Oil and Gas News Briefs
Compiled by Larry Persily
August 29, 2022

Russia burning natural gas that otherwise could have gone to Europe

(Reuters; Aug. 26) - Russia is wasting large volumes of natural gas by burning it in a huge orange flare near the Finnish border at a time when it has sharply cut deliveries to the European Union, scientists and analysts said on Aug. 26. Analysts from Rystad, an energy consultancy based in Norway, described it as an environmental disaster and estimated the amount of gas being burned off into the atmosphere was equivalent to about 0.5% of daily EU needs.

The spectacular flare can be seen in satellite images of Portovaya, site of a compressor station for the Nord Stream 1 gas pipeline under the Baltic Sea to Germany. Russia has cut flows through Nord Stream 1 to just 20% of capacity and plans to shut it down entirely for three days next week, citing maintenance issues with turbines. The EU accuses Russia of using gas as a weapon to fight back against Western sanctions over Ukraine. Flaring is a common practice in oil and gas production, but the current level is unusually high and the timing is sensitive because of the Russian supply cuts.

Gazprom did not reply to a request for comment. "Exact flaring volumes levels are hard to quantify but are believed to be … around 150 million cubic feet of gas a day," Rystad analysts wrote. "This equates to 55 billion cubic feet on an annualized basis and is equal to around 0.5% of the EU's gas demand." At 150 million cubic feet, the gas could be worth an estimated $10 million a day based on last week's spot-market price, though Russian gas deliveries into Europe generally sell at significantly lower contract rates.

Guyana has to navigate new oil wealth, politics and expectations

(Reuters; Aug. 25) - Ever since ExxonMobil found vast deposits of oil off Guyana's coastline in 2015, government leaders have pledged that black gold would transform the fortunes of one of South America's poorest countries. This year alone, the economy should grow 48%, the fastest rate on the planet, according to the World Bank. But managed poorly, development experts and diplomats warn, those funds will stoke Guyana's overheated, race-based politics, while adding the nation to a long list of petrostates whose people have remained poor despite vast resource wealth.

In May, Guyana's government announced it had tapped the sovereign wealth fund that holds the royalties paid by oil producers for the first time. By year-end, drawdowns will exceed $600 million, a figure that will soon balloon into the billions. By 2027, Exxon and its partners, U.S.-based Hess and China National Offshore Oil Corp., aim to pump 1.2

million barrels per day from Guyana's seabed, making the country by far the world's largest producer per capita. The population is roughly 790,000.

"Prepare for a massive influx of government revenue with little expertise on how to handle it," wrote analysts at the U.S. Agency for International Development in a report released this year. Many communities, particularly in areas associated with the Afro-Guyanese opposition, are skeptical that the money will be allocated fairly around the country. Perhaps the most central dispute has been fought over how to govern the Natural Resources Fund, the sovereign wealth fund holding Guyana's oil royalties. Among the opposition's qualms is that they have no right to name board members, a major concern in a country with a history of endemic corruption, they say.

Region in Italy enjoys free gas as compensation for development

(Bloomberg; Aug. 26) - A small region in Italy's impoverished south is about to enjoy a discount on natural gas bills of as much as 50% just as prices keep breaking records across Europe. Basilicata is reaping the benefits of a controversial decision to continue exploiting its vast onshore gas reserves even as the rest of Italy reduced or halted production, largely over environmental concerns. Expanding domestic oil and gas production has become a divisive issue ahead of elections next month.

As of October, Basilicata's half-million inhabitants won't pay for the gas they consume, thanks to a deal signed in spring with Eni and Shell that gives the region 5.6 billion cubic feet of free gas per year as "environmental compensation." Fees, levies and other costs mean that gas bills will be about half of what they were in previous quarters.

Outgoing Prime Minister Mario Draghi has made reducing Italy's dependency from Russian gas one of its priorities. Imports have already halved since 2021, thanks in part to new deals with countries like Algeria. Yet a key element of his plan — a new floating import terminal for liquefied natural gas in the Tuscan city of Piombino — is at risk amid intense opposition by the local community. It's unclear whether its installation will go ahead under a new government.

U.K. residents will see 80% rise in energy costs Oct. 1

(The Associated Press; Aug. 26) - Jennifer Jones keeps feeding money into her energy meter, but it never seems to be enough. And when she can't pay, she feels the impact immediately. The power in her London home has gone off suddenly three times recently, once when her partner was cooking an egg. Like millions of people, Jones, 54, is struggling to cope as energy and food prices skyrocket during Britain's worst cost-of-living crisis in a generation.

“I’ve always struggled, but not as much,” she said. “Everything is going up. I can’t even pay my rent, my council tax, I can’t afford to do anything. … I keep asking myself, what am I supposed to do?” And things are getting worse. U.K. residents will see an 80% increase in their annual household energy bills, the country’s energy regulator announced Aug. 26, following a record 54% spike in April. That will bring costs for the average customer from 1,971 pounds ($2,332) a year to 3,549 pounds ($4,180).

The latest price cap — the maximum amount that gas suppliers can charge customers per unit of energy — will take effect Oct. 1, just as the cold months set in. And bills are expected to rise again in January. The energy increases, together with rapidly rising food costs, are expected to push inflation above the 40-year high of 10.1% recorded in July and trigger a recession later this year, the Bank of England has predicted. Charities, public health leaders and even energy firms warn of catastrophic effects on poorer people already struggling to afford essentials as wages lag behind.

Another fertilizer producer in Europe cuts back production

(Bloomberg; Aug. 25) - Europe’s fertilizer crunch tightened after Yara International cut its output in the face of soaring gas prices, putting more pressure on food supplies as a cost-of-living crisis intensifies. The Norwegian producer said it’s further cutting its ammonia capacity to about a third, adding to a flurry of European fertilizer curbs and shutdowns announced this week. Researcher CRU Group estimates that Europe has lost about half its ammonia capacity and 33% of its nitrogen fertilizer operations.

Russia’s squeeze on flows of gas — a key feedstock for fertilizers and a source of power for heavy industries in Europe — is hitting everything from aluminum smelters to sugar refineries. Consumers, already feeling the pain in higher energy bills, are likely to be hit again as shrinking fertilizer supplies boost the cost of farm inputs and lower productivity by curbing the use of key crop nutrients. That could reignite food inflation.

Fertilizer makers in Europe have been hit hardest because of their reliance on Russian natural gas. The industry must also contend with U.S. and European Union sanctions on potash sales from Belarus and China’s move to rein in its own shipments. Trade in Russian nutrients has suffered from self-sanctioning by many shippers, banks and insurers, and difficulties in servicing exports from Russia, a big supplier of every major type of crop nutrient.

Spot-market LNG prices in Asia spike to new record of $70.50

(Reuters; Aug. 26) - Asian spot liquefied natural gas hit a fresh record high this week as South Korean and Japanese buyers restocked for the winter and a planned outage at Russia’s Nord Stream 1 pipeline next week pushed up European demand for gas. The average LNG price for October delivery into northeast Asia was estimated at $70.50 per million Btu, up $13.50, or 23.7%, from the previous week, industry sources said.

"We expect LNG imports to northeast Asia to strengthen in the month ahead. Given how high gas prices are, despite only entering the autumn season, there is a potential for prices to move much higher once we are in winter," said Ryhana Rasidi, gas and LNG analyst at data and analytics firm Kpler. "There is clearly a lot of panic in the European gas market, especially with prices spiking in recent days due to fears that Russian gas flows would not return even after planned maintenance on the Nord Stream 1 pipeline."

Russia's Gazprom has announced a three-day outage for the pipeline, which is currently running at 20% of its total capacity, piling additional pressure on Europe as it seeks to fill up gas storage facilities ahead of winter.

BP-led LNG project offshore West Africa targets first cargo 2024

(Natural Gas Intelligence; Aug. 26) - Kosmos Energy and BP are working to fast-track the first phase, at 2.5 million tonnes per year, of the $4.8 billion Greater Tortue Ahmeyim LNG project offshore Mauritania and Senegal. "We continue to make good progress quarterly and are still targeting first gas in 3Q2023, with the first LNG cargo targeted for 2024." Kosmos CEO Andy Inglis said during the second-quarter earnings call this month. He said Phase 1 was more than 80% complete at the end of June.

BP, which is leading the project, has turned its focus to African projects to better supply European markets after pulling out of Russian projects following that country's invasion of Ukraine. In addition to Greater Tortue Ahmeyim, BP also has the Yakaar-Terenga and BirAllah LNG projects in Senegal and Mauritania. Senegal President Macky Sall and German Chancellor Olaf Scholz recently met to discuss supplying gas to Europe. Senegal's LNG output is forecast to reach 10 million tonnes per year by 2030.

BP and Kosmos sanctioned the first phase of Greater Tortue in late 2018. The project holds an estimated 15 trillion cubic feet of offshore gas reserves that straddle the maritime border of the two West African countries. LNG volumes from the first phase have already been sold and some gas from the Yakaar-Terenga field would be used as feedstock for Senegal's gas-fueled power plant, according to Rystad Energy. Inglis said the floating production and storage vessel for the venture is under construction in China.

Japanese prime minister wants a plan to restore more nuclear power

(Natural Gas Intelligence; Aug. 24) - Japan plans to restart mothballed nuclear facilities and may develop more projects, Prime Minister Kishida Fumio said Aug. 24, reversing a more than decade-long policy that has increased the country's reliance on LNG to generate power. During a press conference, Kishida said he had directed energy officials to initiate plans by the end of the year to restore nuclear-powered electricity generation. The move would reverse Japan's policy of phasing out nuclear before 2040.

"In order to overcome our imminent crisis of a power supply crunch, we must take our utmost steps to mobilize all possible policies in the coming years and prepare for any emergency," Kishida said. Japan had been on track to source almost 50% of its power from nuclear generation by 2030 before the 2011 meltdown at the Fukushima nuclear power plant. Since then, the country has relied more on liquefied natural gas imports.

Trident LNG's Toby Copson, global head of LNG trading in Shanghai, said it would take time for reactors to come online, but said once they do, Japan would lean more "on nuclear for power generation than imported gas." Copson said he expects the move to eventually free up LNG supplies for other buyers. There are still several questions as to whether Japan's nuclear restart would be able to beat back the energy crisis in the near term, said Poten Partners' Jason Feer, global head of business intelligence. One of the largest questions, Feer said, is whether the new strategy "can win over the public."

High prices cut into India's LNG import volumes

(S&P Global; Aug. 25) - Lofty global LNG prices and limited supplies threaten to derail India's import plans, with volumes down at existing regasification plants and some planned new additions progressing at a slower pace, an analysis by S&P Global Commodity Insights showed. The recent price hike and tight market conditions have impeded infrastructure growth in emerging markets like India, Ayush Agarwal, LNG analyst at S&P Global, said Aug. 25.

"Before Russia invaded Ukraine, 17 million tonnes per year of regas terminals were expected to come online in 2022. However, now we expect 10 million tonnes per year to commission in 2022," Agarwal said. "We believe there is still significant risk around the commissioning of these terminals because, in the absence of term contracts, they will be forced to import LNG from the spot market but won't be able to pass on such high prices to price-sensitive downstream consumers," he added.

The country operates six LNG import terminals with a combined nameplate capacity of 42.7 million tonnes per year. However, in May, three of the terminals, which collectively hold a capacity of 15 million tonnes per year, operated at only around 12% to 20% of their capacity, according to sources. According to S&P Global data, India's LNG imports are set to come in 12% below last year. "India has always been a price-sensitive market. Europe can pay a much higher price as Russia limits supplies, restricting availability for India," the source said, adding that demand destruction was inevitable.

Shell signs 20-year deal to take LNG from Louisiana project

(Natural Gas Intelligence; Aug. 25) - Shell has increased its portfolio of U.S. LNG supply while helping to move forward a proposed Gulf Coast export project. Shell, which signed a 20-year off-take deal with the developer, Energy Transfer, once held a half interest in the venture, Lake Charles LNG, in Louisiana. Shell agreed to take for 2.1 million tonnes per year from the project, indexed to the U.S. benchmark Henry Hub natural gas price. Deliveries would start in 2026 if Energy Transfer makes a final investment decision.

“This agreement will enable us to further meet the increasing demand for LNG and positions Shell as a leading buyer of LNG from the U.S., which in 2021 became the world’s biggest LNG supplier,” Shell’s Steve Hill, executive vice president of energy marketing, said. The terminal, to be sited on the Calcasieu Ship Channel in southeast Louisiana, could have a base capacity of at least 16.45 million tonnes per year.

Shell dropped a 50% stake in the project in 2020, citing deteriorating market conditions at the time. Energy Transfer has clinched six off-take deals in the past five months, bringing the total under long-term agreements to around 8 million tonnes per year. The company has previously disclosed plans to place around 90% of capacity under long-term contracts. Tudor, Pickering, Holt analysts, in a note to clients, have predicted Energy Transfer could reach FID after it reaches 12 million tonnes in off-take contracts.

Study forecasts producers will earn $1.4 trillion cash flow this year

(Reuters; Aug. 25) - High energy prices could almost double oil producers' free cash from operations this year to $1.4 trillion, money that can be used to finance a shift to renewable fuels, pay down debt or reward investors, according to a new study. The trend should continue and the global energy business should generate an additional $1.5 trillion in surplus cash by 2030, consultants Deloitte said. That cash creates an array of opportunities for an industry that has been constrained by debt and losses.

"Some will invest more, others will invest less depending on who they intend to be in the future and what they want their portfolio to look like," said Noemie Tilghman, Deloitte's head of U.S. oil, gas & chemicals consulting. Within two years, producers should generate $1 trillion in surplus cash after investments, debt payments and shareholder distributions, making the next couple of years key for strategy decisions.

"Who you want to be, and where you want to make investment decisions have to come relatively quickly," Tilghman said. The U.S. shale industry can potentially become debt-free by early 2024 if prices stay strong and discipline prevails, Deloitte said. This would overcome the decade-long loss of $300 billion racked up by overspending on new production that left many burdened with debt. Disruptions of the past two years in the oil and gas industry, combined with years of underinvestment and financial discipline, have helped drive oil prices to new highs and cash flows to record levels, Deloitte said.

U.S. shale producers likely will shift more to natural gas

(Bloomberg; Aug. 24) – U.S. shale producers are on course to make nearly $200 billion this year, enough to make the industry debt-free by 2024 and potentially fund a pivot toward more natural gas production, according to Deloitte. High oil prices and disciplined capital spending mean American frackers are on course for their most profitable year on record, part of a global trend that will see the oil and gas industry generate a record $1.4 trillion of free cash flow, Deloitte said in a report.

After paying down debt and rewarding shareholders, U.S. producers will likely focus more on gas production due to high demand and prices around the world. “We see a shift in upstream activity toward natural gas,” said Amy Chronis, Deloitte’s U.S. oil, gas and chemicals leader. Shale operators “will double down on U.S. natural gas basins” and may have enough money left over to increase investments in low-carbon fuels.

The key difference with this year’s oil and gas boom is not so much high prices, but the industry’s lack of capital expenditure compared with historical norms. Global operators are spending about 60% less on oil and gas production projects than they were in 2014, the last time oil was trading around $100 a barrel, Deloitte’s data show. “Investments are decoupling from oil prices and capex discipline is now a norm,” the report said. The trend is most powerfully seen in U.S. shale, which burned through $300 billion from 2010 to 2019. But for those that survived the pandemic, the bounty is truly here.

FERC gives more time for Appalachian Basin gas line to start service

(Argus Media; Aug. 24) - The $6.6 billion Mountain Valley natural gas pipeline can have up to four more years to obtain new federal permits and begin service, the Federal Energy Regulatory Commission said in an order Aug. 23. Equitrans Midstream is aiming to finish the pipeline by the second half of 2023, but the line now has until October 2026 to start service, offering more time to resolve any potential permitting issues that could lead to further delays in the project to move up to 2 billion cubic feet of gas per day.

The controversial 303-mile pipeline was initially set to begin service by the end of 2018 and cost $3.5 billion, but permitting delays have held up construction and increased costs. The line will move shale gas from the Appalachian Basin, starting in northwestern West Virginia and running to southern Virginia and connections to serve the Eastern Seaboard. FERC said an extension was warranted because the developers made a "good faith effort" to start service on time yet faced delays that were out of their control.

The pipeline will boost takeaway capacity in the Appalachian area, where natural gas prices this month have traded at a nearly $1 per million Btu discount to the U.S. benchmark price. The additional supply from the pipeline would help to ease domestic natural gas prices that over the past year have doubled to $9 per million Btu, industry officials say. Environmental and community opposition to project has been strong.

Russia slow to spend money on developing LNG expertise

(Upstream; Aug. 24) - Russian liquefied natural gas projects are facing another major setback in the wake of Western sanctions following Russia's invasion of Ukraine, with the government apparently unable or unwilling to allocate billions of rubles of funding. The funds had been earmarked for Russian companies that were asked to supply replacements for Western-manufactured equipment that the sanctions have banned from the LNG projects, particular in the Arctic.

Authorities in Moscow have so far agreed to make available just 300 million rubles ($5 million) to finance research and development under an import replacement initiative for 2022 and 2023. The update was issued by the Russian Economics Development & Trade Ministry. The report, initially shared on a Russian non-governmental organization social network channel, said authorities still expect local manufacturers to be able to supply 18 categories of essential equipment for LNG plants by 2030.

If this goal is achieved, it will mean that after 2030 future LNG plants in Russia may get up to 80% of required units and supplies from domestic manufacturers, compared with an estimated 40% today, according to the ministry. The ministry has estimated that over 89 billion rubles will have to be invested with local manufacturers between 2022 and 2030 in order to reach the replacement target, and stressed that almost all financing will have to be sourced elsewhere and will not be provided from the Russian federal budget.

Japanese buyer signs on with new Russian operator of LNG project

(Reuters; Aug. 26) - Japan's JERA has signed an LNG deal with the new operator of Sakhalin-2 in Russia to maintain long-term deliveries of the fuel, a spokesperson for the country's biggest power generator said on Aug. 26. President Vladimir Putin signed a decree in June taking charge of the project, creating a new Russian entity to deal with buyers and shareholders, which include Shell and Japanese trading houses Mitsui and Mitsubishi. Shell had been the operator until deciding to exit Russia.

Japanese gas and electric utilities with long-term contracts to buy LNG from Sakhalin-2 have received a new contract offer from the newly formed operator. "The main conditions such as volume, price and (payment) currency remained the same as the previous contract," the JERA spokesperson told Reuters, though he did not provide further detail. For resource-poor Japan, Sakhalin-2 is important for its energy security. Japan buys about 9% of its LNG from Russia, mainly from the operation in the Far East.

Other Japanese buyers are still considering whether or not to continue doing business with Sakhalin-2. Kyushu Electric is leaning toward maintaining its long-term contract, a spokesperson said. Tokyo Gas said it was still considering the matter, while Saibu Gas Holdings and Tohoku Electric said they were assessing details of the contract. Toho

Gas, Hiroshima Gas and Osaka Gas declined to comment. The buyers, in general, want to keep their contracts, as buying LNG on the spot market would cost a lot more.

Russia reportedly offering steep discounts on oil to Asian buyers

(Bloomberg; Aug. 24) - Russia has approached several Asian countries to discuss possible long-term oil contracts at steep discounts as U.S. officials continue to push a plan that would cap the price of the country's oil, according to a Western official. The tentative conversations to offer some Asian buyers discounts of up to 30% may be a sign that Russia is trying to head off discussions by Group of Seven nations about carving out an exception for pending European Union sanctions on Russian oil, said the official, who asked for anonymity to discuss sensitive talks.

That plan would allow third-parties to more easily purchase Russian crude oil at a low price set by Western nations. Russia also may be trying to lock in replacement buyers for the oil it's currently selling to Europe. Indonesian Minister of Tourism Sandiaga Uno said in remarks he posted on Instagram over the weekend that Russia has offered to sell it oil "at a price that's 30% lower than international market price." He added that President Joko Widodo was considering the offer, "but there was disagreement, there are fears that we will be hit by U.S. embargoes."

The EU's sixth round of sanctions includes a ban on Russian oil, as well as the use by third-countries of the bloc's companies for insurance and financial services. That ban takes effect on Dec. 5, but U.S. officials are worried that the current framework would drive up oil prices and deliver windfall profits to Russia. Some European countries have backed the idea of carving out an exception to the insurance ban for oil sold under an internationally set price cap, but others have said such a system would only work if significant Asian purchasers of Russian oil, particularly India, agree to participate.

Over 90 million barrels of Iranian crude, condensate stored at sea

(Bloomberg; Aug. 28) - Progress toward an Iranian nuclear deal has thrown the spotlight onto a sizable cache of crude held by Tehran that could be swiftly dispatched to buyers in the event an agreement gets hammered out. About 93 million barrels of Iranian crude and condensate are currently stored on vessels in the Persian Gulf, off Singapore and near China, according to ship-tracking firm Kpler, while Vortexa estimates the holdings at 60 million to 70 million. In addition, there are smaller volumes in onshore tanks.

"Iran has built up a sizable flotilla of cargoes that could hit the market fairly soon," said John Driscoll, chief strategist at JTD Energy Services. Still, it may take "a bit of time" to iron out insurance and shipping issues, as well as spot and term sales post-sanctions, he said. The possible full readmittance of Iran to the global crude market, with the potential lifting of U.S. sanctions, comes at complex moment for oil traders.

Investors are juggling the countdown toward tighter European Union curbs on Russian oil in December as part of the bloc's pushback against the war in Ukraine. In addition, the mammoth sale from the U.S. Strategic Petroleum Reserve will end in October. The potential return of Iranian oil has weighed on futures prices in recent weeks, offsetting signs of tightness elsewhere. "It's natural for Iran to want to supply Europe first to fill in the hole left by post-invasion sanctions against Russia," Driscoll said. "But in the longer run, they will be looking to place their barrels under long-term deals in Asia."

Germany filling up gas storage faster than planned

(Bloomberg; Aug. 28) - Germany's economy ministry said gas-storage facilities are filling up faster than planned despite uncertainty over Russian supplies, and predicted that an October target of 85% capacity should be reached early next month. Germany's bid to end imports of Russian gas is succeeding "to a very great extent," Economy Minister Robert Habeck said Aug. 28. Work to install floating liquefied natural gas import terminals is going according to plan, gas deliveries from Belgium and the Netherlands will be increased, and France also wants to supply gas to Germany, he added.

Germany is racing to fill gas storage in time for winter after Russia drastically cut flows through the key Nord Stream pipeline, driving up prices and exacerbating Europe's worst energy crisis in decades. The ruling coalition in Berlin has mandated that facilities be 85% full by October and 95% by November. According to the Federal Network Agency's latest report, storage was 81.3% full as of Aug. 26, with flows through Nord Stream at about 20% of capacity.

Activist group sues Santos, alleges climate plans are deficient

(Bloomberg; Aug. 25) - Activists mounting one of the world's first legal challenges over corporate greenwashing have expanded a case against gas producer Santos, raising fresh allegations about the company's climate plans. A suit filed against the oil and gas producer is the first time a major company has been challenged over the detail of its emissions reduction targets, according to the Australasian Centre for Corporate Responsibility (ACCR), the shareholder activist group that launched the action last year.

Details gleaned through the legal discovery process have raised questions about company's pledges to use carbon-capture technology and the blending of natural gas with hydrogen to achieve climate targets, the group's Executive Director Brynn O'Brien said in a statement. Santos declined to comment. Australia-based Santos has pledged to reduce its Scope 1 and 2 pollution by 30% by 2030, and to zero out those emissions by 2040, according to a March climate change report.

The case in Australia’s Federal Court relates to a previous briefing and documents outlining the company’s strategy. Those proposals relied heavily on carbon-capture technology that remains unproven and overstated the potential to curb emissions by mixing hydrogen into the natural gas network, the ACCR alleges. The case is being closely watched as a major test of greenwashing — claims made by companies or institutions over their planned climate actions or environmental responsibility.