Oil and Gas News Briefs
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Russia takes control of Sakhalin-2 LNG project

(Wall Street Journal; July 1) - Russia took control of the international consortium behind the Sakhalin-2 oil and gas project, handing it to a new Russian entity that will give the Kremlin say over which foreign investors will be allowed to keep their stakes. Sakhalin-2, in Russia's Far East, can supply about 10 million tonnes per year of LNG, about 3% of the global market, and counts Shell and Mitsubishi among its shareholders. The plant, which started operations in 2009, was the first LNG export terminal in Russia.

The move is one of the most drastic responses by the Kremlin so far to the flight of Western companies in the wake of the country's invasion of Ukraine. Many Western firms have since said they would seek to leave Russia, and have started doing so in widely different ways. Shell, for instance, had said it would exit its 27.5% stake in Sakhalin-2 as part of its plans to leave Russia, without specifying how. Mitsubishi and Mitsui own 10% and 12.5%, respectively, while Russia's Gazprom owns roughly 50%.

The Kremlin has threatened to nationalize the assets of companies that leave Russia, but legislation proposed months ago hasn't progressed into law. The new decree related to Sakhalin, signed late June 30 by Putin, gives foreign investors one month to ask to be allowed to keep their stake in the new entity. Russia would then make a decision. Stakes left on the table would be sold by the government. Sakhalin Energy's foreign shareholders can participate as shareholders in the new company, but only if they agree to Russia's conditions. If they refuse, they could lose their investment.

Russia's move on Sakhalin-2 LNG plant adds to market turmoil

(Bloomberg; July 1) - Russia's move to reshuffle ownership of the Sakhalin-2 natural gas project may constrict global markets even more by pushing Japan to compete with Europe for alternative sources of supply. President Vladimir Putin's decree to transfer rights for the plant to a new Russian company has no immediate impact on the project's biggest customer, Japanese Prime Minister Fumio Kishida said. Japanese trading houses Mitsubishi and Mitsui own a combined 22.5% of the project.

Even so, the world's second-biggest LNG buyer is considering replacing Russian flows by buying more from the spot market or from other countries, Trade Minister Koichi Hagiuda said. Japan already has asked government officials in the U.S. and Australia for more supply in order to reduce dependence on Russia, he said. That replicates efforts by the European Union to wean itself off Russian supplies.

“If the Sakhalin project, which has supplied Japan at competitive prices, is in such a state of limbo, spot prices are at risk of rising further, which could even trigger a panic in the market,” said Hiroshi Hashimoto, an analyst at the Institute of Energy Economics in Japan. European gas prices more than doubled since the start of the year, while Asian prices increased by about a third. Uncontracted LNG already is limited. In addition, Asian buyers have been losing to Europe on prices, meaning flexible LNG from the U.S. has been favoring destinations from the U.K. to Spain instead of Japan or China.

Much of Saudi, UAE spare capacity would come from untested fields

(S&P Global; June 29) - Saudi Arabia and the United Arab Emirates have starring roles to play in the oil market this summer, as the only producers in the world holding any significant spare output capacity. But much of it is from untested fields. As the core OPEC members face growing pressure to tame high prices ahead of a trip by President Joe Biden to Saudi Arabia in mid-July, their ability to ramp up production will be critical.

Under the supply accord between OPEC and its Russia-led allies, Saudi Arabia's output target in August will be 11 million barrels per day — a level it has only produced twice in its history, in November 2018 and April 2020, according to OPEC survey records from S&P Global Commodity Insights. As for the UAE, its quota will be 3.17 million barrels per day in August, a level it has only reached for five months in its history.

Saudi Arabia’s ability to raise output is rooted in its hydrocarbon law, which states that it must be able to hit its maximum sustained capacity within months if needed and then maintain that production for a year, said Ellen Wald, president at Transversal Consulting and author of a book on the kingdom's oil industry. However, "that doesn't mean that it is beneficial to produce at this rate because increasing production to this level could do some long-term damage to some of the fields, especially older ones,” she said.

OPEC+ production decision not expected to ease high prices

(Associated Press; June 30) - The OPEC oil cartel and allied producing nations decided June 30 to boost production of crude by an amount that will likely do little to relieve high gasoline prices at the pump or energy-fueled inflation plaguing the global economy. The increase of 648,000 barrels per day in August still leaves the world thirsty for oil as it rebounds from the COVID-19 pandemic and runs up against the inability of the 23-member OPEC+ alliance to meet its production quotas.

OPEC+, which includes Russia, confirmed the new target as proposed at its last meeting. Before that, it had been adding about 432,000 barrels per day monthly to put oil back on the market after cutting output dramatically at the height of the pandemic.

The increase to 648.000 barrels was seen as a gesture largely by OPEC leader Saudi Araba to President Joe Biden, who in July will make his first trip to the kingdom.

OPEC could help lower prices by boosting production, but many oil-producing countries are struggling to produce as much as the group's decisions set out. Nigeria and Angola have longstanding shortfalls, while Russia has been losing some of its production as Western customers shun its oil. According to data collected by the International Energy Agency, OPEC+ production fell 2.8 million barrels per day below the target level in May. The production deal gives laggards until the end of 2022 to make up their quotas.

Global recoverable oil reserves down 9% this year

(Houston Chronicle; July 1) - The total estimate of the world's recoverable oil is down 9% this year, however estimates are up in the U.S., according to Norwegian data and analytical firm Rystad Energy. Technically recoverable oil is the amount companies are able to produce using available technology, according to the U.S. Geological Survey. Rystad's analysis estimates that number is now at 1.572 trillion barrels worldwide — 152 billion fewer barrels than last year's estimate.

The firm says the decline is due in part to the 30 billion barrels of oil produced last year, naturally turning that amount from recoverable to recovered. Furthermore, the amount of oil that is assumed to exist but has not yet been discovered has fallen by 120 billion barrels. "While the drop in oil availability is positive news for the environment," said Per Magnus Nysveen, Rystad's head of analysis, "it may threaten to further destabilize an already precarious energy landscape."

Rystad's 2022 estimates are in line with previous years which also showed a considerable drop in recoverable oil resources, which could substantially hurt energy security worldwide. While most countries will see a drop in recoverable resources this year, the U.S. is the exception, adding 8 billion barrels to its discovered resources for the year. Overall, the U.S. comes in number two for total recoverable oil at an estimated 193 billion barrels; Saudi Arabia is number one at 275 billion barrels.

Don't expect OPEC+ to dissolve, even if can't deliver on its targets

(Bloomberg opinion; July 2) - The OPEC+ group of oil producers has completed its mission to restore all the oil it removed from the market during the depths of the COVID-19 pandemic — at least on paper. But don't expect it to disappear just yet. The group of 23 oil-exporting countries met virtually on June 30 and agreed to add back in August the final tranche of the 9.7 million barrels a day of supply they agreed to cut in 2020. That's it. Job done. If you thought the ministers might take a minute to worry about a world teetering on the brink of recession, with fuel prices hitting new highs, you'd be wrong.

The fact that they have no hope of adding back all of the supply members have pledged doesn't seem to matter. The group's actual production is so far removed from its target that any notional change to that goal is irrelevant. OPEC+ combined output was more than 2.6 million barrels a day short of its goal in May, according to data from OPEC. The group hasn't been able to pump as much as it promised for more than a year, and it has been falling further behind almost every month, adding to the tight market and prices.

So, what's the future of the group? Don't expect it to dissolve. Non-OPEC members benefit from a free seat at the table, gaining insight and market intelligence. Besides, with every non-OPEC member pumping at capacity, output targets aren't a constraint on production anyway. So for now, things will continue as they have been. There may be little point in the ministers gathering every month after they sort out their next step in early August, but perhaps there has been little point in them meeting all year.

Leaders say support for gas is temporary due to supply shortage

(ClimateWire; June 29) - Dozens of countries rallied around phasing out fossil fuel financing during global climate negotiations seven months ago. This week, however, those efforts were weakened by the world's most powerful economies. The shift illustrates how the fear of losing access to energy imports — due to Russia's war against Ukraine — is testing the commitment of countries that have been among the most vocal advocates of curbing climate change.

Leaders of the Group of Seven nations — the United States, United Kingdom, Canada, Germany, Italy, France and Japan — agreed to support public investments in the natural gas sector "as a temporary response" to the abrupt shortfall in global gas supplies created by the pariah status of Russian fossil fuels. The move announced June 28 at the end of the G-7 summit in Germany threatens to undermine commitments announced by the U.S. and more than 30 other countries at the climate talks in Glasgow to stop spending public money on international fossil fuel projects by the end of 2022.

A communiqué released by G-7 leaders sought to soften those concerns by saying its support for continuing gas investments would be "implemented in a manner consistent with our climate objectives and without creating lock-in effects." But gas projects can take years to construct, said Luca Bergamaschi, executive director of ECCO, an Italian climate change think tank. That raises questions about the emissions impacts of building liquefied natural gas facilities or pipelines that can be used for decades.

European nations realize they have to help struggling utilities

(Bloomberg; July 1) - Three decades ago, Europe decided to open up its energy markets to foster competition, a move meant to bring lower prices for consumers across the continent. Fast forward to 2022, and bills have ballooned while once rock-solid utilities are struggling to stay afloat. As a result, governments are realizing they can't leave energy security solely in the hands of markets. Berlin is in talks to bail out Uniper, France is considering nationalizing Electricite de France, while Britain has brought gas and electricity provider Bulb Energy under its control.

"This is only the beginning of growing government intervention in markets," said Leslie Palti-Guzman, president of New York-based consultancy Gas Vista. The underlying causes for each rescue may vary, but each are rooted in a simple truth: There just isn't enough energy to go around. Russia is severely limiting supplies to Europe, French President Emmanuel Macron is grappling with an aging fleet of nuclear reactors, and a lack of regulatory oversight meant U.K. gas and power providers sold cheap energy without considering the return of a commodities supercyle that brought high prices.

And things could get worse still. Over the years, Europe became increasing reliant on Russian gas, which President Vladimir Putin has now weaponized in response to the global opposition to his invasion of neighboring Ukraine. Gazprom is curbing exports through all major pipelines to Europe, complicating the continent's efforts to store enough gas ahead of winter heating season. Gas prices in the Netherlands, a European benchmark, are already eight times higher than normal.

U.S. LNG volume to Europe exceeds Russian pipeline gas deliveries

(Bloomberg; July 1) - For the first time ever, the U.S. in June supplied more natural gas to Europe than Russia sent by pipelines, according to the International Energy Agency. Europe is seeking alternatives such as U.S. liquefied natural gas to Russian supplies after Gazprom slashed shipments through Nord Stream, its biggest pipeline to Europe, and cut off shipments to countries that didn't comply with new payment terms. Russia met more than a third of the European Union's gas demand last year.

"Russia's recent steep cuts in natural gas flows to the EU mean this is the first month in history in which the EU has imported more gas via LNG from the U.S. than via pipeline from Russia," IEA Executive Director Fatih Birol said in a tweet. The increase in U.S. LNG comes as the nation ramps up output of the fuel after starting exports from the Gulf Coast in 2016, transforming global energy trade. U.S. volume remains strong even after a June 8 fire at the Freeport LNG plant in Texas, which is now closed for repairs.

U.K. grid operator asks businesses about cutting power demand

(Bloomberg; June 30) - National Grid is asking U.K. companies how much electricity demand they will be able to cut next winter to help keep the lights on. The network manager sent a request to some firms last week, asking for details and how much they would need to be paid to reduce operations, according to a document seen by Bloomberg. It didn’t disclose how many companies were asked.

National Grid is exploring all the options it has available to avoid blackouts this winter as the gas crisis threatens security of supply across Europe. Britain relies on the fuel for more than a third of its power generation, which would be at risk if Russian flows to Europe stop and storage runs dry. “To establish the viability of a commercial national demand service, the Electricity System Operator would like to know the likely megawatt volume suppliers could aggregate,” National Grid said in the document.

National Grid floated a price range for potential payments, ranging from £100 ($121.41) a megawatt-hour to as high as £6,000, according to the document. A plan is also being developed for households to receive payments for reducing electricity use at peak times. This would be available to 27.8 million homes and small businesses with smart meters. Many companies have on-site generation, such as diesel generators for backup in case of a power cut. These could temporarily reduce demand for power from the grid.

Trinidad wants companies to boost gas production to feed LNG plant

(Reuters; June 28) - Trinidad and Tobago's sales of liquefied natural gas to Europe have doubled so far this year to 40% of total delivered volume, Energy Minister Stuart Young said on June 28, as demand grows amid a reduction of Russian gas supplies. However, Trinidad's LNG exports declined to 7.9 million tonnes last year after the country, the largest producer of the fuel in Latin America, had to shut one of its flagship project's liquefaction trains due to lack of natural gas output. In 2014, Trinidad exported more than 14 million tonnes of LNG, according to Refinitiv Eikon data.

The government is pushing for gas producers, including Shell, BP and Woodside Energy, to bring new offshore production online later this year. But a decision has not yet been made on whether to restart the inactive LNG train, the minister said on the sidelines of an oil conference in Suriname. Trinidad's gas output has dwindled in the past decade, according to the BP Statistical Review of World Energy, amid obstacles to developing its expensive offshore reserves. The country is planning offshore, shallow-water and onshore licensing rounds through 2023 to reverse the decline.

Projects under development by Woodside, BP and Shell could add an additional 1.1 billion cubic feet per day of gas production in the next few years.

Freeport LNG will need federal permission before restarting LNG plant

(S&P Global; June 30) - Federal regulators want Freeport LNG to take corrective actions and seek their approval before resuming normal operations at the Texas export facility that has been shut down since a June 8 explosion and fire. The directive could affect the timeline the operator has issued for restoring service. Freeport LNG hopes to resume partial service in September and full service in late 2022. The terminal accounts for about 17% of U.S. LNG supply, which has become increasingly important to serving Europe amid sharp cuts in Russian pipeline gas to the continent.

Freeport LNG has 30 days to respond to the directive, which amounts to a proposal before a final order is issued. "As a result of the preliminary investigation, it appears conditions exist at Freeport's LNG export facility that pose an integrity risk to public safety, property, or the environment," the Pipeline and Hazardous Materials Safety Administration said in a June 30 letter to Freeport LNG.

According to PHMSA, the explosion and fire occurred in a pipe rack near the LNG storage tanks. An estimated 120,000 cubic feet of gas was reportedly released within the facility. "Preliminary evidence suggests that an isolated pressure safety valve created an overpressure situation in 300 feet of vacuum insulated piping," PHMSA said. The pipe "was subjected to an overpressure situation, which burst the pipe and allowed LNG and methane to be released into the facility. The sudden release … from the piping caused a subsequent explosion and fire that damaged piping and components."

U.S. natural gas futures down 30% for June, back under $6

(CNBC; June 30) - U.S. natural gas futures plunged below $6 per million Btu on June 30, after an inventory report showed a larger-than-expected buildup of gas stockpiles, sparking fears of an oversupplied market. Henry Hub futures declined 12.5% to $5.68 per million Btu. The contract is now down roughly 30% for June, on track for the worst month since December 2018. Despite June's heavy declines, natural gas is still up more than 50% for 2022.

Part of this month's price weakness is also due to Freeport LNG announcing earlier in June that its Quintana Island, Texas, facility would be offline for longer than expected following a fire. The announcement caused natural gas futures to plummet more than 16% on that day as traders feared an oversupplied market. Freeport's operation accounts for roughly 17% of the U.S. LNG processing capacity. A record amount of U.S. LNG has gone to Europe in recent months as the bloc looks to move away from Russian energy. Demand for LNG in turn boosted Henry Hub prices past $9 in May.

Korea shipyard cancels Russian LNG carrier order for nonpayment

(Upstream; July 3) - South Korea's Daewoo Shipbuilding & Marine Engineering has canceled the second of three liquefied natural gas carriers ordered a couple of years ago by Russia's Sovcomflot after the client failed to make an interim payment by the designated date as Western sanctions continue to bite Russia's oil and gas industry. "As the shipowner did not pay the shipbuilding price for one LNG carrier within the due date, the company notified the contract termination," Daewoo said.

Sovcomflot in October 2020 ordered three Arc7 ice-class LNG carriers, which were destined to serve the Arctic LNG-2 project. The shipyard in mid-May canceled the order for the first of the three vessels after a payment was missed. Daewoo's original three-vessel contract with Sovcomflot was worth 1.137 trillion won (US$875 million in today's money) but was revised down to 675.8 billion won after it canceled the first carrier and further reduced to 337.9 billion won after the shipyard axed the second carrier.

Daewoo reportedly said the third LNG carrier ordered by Sovcomflot could suffer the same fate if payments are not made. Daewoo is also constructing three newbuild Arc7 LNG carriers for Japan's Mitsui OSK Lines. All six of the ships, which were scheduled for delivery during 2023, had secured 30-year charter contracts for the Arctic LNG-2 project, which is under construction in Russia's Far North but could be delayed by sanctions that have hit equipment and technology deliveries to the operator, Novatek.

Agency sets net-zero emissions standard for Australia LNG plant

(Reuters; June 30) - A state agency in Australia has backed a plan to extend the life of the country's biggest liquefied natural gas plant by 50 years, so long as the facility achieves net-zero carbon emissions for the rest of this decade. The decision is partly to protect ancient Indigenous rock art. Woodside Energy, the operator of the North West Shelf LNG plant, environmental groups and other interested parties have three weeks to lodge appeals against the recommendations made by the Western Australian Environmental Protection Authority.

After that, the state's environmental minister will take a final decision on whether to approve an extension to the life of the plant, which is co-owned by Woodside, BP, Chevron, Shell and a joint venture of Mitsubishi and Mitsui. The plant started operations in 1989. The agency recommended that the plant must avoid, cut or offset all of its carbon dioxide emissions and cut oxides of nitrogen emissions in order to protect the rock art of the Murujuga Indigenous people against industrial pollution.

"The EPA considers that there may be a threat of serious or irreversible damage to rock art from industrial air emissions ... accelerating the natural weathering," the agency said in its assessment of the life extension plan. Woodside said it would carefully consider the conditions outlined by the EPA. Protecting the rock art, which has been nominated for a UNESCO World Heritage listing, is a top priority in the wake of the destruction of ancient Indigenous caves by Rio Tinto for an iron ore mine in Western Australia.

Mexico’s newest refinery ‘opened,’ but no production until next year

(Bloomberg; July 1) - The site of Mexico’s newest oil refinery looks more like a tech campus than a place where dirty crude is processed into gasoline and diesel. Floor-to-ceiling windows overlook impeccably green lawns and shimmering fountains while, outside, stands a constant reminder of Mexico President Andres Manuel Lopez Obrador’s hopes for the project: four stone pillars inscribed with the words “Fourth Transformation” — a reference to the president’s plan to revitalize Mexico.

The only thing missing? The whir of refining equipment. Though the plant officially opened July 1 in a ceremony attended by the president himself, the units designed to distill oil into gasoline stood quiet and idle next to construction equipment that suggested there’s still more work to be done. The ceremony, which started hours late, was an opportunity for the president to boast about the merits of oil refining during an era when much of the world is focusing more on the transition to clean energy.

Dos Bocas is key to the government’s ambitions to end reliance on imported fuel and become energy independent. It’s poised to be the largest fuel plant in Mexico when it eventually starts up operations — likely sometime next year. But critics question whether the plant will further those lofty goals. It has been beset by construction delays and cost overruns so massive they prompted the resignation of a high-profile Pemex official in December. Initially expected to cost $8 billion when it was proposed in 2019, the final price will likely total between $16 billion and $18 billion, according to sources.