

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Mexico could become West Coast LNG export center for U.S. gas**

(Bloomberg; Aug. 12) – Mexico, which imports nearly all of the natural gas it burns, has laid out a somewhat surprising mission: To become one of the world’s top exporters of the fuel. Although gas exports from Mexico are today non-existent — it produces too little of the power-plant fuel to supply even its own needs — the country’s proximity to booming U.S. gas reserves positions it well to supply hungry buyers, particularly Asia.

With U.S. shale in mind, eight liquefied natural gas export projects have been proposed for Mexico, with a combined annual capacity of 50.2 million tonnes. The first operation aims to come online as soon as next year. Mexico is looking to join the list of nations that ship the fuel overseas. But, unlike export heavyweights Australia, Qatar and the U.S., Mexico would mostly be shipping out gas that it imported in the first place.

“Mexico is set to become an exporter of U.S.-produced natural gas and this is mostly driven by market dynamics that are taking place globally, especially those in Asia,” said Adrian Duhalt, a scholar at the Baker Institute’s Center for the U.S. and Mexico at Rice University. There’s no guarantee all the proposed projects will be built, or that they’ll be constructed on time. Some of them will still need last-mile pipeline connections, too.

But the main pipeline capacity they’ll need is already there. U.S. gas can be shipped via more than a dozen cross-border lines built between 2012 and 2018, with a total capacity of nearly 14 billion cubic feet a day. So far this year, Mexico has imported an average 6.7 bcf per day from the U.S., meaning the lines could double the current volumes. Six of the eight proposed LNG projects are along the Pacific Coast. So far, the only one under construction is the first phase of the Semptra Energy-owned Energia Costa Azul terminal on the Baja California coast. The other projects are still on the drawing board.

#### **EPA questioned Cheniere’s choice of polluting turbines at LNG plants**

(Reuters; Aug. 12) - U.S. regulators raised doubts about Cheniere Energy's decision to install higher-polluting gas-fired turbines at its Gulf Coast liquefied natural gas terminals in Texas and Louisiana years before they began operating, according to documents reviewed by Reuters. The documents show that Cheniere, the top U.S. LNG exporter, may have had an early chance to avoid its current struggle with looming federal limits on emissions of formaldehyde, benzene and other dangerous chemicals.

The company could be forced to undertake outages that might reduce or slow gas shipments, potentially wiping out any cost savings made a decade ago when it disregarded concerns from the Environmental Protection Agency. In June, Reuters reported that Cheniere asked the EPA for an exemption from new curbs to be imposed later this year on emissions of cancer-causing chemicals. The company said its gas-fired turbines are difficult to retrofit and such work could slow exports to Europe.

The EPA said no other LNG exporter is seeking similar relief, and it is considering the request. According to a Reuters review, the EPA in 2013 questioned Cheniere's plans to install the gas turbines at its Corpus Christi Texas terminal. The agency also suggested using cleaner electric technology being used or proposed by rivals like Freeport LNG. The EPA ultimately approved the permit after Cheniere said the electric technology was not yet proven and would require costly transmission upgrades and more real estate.

Two years earlier, regulators had also questioned Cheniere's plan to install gas turbines at its project in Sabine Pass, Louisiana, without add-on pollution controls that turn toxic emissions into carbon dioxide. Those controls would have helped it reduce hazardous pollutants in line with the forthcoming limits. Cheniere said the controls were technically unfeasible, according to the documents. The EPA did not object to the state issuing its permit. Cheniere said its turbines complied with rules at the time and the EPA should exempt it from the new limits. Sabine Pass started up in 2016; Corpus Christi in 2018.

## **Russian LNG project loses contractors due to Western sanctions**

(Barents Observer; Norway; Aug. 11) - The unprecedented Arctic industrialization that over the past years has unfolded along the shores of Russia's remote Gulf of Ob faces serious troubles following Russia's war against Ukraine and the subsequent Western sanctions. Novatek's liquefied natural gas projects in the area all heavily depend on Western technology. A full halt in development now threatens the \$20 billion Arctic LNG-2 — Novatek will not be able to complete the project as planned following the exit of Houston-based Baker Hughes, as well as Italy's Saipem and Paris-based Technip.

But help might be on its way from Putin-friendly Turkey. Karpowership, the Turkish manufacturer of so-called "powerships," is reported to be in talks with the project's lead developer, Russian gas producer Novatek, over construction of a 300- to 400-megawatt floating power station to provide the first of the project's three liquefaction trains with electricity. According to the Russian newspaper Kommersant, Novatek has little choice but to contract the Turkish company. There are no other available options in the market.

The powership is believed to replace turbines that were to be delivered by Baker Hughes, which was to build 20 turbines for Arctic LNG-2, seven of them for the project's first of three liquefaction trains. Only four of the turbines were delivered before Western sanctions hit and Baker Hughes pulled out of Russia. Powerships are barge- or ship-mounted floating power plants that can operate on heavy fuel oil, diesel or gas.

Novatek is facing other serious difficulties: Key engineering partners Technip and Saipem have exited Arctic LNG-2. Novatek has replaced them with Nova Energies and Green Energy Solutions, Kommersant reports. Nova is a subsidiary of Russian Nipigaz, while Green Energy is a new company registered in the United Arab Emirates. Also, the Chinese yards that were to manufacture the production modules for the LNG plant have decided to halt cooperation with Novatek on the project.

## **U.S. LNG a profitable business for traders with gas to sell**

(Business Insider India; Aug. 12) - Energy companies and traders are raking in huge profits selling U.S. natural gas to Europe as prices on the continent skyrocket, with a single shipment netting more than \$100 million of profit, according to industry experts. U.S. exports of liquefied natural gas across the Atlantic have surged in 2022, as companies pounce on the huge earnings on offer while European governments facing a Russian supply squeeze desperately try to fill their storage tanks before winter.

"All in all, it's insane," Laurent Segalen, an energy investment banker who hosts the Redefining Energy podcast, said about the arbitrage trade. Segalen said companies can fill a large LNG carrier with U.S. gas and send it across the Atlantic for less than \$60 million — the cost of the gas, liquefaction fees and shipping — with the cargo then fetching \$100 more than that in Europe. Buyers that locked in deals to purchase U.S. LNG before the latest surge in European prices are making huge profits, Segalen said.

"It's an incredible arbitrage that's open at the moment," said Felix Booth, head of liquefied natural gas analysis at Vortexa. Large energy companies such as France's TotalEnergies as well as major trading houses such as Trafigura and Gunvor are some of the key players buying and selling U.S. natural gas. Booth said the companies are delivering what the continent needs as supplies run low. "It's not purely profiteering," he said. "There's a reason why the prices are so high."

## **OPEC sees weaker demand growth for oil this year and next**

(The Wall Street Journal; Aug. 11) - Global oil demand will be weaker than expected this year and next as economic growth slows, OPEC said Aug. 11, suggesting the cartel sees little need to increase output. In its closely watched monthly market report, the Organization of the Petroleum Exporting Countries cut its forecasts for global oil demand this year by 260,000 barrels to 100.03 million barrels a day. It also cut its demand forecasts for 2023 by the same amount to 102.72 million barrels a day.

OPEC's revisions come as oil prices have eased significantly from the highs they hit in the wake of Russia's invasion of Ukraine. Fears about slowing economic growth and signs of respite from a global energy crisis have undercut prices, which this month fell to

their lowest level since February — in the high \$90s. While OPEC lowered its forecast for global economic growth for 2022-2023, it said demand for oil would still be robust.

The Vienna-based group said a combination of weaker demand for oil and a steady climb in output from OPEC and non-OPEC oil producers meant the oil market was close to balanced in the second quarter of the year, with demand exceeding supply by just 50,000 barrels a day. That compares with a 300,000 barrel-a-day deficit of oil in the first quarter and a 1.6 million-barrel deficit in 2021. OPEC's outlook for a finely balanced oil market suggests its members are likely to keep their output at current levels, despite requests by the U.S. and others to produce more to help bring down energy prices.

### **Russian oil transferred at sea went to Indian refinery, then New York**

(Reuters; Aug. 13) - The United States has expressed concern to India that it was used earlier this year to export fuel made from Russian crude to New York through high-seas transfers, a top Indian central banker said on April 13. U.S. sanctions on Russia for its February invasion of Ukraine prohibit imports to the United States of Russian-origin energy products including crude oil, refined fuels, distillates, coal and gas.

"It turns out, an Indian ship met a Russian tanker in mid-seas, picked up oil in the mid-seas, came to a port in Gujarat, it was processed in that port and converted into a distillate which actually goes into making single-use plastic," Reserve Bank of India Deputy Governor Michael Patra told an audience of government officials. "The refined output was put back on that ship and it set sail without a destination. In the mid-seas it received the destination so it reached its course, went to New York. So that's the way war works. It works in strange ways."

Patra did not name the ship or give any other details. The U.S. embassy in New Delhi had no comment. India, the world's third-biggest oil importer and consumer, has become one of the biggest importers of Russian oil since the invasion of Ukraine, having bought very little of it previously.

### **High natural gas prices boost use of oil to generate electricity**

(CNBC; Aug. 11) - Sweltering summer temperatures and soaring natural gas prices have boosted the use of oil in power generation, the International Energy Agency said Aug. 11, increasing demand but masking weakness in economies beset by recession fears. "Natural gas and electricity prices have soared to new records, incentivizing gas-to-oil switching in some countries," the agency said in its monthly oil report in which it raised its outlook for 2022 global demand by 380,000 barrels per day.

“These extraordinary gains, overwhelmingly concentrated in the Middle East and Europe, mask relative weakness in other (oil-use) sectors,” the IEA warned. It cited reduced use of oil fuels for road transport in developed countries and slowing growth by year-end. Meanwhile global oil supply in July broke past pre-pandemic highs, buoyed by higher-than-expected output by Russia, whose exports the IEA said fell by 115,000 barrels per day in July to 7.4 million, a decline of just 600,000 from the start of the year. In addition, China overtook Europe as the main destination for Russia’s crude.

### **Low U.S. stockpiles of diesel, heating oil could be problem this winter**

(Bloomberg; Aug. 12) - Heating oil is not what naturally comes to mind in the middle of August — particularly during a heat wave in Europe. Moreover, the world oil market appears calm on the surface, with prices down 30% since March. But dig a bit deeper, and there’s a storm brewing. America and Europe ordinarily use the low-demand seasons of spring and summer to rebuild their stocks of middle distillates — heating oil and diesel — for use during the winter. So far, they have largely failed to do so.

In the U.S., middle-distillate inventories typically increase by 20 million barrels from mid-April to mid-September. However, stocks are up only 2 million barrels as refiners focus on making gasoline and overseas demand for the fuels drains local stocks. In Europe, the situation is similar. The U.S. East Coast is of particular concern. The region is home to New York Harbor, the pricing point for U.S. heating oil. It’s also where the demand is: Of the 5.3 million U.S. households that use heating oil, over 80% are in the Northeast. On a seasonal level, East Coast distillate inventories are the lowest in 30 years.

It looks like the industry has all but run out of time to rebuild the buffer. High prices will be needed to force demand down and avoid running out of supply. But even high prices may not dent consumption enough because German industrial companies are switching from gas to oil, using more heating oil and diesel for electricity and steam production. Ironically, Europe is for now relying on Russian diesel to fill the gap, with imports in June and July rebounding to prewar levels. Starting in February, however, Europe won’t be allowed to import Russian diesel as sanctions over the Ukraine invasion take effect.

### **Japan’s new trade minister calls for restart of more nuclear reactors**

(Bloomberg; Aug. 12) - More nuclear reactors must be restarted for Japan to ensure stable power supply for next summer and beyond, according to the nation’s newly appointed trade minister. “Beyond next summer, it’s important to keep restarting new nuclear power plants,” Yasutoshi Nishimura told reporters in Tokyo on Aug. 12. “The government will work with operators to make sure they comply appropriately with safety inspections, and will work to gain the support of local municipalities,” he said.

Resource-scarce Japan is grappling with a power supply crunch as surging fuel costs and extreme weather stretch the grid. The government has wrestled with repeated power shortages this year, asking citizens to cut consumption and debating whether to increase reliance on nuclear energy. Prime Minister Fumio Kishida said last month that the government will do what it can to ensure as many as nine reactors are online this winter. Japan has 33 operable reactors, but most remain offline due to stringent safety reviews and local opposition in the wake of the 2011 Fukushima nuclear disaster.

### **German power provider will keep coal plant intact, in case it's needed**

(Bloomberg; Aug. 11) – German energy provider RWE will delay dismantling one of its shuttered coal stations in Germany in case it's needed to step in to keep the lights on this winter. The company will keep the option open to bring back the 50-year-old Neurath A plant which was shut down April 1 in line with the nation's plan to phase out coal, RWE said on Aug. 11 in its earnings report.

“The unit will not be dismantled for the time being in light of the current debate on reducing gas use for electricity generation,” the company said. “We are therefore keeping the door open for this unit to be restarted.” Germany has lined up a reserve of 10 gigawatts of coal and oil plants to remain in operation to help reduce the reliance on stations burning natural gas as supplies of the fuel from Russia is dwindling.

The move to secure coal and oil supplies will mean more emissions in the short-term, a reality that policymakers have been forced to accept as Russia's war on Ukraine cuts gas supplies to the region. The European Commission is pushing countries to speed up their build-out of renewables to help wean the region off fossil fuels.

### **Germany dials down thermostats and lights to save energy for winter**

(Bloomberg; Aug. 11) - Germany is preparing itself for a long, cold winter as an energy crisis caused in part by Russia's war on Ukraine drags on. Russian President Vladimir Putin has already reduced natural gas deliveries to the country and has threatened to cut off Germany completely. Almost half of all households in Germany use gas as their primary means of heating. Replacing the dwindling supplies from Russia with gas from elsewhere in a few months is next to impossible, given the lack of infrastructure such as pipelines or LNG terminals. That's left Germans worried about freezing in the winter.

Already, some hardware stores are reporting that they're selling out of electric heaters. “I have the feeling that we are sleepwalking toward a catastrophe,” said Lamia Messari-Becker, a professor of building technology and building physics at the University of Siegen in western Germany. Germany's government has asked citizens, municipalities and industrial consumers to save energy, and efforts can be seen across the country.

Berlin has turned down the nightly illumination of the president's residence and the Reichstag building, the seat of the country's parliament. Officials are discussing whether to dim the Christmas markets in winter and debating how to keep public buildings like libraries open and warm. The Berlin Senate wants to cut at least 10% of its energy consumption, but decided against putting limitations on neon signs in public spaces.

Hanover, a city of 530,000 people, has lowered the water temperature in heated public swimming pools and turned off warm water in all city buildings in an effort to lower energy consumption by 15%. Some streets are no longer lit at night.

### **Germany's largest power producer boosts spending on renewables**

(Bloomberg; Aug. 11) - RWE is investing more than it originally planned on building renewable energy capacity to make Europe more energy independent as a worsening crisis threatens the region's economy. Germany's biggest power producer plans to spend more than 5 billion euros (\$5.2 billion) on green technologies this fiscal year, including wind, solar and batteries, as well as hydrogen, it said on Aug. 10. That's about 30% more than first planned. But until renewables deliver, it will need more natural gas.

Europe is rushing to boost energy supplies ahead of winter as it looks to stave off a crisis that could result in blackouts and rationing. Governments and politicians have been focused on reducing consumption as flows of natural gas from Russia have dwindled and electricity prices have jumped to record highs. "All this (investment in renewables) is urgently needed in order to make energy supply more independent and climate-neutral," RWE Chief Executive Officer Markus Krebber said in the statement.

Just like its European peers, RWE has been racing to secure alternative gas supplies and import liquefied natural gas from across the globe. The company signed a 15-year agreement with a U.S. LNG developer in May, with deliveries expected to start in 2027.

### **Floating LNG import terminals heading to Europe before year-end**

(Bloomberg; Aug. 11) - At least two floating liquefied natural gas terminals are heading for Europe in the next several months as the region clamors to replace supplies cut off after Russia's invasion of Ukraine. Golar LNG is converting an LNG carrier into a floating terminal that's expected to start receiving gas off the west coast of Italy in the first half of 2023, the company said Aug. 11. The vessel was sold to Italy's gas network operator, Snam, in May. Another Golar carrier is in the process of being converted.

Excelerate Energy, meanwhile, said Aug. 11 that its floating LNG terminal will head to Finland from Argentina after Aug. 31. And the company signed a letter of intent with South Korea's Hyundai Heavy Industries this week to build a new floating LNG import

unit that's slated for delivery in 2026. There are currently 45 ships around the world that could be converted and used as floating LNG import facilities, according to figures from the International Gas Union.

### **Italy will exempt LNG import facility from environmental assessment**

(Reuters; Aug. 12) - Italy will fast track permitting to set up a new regasification vessel aimed at expanding the country's liquefied natural gas import capacity in an effort to cut its dependence on Russian gas, Rome told the European Commission. In a letter to the EU Commissioner for the Environment, Italy's Ecological Transition Minister Roberto Cingolani said the project would be exempt from an environmental impact assessment, which can slow down significantly the construction of infrastructure projects.

"Any delays or obstacles likely to prevent timely implementation (of the regasification vessel) would be contrary to the interests of Italian citizens and would end up jeopardizing the country's energy security," the minister said in the letter posted on the website of Italy's special commissioner for energy infrastructure. State-controlled natural gas grid operator Snam in June bought a floating LNG regasification terminal to support the country's effort to bring in alternative gas supplies.

Under the government project, Snam's vessel will be moored in the port of Piombino, in Tuscany, connected to the country's gas network by the spring of 2023. The vessel has a capacity to handle 175 billion cubic feet of gas per year. Italy last year bought around 1 trillion cubic feet of Russian pipeline gas, equal to nearly 40% of its total gas imports.

### **Senegal plans to redirect its LNG from Asia to higher-priced Europe**

(Bloomberg; Aug. 12) - Senegal is positioning itself as an alternative source of gas for Europe as Russia cuts supplies of the fuel. "Senegal will be able to sell its quota to Europe, especially Germany, in the second half of 2024," Mamadou Fall Kane, deputy permanent secretary of COZ-Petrogas, a government committee that monitors and develops oil and gas projects, said by phone Aug. 11 from the capital, Dakar.

Production at Senegal's Greater Tortue Ahmeyim gas project is scheduled to start next year. The offshore field straddling the border between Senegal and Mauritania in West Africa is set to produce 2.5 million tonnes of liquefied natural gas per year in the first phase, doubling to 5 million tonnes in the second phase. Final investment decisions for Phase 2 should be made by September and for the deepwater Yakaar-Teranga project later this year, Kane said. A recent European Union decision to label gas investments as climate-friendly would make it easier to attract financing for the ventures, he said.



Though Senegal had agreed to send its first gas to Asian nations under contracts signed in 2018, a clause in the agreement allows it to sell to other buyers, Kane said. "This allows us to extract the maximum value of the contract and to double, or even triple, our earnings." Kosmos Energy, which is co-developing the Greater Tortue Ahmeyim field with BP, earlier this month said Phase 1 is 80% complete, with the first LNG at the end of next year. Senegal will receive a share of the production to sell.

## **Canadian natural gas sells at steep discount to U.S. prices**

(S&P Global; Aug. 12) - Canadian spot natural gas prices have tumbled in recent trading sessions, as pipeline capacity constraints and cooler temperatures reduce the amount of gas flowing south into the U.S. The Western Canada spot gas benchmark has dropped about 40% since the start of August, falling to trade under US\$3 per million Btu on Aug. 12 from about US\$4.70 Aug. 1, pricing data from S&P Global Commodity Insights shows. Canadian spot gas has seen its discount to U.S. benchmark Henry Hub deepen dramatically in the past 30 days, to a painful \$6 discount during Aug. 12 trading.

Sustained robust gas production in Canada has compounded the pricing impact of lower exports to the U.S., with volumes remaining elevated compared with year-ago levels. Platts Analytics modeled data shows that Canadian gas production has averaged 17.14 billion cubic feet per day month-to-date, up 1 bcf per per day from the same time in 2021. Some of the additional gas has been directed to Canadian storage.

A combination of pipeline capacity constraints in the U.S. Northwest and falling gas demand in the U.S. Northeast have led to a decrease of nearly 800 million cubic feet per day in Canada-to-U.S. gas flows since the start of August. The decrease has accelerated since Aug. 8, when Gas Transmission Northwest declared a force majeure to limit pipeline flows, citing a compressor station failure. A downward shift in Northeast power sector demand for gas has also reduced Canada-to-U.S. gas flows as cooler weather moved into the area, reduced demand for electricity for air conditioning.

## **Australian state government declines to help LNG import project**

(Reuters; Aug. 11) - The Australian state of New South Wales on Aug. 11 said no to a proposal for government aid to secure gas imports through an LNG import terminal being built by the country's richest man. Australia's competition watchdog last week warned that the country's southern states face a gas supply crunch in 2023. Mining billionaire Andrew Forrest's Squadron Energy wrote to energy ministers this week offering to speed up work on the liquefied natural gas import terminal it is building in New South Wales, saying it could be ready mid-2023 if a government entity agreed to use the terminal, providing a revenue stream, a Squadron spokesperson said Aug. 11.

Squadron so far has failed to sign up enough customers for the project to be completed. The company has tried to line up the country's top energy retailers to use the terminal to import gas, but only the No. 3 retailer has signed up. At least one other said it could buy gas cheaper elsewhere. In response to Squadron's proposal, the New South Wales government said the company should find customers for its project in the market, not rely on government assistance. Though Australia has large natural gas resources, much of its production is committed to LNG export projects, squeezing domestic users.

### **Saudi Aramco plans to boost oil production capacity in next 5 years**

(S&P Global; Aug. 14) - Saudi Aramco plans to raise its sustainable production capacity to 12.3 million barrels per day by 2025 as the world's largest oil-exporting company accelerates plans to bring additional output to market, its chief executive told reporters during an earnings call Aug. 14. "It is going come gradually (starting) in 2024. ... In 2025, we should go to 12.3 million. In 2026, we should go to 12.7 million before reaching 13 million by 2027," CEO Amin Nasser said.

Saudi Arabia claims a current production capacity of around 12 million barrels per day but Platts Analytics estimates this at closer to 11.5 million. The kingdom, alongside fellow OPEC producer UAE, holds virtually all of the world's remaining spare capacity. Saudi Arabia pumped 10.77 million barrels per day in July, its highest level in more than two years, according to a Platts survey, published by S&P Global Commodity Insights.