Oil and Gas News Briefs
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July 18, 2022

ConocoPhillips reaches deal to invest in Texas LNG project

(Houston Chronicle; July 14) - ConocoPhillips reached a preliminary agreement this week to buy a 30% stake in Sempra's planned Port Arthur LNG project in Texas as well as roughly a third of the facility's liquefied natural gas. The two companies are also discussing a broader partnership that may include collaborations in Sempra's other LNG export developments and Conoco's carbon-capture projects. Early agreements also include an investment from Conoco in Sempra's LNG export development in Baja California, which Conoco described as "ideally located to supply Asia-Pacific markets."

The partnership would give Sempra a firm foundation for building the first phase of its 13.5-million-tonne facility in Port Arthur and would give Conoco a foothold in the LNG industry — an outlet for its growing U.S. natural gas production and a step it says is in line with its lower-carbon goals. Sempra said it anticipates a binding 20-year sales and purchase agreement with Conoco for 5 million tonnes of the facility's future LNG, for which Conoco will provide the natural gas for liquefaction.

The arrangement would also include a 30% equity investment in the project's first phase and the potential for Conoco to acquire a larger stake as the project advances and as it supplies additional natural gas for the facility. Phase 1 of the Port Arthur LNG project is permitted. Sempra and Bechtel are working on updating the terms of the project's fixed-price engineering, procurement and construction contract that was announced in 2020. A similarly sized Phase 2 project is also under active marketing and development.

World could be hurting for oil if OPEC's demand forecast is correct

(Bloomberg analysis; July 17) - We'd better hope the forecasters at OPEC have got their numbers wrong. If they haven't, then the members of the oil-producer group may struggle to supply as much crude as the world will need next year. Their latest forecast, which extends the outlook to the end of next year, shows global oil demand rising strongly again in 2023, despite growing fears over inflation and warnings of impending recession. A lack of investment in new crude production capacity elsewhere means that the OPEC group will need to pump more to meet that extra demand.

The growth that OPEC foresees will take global demand to 103 million barrels a day on average in 2023, well above its pre-pandemic level. Combine the demand and supply outlooks, and it looks like the 13 members of OPEC will need to deliver more than 30 million barrels a day on average in 2023, according to both OPEC and the International Energy Agency. That's not a record, but it would be the highest since 2018.

The last time the current members of OPEC collectively pumped more than 30 million barrels a day, the combined output of Algeria, Iran, Libya, Nigeria and Venezuela was almost 2.75 million barrels a day higher than now. OPEC's inability to raise production when oil prices are above $100 a barrel and demand for crude is soaring doesn't bode well for the future. With little new OPEC production capacity expected next year, that's going to leave the world nervously short of a supply cushion. Unless demand growth turns out to be nowhere near as strong as OPEC suggests. Maybe if we're lucky.

Saudi Arabia says any production decisions will be up to OPEC+

(Bloomberg; July 16) - Saudi ministers insisted that oil policy decisions would be taken according to market logic and within the OPEC+ coalition, just as President Joe Biden wrapped up a landmark trip to the kingdom. Saudi officials stressed that any decision to pump more would be made in the framework of OPEC+, which holds its next decision-making meeting on Aug. 3.

"We listen to our partners and friends from all over the world, especially consumer countries," Foreign Minister Prince Faisal bin Farhan told reporters. "But at the end of the day, OPEC+ follows the market situation and will supply energy as needed." The OPEC+ coalition includes Russia, which the U.S. has been trying to squeeze to punish it for its war on Ukraine. Riyadh was clear that it's sticking with the alliance.

The alliance already moved to accelerate production increases in June, after calls from consumer nations including the U.S. Still, with oil prices tumbling from recent highs as recession risks grip markets, the picture could change before the Aug. 3 meeting. Any further increases are expected to be modest as the Persian Gulf heavyweights choose to preserve their remaining spare capacity amid supply disruptions ranging from Libyan unrest to sanctions against Russia. The buffer of idle output has dwindled to "razor-thin" levels of just over 2 million barrels a day, according to the International Energy Agency.

German chancellor says reactivating coal plants is temporary

(CNBC; July 16) - Chancellor Olaf Scholz says Germany's decision to reactivate coal- and oil-fired power plants to relieve energy shortages because of the war in Ukraine is only temporary and his government remains committed to doing "everything" to combat the climate crisis. In a video message July 16, Scholz expressed regret over Germany's decision to fire up 16 dormant fossil fuel power plants and extend the operating permission for 11 more amid fears of further cuts in natural gas supplies from Russia.

“The fact that because of Russia’s brutal attack on Ukraine we now have to temporarily use some power plants that we had already taken out of operation is bitter,” he said. “But it is only for a very short time.” Scholz insisted that Germany remains committed to ending its greenhouse gas emissions by 2045 — the earliest of any major industrialized nation — and pointed to a recent package of measures approved by parliament to boost the rollout of renewable energy.

But environmentalists say the government could be doing much more, including imposing a general speed limit and restricting domestic flights to save fuel. Climate campaigners have blocked major roads in and around Berlin recently in protest against plans for new oil and gas projects in the North Sea. Scholz and the country’s energy minister have ruled out extending the operating life of Germany’s three remaining nuclear plants beyond this year, arguing it would not solve Germany’s energy needs.

Europe increasingly turns to coal for power generation

(S&P Global; July 14) - With the likelihood of a halt to Russian gas flows increasing and limited alternatives in the short term, energy rationing is likely to ensue, leaving European Union member states with coal as the only option for stabilizing their energy supply, Australia and New Zealand Banking Group said in a report July 14. "Nuclear remains curtailed because of aging power stations, and LNG imports are at maximum capacity," ANZ said, adding Europe has been scrambling to diversify sources, but alternatives are increasingly difficult to find.

Global coal prices have remained elevated because of the Russia-Ukraine conflict, disrupting trade flows amid additional demand from Europe, which has been gradually cutting its reliance on Russian fuels. Germany is already looking at restarting some coal-fired power stations. It has earmarked 6.9 gigawatts of coal, 1.9 gigawatts of lignite and 1.6 gigawatts of oil capacity to boost its energy supplies. Parliament has discussed financial incentives to coal-fired power operators if gas supplies deteriorate, ANZ said.

Italy is also considering the revival of up to 2.5 gigawatts of coal-fired power generation capacity to limit gas consumption, the report said. Coal prices continue to face upward pressure from strong European demand. "An impending energy crisis in Europe is likely to switch power utilities from gas to coal, this could increase competition for seaborne coal," ANZ said. South Africa has increased thermal coal exports to Europe, but infrastructure will limit how much further that can rise. Colombian coal exports are limited by mine production constraints, while most Australian coal is under contract.

[Europe on edge to see if Russia restarts gas line after maintenance]

(The Wall Street Journal; July 14) - Europe's natural gas markets are starting to digest the real possibility of Vladimir Putin cutting off supplies to Germany. If the Russian president really does close the taps, though, things would get much uglier. The cost of liquefied natural gas — Europe's alternative to Russian pipeline gas — to be delivered to the region this year has more than doubled in the past month to around $50 per million Btu. Prices for delivery in the years ahead have also successively crept up as traders bet on gas shortages in Europe until significant new LNG supplies come online.

Recent moves reflect mounting worries that Moscow will stop piping gas into Germany. A handful of European countries have been cut off already, and supplies delivered on Nord Stream 1, a main artery for Russian gas to Europe, were reduced to 40% capacity last month. Many worry this week's shutdown of the pipeline for routine maintenance will be used as a pretext for a prolonged cut-off. Deliveries are meant to restart July 21.

If supplies don't restart next week, near-term futures will increase as European buyers scramble, bidding against Asia for the limited LNG supply in the coming winter. Kaushal Ramesh, of consulting firm Rystad Energy, estimates that a complete cutoff could send European benchmark prices above $100 per million Btu. Europe has been trying to cut its gas use, but efforts are well short. Without a resumption of Russian gas, the region would have to ration the fuel, giving priority to households and essential services and leaving industry to bear the brunt. That would tip Europe's economy into a recession.

[EU draft plan would encourage industries to use less gas]

(Reuters; July 13) - The European Union will encourage member countries to cut natural gas demand by incentivizing industries to use less, in a bid to prepare for possible further cuts to Russian supply, according to a draft seen by Reuters. The EU is bracing for potential further cuts to Russian gas deliveries, a scenario the International Monetary Fund chief on July 13 warned could plunge economies into recession.

The European Commission plan, due to be published on July 20, will suggest countries launch financial incentives for industries to cut gas use, exhaust fuel-switching opportunities in industry and power plants, and roll out information campaigns to nudge consumers to use less heating and cooling. Measures targeting industry could include auctions or tenders to incentivize large consumers to use less gas in return for compensation, according to the draft, which could change before it is published.

By acting now, the EU aims to ensure as much gas as possible gets put into storage to build up a supply buffer for winter, when gas demand for home heating peaks. Households are "protected customers" under EU law, meaning they would be last affected by gas rationing. "Early joint action at EU level at this critical moment of the storage-filling process will reduce the need for possible and more painful demand reduction later in the winter, in case of interruption of flows from Russia," the draft said.

Finish government may help rescue German utility it owns

(Reuters; July 14) - Finland on July 14 said talks with Germany to rescue the utility Uniper were at a critical stage and could be resolved within days, but it was not immediately clear whether Helsinki would contribute more capital. Uniper, which asked the German government for a bailout last week, is the most high-profile casualty of an economic standoff between the West and Moscow that has sent gas and energy prices soaring and raised fears of crippling shortages this winter.

Germany expects Uniper's Finnish parent company Fortum, majority-owned by the Finnish government, to contribute to the rescue, while Fortum has suggested ring-fencing Uniper's German business under German government ownership. "The talks were good and constructive. There are several options on the table but a lot of work still remains to be done," Finnish ownership steering minister Tytti Tuppurainen told reporters during a visit to Berlin. Uniper is one of Germany's largest utilities.

"We have to find a solution very soon. We are talking about a few days, a few weeks at the most," Tuppurainen said. His visit coincided with Germany's energy regulator announcing that the country had been forced to tap its gas stockpiles, lessening its chances of having enough gas in storage during the peak demand winter months. Soaring energy prices and dwindling Russian supplies have sparked recession warnings in Germany and could force Europe's largest economy to ration supplies.

Environmentalists challenge plans for new gas field in North Sea

(Reuters; July 15) - Environmental groups in Germany and the Netherlands are challenging plans for a new gas field in the North Sea, a German nonprofit organization said on July 15, possibly complicating Europe's hunt for alternatives to Russian fuel. Environmental Action Germany (DUH) said it had filed the lawsuit with the Court of Justice in The Hague, together with Dutch organization Mobilization for the Environment and a citizens' initiative from the coastal region of East Frisia.

Privately owned Dutch company ONE-Dyas has been given the go-ahead by Dutch authorities to develop its N05-A gas field in the North Sea, straddling German and Dutch waters, with gas production also planned at surrounding fields. The platform will run entirely on wind energy, according to the company. It hopes to start delivering natural gas to Dutch and German households by the end of 2024, with an expected potential of around 460 billion cubic feet of gas per year.

"The construction of a new platform in the North Sea will create a new infrastructure that will increase our long-term dependence on fossil energy. This is not compatible with climate targets," said DUH chief Sascha Mueller-Kraenner. The German islands of Juist and Borkum have jointly filed another lawsuit against the planned gas exploration, according to the pressure group.

European Commission proposes getting more gas from Azerbaijan

(Reuters; July 14) - The European Commission has proposed to EU countries a deal with Azerbaijan to increase imports of natural gas and support the expansion of a pipeline, according to a draft document. The draft memorandum of understanding, which needs approval from the governments involved and could still change, is part of European Union efforts to slash reliance on Russian gas following the war in Ukraine.

"The sides aspire to support bilateral trade of natural gas, including through exports to the European Union, via the Southern Gas Corridor, of at least 20 billion cubic meters (700 billion cubic feet) of gas annually by 2027, in accordance with commercial viability and market demand," said the document, dated July 11. The Trans-Adriatic pipeline, the final leg of the Southern Gas Corridor pipeline network, last year brought more than 280 billion cubic feet of Azerbaijan gas into European countries such as Italy.

The draft says both sides will encourage financing the expansion of the network to increase deliveries to Europe, adding that such investments should be able to carry low-carbon gases in the future to avoid locking in years of planet-warming emissions. An uptick in deliveries would also require Azerbaijan to expand its domestic gas production.

Global trader signs on for LNG from offshore Louisiana development

(S&P Global; July 13) - The U.S. arm of global trading firm Vitol is placing support behind a floating LNG export terminal under development in the U.S. Gulf of Mexico on the back of rising demand for U.S. LNG. Vitol has taken a stake in U.S. LNG infrastructure developer Delfin as part of a long-term supply deal that will see the company take 500,000 tonnes per year of LNG from the Delfin Deepwater Port 40 offshore Cameron Parish, Louisiana, the companies said July 13.

The supply agreement is indexed to the U.S. Henry Hub natural gas benchmark price, with total proceeds for Delfin estimated at around $3 billion over the deal's 15-year term. Delfin has struggled to secure sufficient support for the floating Deepwater terminal since proposing the project in 2013. The Federal Energy Regulatory Commission has thrice granted the company one-year extensions to build connected onshore facilities associated with the project as the development struggled to gain traction.

But Russia's invasion of Ukraine on Feb. 24 has added urgent demand for U.S. LNG. While relatively modest in scope, Vitol's off-take deal should bring Delfin's Deepwater project one step closer to addressing this rising demand for U.S. LNG. Delfin said July 13 it is finalizing term agreements with other customers in pursuit of the 2 million to 2.5 million tonnes per year in supply deals the company needs to justify final investment and launch construction on the project later this year. Delfin's project is authorized to offer total liquefaction capability of up to 13 million tonnes per year.

Japanese government wants more nuclear power brought online

(S&P Global; July 15) - Minister of Economy, Trade and Industry Koichi Hagiuda said July 15 that Japan will work to operate up to nine nuclear reactors by winter, up from five currently, amid a severely tight electricity supply-demand outlook. "Following the directive from the prime minister, we will work steadily to proceed resuming operations at nuclear power plants with a basis assumption of assuring safety, as well as urging restarts of mothballed power plants to secure a maximum supply capacity," he said.

Japanese Prime Minister Fumio Kishida said July 14 that the operation of up to nine nuclear reactors would equate to roughly 10% of Japan's total electricity consumption volume. Analysts have mixed views on the impact from the Japanese premier's directive because some nuclear power plants already had been expected to restart during the winter power demand season.

"Given the current situation, it will make a lot of sense to restart many of its nuclear reactors, but this is only possible through approval by the Nuclear Regulation Authority who evaluate and certify that the reactors have met the stringent safety requirements laid out" after the 2011 Fukushima disaster, said Kaori Tachibana, associate director of S&P Global Gas, Power & Climate Solutions. "As part of the restart, local regulatory consent is also needed which can be difficult given Japan's history in nuclear."

Japan wants to maintain stakes in Russian oil and gas projects

(Japan Times; July 16) - Japan has decided to maintain its interests in the Sakhalin-2 oil and liquefied natural gas project in the Russian Far East, with the government coordinating with two Japanese stakeholders, government sources said July 16. With the plan, Mitsui and Mitsubishi would keep their 12.5% and 10% stakes, respectively, despite Russian President Vladimir Putin's signing of an order that sets up a new operating company to tighten its grip on the project.

Putin's action is seen as retaliation against Japan and other countries for sanctions they put on Russia over its war on Ukraine. It is unknown whether Tokyo can maintain its stakes, as Moscow will have the final say about the continuation of investments by the two Japanese trading houses. Japan, reeling from high energy prices following Russia's war in Ukraine, might be forced to source LNG from the market at higher prices. About 9% of Japan's LNG imports come from Russia, almost all of it supplied by Sakhalin-2.

In a meeting July 15, Prime Minister Fumio Kishida and Koichi Hagiuda, the minister of economy, trade and industry, affirmed a plan to maintain Japan's interests in Sakhalin-2. The government has stressed the need to retain interests in Sakhalin oil and gas projects as vital to securing stable energy supplies amid surging energy prices. Besides Sakhalin-2, Japan also is invested in the Sakhalin-1 project, with Sakhalin Oil and Gas Development Co. — a Japanese consortium involving the Ministry of Economy, Trade and Industry, trading houses Itochu and Marubeni, and others — holding a 30% stake.

Uganda moves ahead with controversial oil development and pipeline

(Al Jazeera; July 15) - In September 2019, when Chemonges Amusa, the tourism warden for Murchison Falls Park, learned that oil drilling would soon start within the borders of Uganda's most visited national park, his eyes filled with tears. The warden, now 42, who had spent most of his 15-year career in the depths of Bwindi Impenetrable Forest habituating gorillas, felt the drilling would affect the park and its animals.

He learned about conservation in coexistence with development, and how Uganda's Wildlife Authority might try to prevent the worst harm. “I had the view that the animals would run away from the oil wells,” he said. “But the government had made a decision, and we had to learn to manage it.” In 2015, TotalEnergies and China National Offshore Oil Corp. signed a memorandum of understanding with the governments of Uganda and Tanzania to drill for oil in Uganda and export it via an 895-mile pipe to Tanzania's coast.

While the project has received much criticism from environmental and conservation groups, Uganda's long-serving president, Yoweri Museveni, has endorsed it, warning that he will not “allow anybody to play around” with “my oil.” The three-part, $10 billion plan comprises the controversial East African Crude Oil Pipeline, the Kingfisher Lake Albert project and the Murchison Falls project. Inside Murchison, 10 well pads and a feeder pipeline are being built, as well as a refinery on the park's border. If it goes ahead, it will be the first oil project within a protected area in East Africa.

Environmentalists have warned about the potentially devastating effect on numerous species, including the eastern chimpanzee, listed as endangered. So far, 20 banks have declined to finance the project, including Barclays Bank and HSBC.

Saudis boost imports of Russian fuel oil for power generation

(Reuters; July 15) - Saudi Arabia, the world's largest oil exporter, more than doubled the amount of Russian fuel oil it imported in the second quarter to feed power stations to meet summer cooling demand and free up the kingdom's own crude for profitable export, data showed and traders said. Russia has been selling fuel at discounted prices after international sanctions over its invasion of Ukraine left it with fewer buyers.

The increased sales of fuel oil, used in power generation, to Saudi Arabia show the challenge that President Joe Biden faces as his administration seeks to isolate Russia and cut its energy export revenues. Data obtained by Reuters through Refinitiv Eikon ship tracking showed Saudi Arabia imported 647,000 tonnes (48,000 barrels per day) of fuel oil from Russia via Russian and Estonian ports in April-June this year. That was double from the same period a year ago. For the full year 2021, Saudi Arabia imported 1.05 million tonnes (more than 7 million barrels) of Russian fuel oil.

Saudi Arabia has for several years imported Russian fuel oil, which can reduce its need to refine crude for products and cut the amount of oil it needs to burn for power, leaving it with more unrefined crude to sell on international markets at higher prices. The kingdom turns to oil to meet power needs, which typically peak as demand for cooling rises with summer temperatures. Some Saudi cities are far from natural gas fields that could provide cleaner fuel for power generation.