Oil and Gas News Briefs
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European demand for natural gas in decline

(Wall Street Journal; Aug. 21) - Last year's hottest gas market has cooled, and some of the change will stick. Demand for gas in Europe hasn't bounced back — despite lower prices. The region's benchmark price is down 85% compared with a year ago, when Europe was rushing to fill its gas storage facilities for winter after Russia cut off supply. Prices have fallen partly because Europe's storage is full. It hit a 90% capacity target last week, more than two months ahead of a European Union schedule set last year.

But underlying demand is also weak. According to think tank Bruegel's European gas demand tracker, gas use in the first quarter of this year was 18% lower than the 2019-2021 average and 19% below in the second quarter. The declines have accelerated from the 12% drop recorded last year. Weaker economic growth is one reason why gas use hasn't recovered. Another may be that lower wholesale prices haven't been passed on to end users yet, said Ben McWilliams, author of the Bruegel tracker.

Other factors may be permanent. The European Heat Pump Association said sales rose 39% in 2022 — they are now in 16% of Europe's residential and commercial buildings, often replacing gas boilers. Heat pumps use electricity, which is often produced from gas, but this too is changing. Solar power capacity rose a record 47% in 2022, and last year was the first time that renewables generated more of Europe's electricity than gas.

One uncertainty for future gas demand is whether European industries such as chemicals and fertilizer manufacturing will return to normal. The International Energy Agency thinks that up to half of the decline in Europe's industrial gas demand last year was a result of production shutdowns. Some companies whose business model traditionally relied on cheap Russian gas moved their manufacturing to lower-cost regions such as the U.S., where gas costs roughly a quarter of the European spot price.

Fate of Massachusetts LNG import terminal uncertain

(Commonwealth Magazine; Massachusetts; Aug. 22) - New England electricity customers paid $536 million during the first year of a two-year contract to prop up a gas-fueled power plant and liquefied natural gas import facility in Everett, Massachusetts, as a hedge against regional energy shortages, according to an analysis released by the region's power grid operator. The gas-fired Mystic power plant is shutting down for good next June, but the fate of the 52-year-old Everett Marine Terminal is unclear.

Natural gas utilities in the area are in negotiations to keep the LNG terminal running, which would mean the hefty cost could be passed along to a much smaller base without the power plant as a customer. The owner of the power plant and LNG facility announced in 2018 that it planned to shut down the power plant in 2022, which would have put the future of the LNG facility in doubt because Mystic is its largest customer.

Fearing power grid instability without access to the LNG terminal, the operator of the regional power grid and federal regulators approved orders that electricity ratepayers across the region pay Constellation Energy to keep the import and gas storage terminal open from June 2, 2022, through May 31, 2024. According to a recently released analysis of the first 13 months, the tab for this “energy insurance” came to $536 million.

According to the grid operator analysis, the average monthly cost to run the Everett facility was $41.1 million. The operator announced in June that it believes the terminal is no longer needed for reliability of the electric grid, but the region’s gas utilities are now negotiating with the owner to keep it open as a security blanket for their operations.

U.S. oil and gas firms paid more to shareholders than new production

(Reuters; Aug. 22) - Top U.S. energy companies last year paid out more of their earnings to shareholders than they invested in new oil and gas fields for the first time, according to a report released on Aug. 22. The outlook for stronger energy prices has not changed the focus on investor returns from the industry, according to the report's authors, Ernst & Young. U.S. energy companies have been focused on regaining favor with investors after years of overspending on production growth hurt returns.

Spending on dividends and share buybacks by the top 50 U.S. independent oil and gas producers hit $58.8 billion last year, topping the $55.1 billion allocated to exploration and development, according to the EY research. Combined profits of the group, which includes shale stars such as DiamondBack Energy, Pioneer Natural Resources and ConocoPhillips, topped $333 billion last year, a third more than the $217 billion in 2014 when U.S. spot oil prices averaged $93 per barrel.

Last year's investor payouts were up substantially — 214% over 2021 and more than sevenfold over 2020 levels, the report said. Money spent on finding and tapping oil and gas also rose, but at a much slower pace. "We expect this will continue even in a high interest rate environment or a high oil price environment," said Bruce On, a principal in EY's strategy and transactions group. One new outlet for the cash is acquisitions, which have risen this year and could continue next, he said.

Iran steps up oil exports, particularly to China

(Bloomberg; Aug. 21) - Iran's oil exports are surging this month, swelling global flows at a time when other producers are cutting back, according to a firm that monitors satellite imagery of individual tankers. The boom is awkward for the U.S., which officially still has sanctions in place that should restrict Iran's shipments. Even so, the extra cargoes will help to cushion the impact of oil production and export reductions by Saudi Arabia, Russia and other nations in the OPEC+ alliance.

TankerTrackers.com, which provides data on oil cargo shipments to governments, insurers and other institutions, estimates that Iran exported 2.2 million barrels a day of crude and condensates during the first 20 days of August. If maintained, it would far exceed any other month this year and is well above what other oil-shipping analytics firms say. It was already known that Iran's shipments were surging, but the data for August would represent a marked increase.

Flows from Iran are notoriously hard to monitor because the large numbers of tankers sailing there routinely switch off their transponders, making them invisible to systems that rely on collating the signals that vessels emit. TankerTrackers studies images from satellites and collates data manually, meaning it doesn't rely on those Automatic Identification System signals. Iran is selling the vast majority of its oil to China as its other past customers like South Korea and Japan steer clear of sanctioned barrels. India, previously a big buyer of Iranian oil, has pivoted to taking more Russian barrels.

Ecuador votes to stop drilling in protected area of Amazon

(The Associated Press; Aug. 21) - Ecuadorians on Aug. 20 voted against drilling for oil in a protected area of the Amazon, an important decision that will require the state oil company to end its operations in a region that's home to two uncontacted tribes and is a hotspot of biodiversity. Yasuni National Park is inhabited by the Tagaeri and Taromenani. In 1989, it was designated a world biosphere reserve by the United Nations Educational, Scientific and Cultural Organization.

Encompassing a surface area of over 2.5 million acres, it boasts 610 species of birds, 139 species of amphibians, and 121 species of reptiles. At least three species are endemic. With over 90% of the ballots counted by Aug. 21, about six in 10 Ecuadorians rejected the oil exploration in Block 43, situated within Yasuni. The outcome represents a significant blow to President Guillermo Lasso, who advocated for drilling, asserting that its revenues are crucial to the country's economy. State oil company Petroecuador will be required to dismantle its operations in the coming months.

It is widely considered to be the first time a country's citizens have voted decisively to leave oil in the ground. In a separate referendum, Ecuadoreans also voted to block mining in a biosphere reserve. "The answer from the Ecuadorean people suggests to us that the people are proposing a different way to live," Monserrat Vásquez, an anti-mining activist, told reporters after the victory was announced.

[Norway’s Equinor puts offshore wind farm into full production]

(Euronews.green; Aug. 23) - The world’s biggest floating wind farm was officially launched Aug. 23 off the coast of Norway. Fossil fuel giant Equinor is behind the Hywind Tampern farm, which will generate 88 megawatts to supply oil and gas platforms. The project — which uses a new technology to tie 11 giant turbines to the seafloor — has received mixed reaction from environmentalists. Though it will help cut emissions from oil and gas fields, climate campaigners argue it’s time to stop drilling altogether.

Whether oil and gas majors can or should be part of the renewable energy transition is also a deeply divisive issue. A new report from Greenpeace underlies how small a part wind and other energy solutions play in Equinor’s portfolio. The Norway-based company invests just 3% of its budget in “real low carbon,” according to Greenpeace Central and Eastern Europe’s analysis of 12 European oil companies. Equinor partnered with other oil firms OMV (Austria) and Vaar Energi (Norway) on the wind farm, which started producing energy in November and reached full capacity earlier this month.

The energy will cover about 35% of what is needed to power five offshore oil and gas platforms in the North Sea. These platforms are carbon-intensive, typically using diesel or gas to run their machinery. Electrifying them with wind power will cut carbon dioxide emissions from the fields by about 200,000 tonnes per year, Equinor says. That is 0.4% of Norway's total carbon dioxide emissions in 2022. Norway is targeting 30 gigawatts of offshore wind power by 2040, which would double the country’s current power output.

[German chemical maker signs up for U.S. LNG]

(Reuters; Aug. 22) - Cheniere Energy said on Aug. 22 it would supply 0.8 million tonnes per year of liquefied natural gas to Germany's BASF, one of the world’s largest chemical manufacturers. The U.S. has emerged as the world's largest LNG exporter after Western sanctions on major gas supplier Russia left Europe scrambling to find alternate sources for the fuel. Cheniere entered into supply deals with Norway's Equinor and Korea Southern Power as well as China's ENN Natural Gas earlier this year.

The contract with BASF would support Cheniere's Sabine Pass LNG expansion project in Louisiana, which is being developed to add up to 20 million tonnes to the plant’s existing annual production capacity of 30 million tonnes — already the nation’s largest. Deliveries are expected to start in mid-2026, contingent on Cheniere reaching a positive final investment decision on the first liquefaction train of the Sabine Pass expansion. The project is under review by federal regulators.

The purchase price for BASF will be indexed to the U.S. natural gas benchmark Henry Hub price for the feed gas, with a fixed liquefaction fee. It’s the first-ever LNG supply contract for BASF as the German company tries to reduce its dependence on Russian energy. “By establishing our own dedicated LNG supply chain with Cheniere, we are diversifying our energy and raw materials portfolio at a time of critical changes in the European gas market," BASF chief financial officer Dirk Elvermann said in a statement.

Unable to meet first deadline, U.S. developer files for new LNG license

(Reuters; Aug. 20) - Pipeline operator Energy Transfer on Aug. 18 requested a new and expedited export license for its proposed Lake Charles, Louisiana, liquefied natural gas plant, according to a filing with the U.S. Department of Energy. The department in May refused a three-year extension to Energy Transfer's earlier export license, saying the request did not meet criteria for a second extension. The department had decided that it would not routinely grant second extensions for projects unable to meet deadlines.

Energy Transfer has been pursuing the multibillion-dollar Lake Charles LNG project since 2012 and in its latest filing said it could not build the plant before the 2025 deadline under the existing license. The Dallas-based pipeline operator said it was unable to meet the deadline, in part, due to unplanned delays and a decision to add a carbon capture and sequestration component to the plant. It has asked that it receive a new license by Feb. 19, 2024, which would give it seven years to complete the project.

The firm, owned by billionaire Kelcy Warren, is one of the largest U.S. gas line owners. It has long-term tentative agreements to supply 7.9 million tonnes per year of LNG to customers in Japan and South Korea, Energy Transfer said in its application to the DOE. "A delay in receiving approval of this application on an expedited basis will likely result in the exercise of termination rights in existing offtake agreements," wrote Energy Transfer. The company has not yet taken a final investment decision on the project.

China's LNG importers expand into global trading

(Reuters; Aug. 21) - China's liquefied natural gas importers are starting up or expanding trading desks in London and Singapore to better manage their growing and diversified supply portfolios in an increasingly volatile global market. The beefed-up trading presence of Chinese importers puts them in direct competition with such global heavyweights as Shell, BP, Equinor and TotalEnergies for a market that the International Energy Agency says doubled in value to $450 billion last year.

About a dozen Chinese companies have been expanding their trading teams or adding new desks, with privately run ENN Natural Gas and state-run China National Offshore Oil Corp. (CNOOC) the latest to plan London offices, and utility China Gas Holdings setting up a Singapore operation, company officials and traders said. Chinese gas importers have also boosted long-term LNG contracts with Qatar and U.S. suppliers by nearly 50% since late 2022 to more than 40 million tonnes per year.

The importers plan to add more gas from those two countries, as well as from Oman, Canada and Mozambique, traders and analysts said. "We're going to see a paradigm shift in Chinese companies from being total net importers to (being) more international and domestic trading players," said Toby Copson, Shanghai-based head of trading for Trident LNG. Already, state-run PetroChina, Sinopec, Sinochem Group and CNOOC are actively trading to capitalize on their long portfolios, Copson said.

[Russia wants Gazprom to sell Sakhalin LNG at low cost domestically]

(Energy Intelligence; Aug. 21) - Moscow wants Gazprom's Sakhalin-2 project to supply LNG to the Kamchatka region in Russia's Far East, according to a road map document published on Aug. 21. This would remove some 600,000 tonnes per year of Sakhalin-produced LNG from the spot market in the Asia-Pacific region. The Russian government expects an LNG supply agreement to be signed in the first quarter of 2024, the road map said. State-run Gazprom will buy LNG from the project and resell the gas to domestic consumers in Kamchatka, is the understanding.

Domestic sales normally are not attractive economically to large gas liquefaction plants because of the relatively low regulated prices at home. That's why the government instructed the relevant Russian ministries, the antimonopoly service and Kamchatka region administration to determine in the fourth quarter of this year the sources of financing to compensate Gazprom for the difference between the economically feasible price for the LNG supply and the regulated prices in the Kamchatka region.

Sakhalin-2, now operated by Gazprom-controlled Sakhalin Energy after Shell left the venture following Russia's invasion of Ukraine, currently only sells LNG to export markets in Asia. The 600,000 tonnes per year would represent production not covered by term contracts with foreign buyers, much of which goes to Japan. China has significantly increased spot purchase from Sakhalin-2 over the past several years. The facility can produce about 9 million tonnes per year. It started operations in 2009.

[U.S. tightens Trump-era rules on offshore drilling rig equipment]

(Associated Press; Aug. 22) - The Biden administration on Aug. 22 finalized tighter rules for devices meant to prevent catastrophic blowouts on offshore oil and gas drilling rigs, reversing Trump administration policies and returning to a more stringent regulatory stance adopted after the 2010 Deepwater Horizon disaster. Failure of blowout preventer equipment was a major cause of the BP disaster that killed 11 workers and resulted in an estimated 130 million gallons of crude spewing into the Gulf of Mexico over 87 days.

Tougher offshore safety rules had been adopted in 2016 but were revised in 2019 under then-President Donald Trump. The oil industry welcomed that move, but it was followed by an ongoing lawsuit filed by environmental organizations. The new rules from the Interior Department's Bureau of Safety and Environmental Enforcement address conditions and well pressures under which the automatic well-control devices operate.

They require that remotely operated underwater vehicles be capable of opening and closing key components of blowout preventers. They also include mandates and time limits for investigating failures and providing data on blowouts to regulators. It's a revision but not a complete reversal of the Trump-era changes. For instance, BSEE is maintaining an expansion of the interval between required blowout preventer inspections from 14 to 21 days.

Santos reaffirms plan to develop offshore Australia gas field

(The Sydney Morning Herald; Aug. 23) – Australia-based oil and gas producer Santos insists there will be no delays to its troubled multibillion-dollar gas project in the Timor Sea, despite having to reconsult Indigenous owners after key approvals for the Barossa field were revoked. The energy major's field off the northern coast of Australia is facing a significant setback after a landmark legal win by Tiwi Islanders last year forced it to hold further talks with Indigenous groups and suspend drilling at the $5.8 billion project.

CEO Kevin Gallagher said the company was redoing its consultation with traditional owners and had resubmitted its environmental plans to the regulator to "try and get drilling up and running again" by the end of 2023. "We don't see any delay to the Barossa project. It's still scheduled to come on in the first half of 2025," Gallagher said.

Regarding company finances and the global energy market, he said Santos was operating in a "very challenging environment right now" amid the public debate over the future of fossil fuels. "The anti-fossil fuel mob, if you want to call them that, have moved from just trying to shut down coal. They've won that battle, they think, and have moved in the last few years to go after gas," he said.

Strike averted at one Australia LNG project; others still in negotiation

(Reuters; Aug. 24) - Woodside Energy on Aug. 24 reached an in-principle agreement with unions at Australia's largest liquefied natural gas project, potentially averting a disruption to supplies from one of the world's biggest exporters of the fuel. The agreement caused a sharp fall in Dutch and British wholesale gas prices, with the benchmark Dutch September contract shedding 11.5%, as supply concerns eased.

The project in Western Australia, along with the Chevron-led Gorgon and Wheatstone LNG facilities, account for about one-tenth of global supplies. Both Woodside and the union alliance representing workers at the offshore platforms of its North West Shelf gas development announced the initial deal in separate statements after a round of talks. The Woodside workers' unions had threatened to strike as early as Sept. 2 unless their demands for better pay and conditions were met.

Workers at Chevron's Gorgon and Wheatstone LNG facilities on Aug. 24 voted to allow unions to call for a strike if necessary, raising the possibility of production shutdowns even as both parties continue to negotiate over worker pay and conditions. More than 99% of the 433 workers who voted were in favor of taking action, which could range from refusing to load tankers or vessels with LNG to complete work stoppages, according to a statement from the union.