Oil and Gas News Briefs
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Labor shortage, inflation, cost overruns plague U.S. LNG projects

(Reuters; June 24) - A shortage of skilled labor and nagging inflation from strong wage growth on the U.S. Gulf Coast are pressuring liquefied natural gas developers and delaying some projects from reaching a financial go-ahead. There are five LNG plants under construction in Texas and Louisiana and 16 others on the drawing board in the U.S. looking to secure investment and customers. The five under construction would add a combined 86.6 million tonnes per year of production capacity, enough to keep the U.S. as the world's largest LNG exporter for years to come.

With labor costs jumping as much as 20% since 2021, busting construction budgets and squeezing projected returns for those firms still trying to attract new investors, the fate of some of the early projects has become less certain. Work at Golden Pass LNG, one of the largest U.S. projects, largely halted after its main contractor ran $2.4 billion over the original budget and filed for bankruptcy. Sempra LNG has revisited selecting Bechtel to build its Cameron LNG expansion project in Louisiana to reduce costs, and it has reduced its stake in a Texas project, Port Arthur LNG, on higher construction costs.

NextDecade, which is building the first phase of its $18 billion Rio Grande LNG export terminal, achieved a greenlight after recruiting new investors that reduced its original investors' stake as engineering, procurement and construction costs rose, analysts said. Behind the struggles are costs that skyrocketed after the COVID-19 pandemic. Contractors have raised wages for skilled workers by as much as 20% in three years, and in some cases are having to pay a per diem rate to retain them, said Travis Woods, president of Gulf Coast Industrial Group, which represents over 1,500 contractors.

Data from LNG research and consulting firm Rapidan Energy Group show that between 2021 and 2023 engineering, procurement and construction contracts for new LNG plants increased between 18% and 25%. EPC contractors may look to reduce the scope of their contracts and make more elements cost reimbursable, to lessen the risks, according to Poten & Partners, an LNG shipping and consulting company.

Energy economists doubt LNG will displace coal in China

(Institute for Energy Economics and Financial Analysis; June 25) - One of the most common arguments to justify investments in liquefied natural gas is that it provides a “bridge” to clean energy by displacing carbon-intensive coal. Proponents often point to

China — the world's largest coal consumer and LNG importer — as a key example of where LNG can supplant coal-fired generation.

A report from the Institute for Energy Economics and Financial Analysis examines claims about the role of LNG in displacing coal in China's power mix — the country's largest coal-consuming sector — by focusing on national energy sector developments over the past decade. It finds little evidence to support arguments that LNG imports to China will meaningfully displace coal in the country's power mix for several reasons.

Although China is the world's largest LNG importer, the country's coal demand has increased more than LNG imports every year since 2017. The share of natural gas in the country's power generation mix has remained at just 3% since 2015, while annual coal-fired power capacity additions continue to surpass new gas-fired power plants. In addition, as the share of gas-fired electricity has remained flat, the share of wind and solar in China's power mix has quadrupled over the past decade.

Recent policies aim to "strictly control" coal-to-gas switching and promote domestic production of coal and gas, while setting limits on LNG import dependence. As a result, coal capacity additions have far outpaced additions of gas-fired power plants, and both are dwarfed by wind and solar installations. One other consideration: In 2023, the average LNG import price was nearly three times the average cost of coal supply in China. Although LNG prices are expected to decrease in the coming years due to a surge in new supply, prices are unlikely to fall to levels that are competitive with coal.

Mitsubishi designing next-generation nuclear power reactor

(Bloomberg; June 24) - Mitsubishi Heavy Industries is almost finished designing its next-generation nuclear reactor, paving the way for construction to begin as Japan shifts its energy focus to develop more atomic power. The Tokyo-based company can start building the facility once a site is established and some late-stage tests are completed, according to President Seiji Izumisawa. It will take about 10 years to construct and start operations. "Once a site is decided, things will move forward," he said on June 21.

The hope is that a site selection will be made "not too far in the future" so that knowledge and experience surrounding reactor construction can be passed to the next generation of engineers, he said. The Japanese manufacturer is developing the SRZ-1200, an advanced light water reactor, in coordination with major Japanese utilities including Kansai Electric. Izumisawa didn't comment on specific construction sites.

Japan is part of a nuclear revival taking place globally, as countries look for emission-free electricity and energy security. Atomic plants are still a sensitive issue in Japan after the 2011 Fukushima disaster. Yet Prime Minister Fumio Kishida's government in its "green transformation" plan last year said it will utilize renewables and nuclear "to the fullest extent." Japan started the review process of its national energy strategy last month, which may dictate the country's power mix beyond 2030. As part of the strategy, the trade ministry is considering allowing the expansion of nuclear power plants.

[Indigenous-led LNG project in British Columbia gets go-ahead]

(The Canadian Press; June 25) - Canada is set to have another liquefied natural gas export terminal after project proponents greenlit the majority Indigenous-owned $4 billion Cedar LNG facility. Calgary-based pipeline company Pembina Pipeline and the Haisla First Nation said June 25 they have made a positive final investment decision on the project, which will involve construction of a floating liquefied natural gas terminal near Kitimat, British Columbia. The partners said they have received "strong support from domestic and international capital providers" for financing the project.

The terminal is expected to be in service in late 2028, the developers have said. Cedar LNG will liquefy gas from Western Canada for export to Asian markets, with a capacity of 3.3 million tonnes per year. While a positive final investment decision had been expected in the wake of recent positive statements by project proponents, the go-ahead is a vote of confidence in the future of LNG. Cedar will be powered by electricity from B.C. Hydro, giving it a marketing advantage over projects that run on fossil fuels.

Cedar is the third gas export facility in Canada to receive the go-ahead. Construction of the Shell-led LNG Canada facility, with a capacity of 14 million tonnes per year, is nearing completion near Kitimat. A smaller facility, Woodfibre LNG, is under construction near Squamish, north of Vancouver. Cedar has a 20-year contract with Calgary-based ARC Resources for its gas supply. The partners said 60% of the project will be funded through debt, with 40% from equity contributions by both partners. The Haisla Nation said it has obtained capital through the First Nations Finance Authority to fund its share.

[Saudi Aramco moves toward 25% stake in Texas LNG expansion]

(San Diego Union-Tribune; June 26) - A subsidiary of San Diego-based energy company Sempra announced on June 26 a non-binding agreement with Aramco that would see the Saudi Arabian national oil company purchase liquefied natural gas and invest in a proposed expansion of an LNG export facility on the Gulf Coast of Texas. If completed, the deal would see Aramco purchase 5 million tonnes per year of LNG from the second phase of the Port Arthur project that Sempra Infrastructure is constructing.

Plus, the Saudi company would make a 25% equity investment in the expansion. "This agreement is a major step in Aramco's strategy to become a leading global LNG player," Aramco Upstream President Nasir K. Al-Naimi said in a statement. However, there are questions about when and if the Port Arthur expansion will proceed. Earlier this year, the

Biden administration placed a temporary pause on approving new U.S. LNG export authorizations, to further review their impacts on the climate.

While the first phase of Sempra's Port Arthur facility is under construction and has received all the necessary federal approvals to move forward, its expansion needs to obtain a federal export permit. The Biden administration has given no specific timetable on when the pause on approvals will be lifted, although an official in February said it will be a matter of "months, not years." The first phase of the $13 billion Port Arthur project is scheduled to begin operations in 2027, at 13 million tonnes of LNG per year. The expansion would roughly double that capacity.

Bankrupt Texas LNG contractor said it was told it would be paid

(Bloomberg; June 24) - Zachry Holdings, the lead contractor on overbudget construction of the Golden Pass liquefied natural gas export facility, said it received assurances in 2022 and 2023 that it would be paid for its work, despite mounting costs at the massive Texas plant. Zachry said in a bankruptcy filing on June 21 that Golden Pass shareholders ExxonMobil and QatarEnergy assured Zachry that it would be reimbursed. Exxon and QatarEnergy recognized that the project could not be completed at the original price or schedule despite public statements, the contractor said.

Golden Pass was originally due to produce its first LNG in early 2025, but is at risk of missing that schedule given the dispute with Zachry, which filed for bankruptcy in May and laid off thousands of workers. Delays could tighten global supplies and risk higher prices for Asia and Europe, while leaving a surplus of domestic gas in the ground in the U.S. Exxon didn't reply to a request for comment outside of business hours. Officials with Golden Pass LNG and QatarEnergy couldn't immediately be reached for comment.

Zachry's bankruptcy lawyers have summoned Exxon CEO Darren Woods, as well as three other executives from the company to a hearing in Houston on July 19. They also summoned QatarEnergy Executive Vice President Ahmad Saeed Al-Amoodi on Aug. 5, according to a separate filing. The export facility was planned as a $10 billion add-on to an unused LNG import terminal, also owned by Exxon and QatarEnergy. The project is planned for 18 million tonnes of LNG production capacity per year.

Canadian crude replacing Iraqi oil at U.S. West Coast refineries

(Bloomberg; June 24) – U.S. West Coast refiners are replacing their heavy Iraqi oil imports with cheaper Canadian crude as the newly expanded Trans Mountain pipeline reshuffles trade flows. California and Washington are set to import 150,000 barrels a day of Canadian crude by tanker in June — a seven-fold increase from average volumes, according to preliminary Vortexa data. At the same time, imports of Iraq's heavy crude are poised to plunge to just 3,587 barrels a day from 76,000 barrels in May.

The Trans Mountain expansion, which started up in May, can bring 590,000 additional barrels a day of crude from Canada's oil sands to Vancouver, British Columbia, for export. That's potentially a boon for refiners on the U.S. West Coast, which would otherwise pay several dollars per barrel more for Iraqi crude. The trade flow also signals that the U.S. will, for now, remain a dominant buyer of Canadian oil, even as the pipeline gives producers access to coveted Asia markets.

While Trans Mountain still isn't running at full capacity, the company expects 22 tankers to ship crude from Vancouver this month. More than 81,000 barrels a day are heading to China. Another 50,000 barrels a day are going to India, the first such movement off Canada's Pacific Coast. As Canadian imports to the U.S. West Coast rise, shipments of medium, low-sulfur Brazilian oil Tupi are falling along with Iraq's Basrah Heavy.

CEO says banks 'cannot go cold turkey' on oil and gas industry

(Bloomberg; June 25) - The chief executive of Barclays said it would be unrealistic for the bank to heed calls from climate extremists for the finance industry to abandon oil and gas clients. Banks "cannot go cold turkey" on the oil and gas industry, Barclays CEO CS Venkatakrishnan said at the Bloomberg Sustainable Finance Forum in London on June 26. While Barclays is "very much moving away from" coal and oil, the "reality is that for quite some time, fossil fuels will be with us," and that's especially true of natural gas, he said. The "glide path" toward cleaner energy is long," he said.

He joins a growing chorus of Wall Street CEOs from Citigroup's Jane Fraser to JPMorgan Chase's Jamie Dimon and Goldman Sachs' David Solomon, who have all cautioned that a complete withdrawal from oil and gas comes with unacceptable energy security risks. KKR & Co. founder Henry Kravis recently accused climate protesters of underestimating the scale of the transition needed.

Their warnings come as banks and asset managers find themselves at the receiving end of vocal — and sometimes violent — protests in response to their support of oil and gas. At the same time, banks face bans in a number of Republican-led U.S. states due to their boycott of the oil and gas industry. Barclays, which has also been targeted in such campaigns, finds itself caught between two extremes, said Venkatakrishnan. "It's a complicated world, and as a global bank, you've got to navigate that," said Ilan Jacobs, managing director and head of U.K. government affairs at Citigroup, at the same forum.

Australian investment fund comes out against blacklisting coal

(Bloomberg; June 25) - Blacklisting the coal industry won't get the world to net-zero emissions, according to an Australian pension fund that says such exclusions ultimately slow down the transition to a low-carbon economy. Vision Super, which oversees a A$14 billion (US$9.3 billion) portfolio, is adding its voice to an increasingly heated debate on how institutional investors should tackle climate change.

"We don't think exclusions make any difference in practice to getting to net zero," Chief Investment Officer Michael Wyrsch said in an interview on June 25. "We don't see it as a victory, us holding a net-zero portfolio while the world goes to hell in the hand basket, which is its current trajectory." In Europe, some of the region's biggest pensions investors have started purging their portfolios of fossil-fuel assets. But others in the asset management industry are increasingly taking issue with that approach.

Vision Super is among a growing list of global investors reviewing the impact of fossil-fuel restrictions. Last year, it abandoned thermal coal exclusions and introduced new emissions targets for its equities portfolio. External managers must ensure a portfolio has a carbon intensity that's 30% lower than a benchmark of Australia's top 100 companies, Wyrsch said.

Vietnam plans new 2.1-gigagwatt coal-fueled power plant

(Bloomberg; June 25) - Plans to build a new coal plant in Vietnam are drawing scrutiny from rich nations that bankrolled a multibillion-dollar finance package designed to help the Southeast Asian nation shift away from the fuel. At issue is the 2.1-gigawatt Song Hau 2 power plant, now advancing with a grid connection agreement and a nearly $1 billion loan, according to filings. The plant's construction could put the country in breach of a limit on coal power generation embedded in the $15.5 billion "Just Energy Transition Partnership" — or JETP — announced in 2022.

In an emailed statement, the U.S. State Department said it and other international partners continue to encourage Vietnam to pursue its JETP targets for deploying renewable energy and transitioning away from coal-fired power. "We are closely monitoring reports of possible additional coal plant construction and operation that could complicate those efforts," the State Department said.

The development underscores the limits of the JETP model, which is also being used to curb coal power in South Africa and Indonesia. Under the Vietnam partnership, the European Union, U.K., U.S., Japan and other nations agreed to mobilize $7.75 billion in grants and loans, alongside $7.75 billion from a group of investors. "It's not a great sign if a country like Vietnam is continuing to invest in coal," said Jake Schmidt, senior strategic director of international climate at the Natural Resources Defense Council.

Exxon moves toward developing another oil project in Guyana

(Bloomberg; June 25) - ExxonMobil took the first step toward its seventh oil project in Guyana, a clear signal the supermajor intends to expand crude production from the South American nation into the next decade. The Hammerhead project will pump as much as 180,000 barrels per day from the offshore field as soon as 2029, pending Guyanese government approval, Exxon country manager Alistair Routledge said.

Exxon filed an environmental authorization application with the government on June 24 for an investment that's expected to boost the country's overall production capacity to nearly 1.5 million barrels per day, about the same as OPEC member Nigeria. Proceeding with an additional investment likely to total several billion dollars underlines the company's commitment to the sparsely populated South American nation. Exxon's aggressive plans have already made Guyana the third-fastest growing oil-producing country outside of OPEC in recent years and a key contributor to global supplies.

Guyana's crude is among the most profitable outside of the Middle East, with a break-even cost of less than $35 a barrel. If approved by the middle of 2025, Hammerhead will maintain Exxon's record of bringing a new Guyana project online roughly every 18 months, Routledge said. Exxon first discovered oil in Guyana's Stabroek block in 2015 and has since made more than 30 major discoveries encompassing more than 11 billion barrels of recoverable reserves. The supermajor operates the block and owns a 45% stake. Hess Corp. and China's CNOOC own the remaining 30% and 25%, respectively.

U.S. Supreme Court will hear case over oil rail line in Utah

(Associated Press; June 24) - The U.S. Supreme Court agreed on June 24 to consider reviving a critical approval for a railroad project that would carry crude oil and boost fossil fuel production in rural eastern Utah. The justices will review an Appeals Court ruling that overturned the approval issued by the Surface Transportation Board for the Uinta Basin Railway, an 88-mile railroad line. Arguments will take place in the fall.

The rail line would connect oil and gas producers in rural Utah to the broader rail network, allowing them to access larger markets and ultimately sell to refineries near the Gulf of Mexico. Producers that are currently limited to tanker trucks would be able to ship an additional 350,000 barrels of crude daily on trains up to 2 miles long. The railway is being pursued through a public-private partnership between infrastructure development and investment firm DHIP Group in Winter Park, Florida, and the Seven County Infrastructure Coalition, a body formed by eastern Utah officials.

Other proponents include oil businesses and the Ute Indian Tribe of the Uintah & Ouray Reservation. They have argued that rail would be a boon to struggling local economies and boost domestic energy production. The type of oil to be exported from Utah — waxy crude, which is semi-solid at room temperature — makes it more challenging to move.

Currently it's heated and shipped in insulated trucks. Environmental groups and Colorado's Eagle County, which sued to challenge the project, worry about safety and potential derailments. From the railway in Utah, the oil trains would enter Colorado.

China bought at low prices on spot market to fill gas storage

(Reuters; June 24) - China appears to have taken advantage of low prices in the spot market so far in 2024 to boost the amount of natural gas in storage, absorbing some of the extra fuel that would otherwise have been sent to Europe. But as storage fills and spot prices rise, the intake is likely to taper over the summer. To the frustration of foreign analysts, China does not publish statistics on gas, oil or coal inventories, which are considered commercially sensitive and a matter of national security.

The country consumed a record 55 million tonnes of gas from overland pipelines and seaborne LNG in the first five months of 2024, according to data from the General Administration of Customs. That is up from 47 million tonnes in the first five months of 2023 and 46 million in the same period of 2022. It exceeded the record of 50 million tonnes set in the first five months of 2021 before Russia invaded Ukraine and sent global energy prices soaring.

China's LNG imports ran above prior-year levels every month between January and May of this year, and pipeline imports were also above prior-year levels in every month except April. At the same time, domestic production climbed to a record 76 million tons in the first five months of 2024 from 72 million tonnes in 2023, 68 million in 2022 and 64 million in 2021. That works out to a 22% gain since 2021. Output from Sichuan, easily the largest gas-producing province, has doubled since 2016, as the government has prioritized expansion of domestic fields to reduce reliance on imports.

LNG tanker makes first run of summer through Northern Sea Route

(gCaptain; June 24) - As Arctic sea ice retreats for the summer months, Russia's Northern Sea Route is again open for business. Days after oil company Gazprom Neft dispatched the first crude oil tanker of the year to Asia via the Arctic, liquefied natural gas shipments have also resumed. The tanker Eduard Toll departed from Novatek's Yamal LNG project to Asia on June 21. Running at 15 knots, it has entered the Laptev Sea alongside nuclear icebreaker Sibir, passing through continuous first-year ice. The tanker made a historic mid-winter transit without icebreaker support in February 2018.

The vessel is likely headed to China. In 2023, Russian LNG carriers made 37 deliveries to Asia via the Arctic, with 31 going to China. The Arctic shortcut will ease shipping constraints for Novatek, Russia's largest producer of LNG. For much of the past year tankers have had to detour around southern Africa since the de facto closure of the Red

Sea route. The 6,000-nautical-mile trip from Yamal to ports in northeastern China can take as little as two and a half weeks, compared to six weeks or longer via the cape.

Western sanctions, including the looming European Union transshipment ban on Russian LNG, will also further elevate the importance of the Arctic route. Russian authorities have granted a record number of permits for the Northern Sea Route, including eight lower-ice-class and six conventional LNG carriers. These vessels will be allowed to operate on the route between July 1 and Nov. 15, depending on sea-ice conditions. While direct routing to Asia via the Arctic offers a seasonal fix, Russia's LNG logistics chain will remain stretched during winter due to a shortage of ice-class tankers.

European Union imposes new sanctions on moving Russian LNG

(Associated Press; June 24) - The European Union on June 24 slapped new sanctions on Russia over its war against Ukraine, targeting Moscow's shadow fleet of tankers moving liquefied natural gas through Europe as well as several companies. At a meeting in Luxembourg, where the sanctions were endorsed, EU foreign ministers also agreed on new financial support to help Ukraine defend itself.

In an effort to push Russia into using more costly routes for energy cargoes, the ministers said the EU will "forbid reloading services of Russian LNG in EU territory for the purpose of transshipment operations to third countries." The EU estimates that between 141 billion and 212 billion cubic feet of Russian gas as LNG was shipped to third countries via EU ports last year. Russia is suspected of running a "ghost fleet" of up to 400 ships to evade sanctions and keep up the flow of energy earnings.

The latest EU measures will target ship-to-ship and ship-to-shore transfers as well as reloading operations. It also involves a crackdown on the re-export of LNG to third countries via the EU, plus a ban on new investments to help Russia complete LNG projects it is working on. Scores of new entities — companies, banks, agencies and other organizations – were added to the EU's list, including some in China, Turkey and the United Arab Emirates. Many are accused of circumventing the bloc's sanctions.

Venezuela using secretive tankers to supply Cuba with oil

(Reuters; June 25) - Venezuela's state oil company PDVSA has begun using tankers that navigate off radar to supply its closest political ally, Cuba, as a fleet of state-owned vessels that have historically covered the route dwindles, according to documents and ship monitoring services. Cuba and its main oil supplier, Venezuela, for over a decade had exclusively used their own tankers to navigate between the two countries.

Delayed maintenance, however, has taken some ships out of service and the emergence of Mexico as a new supplier to Cuba using some of the same vessels have the two revamping routes to get desperately needed crude oil and fuel to the island. A large portion of tanker fleets owned by Venezuela and Cuba are under U.S. sanctions, which also limits their travel. Operated by third parties, dark fleet vessels often lack Western insurance and send false location signals to disguise their movement.

PDVSA in June began co-loading crude and fuel oil cargoes that deliver a portion in Cuban waters, and from there depart to destinations in Asia to discharge the remaining volume, according to company shipping documents. The vessels spoof their signal, making them look like they are elsewhere in the Caribbean while they are discharging in Cuba, often by ship-to-ship transfers, according to monitoring service TankerTrackers.com and a satellite photo by Planet Labs seen by Reuters.

Security crisis threatens Niger's oil export pipeline

(Associated Press; June 22) - A China-backed pipeline that would make Niger an oil-exporting country is being threatened by an internal security crisis and a diplomatic dispute with neighboring Benin, both as a result of last year's coup that toppled the West African nation's democratic government. The 1,200-mile pipeline runs from Niger's Chinese-built Agadem oil field to a port in Benin. It was designed to help the oil-rich but landlocked Niger achieve an almost fivefold increase in oil production through a $400 million deal signed in April with China's state-run national petroleum company.

But it has been stalled by several challenges, including the diplomatic disagreement with Benin that led to the pipeline's closure last week. There also has been an attack this week by the local Patriotic Liberation Front rebel group, which claimed to have disabled a part of the pipeline and is threatening more attacks if the $400 million deal with China isn't canceled. The group, led by Salah Mahmoud, a former rebel leader, took up arms after Niger's junta came to power, posing further security threats.

Analysts say the crises could further hurt Niger, one of the world's poorest countries which funds most of its budget with now-withheld external support in the aftermath of the coup. Niger has a refining capacity of only 20,000 barrels per day for local demands while the pipeline is to export up to 90,000 barrels daily — a feat officials and analysts say would help the country shore up its revenue and emerge from the coup sanctions that had isolated it from regional neighbors and hurt its economy and people.

Mitsui buys 46,500-acre gas asset in Texas

(LNG Prime; June 24) - Japan's trading house Mitsui has completed the acquisition of an unconventional gas asset in Texas with access to U.S. Gulf Coast LNG export terminals and ammonia production plants. Mitsui said in a statement on June 24 that it has purchased the 46,500-acre asset named Tatonka from U.S. oil and gas exploration and production companies Sabana and Vanna. Mitsui did not provide further details.

Mitsui's U.S. unit will drill wells to evaluate the well performance and develop and operate the asset, aiming for full-scale development after 2026, the company said. Demand for natural gas in the U.S. is expected to increase due to the start-up of new LNG export projects and growth in demand for electricity. Mitsui is also promoting liquefaction and export of U.S. natural gas to global markets, and for methanol production using natural gas as feedstock, the company said.

Earlier this year, Japan's city gas supplier and major LNG importer Tokyo Gas and Mitsui joined forces to deliver a bio-LNG cargo from Sempra Infrastructure's Cameron LNG terminal in Louisiana to Japan. Mitsui is already a partner in Sempra's LNG export plant. Last year, it bought a 92% stake in an unconventional gas asset in Texas. Besides the U.S., Mitsui is participating in LNG projects in Abu Dhabi, Australia, Qatar, Oman, Russia, Indonesia, and Mozambique.