Oil and Gas News Briefs
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Keystone shippers will owe contingency payments if project canceled

(Calgary Herald; July 9) - Shippers that have committed to move their crude on the US$14.4 billion Keystone XL pipeline will be on the hook for millions in contingency payments to TC Energy if the pipeline is canceled. A number of Canadian oil producers agreed to the payments when they signed contracts to ship oil on the 830,000-barrel-per-day pipeline from Alberta toward the U.S. Gulf Coast. Those payments would be triggered if the mega-project is cancelled on or before March 31, 2021.

“There are many stakeholders who stand to benefit economically from an operational Keystone XL,” TC Energy spokesperson Terry Cunha said. Therefore, it is reasonable for TC Energy and the shippers “to share in the risk and reward of the project,” he said. Cunha did not explain why the contingency payments were required now but not when the project was first proposed, and eventually rejected, under President Barack Obama.

The risk of a cancellation has increased significantly in recent months as polls have indicated former Vice President Joe Biden holding a lead over President Donald Trump ahead of the presidential election. Biden has promised to kill the project. Analysts say that TC Energy had to foot the full cost of Keystone XL’s rejection in 2016 and is taking a more cautious approach to managing risk since the line was revived under Trump.

As pipelines have become more difficult to build given frequent court and regulatory challenges, such contingency payments are becoming more common, generally, the analysts said. “In the first go-round, TransCanada spent it all and ate it all, ergo the $4.5 billion write-off,” said Dennis McConaghy, who was an executive at TC Energy when it was still called TransCanada. TC Energy now “has been more cautious,” he said.

Russian whistleblower speaks out about Arctic oil spill

(CNN; July 10) - Vasily Ryabinin stands on the banks of the River Daldykan and pushes a long stick into the blood-orange sludge. Raising the stick, he puts a lighter to it and it ignites it like a torch. "Still burns really well," Ryabinin said. "It's very likely that these puddles are stretching all over the river and will be polluting it for a very long time." We were a couple miles from the Siberian city of Norilsk, where six weeks ago a huge fuel tank at a power plant ruptured, spilling about 150,000 barrels of diesel into the river.

The plant owner, the Nornickel metals giant, said the spill was quickly contained and the damage limited. Ryabinin has sacrificed his job and his family's future in Norilsk in an attempt to lift the lid on what environmentalists label the worst ecological catastrophe in the polar Arctic. Ryabinin is rare — a Russian whistleblower who quit his job with the state environmental agency Rosprirodnadzor and went public about the disaster.

Ryabinin said he was alerted to the scale of the crisis by photos posted on Instagram. He was immediately alarmed: The Daldykan and another river polluted by the spill flow into Lake Pyasino. From there, the contamination could spread all the way to the Arctic Ocean. He went to the river, taking photos that would soon provoke a public outcry. He and his boss tried to get in to the Nornickel plant, but he said they were refused entry.

What he saw was very different from what officials and media later reported: The spill had swiftly been brought under control. "It was such an obvious, childish lie," Ryabinin told CNN. He said the last straw was when Rosprirodnadzor told him to stop looking into the disaster after he had found a helicopter to fly to the lake. At that point, on June 7, he went public, recording a 45-minute account of what he'd found, concluding that the volume of fuel and speed of the stream must have spread the contamination further.

Russia sends Arctic oil to China via Northern Sea Route

(Reuters; July 13) - Russia's Gazprom Neft, the oil arm of gas giant Gazprom, has shipped its first cargo of Arctic oil to China via the Northern Sea Route, it said July 13. Russia is betting on the route, an Arctic passageway requiring icebreakers and special ice-class tankers, to deliver oil and gas cargoes to Europe and Asia. Novatek, Russia's top privately owned natural gas producer, is shipping liquefied natural gas via the northern route year-round.

Gazprom Neft said it took 47 days to deliver a cargo of about 1 million barrels of light Novy Port oil grade to the Chinese port of Yantai on the Bohai Sea from Russia's northwestern city of Murmansk. Before the landmark delivery of Novy Port oil, produced on the Yamal Peninsula in Russia's Arctic, Gazprom Neft, the country's third-biggest oil company by output, was already using the Northern Sea Route for exports to Europe.

Last October, Russia's No. 2 oil producer Lukoil sold a cargo of Varandey Blend crude to a Chinese buyer with the shipment sailing via Arctic waters, sources told Reuters.

Growth rate for global LNG trade expected to slow down in 2022-23

(S&P Global Platts; July 9) - Global LNG trade is expected to grow by 3% to 3.5% in 2020 followed by faster growth in 2021 before a slowdown in the subsequent two years, the head of the Gas Exporting Countries Forum (GECF) said July 9. Secretary General

Yury Sentyurin, speaking during a webcast, also said the exporters' group would continue to advocate for a "fair" gas price. Global LNG trade surged 13% year on year in 2019 to 354.7 million tonnes, according to an importers group, the International Group of Liquefied Natural Gas Importers, on the back of increased supply capacity.

"In 2022-2023, LNG trade growth is projected to slow to around 1.5% to 2% per year, driven by a slowdown in new LNG capacity, which is expected to support a recovery in global spot gas and LNG prices," Sentyurin said. The gas industry had been "plunged into uncharted waters," he said, due to the combination of a slowdown in the global economy driven by the COVID-19 pandemic and the persistent mild winter weather, which have impacted heavily on demand for the fuel.

The market, he said, was already experiencing low spot prices before the pandemic due to oversupply, while oil-indexed LNG prices have also been hit by lower oil prices. This has forced LNG developers "to postpone or even abandon investment … which could lead to serious imbalances between supply and demand in the future." He pointed to the need for long-term investment in new projects. "It's a well-known fact that the industry is capital intensive and requires a healthy return on investment to develop projects."

Nova Scotia LNG developer loses its construction contractor

(Reuters; July 13) - Pieridae Energy said on July 13 that KBR will not provide a fixed-cost contract to build the Canadian energy firm's proposed Goldboro liquefied natural gas export plant in Nova Scotia. Pieridae said it is exploring its legal options. The company in April announced it had delayed making a final investment decision (FID) to build the $10 billion project until after Sept. 30, explaining that government efforts to curb the coronavirus outbreak had cut global economic growth and energy demand.

In June, KBR, a U.S.-based engineering firm, said it planned to exit most LNG and other energy projects. KBR said its customers had pulled back on energy investments, adding it will "no longer engage in lump-sum, blue-collar construction services." The Pieridae LNG project is one of three in North America that KBR is leaving. "We are looking at all of our options, including discussing the matter with legal counsel to determine the most appropriate next steps," Pieridae CEO Alfred Sorensen, said in a statement July 13.

"KBR's decision to no longer provide a fixed-price contract is in apparent contravention of its obligation under the terms of a signed services agreement dated March 27, 2019," Pieridae said. Goldboro is designed to produce almost 10 million tonnes per year of LNG. The company has a 20-year agreement to sell all of the output from the first liquefaction train at Goldboro — about 5 million tonnes per year — to German utility Uniper starting in late 2024 or early 2025. Pieridae said Uniper has agreed to extend the FID deadline to June 30, 2021, and that construction would take about 56 months.

More than 55,000 oil industry workers in Houston have lost their jobs

(Houston Public Media; July 13) - Some in Houston are concerned the city will return to the empty freeways and office buildings of the 1980s, as oil prices today hover around $40 a barrel — about $15 less than what many companies need to make a profit. And prices are not expected to rebound anytime soon. More than 55,000 Texans working in oil field services and equipment have lost their jobs this year. In Houston, companies like Halliburton have furloughed or laid off thousands of employees.

Jim Duncan has worked in Houston oil and gas since 1978. Among his past job titles is chief data strategist for ConocoPhillips. Duncan said the city had longed hinged its financial hopes on the oil and gas sector. "You've got to describe Houston pre-1980s as, 'We don't need any other business, we have the oil business,'" Duncan said. The 1980s oil bust forced the industry to rethink the entire supply chain, he said, and today the companies have more tools, technology, and business safeguards in place.

"We've found some degrees of freedom, and maybe even some cost savings that we didn't have before," Duncan said. "How each individual company chooses to deploy that in the future, that's going to be interesting to watch." The major job losses, however, feel very similar to the 1980s crash for oil and gas bankruptcy attorney Charlie Beckham. "Thousands of people who had dreamed of and had worked in the oil industry lost their jobs," he said. "From oil field workers to folks with college degrees."

Frac-sand suppler files for bankruptcy; third in the past month

(The Wall Street Journal; July 12) - Hi-Crush, a supplier of sand used in fracking, is the latest company in the oil and gas sector to be pushed into bankruptcy by low crude prices and the disruption from the coronavirus pandemic that has roiled the energy industry. Hi-Crush filed for Chapter 11 protection July 12 in the U.S. Bankruptcy Court. The filing comes weeks after the Houston-based company disclosed it was negotiating terms of a bankruptcy filing with its key creditors.

The bankruptcy filing highlights the financial distress facing the oil-and-gas industry, which has prompted a number of fracking services providers to seek Chapter 11 protection in recent weeks. Frac-sand supplier Covia Holdings filed for bankruptcy in June with a plan to cut more than $1 billion in debt. Private equity-backed frac-sand supplier Vista Proppants & Logistics also sought bankruptcy protection last month.

Fracking sand, or frac-sand, describes sand and other proppants that are injected into wells to hold open fractures to extract oil and gas during hydraulic fracturing. Publicly traded Hi-Crush said last month in a filing that during the first quarter of 2020 it "faced a sharp and rapid decline, which was driven by a decrease in crude oil prices and overall oil field activity," primarily due to an oil price war between Russia and Saudi Arabia. Hi-Crush also said it was hurt by falling oil demand because of the COVID-19 pandemic.

[Mideast, North Africa could suffer $270 billion drop in oil exports]

(Forbes; July 13) - Oil exporters in the Middle East and North Africa region are expected to suffer a $270 billion slump in oil revenues this year, according to projections from the International Monetary Fund. In a regional overview published July 13, the organization pointed to a sharper-than-anticipated drop in crude production this year for these countries — a group which ranges from Algeria in the west to Iran in the east and also includes the six Gulf Cooperation Council countries as well as Iraq, Libya, and Yemen.

Demand for oil has fallen sharply this year as a consequence of the global economic slowdown caused by the coronavirus pandemic. In an effort to shore up prices, OPEC and other allied producers such as Russia have agreed to production cuts that have further reduced the income of oil-producing nations. Middle East countries are suffering from a health care crisis too, and the IMF said the “double whammy” of weaker oil prices (alongside supply cuts) and the economic lockdowns mean the region’s oil exporters are projected to suffer a 7.3% contraction in gross domestic product this year.

Many oil exporters at least have the comfort of large savings they can fall back on to help deal with the crisis. Others are less fortunate, and those living in fragile and conflict-affected states such as Afghanistan, Iraq, Syria, Sudan, and Yemen are facing an even bleaker short-term outlook. The global crisis has led to trade levels shrinking and a collapse in receipts from tourism and remittances from residents working abroad.

[Low spot prices encourage LNG buyers to look at new contract terms]

(Argus Media; July 9) - Spot LNG prices near record lows are encouraging buyers to explore the possibility of buying longer-term supply at spot prices, especially as the spread between oil-price-linked term contracts and spot-market prices remains wide. "The spot versus term [price] disparity is outstanding," Hitoshi Nishizawa, a senior executive at LNG importer JERA said at the CWC Japan LNG summit. "There is a growing feeling about the importance of reflecting the spot market in the term price."

Asia-Pacific spot-market LNG prices fell to unprecedented lows this year, as a result of weakened demand in the region and a global supply glut. Current spot prices are just over $2 per million Btu versus the $7 that oil-linked term contract deliveries to Japan will average in August. Japanese buyers' term contracts are priced per million Btu of LNG, predominantly linked to oil prices at around 14% to 15% of the cost of a barrel. Spot prices, however, move with supply and demand and can spike above oil-linked prices.

Nishizawa did not elaborate on what he considered "a right price.” But Takeshi Soda, director of Japan's Trade and Industry Ministry's oil and gas division, suggested that it would have to be a stable band, which both consumers and producers find workable. Conference speakers agreed that today’s low spot prices are unlikely to be sustainable long term. "We will not see any new projects take FID [final investment decision] if they expect prices to be [$2] in perpetuity," said Jonty Shepard, BP's head of global LNG.

LNG plant expansion in B.C. looks to serve maritime market

(The Province; Vancouver; July 8) - FortisBC sees promise in the prospect of fueling ships with liquefied natural gas, but its project faces opposition over climate concerns. The company wants to expand its small LNG plant on Tilbury Island in Delta, British Columbia, next to Vancouver. The multi-phase C$3 billion project would involve more than a 10-fold expansion in production, while increasing storage capacity at the site.

FortisBC see the work as necessary to tap into rising demand for marine fuel, said Ian Finke, the company's director of LNG operations. "We're in discussions with a number of potential customers," due to new international Maritime Organization rules to reduce ship emissions. "That's really driving a lot of the big shipping companies to need to look at using cleaner-burning fuels for their ships. And so that's really creating a lot of market demand," Finke said. The Tilbury liquefaction plant started operations in 1979.

In February, FortisBC submitted its expansion plan for review by the B.C. Environmental Assessment Office and the Impact Assessment Agency of Canada, and is now in the middle of a public engagement period. Opponents cite the climate impacts of burning gas and question the plant's safety. The plant can produce 250,000 tonnes of LNG per year, after the first expansion in 2018. The second half of Phase 1 is due to go online in 2022, raising the total to 900,000 tonnes, or more than 110 million cubic feet of gas per day. Phase 2 would add an additional 3.5 million tonnes of LNG production, Finke said.

Geoscientist doubts that LNG will reduce greenhouse gases

(CBC News; Canada; July 9) - A former government geoscientist says claims that British Columbia liquefied natural gas exports to Asia will result in reduced greenhouse gas emissions are wildly overstated. In fact, David Hughes — who spent more than three decades working with the Geological Survey of Canada — says LNG exports will make global warming worse over the next three decades.

"No amount of wishful thinking can overcome the math on emissions, or the impacts on the land surface from the increased number of well-pads, roads, pipelines and other infrastructure that would come with increased production," said Hughes, president of a consulting firm called Global Sustainability Research. His analysis appears in a new report called "B.C.'s Carbon Conundrum: Why LNG exports doom emissions-reduction targets and compromise Canada's long-term energy security," published by the Corporate Mapping Project and Canadian Centre for Policy Alternatives.

Supporters of LNG exports say it will allow energy plants in Asia to stop using coal, which creates even higher levels of pollution, and is better for the environment overall. But according the report, LNG will put more carbon into the atmosphere compared to coal in the critical next few decades, while pushing B.C. over its 2050 emissions target by up to 224%. "If you look at the full-cycle emissions from production, pipelining, liquefaction, shipping, and regassification in China over 20 years, best-technology coal in China would create 18.5% fewer emissions than B.C. LNG," Hughes said on CBC.