Oil and Gas News Briefs
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Global peak oil demand could depend on Saudi power generation

(Bloomberg columnist; June 17) - The Shoaiba power plant, a sprawling complex of giant boilers and towering chimneys, is the improbable ground zero of the forces reshaping the energy market. Located in Saudi Arabia, it's the world's largest oil-fired electricity generator. At its peak, it gulps about 200,000 barrels a day, more than enough to meet the daily consumption of a small European nation like Portugal.

If global oil demand is to peak within the next five years, as the International Energy Agency just predicted, it will require more than mass adoption of electric vehicles. Ironically, Riyadh will have to slash its own use of its homemade power source, making the Shoaiba and similar power plants the stuff of yesteryear. The staggering amount of oil the Saudis consume — 3.7 million barrels a day, the world's fourth most, behind only the U.S., China and India — means the kingdom will play a key role in shaping oil demand to 2030, potentially accelerating peak consumption or delaying it.

Put succinctly, global oil demand can only peak in 2030 if Saudi Arabia plays ball, embarking on a massive oil-saving program. The kingdom of roughly 35 million people needs a lot of electricity to power air conditioning during its sweltering summers and to desalinate sea water. The rest of the world largely stopped using crude for power generation after the 1970s' oil shocks made the fuel prohibitively expensive. But oil is, of course, cheap in the kingdom, and the Saudis often burn it directly in power plants, without first refining it. It's an inefficient and filthy system, but it works.

Texas LNG project owners want court to oust bankrupt contractor

(Reuters; June 19) - Owners of a $10 billion liquefied natural gas project that has stalled with the bankruptcy of its main contractor are asking a court to immediately oust Zachry Industrial from the project, a court filing showed. Zachry, which held the lion's share of the contract to build Golden Pass LNG in Texas, filed for Chapter 11 bankruptcy last month after suffering enormous cost overruns. It said it was pursuing a "structured exit."

Golden Pass LNG, a joint venture between QatarEnergy and ExxonMobil, asked a U.S. bankruptcy court on June 18 to sever Zachry's $5.8 billion contract within five days, or allow the venture to take possession and control of the facility, which is about 75% complete. "Zachry has stopped performing its obligations under the EPC (engineering, procurement and construction) contract, fired thousands of workers, stopped paying its subcontractors and abandoned the Golden Pass project that it committed to building at a lump-sum fixed price," the filing said.

Zachry said it expects "to receive fair and appropriate compensation" for its role in the construction work. It previously said costs had ballooned by $2.4 billion from pandemic-related challenges, change orders and billing schedules, and it had been unable to resolve the difference with the owners. Golden Pass LNG told the court it needs to immediately take over the contract and resume construction "to prevent further long-term deterioration" of the partially built plant.

Energy economists say growing LNG supply could outpace demand

(Offshore Energy; June 17) - After the energy crisis hit in 2022, many countries took steps to bolster their liquefied natural gas supplies along with other fossil fuels and cleaner energy. This also spurred a greater shift toward alternative energy options. With this at the forefront, a wave of LNG supply is set to flood the market amid uncertain demand, according to the Institute for Energy Economics and Financial Analysis.

IEEFA's recent Global LNG Outlook points out that sluggish LNG demand growth, in combination with a rise in global export capacity through 2028, has the potential to push markets into an extended period of oversupply within two years while major importing regions, including Japan, South Korea and Europe, which together account for more than half of the world's LNG imports, are targeting cuts in LNG demand through 2030.

While global LNG suppliers and traders are expected to rely on growth in emerging markets to compensate for falling imports elsewhere and absorb a flood of new supply, such rapid LNG demand growth in emerging economies is not guaranteed. IEEFA explains that countries in South and Southeast Asia will face barriers to rising demand, including fiscal and credit challenges, extensive infrastructure delays and contracting issues, among other obstacles. LNG projects under construction are anticipated to add 193 million tonnes per year of output capacity, adding 40% to potential global supply.

Report points to potential challenge for Australian LNG

(Rigzone; June 19) - Australian liquefied natural gas producers are potentially facing a couple of challenges in the global market: a possible oil supply glut and a global LNG oversupply. The Institute for Energy Economics and Financial Analysis said in a news release that demand for LNG is starting to decrease in mature markets. European demand for LNG is expected to peak in 2025 and then decline, with its gas consumption having already decreased by 20% in the past two years.

Japan’s LNG demand has decreased by 25% since 2014 and is expected to decrease by a further 25% by 2030 as LNG is displaced by increasing nuclear and renewables generation. South Korea’s LNG imports fell by 5% last year and are expected to fall further by 2030. The report published by IEEFA, Global LNG Outlook 2024-28, found that global LNG markets are headed toward a supply surplus within two years. Between 2024 and 2028, global LNG supply will increase by 40%, an unprecedented level of growth for the LNG industry in such a short time period.

Capacity additions are dominated by Qatar and the U.S., which have much lower costs of production than Australia, according to the report, which noted that Australian producers could face “high risks of declining prices for the uncontracted portion of their production.” The majority of Australian LNG is sold under long-term contracts linked to the price of oil. If, as some predict, global oil supply exceeds demand in a world moving to renewables, then as oil prices weaken, so too would LNG contract prices.

London bank says U.S. shale growth will continue to 2028

(Bloomberg; June 18) - U.S. shale drillers will continue to raise oil production for years before the juggernaut stalls around 2028, dashing OPEC+ hopes for a quicker fall-off in American output growth, according to HSBC Holdings. Improvements in drilling and fracking techniques amid a wave of corporate takeovers will drive the expansion and more than offset recent reductions in drilling rig deployments, analysts at the London-based bank wrote in a note titled “Underestimate U.S. shale at your peril.”

“Some expect U.S. shale to peak soon, and OPEC+ hopes this will be the case as it would allow the group to finally unwind its supply cuts,” analysts led by Kim Fustier wrote. But “U.S. shale could grow for the next three to four years.” Expectations for slower U.S. shale production was a factor in the recent decision by OPEC and its allies to gradually increase supplies by bringing curtailed barrels back to the market.

But investors should be wary of “substantial” productivity gains that may extend U.S. growth beyond current forecasts, HSBC wrote. U.S. shale fields will up production by about 400,000 barrels per day in the next year, with slower growth thereafter.

Alberta report says emissions cap will lead to curtailed production

(The Canadian Press; June 18) - Canadian oil and gas companies facing a federally imposed emissions cap will decide to cut their production rather than invest in too-expensive carbon capture and storage technology, a new report by accounting firm Deloitte says. The report, commissioned by the Alberta provincial government, aims to assess the economic impact of the proposed cap.

Its findings contradict the federal government's stance that its proposed cap on greenhouse gas emissions from the oil and gas sector would be a cap on pollution, not a cap on production. And it supports Alberta's position that a mandated cap would lead to production curtailments and severe economic consequences. The Deloitte report also casts doubt on the idea that widespread deployment of carbon capture and storage technology will drive down emissions from the oil and gas sector in the coming years, suggesting that scenario doesn't make financial sense.

"We expect that the cap (will impose) 20 megatonnes in emissions reduction on producers by 2030, which will need to be achieved by CCS (carbon capture and storage) investments, or through production curtailment," the Deloitte report states. "Curtailing production would be a more cost-effective option compared to investing in CCS." The oil and gas sector is Canada's heaviest-emitting industry, and rising oil sands production has meant total emissions from the sector are increasing at a time when many other sectors of the economy are successfully reducing overall emissions.

Judge orders railroad to pay tribe for violating oil-by-rail limit

(Associated Press; June 17) - BNSF Railway must pay nearly $400 million to a Native American tribe in Washington state, a federal judge ordered June 17 after finding that the company intentionally trespassed when it repeatedly ran 100-car trains carrying crude oil across the tribe's reservation. U.S. District Judge Robert Lasnik ruled last year that the railway deliberately violated the terms of a 1991 easement with the Swinomish Tribe north of Seattle that allows trains to carry no more than 25 cars per day.

The judge held a trial earlier this month to determine how much in profits BNSF made through trespassing and how much it should be required to disgorge. The tribe, which has about 1,400 members, sued in 2015 after BNSF dramatically increased, without the tribe's consent, the number of cars it was running across the reservation so that it could ship crude oil from the Bakken shale formation in and around North Dakota to a coastal refinery. The rail route crosses sensitive marine ecosystems along the coast, over water that connects with the Salish Sea, where the tribe has treaty-protected rights to fish.

The tribe pointed out that a corporate predecessor of BNSF laid the tracks in the late 19th century over its objections. The tribe sued in the 1970s; the litigation settled in 1991, when the tribe granted an easement allowing limited use of the tracks. The tribe learned through a 2011 Skagit County planning document that a nearby refinery would start receiving crude oil trains. It wasn't until the following year that the tribe received information from BNSF addressing current track use, court documents show.

Chinese yards help Russia's Novatek continue with LNG project

(High North News; June 17) - Russian liquefied natural gas producer Novatek appears confident that it will be able complete its Arctic LNG 2 plant as designed at 19.8 million tonnes annual output capacity, despite a host of Western sanctions. Based on internal company communications, Novatek expects to tow the third and final production line of Arctic LNG 2 from the construction yard near Murmansk to the project site on the Gydan Peninsula in July 2026.

According to the communications, the fabrication of individual modules faces delays of approximately three to six months but the target "sail away" date of the third production line remains unchanged. Each of the project's three production lines consist of 14 modules installed atop a giant concrete-and-steel platform at Novatek's own Belokamenka assembly yard. Novatek is heavily reliant Chinese yards for manufacturing the modules — all of the modules for the first liquefaction train were produced in yards across China and shipped to Belokamenka aboard heavy-lift vessels.

For Train 2, two modules were manufactured in Russia and that number was expected to increase to 10 for Train 3. However, that figure seems to have been too optimistic, as several Chinese yards remain critically involved in the manufacturing of modules for Train 3, especially those containing power-generation units and refrigeration strings. Novatek started operations at Train 1 in December 2023 but has yet to export any gas from the plant because of the lack of ice-class LNG carriers due to Western sanctions.

Gazprom says work on Baltic LNG progressing despite sanctions

(Upstream; June 19) - Construction of the Baltic LNG project is progressing despite U.S. actions to prevent it and other Russian liquefied natural gas export projects, according to national gas giant Gazprom. The statement came after Gazprom executive chairman Alexei Miller visited the construction site near the port of Ust-Luga at the end of last week, almost concurrently with the announcement of a new round of U.S. sanctions targeting new Russian LNG projects.

Baltic LNG, consisting of two liquefaction trains with a capacity of 13.1 million tonnes per year of LNG, is part of the large wet-gas handling complex to be built in Ust-Luga. The complex includes a facility for removing ethane from the incoming hydrocarbon mix for use in polymer production. In the statement, Gazprom said construction of the LNG plant is more than 32% complete. Orders have been placed for major equipment, including the entire line of long-lead equipment, the company added. First equipment deliveries are planned for the third quarter of 2024, Gazprom said.

According to a Russian government decision published at the end of January this year, the country's National Welfare Fund will provide the Baltic project with about 900 million roubles ($10 billion) in loans to be split evenly between the LNG plant and ethane processing facility. The government said total investments required for the venture are estimated at over 4.9 trillion roubles. About 2.88 trillion roubles are being provided by Russian banks at a preferential interest rate and 1.2 trillion roubles by the project's partners, Gazprom and Russian privately held gas player Rusgazdobycha.

Europe finding it hard to completely turn away from Russian gas

(Financial Times; London; June 15) - Europe's gas imports from Russia overtook supplies from the U.S. for the first time in almost two years in May, despite the region's efforts to wean itself off Russian fuel since the invasion of Ukraine. While one-off factors drove the reversal — including an outage at a major U.S. LNG supplier — it highlights the difficulty of further reducing Europe's dependence on Russian gas, with several eastern European countries still relying on imports from their neighbor.

"It's striking to see the market share of Russian gas and (liquefied natural gas) inch higher in Europe after all we have been through, and all the efforts made to decouple and de-risk energy supply," said Tom Marzec-Manser, head of gas analytics at consultancy ICIS. Following Russia's invasion of Ukraine in February 2022, Moscow slashed its pipeline gas supplies to Europe and the region stepped up overseas imports of LNG, with the U.S. as a major provider of the seaborne fuel.

The U.S. overtook Russia as a supplier of gas to Europe in September 2022, and has since 2023 accounted for about a fifth of the region's supply. But last month, Russian-piped gas and LNG shipments accounted for 15% of total supply to the European Union, U.K., Switzerland, Serbia, Bosnia and Herzegovina and North Macedonia, according to data from ICIS. LNG from the U.S. was at 14%, its lowest since August 2022, the ICIS data showed. The reversal comes amid a general uptick in European imports of Russian LNG despite several EU countries pushing to impose sanctions.

EU bans transshipment of Russian LNG through Europe

(Al Jazeera; June 20) - European Union countries have agreed to a new round of sanctions against Russia, targeting its lucrative liquefied natural gas sector for the first time. The bloc's latest package, the 14th since Russia launched its full-scale invasion of Ukraine, would "strip Russia of further energy revenues," said European Commission President Ursula von der Leyen on June 20 in a post on X.

The measures, which do not include a prohibition on the purchase of Russian LNG by EU countries, ban the re-export of Russian gas to third countries via European waters. Gas market experts say the ban will have little effect since Europe will still buy Russian gas, and transshipments via EU ports to Asia represent only 10% of total Russian LNG exports. European ports matter for Russia, however, since the continent offers a key route for LNG exports from frozen Arctic ports to Asian markets in winter months.

The Belgian port of Zeebrugge and the French port of Montoir are especially important hubs for re-exports to countries such as China, Taiwan and Turkey. Additional measures in the sanctions package aim to make it more difficult for Russia to use a “shadow fleet” of vessels with obscured origins to get around EU sanctions on Russian crude oil.

German utility wins case against Gazprom; collecting will not be easy

(Bloomberg; June 17) - Uniper — the energy giant that became one of Germany’s biggest corporate bailouts during the 2022 crisis — is again facing a test in managing its cutoff from Russian gas supplies. The next steps may determine how much longer gas from the latter keeps flowing to other countries in Europe. Last week, the utility was awarded more than €13 billion ($13.9 billion) in damages for losses incurred when Gazprom curbed deliveries during the energy crisis. Now, the German government, Uniper’s owner, has to decide how strongly to enforce the ruling.

Gazprom, of course, is unlikely to pay, and the company barely has assets in Europe that can be seized for compensation. But Germany’s neighbor, Austria, still imports plenty of Russian gas from Gazprom via energy firm OMV, and payments could be rerouted — even though it may discourage Gazprom from sending the fuel. The situation opens up a quandary for Berlin and Vienna.

German policymakers have responsibilities toward taxpayers to insist on claims they are owed and to help strengthen the company they nationalized. Austria, however, faces elections this year and risks fueling the populist vote if Gazprom stops delivering gas, driving energy prices higher. Hungary took preemptive measures to avoid a similar situation, signaling that political risks from such court rulings haven’t gone unnoticed. OMV said it is continuing to take Russian gas in large part because of its long-term contracts. Regardless how Germany decides to proceed, it will have to tread carefully.

Denmark considers how to stop aging tankers hauling Russian oil

(Reuters; June 17) - Denmark is considering ways to stop a so-called shadow fleet of tankers from carrying Russian oil through the Baltic Sea, the Nordic country said on June 17, triggering a sharp response from Moscow's diplomats who said any such move would be unacceptable. Russia sends about a third of its seaborne oil exports, or 1.5% of global supply, through the Danish straits that sit as a gateway to the Baltic Sea, so any attempt to halt supplies could send oil prices higher and hit the Kremlin's finances.

Since Western nations imposed a price cap on Russia's oil in an attempt to curb funds for its war in Ukraine, Russia has relied on a fleet of often aging tankers based and insured outside the West. Denmark has brought together a group of allied countries to evaluate measures that would target this fleet, Foreign Minister Lars Lokke Rasmussen told Reuters in an emailed statement. He did not say what measures were being considered. "There is broad consensus that the shadow fleet is an international problem and that international solutions are required," Rasmussen said.

Countries involved in the talks included other Baltic Sea states and European Union members, the minister said. Imposing restrictions on ships passing through the straits would be unacceptable, Russia's ambassador to Denmark, Vladimir Barbin, told Reuters. "The threat to the safety of navigation and the marine environment in the Baltic Sea are not the tankers with Russian oil, but the sanctions imposed by the West against Russia," Barbin said. Denmark is concerned that old tankers transporting oil through its straits represent a potential danger to the environment.

Gas pipeline developer plans to sell project to Canadian LNG venture

(Business in Vancouver, British Columbia; June 17) - TC Energy has given notice to start construction Aug. 24 on a natural gas pipeline to supply the proposed Ksi Lisims LNG project near Prince Rupert, British Columbia, despite the fact that the gas export project doesn’t yet have a provincial environmental certificate. And although TC Energy filed the notice, the company is not expected to manage construction or own the line, as the pipeline project should have changed hands by the time work begins.

TC Energy owns the Prince Rupert Gas Transmission project, originally intended to serve the C$36 billion Petronas Pacific NorthWest LNG project. The 560-mile gas line received an environmental certificate in 2015, but two years later Pacific NorthWest LNG was abandoned by its development partners. TC Energy plans to sell the pipeline project to the Ksi Lisims LNG partners: the Nisga’a First Nation and Western LNG. The floating terminal is planned for 12 million tonnes a year of production capacity.

TC Energy received a number of extensions to maintain the pipeline project's environmental certificate. But according to its most recent extension, the pipeline project must be “substantially started” before the environmental certificate expires on Nov. 25. In a notice to provincial regulators on June 11, TC Energy said construction will start on Aug. 24, “subject to the successful closing of the sale … to Western (LNG) and Nisga’a Lisims Government.” A spokeswoman for Ksi Lisims LNG said they hope to have a decision on the project’s environmental certificate application by the end of this year.

Canadian LNG project developer will use ‘floatel’ to house workers

(The Canadian Press; June 19) - The company building a liquefied natural gas project near Squamish, British Columbia, north of Vancouver, has withdrawn its application for a local permit to house workers in a converted cruise ship, and is instead moving ahead with its plans on the basis of a provincial order requiring use of the “floatel” for out-of-town construction workers. The District of Squamish has yet to issue a temporary-use permit for the ship, which has been debated at council meetings in recent months.

Woodfibre LNG's president Christine Kennedy says the terms of the proposed district permit are "no longer applicable" after a British Columbia agency ordered the firm to house workers on the vessel by June 21, as required by the project’s environmental authorization. Kate Mulligan, director of major industrial projects for the District of Squamish, told a council meeting on June 18 that Woodfibre withdrew its application following the order from the British Columbia Environmental Assessment Office.

The provincial agency determined that more than 300 workers living in a construction camp or hotels violated the requirement to house workers at the job site. Squamish Mayor Armand Hurford said Woodfibre had interpreted the order "to supersede the jurisdiction of the District of Squamish," but he disagreed. "As to next steps, they remain to be seen.” Woodfibre LNG, at 2.1 million tonnes annual capacity, is being built at the site of a former pulp mill about 30 miles north of Vancouver. The floatel, a Croatian-built cruise ship, was converted for the project at a cost of $100 million.

Shell expands its LNG portfolio with purchase of Singapore company

(Reuters; June 18) - Shell has agreed to buy Singaporean liquefied natural gas company Pavilion Energy from global investment company Temasek in a move the oil major said will strengthen its leadership position in LNG, according to statements on June 18. Shell and Temasek did not disclose financial details of the sale in their statements. The deal will provide Shell, already the world's top LNG trader, with access to gas markets in Europe and Singapore as it aggressively expands its LNG footprint.

The deal includes Pavilion Energy's LNG supply contracts totaling 6.5 million tonnes per year from suppliers such as Chevron, BP and QatarEnergy and sourced from U.S. liquefaction facilities such as the Corpus Christi, Freeport and Cameron in Texas and Louisiana. Pavilion's long-term regasification capacity at U.K.'s Isle Grain LNG terminal, its regasification access in Singapore and Spain, and its LNG bunkering business in Singapore, the world's largest ship refueling port, are also included in the deal.

Shell plans to expand its LNG business by 20% to 30% by 2030, compared with 2022, and this deal is expected to help deliver these targets, the company said in its statement. Shell expects global demand for LNG to rise by more than 50% by 2040 as coal-to-gas switching gathers pace in China, South Asian and Southeast Asian countries. The deal came just over a decade after Temasek established Pavilion Energy to address the growing demand for energy in Asia and support the energy transition.