Oil and Gas News Briefs
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Analysts expect U.S. shale to generate $180 billion free cash flow

(Financial Times; London; May 16) - America's shale oil companies are enjoying a cash bonanza, as soaring oil prices and months of capital restraint transform the fortunes and balance sheets of a sector once notorious for debt-fueled drilling sprees. Operators this year will rake in about $180 billion of free cash flow — operating income minus capital and maintenance outflows — at current crude prices, according to research company Rystad Energy. That compares to huge losses amassed during a decade of fast supply growth that crashed to a halt just before the pandemic.

"It's a tsunami of cash," said Raoul LeBlanc, head of S&P's North American oil and gas division. "The companies have almost finished the balance sheet repair." The shale profit surge has brought a recovery in operators' equity prices, with U.S. oil and gas producers' shares defying a broader stock market sell-off. The number of working rigs has picked up in recent months, led largely by private companies, but total U.S. output of 11.8 million barrels a day remains below the 13 million peak before the pandemic.

Shale executives insist they will stick with plans to keep capital spending — and drilling — in check, choosing instead to spend their windfall on dividends, debt repayment and share buybacks. "What's different today than the past … is that we are allocating capital in a way that maximizes returns to shareholders, rather than maximizing [production] growth," said Nick Dell'Osso, CEO of Chesapeake Energy, which filed for bankruptcy in mid-2020 under the weight of debts amassed during years of rampant drilling.

U.S. plans to ease sanctions for Venezuela to send more oil to Europe

(Bloomberg; May 17) - The Biden administration plans to ease sanctions on Venezuelan oil in a bid to bring more of the country's crude to Europe. The U.S. will allow European companies still operating in Venezuela to divert more oil to the continent immediately. In addition, Chevron will be allowed to negotiate a possible resumption of operations in the country, said a person familiar with the matter who spoke on condition of anonymity. The U.S.-backed Venezuelan opposition supports the moves, the person said.

The easing of penalties comes as tightening global oil supplies send the cost of crude and fuels skyward, threatening to worsen already historic inflation. More barrels from Venezuela would help alleviate the supply crunch while also aiding Europe in weaning itself from Russian energy amid the superpower's invasion of Ukraine. The move, however, is politically contentious.

Italy’s Eni and Spain’s Repsol are the only major European producers with operations in Venezuela. They are working with the Biden administration to divert Venezuelan oil bound for China to Europe, one of the people said. While Chevron isn’t allowed to drill for crude or export oil from Venezuela, the resumption of talks with state-owned PDVSA would pave the way for Chevron to get a new license allowing it to resume operations. It also signals that Venezuelan oil may be coming to the U.S., one person said.

U.S. LNG producers respond to Europe’s demand for cleaner gas

(Bloomberg; May 18) - Less than two years ago, Engie scrapped plans to buy U.S. liquefied natural gas, handing a victory to environmentalists who had urged the French energy giant to drop the purchase on pollution concerns over gas produced by hydraulic fracking. Fast forward to 2022 and that deal has been signed, alongside agreements with Bulgaria to Poland to bring in American gas to European shores.

The war in Ukraine has prompted Europe to reshape its energy policy, and once-snubbed U.S. LNG is now a key part of a European Union’s strategy to wean itself off Russian gas. Security of supply is in many cases trumping climate concerns. LNG is polluting not only because it’s a fossil fuel, but also due to the way the gas is extracted, liquefied in an energy-intensive process, and shipped across the globe. U.S. supplies tend to be dirtier than from other countries as it comes from fracked wells. But American producers seeking to woo European clients are taking steps to cut their footprint.

“The current EU directive to procure more U.S. LNG is essentially a U-turn,” said Kaushal Ramesh, an analyst at Norwegian consultants Rystad Energy. “While this may suggest that the EU may have softened its stance on the emissions impact of U.S. LNG — energy security over environmental concerns for now — it may also accelerate an energy transition within the U.S. LNG sector.”

NextDecade, which finally signed the deal with Engie, aims to reduce carbon dioxide emissions from its LNG plant by more than 90% with technology to capture and store carbon. Cheniere Energy, the top U.S. LNG producer, plans to disclose to its customers the carbon intensity of every cargo and quantify emissions back to the wellhead.

Europe needs more LNG import capacity and more pipelines

(Financial Times; London; May 16) – Though sanctions on Russia and a COVID lockdown in China have reduced freight volumes in Rotterdam, Europe’s busiest seaport, one cargo is booming: liquefied natural gas. Importing more LNG is a priority as the European Union tries to cut its reliance on gas supplied from Russia, intending to starve Moscow of funds for its war on Ukraine. But Rotterdam’s LNG receiving terminal is fully booked. Work to expand its capacity is underway, but will not be quick.

“LNG is a challenge. You can’t build an LNG tank overnight,” said port chief executive Allard Castelein. Meanwhile about 1,000 miles away, Spain has a different capacity problem. The country has more than enough LNG terminals; one is even mothballed. What is missing are enough pipelines to get gas to markets that need it in central Europe. A plan to build another pipeline to France has been stalled for years. Spain accounts for much of the EU’s LNG import capacity, with six operating import terminals.

But getting gas around Europe is difficult with only two pipelines across the Pyrenees to France, capable of handling barely one-tenth of Spain’s LNG import capacity. Regulators rejected another pipeline, known as Midcat, in 2019 as too expensive. Madrid now has renewed calls for its construction. All over Europe, examples abound of similar pinch points and infrastructure gaps — betraying the problems the continent faces as it wrestles with how to cut its reliance on Russian gas.

EU unveils $221 billion energy plan with emphasis on renewables

(Bloomberg; May 18) - The European Union unveiled a raft of measures ranging from boosting renewables and LNG imports to lowering energy demand in its quest to cut reliance on Russian supplies. The 210 billion-euro ($221 billion) plan announced by the European Commission on May 18 centers on cutting red tape for wind and solar farms, paving the way for renewables to make up a higher target of 45% of the bloc’s energy by 2030. It also agreed on EU-wide rules in the event of a broad supply disruption.

The plan fleshes out the EU’s attempt to reduce purchases of Russian gas by two-thirds this year. But it remains a mammoth challenge, as the country accounted for around 40% of the bloc’s gas imports before the war, and finding replacements won’t be easy. The region has also been trying to boost clean power, and some in the EU argue that the risk of a cut-off by Moscow should speed up the pivot.

“We must now reduce as rapidly as possible our dependency on Russian fossil fuels,” European Commission President Ursula von der Leyen said at a press briefing. “This will be speed-charging for our European Green Deal.” Still, the bulk of the bloc’s strategy relies on finding gas from elsewhere. Liquefied natural gas is set to replace about one-third of Russian supplies. African nations such as Nigeria, Senegal and Angola offer largely untapped potential for LNG, the EU said.

Russian shipowner cancels order for Arctic LNG tanker

(Argus Media; May 18) - An order for an Arc7 ice-class LNG carrier has been cancelled after the shipowner that placed the order — understood to be Russia's Sovcomflot — missed a payment deadline. The canceled newbuild vessel is one of three LNG carriers ordered at South Korean shipbuilder Daewoo Shipbuilding and Marine Engineering in 2020, the shipbuilder said May 18. The orders for the other two carriers remain in place.

The order had subsequently been tied to Sovcomflot by Russian developer Novatek, which planned to use the three vessels to transport LNG from its Arctic LNG-2 project, which is under construction and scheduled to start operations next year. Japanese shipowner Mitsui OSK Lines also ordered three ice-class LNG carriers for use with the Russian terminal. Sovcomflot's three Arc7 carriers ordered at Daewoo were scheduled for delivery in February, April and July 2023.

Sovcomflot has also ordered three LNG carriers from South Korean shipbuilder Hyundai Hyundai Samho Heavy Industries. The three carriers are scheduled for delivery in April 2023, February 2024 and August 2024. Sovcomflot has faced several financial and operational issues in recent months, stemming from sanctions placed on the firm earlier this year, with half of its 12-strong LNG fleet idle as of late April. Four tankers, all sailing under term charters with Shell, have reportedly been sold to another shipowner, although this could not be confirmed. All four have since changed their names.

Sanctions could bring work on Russia’s Arctic LNG-2 to a halt

(Barents Observer; Norway; May 17) - Several of Russia’s biggest construction projects in the Arctic are kneeling as sanctions deprive developers of Western technology and investments. Among the projects likely to suffer is Novatek’s LNG Construction Center in Belokamenka, outside Murmansk. The center is building gravity-based structures as it assembles topside production modules for the structures for the Arctic LNG-2 project.

The assembly production plants will be towed to the project site and set in place offshore. Three structures of the kind are under construction, each with a production capacity of 6.6 million tonnes of LNG per year. However, Novatek, the lead developer, might ultimately be able to complete only one of the three structures. According to Upstream, the Chinese yards that manufacture the topside modules have decided to halt cooperation with the Arctic LNG-2 development.

The Chinese withdrawal from the project comes after similar decisions by European companies. That could lead to a standstill on the project. Reportedly, Novatek in late April halted construction on the second and third liquefaction trains planned for Arctic LNG-2. Authorities in Murmansk are now increasingly concerned by developments. There are about 20,000 workers at the Belokamenka yard and by far the biggest share of them are guest workers and commuters from other regions and countries. A full or partly standstill could lead to a significant drop in regional tax revenues.

Sempra signs up Polish buyer for LNG from Gulf Coast projects

(Reuters; May 16) - U.S. energy firm Sempra Energy said on May 16 that it would sell 3 million tonnes of liquefied natural gas a year to Poland's PGNiG, in another sign of rising interest in U.S. supply following Russia's invasion of Ukraine. Buyers wary of importing natural gas from sanctions-hit Russia have been turning to U.S. LNG in recent months as the war in Ukraine tightens an already undersupplied market.

The United States this year is expected to surpass Australia and Qatar as the world's largest LNG exporter, delivering more than 12.2 billion cubic feet per day. Sempra will provide PGNiG (Polish Oil & Gas) with LNG for 20 years under the deal. About 2 million tonnes per year will come from Sempra's Cameron LNG Phase 2 project in Louisiana, while the rest would come from the Port Arthur LNG project in Texas. Neither project has been sanctioned to start construction, though Sempra is marketing their production.

PGNiG said the agreement opens the way to negotiate more detailed terms of a contract for supply starting in 2027. The volumes will be received by a floating storage and regasification unit which Poland plans to operate on the Baltic Sea near Gdansk.

Texas LNG plant owner asks FERC for extension to start expansion

(Reuters; May 17) - U.S. liquefied natural gas producer Freeport LNG has asked federal regulators to extend the amount of time it has to construct a fourth liquefaction train at its export plant in Texas until August 2028. The Federal Energy Regulatory Commission approved construction of the fourth train in May 2019, requiring Freeport to finish the train by May 2023, the company said in a filing on May 16. In September 2020, FERC extended the time Freeport had to build the fourth train until May 2026.

Freeport, however, said it has not started to build Train 4 "due in large part to delays" stemming from the COVID-19 pandemic. "The impact of the pandemic on the global community has now waned substantially, and global demand for U.S. LNG has rebounded and is projected to remain strong," Freeport said. The company said it is "actively marketing Train 4 project capacity to a number of potential off-takers, particularly in Europe, and is in active negotiations with several potential customers."

But since it would take about 48 to 56 months to build Train 4, Freeport said "it is not possible" to meet the May 2026 in-service deadline. Freeport’s three operating trains can turn about 2.1 billion cubic feet per day of natural gas into 15 tonnes per year LNG. Freeport's customers include units of Osaka Gas, JERA, BP, Total, and SK E&S.

U.S. industries paying the bills of rising natural gas prices

(Reuters; May 16) - Skyrocketing natural gas prices have raised manufacturing and transportation costs across many U.S. industries, and the situation should persist as the United States exports more gas to Europe to make up for Russian supplies lost to sanctions. U.S. natural gas futures have doubled this year, far more than the increases in retail gasoline and diesel. Many industrial company executives believe the U.S., once a large importer of natural gas, should stop exporting and prioritize its own needs. But gas producers are pushing for more export capacity along with more permits for drilling.

Gas output in key locales in the United States has slowed this year partly due to insufficient pipeline capacity. Bad weather also cut production and boosted demand. Meanwhile, Russia's invasion of Ukraine and subsequent sanctions have caused a scramble for U.S. liquefied natural gas — export plants consumed 15% of domestic gas production in mid-March. Rising natural gas prices are driving up costs, such as for specialty chemical maker Huntsman, which produces polyurethanes used to make electronics, building materials and furniture, CEO Peter Huntsman told Reuters.

"Consumers are going to see (price) shocks," Huntsman said. The company has passed through more than $1.5 billion in raw material cost increases in the last year, he said, most due to energy. Westlake Chemical, which makes plastics and building siding, calculates for every $1 per million Btu increase in natural gas, its annual costs rise about $100 million. U.S. natural gas futures have surged to $7.854 per million Btu on May 13, from $3.730 at the start of 2022, but remain far lower than Europe and Asia.

U.S. LNG helping to rebuild Europe’s natural gas stockpile

(Natural Gas Intelligence; May 17) - Europe’s natural gas storage inventories continue to rise at some of the fastest rates on record as an influx of liquefied natural gas cargoes lands on the continent to take advantage of strong prices. Storage stocks are at roughly 40% of capacity, which is below the five-year average of about 45% but roughly aligned with the previous 10-year average. Injections have accelerated since the beginning of April, according to data from Gas Infrastructure Europe.

The shift by the European Union away from Russian fossil fuels after the invasion of Ukraine, combined with the need to refill depleted storage inventories after winter and lackluster demand for the fuel in Asia, is driving more LNG cargoes to Europe. Demand for delivery slots remains strong, prompting sellers without terminal capacity to offer LNG at discounted rates to secure a berth to offload.

NGI calculations show that three out of four U.S. LNG cargoes moved to Europe in March to take advantage of higher prices – a trend that has persisted since January. The market still remains on edge over the possibility of further Russian gas supply disruptions, which is keeping prices elevated. Russian electricity exports to Finland were cut off over the weekend. The specter of a gas shut-off still looms as both Finland and Sweden attempt to join the North Atlantic Treaty Organization.

[UAE plans to more than double LNG production capacity]

(Bloomberg; May 17) - Abu Dhabi National Oil Co. plans to build a new liquefied natural gas plant as the world's producers race to expand their exports amid surging demand. The LNG facility, to be built at Fujairah on the United Arab Emirates' west coast outside the Persian Gulf, will be able to produce as much as 9.6 million tonnes a year. The UAE currently has three smaller liquefaction trains with a combined capacity of 5.8 million tonnes per year at Das Island, which is located inside the Gulf.

ADNOC has appointed McDermott International as design contractor and intends to award a contract for the construction of the plant in 2023, said the oil company in a statement on its Linkedin page. The plant will use new technologies and "clean power" to reduce the carbon intensity of the LNG it produces, according to the statement.

A pipeline will be constructed linking Abu Dhabi's Habshan gas production facilities to Fujairah and the liquefaction plant is scheduled to start in 2027, according to two people familiar with the matter. The UAE was the world's 12th-largest LNG producer last year, making it a relatively small global player. However, a $20 billion push to develop more of its gas resources means it will be able to produce much more in a few years.

[Japan's Inpex looks to expansion to grow its Australian LNG output]

(Reuters; May 18) - Inpex, Japan's top oil and gas producer, wants to grow in Australia through expansion of its liquefied natural gas output as well as hydrogen and nature-based carbon-offset projects, a senior executive said May 18. Inpex's $40 billion Ichthys LNG project and stakes in other gas projects last year contributed more than 70% of the company's global revenue and now the company has set up a "new energy" business in Australia to look at other opportunities.

Its top priority is to find new gas sources to supply its Ichthys LNG plant in Darwin, as it looks to boost output from its two processing units, or trains, by 0.4 million tonnes a year to 9.3 million tonnes a year by 2024, Inpex vice president Bill Townsend told Reuters. The goal is to keep the Ichthys offshore central processing facility, pipeline and LNG plant at full capacity for their projected 40-year life, he said.

The Ichthys LNG plant site has room for more trains, and adding one more train is an aspiration, "but it's too early to announce anything, because the first thing that we need to do is find the gas," Townsend said. While exploring for gas, the company is also working on plans to reduce emissions from its own operations using carbon capture and storage at a proposed $1 billion hub in the depleted Bayu-Undan reservoir in the Timor Sea and in its own project in waters off Darwin.

China boosts coal production to help offset high-priced LNG

(S&P Global Platts; May 18) - China has ramped up coal production to offset declines in imports of coal and liquefied natural gas amid surging global energy prices. Analysts expect gas consumption to contract further in 2022 while coal consumption continues to rise. The trend is in line with gas demand destruction in several industries that have a high share of gas use, such as ceramics that requires high-temperature gas furnaces, and a wider switch toward cheaper fuels, like coal and oil in the region.

China's total natural gas supply, comprising domestic production and imports of pipeline gas and LNG, fell 6.6% year on year to just over 1 trillion cubic feet in April, according to official data. Out of this total supply, imports showed a much sharper decline. China's natural gas imports, including piped gas and LNG, peaked in December 2021 and then fell by 30% to April, according to customs data. LNG imports saw the steepest decline, with March imports down 18% year on year, the lowest since April 2020, and April LNG imports trending near the lowest monthly level since early 2020.

"Chinese gas demand will grow by around 2% this year, and we have revised this lower from previous forecasts due to the weak demand seen so far this year amid the high prices along with the continuation of lockdowns," S&P Global Commodity Insights analysts said. "The average annual growth rate of gas demand in China has been around 10% for the last three years." China's gas demand has been stifled as some power plants and factories suspended operations due to unaffordable gas prices.

China shops around for LNG in the fall, assuming prices drop

(Bloomberg; May 17) - China is shopping around for liquefied natural gas shipments on speculation that easing virus restrictions will boost economic activity and demand for the fuel. After months of absence, some of the nation’s LNG importers are inquiring about buying cargoes for delivery from August onward, when demand is expected to rebound, according to traders with knowledge of the matter. Still, spot prices would need to fall further before executing any deals, they said.

Shanghai is starting to unwind stringent pandemic curbs that have been in place since March that carried heavy costs for the population and economy of the nation’s biggest city. China’s LNG imports fell almost 20% in the first four months of this year due to the government’s dogged adherence to zero-tolerance policies for COVID, as well as high overseas spot rates. Northern China — which includes Beijing — is still grappling with virus flareups, and LNG traders expect demand to remain subdued through August.

Buyers are also in no immediate rush, and won’t lock in deals unless prices fall further. Importers won’t purchase spot LNG cargoes unless rates drop below about $17 per million Btu, according to traders. The Japan-Korea Marker, the benchmark spot rate for the region, was assessed May 17 around $20, the traders said. LNG spot rates surged to a record in March after Russia invaded Ukraine, exacerbating a global supply crunch. The rally led Chinese companies to significantly cut purchases because it was uneconomical to buy expensive shipments for sale into the regulated domestic market.

Bahrain continues to study 80-billion-barrel offshore shale field

(S&P Global Platts; May 16) - Bahrain has yet to take a decision on its 80-billion-barrel offshore shale oil discovery in spite of higher prices, the country's oil minister said May 16. "We are still working on the technical side of things, understanding the resource play, all of the above. Ultimately, it's what's the cost of the production? Well, then once you have that, yes, you can start getting into this," Sheikh Mohammed bin Khalifa al-Khalifa said on the sidelines of the Middle East Petroleum and Gas Conference.

Bahrain announced the discovery of 80 billion barrels of shale oil and 20 trillion cubic feet of gas offshore in 2018. The oil ministry planned to develop the discoveries within a period of five years with the support of international oil companies, but progress has been slow. The discovery at the time far eclipsed Bahrain's proven reserves.

Oil prices are currently around 66% higher than when the discovery was announced. "With these prices, we have a much better chance than we did back in 2020," Sheikh Mohammed said. Bahrain's oil production has averaged 200,000 barrels per day in recent months. The country gets the majority of its oil from the offshore Abu Safah field it jointly owns with Saudi Arabia. Bahrain also produces from its onshore Bahrain field.

Exxon goes to court to truck crude on coastal highway in California

(Reuters; May 13) - ExxonMobil has gone to court seeking to force local California officials to allow shipment of crude oil from coastal facilities to inland refineries by dozens of tanker trucks a day until replacement of a pipeline that burst in 2015, causing a major spill. In a federal lawsuit filed May 11, Exxon challenged the denial of its trucking permit application by the Santa Barbara County Board of Supervisors, calling the panel's 3-2 vote against the plan in March a "prejudicial abuse of discretion."

Exxon claimed the board's majority had essentially made up its mind to reject the application rather than deciding the issue on its merits, resulting in a "de facto ban on crude oil production and transportation." Exxon asserts the board's action effectively prevents the company from restarting three offshore drilling platforms and refinery operations shut down after a badly corroded pipeline ruptured along the shoreline near Santa Barbara. As much as 3,400 barrels of crude oil escaped from the line.

Plains All American Pipeline has since applied for approval to replace the pipeline, a proposal subject to extensive regulatory and environmental review. In the meantime, Exxon has proposed hauling its offshore crude to one of two refineries under a plan to allow as many as 70 tanker trucks a day to run along California's coastal Highway 101 and a smaller two-lane highway. Santa Barbara County has previously rejected alternative plans to transport Exxon's oil by rail or marine tanker, the company said.

Alberta premier tells U.S. Senate committee Canada can send more oil

(Reuters; May 17) - Canada could add up to 900,000 barrels per day of oil export capacity to the United States through technical improvements to existing pipelines and increased crude-by-rail shipments, Alberta Premier Jason Kenney told a U.S. Senate committee on May 17. Alberta, the biggest oil-producing province in Canada, has been studying ways to enhance pipeline utilization to boost crude exports as Europe seeks to reduce its dependence on Russian oil and the world is short of supply.

Kenney and federal Natural Resources Minister Jonathan Wilkinson were in Washington addressing a Senate Energy and Natural Resources Committee on the issue of energy security. The Canadian government has previously said the country's producers could increase oil exports by pipeline by 300,000 barrels per day by the end of this year. Kenney said an extra 200,000 on top of that could be shipped south by rail, while technical improvements from midstream companies could add as much as 400,000 barrels per day of additional pipeline capacity by next year.

The premier urged senators to help safeguard the Enbridge Inc Line 5 pipeline, which the state of Michigan is trying to shut down because of concerns it could leak into the Great Lakes. He also condemned President Joe Biden's decision to revoke a key permit for the Keystone XL pipeline, and urged lawmakers to consider plans for a new major Canadian-U.S. export pipeline project.