

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **Europe at risk of overbuilding LNG import capacity**

(Bloomberg; May 14) - Europe rushed to secure large volumes of liquefied natural gas in an effort to ease a crippling energy crisis. Now, there's a chance its plans to build more import terminals for the fuel have gone too far. From France to Poland, the region is looking to build LNG infrastructure after Russia severely curtailed pipeline supplies in the wake of its invasion of Ukraine. But this capacity could significantly outpace demand for the fuel after 2030 as countries increasingly embrace renewable energy.

If all the planned terminals are built, there's a risk that billions of euros in projects could become stranded assets in the long run. "Some of the investments in LNG import infrastructure were made ... based on the assumption that there's always going to be demand somewhere in Europe," said gas specialist Ogan Kose, a managing director at Accenture. "However, if every country aims to have its own import capacity, and markets are not going to operate in collaboration, then ... there will be a lot of sunken costs."

For now, new LNG terminals are popping up in multiple countries. Italy is nearing the start of its fourth facility. Germany is pushing to deploy its fourth floating terminal. Such structures are often preferred, as they are cheaper and quicker to build than those on land. Europe's LNG import capacity is expected to increase about 50% this decade, according to the Institute for Energy Economics and Financial Analysis. Meanwhile, some scenarios suggest that LNG demand won't increase, and could even slip.

The concern is a lack of demand in the long run. The European Union may slash its gas use by almost 45% by 2030 as it moves toward renewable energy sources, under one scenario forecast by the International Energy Agency.

#### **FERC has the authority but little direction in deciding LNG projects**

(Energy Wire; May 11) - The U.S. sent more liquefied natural gas overseas last year than ever before — and energy companies want the total to keep climbing. But some observers see an unanswered question: How should the Federal Energy Regulatory Commission review proposed projects? "It's sort of clear, but it's also sort of a mess," said Joshua Macey, an assistant professor at the University of Chicago Law School.

Controversy over how new projects should be reviewed has reached new heights, with some lawmakers advocating for quicker approvals of terminals and climate hawks calling FERC's assessments of greenhouse gas emissions inadequate. The debate is

crucial in part because more than half of U.S. LNG exports in 2022 went to European countries seeking alternatives to Russian gas following the Kremlin's war on Ukraine.

Several attorneys and FERC watchers see an ambiguous directive in the law governing FERC oversight of LNG. The language was last updated in 2005, when virtually no gas was being exported from the Lower 48 states. While the law — the Natural Gas Act — directs FERC to “issue or deny” applications to build LNG import and export terminals, it gives the commission “absolutely zero guidance” for how to make that decision, said Jennifer Danis, federal energy policy director at the Institute for Policy Integrity, a think tank at New York University School of Law that focuses on climate and energy issues.

“The section that grants FERC’s jurisdiction to site the LNG facilities is standardless,” Danis said. Former FERC Chair Richard Glick has suggested that Congress clarify what he described as “uncertainty” over how it should determine whether to approve or deny terminals. FERC is to weigh the benefits of proposed gas pipelines, hydropower plants and LNG terminals against potential adverse impacts. But the process for conducting the cost-benefit analysis for LNG projects is “not at all clear,” Glick said. It is less clear as activists and others push for more consideration of greenhouse gas emissions.

### **[Permit extension denials for U.S. LNG projects could pose problems](#)**

(Reuters; May 11) - The U.S. Department of Energy's refusal to grant export permit extensions to liquefied natural gas projects that fail to meet a construction deadline poses a new hurdle for the ventures, analysts said on May 11. The DOE last month said it would grant future extensions solely on extenuating circumstances as it rejected an extension for Energy Transfer's proposed Lake Charles LNG project. The change will fall heavily on firms without a track record and available financing, analysts said.

Around a dozen LNG projects in the U.S. and Mexico that would process more than 20 billion cubic feet of gas per day face difficulties moving ahead because of the change, according to an analysis from consultants Rapidan Energy. Without extensions to the export permits, financing for new entrants could dry up, and "for many of these projects, it looks like 'game over,'" said Alex Munton, Rapidan's Global Gas Service director. LNG export terminals in Mexico that plan to ship out U.S. gas need DOE approval.

Energy Transfer appealed the rejection of its permit extension, and has one customer considering whether to go elsewhere, co-CEO Marshall McCrea told analysts this month. However, the DOE decision was welcomed by competitors with established customers and operations. Cheniere Energy and Venture Global LNG, which have been able to build new plants, praised the decision. "Fully commercialized LNG projects, including Cheniere's, have been constructed and have commenced exports within the seven-year deadline," a Cheniere spokesperson noted.

## **LNG buyer battles with U.S. project developer over deliveries**

(The Advocate; Baton Rouge, LA; May 11) - About a month ago, Repsol asked the Federal Energy Regulatory Commission to step into the Spanish energy firm's fight with Venture Global LNG, the Virginia company building a liquefied natural gas empire in Louisiana. In 2018, Repsol signed a 20-year contract with Venture Global for 1 million tonnes a year. Shipments were supposed to start once Venture Global's Calcasieu Pass export terminal in Cameron Parish achieved full commercial operations.

However, in an April 14 motion, Repsol said Calcasieu Pass had yet to reach full commercial status — even though the terminal had exported 128 cargoes since March 2022. Feeling swindled, Repsol asked FERC to intervene. The company wants its gas. In an April 26 response, Venture Global said the plant was authorized to operate “under terms and conditions mutually agreed to by its customers.”

Venture Global has said that Calcasieu Pass “has experienced certain reliability challenges that are delaying its commercial operations.” The dispute sheds light on what industry analysts said is a unique situation — an LNG plant taking so much time to finish construction and reach full commercial operations, despite shipping cargoes for a year. The technicality is that Calcasieu Pass is still in the “commissioning” phase — meaning it can sell gas but isn't ready to fulfill its long-term contracts. In the hot market of the past year, those “commissioning” cargoes can be very profitable.

“It just raises a very interesting loophole that Venture Global has exploited,” said Tyson Slocum, of Public Citizen, a consumer advocacy nonprofit. “All the other active LNG developers on the Gulf Coast, they're looking at Venture Global and they're looking to speed up construction ... to start exporting before the commencement of ‘commercial operations’ so that they can enjoy the kind of profits Venture Global is experiencing.”

## **U.S. oil exports at record high; more flowing to Houston terminals**

(Bloomberg; May 12) - Oil pipelines from the top U.S. shale field to Houston that have run half empty are filling again as rising output has absorbed most of the space on lines to the main Texas export hub in Corpus Christi. U.S. crude exports climbed to a record of about 4.5 million barrels per day in March, spurred by recovering Chinese demand and competitive pricing for U.S. oil versus other supplies. Sanctions on Russian crude purchases by the European Union and Britain also have boosted demand.

Pipelines that move oil from the Permian Basin in West Texas to Corpus Christi are more than 90% full as buyers snap up the light, sweet oil, driving shippers to seek alternate routes, analysts said. Houston, previously the top U.S. export hub before a capacity expansion made Corpus Christi the main hub, has ample room at its terminals. Its pipeline utilization averaged 57% in 2022, up from 49% in 2021, according to East Daley Capital. That paves the way for new output from the Permian to flow to Houston.

Crude exports from Corpus Christi accounted for about 60% of all U.S. oil exports in 2022, from 28% four years earlier, according to RBN Energy's weekly Crude Voyager report. Houston's share fell to 22% from 33% during the same period. "Houston becomes the next logical market for those barrels," said Aaron Milford, CEO of Magellan Midstream Partners, which operates a pipeline from West Texas to Houston. Permian production this month is projected to hit a record 5.7 million barrels per day.

## **India saved an estimated \$5 billion buying discounted Russian oil**

(BBC; May 11) - India's imports of Russian oil rose tenfold last year, according to Indian state-controlled lender Bank of Baroda. The figures show Asia's third-largest economy saved around \$5 billion as it ramped up crude purchases from Moscow. It comes as Western countries have been cutting their imports of energy from Russia after its invasion of Ukraine. Russia has been selling crude at a discount to countries like China and India, which is the world's third-largest importer of oil.

In 2021 Russian oil accounted for just 2% of India's annual crude imports. That figure now stands at almost 20%, Bank of Baroda said. India's purchases of oil from Russia during the past financial year saved it around \$89 per tonne of crude, the figures show, or around \$12 per barrel. Despite pressure from the U.S. and Europe, India has refused to adhere to Western sanctions on Russian imports. New Delhi has also not explicitly condemned Russia's invasion of Ukraine.

India has defended its oil purchases, saying that as a country reliant on energy imports and with millions living in poverty, it was not in a position to pay higher prices. With no end in sight to the war, some analysts expect Russia to continue to offer cheap oil to Asia's biggest energy importers. "We expect Russian crude intake to remain limited to these two countries (India and China), sustaining the steep discounts," Vandana Hari, with energy analysis firm Vanda Insights told the BBC.

## **Growing part of Russian oil trade is ship-to-ship transfers at sea**

(Bloomberg; May 12) - It was 6:48 a.m. on Feb. 21. and two oil tankers were bobbing around in international waters about 40 miles east of Ceuta, a Spanish exclave at the northern tip of Morocco. The wind, which topped speeds of 33 miles per hour just a few days earlier, had dropped enough for the Amber 6 and the Catalina 7 — vintage vessels that combined would stretch the length of five soccer pitches — to come together for a ship-to-ship transfer of Russian oil.

As the two tankers maneuvered alongside each other, giant fenders were slung over the side of one of them to avoid their hulls crunching together. Once secured by their mooring lines the real work began: Switching of 730,000 barrels of oil from the smaller

of the duo, the Amber 6, onto the Catalina 7. With pipes connecting the ships, they sailed side-by-side for the next 30 hours, twisting and turning in the sea, as the Catalina 7 took every last drop of oil from the Amber 6.

Although transfers are not new, this rendezvous between the Amber 6 and Catalina 7 — which then carried the oil on to China — is anything but routine. One of more than 100 such transfers since Russia's invasion of Ukraine triggered sanctions against Moscow, it offers a real-time glimpse into a network of new and often faceless intermediaries and vessel owners. Working out of locations like Dubai and Hong Kong — and often using an armada of aging tankers, many of which experts suggest should be scrapped — the practice has mushroomed in recent months, redefining Russia's oil-supply chain.

Since the start of the year, more than 40 million barrels of Russian crude have been switched between tankers off the coast of Ceuta and in a bay in southern Greece, near the port city of Kalamata. The transfers frequently use tankers where there will be uncertainty about who owns them or who insures them, or both.

### **Venezuela plans to issue gas export license for Eni and Repsol**

(Bloomberg; May 12) - Venezuela plans to issue a license next month to Italy's Eni and Spain's Repsol to export natural gas, said Pedro Tellechea, the nation's oil minister and head of state-run Petroleos de Venezuela. The country already signed an agreement with the European energy giants on May 5 that allows for the export of natural gas liquids — condensates — to other markets. It was the first step toward enabling Venezuela to become a gas exporting country after over 100 years of focusing on oil.

“In the next few days, we will finish negotiating the LNG export license,” Tellechea said in an interview May 12 from PDVSA's offices in Caracas. “Eni and Repsol are interested in growing in the area of gas in Venezuela. They had been waiting for seven years for the export permit for natural gas liquids, which we have just granted.” The start date for gas exports will “depend on the speed of the investment,” he said.

The two European companies want to resume their jointly run Cardon IV project “at its maximum capacity,” which is 1.3 billion cubic feet per day, Tellechea said. It currently pumps 580 million cubic feet of gas to meet Venezuela's household and industrial demand. Tellechea, a military officer and engineer, was appointed as minister of Venezuela's oil industry in March, following a sweeping anti-corruption investigation into billions of missing revenue and faulty contracts that saw the ouster of his predecessor, Tareck El Aissami, a close ally of President Nicolas Maduro.

### **Tanzania reports cost escalation on proposed LNG project**

(The East African; May 13) - Tanzania says the cost of developing the nation's first liquefied natural gas project has risen to \$42 billion after a recent technical analysis, as the country looks to sign a host government agreement next month and embark on front-end engineering and design of what could become the next large energy project in eastern and southern Africa. Initially, total development costs of the offshore gas fields and onshore LNG terminal had been estimated at about \$30 billion.

"There is a lot of analysis ongoing. The recent technical analysis shows that offshore drilling and piping will push the project to \$42 billion," Tanzania's Permanent Secretary in the Ministry of Energy Felchesmi Jossen Mramba said. He was speaking in Kampala, on the sidelines of the 10th East African Petroleum Conference and Exhibition where Tanzania pitched a further 26 exploration areas both onshore and offshore, which will be up for grabs by year-end in the country's first licensing round since 2013.

Tanzania targets 2028 for a final investment decision on the LNG project — a delay from an initial target of 2025 — to develop its 57 trillion cubic feet of gas discovered so far. It is working with international oil companies Shell and Norway's Equinor as the lead partners. ExxonMobil also holds an interest in the leases. In March, Energy Minister January Makamba said they had concluded negotiations on the project and were proceeding to draft contracts, which included a host government agreement.

### **Strong global demand for U.S. sour crude hits Gulf Coast refiners**

(Reuters; May 2) - Sour crude oil supplies for U.S. Gulf Coast refiners will be squeezed in coming weeks, market participants said, as global demand rises following this month's OPEC+ production cut. The group's cutback of 1.16 million barrels per day will reduce stocks of sour crudes as U.S. refiners ramp up purchases for summer driving season. Shell's shut-in of its 375,000-barrel-per-day Zydeco pipeline in the Gulf of Mexico last month because of a leak also reduced supplies, traders and analysts said.

"We see sour demand being quite strong globally," said Jenna Delaney, head of North American crude at consultancy Energy Aspects. New refinery capacity coming online east of the Suez Canal also will increase the call for sour barrels "for the remainder of the year," he added. A lot of U.S. Gulf Coast refiners are configured to process the high-sulfur crude, and are currently pulling in minimal sour barrels from the Mideast, instead boosting Venezuelan imports, said Matt Smith, Kpler's lead oil analyst for the Americas.

Meanwhile, exports of popular U.S. and Canadian sour grades ramped up in March, mainly as Chinese refiners snapped up the barrels, Kpler data showed. Top U.S. refiners Valero Energy and Marathon as well as BP's Whiting refinery in the Midwest are top buyers of sour crude, said Hillary Stevenson, a senior director at IIR Energy.

## **BP exec explains it's too expensive to transport hydrogen**

(Upstream; May 2) - It does not make economic sense to ship clean hydrogen, known as green hydrogen, from country to country, and the industry should initially focus on replacing existing uses of gray hydrogen produced with fossil fuel, said a leading BP executive. BP's senior vice president for hydrogen and carbon capture and storage, Felipe Arbelaez, told the World Hydrogen Summit in Rotterdam on May 10 that clean hydrogen "has a vital role to play in cutting emissions, especially in sectors like cement, steelmaking and chemicals ... and for heavy transport — trucks, ships and aircraft."

He explained that hydrogen is more complex than any other energy commodity. "For instance: how do you price it? How do you produce, store and supply it safely?" Another issue is transportation. "With hydrogen right now, the transportation costs can actually outweigh the cost to produce the fuel," he told the conference. "That's because hydrogen is a less dense molecule than natural gas. It would take around three times as many ships to transport the same amount of energy as LNG (liquefied natural gas). ... Right now, that means there is no economic sense in shipping hydrogen."

"Piping hydrogen is much cheaper than shipping it. So, we could see a situation where it is piped interstate — from the U.S. Gulf Coast to the Midwest, to Indiana, Illinois and Ohio, for example." He added, "In time, when the regional supplies are taking off, when the technology advances and hydrogen can be shipped cost effectively, we will see a globally traded hydrogen market."

## **Malaysia's Petronas lowering its LNG contract prices**

(S&P Global; May 11) - Malaysia's national oil company Petronas is conducting price reviews for some of its ongoing long-term LNG contracts with customers in Japan, South Korea and China to bring them in line with prevailing market conditions, multiple traders and market participants said. The price reviews are likely to see a handful of LNG contracts, which were signed at high slopes of 14.85% of crude or more, brought down to slopes below 14% of the price of a barrel of oil (per million Btu of LNG) to reflect recent deals and bringing some respite to utilities in East Asia, the traders said.

Several legacy LNG contracts in the Asia-Pacific region are pegged to a 14.85% slope of the crude oil price, which was a relatively high price but were signed when the market had few suppliers, such as Malaysia, Qatar and Australia, and U.S. LNG had not yet emerged to lower global prices. Moreover, Australian LNG projects were some of the world's most expensive and needed high returns to break even.

In later years, the slopes started to decline to a range with a low end of 12%, depending on oil prices and competing LNG supply from new sources. Petronas remains one of the key suppliers to Japanese utilities. Some of Petronas' price reviews for 2023 were

already concluded in the first quarter, while some are being actively negotiated and others are scheduled to commence in the second half of the year, market sources said.

### **Report cautions B.C. could be short clean electricity for LNG projects**

(Business in Vancouver; May 11) - While industry players were in Vancouver this week at the Canada Gas and LNG conference to talk about the opportunities and challenges of British Columbia's nascent LNG industry, the Pembina Institute was dashing cold water on the notion that the province can develop an LNG industry while meeting its own greenhouse gas emissions reduction targets.

The problem is the amount of electricity that would be needed to reduce the emissions intensity of all LNG projects to the point that they would fit within B.C.'s new emissions limits for oil and gas. Basically, the province would need to make huge investments in one form of energy — clean electricity — to permit the growth of another form of energy, liquefied natural gas, the Pembina Institute study warns.

If all five LNG projects that are either under construction or in the regulatory queue are built, electrifying the plants as well as the upstream production operations would require the equivalent of eight hydroelectric dams, the Pembina Institute report estimates. The report assumes electrification will do all the heavy lifting, whereas its possible some of the emissions reductions that industry will be required to accomplish would be accomplished through carbon capture and storage, or carbon offsets.

### **Critics says Australia's tax reform proposal doesn't go far enough**

(Australian Broadcasting Corp.; May 11) - Economists and energy experts say the government is shortchanging Australians with planned changes to the Petroleum Resource Rent Tax that will only raise an additional A\$2.4 billion over five years. Tax specialist Steven Hamilton, an assistant professor of economics at George Washington University, said the changes detailed in the budget were "mostly cosmetic." He said, "They don't raise a huge amount of money — we're talking something like \$600 million a year — and most of that is about shifting the money forward."

"So, over the lifetime of these projects," Hamilton said, "the government's not really raising any more money. They're just collecting more money now." It is a view shared by independent economist Chris Richardson, a long-time commentator on the federal budget and fiscal policy. He said the government's plan to limit deductions to 90% of assessable income, so that PRRT would be paid on at least 10% of income, "effectively operates as a minimum tax." He added, "I don't think it's enough of a change."



The Grattan Institute's energy program director Tony Wood, who previously was with Origin Energy — one of the producers potentially affected by the changes — said, "\$2.5 billion over the forward estimates is nothing to sneeze at," but the government "could have gone harder." He added, "The main problem is that it (PRRT) inflated deductions over time far too fast." Companies were able to deduct investment costs before paying any tax, with accumulated deductions escalating each year based on a formula in law.

## **Bangladesh conference calls for more energy transition help**

(The Financial Express; Dhaka, Bangladesh; May 11) - A clarion call came from a conference in Bangladesh for the world's richest nations to end their investment in coal and liquefied natural gas in developing countries immediately to help save the planet. The U.S. and Japan should prioritize a complete phase-out of coal by halting all financing of coal projects, especially in developing countries, said speakers May 10.

Liquefied natural gas is a carbon-based fuel too, and promoting LNG as a transitional fuel will further "disrupt the process of fossil-fuel phase-out by 2030," speakers pointed out. The group of seven developed countries, or G7, should take the initiative to end support for fossil fuels and accelerate the transition to renewable energy, the speakers stressed. The Centre for Policy Dialogue organized the dialogue, G7 Summit in 2023: Call for Global Initiatives for Ending Support for Fossil Fuels and Accelerating the Transition to Renewable Energy," ahead of the 49th G7 Summit May 19-21 in Japan.

As a developing country, Bangladesh has expectations to receive proper guidance, assistance, support and funding to prevent, mitigate, counter and adapt to climate change to ensure the clean-energy transition without risking domestic energy security, said the speakers. The G7s can help Bangladesh achieve the goal of 40% renewables by 2041 with financial assistance to ensure a smooth energy transition, speakers said.