Oil and Gas News Briefs
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China stepping up imports of Russian pipeline gas

(Reuters; Sept. 15) - Russian President Vladimir Putin met with his counterparts from China and Mongolia on Sept. 16 and discussed a major infrastructure project, Power of Siberia 2, to deliver gas to China via Mongolia. Russia proposed the route years ago but the plan has gained urgency as Moscow looks to Beijing to replace Europe as its major gas buyer. Ongoing negotiations will be complex, however, not least because China is not expected to need additional gas until after 2030, industry experts said.

The pipeline would bring gas from the huge Yamal Peninsula reserves in west Siberia — the main source of gas supply to Europe — to China, the world's top energy consumer. The idea gained impetus when the first pipe of the Power of Siberia pipeline was laid in Russia's eastern Yakutia region in 2014. That line runs for 1,864 miles through Siberia and into northeastern China.

Power of Siberia 2 would cut through the eastern half of Mongolia, arriving not far from major population centers like Beijing, according to Gazprom's map. The producer began a feasibility study on the project in 2020 and is aiming to start deliveries by 2030. The 1,600-mile line could carry 1.4 trillion cubic feet of gas a year, Gazprom says, slightly less than the Nord Stream 1 pipeline which links Russia to Germany under the Baltic.

Gazprom already supplies gas to China through the first Power of Siberia pipeline under a 30-year, $400 billion deal, launched at the end of 2019. Expected to supply more than 500 billion cubic feet of gas this year, it will deliver increasing volumes before reaching full capacity of 1.3 tcf by 2025. In February, Beijing agreed to buy gas from Russia's Far East island of Sakhalin, via a proposed new pipeline across the Japan Sea to northeast China's Heilongjiang province, reaching up to 360 bcf a year around 2026.

Decline in China's LNG imports makes the fuel available for others

(The Economist; Sept. 15) - In the aftermath of the global financial crisis in 2007-2009, China's stimulus efforts, which pumped about 4 trillion yuan ($575 billion) into the economy, left observers gushing with praise. Robert Zoellick, then head of the World Bank, expressed his delight at the fiscal expansion. The International Monetary Fund credited the world's second-largest economy with leading the global recovery.

This year, during a new period of economic turmoil, China is again helping bring supply and demand back together — albeit in a different way. With prices surging, the collapse in China's purchases of natural gas and other fuels has been an unexpected boon to countries worldwide. Arrivals of seaborne liquefied natural gas to China have declined most markedly. China remains the largest LNG importer in the world but, between January and August, imports dropped by a fifth compared to a year ago. That drop, roughly 500 billion cubic feet of gas, is about equal to Britain's annual LNG imports.

Industry experts had expected China's imports to grow throughout the year, though not as rapidly as they had in previous ones. But China's endless COVID-19 lockdowns have caused a sharp drop in household spending, and a meltdown in the residential property market has held back the construction industry. Meanwhile, volumes imported through the Power of Siberia pipeline, which sends cheap Russian gas to China, have increased by an estimated 60%, though this accounts for less than half the fall in seaborne LNG. The drop in China's demand means more LNG is available for other importing nations.

OPEC+ oil production continues to fall short of target

(Argus Media; Sept. 18) - Production from the OPEC+ alliance fell 3.58 million barrels per day short of its target level in August, two delegates said. The coalition's 10 participating OPEC members accounted for 1.399 million barrels per day of the August shortfall, while their non-OPEC allies underproduced by 2.185 million, according to OPEC data seen by Argus. This significantly widens the gap between the group's pledged and delivered production; the gap stood at 2.892 million barrels per day in July.

Almost 60% of the shortfall is pegged to Russia and Nigeria. Underproduction from Russia, whose output is constrained by Western sanctions but not exempted from its OPEC+ commitments, amounted to 1.252 million barrels per day in August, according to OPEC+. Nigeria fell 700,000 barrels per day short of its August quota as a consequence of ongoing infrastructural hurdles and security concerns.

The OPEC+ Joint Technical Committee that studies market conditions will meet on Oct. 4, ahead of the Oct. 5 ministerial meeting to determine November production policy.

China's gasoline exports rise as domestic demand for the fuel slows

(Reuters; Sept. 18) - China's August gasoline exports rose 97.4% from a year earlier, customs data showed on Sept. 18, as refiners took advantage of fresh export quotas amid faltering domestic demand for the fuel. Though exports were up in August, gasoline shipments year to date were 30.4% lower than January-August last year, according to data from the General Administration of Customs.

Diesel exports were at 830,000 tonnes, up 51.8% from August 2021, on healthy export margins. Analysts and traders had expected China's exports of gasoline, diesel and jet fuel to rebound in August to near the highest for the year after Beijing issued more export quotas in June and July.

The customs data also showed that China's liquefied natural gas imports in August fell 28.1% from a year earlier to 4.72 million tonnes. Shipments during the first eight months of the year were down 21.3% from the same time a year ago at 40.64 million tonnes amid high spot prices of the fuel.

Gazprom sales down 16% for the year, but recovering slightly

(Bloomberg; Sept. 15) - Gazprom's daily natural gas output rose in the first half of September, on track for a second monthly gain, as exports to key European markets continued to fall but flows to China increased. Traders and policy makers are closely monitoring production and exports of Russia's gas giant, as European countries race to prepare for the heating season at a time when prices for the fuel are more than seven times higher than the seasonal average.

Gazprom, which historically accounted for a third of all gas burned in Europe, has been reducing supplies to the continent for months amid the region's support for Ukraine. The producer pumped 30 billion cubic feet per day Sept. 1-15, up 2.1% from August, according to Bloomberg calculations. So far this year, however, production is at 10 trillion cubic feet, down almost 16% from a year ago due to cutbacks in sales to Europe.

Due to the geology of its major fields, Gazprom can adjust production without long-term damage to its wells. Historically, the producer has been able to rapidly ramp up output even after months of decline by deploying spare capacity. Flows to China via the Power of Siberia link continue to rise with deliveries regularly exceeding contracted volumes, according to the company. A new daily record was set on Sept. 10, Gazprom said. Exports to China are set to increase to about 550 bcf this year, up from 360 bcf in 2021.

LNG volumes stored at sea continue to grow

(Natural Gas Intelligence; Sept. 15) - The prospect of large winter price premiums and the challenge of infrastructure bottlenecks are driving traders and utilities to stash liquefied natural gas volumes at sea, ballooning the levels of gas in floating storage to a two-year high and sustaining lofty tanker charter rates. Daily floating storage levels reached 1.5 million tons of LNG stored in vessels globally in the first weeks of September, according to data from Kpler.

Kpler's Charles Costerousse, market data analyst, most vessels storing LNG offshore have been tracked around the northern coasts of the Antwerp-Rotterdam-Amsterdam region and the Mediterranean Sea. "This may be due to restricted slot availability for an immediate discharge at European regas terminals, and some traders possibly waiting for gas prices to increase further in order to sell the cargo at the best possible price."

Vessels have also been tracked storing LNG in Asia and Central America. Singapore began storing LNG on ships near its only import terminal earlier in the month to secure supply, according to Bloomberg. Traders and utilities typically avoid storing LNG at sea unless necessary, as natural gas can evaporate over time. Costerousse said the increased use of LNG vessels as storage also would have a cumulative impact on charter rates, as they continue to climb ahead of winter in an already tight market.

U.S. gas storage low as producers struggle to meet demand

(Reuters columnist; Sept. 16) - U.S. shale drillers are struggling to meet strong demand for natural gas from domestic power generators as well as customers in Europe and Asia scrambling for replacement supplies following Russia's invasion of Ukraine. Working inventories in U.S. underground storage amounted to 2.771 trillion cubic feet of gas on Sept. 9, the second lowest for the time of year since 2010, according to data from U.S. Energy Information Administration.

Storage has been below the pre-pandemic five-year average since late January, and the deficit has shown no sign of closing despite prices well above long-term averages. Meanwhile, electricity generation is on track for a record this year as a result of the economy's recovery from the pandemic and slightly above-average temperatures this summer. U.S. generators are burning record volumes of gas because coal-fired units have been retired and drought has limited hydroelectric output in the western states.

Power generators consumed 4.372 trillion cubic feet of gas in the first five months of 2022, the second highest on record after January-May 2020. At the same time, liquefied natural gas exports are running at record rates as new LNG terminals meet soaring demand from importers in Europe and Asia. U.S. gas production was up by about 4% in the second quarter of 2022 compared with the same period in 2021 but it was not enough to meet strong domestic and foreign demand and rebuild depleted inventories.

OPEC and IEA hold firm with forecast growth in global oil demand

(Reuters; Sept. 16) - Oil prices have tumbled by around a quarter in the past three months, largely due to fears of a prolonged slump in global energy demand. But no major forecaster is actually predicting one. Two of the most closely followed predictors of global oil demand, the Organization of the Petroleum Exporting Countries and the International Energy Agency, see it growing by between 2% and 3% this year and next.

That's nearly double the yearly average in the decade before the pandemic struck, when annual growth in global oil demand averaged 1.2 million barrels per day. Despite economic storm clouds from Beijing to Washington, neither forecaster expects the post-pandemic rebound in oil demand to be significantly marred by a possible recession.

Generally bullish, OPEC, the group of 13 oil exporting nations predicts an increase in demand of 3.1 million barrels per day this year and 2.7 million next year. The IEA — which acknowledged this week that demand growth would stall in the final three months of this year — still expects a 2 million-barrel rise in oil consumption overall in 2022, to be followed by 2.1 million in 2023.

Russia could find buyers for half its oil kicked out of European market

(Bloomberg; Sept. 16) - Russia could find new markets for about half of the crude exports that will be banned by the European Union from December, according to energy-data firm Kpler. Indonesia, Pakistan, Brazil, South Africa, Sri Lanka and some countries in the Middle East could together buy as much as 1 million barrels a day of crude from Russia in the coming winter, Kpler said in a research note.

Russia’s oil industry, which accounts for roughly 10% of global production and is a key source of revenue for the Kremlin, faces heavy sanctions after its invasion of Ukraine. EU members are still buying some Russian oil, but in December will ban most imports of Urals crude, followed by a prohibition on oil products in February. That could slash Russia’s oil output by nearly 2 million barrels a day compared with pre-invasion levels, unless the flows are distributed elsewhere, the International Energy Agency estimates.

Russian companies have already been redirecting their cargoes to Asia, mainly to India and China, as some European buyers voluntarily shun their oil. This has come at a cost, with Urals trading at deep discounts to global benchmarks. A redistribution of global crude flows could partially displace exports from other OPEC+ members. In Indonesia, “one of the prime candidates to be supplanted is Nigeria,” while in Pakistan “we would not be surprised to see lower Arab Light flows” from Saudi Arabia, Kpler said.

Gas-directed drilling rigs in U.S. surpass pre-pandemic count

(U.S. Energy Information Administration; Sept. 15) - U.S. natural gas producers are operating more drilling rigs now than at the beginning of the COVID-19 pandemic in early 2020. Before the pandemic, the number of operating rigs in the United States had generally been declining. On Jan. 31, 2020, oil field services provider Baker Hughes reported that 112 natural gas rigs were operating in the United States. The number of gas-directed rigs continued to fall in the first half of 2020, reaching a low of 68 rigs on July 24, 2020, the fewest in Baker Hughes’ historical data, going back to 1987.

Since then, the gas rig count has generally been increasing, returning to pre-pandemic levels in January 2022. On Sept. 9, Baker Hughes reported 166 gas rigs were operating in the U.S., 54 more than at the outset of the pandemic. As gas drilling increases, the Energy Information Administration expects that production will grow as well. The September outlook reported that dry gas production averaged 97.6 billion cubic feet per day in the U.S. during August 2022. “We expect U.S. dry natural gas production to increase … averaging 100.5 bcf per day during December 2023,” the EIA reported.

Court hears carbon-cost arguments against Alaska LNG project

(EnergyWire; Sept. 15) - Federal judges Sept. 14 pressed energy regulators for an update on their plans to use a contested metric to evaluate the costs of planet-warming emissions. During oral arguments over the Federal Energy Regulatory Commission’s assessment of climate risks of a proposed liquefied natural gas export facility on Cook Inlet in Alaska, three judges of the U.S. Court of Appeals for the D.C. Circuit appeared skeptical of green groups’ argument that FERC should have explained its views on the cost of greenhouse gas estimates in its National Environmental Policy Act review.

“There is a lurking question here, and that is: Whose estimate?” said Senior Judge A. Raymond Randolph. “The Obama administration was the first to introduce the concept, and they estimated $43 per ton.” Meanwhile, he said, the Trump administration set the social cost estimate — which assigns a dollar value to the damage caused by a metric ton of emissions — at $3 per ton, and the Biden administration set the cost at $51 per ton. “Which social cost of carbon should prevail?” asked Randolph.

Environmental advocates have called for FERC in recent D.C. Circuit cases to adopt the metric, or a similar approach, as part of the agency’s plans to evaluate gas projects deemed to have significant climate impact. The Biden administration’s use of an interim social cost value is embroiled in separate litigation as the federal government works to finalize a new estimate. In the Alaska LNG case, the Center for Biological Diversity and the Sierra Club argued that a prior D.C. Circuit ruling required FERC to at least offer an explanation of why it was not using the metric to assess the project.

FERC attorney Matthew Glover told the judges there was “no quantifiable number” for FERC to use for a social cost of carbon estimate. He noted the agency had previously stated that it did not think the metric would be helpful for addressing project impacts.

Climate envoy speaks against long-term oil and gas projects in Africa

(Reuters; Sept. 16) - U.S. climate envoy John Kerry cautioned against investing in long-term gas projects in Africa as countries in the region, some hoping to tap recent oil and gas discoveries, wrestle with how to power their development with clean energy. "We are not saying no gas," Kerry told Reuters on the sidelines of an African environment ministers' conference in Dakar, Senegal, on Sept. 16.

"What we are saying is, over the next few years, gas replaces coal or replaces oil," the former secretary of state said, adding that gas can be used as a transition to cleaner energy. But after 2030, it will be important to capture the emissions from gas too, Kerry said. Continued financing of oil and gas projects in Africa has become a key issue for the countries, which they plan to push during a U.N. climate summit in November.

Senegal and other countries in the region aim to start producing oil and gas, which they hope will help boost their electricity production, power their industries and curb energy poverty. Over 600 million people, or 43% of Africa's population, lack access to electricity, most of them in sub-Saharan Africa, according to the International Energy Agency. African countries argue that they need investments to develop their energy resources, including oil and gas, and a pledge by developed nations including the United States last year to curb investments in fossil fuels was unjust.

South Africa hopeful TotalEnergies will develop offshore gas field

(Reuters; Sept. 15) – TotalEnergies' offshore gas field could make a direct annual contribution of at least 8 billion rand ($457 million) to South African government finances, the country's petroleum regulator said on Sept. 15. "That is not just the overall GDP contribution but is the direct fiscal contribution from the royalties as well as the primary taxes," Phindile Masangane, chief executive at the Petroleum Agency of South Africa, told delegates at an oil conference.

TotalEnergies lodged its production license application for Block 11B/12B on Sept. 5 before a deadline that might have seen the oil major forfeit its right to develop two huge gas discoveries off the southern coast. Development would represent a milestone in South Africa reducing its dependence on imported oil and refined products, although new gas and oil projects are being challenged in courts amid environment concerns. TotalEnergies is the operator with joint-venture partners including QatarEnergy.

Another petroleum agency official, chief operations officer Bongani Sayidini, said South Africa has an estimated 60 trillion cubic feet of offshore gas prospects. Phase 1 of TotalEnergies' deepwater field could cost up to an estimated 45 billion rand (more than $2.5 billion) to develop, with first production in 2027, he said. "Discovered volumes can sustain 560 million cubic feet per day," Sayidini said, enough to supply a gas-to-liquid refinery in Mossel Bay now operating well below capacity due to gas shortages.

East Coast Canada LNG import terminal still possible for exports

(Natural Gas Intelligence; Sept. 15) - An opening regulatory move has been made toward building a liquefied natural gas export terminal on Canada's East Coast by the New Brunswick arm of Spain's Repsol, but any cargoes are years away. The plan by Saint John LNG Development Co. aims for initial exports of 300 million cubic feet of gas per day, roughly 40% of the targeted volumes in a previous version of the project, according to an application filed Sept. 14 with the Canada Energy Regulator.

No decision has been made to build a liquefaction plant at the site of a seldom used import terminal on the New Brunswick coast, the filing noted. Approval of the application would only allow extra time to develop the export project. The company is seeking to extend its export license to begin deliveries in 2032. A big hurdle would be getting gas, the company said. A wide gap in the Canadian pipeline grid would require roundabout deliveries from western Quebec across the eastern U.S. and north to New Brunswick.

No pipeline from the country's main oil and gas provinces, Alberta and British Columbia, reaches the Atlantic seaboard. The export terminal would need pipeline gas supplies from the eastern U.S. or western Canada, as there has been only minor production from Atlantic Canada since offshore platforms closed in 2018. The company's filing said "numerous aspects of the proposed expansion remain uncertain and the timeline for first … liquefied natural gas exports is currently unknown."

Germany seizes control of Russian stake in refineries

(Bloomberg; Sept. 16) - Germany seized the local unit of Russian oil major Rosneft as Berlin moves to take sweeping control of its energy industry, secure supplies and sever decades of deep dependence on Russian fuel. Alongside its move for the Rosneft unit, which holds stakes in three refineries in Germany, the German government is in advanced talks to take over Uniper and two other major gas importers. The need for action is urgent with Uniper losing 100 million euros ($99.7 million) a day as it tries to replace Russian gas to maintain deliveries to utilities and manufacturers.

Germany has been particularly hard hit by the economic standoff with the Kremlin because of its reliance on Russian gas and oil. Sanctions and Moscow's efforts to punish Europe economically for its support of Ukraine risk tipping Germany into recession. Its energy sector is reeling from the squeeze on supplies, and government bailouts are quickly being dwarfed by the scale of the crisis.

Because of sanctions related to the war in Ukraine, Germany is preparing to stop buying Russian crude by the end of the year and needed to make sure Kremlin involvement in the three key refineries didn't become a threat to supplies. The move on the Rosneft unit is an escalation of the economic standoff with Russia as Berlin unwinds decades of energy collaboration. One of the most critical assets in the deal is a refinery near the

Polish border, which supplies Berlin and much of eastern Germany. Rosneft said the government's seizure of its stake in the refineries is illegal.

Cruise industry will add 25 more LNG-fueled ships by 2028

(The Maritime Executive; Sept. 14) - The cruise industry is preparing for the launch of three large cruise ships before the end of the year, each fueled with liquefied natural gas. It is part of the industry's push to improve its environmental performance. The industry launched its first ships able to run entirely on cleaner-burning LNG at the end of 2018 and has moved to a total of seven large cruise ships already in service using LNG, with three more scheduled to enter service in November and December this year.

An additional 25 are either under construction or on order for delivery by 2028. Carnival Corp. was the first to introduce LNG-fueled cruise ships, working with Germany's Meyer Werft to develop the designs for the first large ships. The AIDANova launched in 2018, with the design platform adopted by Costa, P&O and Carnival Cruise Line as well.

Carnival Cruise Line's second of three LNG-fueled ships, Carnival Celebration, set sail on its first round of sea trials Sept. 5 from the Meyer Turku shipyard. The Finland shipyard built two LNG cruise ships for Costa and is now completing the second of two cruise ships for Carnival. The Celebration enters service Nov. 6. The ship will make a special transatlantic sailing from Southampton to Miami before beginning seven-day cruises to the Caribbean. It will become the first LNG-fueled cruise ship based in Miami.

Japan's outlook for winter electricity supply improves

(Reuters; Sept. 15) - Japan's electricity supply outlook for the winter has improved after it secured extra power generation capacity through public auctions, national grid monitor OCCTO said on Sept. 16, though the government still plans to ask consumers to conserve power. The reserve ratio of power generation capacity for 10 regions including the greater Tokyo area is now expected to be above the minimum 3% that ensures stable supply in January and February, OCCTO told a panel of experts under the industry ministry that reviews electricity and gas policy.

As of the end of June, the ratio was predicted to fall below 3% in eight out of 10 regions in January and two in February. The improvement reflected changes to power plants' maintenance schedules and recent auctions held by a group of electricity grid companies for up to 1.7 gigawatts in eastern Japan and up to 1.9 gigawatts in western Japan for the period from Jan. 4 to Feb. 28, 2023, to ensure stable electricity supply.

Though fears of a power crunch have eased, the industry minister said households and companies would be asked to conserve electricity within a reasonable range this winter, adding that stable procurement of liquefied natural gas was in jeopardy amid Russia's war in Ukraine. The government made a national request for energy conservation this summer for the first time since 2015, with the public asked to turn off unnecessary lighting and reduce the load on air conditioners.