Oil and Gas News Briefs
Compiled by Larry Persily
July 1, 2024

Overbudget Canadian oil line needs high-paying users to cover costs

(Reuters; June 27) - Canada's Trans Mountain oil pipeline will rely heavily on last-minute shippers to turn a profit, the corporation's financial projections show, clouding Ottawa's efforts to sell the pipeline now that its C$34.2 billion ($25.04 billion) expansion is finished after years of delays and overruns. Documents filed by Trans Mountain as part of a regulatory dispute over its tolls show it could take up to eight years to make money unless the line fills thousands of barrels a day of uncommitted shipping space.

Trans Mountain said it expects the line will be highly utilized as Canadian production grows, but some traders and analysts warn that will be challenging given the higher tolls and logistical constraints at the Port of Vancouver terminus. The 890,000 barrel-per-day pipeline started service in May and reserves 20% of its space for uncommitted, or spot, customers that pay higher tolls than shippers with long-term contracts.

But spot-shipping demand is difficult to forecast because it relies on the fluctuating price of Canadian oil versus other heavy crudes in the market, said Morningstar analyst Stephen Ellis. "If you're trying to sell something, and you have uncertainties, it's going to affect the value someone's going to pay for it," said Mark Maki, Trans Mountain's chief financial officer. The Canadian government has said it wants to sell the line, but has not provided a schedule. Trans Mountain borrowed C$17 billion from the government and has a C$19 billion syndicated loan from commercial banks. The April financial projections show it could pay more than C$1 billion in interest annually until 2032.

Canadian oil goes to California for reloading on larger tankers to Asia

(Bloomberg; June 27) - Canada’s newest oil pipeline has turbocharged exports of the country’s heavy crude to Asia — and a diversion through California is making for a longer but potentially cheaper journey. Close to 3 million barrels have been sent from Vancouver for China or India since the expanded Trans Mountain line began operating in May — the sole pipeline linking Alberta to a Canadian port. More than 55% of those 3 million barrels have journeyed to Southern California where the crude was transferred onto very large crude carriers to reach Asia, according to Vortexa tracking data.

The transfers have offset one of the key disadvantages of exporting Canadian crude off the West Coast versus the U.S. Gulf: The port of Vancouver can only accommodate Aframax-size tankers or smaller, which hold less than half of what VLCCs hold. As such, shipping directly from Western Canada to distant markets would typically cost close to

twice as much per barrel per day than on VLCCs, according to a ship broker. However, the diversion to California has lengthened the time of the journey to Asia, reducing a key advantage of exporting Canadian crude off the West Coast versus the U.S. Gulf.

“Sending an Aframax directly to China is costly, but so are multiple reverse lighterings onto a VLCC off California,” Matt Smith, head analyst at Kpler, said by email. “It seems more likely that direct Aframaxes to Asia will win out because China will take more of the volume.” Using VLCCs for shipments to India is more probable, but India has become increasingly reliant on Russian oil, reducing imports of Canadian oil from the U.S. Gulf.

Canadian Crown corporation will help finance LNG project

(Canada’s National Observer; June 27) - Canada’s Crown corporation dedicated to helping industries export overseas has confirmed it will finance up to C$500 million for a First Nation-led liquefied natural gas export project in British Columbia. Export Development Canada said this week it will provide a loan to Cedar LNG of between $400 million and $500 million as part of a wider lending group.

Cedar LNG is led by the Haisla Nation, a majority owner of the project with a 50.1% stake. The nation has partnered with Calgary-based Pembina Pipeline for the project that will be a floating LNG facility with a capacity of 3.3 million tonnes a year. It is expected to be in service by late 2028. The partners in June announced a final investment decision to proceed with construction at the site in Kitimat, British Columbia.

The loan represents a key piece of the financing puzzle that is now solved for Cedar LNG. The project has also secured a construction-term loan with a “syndicate of banks” for around 60% of the approximately $4 billion project cost. The other 40% will be equity, contributed by the Haisla Nation and Pembina. The Haisla have praised the project as a pathway to prosperity and self-reliance, pointing to its ability to fund the First Nation’s social services and cultural programs without depending on federal aid.

Saudi Aramco awards $25 billion in contracts to boost gas production

(S&P Global; June 30) - Saudi Aramco has awarded $25 billion of contracts to expand its natural gas production, in line with Saudi Arabia's ambitions to have the supplies needed to meet anticipated rising demand. Sixteen contracts totaling $12.4 billion have been awarded for Phase 2 development of the Jafurah gas field. Jafurah is the kingdom's largest unconventional non-oil associated gas field and is potentially the biggest shale gas development outside the United States, with reserves reaching 229 trillion cubic feet of gas and 75 billion barrels of condensates.

An additional 15 contracts for $8.8 billion were awarded to begin the Phase 3 expansion of Aramco's master gas system, which sends gas to customers across the country. Also, 23 gas rig contracts for $2.4 billion were awarded, along with two directional-drilling contracts totaling $612 million. Lastly, 13 well tie-in contracts at Jafurah for $1.63 billion have been awarded through May. Aramco did not name which companies got all the awards, though it cited a South Korean and a Chinese company among the contractors.

The projects aim to boost the company's gas production and add "significant" volumes of ethane, natural gas liquids and condensate, the company said. The expansion will raise the company's capacity by 3.15 billion cubic feet per day of gas by 2028 and 2,500 miles of pipelines will be installed. The Jafurah project is expected to start up in the third quarter of 2025, with total investment in the field at more than $100 billion.

Abu Dhabi company goes after its biggest energy deal

(Bloomberg; June 27) - For years, Abu Dhabi's main oil producer was known as a sleepy state company content to churn out crude from its vast oil fields. But that stodgy reputation is getting a dramatic makeover as it uses a $150 billion budget to become one of the world's most active energy dealmakers. Abu Dhabi National Oil Co. this week took a big step in its global push by suggesting it could raise an offer for German chemicals maker Covestro to about $12.5 billion.

ADNOC has already strung together a number of smaller deals, but a Covestro purchase would be the biggest international acquisition by a Persian Gulf company and announce ADNOC's ability to pay top dollar to match its outsized goals. The company's ambitions were fired up about 18 months ago at a board meeting inside ADNOC's glass-clad skyscraper. There UAE President Sheikh Mohammed bin Zayed Al Nahyan boosted the company's budget by nearly a fifth to increase oil and gas production capacity and to snap up assets in chemicals, gas and clean energy across the globe.

Since then, the flow of bankers from around the world to ADNOC's doorstep has surged, with some even proposing what would have been an audacious move for oil major BP, according to people familiar with the matter. While the BP idea never advanced, ADNOC continues to be among the most aggressive companies in searching for energy deals, according to the people. A successful close on the Covestro deal would offer credibility to Abu Dhabi's ability to execute sophisticated cross-border acquisitions and provide impetus for even bigger deals, sources said.

Chinese state firms join together to drill for ultra-deep oil

(Reuters; July 1) - China is setting up a new entity that groups together national oil producers and other state firms to search for ultra-deep oil and gas reserves and tackle

harder-to-extract non-conventional resources, state energy group CNPC said on July 1. This is in answer to President Xi Jinping's call for the sector to have "new productive forces" that will contribute to the country's energy security, CNPC said on its website.

In addition to CNPC and Sinopec, the country's two dominant oil and gas producers, the new collective gathers seven other state groups including China Aerospace Science and Industry Corp., steel group Baowu, equipment builder Sinomach, Dongfang Electric Group and Minmetals. "This ... is to gather wisdom and strength to jointly build an industry chain from ultra-deep oil and gas exploration to development to engineering," CNPC said.

The group will drill conventional resources at ultra-deep wells that extend as much as 6.21 miles below the surface in places like northwest Xinjiang's Tarim basin region where CNPC and Sinopec are major players. It will also seek to tap deep shale oil and coal-seam gas resources. China is the world's largest crude oil importer and relies on imports for nearly three-quarters of its needs. It has been investing billions of dollars to maintain its domestic crude oil production at above 4 million barrels a day, a level seen as necessary to power manufacturing activities and military services.

Newcomers to energy business build up U.S. LNG position

(Bloomberg; June 26) - The U.S. Gulf Coast is probably the only place in the world where two men with virtually no experience running an energy business could upend an industry while becoming billionaires in the process. Little more than a decade ago, ex-banker Mike Sabel and lawyer Bob Pender were driving across Texas to raise money for something that no global energy major, let alone a little-known start-up like theirs, had ever pulled off: building a multibillion-dollar plant to liquefy and export U.S. gas.

In an industry dominated by supermajors and petrostates, the outsiders realized their vision. Today, they own Venture Global LNG and are on pace to become one of the biggest U.S. suppliers of the fuel. The question is whether their company can sustain its pace of growth amid political pressures and an attitude toward customers and rivals that has ruffled feathers. Sabel, 57, and Pender, 71, have redrawn nearly everything, from the design of their facilities to the way they handle customers, including long-term ones that have yet to receive any contracted shipments during the first two years of output.

“They came out of nowhere, total dark horses,” said Susan Sakmar, a University of Houston visiting law professor who’s written a book on LNG. They chose a modular design, allowing factories to fabricate difficult pieces and later combine them like massive Legos on site. Its first project, Calcasieu Pass, went from a final investment decision in 2019 to exports in just 29 months, one of the fastest LNG plants ever constructed. Venture Global’s second site, Plaquemines, is ahead of schedule and expected to begin production in the next few months, roughly two years after its decision to proceed. The industry average is about four to six years.

From the two plants, Venture Global is poised to produce 30 million tons of LNG a year, about a third of the U.S. market today. It has plans for two more. But it has angered its long-term contract customers by operating Calcasieu Pass for two years, selling the production on the profitable spot market while telling its contract buyers that the plant is undergoing commissioning — and they cannot have their gas until commissioning is finished. The dispute is in arbitration. Customers have gone from impatient to livid. Multiple arbitration cases with several of the world's biggest oil companies isn't good for business — it's been a year since Venture Global has signed a new long-term contract.

FERC approves Louisiana LNG project; export authorization on pause

(Reuters; June 27) - Federal regulators on June 27 approved a Louisiana liquefied natural gas project that has been a lightning rod for environmental activists and a litmus test for the Biden administration's energy policies. The Federal Energy Regulatory Commission voted 2-1 to allow construction and operation of the Calcasieu Pass 2 LNG plant and a related, 85-mile-long pipeline.

The multibillion-dollar export plant proposed by Venture Global LNG would supply 20 million tonnes a year to customers for worldwide distribution. The project has drawn the ire of environmentalists who say the project would entrench the use of fossil fuels that contribute to climate warming and emit tons of pollution into surrounding communities. FERC's approval clears the way for Virginia-based Venture Global LNG to become the second-largest U.S. LNG exporter, behind Cheniere Energy. The company has two plants operating or under construction in Louisiana and aims to build two more.

The Calcasieu Pass 2 plant is the first to win FERC construction authorization since the administration of President Joe Biden in January put a pause on future LNG export permits to review economic and environmental implications. That review is expected to wrap up after the presidential election in November. Energy Department export approval is separate from FERC authorization to construct and operate an LNG terminal.

Federal Reserve survey says U.S. oil output will decline with mergers

(Bloomberg; June 26) - U.S. oil production will decline if the corporate-acquisition spree sweeping the shale sector is prolonged, according to a Federal Reserve Bank of Dallas survey. More than 50% of oil executives told the Dallas Fed they foresee lower domestic crude production if the consolidation trend continues for five years, according to second-quarter survey results released June 26. "Consolidation by E&P firms has curtailed investment in exploration," an oil executive was quoted as telling the bank.

"The last few years of mergers and acquisitions have decreased activity in the oil patch," another said. About 48% of the executives surveyed expect "slightly lower"

production and 6% foresee “significantly lower” production. Shale operators are being closely watched by OPEC+ for any supply impacts from the recent wave of acquisitions. The sector’s $250 billion in takeovers in recent months make it less likely the U.S. will surprise the oil market like it did with last year’s million-barrel boost in daily production.

Full-year 2024 production is forecast to rise by about 310,000 barrels per day, according to the U.S. Energy Information Administration. The number of rigs drilling for oil is at the lowest since early 2022 while the number of deployed frack crews is about half what it was six years ago. The Dallas Fed’s quarterly surveys are widely read for the anonymous comments that offer an unfiltered view on a range of oil industry topics. The bank’s region encompasses Texas, northern Louisiana and southern New Mexico.

Reuters poll points to little change in oil prices in second half of year

(Reuters; June 28) - Oil prices will not change much in the second half of 2024 as concerns around demand from China and prospects of higher supply from key producers counter risks from geopolitical tensions, a Reuters poll indicated on June 28. A poll of 44 analysts and economists surveyed by Reuters in the past two weeks forecast the global benchmark, Brent crude, would average $83.93 per barrel in 2024, just shy of the $84.01 consensus in the previous month's poll.

The forecast for average 2024 U.S. crude, at $79.72, was slightly above May's poll result of $79.56. Brent crude futures have averaged $83.40 thus far in 2024, after brief spikes to as high as $92.18, driven by supply risks due to the conflict in the Middle East. "Beyond the noise, oil prices seem stuck in a sideways trend," with supply and demand providing little direction and storage levels floating well within seasonal norms, said Julius Baer analyst Norbert Rücker.

However, a few analysts said prices could jump to the $90 mark and potentially beyond, depending on a variety of factors including summer consumption, the geopolitical situation in the Middle East, and output curbs from the Organization of the Petroleum Exporting Countries. On the supply side, meanwhile, most analysts noted that crude production from non-OPEC countries is rising. If OPEC+ moves ahead with gradually unwinding its current production cuts from October, the market could move into a small surplus by the end of 2025, said William Weatherburn, analyst at Capital Economics.

U.S. oil deals extend out from Permian Basin into Utah

(Wall Street Journal; June 27) - EnCap Investments’ $2.55 billion sale of oil and gas assets in Utah’s Uinta Basin shows that a wave of private-equity exit deals in the U.S. oil patch has washed beyond the popular Permian Basin in Texas and New Mexico. EnCap-backed energy company XCL Resources is selling an 80% interest in its Uinta

assets to publicly traded SM Energy for $2.04 billion, while Northern Oil and Gas would pick up the remaining 20% for $510 million, according to Denver-based SM Energy.

The assets include about 37,200 net acres with a daily output of 38,000 barrels of crude and 390 locations to drill new wells. EnCap first backed XCL Resources in 2018. The deal, expected to close in September, is one of the largest private-equity transactions involving oil and gas assets outside the Permian in recent years, according to Andrew Dittmar, a director at energy-focused data analytics provider Enverus in Austin, Texas.

The Permian, which spreads over parts of West Texas and southeastern New Mexico, has seen a rash of multibillion-dollar deals during the past year that involved large publicly traded buyers and private equity-backed sellers, including Houston-based EnCap. It's driving their smaller peers to look for acquisitions in less-favored areas, creating sale opportunities for private-equity sponsors.

More oil and LNG moving through Russia's Arctic waters this summer

(High North News; June 28) - As the summer navigation season in the Russian Arctic officially begins on July 1, the Northern Sea Route (NSR) looks set for a significant boost in traffic. The first eastbound delivery of liquefied natural gas from Yamal is days away from completing the first voyage to Asia of the summer. The LNG carrier Eduard Toll is traveling together in a convoy with nuclear icebreaker Sibir and crude oil shuttle tanker Shturman Skuratov. LNG shipments, crude oil transits and burgeoning container shipping will dominate the route this summer.

Russia's largest LNG producer Novatek looks set to send record volumes to markets in Asia and Europe. With 28 LNG carriers having received permits for the NSR thus far, a higher figure than during all of 2023, activity will ramp up quickly. In addition to exports from Yamal, the company will be aiming to begin production at its new Arctic LNG 2 facility which has been sitting idle since December for lack of ice-class tankers. Western sanctions are a formidable challenge to establishing regular shipping from the project, but Novatek is all but guaranteed at least ad-hoc voyages in the summer months.

Further east along the route, Rosneft continues work on its massive Vostok Oil project. While originally set to come online in 2024, the present timeline for its opening remains uncertain. Significant volumes of construction materials are being sent along the route, which will continue throughout summer as the company works on port and onshore facilities. Even without any exports from Vostok this summer, the route appears on track to see significant volumes of crude shipped to Asia. Last year vessels carried more than 10 million barrels of crude oil, a figure Russian officials aim to at least double in 2024.

Novatek continues work on second production unit for Arctic LNG 2

(Reuters; June 27) - Russian energy company Novatek plans to start delivering the foundations for the second stage of its Arctic LNG 2 plant in late July, two sources familiar with the plans told Reuters on June 27. The plans show Novatek is pressing ahead with the delayed $21 billion project despite Western sanctions that have restricted access to technologies and the availability of ice-class tankers to carry liquefied natural gas.

Arctic LNG 2 began production on the Gydan Peninsula, which juts into the Kara Sea, in December, but has yet to deliver its first cargo. It had been planned as Russia's largest LNG plant with eventual output of 19.8 million tonnes per year of LNG and 1.6 million tonnes per year of stable gas condensate from three production trains. However, last year it found itself included in Western sanctions over Russia's war against Ukraine, prompting foreign shareholders to freeze participation and Novatek to issue a force majeure to warn it would not be able to honor contractual obligations.

Further complicating the project's development, Chinese engineering firm Wison New Energies said last week it had decided to discontinue all of its ongoing Russian projects, and to immediately and indefinitely stop taking on any new Russian business. Despite the growing challenges, a source said delivery of the second production unit from the construction yard in the Murmansk region in northern Russia would start the third week of July, with the concrete structure beginning its voyage to the Arctic LNG 2 site.

Russia starting to pull together shadow fleet of LNG carriers

(Bloomberg; June 27) - In the months that followed its invasion of Ukraine and Western restrictions imposed in response, Russia amassed a shadow fleet to ferry its oil around the world. There is growing evidence Moscow has begun to do the same for liquefied natural gas. Gas is key to the Kremlin's plans to boost exports, replenish government coffers and fund its war machine — but that requires a larger share of the global LNG market, now that the once-lucrative European pipeline trade has been mostly cut off.

To date, expansion plans have been hampered by U.S. sanctions that have kept foreign companies away and stopped delivery of the specialized, ice-class LNG carriers needed to reach Arctic facilities. New European curbs coming in next year, limiting port access, will hinder the current supply chain even further. But in the past three months, the ownership of at least eight LNG carriers has been transferred to little known companies in Dubai, according to Equasis, a global shipping database. Four are ice-class and have been granted approval from Moscow to sail through Russia's Arctic waters this summer.

While Bloomberg has not been able to connect the vessels to major Russian entities, the details are similar to schemes to create the nation's shadow oil fleet, including using opaque companies and ships so old they would normally have been decommissioned.

In the tight-knit LNG industry, much smaller than the oil market, it is highly unusual for an unfamiliar name to procure specialized carriers that can cost hundreds of millions of dollars. At least three of the tankers have their insurers listed as “unknown” on the International Maritime Organization database — a characteristic of dark-fleet ships.

Offshore Israel gas field moves toward expansion, with exports

(World Oil; June 26) - The Leviathan gas field offshore Israel — touted as the largest gas field in the Mediterranean — is set to expand its export capacity, following preliminary approval from Israel’s Energy Ministry. The approval allows for an increase in exports of up to an additional 5 trillion cubic feet of gas. The partners — NewMed Energy, Chevron and Ratio Energies — are preparing front-end engineering design and procurement. The full project cost is estimated at $400 million to $500 million.

Phase 1B of the development plan aims to boost production to almost 750 billion cubic feet per year, addressing domestic demand and potentially supplying global markets. This phase includes plans for liquefied natural gas exports to expand the customer base to Europe and the Far East, with negotiations ongoing for using liquefaction facilities in Egypt and a floating unit in Israel's exclusive economic zone.

The Energy Ministry's approval stipulates that natural gas exports will be on an interruptible basis, ensuring Israel’s domestic supply needs are met first. Leviathan, with estimated reserves of 19 trillion cubic feet of gas, started production in December 2019, sending its gas to Israel through a subsea pipeline.

Construction starts on Germany’s first onshore LNG import terminal

(Reuters; June 28) - The construction of Germany's first land-based liquefied natural gas terminal at the inland port of Stade kicked off on June 28 with the goal of starting operation in 2027, said the project firm Hanseatic Energy Hub. The project on the river Elbe is part of Germany's broader efforts to diversify its energy sources after a sudden drop of Russian gas imports following Moscow's invasion of Ukraine.

The terminal will be ammonia-ready as Germany and its neighbors aim to replace gas with green hydrogen and its derivatives in the future to cut carbon-dioxide emissions. Czech utility CEZ, Germany's utility EnBW and importer SEFE have committed to take 90% Stade's annual volume capacity of almost 500 billion cubic feet of natural gas (about 10 million tonnes of LNG). HEH said all customers have the option to switch their contracts to hydrogen-based energy sources, such as ammonia, in the future.

Spanish gas grid operator Enagas will assume the terminal's operational responsibility, HEH added. A floating regasification vessel arrived at Stade for test operations in

March, which along with three others working at Wilhelmshaven, Brunsbuettel and Lubmin will be used for the regasification of LNG imports into Germany until 2027.