oil boom.

Anadarko announced May 6 that its board had unanimously decided that Occidental's revised $38 billion bid was superior to a $33 billion Chevron buyout. Anadarko had said it intended to break its agreement with Chevron and strike a deal with Occidental if

Chevron did not submit a better offer. "Winning in any environment doesn't mean winning at any cost," Chevron Chairman and CEO Michael Wirth said in a statement.

The bidding war for Anadarko underscored the value of its prized assets in the lucrative Permian Basin of West Texas and New Mexico. The vast shale field holds oil and gas deposits that can produce supplies for decades using low-cost drilling. Despite technically losing, some analysts applauded Chevron for avoiding a bidding war. "Chevron did exactly the right thing and walked away, and the client feedback has been raining in positive," said Mizuho Securities analysts Paul Sankey.

Occidental CEO outmaneuvers Chevron in fight for Anadarko

(Bloomberg; May 7) - Occidental Petroleum CEO Vicki Hollub is on the cusp of winning a David-versus-Goliath bidding war that has captivated the oil industry. After making a series of approaches to rival Anadarko Petroleum about a merger over the past two years, Hollub was outflanked last month when Anadarko embraced a takeover offer from Chevron, despite it being considerably lower than Occidental's $38 billion bid. But the University of Alabama-trained engineer didn't back down.

In a series of bold moves that included securing a $10 billion investment from Warren Buffett, Hollub is back in pole position in the fight. In gaining the stamp of approval from Anadarko's board May 6, she boxed Chevron CEO Mike Wirth into a corner with the uncomfortable choice of tarnishing his reputation for financial conservatism and upping his bid — or conceding defeat. "Hollub is ripping up the playbook and running an all-out offense on the Anadarko board to favor her bid," Mizuho analyst Paul Sankey said.

Three moves have been key to Hollub's ascendancy in the biggest oil-industry bidding war in years. First, she flew to Omaha to explain the deal's benefits to Buffett and returned with a huge investment. Second, she hammered out a sale of Anadarko's African assets to France-based Total for $8.8 billion, locking down a tranche of cash to help pay down debt. A third obstacle was that Anadarko was concerned Occidental needed a shareholder vote while Chevron didn't. To change that, Hollub increased the cash portion of Occidental's offer to eliminate the need for a vote.

Buffet says his investment in Occidental is a bet on oil prices

(CNBC; May 6) - Billionaire investor Warren Buffett said May 6 that Berkshire Hathaway's $10 billion investment in Occidental Petroleum is a bet on oil prices over the long term. "It's also a bet on the fact that the Permian Basin is what it is cracked up to be," the chairman and CEO of Berkshire said. But "oil prices will determine whether almost any oil stock is a good investment over time. … If [oil] goes way up, you make a lot of money."

Berkshire has committed to invest $10 billion in Occidental to help fund its proposed acquisition of Anadarko Petroleum. Berkshire would make the investment by purchasing 100,000 shares of preferred stock, which pays out an 8 percent annual dividend. Buffett was willing to invest $20 billion to help Occidental seal the deal, sources told CNBC. Occidental is battling Chevron to take over Anadarko.

Asked why Berkshire wouldn't just buy Anadarko itself, Buffett said, "That might have happened if Anadarko came to us, but we wouldn't jump into some other deal that we heard about from somebody else coming to us seeking financing." Later in the interview, longtime investing partner and Berkshire vice chairman Charlie Munger responded to the question as well, saying, "Nobody asked us to."

Chevron doesn't have to win Anadarko deal, but it has a lot to lose

(CNBC; May 6) – Chevron insists its fortunes don't rely on deal making, but the oil major nevertheless has much to lose if it does not prevail in its ongoing battle with Occidental Petroleum to take control of Anadarko Petroleum. Since Occidental first revealed its challenge to Chevron's agreement to buy Anadarko, many analysts at first saw Chevron as the likely victor. The prize includes acreage in the top U.S. shale oil field, new offshore opportunities and a major liquefied natural gas project in Mozambique.

While Occidental put in a higher bid, Anadarko's global operations better dovetail with Chevron's international portfolio. And with a far larger balance sheet than Occidental, Chevron can more easily digest an acquisition of this size. But despite those advantages, the momentum appears to have swung in Occidental's favor following a series of unexpected developments, including Warren Buffett's Berkshire Hathaway commitment to invest $10 billion in Occidental to fund the Anadarko purchase.

To be sure, losing the bidding war would not be a devastating blow for Chevron. "If [Chevron] does not acquire [Anadarko], it still walks away in a good position, in our view: management shows its commitment to capital discipline and has $1 billion of extra cash from the break-up fee," investment bank Morgan Stanley said in a research note May 6. Still, if Occidental wins, Chevron would lose a tie-up with Anadarko that would give it a 75-mile-wide strip of land in the Permian Basin, the top U.S. shale field.

Tellurian reaffirms investment decision this year on Louisiana LNG

(Reuters; May 8) - Tellurian confirmed on May 8 that it still plans to make a final investment decision on its $30 billion Driftwood liquefied natural gas export project in Louisiana in 2019. The company, in a first-quarter earnings statement, said it was on track to start construction in 2019 and begin operations in 2023. Driftwood is designed to produce 27.6 million tonnes per year of LNG, with about half that volume in its first phase. The Federal Energy Regulatory Commission last month approved the project.

Driftwood is one of more than a dozen U.S. and Canadian LNG export terminals under development with plans to make a final investment decision in 2019. Together the projects would produce more than 150 million tonnes per year of LNG. Analysts, however, have said only a handful of the plants will likely be built over the next five years or so. Current U.S. LNG export capacity is about 39 million tonnes, with 51 million tonnes under construction.

Current partners in Driftwood LNG include units of Total, trader Vitol, India's Petronet LNG, General Electric and Bechtel, which has a $15.2 billion contract to build the liquefaction facility in Calcasieu Parish.

Total looking to expand its position in LNG market

(Energy Voice; May 6) - French oil giant Total is now "comfortably" the world's second largest seller of liquified natural gas, according to energy consultancy Wood Mackenzie. But it is not standing still. Total on May 5 agreed to acquire Anadarko's natural gas assets in Algeria, Ghana, Mozambique, and South Africa from Occidental, if Occidental is successful in its bidding against Chevron to take over Anadarko.

Wood Mackenzie research director Nicholas Browne said Total is the world's second-largest LNG seller after Shell. "The potential acquisition of Anadarko's stake in Mozambique LNG is representative of Total's ambitious and aggressive expansion of its LNG position," Browne said. "It acquired Engie's LNG business in 2018 and has a plethora of pre-FID (final investment decision) opportunities which it is aiming to sanction within the next two years."

Total has stakes in several proposed projects, Browne said, listing Russia's Arctic LNG-2, Papua LNG, Nigeria's seventh LNG liquefaction train, expansion at the Cameron LNG project in Louisiana, and the Tellurian-led Driftwood LNG in Louisiana. The company also is seeking to participate in Qatar's expansion of its LNG capacity. "Its focus on LNG investment is part of a wider company shift to cleaner fuels," he said.

Arctic LNG-2 decision expected in the third quarter

(Reuters; May 8) – Russia's Novatek will make a final investment decision on its Arctic LNG-2 project to liquefy and export natural gas in the third quarter of this year, chief financial officer Mark Gyetvay said May 8. "The final investment decision will be made sometime early third quarter. We don't have a date yet, but we have contracted 75 percent of the construction already, and materials," Gyetvay told a conference in

Lithuania. The $20 billion terminal would produce 19.8 million tonnes of LNG per year. Having sold 20 percent equity in the project to two Chinese buyers and 10 percent to Total, Gyetvay said Novatek hopes to sell another 10 percent in the coming weeks.

Japanese companies bail out struggling LNG plant builder

(Nikkei Asian Review; Japan; May 6) - Japanese trading house Mitsubishi and MUFG Bank plan to provide more than 150 billion yen ($1.4 billion) to support struggling Chiyoda, one of the world's leading builders of liquefied natural gas plants. Chiyoda's restructuring will serve as a barometer of the outlook for Japan's infrastructure export ambitions, a keystone of Prime Minister Shinzo Abe's economic policy.

As rising costs and waning demand spur companies to bow out of overseas nuclear power operations, the hope is that LNG work will pick up the slack. Mitsubishi, which holds a 33.4 percent stake in Chiyoda, will provide the bulk of the new capital through a private placement of new preferred shares as well as loans. MUFG Bank, an arm of Japanese megabank Mitsubishi UFJ Financial Group, will provide financing as well.

Chiyoda's woes stem from its work on Sempra Energy's Cameron LNG project in Louisiana, where Chiyoda racked up about $770 million in additional costs. Mitsubishi sees LNG as a major earnings driver, anticipating growing demand for the fuel amid tougher environmental regulations. A strong relationship with Chiyoda will help Mitsubishi access more work around the world, and Mitsubishi's bailout of Chiyoda reflects its bullish outlook for LNG exports. Chiyoda is one of four companies worldwide capable of building large-scale plants, alongside compatriot JGC, Europe's TechnipFMC, and U.S.-based Bechtel. Chiyoda, however, enjoys a technical advantage over its rivals.

Oregon denies water-quality permit for LNG project

(Mail Tribune; Medford, OR; May 6) - The Oregon Department of Environmental Quality has denied a Clean Water Act permit for a liquefied natural gas terminal and gas pipeline in Southern Oregon, but said the developer could apply again and submit new information to address the reasons behind the denial. The state "does not have a reasonable assurance that the construction and operation of the project will comply with applicable Oregon water-quality standards," the agency said May 6.

The Canadian-headquartered energy company Pembina wants to build a 229-mile gas pipeline through Klamath, Jackson, Douglas, and Coos counties to a proposed LNG export terminal north of Coos Bay, called the Jordan Cove LNG project. The department said Pembina failed to demonstrate that construction and maintenance of the pipeline and LNG facility wouldn't harm waterways and fish habitat. The project could increase erosion and landslide hazards, the agency said in its evaluation and findings report.

Opponents of the project called the denial a potentially fatal blow to the project, which is also being reviewed by the Federal Energy Regulatory Commission. “Oregon’s decision shows that when we come together and speak out, we can win,” said Hannah Sohl, director of Rogue Climate, one of the organizations in a coalition opposing the project. “Pembina’s management team is working to better understand this decision and its impacts and will communicate updates when appropriate,” the company said.

LNG project would be largest emitter in Oregon

(Oregon Public Broadcasting; May 3) - If the Jordan Cove liquefied natural gas export terminal and pipeline project proposed for Oregon is built, it would become the single largest greenhouse-gas emitter in the state. Annual emissions calculated as part of the federal environmental impact statement for the LNG development total 2.14 million tonnes per year. That compares to Portland General Electric’s Boardman Power Plant — the only coal-fired power plant in Oregon — at 1.7 million tons of carbon a year.

The massive compressors to liquefy the gas at the Coos Bay terminal would take a lot of energy to run. A compressor station near Klamath Falls would push gas from Canada and the Rockies down the 229-mile Pacific Connector Pipeline to the LNG terminal. “It will certainly reverse a lot of work that we have done in the state … since our emissions peaked in 1999,” said Angus Duncan, chair of Oregon’s Global Warming Commission.

Oregon has carbon dioxide emissions goals of 51 million tonnes for 2020 and 14 million in 2050. The Oregon Global Warming Commission said last year the trajectory “does not put Oregon on a path toward achieving its long-term goal.” In 2017, emissions were nearly 65 million tonnes. “This project would constitute a larger and larger proportion of our allowed emissions … while giving no energy to the grid in Oregon,” said Allie Rosenbluth, the campaign director at Rogue Climate, a grassroots group organizing opposition to the Jordan Cove LNG project. The project developer is waiting for regulatory approvals, customers and financing before making its investment decision.

Canadian regulators hear jurisdictional dispute over gas line

(Coast Mountain News; Bella Coola, BC; May 7) - A constitutional challenge to the Coastal GasLink pipeline project is now in the hands of Canada’s National Energy Board. Michael Sawyer, a resident of Smithers, B.C., argued to the NEB that British Columbia did not have jurisdiction to approve the project, and had it been assessed under federal jurisdiction it might not have been approved. The pipeline, entirely within British Columbia, will feed the LNG Canada terminal, now under development in Kitimat.

“I don’t believe there was a proper assessment of the true environmental and social and economic costs of this (pipeline), and what I would like to see happen is that that get done,” Sawyer said in an interview from Calgary, where the NEB held hearings on his challenge May 2 and 3. Coastal Gaslink’s legal counsel Sander Duncanson countered, “The provinces have the right to control works and undertakings within their boundaries, including facilities related to the production of resources.”

The NEB, Duncanson said, has the power to regulate “provincial works … only to the extent required to maintain interprovincial transportation and communication networks.” Even if he wins, Sawyer said, he is a long way from stopping the project. It will be at least two months before the NEB comes back with a decision, and then, win or lose, there will likely be an appeal. While his challenge is based on a jurisdictional argument, Sawyer’s motivation is environmental — he opposes the pipeline and the LNG terminal.

TransCanada completes name change to TC Energy

(Reuters; May 3) - Pipeline company TransCanada said May 3 it has completed its name change to TC Energy, reflecting the expansion of its business beyond Canada to the United States and Mexico. “TC Energy better describes our complete business, which ... has grown steadily to become a C$110 billion enterprise with critical assets and dedicated employees across three countries,” CEO Russ Girling said at the company’s annual general meeting.

Girling said there were no plans to move the company’s headquarters out of Calgary. TC Energy still has extensive operations in Canada, including the Keystone pipeline, which transports 20 percent of western Canadian crude exports to U.S. refineries, and natural gas pipelines, which are part of one of the largest gas transmission systems in North America.

But TC Energy has been struggling to make progress in building new oil export pipelines out of western Canada. The company has been working for more than a decade to build the controversial 830,000-barrel-per-day Keystone XL pipeline to boost export capacity from oil-rich Alberta to U.S. refineries. Keystone XL faces hurdles in the United States, including a pending Nebraska Supreme Court decision related to the pipeline’s route and a lawsuit by two Native American communities in Montana.

Gibraltar starts up LNG-fueled power plant

(S&P Global Platts; May 7) - Gibraltar announced May 7 the opening of a new liquefied natural gas import terminal built by Shell and its subsidiary Gasnor (100 percent owned by Shell), in an effort to provide cleaner energy for the local market. As part of efforts to switch to burning natural gas instead of diesel, the import terminal will provide LNG for a newly commissioned 80-megawatt gas-fired power plant.

Shell said LNG deliveries will occur at night, twice a month, to reduce any disruption to the neighboring port and airport. Double-walled stainless-steel tanks at the terminal will store the LNG for the power plant. Gibraltar, population about 35,000, is a British territory on Spain's south coast.

B.C. premier complains of gasoline prices in Vancouver

(The Canadian Press; May 7) - Premier John Horgan has asked the British Columbia Utilities Commission to investigate why gasoline in Metro Vancouver and Vancouver Island is so much more expensive than the rest of the country. A statement from the premier's office said Horgan spoke with Canadian Prime Minister Justin Trudeau on May 6 and brought up his concerns, making it clear that gas hovering around C$1.70 a liter is of national importance (about US$4.76 per gallon).

Horgan's request to the utilities commission on May 7 asks that it explore why prices have shot up by 40 cents a liter in the past few months. "Across the province, but particular in Metro Vancouver and on Vancouver Island, people are alarmed at the rapid increase in the price at the pumps," his letter said. Horgan's letter said that, historically, wholesale prices have been between 2½ and 4 cents a liter more in Vancouver than in Edmonton, but that gap has widened over the past four years to almost 24 cents a liter.

Horgan says B.C. residents can't accept a situation where the price of gasoline — correcting for differences in tax rates — is increasingly out of line with prices in the rest of Canada. Metro Vancouver residents pay more than 50 cents a liter in taxes to the federal and provincial governments and for carbon, transit, and other taxes.