Oil and Gas News Briefs
Compiled by Larry Persily
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Conoco takes 30% stake in $10 billion Texas LNG project

(Bloomberg; Nov. 22) - ConocoPhillips, one of the largest U.S. oil and gas producers, agreed to take a 30% stake in the first phase of Sempra Energy's proposed Port Arthur liquefied natural gas export terminal in Texas. The deal includes a 20-year agreement to take 5 million tonnes of LNG per year, and also a natural gas supply management agreement whereby ConocoPhillips will manage feed gas supply requirements.

The deal gives ConocoPhillips a significant stake in what could be one of the next major U.S. LNG export terminals to start construction. Conoco had signed a tentative agreement earlier this year. San Diego-based Sempra said in a statement Nov. 22 that it expects to make a final investment decision on the project in the first of quarter 2023.

The terminal, which would include two gas liquefaction trains and LNG storage tanks, is designed to produce as much as 13.5 million tonnes of the fuel a year. The $10.5 billion project is fully permitted and could start production in 2027. Last month, Sempra finalized an engineering, procurement and construction contract with Bechtel.

Europe looking for more gas, but hesitant about long-term deals

(The Wall Street Journal; Nov. 20) - Though Europe has filled its reserves of natural gas for this winter, the clock is already ticking to secure energy for the coming years, which are expected to remain dogged by threats of severe shortages. The European Union's gas storage is about 95% full, and many analysts say the continent might avoid an energy calamity this winter. But procuring gas for coming winters is widely anticipated to become more difficult for Europe now that it's mostly cut off from Russian supplies and global competition is growing for finite cargoes of liquefied natural gas.

There is little additional new LNG supply coming to market until around 2026, when projects in the U.S. and Qatar come online, and Europe likely will compete for tight supplies over the next few years. Some companies in Germany, Europe's manufacturing engine, are worried about having enough energy for the latter part of the decade. German companies including chemical producer BASF and the bailed-out utility Uniper have held talks in recent weeks with U.S. LNG exporters and others about potential supply deals likely beginning after mid-decade, according to sources.

The negotiations are indicative of supply concerns, sources said, but are complicated because while many in Europe seek gas for five to 10 years, some company and government officials are reluctant to sign longer-term contracts. Germany and other European nations have set ambitious targets to reduce fossil-fuel use dramatically, and companies are worried they could be on the hook for gas they no longer need.

LNG import terminals will cost double what Germany had estimated

(Reuters; Nov. 20) - The purchase and maintenance of floating liquefied natural gas import terminals to help Germany secure energy supplies and diversify away from Russian gas will cost 3 billion euros ($3.10 billion) more than planned, the economy ministry said on Nov. 20. Overall, total costs are estimated at about 6.56 billion euros, the ministry said, confirming a report in Der Spiegel. That compares with 2.94 billion euros estimated in the country's 2022 budget.

"Further costs have been determined in extensive consultations with numerous stakeholders," said the ministry, citing operating costs and additional infrastructure needed to be built on land. The ministry said the floating terminals were essential for Europe's biggest economy to compensate for a collapse in deliveries of Russian gas since Moscow's invasion of Ukraine. Germany this month completed construction of its first floating terminal for LNG at the North Sea port of Wilhelmshaven.

OPEC+ could decide to boost production when it meets Dec. 4

(The Wall Street Journal; Nov. 22) - The specter of an oil-supply shock this winter has created a dilemma for OPEC and its wider circle of crude producers about whether to reverse course on the production cuts it set last month. Beginning in early December, the oil market will face a series of looming problems that some members of the Organization of the Petroleum Exporting Countries see as a potential opportunity to pump more oil and others view as a reason to stay the course with their production cuts.

In the past two weeks, OPEC members began informally discussing the potential need for more oil this winter, OPEC delegates said. The initial trigger was data showing rising demand in the winter months. There were other concerning data points, delegates said. On Dec. 5, one day after OPEC meets with other producers including Russia in Vienna, known as OPEC+, the European Union is set to impose an embargo on Russian oil. On the same day, the Group of Seven leading nations is set to impose a price cap on Moscow crude. Russian officials have said they won’t sell oil to countries that impose a price cap, raising the prospect of a supply gap if Russian oil doesn’t find buyers.

Further, there has been disappointing output from U.S. shale, with companies not boosting production that much. And finally, big OPEC producers such as the United Arab Emirates and Iraq have long been chafing under production limits they feel are too low, the delegates said. With all of these energy-market headwinds emerging, some in

OPEC+, including Saudi Arabia, have begun discussing whether to reconsider the production cut engineered last month of 2 million barrels a day, the delegates said. The discussions are still early, and OPEC+ could decide to do nothing at its Dec. 4 meeting.

China's COVID lockdowns spur Goldman to trim $10 from oil forecast

(CNBC; Nov. 21) - Goldman Sachs lowered its global oil price forecast by $10 to $100 per barrel for the fourth quarter of 2022, citing rising COVID concerns in China and lack of clarity over the Group of Seven nations' plan to cap Russian oil prices. "The market is right to be anxious about forward fundamentals," Goldman economists including Jeffrey Currie said in a note, adding that more lockdowns in China would be equivalent to the deep production cuts imposed by OPEC+ of 2 million barrels a day.

China recorded three COVID deaths over the weekend, the country's first deaths from the virus since May this year. China's capital Beijing tightened COVID prevention measures in the past three days as the local case count climbed to several hundred per day. The economists added that the possibility of more lockdowns in the world's top importer of oil will dent demand even further.

"China's COVID cases are at April highs. Yet, the new policy reaction function is unknown ... we lower our expectations for China demand by 1.2 (million barrels per day) for the quarter, anticipating further lockdowns from here," the note stated. Global crude prices have fluctuated in recent months, rising to more than $120 in early June amid growing fears of a global recession, subsequently falling to around $90 per barrel after OPEC+ slashed production.

China's imports of Russian fuels up 70% from year ago

(Bloomberg; Nov. 21) - China continued to boost Russian energy imports last month, as purchases of gas, coal, crude oil and oil products increased by 70% to nearly $60 billion since the invasion of Ukraine, up from about $35 billion a year ago. Russian sales grew despite a weakening in China's imports in October. A slowing economy limited imports of items from gas to copper, although crude imports were up as refiners responded to the prospect of a surge in refined fuel exports after Beijing issued bigger quotas.

Oil imports from Russia rose 16% to 7.72 million tons last month, a volume topped only by Saudi Arabia, according to Chinese customs data. The increase comes as China's refiners seek Beijing's help to keep Russian cargoes flowing after new sanctions are imposed early next month. From Dec. 5, the European Union is set to ban the financing, insuring and shipping of Russian crude, which will force importers to find workarounds that don't involve banks, insurance companies and shipowners from the bloc.

North Sea decommissioning could cost $24 billion over next decade

(Reuters; Nov. 22) - British North Sea oil and gas producers will spend about 20 billion pounds ($24 billion) on dismantling over 2,000 unused wells and facilities in the aging basin over the next decade, an industry group said on Nov. 22. The cost burden for plugging wells and removing platforms, in what is known as decommissioning, is set to rise sharply over the next three to four years as more fields stop production, Offshore Energies U.K. warned in a report.

The growing bill coincides with British Finance Minister Jeremy Hunt's decision last week to increase a windfall tax on North Sea oil and gas producers to 35% from 25%, bringing total taxes on the sector to 75%, among the highest in the world. The trade association Offshore Energies estimates that around 2,100 North Sea wells will be decommissioned over the next decade at an average cost of 7.8 million pounds per well, for a total of 19.7 billion pounds. The proportion of spending on decommissioning in companies' budgets is set to rise from 14% in 2022 to 19% by 2031.

Oil and gas production in the North Sea, a major deepwater production hub since the 1970s, has been in steady decline since peaking at around 4.4 million barrels of oil equivalent per day in the 1990s. Decommissioning costs can be offset against some taxes, but not against the latest windfall tax. The U.K. trade association also warned the growing number of oil and gas workers turning to the fast-growing offshore wind industry in the region could create shortages of skilled workers for decommissioning.

Canada far behind U.S. in developing LNG export industry

(The Globe and Mail; Canada; Nov. 18) - As Highway 27 winds around Calcasieu Lake in southwest Louisiana, massive storage tanks tower over the wetlands in what is shaping up to be a new global epicenter for exports of liquefied natural gas. Near the town of Hackberry, Cameron LNG is eyeing expansion of its already-huge terminal that opened in 2019. Along the highway and down other roads, there are three more export terminals proposed near the lake, just south of the small city of Lake Charles.

Driving south toward the Gulf of Mexico — past the alligators, waterfowl and migratory birds at the Cameron Prairie National Wildlife Refuge — there are four proposed LNG sites near the mouth of the Calcasieu River. The would-be terminal sites dotted among the marshes, swamps and industrial properties along the Gulf Coast of Louisiana and Texas have spurred excitement in the region’s booming energy sector.

At least a dozen LNG proposals are now in the works statewide in Louisiana, all vying to join the three terminals already operating in the state. Calcasieu Pass LNG opened south of Lake Charles in February. It’s the seventh U.S. facility to open since 2016. “Right now, there is very much a race to develop export projects,” said Ruth Liao, a U.S.-based analyst with Independent Commodity Intelligence Services.

The boom along the Gulf Coast stands in stark contrast to an LNG industry in Canada. The Shell-led LNG Canada project in Kitimat, B.C., is the only export terminal under construction in the country, even though Canada is the world's sixth-largest producer of natural gas. Canada lags for several reasons, and one of the biggest is politics, as Canadian leaders vow to keep climate goals top of mind. They already cite the need to eventually transition from LNG to hydrogen, and request that any new LNG projects rely on hydroelectricity in the liquefaction process instead of using gas-fired turbines.

Japan warns new LNG supply is tight, due to underinvestment

(Bloomberg; Nov. 21) - Japan warns that global competition for liquefied natural gas is set to intensify over the next three years due to an underinvestment in supply. New long-term LNG supply contracts that start before 2026 are sold out, according to a survey of Japanese companies conducted by the trade ministry and released Nov. 21. These types of contracts are essential for buyers, as they offer stable pricing and reliable supply for many years.

Countries around the world are scrambling to secure shipments of the power plant and heating fuel from major exporters like Qatar and the U.S., but there is little new supply coming online before 2026. Meanwhile, Europe is racing to replace Russian pipeline gas with LNG, further exacerbating the global shortage of fuel. This means importers will be forced to depend more on the volatile and expensive spot market, which is currently trading nearly three times higher than prices under long-term contracts.

Roughly 30% of all LNG deliveries were via the spot market last year, according to the International Group of Liquefied Natural Gas Importers. A lack of investment in LNG export projects means that supply will be very tight for years, the trade ministry document said. If Russian pipeline gas to Europe is cut completely, the world could see a shortage of 7.6 million tonnes of LNG in January 2025, equivalent to one month's worth of imports to Japan, according to the document.

New England ready for first LNG imports since August

(Reuters; Nov. 21) - New England could get a load of much needed liquefied natural gas for the heating season in coming days from a vessel full of the fuel that is sitting in Boston Harbor. New England depends on LNG and oil to fuel some power plants on the coldest days when most of the region's pipeline gas is used to heat businesses and homes. About half of the power generated in New England comes from gas-fired plants.

The Cadiz Knutsen is sitting in Boston Harbor outside Constellation Energy's Everett LNG import terminal in Massachusetts with a cargo of LNG from Trinidad and Tobago. That would be the first LNG vessel to visit since August, according to Refinitiv data.

But with Everett competing against European buyers willing to pay about $35 per million Btu for gas compared with just $6 in the United States, the Massachusetts port has imported only 16.7 billion cubic feet of gas as LNG during the first 10 months of this year. That is down from 18.1 bcf during the same period in 2021 and a five-year (2017-2021) average of 33.3 bcf, according to federal energy data.

China's deal to buy LNG from Qatar valued at $61 billion

(Bloomberg; Nov. 21) - China has signed a landmark multibillion-dollar agreement for purchases of liquefied natural gas from Qatar, as the world's second-largest economy looks to bolster its energy security for decades. Qatar Energy will send 4 million tonnes of LNG a year to Sinopec starting in 2026. The deal will last for 27 years, making it China's longest LNG supply agreement to date, according to data from BNEF. It's also one of the country's biggest in terms of volume.

Qatar's energy minister and head of Qatar Energy, Saad al Kaabi, signed the agreement with Sinopec's chairman. The deal is worth roughly $61 billion — or $2.3 billion a year — at today's prices for long-term contracts, according to Bloomberg calculations. LNG sold under the contract will be pegged to global oil prices, though details of the agreement were not disclosed.

Australian LNG producers have a political problem at home

(Reuters columnist; Nov. 22) - Australia's liquefied natural gas exporters have a problem at home, where industrial and domestic consumers are making strident demands for them to accept a price cap on the fuel, higher taxes, guaranteed volumes or some combination of all of these. The LNG industry argues that all of those of measures would result in lower investment and lower gas production over time, which would ultimately lead to higher prices. There is merit on both sides of the argument.

But the problem for Australia's gas producers and LNG exporters is that politically their case is a hard sell, and they could risk getting a reputation for profiteering unless some way is found to take the burden off consumers. Australia vies with Qatar and the U.S. as the world's biggest LNG exporter, having boosted its export capacity over the past decade. But it has also led to higher natural gas prices in the domestic market.

Domestic users in the major exporting country blame high prices on too much of the fuel leaving the country. The lowest-cost option for the LNG sector would be to impose a voluntary price cap for the domestic market, and work out a way of spreading the pain of this equally among the gas-producing companies. But it's likely that they will try to fight first, and make themselves more unpopular in a situation they can't win.

Germany plans $55 billion in gas and electricity price relief

(Bloomberg; Nov. 22) - Germany will introduce a cap on gas and electricity prices for companies and households next year as Europe’s largest economy seeks to contain the fallout from Russia’s moves to slash energy supplies. The package of measures, which will cost the government about €54 billion ($55.5 billion), will go into effect on March 1, according to government officials.

The subsidies will be paid retroactively for January and February, and gas consumers will also receive a one-time state subsidy for December, said the officials, who asked not to be identified in line with briefing rules. The financial assistance for power bills will be partly financed by a windfall tax on electricity profits, which the government expects to raise a double-digit billion-euro amount, the officials said on Nov. 22.

Almost all forms of power generation, including renewables, will be charged — with the exception of gas and hard coal. Many companies have warned that the tax, which will be imposed retroactively to September, could impact investments in the sector. Skimming off profits retroactively with a tax will “suffocate” renewable energy companies, said opposition lawmaker Andreas Jung. Germany is the epicenter of Europe’s energy crisis. Decades of building up a reliance on Russia backfired after the Kremlin slashed deliveries in retaliation over sanctions related to the war in Ukraine.