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Control Capex And Catch The FLNG Wave, Report Urges

By Joseph Markman, Hart Energy

FLNG offers oceans of possibilities for keeping the LNG industry economically afloat if operators can bring costs under control, Sanford C. Bernstein & Co. LLC maintains in a new report.

"Up to now we have viewed this technology as largely niche—but increasingly this is hard to do," Bernstein senior analyst Neil Beveridge states in the report, in which he adds that 10 FLNG vessels are under construction around the world. "Floating regas capacity has come from nowhere to 10% of global [regasification] capacity in only a few years."

The technology has long been viewed as the key to unlocking stranded gas fields, Beveridge said, but now it is also qualifies as a badly needed approach to cut costs. The cost per ton to build an LNG project has soared from $1,000 10 years ago to almost $4,000 on some of the pricier Australian projects today.

“While the costs of alternative energies, such as wind and solar have been falling, [onshore] LNG costs have been rising,” he said. “This is not sustainable in the low carbon world of the future.”

He drew attention to the world’s largest project, Prelude, which will be deployed in the Browse Basin’s Prelude field, about 295 miles northeast of Broome, Australia. Over the 25 years of its anticipated deployment, the facility is expected to develop 3 Tcf of resources, including liquids, LNG, condensate and LPG.

The report estimates total capex for the project at about $12.7 billion or about $2,400/ton, not counting likely cost overruns. Still, that is well below the $4,000/ton estimate for Chevron’s Gorgon onshore LNG field.

FLNG enjoys a relatively lower capex and its vessels eliminate much of the midstream infrastructure and land acquisition costs that hamper onshore projects. Another avenue of savings is labor.

“With labor costs amounting to roughly 30% of total project costs, another $2 billion to $3 billion savings can be made through using Korean welders instead of expensive Australians,” the report points out.

The vessel’s mobility offers positives in the arena of geopolitical risk, Beveridge wrote, noting that onshore LNG projects in Libya and Yemen have been shut in as a result of unrest.

“We would not be surprised to see FLNG used in Iran as a way to not only accelerate LNG production, but also mitigate political risk,” he said.

Floating facilities have their disadvantages, as well. Bernstein analysts acknowledge high operating expenditures and lower operating efficiencies than experienced by onshore plants. While an onshore LNG plant can expect an operating of around 98%, its offshore counterpart will likely have efficiency of around 90%, or about the same performance of early floating production storage and offloading vessels (FPSOs).

Among companies to watch as momentum builds in this sector are Woodside and Inpex on the E&P side, and Technip and Samsung Heavy on the construction side. The pure play FLNG company that stands to benefit the most from this trend, Bernstein thinks, is London-based Golar LNG.

Chevron Plans To Cut 1,500 Jobs Worldwide

By Velda Addison, Hart Energy

Dire market conditions with lower commodity prices have forced another major oil and gas company to let go employees to rein in costs.

San Ramon, Calif.-based Chevron said it will reduce its staff by about 1,500 positions, just more than 2% of its worldwide workforce, as the company targets reductions of about $1 billion with additional cost savings expected.

The news comes as the industry continues to grapple with oil prices that have essentially been sliced in half within a year's time as ample supplies outpace demand. The situation has caused companies to cut back spending, sell assets, form partnerships and reduce staff to soften blows on bottom lines.

"In light of the current market environment, Chevron is taking action to reduce internal costs in multiple operating units and the corporate center," spokeswoman Melissa Ritchie told Hart Energy. "These initiatives, which are currently underway, are focused on increasing efficiency, reducing costs and focusing on work that directly supports business priorities."

Of the positions that will be eliminated 950 are in the Houston, where Chevron has about 8,000 employees. The company plans to reduce its nearly 3,200 San Ramon staff by 500 positions.

"Additionally, there will be a reduction of approximately 600 staff augmentation contractors from the 24 groups in the corporate center," Ritchie said.

The cuts are not limited to the United States. Fifty positions are international.

However about 270 of the 1,500 positions are currently vacant and will not be filled, Ritchie said.

“Initiatives are currently underway in the corporate center and will continue over the coming months with the goal of completing the majority of employee reductions by mid-November with cost saving initiatives in place by the first quarter of 2016,” Ritchie said.

The announcement comes as Chevron prepares to deliver its second-quarter 2015 earnings July 31.

Chevron saw its first-quarter earnings fall $1.9 billion to $2.6 billion, compared with first-quarter 2014. At the time, Chevron CEO John Watson attributed to decline to lower oil prices that reduced upstream revenue and earnings.

“We’re responding to the current price environment by capturing cost reductions, pacing new project approvals and further streamlining our portfolio as planned,” Watson said in a news release about the earnings. “We’re taking a number of deliberate actions to lower our cost structure, and I expect these efforts to increasingly show through in our financial results as the year progresses.”

Chevron is not the only company that is cutting back. Anglo American said this week that it is targeting $500 million in cost savings through the reduction of 6,000 jobs, including from businesses that it is divesting. Also, this week BHP announced it was cutting about 100 jobs at its Melbourne headquarters, Reuters reported. Earlier this month, Technip announced plans to cut 6,000 jobs.

Oilfield service companies are also letting go of employees in the thousands. By the end of June, Baker Hughes had eliminated about 11,000 of 13,000 planned position cuts. Halliburton Co. is eliminating about 16% of its workforce. Schlumberger reduced its headcount by about 11,000 employees in first-quarter 2015.

The Federal Trade Commission Narrows Antitrust Reporting Exemption

By Daniel E. Hemli, Jacqueline R. Java and Rebekah T. Scherr, Special to Hart Energy

On July 20, the Federal Trade Commission (FTC) released revisions to its interpretation of the rule, 16 C.F.R. Section 802.5, which exempts certain acquisitions of “investment rental property assets” from reportability under the Hart-Scott-Rodino (HSR) antitrust act.

The HSR act requires that mergers and acquisitions exceeding certain dollar thresholds be notified to the FTC and the Department of Justice Antitrust Division. The FTC’s revised guidance has significant ramifications for HSR reportability of transactions in numerous industries—including in the oil and gas midstream sector.

Section 802.5 of the HSR rules exempts from reporting requirements “acquisitions of investment rental property assets,” which includes real property that is rented or held for rent to third parties and is held solely for rental or investment purposes. Through its informal interpretation process (whereby transaction parties contact the FTC for an opinion as to whether a particular transaction qualifies for an exemption from HSR reporting), the FTC had previously interpreted this rule to exempt the acquisition of real property used to provide services to unaffiliated third parties.

Per the FTC’s prior guidance, where a portion of the real property was used by the seller or was intended to be used by the buyer for its own proprietary use, that portion would not be exempt from the HSR reporting requirements, and a filing under the act was required only if the fair market value of the nonexempt portion of the real property exceeded the HSR reporting threshold. Under this interpretation of Section 802.5, many mergers and acquisitions in the oil and gas midstream industry—

including some involving gathering systems, pipelines, gas storage facilities, and oil terminals—were exempt from the HSR reporting requirements even if the transaction size exceeded the HSR threshold.

While this broad interpretation of Section 802.5 was favorable to transaction parties in that it exempted numerous acquisitions from HSR filing obligations, it did not sit well with the original intent behind the rule or the extensive history of antitrust agency enforcement actions against such transactions.

The FTC has now revised its position on Section 802.5. Going forward, the FTC has advised that to qualify for the investment rental property exemption, the buyer must intend to profit from the investment in the real estate (i.e., buyer acting solely as a landlord), not from the business to be conducted on the property. Where a buyer participates in the business conducted on the property and derives revenue from the business service—however small—the exemption will no longer be available.

The FTC explained, "[p]roviding a business service would include leasing the property's capacity (for example, providing storage or being a conduit for materials passing through the property), rather than leasing the premises and receiving rental income without regard to the specific use of the property." The FTC went on to provide several examples, including one involving an acquisition of assets relating to a gas gathering and compression system that will be used by the buyer to provide midstream transportation services.

Such an acquisition, which previously would have been exempt if the system were used to gather and transport only unaffiliated third-party gas, is now no longer exempt unless the buyer and seller are only landlords to the tenant providing such services, and do not profit from providing the gas gathering services themselves.

The revised FTC guidance also indicates that even where a buyer intends to act as a landlord with respect to the specific real property it intends to acquire, the exemption will not be available if the buyer otherwise operates in the line of business that takes place on the acquired property.

These changes take effect immediately and may impact transactions currently in progress.

Despite this narrowing of the Section 802.5 exemption, certain acquisitions of midstream oil and gas assets (for example, those involving storage facilities) may still be exempt under other HSR rules. The consequences of failing to file a reportable transaction include civil penalties of up to $16,000 per day for each day a party is in violation of the HSR act. Transaction parties should consult HSR counsel early in the deal making process to ensure their transaction complies with HSR reporting obligations.

Daniel E. Hemli is a partner, Jacqueline R. Java is of counsel and Rebekah T. Scherr is an associate of Bracewell & Giuliani.

A Renewed Call For Crude Exports

By Kristie Sotolongo, Hart Energy

Bipartisan momentum is accelerating to lift a long-standing U.S. ban on crude-oil exports that could add more than $1 trillion to cumulative government coffers from 2016 to 2030, Jack Gerard, president and CEO of the American Petroleum Institute (API) said July 29.

“This is a no brainer. Everyone should be for it. It’s great for America,” Gerard said during a conference call with reporters.

The growing effort to lift the four-decade-old export ban is gaining impetus in Congress, but opponents include environmental groups who want to slow the world’s dependence on oil and refiners who could lose profits if the domestic oil surplus is relieved and producers are allowed to send their oil overseas.

The export ban was enacted under President Richard Nixon at a time when the country was thought to be reaching a tipping point of “peak oil.” Improved technology has changed the equation entirely, and Gerard said it’s time for policies to catch up.

“If we act now to harness this once-in-generation opportunity, America is poised to add billions to the domestic economy, creating jobs up and down the energy supply chain,” he continued. “And, as study after study has shown, consumers will win because gasoline costs are projected to go down by allowing crude exports.”

But the crude export debate isn’t just about economics. It’s also a question of geopolitical leadership, according to Gerard.

“The ambassador for our close ally—the Czech Republic—recently testified to the House Agriculture Committee that U.S. energy exports would send a strong signal that democracies stick together and can

counter nations that use their energy resources to harm other nations … ultimately creating a safer world," he said.

Domestic oil-export restrictions are especially out-of-date now that U.S. President Barack Obama and other world leaders are moving toward the removal of sanctions against Iran, Gerard said.

"American voters understand that lifting the ban on Iranian oil resources, while maintaining a ban on U.S. companies, is illogical and restricts our own competitiveness. It doesn't make sense," he said. "U.S. energy producers should not be placed at a competitive disadvantage to anyone, whether it is Russia, Iran or any oil producing country. This outdated crude-exports policy must be repealed to level the playing field and allow the U.S. to flourish as a global energy superpower."

Frac Spread: Summertime Sadness

By Frank Nieto, Hart Energy

At first blush, summer seems to conjure happy thoughts such as sun, beaches, baseball, fireworks and family vacations with songs like "Surfin' U.S.A.," "Summer Nights" and "Cool for the Summer" helping to create the season's soundtrack. However, a darker soundtrack for the season can just as easily be formed with classics like "Cruel Summer," "Summertime Blues" and "Summertime Sadness" leading that playlist.

This summer undoubtedly falls in the latter category for the hydrocarbon market with prices continuing to slump in the natural gas, NGL and crude oil markets. In this case, the sooner that winter comes, the better.

Indeed, these markets should experience an uptick in the fall and winter as heating demand increases and with Saudi Arabia set to pull back production from its record high of 10.56 million barrels (bbl) produced in June by 200,000 to 300,000 bbl per day (bbl/d), according to *The Wall Street Journal*. This isn't a reflection of the country changing its stance on production; rather it is related to seasonal reductions in cooling demand as Saudi Arabia uses crude-fired power generation.

The record production out of Saudi Arabia has helped stunt the modest gains that West Texas Intermediate (WTI) crude experienced in the spring and early summer. In the past two months, WTI has lost $10/bbl in value as it is now trading under $50/bbl.

This downturn has had a negative impact on heavy NGL prices, especially C_{5+}, which has lost 17 cents per gallon (gal) at both Conway and Mont Belvieu in the past month. Butane and isobutane prices have stabilized in the past month as refiners will soon begin to switch from refining summer-grade gasoline to winter-grade gasoline.

Light NGL prices remain challenged, but are moving in opposite directions. The outlook for propane still remains negative as stock levels are at their highest levels in five years and it will take a perfect storm of increased winter heating and crop-drying demand along with peak LPG exports. Such a scenario is unlikely to occur, which will keep propane prices challenged for the next year. However, it is likely that prices are at their bottom for the year and will improve in the fall and winter.

Ethane prices experienced 4% gains at both hubs as inventory levels are beginning to drop with rejection efforts finally beginning to have a noticeable impact on stocks. It is important to note that prices have a long way to go to return to steady profitability. Prices this week were their highest in a month at both Conway and Mont Belvieu at 18 cents/gal each, but remained unprofitable.

Frac spread margins were helped by lower gas prices at both hubs as prices were down 3% for the week. The Conway price fell to $2.77 per million Btu (MMBtu) and the Mont Belvieu price was down to $2.81/MMBtu. This resulted in margins generally improving with ethane having the largest gain, but C_{5+} remained the most profitable at 74 cents/gal at both hubs. This was followed, in order, by isobutane at 24 cents/gal at Conway and 28 cents/gal at Mont Belvieu; butane at 19 cents/gal at Conway and 26 cents/gal at Mont Belvieu; propane at 7 cents/gal at Conway and 15 cents/gal at Mont Belvieu; and ethane at negative 4 cents/gal at Conway and nil at Mont Belvieu.

Natural gas storage levels rose by a smaller-than-expected 52 billion cubic feet, which implies a nearly balanced market according to Tudor, Pickering, Holt & Co. Storage levels rose to 2.88 trillion cubic feet (Tcf) the week of July 24 from 2.828 Tcf the previous week. This was 26% greater than the 2.294 Tcf posted last year at the same time and 3% greater than the five-year average of 2.795 Tcf.

Cooling demand will be mixed this week as the National Weather Service's forecast anticipates warmer-than-normal temperatures in the Southern U.S., but cooler-than-normal temperatures in the Northeast and Midwest.

CURRENT FRAC SPREAD (CENTS/GAL)				
July 31, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	14.85		18.29	
Shrink	18.37		18.63	
Margin	-3.52	23.84%	-0.34	78.42%
Propane	32.50		40.94	
Shrink	25.37		25.74	
Margin	7.13	-3.61%	15.20	3.29%
Normal Butane	47.56		54.80	
Shrink	28.72		29.14	
Margin	18.84	0.69%	25.66	1.40%
Isobutane	51.80		55.98	
Shrink	27.59		27.99	
Margin	24.21	15.65%	27.99	0.06%
Pentane+	104.80		105.46	
Shrink	30.72		31.16	
Margin	74.08	-1.24%	74.30	-4.28%
NGL $/Bbl	17.30	-0.68%	19.22	-1.48%
Shrink	10.12		10.26	
Margin	7.18	2.47%	8.96	0.44%
Gas ($/mmBtu)	2.77	-2.81%	2.81	-3.10%
Gross Bbl Margin (in cents/gal)	15.19	2.71%	19.94	0.86%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.82	3.99%	1.01	3.63%
Propane	1.13	-2.99%	1.42	-0.82%
Normal Butane	0.51	-1.45%	0.59	-1.05%
Isobutane	0.32	5.03%	0.35	-1.55%
Pentane+	1.35	-1.71%	1.36	-3.94%
Total Barrel Value in $/mmbtu	4.13	-0.46%	4.73	-0.92%
Margin	1.36	4.69%	1.92	2.46%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
July 22 - 28, '15	18.29	40.94	54.80	55.98	105.46	**$19.22**
July 15 - 21, '15	17.65	41.28	55.38	56.86	109.78	**$19.51**
July 8 - 14, '15	17.08	40.60	54.12	54.74	110.52	**$19.27**
July 1 - 7, '15	16.59	39.80	51.30	52.25	113.18	**$19.07**
June '15	18.04	38.02	52.24	53.11	123.24	**$19.83**
May '15	18.69	46.42	58.02	59.80	127.69	**$21.72**
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	**$21.48**
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	**$21.94**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
July 23 - 29, '14	22.31	103.70	123.24	130.60	222.72	**$40.85**
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
July 22 - 28, '15	14.85	32.50	47.56	51.80	104.80	**$17.30**
July 15 - 21, '15	14.28	33.50	48.26	49.32	106.62	**$17.42**
July 8 - 14, '15	14.20	33.08	48.66	48.40	106.52	**$17.35**
July 1 - 7, '15	14.33	32.50	46.10	46.80	109.88	**$17.35**
June '15	15.52	32.85	46.41	48.80	122.41	**$18.51**
April '15	15.75	48.18	59.30	63.67	119.72	**$21.26**
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	**$19.89**
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	**$21.49**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
July 23 - 29, '14	18.83	105.74	123.84	145.46	221.08	**$41.07**

RESIN PRICES – MARKET UPDATE – JULY 31, 2015					
TOTAL OFFERS: 15,143,736 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	3,611,244	0.6	0.66	0.57	0.61
HDPE - Inj	3,399,796	0.62	0.73	0.58	0.62
LLDPE - Film	3,103,704	0.63	0.77	0.58	0.62
PP Copolymer - Inj	1,419,840	0.61	0.72	0.61	0.65
HMWPE - Film	1,234,576	0.62	0.74	0.6	0.64
LDPE - Film	1,184,920	0.62	0.73	0.6	0.64
LLDPE - Inj	434,644	0.64	0.755	0.59	0.63
PP Homopolymer - Inj	400,460	0.62	0.64	0.59	0.63
LDPE - Inj	354,552	0.655	0.71	0.61	0.65

Source: Plastics Exchange – www.theplasticsexchange.com

Increased Throughput Raises Enbridge's Profit

Reuters

Enbridge Inc., Canada's largest pipeline company, reported a higher-than-expected rise in quarterly adjusted profit, helped by increased throughput as producers moved more oil by pipes than on rail.

The company, whose Mainline system moves the bulk of Canadian crude exports to the United States, added further capacity over the last 12 months to meet demand.

Mainline shipped an average of 2.07 million barrels per day (bpd) in the second quarter ended June 30, compared with 1.97 million bpd a year earlier.

The company, which has been shielded from a slump in global crude prices because of its fee-based contracts, is currently in the midst of a C$44 billion growth program to fund new projects.

Enbridge said on July 31 it had completed projects worth about C$3 billion so far this year and expects to complete projects worth another C$5 billion by the end of 2015.

The Calgary-based company's adjusted earnings rose 54 percent to C$505 million ($387 million), or 60 Canadian cents per share in the quarter.

That was much higher than analysts' average estimate of 47 Canadian cents, according to Thomson Reuters I/B/E/S.

However, net income attributable to shareholders dropped nearly 24 percent to C$577 million, hurt by a C$440 million goodwill impairment charge.

Enbridge said on July 31 additional testing on its Line 9 pipeline - a 639-km line to carry Western Canadian crude to Quebec - would be completed by the end of the year. Canada's energy regulator had ordered the tests in June to ensure the pipeline would not leak.

Enbridge shares had fallen nearly 6 percent this year through July 30's close of C$56.29 on the Toronto Stock Exchange. ($1 = C$1.3036)

Senate Energy Committee Passes Bill Lifting Oil Export Ban

Reuters

The U.S. Senate energy committee on July 30 passed a bill that would lift a decades-old ban on the export of crude oil.

The 22-member panel passed the bill to allow the United States to export oil and boost state revenue-sharing for offshore oil and gas drilling by a vote of 12-10.

Senate Energy Committee chair Lisa Murkowski, a Republican senator from Alaska, has been a long-time advocate for lifting the ban, which she said was outdated due to the rise of the United States as an energy power.

The vote comes a day after U.S. House of Representatives Speaker John Boehner for the first time voiced his support for lifting the domestic oil export ban, which experts said signaled momentum for an overhaul of 40-year-old energy policy.

New Oil, Ethanol Train Rule Requires Safety Equipment Inspection

Reuters

The Obama administration on July 29 released a new regulation intended to prevent explosive rail disasters such as the 2013 oil train derailment that killed 47 people and destroyed part of Lac-Megantic, Quebec.

The new rule by the Federal Railroad Administration (FRA) requires two qualified railroad employees to ensure that handbrakes and other safety equipment have been properly set on trains left unattended while carrying dangerous materials such as crude oil or ethanol.

A series of oil train accidents in recent years led the United States and Canada in May to announce sweeping new safety regulations that require more secure tank cars and advanced braking technology to prevent moving trains from derailing and spilling their contents.

The new rule is directed specifically at trains left parked on main lines, side tracks and in rail yards.

On July 6, 2013, an unattended 74-car freight train carrying crude oil from the Bakken field in North Dakota rolled downhill and derailed in the Canadian town of Lac-Megantic. The FRA said a leading cause was that the train had not been properly secured.

"Requiring that an additional, trained individual double check that the handbrakes have been set on a train will help stop preventable accidents," acting FRA Administrator Sarah Feinberg said in a statement.

The new rule also contains requirements that involve briefings for train crews, exterior locks on locomotives and the proper use of air brakes. It applies to trains carrying substances that can cause harm if inhaled and any train carrying 20 or more cars of "high-hazard flammable materials."

Energy Transfer Equity Completes Stock Split

Business Wire

Energy Transfer Equity LP completed the two-for-one split of outstanding common units, the company said July 27. Units began trading that day on the New York Stock Exchange.

In the unit split, one ETE unit was distributed for outstanding ETE units held by unitholders on July 15.

Going forward, the quarterly distribution amount will reflect the split.

Energy Transfer Equity LP is an MLP that owns the general partner of Dallas-based Energy Transfer Partners LP.

Enterprise Closes Offshore GoM Business Sale

Business Wire

Houston-based Enterprise Products Partners LP closed the sale of its offshore Gulf of Mexico pipelines and services business to Genesis Energy LP for about $1.5 billion in cash, the company said July 24.

“We are pleased to complete this transaction with Genesis,” said Michael A. Creel, CEO of Enterprise’s general partner.

He said the proceeds enhance the company’s financial flexibility for Eagle Ford and Permian Basin projects. When they are included, the current liquidity is more than $6 billion, composed of cash and credit facility borrowing capacity.

Creel also said that no additional capital will need to be raised for the remainder of 2015.

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