Oil and Gas News Briefs
Compiled by Larry Persily
October 24, 2022

[Global oil market waiting to see how Russia deals with sanctions]

(Bloomberg; Oct. 22) - Traders, tanker companies and the world's most powerful governments are becoming increasingly fixated upon one question in the oil market: Can the petroleum industry's supply chain handle the harshest sanctions on Russian exports in history? A vast shadow fleet of tankers with unknown owners is being amassed to move Russian crude, even as intense U.S.-led diplomatic wrangling to soften European Union sanctions has been going on for months — but time is ticking.

With just six weeks left until the sanctions take effect, little clarity exists on whether private efforts in the delivery chain will suffice to help the world's third-biggest oil producer deliver much of its output to fend off a global supply shock. The U.S. has been sounding the alarm for months that Europe's sanctions could trigger such a shock. It's pushing for companies to be allowed to access EU services — especially insurance — to avoid a worsening oil market and painful price spike. But to achieve that negotiated deal, buyers would have to sign up to a controversial cap on the prices for Russian oil.

What looks certain is that a large part of Russian flows will be handled by a complex — and often secretive — network of ships, owners, ports and safe passages dominated by entities willing to deal with Russia. In the run-up to Dec. 5, when the EU is due to ban Russian crude imports and halt the provision of shipping, financing and insurance to related trades, the most important question is whether there will be enough vessels. There will also almost certainly be a surge in ship-to-ship transfers — cargoes being switched from one tanker to another at sea — a result of both the sanctions and the need to collate a few small cargoes onto larger tankers for long-haul voyages.

[Biden plan to refill U.S. oil stockpiles may not work]

(The Wall Street Journal; Oct. 23) - After releasing the most oil ever from the U.S. emergency petroleum reserve, the Biden administration is signaling its plan to refill the stockpiles, a multibillion-dollar undertaking that it hopes will rouse sluggish domestic drilling activity. The pitch is likely to be a hard sell for many domestic producers, say industry executives and analysts. "It's a little bit more [complex] than this," said Olivier Le Peuch, chief executive of oil field services company Schlumberger.

On Oct. 19, the president said the Energy Department would begin purchasing oil to refill the Strategic Petroleum Reserve when oil prices are $67 to $72 per barrel, or less. Officials also said the department will purchase crude at a fixed future price, which they hope would encourage producers to drill more. Energy executives and analysts expressed doubts the plan would spur a large increase in production in the short term.

Many oil companies are wary of locking in sales when commodity markets have swung wildly, and they hope to capture high prices while they are in place. Rising drilling costs and pressure from investors to limit production and return excess cash to shareholders are also dimming the outlook for production growth. The Strategic Petroleum Reserve, which can hold about 714 million barrels of oil, was down to about 405 million as of Oct. 14, a 38-year low. Biden said the releases are meant to lower Americans' energy bills and stabilize markets following Russia's invasion of Ukraine.

Japan has done well with strategy of long-term LNG contracts

(The Wall Street Journal; Oct. 21) - Japan imports nearly all of its natural gas and, despite the worst energy crisis in many years, isn't facing shortages or out-of-control prices. Its secret is a reliance on long-term contracts for liquefied natural gas, a strategy that had been in decline until recently but now is rebounding in popularity. The world's largest buyer of LNG is enjoying a moment of validation — at least for now.

"Even facing soaring LNG prices, we are able to pretty much maintain stability," said Takeshi Soda, director of the petroleum and natural gas division at Japan's Ministry of Economy, Trade and Industry. Demand for long-term contracts is gaining momentum this year. Major buyers in Japan are negotiating with sellers on deals with terms of a decade or more, industry officials said.

Long-term deals have two risks. In Japan's case, they are typically indexed to oil prices, so when oil is high and LNG is plentiful, buyers locked into the contracts pay more than they would on the spot market, where fuels are traded for immediate delivery. This has occurred at times in the past decade. Another risk is the push in many nations, including Japan, for carbon neutrality. It's uncertain how much fossil fuel countries will be burning in 10 or more years, when long-term contracts negotiated today would still be in force.

Japan buys more than 80% of its LNG via long-term contracts, according to Soda and Wood Mackenzie. Under current market conditions, the contracts' indexing to oil prices is a boon because oil — while more expensive than it was two years ago — hasn't risen as rapidly as spot LNG. Japan paid an average import price of around $20 per million Btu of LNG in August, according to its finance ministry, whereas it would have paid $50 to $60 on the northeast Asia spot market. Contrast that with Europe, which bought 40% of its LNG via long-term contracts in 2021, according to Wood Mackenzie.

Shipments expected to start soon from Mozambique LNG project

(Reuters; Oct. 21) - Mozambique expects to ship its first liquefied natural gas exports to Europe from the Eni-operated Coral Sul floating plant later this month or early November, petroleum regulator INP said on Oct. 21, providing a supply boost for the energy-starved region. BP's LNG tanker, British Sponsor, has already arrived offshore northern Mozambique, said Welligence Energy Analytics in a note. All of Coral Sul's annual output of 3.4 million tonnes of LNG is contracted to BP for 20 years.

The new LNG cargoes will help alleviate a tight global LNG market and gas shortages in Europe as winter looms following Moscow's February invasion of Ukraine and Russia's later decision to curb gas pipeline supplies into major European Union economies. The exports from Mozambique also will help transform its economy as billions of dollars pour into the country to develop massive offshore gas fields in its deepwater Rovuma Basin.

But a sustained violent insurgency inland with links to Islamic State has scared off investors. French oil major TotalEnergies last year stopped work on its $20 billion LNG project amid rising attacks in the Cabo Delgado province. CEO Patrick Pouyanne said in January he hoped to restart its project soon, depending on security assessments. The country’s regulator said ExxonMobil, which had indicated it would only resume a final investment decision on its own LNG project in the Rovuma Basin once Total had lifted its force majeure, could return to its own onshore project early in 2023.

Federal agency requires full approval before Texas LNG plant restart

(Reuters; Oct. 19) - The second-largest U.S. liquefied natural gas export plant, idled since a fire in June, needs full approvals before a planned November restart can begin, the U.S. Pipeline Hazardous Materials and Safety Administration said on Oct. 19. Full approval adds to the hurdles for restarting Freeport LNG, one of the earliest and biggest U.S. facilities. The company aims to restore more than 85% of pre-fire processing capacity next month and complete repairs to bring the facility back to 100% by March.

Contractors and investigators have been swarming the massive Texas Gulf Coast plant where on June 8 compressed gas pipelines burst and exploded into a fireball, a blast blamed on a stuck safety valve and human error. PHMSA will not authorize a partial restart until all of the company's proposed changes are received and accepted. The regulator so far has approved only pieces of Freeport's proposed changes, called a remedial work plan.

The restart will provide needed fuel as winter descends on the Northern Hemisphere. Freeport LNG processes about 2 billion cubic feet per day of gas and exports up to 15 million tonnes of LNG per year. "The risk is PHMSA saying, ‘We'd like all the damage repaired before the restart'" as part of its final approval, said Alex Munton, a director at researcher Rapidan Energy Group. "Come November, it is not going to be a question of whether Freeport can or wants to restart, it is going to be their (PHMSA) decision."

Lower LNG prices spur interest among buyers in Asia

(S&P Global; Oct. 20) - LNG buyers in Asia have picked up the pace of winter restocking LNG inventories this month as sub-$30 per million Btu spot prices spurred buying activity for December and January cargoes by major importers such as South Korea's KOGAS. Over the past week, several large importers in China, South Korea and Japan were seen seeking winter-delivery cargoes amid ongoing LNG production concerns in Malaysia and Nigeria.

With lower spot prices, buyers had greater incentive to restock and safeguard against lower-than-expected winter temperatures. "If prices fall below $25, more consumers could come out to restock as there is smaller risk involved," a Chinese importer said. Buying interest in South Korea resurfaced late last week, with the largest importer, KOGAS, issuing a buy tender for December-January cargoes. China’s national oil companies are starting to procure winter cargoes as prices are on a downward trend.

Italy speeds up permitting for LNG import terminal

(Reuters; Oct. 20) - Italy is invoking the need for energy security in the face of Russian supply cuts to rush through in a matter of months a new liquefied natural gas import terminal – a process that would normally take years due to local objections and permitting. A preliminary go-ahead for the project in the port of Piombino in the central region of Tuscany, could come soon, people close to the matter told Reuters. It would have capacity to handle 180 billion cubic feet per year of natural gas.

Such a big-scale project will help Italy avert a supply crunch it could otherwise face next winter but keep it hooked on gas for longer, slowing down its transition to renewable energy. As part of a plan by the outgoing government of Mario Draghi to replace dwindling Russian gas pipeline supplies, Rome has mandated gas grid operator Snam to spend around $400 million to set up a new floating storage and regasification unit (FSRU) and have the import facility operational by end-March.

A new rightist government, widely expected to be led by Giorgia Meloni, could be sworn in as soon as next week, with no sign that Rome's line on Piombino project — endorsed by Italy's industrial lobby Confindustria — could be changed. "Our schedule is so tight that each single additional day to approve the project means one day less of gas in our grid," Elio Ruggeri, the head of Snam's LNG business, told Reuters. The CEO of energy group Eni, Claudio Descalzi, has warned that, without a new LNG terminal, Italy could face a gas shortfall of nearly 8% of its annual consumption in the winter of 2023-24.

French contractor will fully exit Russian Arctic LNG project

(Reuters; Oct. 19) - Technip Energies expects to fully exit the Arctic LNG-2 project led by Russian producer Novatek next year, the French oil and gas services provider said on Oct. 20. Technip, which said in March it was renouncing new business opportunities in Russia, had expected Western sanctions enacted against Russia after its invasion of Ukraine would reduce the company's involvement in Arctic LNG-2. "We have signed an Exit Framework Agreement with our customer ... and anticipate completing this process within the first half of 2023," CEO Arnaud Pieton said in an earnings statement.

Before Russia invaded Ukraine in February, Arctic LNG-2 was set for start-up in 2023 and reach full production capacity of almost 20 million tonnes of LNG a year in 2026. Novatek is signing on other equipment and technology suppliers to replace the contractors it has lost to Western sanctions, and has not publicly announced a change in its start-up schedule, though analysts expect delays in the $20 billion project.

Regulators order work stoppage on gas pipeline to LNG Canada plant

(Vancouver Sun; Oct. 22) - TC Energy's Coastal GasLink pipeline is in hot water with British Columbia's environmental regulator for failing to meet conditions of a compliance agreement that was supposed to correct a growing history of violations of the project's environmental permit. The Environmental Assessment Office posted an order to its website on Oct. 14, based on work by enforcement officers who found contractors were "not compliant with requirements of the agreement and specific work execution plans."

The order requires Coastal GasLink to stop work in areas covered by the agreement "unless in full compliance." Coastal GasLink, in a statement Oct. 22, said it is working with the agency "to understand the specifics of the order." The company and regulators arrived at the compliance agreement July 13, aimed at improving the company's approach to preventing erosion and sediment control around sensitive waterways covering a 60-mile section of the pipeline route where ground had not yet been broken.

The C$11 billion Coastal GasLink pipeline is being built to link the Shell-led LNG Canada gas liquefaction plant being built near Kitimat with gas fields in British Columbia's northeast. The EAO has issued dozens of warnings, 16 orders and two fines against Coastal GasLink and its contractors since work started on the project, with many of the violations related to allowing erosion or sediment into sensitive waterways.

Qatar announces next partner in second phase of LNG expansion

(Bloomberg; Oct. 23) - Shell is investing in Qatar's second phase of the country's liquefied natural gas expansion project, months after buying into the first phase. Shell will take a 9.375% stake in North Field South, which will expand Qatar's LNG output capacity by 16 million tons a year, Energy Minister Saad Al-Kaabi said at a ceremony in Doha on Oct. 23. TotalEnergies joined the project in September, also with a 9.375% stake worth about $1.5 billion. Kaabi previously said Qatar was selling a combined holding of 25% to four companies, leaving two more partners to be announced.

Qatar is boosting its production capacity amid a global surge in demand for gas. Supplies were already tight before Russia's invasion of Ukraine sent European nations on a frantic search for alternative sources. Qatar's North Field South is expected to send out its first cargo in 2027. Qatar's other expansion project, North Field East, will cost almost $30 billion and is set to send out its first shipments in 2026. Some supply agreements have already been finalized for that project, Kaabi said. The two developments will expand Qatar's potential LNG output to 126 million tons a year from 77 million. Shell, Total, Exxon, Eni and ConocoPhillips invested in North Field East.

FERC approves coal-to-gas switch for Indiana generating plant

(Bloomberg Law; Oct. 20) - The Federal Energy Regulatory Commission approved a natural gas project in Kentucky and Indiana that will allow a coal plant to switch to natural gas, as the commission beefs up staffing to process project applications, its chair said Oct. 20. "We're trying to do everything we can that's required by the courts — we're trying to move things along as quickly as we can," FERC Chair Richard Glick told reporters after the commission's monthly meeting.

"We're desperately trying to add staff," he added, "so we can hopefully process these applications in a speedier, expedited manner." The Inflation Reduction Act climate and tax law passed in August gave the commission $100 million to hire more permitting staff. FERC approval of the Texas Gas Transmission project comes as the gas industry and lawmakers — including Sen. Joe Manchin, chairman of the Senate Energy and Natural Resources Committee — have criticized FERC for acting too slowly on projects.

The Henderson County Expansion Project is designed to deliver 220 million cubic feet of gas per day to fuel two new gas-fueled generation units at the AB Brown Generating Station operated by CenterPoint Energy in Posey County, Indiana, which borders Kentucky. The new generation units will replace coal-fired capability, Texas Gas told FERC. At the same time, FERC is under fire from environmental groups that want the commission to reject gas pipelines and liquefied natural gas export terminals.

Driller proposes large-scale wastewater reinjection in Wyoming

(EnergyWire; Oct. 21) - A Dallas-based oil and gas company is asking the U.S. Environmental Protection Agency to allow it to inject millions of barrels of briny wastewater from thousands of planned wells on Wyoming public lands into a deep-water aquifer. The proposal from Aethon Energy has been complicated for years over the question of what to do with the wastewater, with environmental groups saying the oil field waste could contaminate future drinking water sources.

Bone-dry Wyoming is no stranger to water wars from fossil fuel development, such as accusations in the early 2000s that water from coal-bed methane polluted surface waters. The state has said the produced water from the coal-bed methane boom had little impact on water quality. Disputes can even bubble up to the national level, as when the EPA found a possible correlation between hydraulic fracturing and polluted drinking water outside the small town of Pavillion. That finding continues to be disputed.

The Aethon Energy and Burlington Resources project is not far from Pavillion. In 2020, the Bureau of Land Management gave the companies approval to expand production of the Moneta Divide oil field. The project calls for drilling up to 4,250 wells. Roughly 67% of the land is managed by BLM. Over its 65-year life, the project is expected to produce 18.16 trillion cubic feet of gas and 254 million barrels of oil. It would also produce tremendous volumes of salty water — up to 1.4 million barrels a day at peak production.

Over the years, Aethon has deployed or proposed various disposals of its wastewater, including releasing diluted water into creeks, treating the water, and using shallow injection wells. But to manage the volumes of water projected as production ramps up at Moneta Divide, the company says it needs to inject wastewater into deep formations.

Climate think tank report critical of Germany’s turn to LNG imports

(Bloomberg; Oct. 20) - Germany is at risk of wasting billions of euros on boosting liquefied natural gas imports instead of moving toward sustainable alternatives like energy efficiency, says a new report. The country faces about 200 billion euros ($196 billion) of additional costs for gas imports by the end of the decade, causing a doubling of consumer bills, the climate think tank E3G said. By comparison, improving buildings’ energy use can save more gas than that provided by new LNG terminals, it said.

“Germany risks locking itself into extremely expensive gas deals that will hamper its energy transition and burden families, businesses and the government,” said Mathias Koch, policy adviser for German energy systems at E3G. “By realizing the huge potential to save gas in its building stock, these high costs can be avoided.” The report adds to concerns that Europe’s rush to end its Russian gas dependency could end up locking the region into fossil fuels for longer than necessary.

Deutsche Bank will significantly reduce oil and gas financing by 2030

(Bloomberg; Oct. 21) - Deutsche Bank has given its clearest indication yet of how it plans to deliver on the commitment it made last year to reach net-zero financed emissions by 2050. Germany's biggest bank said in a statement Oct. 21 that it will "significantly" reduce its so-called Scope 3 emissions, which are also known as financed emissions, by 2030 and announced a set of emissions reductions targets for its 250 billion euro ($244 billion) corporate loan book.

The bank said it "aims to support a progressive and orderly phasing out of fossil-fuel usage, while incentivizing the financing of lower carbon-intensity technologies and clients with credible transition plans." In the oil and gas sector, Deutsche Bank said it plans a 23% reduction in financed emissions by 2030 and a 90% decrease by 2050. The bank said in March that oil and gas loans are the biggest single component of its financed emissions, accounting for 32% of the total.

Banks that have made high-level commitments to phase out emissions are under growing pressure to provide evidence of how they plan to reach the targets. Meanwhile, Vladimir Putin's war in Ukraine and a global energy crisis are leading some banks to reconsider their climate commitments. In March, the European Central Bank said it was pushing lenders to disclose more information on the climate and environmental risks they face after finding that only 15% publish data on the emissions they finance.

Germany boosts security at LNG import terminals under construction

(Reuters; Oct. 19) - Germany has ordered police to guard liquefied natural gas import terminals under construction and has increased aerial supervision of its rail network as it prepares a law to bolster the protection of critical infrastructure, its interior minister told Reuters. Suspected sabotage on the German rail network and on the Baltic Sea gas pipelines linking Germany and Russia in recent weeks have raised concerns about the country's exposure to attacks.

Minister Nancy Faeser said in an interview it was not possible to comprehensively protect all of the more than 20,000 miles of railways and millions of miles of cables in Germany with just cameras or police officers. Her ministry has, however, created a special unit to coordinate protection of critical infrastructure after Russia invaded Ukraine in February, prompting a stand-off with the West.

As part of intensified efforts on that front, police were, for example, guarding the LNG terminals built to help Germany replace pipeline deliveries of Russian gas and would also accompany the LNG shipments, she said. "We have strengthened the police's work at sea," Faeser said. "Police are patrolling at sea with all their available forces and ships to also protect maritime infrastructure."

Southern China city plans massive offshore wind farm

(Bloomberg; Oct. 21) - A city in southern China is planning an offshore wind farm bigger than all of the power plants in Norway combined. Chaozhou, in Guangdong province, intends to start work on the 43.3-gigawatt project before 2025, according to a copy of the city's five-year plan posted on industry publication bjx.com. The wind farm will be built between 47 and 115 miles off the city's coast on the Taiwan Strait.

The area has unique topographical features that mean wind will be strong enough to run the turbines 3,800 to 4,300 hours a year, or 43% to 49% of the time, an unusually high utilization rate. The plan didn't say how much the project would cost. China set a record by adding 16.9 gigawatts of offshore wind capacity last year, and the country now has the largest fleet of offshore wind turbines in the world.

Utilities and local governments continue to pursue ambitious renewable build-out plans as costs fall relative to expensive coal and natural gas, and as President Xi Jinping keeps the nation on course to zero out emissions by 2060. Earlier this year, a city in neighboring Fujian province proposed a 1 trillion yuan ($138 billion) project that would include 50 gigawatts of offshore wind. Norway had 38 gigawatts of installed capacity as of 2021, according to BloombergNEF data.

Ghana's LNG import terminal planned for 2023 start-up

(Bloomberg; Oct. 20) - Ghana's delayed liquefied natural gas import terminal is likely to be completed next year as talks continue with Shell for supply of fuel to the project, an energy official said. The Tema LNG project was first expected to become operational as early as 2020. Later, an official at state-run Ghana National Petroleum Corp. said completion was due this year, with plans for GNPC to sell the fuel onward to consumers across West Africa.

"Within the next year or so it should be fully complete," GNPC Chief Executive Officer Opoku-Ahweneeh Danquah said on the sidelines of a conference in Cape Town. "We are in talks with Shell and we're going to use that LNG as a key, critical component for the country's energy security." Tema LNG, backed by Helios Investment Partners and African Infrastructure Investment Managers, is a central part of Ghana's plans to become a gas receiving and distribution hub. Some West African nations are embracing the use of gas as part of an effort to bring electricity to more people.

Ghana mainly plans to use gas for power generation, but it is also will go to other industries such as petrochemicals and cement, according to Ben Asante, chief executive officer of Ghana National Gas Co.

Despite flooding, Nigeria has not yet canceled any LNG cargoes

(Reuters; Oct. 20) - Nigeria LNG Ltd. has not yet canceled any liquefied natural gas cargoes despite declaring force majeure due to heavy flooding, sources familiar with the situation told Reuters. The sources said the force majeure declaration was pre-emptive to protect the company and put its clients on notice if the flooding continued for much longer and impacted loadings.

Force majeure refers to unexpected external circumstances that prevent a party to a contract from meeting obligations. Analysts Rystad Energy said the disruption — another supply shock in a tight LNG market — threatened nearly 4% of global supply just as Europe is reeling from the absence of Russian pipeline gas. Continued flows of Nigeria's LNG is crucial for Europe; Portugal's Galp has warned it would struggle to replace Nigerian cargoes.

NLNG, with a production capacity of 22 million tonnes per year, said flooding had caused "significant disruption" to its gas supply, but would not say whether it had cancelled cargoes. "NLNG continues to explore mitigations with its buyers," a spokesperson said in an email. Nigerian authorities said states including oil and gas producing Rivers, Bayelsa and Delta were at risk of flooding until the end of November. Flooding caused by heavy rains and a water release from a Cameroonian dam has already killed more than 600 people and destroyed roads and farmland.