Oil and Gas News Briefs
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U.S. oil benchmark closes below $79 a barrel; first time since January

(The New York Times; Sept. 23) - The U.S. benchmark oil price tumbled below $80 a barrel on Sept. 23 for the first time since January as traders grew increasingly worried that much of the world was headed into a recession or was already in one. The steady fall in prices from more than $120 a barrel a few months ago could easily reverse if the European Union severely limits its purchases of Russian oil as it has threatened to do. But for now, the falling oil price has offered consumers some relief from inflation.

Oil prices had been rising for the better part of the past 12 months, and accelerated sharply when Russia invaded Ukraine. The U.S. benchmark oil price, West Texas Intermediate, settled Sept. 23 at $78.74 a barrel, down 5%. The global benchmark, Brent, settled down 4%, to $86.15. Alaska North Slope was at $86.57 on Sept. 23.

Global oil supplies are tight, but demand for the fuel has also been weak. Energy use in China, which has been a principal driver of oil demand the past two decades, is down sharply because the government has frequently locked down big cities and regions to prevent the spread of the coronavirus. Another reason prices have fallen is that the U.S. dollar has strengthened against other currencies. Because oil is traded in dollars, the fuel becomes more expensive in countries with weaker currencies. That, in turn, reduces demand for the commodity and pushes down its price in dollars.

U.S. Strategic Petroleum Reserve at lowest since 1984

(The Wall Street Journal; Sept. 22) - Brace for impact: The U.S. is running out of a cushion reserved for oil shocks. The U.S. Energy Information Administration said Sept. 21 that the Strategic Petroleum Reserve declined by nearly 7 million barrels in the week ended Sept. 16, leaving it at roughly 427 million barrels — the lowest since 1984. For the first time since 1983, the SPR now holds less oil than commercial storage. Depleted SPR levels leave the U.S. with fewer options in case of supply disruptions.

The U.S. has been drawing from the reserve at a rapid pace this year. The Energy Department on Sept. 19 said it has released roughly 155 million barrels of crude since President Joe Biden authorized a draw of up to 180 million barrels on March 31. That implies a draw of slightly less than 900,000 barrels a day, or nearly 1% of global oil demand. The department said it plans to sell up to 10 million barrels from the SPR in November, extending the SPR draw beyond the initial October target. That would leave only about 15 million barrels that could be sold under the emergency authorization.

Arguably, though, the release didn't turn out to be necessary for energy security — the SPR's stated purpose. The International Energy Agency initially thought Russia's oil production would be cut by 3 million barrels a day after its invasion of Ukraine. Back then, there was at least a "perceived supply emergency" posed by Russia, said Bob McNally, president of the energy-consulting firm Rapidan Energy Group. That turned out to be a wild overestimate. As of August, Russia's exports were down just 400,000 to 450,000 barrels a day from prewar levels, according to the latest IEA report.

High borrowing costs, other risks complicate U.S. LNG development

(S&P Global; Sept. 21) - Geopolitical risk, inflation and banks' focus on environmental criteria are creating headwinds to developing more natural gas liquefaction capacity at LNG terminals in the U.S., although commercial support for new gas export terminals remains robust. Developers Cheniere and Venture Global have this year authorized final investment decisions behind separate projects that will bring more than 23 million tonnes per year in additional liquefaction capacity to the Gulf Coast by 2025.

In addition, two LNG export terminals are under construction and a plethora of projects are in varying stages of construction, planning or permitting. But some face roadblocks in obtaining capital in the short-term amid an uncertain long-term lending environment, according to U.S. ship brokerage Poten & Partners. "Elevated geopolitical risk due to the Ukraine crisis and inflation issues all play into an uncertain environment that affects base rates," said Melanie Lovatt, finance adviser for LNG research reports at Poten.

Higher lending rates are likely complicating financing for LNG projects, as with other industries, according to Lovatt. Uncertainty in bond markets, a key source of refinancing for the industry, is also challenging LNG developers, with one company pulling back this week from a high-profile planned bond sale. Market-wide uncertainty could have a chilling effect on deals, as high lending costs may be complicating commercial discussions around sale and purchase agreements and tolling agreements that LNG developers often leverage to secure financing for projects.

Proposed U.S. LNG projects face financing, inflationary hurdles

(Natural Gas Intelligence; Sept. 23) - The market dynamics that have helped boost U.S. LNG export projects since the early spring are likely to continue, at least in part, but the next wave of terminal development will have added financing and inflationary hurdles, according to analysts with Poten & Partners. The Houston-based consultancy has been tracking a flurry of contracting and project development milestones for U.S. liquefied natural gas exporters that has accelerated since Russia's February invasion of Ukraine.

Poten's Sophie Tan, managing editor, said the boom in activity hit a historical high point in July, with U.S. firms inking a record-breaking total of at least 14 formal and tentative agreements for long-term offtake. However, Tan said, the majority of the deals finalized in the months after the invasion of Ukraine were the result of years of negotiations. In August, U.S. projects landed around three deals, a sign that contracting could be slowing while buyers and exporters try to adapt to future market implications.

One of the major issues has been the fear of inflation, which Tan said has caused buyers to pause signing contracts if a project isn't going to reach a final investment decision "in the next three months." Without signs that a company can secure financing, "there's no point to it because the bid validity" will be outdated before FID is reached due to increasing construction and labor costs. Poten's Melanie Lovatt, a financial adviser, said banks appeared to be concerned about the timeline of funding projects and whether the market will be oversupplied as countries phase out fossil fuels.

LNG developer loses customers for Louisiana project

(Houston Chronicle; Sept. 23) - Tellurian's future became murkier Sept. 23 as two deals collapsed, leaving the Houston-based LNG project developer with just one contracted buyer and little to show for the six years it's struggled to build a massive liquefied natural gas project in Louisiana. Deals to sell LNG to oil major Shell and commodities trader Vitol unraveled Sept. 23, cutting two more financial lifelines that the company hoped to use to kick-start development of Driftwood LNG.

"This is an enormous blow to Tellurian," said Clark Williams-Derry, with the Institute of Energy Economics and Financial Analysis. Shares fell 15% on Sept. 23, and are down 80% from a high in 2017. The company on Sept. 20 announced it would scrap a public offering it had planned to help fund the LNG production facility and export terminal. It's been more than a year since Driftwood has landed a long-term contract, setting it apart from competing projects that have had no shortage of buyers since Russia's invasion of Ukraine sparked a global energy crunch and reignited the LNG industry.

Shell notified Tellurian on Sept. 23 of its intent to terminate its agreement, according to a filing with the Securities and Exchange Commission. Meanwhile, Tellurian told Vitol that it would end its deal as well, leaving the company with a single LNG contract — with Geneva-based gas trading house Gunvor. Shell and Vitol each had agreed to buy 3 million tonnes of LNG per year from Driftwood for 10 years. Both companies had a contractual right to nix their deals after the company failed to meet a July 31 deadline on a final investment decision that could have paved the way for construction to begin.

U.K. government inquires about U.S. LNG supplies

(Bloomberg; Sept. 21) - The U.K. is trying to lock in long-term supplies of liquefied natural gas from U.S. producers ahead of a winter energy crunch that's threatening to derail the country's economy. The British government task force is requesting proposals from LNG exporters to supply domestic buyers under contracts that would last as long as 20 years, according to people familiar with the matter.

The government's inquiries come as other European nations are also trying to stock up on gas ahead of the coldest months and diversify their fuel sources in the long term. But unlike countries such as Germany, the U.K. isn't reliant on Russian gas. Instead, it gets the fuel from domestic production, Norwegian supplies arriving via undersea pipelines and LNG shipments. Still, the country isn't immune to the Europe-wide supply crunch. The U.K. government announced Sept. 21 a plan costing an estimated £40 billion ($45 billion) that would cap wholesale natural gas prices for six months.

The inquiries from the U.K. government for U.S. LNG supplies come six months after Kwasi Kwarteng visited Washington, where he held meetings with U.S. developers of LNG export facilities. Kwarteng was business secretary at the time, before his elevation to chancellor of the exchequer after the Conservative Party selected Liz Truss as prime minister. "Clearly the Truss government is engaged on this issue at the highest levels of government," said Fred Hutchison, president of U.S. industry lobby group LNG Allies.

TotalEnergies CEO says LNG buyers want unrealistic contract terms

(Bloomberg; Sept. 24) - Europe's frantic search for natural gas supplies in the wake of Russia's invasion of Ukraine is being stymied by buyers' unrealistic demands, TotalEnergies CEO said. "If Europe wants some security of supply, it has a cost," Patrick Pouyanne said in the Qatari capital, Doha, where the French energy company signed a deal to invest about $1.5 billion in a massive liquefied natural gas project. "If you want a cheap price for a short duration, the answer obviously is 'no.'"

Nations are clamoring to replace Russian pipeline gas they would ordinarily rely on during the winter. Gas prices have surged to more than seven times their typical seasonal levels, bringing the European economy to the brink of recession. Buyers are pushing for short-term contracts to buy LNG but aren't prepared to pay higher prices, Pouyanne said. "It's not a matter of politics," Pouyanne said. "It's a matter of delivering price and volumes." LNG export project developers generally look to sell the bulk of their production under long-term contracts to underpin the investment commitment and financing of the multibillion-dollar projects.

TotalEnergies first partner in second phase of Qatari LNG expansion

(Reuters; Sept. 24) - TotalEnergies will invest about $1.5 billion in the next planned expansion of Qatar's liquefied natural gas capacity, the French energy major said on Sept. 24, a project that promises to ramp up gas supplies to energy-hungry European markets. CEO traveled to Doha to sign a deal with QatarEnergy for the North Field South expansion, saying that the deal came at a "perfect time" as world leaders particularly in Europe are seeking new LNG supplies.

Qatar's North Field expansion project will boost its position as the world's top LNG exporter and help guarantee long-term supplies of gas to Europe as the continent seeks alternatives to Russian flows. TotalEnergies will have a 9.375% stake out of a 25% share in the project dedicated for international partners. QatarEnergy will hold 75%.

Qatar's two-phase North Field expansion plan includes six LNG trains that will ramp up its liquefaction capacity from 77 million tonnes per year to 126 million tonnes by 2027. It awarded contracts for the first phase of the expansion project, North Field East, which includes four trains, earlier this year. That project is estimated at $29 billion. Total has already signed a deal for a stake in North Field East, and on Sept. 24 became the first international partner in the North Field South expansion that includes two more trains.

Customers want newest U.S. LNG export terminal to begin service

(S&P Global; Sept. 22) - Some foundation customers of Venture Global LNG's Calcasieu Pass terminal want the operator to declare the Louisiana export facility ready for commercial service soon to allow their long-term contracts containing a fixed liquefaction fee to kick in as spot-market prices surge, sources said. Such a move would give the customers including Shell, BP, Spain's Repsol and Poland's PGNiG the ability to resell some supplies to capture the wide spread between what they would be paying and what they could fetch for those volumes on the spot market.

However, the longer Calcasieu Pass can operate on a commissioning, or pre-commercial operation basis, the more opportunity the developer has to reap those same benefits under current market fundamentals, with Russia's seven-month-old war in Ukraine lifting delivered LNG prices. That's because the long-term contracts carry some of the lowest fixed liquefaction fees among U.S. exporters, with some said to be below $2 per million Btu, leaving a lot of room for profit under current market conditions.

The operator began production in January and has shipped more than 40 cargoes since it started exports in March, months earlier than expected. Data on feed gas deliveries suggest Calcasieu Pass has been operating at or near capacity for weeks. "They are having the longest commissioning period I have ever seen," one Atlantic LNG market source said. Moody's Investors Service said in a report in August that the extended commissioning has "meaningfully enhanced" Venture Global's cash position.

[Asian buyers hold off on expensive LNG]

(Bloomberg; Sept. 23) - Some Asian liquefied natural gas importers are reluctant to buy more fuel for winter due to sky-high prices, risking shortages if the weather suddenly shifts much colder. While Chinese and Japanese buyers are in discussions with suppliers about purchasing LNG shipments for the fourth quarter, negotiations are falling flat, traders said. Spot prices are too high, and the rapidly strengthening dollar is adding to the surge in fuel costs, they added.

Without adequate supply, a sudden blast of cold weather could boost gas consumption and leave utilities scrambling for additional shipments. The longer Asian importers balk at high prices, the more supply will be sent to Europe, where buyers are hoarding LNG to replace a drop in Russian pipeline gas flows. The global energy crunch, exacerbated by Russia's invasion of Ukraine, has sent gas prices to a record high for this time of year. Asian LNG spot rates are about three times higher than the 10-year average.

Japan's JERA and Korea Gas, the world's top two buyers, will likely need to procure more LNG shipments to prepare for winter, but have held off on major purchases this month, traders said. Some Chinese firms aren't eager to pick up additional supplies in case domestic demand falters due to another wave of virus restrictions, as gas demand from China's industrial users could stay muted well into November due to current COVID-zero measures, traders said.

[Pipeline expansion essential for East Coast Canada LNG project]

(Reuters; Sept. 22) - Pieridae Energy, one of the companies proposing a liquefied natural export gas terminal on Canada's East Coast, has asked the federal government to help ensure pipeline operator TC Energy would be able secure permits to expand gas supply pipelines in a timely fashion. Pieridae CEO Alfred Sorensen told Reuters its Goldboro LNG project can only go ahead if TC adds capacity on its pipeline network.

"There's no other way. Without TC Energy there is no Goldboro LNG project," Sorensen said. Since Russia's invasion of Ukraine triggered a global scramble for gas, European policymakers have looked to Canada as a potential new and reliable LNG supplier due to its abundant reserves and proximity to Europe. But limited pipeline capacity has emerged as the main stumbling block for plans to ship gas from western Canada to the Atlantic Coast, where it could be liquefied and loaded onto tankers for export to Europe.

Calgary-based Pieridae has proposed building an export terminal in Nova Scotia, which would cost about $3 billion and begin shipping in 2027, if construction could start next year. Spanish company Repsol is also considering an LNG export terminal in New Brunswick. However, TC's existing pipeline network is not large enough to ship the amount of gas that would be required. TC said in a statement to Reuters that it has "virtually no spare capacity" on its pipelines due to high energy demand.

Opposition continues against LNG expansion near Vancouver

(Delta Optimist, BC; Sept. 22) - Community and environmental groups continue to express disbelief at the British Columbia government's processing of a controversial liquefied natural gas plant expansion application despite significant local opposition. But federal and provincial authorities reiterated that the application for the C$3 billion Tilbury LNG Phase 2 expansion — operated by FortisBC — will be processed under an agreement for the province's review process to replace the federal impact assessment.

The Tilbury Phase 2 expansion, which includes a new marine jetty for loading LNG tankers as well as additional onsite production and storage capacity at the site across the river from Vancouver, would raise the facility's annual production capacity to 3.5 million tonnes from 2.6 million. The additional storage tank and the jetty form a key part of FortisBC's plans to establish Vancouver as an LNG bunkering and export hub.

The federal Impact Assessment Agency of Canada said it did not find enough reasons to create a review panel to assess the expansion's potential environmental harms — including possibly damaging high-productivity salmon habitat. The expansion has drawn opposition from municipal governments in Vancouver, Richmond, New Westminster and Port Moody. Delta, where the plant is located, has not expressed the same opposition; neither has the Musqueam Indian Band, which signed an agreement with FortisBC that will see the First Nation acquire an unknown amount of equity ownership at Tilbury.

Sen. Manchin stalls confirmation of FERC chair

(Bloomberg Law; Sept. 22) - Federal Energy Regulatory Commission Chairman Richard Glick hasn't secured Sen. Joe Manchin's support to advance his nomination for another five-year term in Congress' waning weeks, which risks pushing his confirmation into a post-election session. If Glick isn't confirmed during a lame duck session, FERC faces the prospect of a 2-2 deadlock as it's set to play a key role in shaping energy projects spurred by last year's infrastructure bill and climate legislation passed in August.

Manchin, who called a hearing in March to castigate Glick and the Democratic majority's effort to scrutinize gas projects, hasn't scheduled a confirmation hearing in the Energy and Natural Resources Committee that he chairs. The West Virginia Democrat is a key vote in a Senate split evenly between Democrats and Republicans. Manchin told Bloomberg Law last week he was "still working on it" when asked about the timing of a confirmation hearing and his support for advancing the chairman through his committee.

Manchin has left Glick waiting for a hearing since he was renominated by the White House in May — a delay that has led to mounting concern from energy industry watchers who fear instability on the energy regulator. “A five-member FERC is really important to the stability of the commission’s decision-making. When you have a split commission, you have more opportunity for decisions to get stalled or for there to be 2-2 ties,” said Jeff Dennis, managing director and general counsel for Advanced Energy Economy, a Washington group supporting clean energy technologies.

High energy prices could drive European manufacturing to U.S.

(The Wall Street Journal; Sept. 21) - A big winner from the energy crisis in Europe could be the U.S. economy. Battered by skyrocketing gas prices, companies in Europe that make steel, fertilizer and other feedstocks of economic activity are shifting operations to the U.S., attracted by more stable energy prices and muscular government support. As wild swings in energy prices and persistent supply-chain troubles threaten Europe with what some economists warn could be a new era of deindustrialization, Washington has unveiled a raft of incentives for manufacturing and green energy.

The upshot is a playing field increasingly tilted in the U.S. favor, executives say, particularly for companies placing bets on projects to make chemicals, batteries and other energy-intensive products. “It’s a no-brainer to go and do that in the United States,” said Ahmed El-Hoshy, chief executive of Amsterdam-based chemical firm OCI, which this month announced an expansion of an ammonia plant in Texas.

Europe remains a desirable market for advanced manufacturing and boasts a skilled industrial workforce, analysts and investors say. The question is how long higher natural gas prices will last. Some economists have warned the continent could face high prices well into 2024, threatening to make the scarring on Europe’s manufacturing sector permanent. “I think we’ll muddle through two winters,” said Stefan Borgas, CEO of RHI Magnesita, which makes materials for steelmakers. If the continent can’t find cheaper gas or ramp up renewable energy, he added, “companies will start to look elsewhere.”

VW may shift production to avoid high energy costs in Germany

(Bloomberg; Sept. 22) - Volkswagen is exploring ways to counter a shortage in natural gas, including shifting production around its network of global facilities, signaling how the energy crisis unleashed by Russia’s invasion of Ukraine threatens to upend Europe’s industrial landscape. Volkswagen, Europe’s biggest carmaker, said that reallocating some of its production was one of the options available in the medium term if gas shortages last much beyond this winter.

The company has major factories in Germany, the Czech Republic and Slovakia, among European countries most reliant on Russian gas, as well as facilities in southern Europe. Southwestern Europe or coastal zones of northern Europe, both of which have better access to seaborne liquefied natural gas cargoes, could be the beneficiaries of any production shift, a Volkswagen spokesman said. The Volkswagen group operates factories in Portugal, Spain and Belgium — countries that host LNG import terminals.

To be sure, any major production shift away from Europe's biggest economy would face significant hurdles. VW has some 295,000 employees in Germany and worker representatives account for around half the company's 20-member supervisory board. While gas supplies for VW's plants are currently secured, the company has identified potential savings at its European sites to cut gas consumption by a "mid-double-digit percentage," said Michael Heinemann, managing director of VW's power-plant unit.

India plans to expand coal-fueled power generation 25%

(Bloomberg; Sept. 23) - India plans to expand its coal power fleet by about 25% through 2030 as it continues to lean on the fuel to meet growing demand. The world's third-biggest emitter of greenhouse gases will add nearly 56 gigawatts of coal power capacity unless there's a substantial drop in the cost of storing electricity, Power Minister Raj Kumar Singh said. India also plans major investments in renewable energy, but it has to prioritize providing reliable power to spur economic growth, he said.

The plan underscores how energy security concerns are vying with climate targets as countries map out energy transition paths. Coal is enjoying a revival in Europe after Russian gas supplies fell in the fall-out from the invasion of Ukraine. India, which saw power demand surge this summer as temperatures rose to a record, is delaying shutting older coal plants and increasing mining output.

"My bottom line is I will not compromise with my growth," Singh said, adding that India will not hesitate to import coal to meet any shortfalls in domestic supply. "Power needs to remain available." Singh said his ministry is also pursuing a goal announced last year by Prime Minister Narendra Modi to have 500 gigawatts of clean power capacity by 2030 as the country seeks to reach net-zero by 2070. But to convert renewable energy into around-the-clock clean power, India will need cheaper energy storage solutions.

Santos loses in Australia court, suspends drilling on gas project

(Journal of Petroleum Technology; Sept. 22) - Santos has suspended drilling activities at its $3.6 billion Barossa offshore gas project following a decision by the Federal Court of Australia against the energy giant in a legal challenge brought by an Indigenous group. Drilling activities that were to occur at a site in the Timor Sea have been suspended pending a favorable appeal outcome or the approval of a new environmental plan, according to Santos. The company said it is seeking to expedite the process.

Santos sanctioned the project in March 2021 and kick-started a $600 million investment to extend the life of the Darwin LNG export terminal. The Santos-operated Darwin LNG plant has the capacity to produce approximately 3.7 million tonnes per year of LNG, but its founding field is in decline and the company is looking to Barossa to fill the gap. The Barossa project is the largest investment in Australia’s oil and gas sector since 2012. The project is about 46% complete, according to Santos.

In June, Tiwi Islanders launched the legal challenge, claiming they had not been consulted about the project. Santos said the outcome in court was disappointing and that, consistent with previous practice, it had fully engaged with the Tiwi Land Council, a representative body with statutory authority under the Aboriginal Land Rights Act 1976. The company said project approval uncertainty is a public policy issue that should be urgently addressed by Australian governments.