Oil and Gas News Briefs
Compiled by Larry Persily
May 9, 2024

Canada to stake its claim as Pacific Coast LNG supplier

(S&P Global; May 8) - The first export cargo of liquefied natural gas from Canada is destined to set sail early 2025 from Kitimat, British Columbia, as the country asserts its competitive advantage as a North American LNG supplier to Asia, participants at an industry conference said May 7. "Canada is the closest to the best global market of Asia, with the distance from Prince Rupert port (in British Columbia) to Tokyo being half compared with the U.S. Gulf Coast," Racim Gribaa, president of Global LNG Consulting, said at the annual Canada Gas Exhibition & Conference in Vancouver.

Generally, it will take an LNG carrier eight or nine days to reach Tokyo from British Columbia, about half the time from the U.S. Gulf Coast, he said. His statements come ahead of the Shell-led LNG Canada project preparing to inject gas into its liquefaction units this summer as a precursor to full start-up by next year. It’s a joint venture between operator Shell, Petronas, Mitsubishi, Korea Gas and PetroChina, and is one of the four LNG export projects at various stages of development along Canada’s Pacific Coast.

Years ago, developers had plans for several LNG projects in British Columbia, intended to unlock the abundant gas resources in the Western Canadian Sedimentary Basin. However, incessant delays in the Canadian government regulatory process and the increased need for stakeholder engagement — particularly several First Nation bands in British Columbia — resulted in a lack of final investment decisions. "Political problems in Canada probably led to the delays in building those LNG facilities and missing a window of opportunity. But another window is opening and we need to step up," said Tim McMillan, a former president of the Canadian Association of Petroleum Producers.

Japanese trading house in talks with proposed Canadian LNG project

(Bloomberg; May 8) - Japanese trading house Itochu is in talks for a long-term contract to buy liquefied natural gas from the proposed Ksi Lisims project on British Columbia’s northwest coast, part of a wider push by Asian importers to secure fuel. The deal, which could span decades, would be the second for the project, according to people familiar with the matter who asked not to be named because they’re not authorized to talk to the media. Shell signed a long-term contract in January to buy LNG from the floating export facility for 20 years. The project would export 12 million tonnes a year.

Ksi Lisims LNG is backed by the Nisga’a Nation, with a consortium of North American gas producers known as Rockies LNG and Houston-based Western LNG. The estimated C$9.9 billion (US$7.2 billion) project could begin construction this year with start-up in 2028, pending its environmental regulatory review and a final investment decision. U.S.-based engineer Black & Veatch and South Korean shipbuilder Samsung Heavy Industries won a contract last year for the floating production unit. The operation would be set at Pearse Island, near the waters that separate the province from Alaska.

Rockies LNG Partners includes nine Canadian gas producers, including Tourmaline Oil, the country's largest producer. Canadian gas producers have long waited for access to Asian markets. The country's first export terminal, the Shell-led LNG Canada project, is expected to start shipments early next year. Japan's trading houses are exploring opportunities around the world to expand their presence in the growing LNG market amid a push by the government to increase energy security. Among them, Mitsui is considering an investment in a proposed export plant in the United Arab Emirates.

U.S. sanctions take a toll on Russia's LNG ambitions

(Bloomberg; May 4) - Russia's fortress economy has proved remarkably resilient to an onslaught of Western sanctions. Two years after the Kremlin's invasion of Ukraine, it continues to fund a costly war and prop up President Vladimir Putin. But there's at least one spot where the pain is very real. The Novatek-led Arctic LNG 2 project, on the icy Kara Sea, is a key part of Moscow's plans to boost gas exports and replenish coffers. For months now, it has been ready to ship liquefied natural gas to new markets, alternatives to the once-lucrative European pipeline trade.

And yet, the new $25 billion facility is sitting virtually idle, the first piece of Russia's energy production complex effectively curbed by U.S. actions. Russia has long sought to boost its share of global LNG sales, but the war and sharp drop in overland pipeline gas sales to Europe have reinforced the importance of these ambitions. Russia wants to expand LNG output three-fold by 2030, adding at least $35 billion in annual revenue.

But restrictions on the flagship Arctic LNG 2 are crimping Russia's aspirations. More worrying for Moscow, they've provided a blueprint for any future Western efforts to rein in the Kremlin's gas income by targeting LNG operations like Yamal or Sakhalin II in the Far East — both of which are still delivering to customers in Europe and Asia. "They blocked Arctic LNG 2 before it even started production, blocked the vessels before they could be delivered," said Malte Humpert, founder of the Arctic Institute.

Since the Biden administration imposed sanctions on the Arctic LNG 2 facility last year, buyers in China and India have refused to buy even discounted gas. Meanwhile, even shipbuilders have been tangled in the curbs, with LNG carriers worth hundreds of millions of dollars stuck at drydocks in South Korea. No one can buy or lease them.

Asian LNG buyers want lower prices in new contracts

(S&P Global; May 7) - Asian LNG importers are negotiating hard to bring down lower oil-linked price slopes for long-term LNG contracts amid expectations of a gradual shift toward a buyers' market for LNG, market sources said. Market participants said buyers are not only asking for lower price slopes for new contracts, but also driving a hard bargain to finalize LNG contracts that already have binding term sheets, at prices for 1 million Btu of gas at around 12% of the cost of a barrel of Dated Brent, or even lower.

The shifting market dynamics have put sellers in a quandary as they compete for a shrinking share of high-value customers like Japan and South Korea and are pressured to agree to a range of contractual terms and conditions to appease LNG buyers. At least one Mideast producer that recently finalized several sales and purchase agreements in 2024 received requests for lower prices for binding term sheets concluded in 2022-23 when supply was relatively tight and prices were higher due to Russia's war on Ukraine.

A small group of Chinese, Japanese and Thai importers have delayed finalizing binding term sheets agreed in 2022-23 with the Middle East supplier, demanding lower slopes. At least one major state-owned Indian LNG importer is also considering to renegotiate previously discussed contracts due to changing markets, while multiple Southeast Asian and Chinese offtakers are unwilling to discuss slopes higher than 12%, highlighting the challenge faced by LNG sellers in price-sensitive and emerging Asian markets.

Term sheets agreed in 2022-23 were priced near a 13% to 14.5% slope to crude oil, market sources said. But oil-linked contracts signed in 2024 for 10 years or longer were widely reported at much lower levels of around 12% to 12.5% on a DES basis.

ConocoPhillips continues to expand LNG portfolio

(LNG Prime; May 7) - ConocoPhillips is looking to sign more LNG offtake deals and to secure additional regasification capacities as it continues to expand its LNG portfolio. CEO Ryan Lance and Andy O'Brien, senior vice president, strategy, commercial, sustainability and technology, discussed the company's LNG business during the first-quarter earnings call on May 2.

O'Brien noted during the call that ConocoPhillips increased its stake in the Australia Pacific LNG export project back in 2022, and it purchased stakes in both QatarEnergy's giant North Field East and North Field South expansion projects. On the U.S. Gulf Coast, ConocoPhillips secured 5 million tonnes per year of offtake from the first phase of Sempra's Port Arthur LNG project in Texas, and also took a 30% equity interest.

Last year, ConocoPhillips signed a deal with Mexico Pacific, the developer of the planned Saguaro Energia LNG export project in Sonora, Mexico, to buy 2.2 million tonnes per year, with the deal pending a final investment decision by Mexico Pacific. It also has 0.2 million tonnes per year of offtake for five years starting in 2025 from Sempra's Energia Costa Azul project under construction in Baja California, Mexico.

Proposed project in British Columbia would move LNG by rail

(The Tyee; British Columbia; May 7) - An inland natural gas liquefaction facility proposed for north of Prince George, British Columbia, could make Canada the first country in North America to make LNG a regular commodity on its rail lines — but it is raising concerns about safety. Summit Lake PG LNG entered the province's environmental assessment process in January and is about to wrap up a month-long public consultation period. If approved, it could begin construction in early 2026, the company said, with plans to become operational in 2028.

LNG plants under construction on the coast would process gas piped from Alberta and northeastern B.C., loading the liquefied fuel onto tankers destined for overseas markets. But the Summit Lake project, proposed by JX LNG Canada, a Calgary-based subsidiary of Chinese compressed gas company Changchun Jixing New Energy, is unique. It would require just a mile-long pipeline to connect to Enbridge's gas transmission network. Its proposed liquefaction facility is roughly 300 miles from the coast. It would liquefy the gas and load the LNG onto trains for shipment to the port in Prince Rupert.

The prospect of shipping LNG by rail — a method that's only seen limited use outside of Canada — has environmentalists concerned about increasing hazardous materials on railways. "There's really no real-world data on how they (rail tank cars) behave when they rupture," said Kai Nagata, communications director with Dogwood BC. Nagata estimates that the project would add thousands of railcars every month to northern B.C.'s congested tracks. It's a concern, given the potential for train disasters, he said.

New study criticizes federal approval of U.S. Gulf Coast LNG projects

(Louisiana Illuminator; May 8) - Federal regulators are underplaying the dangers of the liquefied natural gas build-out along the U.S. Gulf Coast and its impacts on climate change and surrounding communities, including on the people of color already overburdened by pollution, a new report charges. "By accelerating climate change, the LNG boom gambles away our nation's future security and our planet's ability to sustain modern societies," the report's authors write.

The paper released May 7 focuses on the potential cumulative impact of six operational or proposed LNG terminals in Louisiana and Texas. It adds to a growing drumbeat of concern over the rapid expansion of U.S. LNG production as the world seeks to reduce emissions from fossil fuels. The U.S. is the world's largest LNG exporter. For five years, Roishetta Ozane has been fighting the growing industry in her home state of Louisiana and in Texas. She and her six children live in Sulphur, surrounded by more than a dozen petrochemical plants, including three proposed or operational LNG terminals.

The new study was conducted by researchers from the center for Environmental and Climate Justice at Texas Southern University and the climate change studies program at the University of Montana. “We call on the Biden administration to find — as we have — that LNG development is not in the public interest,” said the lead author, Robin Saha, a University of Montana associate professor. The authors take aim at the Federal Energy Regulatory Commission, charging it has used “outdated and inaccurate” data to analyze the potential harm of the rapidly growing industry.

Australia shifts and now calls for more development of natural gas

(Bloomberg; May 8) - Australia is calling for the development of new natural gas resources to ensure the fuel remains affordable and the nation can continue as a major exporter, the latest shift by the center-left Labor government toward greater support for the fossil fuel. The government will release a long-term framework, called the Future Gas Strategy, to establish the role of gas in the transition to cleaner energy as it looks to meet a target for net-zero carbon dioxide emissions by 2050.

That will open up the government to criticism that it is pandering to Australia’s A$72 billion (US$47 billion) liquefied natural gas export industry, which argues that the nation faces a domestic gas supply shortfall as new projects have been stalled by onerous regulations. “The (new) strategy makes it clear that gas will remain an important source of energy through to 2050 and beyond,” Minister for Resources Madeleine King said in a statement. “Gas plays a crucial role in supporting our economy. We will need continued exploration, investment and development.”

Prime Minister Anthony Albanese’s government was elected in May 2022 with a strong mandate to take tough action on climate change. Australia is replacing its aging fleet of coal-fired power plants with renewables and has introduced fuel-emission standards. The new gas strategy echoes major energy producers including Chevron and Shell that say the fuel is needed in the energy transition but is likely to anger left-wing lawmakers opposed to new production who hold the balance of power in the Australian Senate.

Company working on ship that could transport LNG and hydrogen

(Bloomberg; May 8) - Floating terminals to import liquefied natural gas allowed Europe to overcome the worst of the energy crisis. Their next task could be to help the continent’s sluggish hydrogen markets take off. Hoegh LNG, a provider of floating storage and regasification units, is working on a hybrid ship that could deliver gas and hydrogen in parallel. Three bigger tanks in such a vessel would be dedicated to LNG, while the smallest tank at the front would store ammonia, a carrier for hydrogen.

A module for converting the ammonia into green hydrogen will be installed on board. Such ships can start operating by 2028, said Thomas Thorkildsen, chief commercial officer at the Norwegian firm. While hydrogen — especially its green variant — is crucial to Europe’s energy-transition goals, buyers have been reluctant to make commitments because of high costs. Hoegh’s approach of starting small works on the growing belief that natural gas will continue to play a role during the lengthy transition to green fuels.

The market is looking at ammonia as a medium for transport and storage of green hydrogen, with trade eventually evolving to resemble that of LNG. Costs to produce ammonia as well as green hydrogen are expected to decline in coming years, making it competitive with fossil-fuel-based alternatives, according to BloombergNEF. For now, demand for import terminals for LNG is still growing as Europe transitions from Russian pipeline gas to consume more tanker-borne fuel, Thorkildsen said. But an interest in transporting hydrogen in parallel is growing in Europe, he added.

New delay in negotiations for proposed Tanzania LNG development

(Reuters; May 6) - Negotiations for the development of Tanzania's $42 billion liquefied natural gas export plant have been delayed by proposed government changes to a financial agreement reached last year, a government spokesperson and two company sources said. The government and investors announced last May they had completed negotiations on the long-delayed project to unlock Tanzania's offshore gas resources.

Equinor and Shell would be the joint operators while ExxonMobil, Singapore’s Pavilion Energy, Indonesia’s Medco Energi and Tanzania's national oil company are partners. The government said last May that the cabinet would review the agreements the following month, but they still have not been approved. Government spokesperson Mobhare Matinyi said Tanzania is still interested in working with the investors.

"The proposed amendment to the host government agreement intends to ensure that truly both sides benefit fairly in the whole deal and nothing else," Matinyi said in a statement to Reuters, without providing details about the amendment. But the new proposal "completely blew the project economics out of the water,” said a source, who asked not to be identified. The source added that remarks last month to parliament by Energy Minister Doto Biteko saying the government expected to conclude negotiations in the coming fiscal year were "certainly optimistic.”

Buyers will learn from LNG contract dispute at Louisiana terminal

(Riviera News; May 6) - A dispute over what constitutes “commissioning cargoes” from the Calcasieu Pass LNG facility in Louisiana may shape the financing and sale of gas from future developments The dispute centers around the developer Venture Global LNG, its core sales agreement partners, and the sale of commissioning cargoes during a period of rapidly increasing LNG prices. Venture Global styles itself as a low-cost LNG supplier, fed by resource-rich North American gas basins. The company is operating, constructing or developing 50 million tonnes of annual production capacity in Louisiana.

The foundation partners of the Calcasieu Pass LNG terminal include Shell, BP, Edison, Galp, Repsol and PGNiG. They hold binding 20-year agreements, totaling 8 million tonnes of annual production. In March 2022, Calcasieu Pass loaded its first export cargo. Although Calcasieu Pass went from FID to LNG production in just 29 months, it then underwent (and is still undergoing) one of the longest-known LNG production commissioning phases. Commissioning cargoes to test and tune an LNG facility are not counted as part of the long-term agreements with foundation partners.

That first export cargo was shipped out in 2022, just days after Russia invaded Ukraine. The spot-market price of LNG soared, reaching a peak of $89 per million Btu in August 2023, many multiples of the estimated price in the long-term agreements with the foundation partners. It was an opportunity for Venture Global to sell cargoes at prices far higher than the long-term agreements. The foundation partners protested that denying them cargoes the past two years led to the loss of billions of dollars in potential sales.

The dispute is in arbitration. The disagreement between Venture Global and its partners highlights the importance of clearly defining commissioning in such contracts, and that buyers will likely seek more certainty in arrangements to avoid similar situations.

East Coast gas line plan dropped; separate LNG proposal still active

(Associated Press; May 6) - A pipeline that would have moved natural gas through New Jersey and under two bays to New York has been killed, but a separate plan to transport liquefied gas from Pennsylvania by truck to the coast is moving forward. Opponents who had fought both projects reacted May 6 to the mixed bag they were handed on May 3 when the two proposals took differing pathways with federal regulators.

That was the day that Tulsa, Oklahoma-based Williams Cos., which owns a nearly 10,000-mile expanse of pipelines called Transco, allowed its Northeast Supply Enhancement pipeline project to end. Williams told the Federal Energy Regulatory Commission it was allowing a key construction application to expire, saying it would not seek an extension. The decision heartened a wide group of environmental and community groups that had fought the proposal for eight years.

But also on May 3, two companies said they remain committed to their plan to liquefy natural gas and transport it through Pennsylvania and New Jersey. Delaware River Partners and Bradford County Real Estate Partners told FERC that they do not intend to cancel plans for a facility in Wyalusing, Pennsylvania, to liquefy gas and truck it to an export facility in Gibbstown, New Jersey. “This decision is unnecessary and reckless, and the Sierra Club is prepared to continue fighting this project until it is officially canceled,” said Patrick Grenter, a campaign director with the Sierra Club.

Pennsylvania figuring out which abandoned wells to plug first

(Pittsburgh Post-Gazette; May 6) - It’s not a stretch to say that there are likely hundreds of thousands of undocumented abandoned or orphan oil and gas wells in Pennsylvania, and that it’s not at all hard to find them. They are everywhere. “You and I walking together, we could find 100 in a day,” offered Art Stewart, president of Cameron Energy. His company has come across hundreds in the course of its operations in northwestern Pennsylvania, and has submitted them to the Department of Environmental Protection.

Once you know what to look for, these remnants of the past century and a half appear along country roads and in city basements, in dense forests where roads once opened access for drilling rigs but have since grown wild again, allowing the surface to forget. There are wells under parking lots and shopping malls. Wells that are leaking gas from the surface and others that have long ago collapsed and cloaked themselves with dirt and debris. Many are not a health and safety hazard or an environmental problem. But any of them can be and, with enough time, likely will.

Some are orphaned, meaning no owner exists and the state has taken on the liability for plugging them. Others are listed as abandoned (a well that has not produced for at least a year and won’t in the future, but may have a legal owner). For years, the Department of Environmental Protection has been trying to prioritize which of the wells should be plugged first. That sorting has taken on new urgency with the influx of federal dollars for finding and plugging the wells. The state has received $25 million from the Infrastructure Investment and Jobs Act; it’s expecting an additional $386 million in the coming years.

South Korea turns cautious about buying Russian naphtha

(Bloomberg; May 7) - Cargoes of an oil product from Russia are building up at sea as South Korean buyers turn cautious, highlighting how the war on Ukraine is impacting flows more than two years later. As of May 7, more than 2 million barrels of Russian naphtha, a building block for plastics, have been held in 10 tankers for more than a week, with some in the waters near Oman and Malta, according to market intelligence firm Kpler. That’s up from a weekly average of 790,000 barrels in January and February.

Petrochemical makers in South Korea — traditionally major buyers of the Russian product — are now shunning direct imports and also any cargoes with unclear origins for fear of government scrutiny, according to traders with knowledge of the matter who asked not to be identified. That follows the launch in March of an investigation into naphtha imports by South Korea authorities.

Before the war, Russia was South Korea's top naphtha supplier. While flows dwindled, imports from nations such as United Arab Emirates, Malaysia, Singapore and Tunisia swelled, according to Kpler data. In March, however, South Korean authorities launched the probe to examine whether naphtha from Russia was being re-labeled. Since then, imports from Mideast naphtha suppliers have risen, according to Viktor Katona, a Kpler analyst. At the same time, Russian naphtha flows to China and Taiwan have expanded.

Russia's oil and gas industry faces shortage of workers

(Bloomberg; May 5) - Russia's oil and gas industry has been crucial for bankrolling the invasion of Ukraine, giving the Kremlin money to keep fighting. But the industry is facing a shortage of workers as the full mobilization of Russia's economy for war exacerbates a longstanding demographic crunch. In a nation where Gazprom's "Dreams Come True" slogan has long summed up the career aspirations of many citizens, high-paying energy companies now find themselves competing for workers against the Russian army and weapons manufacturers, according to analysts and recruiters working with the industry.

The sign-up bonus alone for a soldier fighting in Ukraine may be equivalent to nearly a year's salary for an average oil and gas field worker. This problem isn't entirely new — Russia has faced a shrinking working-age population for almost two decades. The collapse in birth rates in the 1990s was a root cause and the COVID pandemic added to the challenge, but the invasion of Ukraine has made it much more acute.

Russia's oil and gas sector lacks some 40,000 workers this year, according to estimates from Moscow-based Kasatkin Consulting, formerly Deloitte's research center in Russia. The industry raised its online job listings in the first quarter by 24% compared to a year before. The industry has long been one of Russia's highest-paying employers, offering a wage that exceeded the national average by at least two thirds since 2017, according to Bloomberg calculations based on data from the Federal Statistics Service. That sum no longer competes with what the army is offering to contract soldiers.

Exxon expects dispute with Chevron over Guyana will drag into 2025

(CNBC; May 6) - Exxon CEO Darren Woods said May 6 that the dispute with Chevron over Hess Corp.'s oil assets in Guyana likely will not be resolved until 2025. He commented on the dispute at the Milken Institute's Global Conference in Los Angeles.

“This is an important arbitration obviously not only for ExxonMobil but for Chevron and Hess,” Woods said. “What we need to do is take our time to do what’s right to make sure that we do all the due diligence and we get to the answer — the right answer.”

Exxon is claiming a right of first refusal on Hess’ assets in Guyana under a joint operating agreement that governs a consortium that is developing the South American nation’s prolific oil resources. Chevron, which is buying Hess, says the Guyana assets are part of its deal. Exxon filed for arbitration in March at the International Chamber of Commerce. Woods said the panel of arbitrators is being selected and the process will go into discovery. The CEO has repeatedly expressed confidence that Exxon will win.

Chevron has rejected Exxon’s claims that its right of first refusal applies to its pending deal to acquire Hess, valued at $53 billion. Hess has a 30% stake in the very productive oil patch off the coast of Guyana. Exxon leads the project with a 45% stake, while China National Offshore Oil Corp. maintains a 25% stake. Production already is at about 650,000 barrels per day and is expected to double by 2027.