Oil and Gas News Briefs
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Canadian oil line construction estimate jumps 70% in 3 years

(The Canadian Press; Feb. 7) - Expanding the Trans Mountain oil pipeline will now cost at least C$12.6 billion — a major increase from the 3-year-old estimate of C$7.4 billion on a project that Canadian Finance Minister Bill Morneau insists the government still plans to sell back to the private sector. "The project … remains commercially viable and, I think, very interesting for the eventual commercial buyers that we're going to be seeking, because we don't intend on keeping this in government hands," he said Feb. 7.

Trans Mountain Corp., the federally owned company managing the project, already has spent $2.5 billion, leaving an additional $8.4 billion needed to complete the project, plus $1.7 billion of financial carrying costs. Trans Mountain CEO Ian Anderson said about half of the 70% cost increase was from delays and the other half from design changes, such as adding thicker pipe in some areas and enhanced leak-detection provisions. He said the expanded line is expected to be in service by December 2022.

The 2017 estimate of $7.4 billion was made by Houston-based Kinder Morgan, which sold the line to the federal government in 2018 for $4.5 billion. The company said the political risk that the project would never get built was too much to bear. Ottawa decided it would finish the job to ensure more Alberta oil could move to an export terminal on the British Columbia coast, almost tripling the line's capacity to 890,000 barrels a day.

"At the end of the day, we see this as the federal government's responsibility," said Alberta Environment Minister Jason Nixon. "We're in this situation because of their political failure and we expect them to get the job done." Critics have attacked the project's greenhouse-gas emissions and oil-spill risks. Opponents have vowed to do whatever it takes to stop the project despite losing another court case this week.

Second oil train in two months derails in Saskatchewan

(CBC News; Feb. 7) – The early morning train derailment Feb. 6 about a mile east of Guernsey, Saskatchewan, was the second Canadian Pacific Railway crude oil crash near the small hamlet in less than two months. The first was Dec. 9, when a train hauling oil derailed west of Guernsey. At least 19 of its cars leaked an estimated 9,500 barrels of crude. No estimate has been released for the second accident, in which 31 of the train's 104 cars derailed. Increasing volumes of oil is moving by rail in western Canada as the area lacks sufficient pipeline capacity to handle the region's production.

Federal Transport Canada Marc Garneau ordered all large trains carrying dangerous goods on federal rail lines slow down — even as the speed of the Feb. 6 accident remained unclear. The Dec. 9 train was travelling about 45 mph, the maximum speed on that section of rail, said the Transportation Safety Board. Garneau's countrywide order called for trains going through metropolitan areas not to exceed 20 mph.

Everywhere else — including the portion of the Sutherland subdivision near Guernsey — trains can now only travel up to 25 mph — a nearly 50% reduction in maximum speed for that area. "I am very concerned about the derailments of railway cars containing dangerous goods in the past 12 months," Garneau said of his 30-day order. “The tank cars don't seem to be able to contain anything and they do pile up and there's big releases," said Ian Naish, a former director of rail investigations for the TSB. "Is it a coincidence," he said of the two derailments, "or is it a systemic deeper problem?"

OPEC and Russia unable to agree on oil-price rescue plan

(CNN Business; Feb. 6) - The rapidly spreading coronavirus in China poses the biggest demand threat to the oil market since the 2008 financial crisis. Yet OPEC and Russia can't agree on a rescue plan. Saudi Arabia, seeking to cushion the blow, proposed further production cuts during three days of meetings in Vienna this week. But Russia is pushing back — even though fears about the coronavirus have sent oil prices crashing.

The Russians said "they need more time" to weigh recommendations from the group's technical committee and assess the impact of the coronavirus on the market, a source close to the negotiations told CNN. The coronavirus has clobbered oil prices as it is destroying demand in China. The compromise proposal from Saudi Arabia was to cut oil output by 600,000 barrels a day. In explaining its caution to cut output, Russia said U.S. crude production growth would slow down anyway and global demand remained solid.

The apparent conflict between OPEC and Russia dashes hopes that the group will be able to arrest the sharp decline in prices. "The coronavirus has completely taken the oil market hostage," said Michael Tran, director of global energy strategy at RBC Capital Markets. "The market is watching what OPEC does with bated breath." Global oil prices have fallen about 20% since early January. OPEC must now decide if wishes to act alone without the support of Russia. Such a move could jeopardize the OPEC+ alliance that has worked well in recent years to put a floor beneath weak oil prices.

Russia’s reluctance to support Saudis has a long history

(Bloomberg commentary; Feb. 6) - Revenge, they say, is a dish best served cold. That seems to be the view of the Russian government, as it contemplates how to respond to pleas that it join Saudi Arabia and other OPEC members in cutting production to deal with impacts on oil demand from the coronavirus outbreak. Talks between Russia and the Organization of Petroleum Exporting Countries have dragged on all week in Vienna as Moscow has resisted agreeing to any reductions, delegates told Bloomberg News.

With the market already looking well-supplied, OPEC's technical experts are said to have recommended a cut of 600,000 barrels a day. Russia has its own immediate reasons for standing pat. The country's oil output last year hit its highest level since the days of the Soviet Union, reaching about 11.25 million barrels a day. There's also a deeper historical symmetry to what's happening — one embedded in the five-decade struggle between Russia and Saudi Arabia for supremacy in the global oil market.

Back in 1985 the Saudis abandoned the policy of supporting prices and elected to flood the market instead. Saudi Arabia, as the lowest-cost producer, survived. But the Soviet Union lost approximately $20 billion per year, without which it could not survive. Now the tables have turned. While Saudi Arabia can still boast some of the lowest production costs in the world, its bloated spending means that it needs a price of about $85 a barrel to balance its budget, compared with about $50 in Russia. There remains a good chance that Moscow will eventually bow to the wishes of OPEC and cut production. This is no time for two of the biggest producers to be consumed by a decades-old rivalry.

Chinese executives say oil demand could drop 25% this month

(Financial Times; London; Feb. 5) - Chinese energy executives are projecting that the country's oil consumption will plunge by 25 percent this month as the deadly coronavirus outbreak paralyses travel and shuts down industrial activity in the world's second-biggest economy. Executives at some of the country's largest refineries expect that nationwide demand will fall by a staggering 3.2 million barrels a day in February from last year — a drop equivalent to more than 3 percent of global consumption.

Oil prices have already crashed on expectations of plunging demand as the Chinese authorities quarantined cities, restricted air and road travel, and extended factory closures following the lunar new year holiday. Projections of senior executives in China — the world's top oil buyer — are likely to further undermine the market. "The epidemic has dealt a huge blow to our business," said one executive at a Chinese refinery. An executive at another refinery said that if the spread of the virus peaked in the coming weeks, China's oil demand could remain at least 10% lower in March than a year ago.

The country's gasoline and diesel consumption fell almost two-thirds during the new year holiday from a year earlier, said another executive. The average capacity utilization rate among independent refineries in Shandong — a center of the refining trade — has fallen to between 40% and 50%, a historical low, two of the executives said. "Everyone is waiting for the turning point, but no one knows when," said a refinery executive.

International Monetary Fund says oil demand could peak by 2040

(CNBC News; Feb. 6) - Global oil demand will peak around 2040 – or “much sooner” – the International Monetary Fund said in a new report on the future of oil. The IMF said this could have a significant impact on oil-exporting countries, predominantly those in the Middle East whose existing financial wealth could be depleted in the next 15 years if major reforms aren’t undertaken.

“Growth of global oil demand will significantly decelerate, and its level could peak in the next two decades,” the IMF said in its report entitled, “The Future of Oil and Fiscal Sustainability in the GCC (Gulf Cooperation Council),” published Feb. 6. The IMF said analysis of past oil market developments revealed “a strong and sustained declining trend in the global oil demand after accounting for income and population growth.”

This reflected a range of factors, the IMF said, such as long-term improvement in energy efficiency and moving away from oil, trends that have so far been “veiled by the effects of economic and population expansion.” The trend, the agency said, “is poised to become more visible in the coming years, resulting in a path of gradually slowing — and eventually declining — global demand for oil.” Demand would peak “by around 2040 in our benchmark projection or much sooner in scenarios of stronger regulatory push for environmental protection and faster improvements in energy efficiency,” the IMF said.

LNG down to $3.15 in Asia, ‘whole market is really oversupplied’

(Wall Street Journal; Feb. 6) - Liquefied natural gas is fetching the lowest price on record in Asia, a troubling sign for U.S. producers that have relied on export sales of shale gas to buoy their sagging domestic market. The main price gauge for liquefied natural gas in Asia fell to $3.15 per million Btu on Feb. 5, down sharply from more than $20 five years ago as U.S. deliveries have swamped markets around the world.

As recently as Jan. 15 the Asian benchmark, called the Japan Korea Marker, was comfortably above $5. Around then fear that the coronavirus outbreak would stall economic activity in the world’s second-largest economy added to other factors already pressuring prices. Those included a mild winter in Asia, ample local stockpiles, and increasing deliveries from U.S. gas liquefaction facilities.

“The fundamentals were already really weak,” said Ira Joseph, head of gas and power analytics at S&P Global Platts, which tracks prices. “The whole market is really oversupplied.” A problem for LNG suppliers is that power plants in Asia have been slower to switch from burning coal to gas than their U.S. and European peers were when cheap shale gas flooded their local markets, Joseph said. “We’re not seeing a demand response,” he said. “Buyers aren’t as nimble.”

Asia spot LNG prices 'are free-falling,' drop below $3

(Reuters; Feb. 7) - Record low prices for liquefied natural gas are roiling the global gas market, creating havoc as traders rush to find alternative locations for cargoes as Chinese buyers reject shipments amid the coronavirus epidemic. Asian spot prices have already tumbled to troughs of $3 per million Btu — less than half of what they were at the same time last year. At least one cargo bound for India has traded below $3, down 30 cents within a week, traders said.

Concerns that Chinese companies could back out of contracts because of the impact of the coronavirus outbreak have slowed oil and gas sales into China. Reuters reported on Feb. 6 that China's top LNG buyer, China National Offshore Oil Corp. (CNOOC), declared force majeure on some prompt LNG deliveries with several suppliers. "Prices are free-falling just within this week," a Singapore-based LNG trader told Reuters. "This kind of force majeure situation is unprecedented and has never happened before."

Traders are now casting around for homes for unwanted cargoes. India, which recently commissioned an LNG terminal, has some scope for more purchases, but is restrained by inadequate pipeline infrastructure, industry sources said. Europe, which has strong seasonal winter gas demand, is also struggling to accommodate more, they said.

Shell, Total reject China's force majeure on LNG cargoes

(Bloomberg; Feb. 7) – -Two of Europe's biggest energy companies rejected a Chinese force majeure on liquefied natural gas contracts in the latest twist to a drama that's gripping global commodities markets. Shell and Total didn't accept the legal grounds for the move by CNOOC that would have freed it from its contractual obligations to take delivery of the LNG shipments, according to people with knowledge of the matter.

While CNOOC is still likely to cancel delivery of the cargoes, suppliers will probably seek compensation from the Chinese firm, said the people, who asked not to be identified because the matter is private. CNOOC made the dramatic move as it struggled to take delivery of LNG because of constraints caused by the virus, which include a lockdown of more than 50 million people in more than a dozen cities.

It was one of the first known cases of the legal clause being invoked in commodity contracts due to the epidemic, which has plunged raw materials markets into chaos. Other Chinese firms, including PetroChina Co. and Sinopec Group, are mulling invoking force majeure on contracts, but haven't officially declared yet. At least five LNG vessels headed to China have been diverted or are idling offshore as the coronavirus constrains the country's ability to take deliveries and cuts energy demand, according to ship-tracking data compiled by Bloomberg and data intelligence firm Kpler.

Total confident Exxon and Papua New Guinea will reach gas deal

(Reuters; Feb. 6) - ExxonMobil and the Papua New Guinea government must return to the negotiating table so that a $13 billion expansion of gas production can proceed, the head of French oil major Total, a partner in the plan, said Feb. 6. The plan would double liquefied natural gas exports from the South Pacific nation, and it hinges on agreements to develop two new gas fields. But the government walked away from talks with Exxon on one of those fields last week. An agreement with Total was sealed last September.

Gas from the two fields would be processed at an expansion of the 6-years-old Exxon-operated PNG LNG plant in Port Moresby. "Our project is joint with that of Exxon," Total CEO Patrick Pouyanne told reporters. "There is a need for an agreement and the PNG government is aware of that. We have an agreement; they need to find an agreement. All of that needs negotiation. I don't think negotiations should be done through media."

LNG expansion is crucial for the impoverished nation, but the government said Exxon refused to budge on financial terms for the Pnyang field and failed to come up with an offer the government could accept. Exxon has expressed disappointment that the talks broke down, but said it hopes to work toward an outcome that would be beneficial to all stakeholders. "PNG wants the projects to go ahead, now it is a question of negotiation," Pouyanne said. "I'm convinced they'll reach an agreement. It is a question of patience."

California short on industry funds to clean up unplugged wells

(Los Angeles Times; Feb. 6) - Across much of California, fossil fuel companies are leaving thousands of oil and gas wells unplugged and idle, potentially threatening the health of people living nearby and handing taxpayers a multibillion-dollar bill for the environmental cleanup. Companies haven't set aside anywhere near enough money to ensure the sites are cleaned up and made safe for future generations, according to a months-long investigation by the Los Angeles Times and the Center for Public Integrity.

Of particular concern are about 35,000 wells sitting idle, with production suspended, half of them for more than a decade. Though California recently toughened its regulations to ensure more cleanup funds are available, those steps don't go far enough, according to a recent state report and the Times/Public Integrity analysis. California's oil industry is in decline, increasing the chances that companies will go out of business. That could leave the state with the costs for cleaning up the sites, which can contaminate water supplies.

Under federal, state, and local laws, companies are required to post bonds to ensure that wells are ultimately plugged and remediated. Industry representatives said they are doing their part to pay, but their bonds are woefully inadequate to meet the expected costs. The Times/Public Integrity investigation found that bonds posted to the state by California's seven largest drillers, which account for more than 75% of oil and gas wells, amount to about $230 on average for every well they must decommission.

By contrast the average per-well cost for capping and dismantling is between $40,000 and $152,000, according to a study by the California Council on Science and Technology. Companies have given the state only $110 million to clean up onshore oil and gas wells, the council found. But the cleanup could cost $6 billion, according to a Times/Public Integrity analysis of state data provided to the council.

Orphan wells becoming a bigger problem in Alberta

(Washington Post; Feb. 6) - Greg Latimer's ranch near Sounding Lake, Alberta, has 4,000 acres, 350 cattle — and more than a dozen deserted oil and gas wells. Latimer, who took over the family ranch in the eastern part of the oil-rich province in 2011, worries about leaks contaminating the groundwater and soil. He believes his cows have fallen ill after drinking from puddles near the wells. He and his partner, Marva Coltman, get headaches from the odors that some of the wells.

Neither Latimer, his father, nor his grandfather were given a choice about whether to let drillers onto their property. With rare exceptions, landowners in Alberta own rights to the surface, but not to the minerals that lie beneath. For decades a quid pro quo kept both sides relatively content. Landowners don't get royalties, but the oil and gas companies that drill on their properties owe them rents — as much as $3,375 per well per year.

But as companies in Alberta struggle to stay afloat after a 2014 fall in crude prices, the pact is unraveling — leaving landowners chasing vanishing payments and taxpayers on the hook for cleaning up after the so-called orphan wells left behind. Under provincial law, oil and gas companies are responsible for plugging defunct wells and restoring the environment. When the operators are bankrupt or insolvent, the wells are transferred to the industry-funded Orphan Well Association, which is tasked with the cleanup.

As the energy sector has struggled, the association's inventory has ballooned, from 162 wells in 2014 to 3,406 today. Albertans worry that many of the province's 90,000 inactive wells that haven't been plugged could become orphans, too. Alberta, unlike several U.S. jurisdictions, does not require companies to post upfront security deposits for cleanup before drilling, or impose mandatory timelines for cleaning up inactive sites.

City officials sue to block LNG projects on Texas coast

(The Brownsville Herald; Texas; Feb. 5) - The City of Port Isabel, the mayor of Port Isabel and a city commissioner have filed suit against the Brownsville Navigation District over its lease agreements with three developers that want to build liquefied natural gas export terminals at the Port of Brownsville, Texas. The Jan. 27 lawsuit requests a preliminary injunction followed by a permanent injunction, alleging that construction and operations would hurt the environment, including air, soil, and water quality for residents of Port Isabel and wildlife in and around Laguna Atascosa National Wildlife Refuge.

The lawsuit seeks to block Texas LNG, Annova LNG and Rio Grande LNG from moving forward. All have received permission from the Federal Energy Regulatory Commission to proceed, but none have lined up enough customers to reach a final investment decision. The suit alleges that airborne contaminants from the projects could be absorbed into the food chain and cause “toxic responses” in birds and other mammals.

The suit alleges that the three LNG plants operating at the same time would have a “large impact” on Port Isabel, the wildlife refuge and environs. Though supported by many in the area for their economic benefits, all three projects have encountered opposition from environmental groups, fishermen, and municipal officials.

Oil pipeline relocation spurs controversy in Wisconsin

(Wisconsin Public Radio; Feb. 6) - The land where Jan Penn and her husband Rick made their home in far northern Wisconsin checked a lot of the boxes when they bought it more than 40 years ago. The wooded lot in the Ashland County town of Highbridge has sandy soil that's easier to work with while growing a garden. The two have built a life, raised their daughter, and cared for horses and chickens on the 40-acre parcel. In December they paid off the mortgage and hope to one day pass the land on to family.

But Jan Penn fears their property may be part of plans by Enbridge to reroute its Line 5 oil pipeline. Enbridge has been exploring alternative routes since the Bad River Band of Lake Superior Chippewa filed a lawsuit against the company, aimed at shutting down and removing the line from the tribe’s reservation. The line carries up to 550,000 barrels of oil and natural gas liquids per day from Superior, Wisconsin, to Sarnia, Ontario.

As Enbridge explores possible alternate routes, the pipeline has created division among neighbors and communities over the path it may take. While Jan Penn hopes to preserve her land, others see the value their property may bring to their struggling families and communities. There have been at least 29 spills on the line since 1968, as shown by federal data, according to the National Wildlife Federation. Enbridge’s community engagement director said the company plans to begin the state permitting process in the coming weeks. The relocation would likely cost more than $100 million.

RCMP enforce injunction against gas line protestors in Canada

(The Globe and Mail; Canada; Feb. 9) – The RCMP on Feb. 9 continued to enforce a court injunction meant to allow Coastal GasLink to resume work on its C$6.6 billion natural gas pipeline in northern British Columbia, even as people across the country blocked highways, ports and rail lines to show support for Wet'suwet'en Nation hereditary chiefs who oppose the pipeline. The protests included a partial roadblock over the weekend near Hazelton, B.C., north of the area subject to the court injunction.

The British Columbia and Canadian governments support the pipeline, as do the elected band councils of all 20 First Nations along the route. But a group led by eight Wet'suwet'en hereditary house chiefs and their supporters are opposed, saying hereditary leaders, not elected councillors, have jurisdiction over territory outside federal reserves. The 416-mile line will move gas from northeastern B.C. to a liquefied natural gas terminal in Kitimat, B.C. The LNG export plant is expected to start up by 2025.

RCMP began enforcing a B.C. Supreme Court December order on Feb. 6, when police arrested protestors at a logging road along the route. As of Feb. 9, more than 20 people had been arrested, according to the RCMP. Actions in support of Wet'suwet'en hereditary chiefs included a protest that blocked Victoria's downtown Johnson Street bridge on Feb. 8, a rally at Vancouver's City Hall on Feb. 9, protests in Ontario over the weekend that disrupted passenger rail traffic and a Feb. 9 blockade at B.C.'s Deltaport.

FERC staff declines habitat recommendations for Oregon LNG project

(S&P Global Platts; Feb. 6) - Federal Energy Regulatory Commission staff are setting aside two recommendations from the National Marine Fisheries Service related to the proposed Jordan Cove LNG project in Oregon that they said would have substantially delayed the project without commensurate benefits. The action marks FERC's effort to keep the development on track as it coordinates the environmental review. In addition to significant local opposition, the $10 billion project has struggled to lock in customers.

NMFS had told FERC that the project would damage essential fish habitat of Pacific Coast salmon, Pacific groundfish and coastal pelagic species. NMFS made 10 recommendations to avoid, minimize or offset such effects. In response, James Martin, a FERC gas branch chief, wrote to NMFS on Feb. 5, stating that staff would recommend that the full commission adopt eight out of 10 of those NMFS recommendations.

But a recommendation that Jordan Cove construct eelgrass mitigation beds before disrupting existing beds in order to avoid temporal impacts would have "marginal" benefits when compared to delaying the project, which could lengthen the overall duration of impacts and result in other unforeseen impacts, Martin said. Construction of the eel grass mitigation site would take at least four years to complete, Martin said.

FERC staff also had concern about a recommendation to require Jordan Cove to build an aquatic restoration site — to avoid loss of habitat — before channel dredging in Coos Bay. The mitigation site would create saltwater marsh to serve as coho salmon habitat. Constructing that site would take four years, Martin said, and require 300,000 cubic yards of fill, further affecting the environment.

BC Ferries contracts for another LNG vessel from Polish shipyard

(MarineLink; Feb. 3) - BC Ferries has awarded Remontowa Shipbuilding of Gdansk, Poland, a contract to build another liquefied natural gas-fueled vessel scheduled to go into service in the Southern Gulf Islands in 2022. The 351-foot-long ferry will be identical to the three Salish Class vessels built by Remontowa for BC Ferries in 2016. It will have the capacity to carry at least 138 vehicles and up to 600 passengers and crew. It will allow for the retirement of the Mayne Queen, a diesel-fueled vessel.

“Our Clean Futures Plan is our path to replace diesel fuels with clean-energy options. While this cannot be achieved in a single step, we are continually seeking energy sources that offer a cleaner, lower carbon-intensity option to displace non-renewable diesel,” said Jamie Marshall, BC Ferries’ vice president for business development and innovation. “This new vessel will be our sixth ship fueled by natural gas.”

The agreement with the Polish shipbuilder is a design-build, fixed-priced contract that provides BC Ferries with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality construction, the private operator said. The total project budget, which includes financing and project management costs, is approximately C$92.3 million. No Canadian shipyards submitted bids for the work.