Oil and Gas News Briefs
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Russia boosts pipeline gas volumes to China

(Bloomberg; July 29) - Russia is boosting natural gas shipments by pipeline to China as it curbs flows to Europe, a dynamic that may offer some respite from the unprecedented rally in energy costs, according to consultant Accenture. Gas prices in Europe soared after Russia slashed supplies to its biggest market following the invasion of Ukraine and imposition of Western sanctions. At the same time, Gazprom is shipping record volumes by pipeline to China, easing overall demand for liquefied natural gas and helping to balance the market, said Ogan Kose, a managing director at Accenture.

“What will make a significant impact is Russian gas being supplied to China,” Kose said. “China’s demand for LNG imports will drop as a result of that, easing prices globally.” European nations are seeking more LNG as they seek to cut their dependence on Russian gas. While Russia’s pipeline gas to China is still a fraction of sales to Europe, increasing flows are set to displace higher-priced LNG in the China market. The war has pushed Russia to accelerate plans to diversify away from sales to Europe, with exports increasing via the Power of Siberia gas pipeline and plans to build new lines to China.

Volumes through the Power of Siberia line are up 60% this year. The line, which started service in 2019, is ramping up, with full capacity at more than 3.6 billion cubic feet per day expected in a couple of years. The biggest fields in Siberia, which now feed Europe, will eventually be connected to China, giving Russia an option as relations with the West deteriorate. “Russian gas molecules are going to be sold somewhere else, primarily in Asia,” Kose said. “There is always going to be another buyer for that gas.”

Enbridge will take 30% stake in small LNG project on B.C. coast

(S&P Global Platts; July 29) - Enbridge said July 29 it will acquire a 30% stake in Singapore-based Pacific Energy's Woodfibre LNG project in British Columbia as North America's largest midstream company invests more heavily in the burgeoning Canadian LNG industry. The $1.5 billion investment in Woodfibre comes with Enbridge also planning to spend at least $2 billion to expand the length and capacity of its pipeline system from the Montney shale gas basin in northeastern B.C. to Vancouver and, ultimately, to the Woodfibre facility, which is planned to come online in 2027.

Woodfibre, with capacity to take 280 million cubic feet of gas per day, is touted as the lowest-carbon LNG project in North America because it would use clean hydroelectric power to run its operations. Construction is set to begin next year. Enbridge CEO Al

Monaco cited the growing global thirst for LNG — especially since Russia's invasion of Ukraine — and the strategic location of British Columbia's proximity to Asia, abundant shale gas supplies and Enbridge pipelines ready for expansion. He also cited project certainty, as BP has contracted to take 70% of Woodfibre's gas capacity for 15 years.

Enbridge's investment includes $900 million in equity and $600 million in project debt financing. But it might just be the first of multiple Enbridge investments in LNG projects from Canada to the U.S. Gulf Coast. Monaco described Woodfibre, 30 miles north of Vancouver, as a learning experience for Enbridge. "It's a smallish investment for us to start out in liquefaction, and we'll develop more capabilities as we go forward. … I think we have the appetite. There's a lot of opportunities, particularly in the Gulf Coast."

Construction cost of 415-mile pipeline to B.C. LNG plant jumps 70%

(Bloomberg; July 28) - The cost estimate for the Coastal GasLink pipeline — which will feed the C$40 billion LNG Canada project under construction in Kitimat, B.C. — has escalated by 70%, the pipeline builder announced July 28. TC Energy said it resolved a longstanding dispute with the Shell-led LNG Canada venture over the 415-mile pipeline, which will ship gas from the Dawson Creek area in northeastern B.C. to the liquefaction plant and export terminal. The two sides had been at odds about cost overruns, and TC said it has settled on a new cost estimate of C$11.2 billion, up from C$6.6 billion.

"The agreements resolve uncertainty over specific and anticipated costs, mitigate project funding and execution," said TC Energy CEO Executive François Poirier in a press release. TC Energy said the new cost estimate reflects the increased scope of the project, as well as challenges associated with weather and COVID-19. As a result of the higher cost, TC said it will contribute an additional $1.9 billion to the project, allowing it to maintain its ownership stake at 35%. The first phase of LNG Canada is being developed at 13 million tonnes annual output capacity.

Coastal GasLink dates back to 2012, when TC Energy (then known as TransCanada) was chosen by LNG Canada to build, own and operate the line. It became a flashpoint for protests amid a groundswell of opposition to new pipelines across North America. Earlier this year, TC Energy announced option agreements that would allow Indigenous groups along the route to purchase a 10% stake in the pipeline. TC Energy said July 28 that Coastal GasLink is 70% complete, and on track to start up by the end of 2023. The LNG export terminal is not expected to ship its first cargo until 2024 or 2025.

U.S. natural gas prices are double of last summer

(EnergyWire; July 28) - Fallout from Russia's war in Ukraine and hot weather are sending U.S. natural gas prices to some of the highest points in years. Exports are up as the nation ships more liquefied natural gas to Europe, while a heat wave boosts demand for gas to generate electricity domestically. Analysts said the bump in prices will have long-term impacts on the U.S. economy as the high costs push up summer electric bills and winter heating costs, as well as everything from food to plastics.

Natural gas prices have risen faster this year on a percentage basis than crude oil, gasoline or diesel. The benchmark U.S. gas price topped $9 per million Btu on July 26, more than double the price of last summer, as Russia cut back shipments to European countries and European Union members agreed on a plan to ration their own gas use, looking more to the U.S. for supply. Gas is the largest source of electric power in the U.S., and gas prices help set the cost of electricity around the country, said Tyson Slocum, director of the energy program at the consumer advocacy group Public Citizen.

Gas fueled about 38% of utility power generation in the country last year, according to the U.S. Energy Information Administration. This year's gas prices will mean higher electric bills at a time when consumers are already coping with the highest inflation rate since the 1980s. "It could be several months, it could be a year, but at some point 100% of those costs are going to find their way into utility bills," Slocum said. The price is still below past peaks. Benchmark U.S. gas traded above $13 per million Btu as recently as 2008. But the fracking boom largely held down the U.S. price for a number of years.

Vancouver area committee recommends against LNG plant expansion

(The Province; Vancouver; July 27) – FortisBC's proposal to expand its liquefied natural gas output at the Tilbury LNG plant in Delta, across the Fraser River from Vancouver, is proceeding through its environmental assessment with an apparently diminishing level of municipal support. Metro Vancouver's climate action committee is recommending that the 21-municipality district board oppose the proposal at the B.C. Environmental Assessment Office "because of overall concerns related to upstream and downstream greenhouse-gas emissions and inconsistency with Metro Vancouver climate targets."

The company proposes to expand production up to 4.4 million tonnes of LNG per year, mainly for use as marine fuel with the aim of reducing emissions from vessels that now burn heavy oil and diesel, a concept supported by the Port of Vancouver and other maritime users. The provincial Environmental Assessment Office concluded that the impacts to the environment and Indigenous traditional use by construction of a marine jetty, the first part of the expansion, "would not be significant" if mitigation measures were met, according to a draft assessment released for comment July 13.

The second part of the Fortis proposal, expansion of its onshore production and storage facilities, is in an early stage of environmental assessment, with the company expected to make a formal application for review this fall. The Tilbury facility has produced LNG since 1971, with a significant expansion in 2018 to serve BC Ferries and the trucking industry. Opponents of further expansion contend it would “lock in decades of fossil fuel production (and LNG) will likely play a limited role” in reducing emissions.

[Texas school district rejects property tax break for LNG project]

(Texas Public Radio; July 28) - A South Texas school district once again rejected entering into a property tax agreement with a liquefied natural gas project. The Point Isabel school board voted to reject a tax abatement proposal that Texas LNG offered the district. For nearly two hours, the school board discussed the proposal completely in executive session during a special board meeting on July 26. Under the state’s controversial $10 billion corporate tax subsidy program, large companies can receive multimillion dollar breaks on property taxes while shifting the burden to homeowners.

Texas lawmakers did not reauthorize the program during this past legislative session after it came to light that it had failed to deliver on its goals for job creation, revenue generation and attracting companies to the state. However, the tax break is still available until next year. The school district rejected a similar tax abatement offer from NextDecade’s Rio Grande LNG project in 2016.

The year before, Point Isabel unanimously rejected a tax break for Annova LNG after the company asked the district to tax them at a $25 million valuation for 10 years when the company’s property was expected to be worth more than $1 billion. Texas LNG and Rion Grande LNG are planned for construction in the Port of Brownsville; Annova LNG dissolved its project last year. Both Texas LNG and Rio Grande LNG have been cleared for construction, dependent on signing sufficient sales contracts to obtain financing and a final investment decision by the developer.

[U.S. shale producers do well putting profits over production]

(Bloomberg; July 31) – U.S. shale drillers are expected to post record second-quarter profits in the coming days, reversing nearly a decade of debt-fueled losses. The top 28 publicly traded U.S. independent oil producers generated $25.5 billion in free cash flow in the three months to June 30, according to estimates compiled by Bloomberg. In that space of time, they will have made enough cash to erase one-fourth of what they lost over the previous decade.

Fracking revolutionized global energy markets by enabling American drillers to harvest shale resources that had previously been untouchable. In the space of just over 10 years, the U.S. went from a declining producer to the world’s dominant oil and gas source, but at an astronomical cost: The 28 companies lost about $115 billion in the decade leading up to the COVID-19 pandemic.

For the full year, free cash flow for the sector is expected to top $100 billion, more than double 2021's bounty and nine times larger than the combined annual takes from 2018-2020, according to Bloomberg Intelligence. It's a vindication of the sector's new business model that prizes profits over production growth. For consumers, it's a sign that shale is no longer willing to fund money-losing drilling projects that ensured years of ample crude and natural gas supplies.

Germany will add levy to gas bills to help cover rising import costs

(Reuters; July 28) - Germany is set to enact a planned levy on all gas consumers on Oct. 1 as it looks to help suppliers grappling with soaring gas import prices, and will allow importers to pass on 90% of their costs, economy ministry sources said July 28. The levy law, introduced earlier this month, aims to share the additional costs for replacing Russian gas among all users and to prevent insolvencies among gas traders.

A so-called "netted price adjustment mechanism" will hit households and industrial consumers using long-term contracts and will be valid until the end of September 2024, the sources said. Until October, gas importers will have to bear rising costs by themselves. Details about the size of the levy will be announced in August and based on gas prices, the sources added.

A levy of 5 cents per kilowatt hour would increase gas bills by around 1,000 euros ($1,020) per year for a household of four. Significant disruptions to gas flows into Germany were a prerequisite for the government to trigger the mechanism.

Nigerian oil pipeline stops moving crude due to chronic theft

(Bloomberg; July 27) - An oil pipeline capable of hauling 180,000 barrels a day across Nigeria has ceased transporting crude since mid-June due to theft, according to a person familiar with the situation. The Trans-Niger Pipeline has yet to be formally shut down, said the person who declined to be identified because the information isn't public. The link's capacity is about 15% of Nigeria's most recent average daily output, according to Bloomberg calculations.

Nigeria — Africa's largest oil producer and a member of the Organization of Petroleum Exporting Countries — has tried to stamp out sabotage on its pipeline network in recent years. Oil theft remains a chronic problem for the midstream system. Producers received as little as 5% of crude volumes pumped through the Trans-Niger Pipeline between October 2021 and February, an industry union reported earlier this year. It reflects a larger issue for Nigeria, which is facing shrinking investment and hasn't been able to meet its OPEC+ oil-production quota in order to benefit from a surge in prices.

The pipeline was illegally tapped in about 150 places, the Petroleum and Natural Gas Senior Staff Association of Nigeria said in March when local government checked some of the areas where the theft occurred.

Import-dependent South Asian nations find it hard to pay for oil

(Bloomberg; July 27) - An unprecedented energy crisis hitting some of the most densely populated and impoverished parts of South Asia may worsen as more fuel suppliers avoid selling oil to these nations. Fewer companies are offering to sell to state-owned Pakistan State Oil Co., while some banks have stopped financing or handling payments for energy imports. Sri Lanka is also struggling to secure fuel from its regular supplier, India. Meanwhile, Bangladesh is having to schedule power cuts to preserve fuel.

Emerging markets across the world have been devastated by surging commodity prices following Russia's war on Ukraine. That's pushing countries to the brink of collapse at a time when oil and gas are crucial in supporting their rebound from the crippling effects of the pandemic. A surge in prices has intensified the economic crises seen in some emerging markets, especially those highly dependent on energy imports with very low foreign exchange reserves, said Rajiv Biswas, with S&P Global Market Intelligence.

Fuel traders are hesitant to supply gasoline and fuel oil to Pakistan on concerns the recent dramatic plunge in the rupee hampers the country's ability to make payments. Bankrupt Sri Lanka is struggling to secure fuel to alleviate shortages and control surging inflation. The rising cost of energy is placing a heavy burden on Pakistan. In June, costs surged almost 150% year-on-year, according to the Pakistan Bureau of Statistics. That's taking a toll on its power sector, where close to a quarter of the nation's power-generation capacity has been shut due to shortages of natural gas, fuel oil and coal.

Russia grabs market share from other oil suppliers to India

(Bloomberg; July 27) - India's insatiable appetite for discounted Russian oil is eroding the dominance of traditional suppliers from the Middle East to Africa and the U.S. in one of the world's most lucrative markets. The share of Eurasian supplies, which includes Russia, in India's overall crude imports reached a record 18.8% during April-June, from 3.4% in the preceding 12 months, according to the oil ministry's analysis office. The other regular supplier from the region is Azerbaijan, which accounts for a small fraction.

Oil imports from the Mideast, which is India's biggest supplier, slipped to 61.9% from 63.9% in the previous year, while those from OPEC members decreased to 64.8% of total imports during April-June, compared with 69.7% a year earlier. India has been diversifying its oil sourcing to reduce dependence on the Mideast and has stepped up imports from the U.S. after it started exports in late 2015. But purchases from North

America, which includes U.S., Mexico and Canada, halved to 6.8% from the previous 12 months, while Africa dropped to 9.2% from 13.6%, the data showed.

Russian oil has been muscling into the Indian and Chinese markets and eating into the share of Iraq and Saudi Arabia in the world's biggest oil-consuming region. Refiners in India have been gorging on cheap Russian barrels since the invasion of Ukraine.

Smaller traders step up to move discounted Russian crude to India

(Bloomberg; July 28) - India will have more channels to buy cheap Russian crude, with a new wave of smaller, international traders muscling into its vast market by offering oil shunned by rivals after the invasion of Ukraine. State-run refiners such as Indian Oil Corp. are warming to the idea of buying from the lesser-known traders. Refinery officials said they've found it easier to work with them, rather than with Russian producers, as there's less bureaucracy that slows negotiations with firms such as Rosneft.

Companies include Wellbred and Montfort have been marketing Russian oil to Indian buyers, joining the likes of Coral Energy and Everest Energy as more traders emerge to fill the gap left by larger merchants such as Vitol Group, said the officials, who declined to be named. According to their websites, the Wellbred and Montfort have offices in Switzerland, Dubai and Singapore. Traders and shipbrokers said they didn't know much about the firms, except they handled fuels from time to time.

Trading houses often serve as middlemen by bridging differences between sellers and buyers. In theory, some companies can continue to work with Russian entities that have been sanctioned under certain jurisdictions, help with financing and logistics, and even offer different payment terms to assist in the movement of funds. Sri Lanka received Russian crude onboard a vessel chartered by Coral Energy in May and has since bought more from the trader. The new crop of merchants was recently offering supplies of Russian Urals crude at discounts of about $8 a barrel, according to officials.

Indian companies may invest in Kenya oil project

(Bloomberg; July 29) - ONGC Videsh and Indian Oil Corp. are in talks to acquire a stake in Tullow Oil's $3.4 billion project in Kenya, according to people with knowledge of the matter. The transaction's value may be between $2 billion and $3 billion, the people said, asking not to be identified because the talks are private. The Indian state-backed companies will be joint operators of the project after the deal, they said.

Tullow is the current operator of the project and has a 50% stake, while partners Africa Oil Corp. and TotalEnergies hold 25% each. The potential deal signals the revival of Kenya's aspiration to export oil on a commercial scale since Tullow discovered crude in the East African country in 2012. Tullow submitted a final field development program to the government in December, boosting the project that had stalled as the company focused on managing debt and finalizing its strategy.

Tullow said in July that progress on the project depended on finding a partner. ONGC Videsh, an explorer with interests in 35 oil and gas assets in 15 countries, will be the lead on the project, backed by Indian Oil, the South Asian nation’s biggest refiner, according to the people. The fields are projected to produce 120,000 barrels of oil per day, with expected gross oil recovery of 585 million barrels over the full life of the field, according to Tullow. From an earlier plan, the waxy crude will be shipped from the fields via a 20-inch, 511-mile heated pipeline to a port in the archipelago of Lamu.