Oil and Gas News Briefs
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May 17, 2021

European utilities struggle to finance new gas power plants

(Reuters; May 14) - Europe faces the prospect of higher electricity bills and a supply crunch as utilities struggle to finance new gas-fired power plants, unless they can meet tougher emissions criteria imposed by banks pressured to stop financing fossil fuel projects. The utilities already anticipate power supply problems as they phase out coal and nuclear generation and aging infrastructure.

Gas producers have for well over a decade said the fuel was a transition on the path to decarbonization. But increased urgency to halt climate change and the scaling up of renewable technology have left investors and policymakers hesitating over plans for large new gas plants in Europe. The falling cost of renewables and the potential of emerging technologies, such as hydrogen, is at the front of policymakers pushing gas out of favor as they legislate even more ambitious climate targets. Gas produces roughly half the carbon dioxide emissions of coal when burned in a power plant.

A way to get rid of the remaining emissions from gas-fired plants is to use carbon capture and storage technology to trap carbon dioxide, but that is expensive. It also does not address mounting concerns that leaks of planet-warming methane from gas infrastructure may cancel out the benefits of switching to gas from coal. Some developers and European utilities have already diverted funds from gas. Gas projects worth $46 billion were cancelled, delayed, or indefinitely postponed last year as they struggled to find funding and as the cost of renewables are expected to continue falling.

Private companies are worst offenders of flaring Permian gas

(Financial Times; London; May 14) - Private companies in America’s most productive oil region are burning unwanted natural gas at almost six times the level of intensity than publicly listed companies. The majority of flaring by the top operators in the Permian Basin — an area that accounts for more than half of U.S. oil output — still occurs routinely despite industry pledges of cleaner supply chains within the next decade, according to figures from energy consultancy Rystad.

Among the 29 largest operators in the region, close to 80% of flaring — the process of burning off unwanted gas during oil extraction — by private companies occurs regularly, compared with a rate of 45% for publicly listed companies, Rystad data show. Private oil and gas companies burned off an average of 423 cubic feet of gas for every barrel of oil produced compared with just 74 cubic feet a barrel for their listed rivals.

The environmental impact of gas flaring, which results in more than 400 million tonnes of CO2 being emitted into the atmosphere each year, has caused investors to push companies in the industry to make commitments to end the practice. Most of the big oil groups have committed to end "routine flaring" by 2030, many as part of an initiative lead by the World Bank. However, private operators are yet to announce similar targets.

Each year more than 5 trillion cubic feet of gas is wasted through worldwide flaring rather than being captured and sold for energy supplies. That is enough to satisfy the natural gas demand of all residential buildings in the U.S. Most flaring occurs when companies lack the pipeline infrastructure to capture the gas — often arguing that the low price of natural gas erodes the commercial viability of delivering it to market.

Mediation continues over Michigan's effort to close oil pipeline

(Natural Gas Intelligence; May 13) - Oil was still flowing May 13 on Enbridge's disputed Line 5 across the Straits of Mackinac as mediation continues in the third court fight since 2018 over Michigan's demands to turn off the 540,000-barrel-per-day conduit. No court order emerged a day after the May 12 shutdown deadline set by Gov. Gretchen Whitmer. Fuel suppliers and buyers predict that choking off Line 5 would inflate energy prices. The line serves refineries in the upper Midwest, Ontario, and Quebec.

Whitmer raised prospects of further legal action to try inflicting a financial penalty on Enbridge in a widely circulated letter to the company. The governor wrote that Line 5 "constitutes an intentional trespass" that began May 12 because she had revoked the 68-year-old state property easement for the four-mile crossing of the straits between Lake Michigan and Lake Huron. The governor said the state could go after Enbridge for all the profits it earned "from its wrongful use of the easement lands following that date."

The Canadian government, which backs Enbridge, has told the U.S. District Court that Line 5 is under U.S. federal jurisdiction, and Michigan interference is barred by a 1977 treaty, the Agreement Between the Government of the United States and the Government of Canada Concerning Transit Pipelines. The U.S. government has declined to get involved in the dispute between Michigan and Enbridge. The state says the underwater line is an environmental risk, a charge the company denies.

Nova Scotia LNG project sticks with plan for decision by June 30

(Reuters; May 13) - Pieridae Energy said May 13 it still expects to make a final investment decision by June 30 on its proposed Goldboro liquefied natural gas export plant in Nova Scotia. That would allow the C$10 billion project to produce its first LNG in 2025-2026. Pieridae is one of several firms to have delayed North American LNG export plants as global gas prices fell to their lowest in years in an oversupplied market in 2019 and then to new record lows in 2020 after a coronavirus-induced demand collapse.

Pieridae has a 20-year agreement to sell the LNG from Goldboro's first liquefaction train — about 5.2 million tonnes per year — to German utility Uniper. But the Uniper contract, extended five times since it was signed in 2013, is set to expire on June 30 and no extension has been announced. The developer first announced the project in 2012, promoting the first gas in 2018. Several delays have pushed Goldboro LNG to its latest deadline. There are currently 12 projects in North America, including Goldboro, that have said they could make final investment decisions in 2021, though analysts expect only one or two of those projects will actually start construction this year.

Oregon LNG developer tells FERC it is pausing after permit defeats

(The Associated Press; May 12) - A proposed West Coast liquefied natural gas export terminal is officially on pause after state reversals of two of its dredging permits last week. Jordan Cove Energy Project manager and associate general counsel Donald Sullivan said in a filing May 11 with the Federal Energy Regulatory Commission that Oregon state permit denials prevent the project from moving ahead despite federal approval in 2020. Sullivan wrote that the applicant has decided to pause development of the project while it assesses the effect of the permit decisions.

The $8 billion project, planned for Coos Bay, also includes a 230-mile feeder pipeline would begin in Malin in southwest Oregon and end at the coast, crossing through four southern Oregon counties. The letter to FERC requested that the regulatory agency withdraw its consultation requests with the U.S. Fish and Wildlife Service and National Marine Fisheries Service on Jordan Cove's behalf "to conserve the resources of the commission and other operating agencies."

Earlier this month Oregon's Land Use Board of Appeals reversed the project's permits to dredge in Coos Bay, issued by Coos County and the City of Coos Bay on grounds that the company had not adequately justified why the coastal areas in question, zoned for conservation use, needed to be converted to vessel navigation zones. Southern Oregon tribes, environmentalists, many anglers, and coastal residents have opposed the pipeline since 2006. The project developer, Calgary-based Pembina Pipeline, took over the project in 2017. A previous owner had started the application with FERC in 2013.

Louisiana LNG project developer says commercialization is close

(Houston Chronicle; May 13) – Houston-based Tellurian says it is one step closer to building its $16.8 billion Driftwood LNG project in Lake Charles, Louisiana. Driftwood holds permits but lacks sales contracts and financing to begin construction. At the Citi Global Energy & Utilities Virtual Conference this week, Tellurian's Executive Chairman Charif Souki said the company is now “just weeks” from finishing commercialization for the plant’s first phase. During the commercialization process, a company secures enough LNG sales contracts and financing to support the cost of construction.

Those contracts would include about 12 million to 15 million tonnes per year of LNG sold “entirely on Zoom," Souki said. Driftwood, at full capacity, is planned for 27.6 million tonnes per year. Tellurian last month said it paid off its debts and resumed gas drilling at Louisiana's Haynesville Shale after a two-and-a-half year hiatus. It is among a dozen North American LNG export projects that talk of making final investment decisions this year or next, but a lack of firm customers and financing has slowed down the decisions.

Developer of Texas LNG project still plans decision this year

(S&P Global Platts; May 14) - NextDecade is keeping to its current target to sanction this year the construction of at least two trains at its proposed Rio Grande LNG export terminal in Texas, according to a new investor presentation posted on the developer's website. To date, it has secured a single long-term contract with Shell covering 2 million tonnes per year of the 11 million tonnes of supply that is expected to make up the first phase of the project in Brownsville.

The full project, as currently proposed, would involve five trains and 27 million tonnes per year of capacity. In the presentation, NextDecade said it is progressing commercial negotiations with "multiple counterparties" to enable an initial final investment decision in 2021. The presentation did not elaborate on the talks, and a spokesman did not respond to a message seeking comment May 14.

In November, France's Engie said it had halted talks with NextDecade about a supply deal tied to Rio Grande LNG. European utilities face pressure from environmental interests to refrain from signing new long-term deals for importing U.S. shale gas. Since Engie's announcement, NextDecade has launched several initiatives designed to reduce Rio Grande LNG's greenhouse gas emissions profile. It plans to advance a carbon capture and storage project shortly after it sanctions the first phase.

Irish government wants pause in LNG import projects pending review

(S&P Global Platts; May 14) - Ireland does not consider it "appropriate" for any LNG import terminal project to proceed pending the outcome of a review of the country's energy supply security. Ireland has no LNG import infrastructure at present, but two projects are under development — U.S. company New Fortress Energy's proposed Shannon LNG terminal and a floating import terminal being developed by U.K.-listed Predator Oil and Gas.

The Irish coalition government formed last June made it a policy pledge not to allow the import of LNG produced from shale gas with legislation expected to be published in the near future. In the meantime, a review of the country's energy security is underway, and the government said no LNG projects should proceed until the review is completed.

"Pending the outcome of this review, it is the minister's position that it would not be appropriate for the development of any LNG terminals in Ireland to be permitted or proceeded with," a Department of the Environment spokesperson said. Opposition to LNG sourced from shale gas — or fracked gas as Dublin calls it — was first cemented in the coalition's Programme for Government last year. "The Programme sets out that as Ireland moves toward carbon neutrality, it does not make sense to develop LNG projects importing fracked gas," the spokesperson said.

Russia eyes Yamal gas for chemical feedstock, in addition to LNG

(Reuters; May 14) - Russia wants to use the huge natural gas resources of its Yamal Peninsula in the Arctic for gas chemical projects and the production of liquefied natural gas, Energy Minister Nikolai Shulginov said May 14. Yamal, which the government claims holds more than a fifth of the world's gas reserves, is located 1,250 miles northeast of Moscow. Shulginov told the ministry's in-house magazine that the government is considering several options for monetizing the vast resources.

“The most preferential scenario is the development of gas chemical projects, as well as using the resource base for making forays into new markets, namely the production of LNG,” Shulginov said. Boosting gas production would help Russia achieve its strategic target of 120 million to 140 million tonnes per year of LNG by 2035, he said. That much gas could make it the world's leading LNG producer, close to Qatar's expansion plans to reach 126 million tonnes later this decade. The Yamal Peninsula's gas resources are estimated at 935 trillion cubic feet, according to Russian oil and gas producer Gazprom.

Russian gas producer Novatek already has an LNG plant in the region and is building a second, which would boost total its production capacity to about 36 million tonnes. The Sakhalin-2 terminal in Russia's Far East, which has operating since 2009, brings the country's total to 45 million tonnes with several more terminals under consideration.

Louisiana House approves tax break to restart abandoned wells

(New Orleans Advocate; May 12) - The Louisiana House of Representatives on May 11 unanimously passed a bill to exempt oil from abandoned wells from severance tax. Rep. Jean-Paul Coussan described the bill as a win-win for the industry and the environment, but environmental advocate Cynthia Sarthou, executive director of Healthy Gulf, called it a "real gift to the oil industry." Though the Senate has passed a similar bill, the bodies would need to pass the same measure for it to move to the governor for signature.

The Department of Natural Resources has designated more than 4,000 oil wells in the state as orphaned or abandoned. Wells typically become abandoned when a small oil company buys a previously drilled well and goes bankrupt without properly plugging and abandoning it. When this happens, the liability falls to the state, which uses revenue from a fee on oil and gas production to pay for the cleanup. But the program lacks adequate funding, according to a 2014 legislative auditor's report.

Coussan's bill would incentivize new oil producers to take over the liability of the well by eliminating the severance tax on oil production, which is typically 12.5%. The tax exemption would last for two years or until production of the well surpasses the cost of operation, whichever comes first. As the bill was discussed in the House, Rep. Larry Frieman sarcastically asked how he could avoid taxes on a new business he wanted to open. In response, Coussan said the bill would benefit the environment by incentivizing small companies to take over wells and, eventually, plug and abandon them properly.

China will start taxing lower-quality, imported 'dirty fuels'

(Bloomberg; May 14) - China will start taxing imports of so-called "dirty fuels" used to make lucrative but lower-quality products starting next month, citing pollution concerns and the need for fairness in the refining sector. Imports of products such as light-cycle oil — a low-quality fuel that's blended into diesel or fuel oil — will be subject to a consumption tax on June 12, according to a statement from the Ministry of Finance.

Other products that will incur the levy include mixed aromatics and diluted bitumen, the ministry said, and all will be taxed the same as shipments of naphtha or fuel oil. Chinese regulators have been considering imposing a tax on imports of light-cycle oil as the central government increased its scrutiny of high-emission fuels. The light-cycle oil can be used to make inferior and highly pollutive products at lower prices, a loophole that's driven a surge in volumes to China. Most flows come from South Korea, although Malaysia and Vietnam also have a stake in the trade.

"In recent years, a small number of companies have imported a large quantity of fuel that does not meet national standards, which flows to illegal business channels, endangers the fairness of the refined oil market, poses greater social security risks and causes environmental pollution," the ministry said.

Mexico burns more domestically produced dirtier fuel oil

(Bloomberg; May 14) - Fuel that is so dirty that the global shipping industry banned its use last year is being burned at the highest level in three years in Mexico's power plants. With the global shipping industry shunning sulfurous fuel oil to curb emissions, storage tanks in Mexico are overflowing with the stuff. The solution for Mexico is to push more of it for electricity generation, replacing cheaper natural gas that is often imported from the U.S. but which is contrary to the country's push for energy independence.

As a result, demand for the fuel jumped by almost 50% in the past year to more than a 100,000 barrels a day in March, according to government data. "Mexico is creating a market to absorb the excess fuel oil from its refineries," said Ixchel Castro, an analyst with Wood Mackenzie. The move is certain to raise Mexico's emissions. Switching a power plant that uses natural gas to fire a turbine to fuel oil generates 16% more carbon dioxide, according to BloombergNEF calculations.

State oil company Petroleos Mexicanos produces copious amounts of fuel oil unintentionally as side product of gasoline and diesel production. The more gasoline the country's refineries produce, the more extra fuel oil they have to find a home for. "Natural gas is cheaper compared with fuel oil, but in Mexico it's a political decision more than an economic one," Castro said.

Australia proposes subsidizing refineries to keep them open

(Australian Broadcasting Corp., May 17) - Australia's two remaining oil refineries will be encouraged to stay open under a plan that could cost up to A$2 billion aimed at shoring up the nation's fuel security. Under the federal government's package, the two refineries — in Queensland and Victoria — will be offered up to 6.8 U.S. cents per gallon of fuel they produce until 2030. Prime Minister Scott Morrison said it would protect hundreds of jobs at the Ampol refinery at Lytton and the Viva refinery in Geelong.

Concerns about fuel security were heightened after BP decided to close its Kwinana refinery in Western Australia just months before ExxonMobil announced it was shutting its Altona plant in Melbourne's west. Experts have warned Australia is becoming increasingly reliant on imported fuel, while unions argue the nation could "grind to a halt" if maritime supply chains are disrupted by a conflict or natural disaster.

Refineries will receive the maximum subsidy when the margin they make per barrel of oil falls to A$7.30. The payment will drop to zero if margins reach $10.20. Legislation will be introduced to Parliament in the coming weeks, aiming to start the payments by the beginning of July. The measure has been estimated to cost up to A$2 billion "in a worst-case scenario" assuming both refineries are paid the top rate through to 2030.

Japan plans to build LNG-fueled Arctic research ship

(Argus Media; May 13) - Japan is targeting to launch an LNG-fueled, arctic research icebreaker in 2026, aiming for better access to study the area's climate and environment, as well as its vast natural resources. The country's Ministry of Education, Science and Technology has decided to start construction of a ¥34 billion (US$310 million) arctic research icebreaker in the 2021-2022 fiscal year. The 13,000-gross-tonne, 420-foot-long vessel is planned for a dual-fuel engine that can run on LNG or fuel oil and have the capability of navigating through ice up to four-feet thick.

This will be Japan's first arctic research icebreaker. Jamstec, the marine science agency under the ministry, has been carrying out arctic research using the smaller research ship Mirai, which runs on diesel and can only enter the area in summer months, as it lacks ice-breaking capabilities. Japan has the Antarctic research icebreaker Shirase, which was launched in 2009.

Jamstec is tentatively planning to issue a tender later this month for construction of the new arctic research icebreaker. Bids are expected to be submitted by mid-July before the winner is determined in August. The Japanese government in 2015 drew up its first Arctic development policy, joining the international race to establish a new shipping route and get access to the area's natural resources.

Realignment in global refinery capacity will require more tankers

(S&P Global Platts; May 13) - Expected decreases in refining capacity in some regions and increases in others point to a stronger demand for large product tankers in the future, following a recovery in oil demand to pre-pandemic levels by the end of 2021, the CEO of Danish tanker company Torm said May 12. Shutdowns of 2.3 million barrels per day of refinery capacity has been announced in recent months and another 1 million is under consideration, CEO Jacob Meldgaard told S&P Global Platts.

The closures are mostly in developed economies including Australia, Japan, Europe, the U.S., and South Africa. The loss compares with global capacity expansion of 4.9 million barrels per day in 2020-23, Meldgaard said, much of it in the Middle East and Asia. "We believe this will lead to longer distances and that will lead to larger vessels, everything else being equal, playing a more dominant role in the coming decade than smaller distribution vessels," he said.

IKEA rejects LNG as marine fuel; not enough carbon reduction

(Ship & Bunker News; May 12) - Furniture company IKEA, a major shipper, has rejected the use of liquefied natural gas as a marine fuel. The company does not see the alternative fuel as a useful pathway toward the shipping industry's decarbonization, news provider ShippingWatch reported on May 11, citing comments from Elisabeth Munck af Rosenschold, global sustainability manager at IKEA.

"We do not see LNG bringing the necessary carbon reductions, and it is still a fossil fuel," ShippingWatch quoted Rosenschold. The comments from IKEA will be added to the growing war of words over LNG's future role in the marine fuels market as the shipping industry seeks to reduce its carbon emissions and consider alternative fuels.

EPA orders closure of U.S. Virgin Islands refinery

(Reuters; May 14) - U.S. regulators on May 14 ordered the Limetree Bay refinery on St. Croix, U.S. Virgin Islands, to cease operations for at least 60 days, throwing the multibillion-dollar overhaul of the massive plant into jeopardy. The Caribbean refinery has suffered several financial and operational setbacks since its private-equity owners sought to restart the 1,500-acre facility idled since 2012. It voluntarily halted processing this week after showering nearby homes with an oily mist for the second time this year.

The incident also exceeded the plant's permit for sulfur dioxide emissions, the U.S. Environmental Protection Agency said. The EPA ordered the facility closed "due to multiple improperly conducted operations that present an imminent risk to public health" and signaled it might take further action. On May 13, a malfunction in a processing unit led the company to send staff to inspect local properties, and it advised residents not to drink from rainwater cisterns. The refinery was constructed in the late 1960s.

The refinery’s former owners filed for bankruptcy in 2015, facing heavy losses and U.S. Clean Air Act violations. In 2016, Boston-based private-equity firm Arclight Capital Partners acquired it and recruited other investors including EIG Global Partners that put about $3 billion into a plan to begin processing 210,000 barrels per day of crude into gasoline, diesel, and fuel oil. After an extensive overhaul, restarts last year led to a fire. This year oil rained on nearby homes for the second time in four months.