Oil and Gas News Briefs
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Conoco agrees to 20-year deal to take LNG from Mexico project

(Bloomberg; Aug. 3) - ConocoPhillips has agreed to a 20-year deal to buy liquefied natural gas from an export terminal being developed on Mexico's West Coast. Under the agreement, ConocoPhillips will buy approximately 2.2 million tonnes of LNG a year from Mexico Pacific Ltd., the companies said Aug. 3. The project in Sonora, with annual output capacity of 15 million tonnes, is estimated at $15 billion, said Sarah Bairstow, Mexico Pacific's president and chief commercial officer. It's scheduled to open by 2027.

Lining up long-term agreements with large, well-capitalized companies is crucial for LNG terminal developers to secure financing. Houston-based Mexico Pacific already has deals in place with ExxonMobil, Shell and China's Zhejiang Energy and Guangzhou Development Gas Trading. It plans to make a final decision later this year whether to move forward with building the first two liquefaction units, or trains, for the three-train project, which is named Saguaro LNG.

In addition to buying LNG from Mexico Pacific, ConocoPhillips will supply the terminal with gas from the Permian Basin of Texas and New Mexico, allowing the energy giant to tap growing demand around the globe for the fuel. Mexico Pacific plans to build a 500-mile pipeline to get gas from the U.S., Bairstow said. The project will complement ConocoPhillips' stake in the Port Arthur LNG project in Texas, company executives said on a call with analysts Aug. 3. The deal for the Mexico project is "to build up a bigger LNG business inside the company," CEO Ryan Lance said.

Canada's largest gas producer joins West Coast LNG project

(Bloomberg; Aug. 3) - A proposed liquefied natural gas export terminal on Canada's Pacific Coast is getting a major boost as Tourmaline Oil — the country's largest gas producer — agreed to join the project. Tourmaline said late Aug. 2 that it's joining Rockies LNG, a group of producers working on the 12 million-tonne-per-year Ksi Lisims project on the northern edge of British Columbia's coast, just south of the Alaska border.

Rockies LNG's members produce a combined 5.6 billion cubic feet per day, about a third of the country's output. The Nisga'a Nation Indigenous group and Texas-based Western LNG also are involved in the project. Canadian gas producers have often suffered from low prices because of constrained export options, and Tourmaline has been a leader in devising new routes to market its gas. The company earlier this year began selling the first significant amount of Canadian gas contracted for markets beyond North America, selling its gas through an export terminal on the U.S. Gulf Coast.

“We’re excited, and we’re going to do everything we can to drive that project to fruition,” Tourmaline CEO Michael Rose said of his company’s contribution to the Ksi Lisims project on a call with analysts on Aug. 3. Canada’s Montney shale formation — stretching from Alberta into British Columbia — is one of the largest gas resources in North America, with potential production of almost 450 trillion cubic feet of gas.

Joint venture with China will build modules for LNG project in B.C.

(Upstream; Aug. 3) - Qingdao McDermott Wuchuan Offshore Engineering (QMW), a joint venture between U.S. contractor McDermott and China State Shipbuilding Corp., has started construction of the production modules for Pacific Energy’s US$5.1 billion Woodfibre liquefied natural gas project on Canada’s West Coast, just north of Vancouver. Based on the contract issued by lead contractor McDermott International, QMW will fabricate 18 modules with a total steel weight of 34,000 tonnes, QMW said.

The modules are scheduled for completion in the third quarter of 2024. Due on stream in 2027, Woodfibre LNG is planned for 2.1 million tonnes per year production capacity. Feed gas will be sourced from the province's prolific Montney shale play. Woodfibre LNG will be built at a former pulp mill site. The venture has two 15-year offtake agreements with BP, which together account for more than 70% of the plant’s nameplate capacity. Canadian midstream company Enbridge holds a 30% stake in the project, with a Singapore-based group of companies holding a 70% ownership stake.

U.S. feed gas to LNG export plants set new record in first half of year

(LNG Prime; Aug. 2) - Natural gas deliveries by pipeline to U.S. LNG export facilities reached a record high in the first half of this year, following the Freeport (Texas) LNG terminal’s return to service, according to the U.S. Energy Information Administration. LNG feed gas averaged 12.8 billion cubic feet per day in the first six months of 2023, the EIA said, citing data by S&P Global Commodity Insights. Over this period, LNG feed gas averaged 8%, or 1 bcf a day, more than the 2022 annual average, the agency said.

Feed gas set a monthly record in April 2023 at 14 bcf a day — more than 11% of all U.S.-produced gas — supported by high international demand for U.S. LNG exports, particularly in Europe. Feed gas declined slightly in May and June, primarily because of maintenance at several LNG export facilities. The EIA expects LNG exports to average 12 bcf a day in 2023 and 13.3 bcf a day in 2024, as two new LNG liquefaction projects are expected to come online — Golden Pass in Texas and Plaquemines in Louisiana.

Japan’s LNG demand continues to drop as more nuclear back online

(Reuters; Aug. 3) - Kansai Electric Power's plan next month to relaunch the last idle reactor at its flagship nuclear plant — capping a year-long series of restarts — will mark an energy shift in Japan with the sharpest drop in liquefied natural gas imports since the Fukushima disaster. Japan, the world's top buyer of LNG, was forced to sharply increase its purchases of the fuel after the 2011 disaster, which led to the shutdown of all 54 of its nuclear reactors.

While LNG imports have ebbed from their peak in 2014 as a smattering of reactors came back online and Japan boosted its use of renewable energy, Kansai's latest plans — including a reboot of the No.2 unit at its Takahama nuclear facility on Sept. 15 — will help to accelerate the drop in LNG demand this year to nearly 10%, analysts say. The repercussions, moreover, will extend beyond Japan.

"Lower LNG demand due to the higher utilization of nuclear in Japan ... will provide downward pressure on LNG spot prices in Asia," said Yoko Nobuoka, senior analyst for Japan power research at Refinitiv. She estimates that Japan's LNG demand could drop by 6 million to 7 million tonnes in 2023, from last year's 72 million, of which some 3 million tonnes would be due to nuclear restarts. The rest would be due to warm weather, energy conservation and increased renewable energy development.

One-third of Japan's 33 remaining commercially available reactors are now back online. Japan's LNG imports in the first six months of the year have already fallen 13% from a year earlier, according to Ministry of Finance data.

India’s largest pipeline operator looks to buy more LNG from Qatar

(Reuters; Aug. 3) - GAIL (India) is close to finalizing a long-term liquefied natural gas import deal with Qatar to buy at least 1 million tonnes per year, potentially for more than 20 years, three industry and trade sources said. The deal would be part of GAIL's plans to lock in new supply contracts by 2030 to diversify its gas imports and hedge against supply disruptions like those seen after Russia's invasion of Ukraine last year, when LNG prices surged to a record high.

GAIL had to cut gas sales to some local industries last year after supplies under its long-term deal with the German unit of Russia's Gazprom were hit when it was taken over by Berlin, which diverted volumes to its own market. GAIL plans to buy an additional 7 million to 8 million tonnes per year of LNG by 2030 but does not intend to depend on one country for more than 1 million to 2 million tonnes to avoid the risk of sudden disruption, its head of finance Rakesh Jain said on July 31.

Qatar is looking to sign record volumes of long-term sales contracts this year as it expands market share globally at the expense of Russia. GAIL, India's largest pipeline operator, would be the second local company to sign a deal with Qatar. Petronet LNG, part owned by GAIL, is also negotiating an extension to beyond 2028 of its long-term LNG deal under which Qatar supplies 8.5 million tonnes per year of LNG.

China's green power capacity exceeds coal for first time

(Bloomberg columnist; Aug. 3) - Chinese social media was abuzz this week with news of a milestone in the country's energy transition. For the first time, the combined generation capacity of renewables — including wind, solar, hydropower and biomass — surpassed that of coal. China's breakneck speed of clean-energy installations has been remarkable. Wind and solar additions are expected to hit 264 gigawatts this year alone, more than the entire power fleet of Germany, BloombergNEF research shows.

Yet the transition to a greener economy would be smoother and faster if reforms to the highly regulated energy sector weren't moving at a snail's pace. In recent months, national and local authorities have tweaked a raft of rules — from how natural gas is priced to how energy storage operators are compensated — but the efforts remain a long way off in helping China get to net-zero emissions by 2060 as planned.

Just adding clean-power plants won't be enough to eradicate emissions in the world's biggest energy user. New policies are needed. Take solar: Increasing output means more cheap electricity is available when it's sunny. In places like Europe and the U.S., flexible markets reflect this by charging less in the middle of the day and more in the evening, incentivizing people to shift power use. In China, the price of electricity is the same at all hours for most users. Beijing has made it clear it will pursue climate goals at its own pace. For the planet's sake, the politicians need to catch up with the changes.

North Dakota regulators reject permit for $5.5 billion CO2 pipeline

(Associated Press; Aug. 4) – North Dakota regulators denied a permit on Aug. 4 for a proposed carbon dioxide pipeline that would cross five states. The decision complicates an already complex process for Summit Carbon Solutions, which is seeking similar authorization in the other states and is facing opposition from landowners and environmental groups. It wasn't immediately clear how the permit denial would affect Summit's carbon dioxide storage plans in North Dakota.

The North Dakota Public Service Commission denied the permit for Summit's Midwest Carbon Express pipeline. Summit proposed the $5.5 billion, 2,000-mile network to collect and transport CO^2 from over 30 ethanol plants in Iowa, Minnesota, Nebraska, North Dakota and South Dakota, and to store it deep underground in North Dakota. In a statement, Summit said "we will revisit our proposal and reapply for our permit."

The project raised landowner concerns of eminent domain, the taking of private land for the line, and potential dangers of a pipeline break. The Public Service Commission held public hearings throughout North Dakota earlier this year, at which landowners voiced multiple concerns, including safety. “The commission felt that Summit has not taken steps to address outstanding legitimate impacts and concerns expressed by landowners or demonstrated why a reroute is not feasible,” regulators said in a statement.

The commission’s statement also noted that Summit hasn’t answered how it would address 14 areas of potential geological instability noted by the U.S. Geological Survey within the pipeline’s path. And the state’s historical preservation office said Summit did not submit an adequate report regarding impacts to cultural resources on the route.

Advocates launch oil well setback ballot initiative in California

(Los Angeles Times; Aug. 2) - Environmental justice advocates in California are launching a campaign for a proposed initiative to require health and safety buffer zones around new oil and gas wells, raising the possibility that voters could see two similar measures on the November 2024 ballot. If the groups gather enough signatures to get their initiative on the ballot, advocates said the result of the vote would override the outcome of a referendum that oil interests already have qualified for the same ballot.

The pro-oil referendum seeks to overturn a law that Gov. Gavin Newsom signed in September banning new wells within 3,200 feet of schools, homes and buildings open to the public. The environmentalist-backed potential ballot measure is the latest political maneuver by advocates in an ongoing battle alongside unions against business interests at the state Capitol. The groups contend corporations are intentionally misleading Californians and exploiting the state’s direct democracy process in order to stall and reverse state laws approved by the Democratic majority in Sacramento.

Instead of running a campaign to convince Californians to reject the referendum backed by the oil industry — which would require a potentially confusing “yes” vote to preserve the buffer zones established by the existing law — advocates for the well restrictions say it’s easier to launch an entirely separate ballot measure. Their initiative would ask voters if they want to ban new wells around neighborhoods and public buildings through a simple yes or no vote.

Saudi Arabia drives OPEC decisions as it continues cut to oil output

(Wall Street Journal; Aug. 4) - Saudi Arabia is increasingly driving an oil-production strategy to boost prices that is at odds with other members of OPEC, in a push to fund the kingdom’s ambitious development projects. For now, it is working, as oil prices have ticked steadily higher in recent weeks, pushing benchmark Brent to $86 on Aug. 4. But

Saudi Arabia's unilateral moves to cut output carry a significant longer-term risk of splintering the alliance if Riyadh forces other, smaller producers to join the cuts, according to industry analysts and others familiar with OPEC's internal dynamics.

On Aug. 4, members of OPEC and its Russia-led allies met virtually to discuss the outlook for oil demand, which would help the group plan its production strategy for the coming months. The cartel in a brief statement said it would adjust production levels depending on market conditions. Riyadh on Aug. 3 said the kingdom would extend its own production cut of one million barrels of oil a day into September, after reducing output by that amount in July and August in an attempt to prop up prices. The decision shows how Saudi Arabia is willing to take unilateral action to benefit the kingdom.

Saudi Arabia announced the voluntary production cut after a fiery meeting at OPEC headquarters in Vienna in June. Several producers, especially some from Africa, pushed back against Saudi Arabia's insistence that they slash their quotas to help support prices amid concerns over slowing global energy demand, OPEC delegates said. Saudi Arabia, OPEC's biggest exporter, wants to keep oil prices at the levels it needs to fund Crown Prince Mohammed bin Salman's plans to reshape the kingdom's oil-dependent economy. Oil sales are the biggest revenue earner for the government.

Russian crude moves through Arctic to China

(High North News; Aug. 3) - With the onset of the summer navigation season on the Northern Sea Route, Russia has begun sending crude oil shipments to China via the Arctic. After an initial trial voyage in November 2022, energy analysts expect Russia to send regular shipments through the Arctic during 2023 and beyond. With Europe completely out of the picture as a result of sanctions, Russia now diverts parts of its Arctic oil production to China. Additional shipments are destined for India.

Two initial shipments departed from the Primorsk and Ust-Luga oil terminals near St Petersburg on July 12 and 13, passing through the Baltic Sea and up the Norwegian coast lines. The two Aframax oil tankers, each carrying about 730,000 barrels of crude oil, traveled along the NSR throughout the second half of July and are expected to arrive in Rizhao, China in mid-August.

The Arctic shortcut is about 30% faster than going through the Suez Canal. The NSR will be key to diverting Russian crude from Europe toward Asia. The amount of oil via the Arctic will increase rapidly when the huge Vostok oil project opens next year. Yet shipping oil via the Arctic significantly increases the risk, experts say. "Increased traffic increases the probability of an accident … and the consequences would be very high," said Mawuli Afenyo, a professor for maritime business administration at Texas A & M University, who has conducted extensive research on oil spills in the Arctic.

Canadian government provides financing guarantee for oil line

(Bloomberg; Aug. 5) - Trans Mountain Corp. received a new financing guarantee from Canada's federal government as concerns grew of mounting cost overruns for its pipeline expansion that's expected to offer an alternative route to export oil to Asia. The company, which was acquired by the government in 2018, received a lending guarantee of between C$2.75 billion (US$2.06 billion) and C$3 billion, Export Development Canada said on its website. Canada previously provided two other guarantees for as much as C$3 billion earlier this year, the EDC website shows.

While the transaction was signed July 20, EDC released the information on its website Aug. 4, according to Reuters, which earlier reported the transaction. Trans Mountain was touted as a way to broaden buyers of Canadian oil and break energy dependence on the U.S. when Prime Minister Justin Trudeau's government bought the system from Kinder Morgan five years ago for C$4.5 billion. Since then, construction setbacks and repeated delays have driven project costs to more than quadruple to C$30.9 billion, disrupting the line's economics and undermining Canada's push to diversify oil exports.

When completed next year, the expanded line from Alberta to the British Columbia coast will allow the export of close to 900,000 barrels a day of crude, providing an alternative to shipping the oil to export terminals on the U.S. Gulf Coast.

High prices push cancellation of purchase to restock U.S. oil reserve

(The Associated Press; Aug. 3) - The Biden administration is delaying plans to restock the nation's emergency oil reserve amid a price hike that has pushed oil above $80 a barrel. The Energy Department canceled a planned purchase of 6 million barrels for the strategic reserve this week, saying it wants to secure a good deal for taxpayers. The administration said it remains committed to refilling the reserve, which the president significantly drained last year in a bid to stop gasoline prices from rising amid production cuts by OPEC and a ban on Russian oil imports because of the war in Ukraine.

"The DOE remains committed to its replenishment strategy for the SPR, including direct purchases when we can secure a good deal for taxpayers," Energy Department Deputy Chief of Staff Bridget Bartol said in a statement, using the acronym for the Strategic Petroleum Reserve, the official name for the emergency stockpile. President Joe Biden withdrew 180 million barrels from the strategic reserve starting in March 2022, bringing the stockpile to its lowest level since the 1980s.

The drawdown brought the reserve to about half its capacity, which is about 700 million barrels. Tapping the reserve is among the few actions a president can take to try to control inflation, an election-year liability for the party in control of the White House. The Energy Department began refilling the reserve earlier this year, purchasing 6.3 million barrels while also canceling 140 million barrels in congressionally mandated sales from the reserve that were to occur in the next three years.