# Oil and Gas News Briefs
# Compiled by Larry Persily
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## China building more coal plants than rest of the world combined

(Wall Street Journal; Dec. 23) - China's efforts to wean itself off coal are losing steam, as the world's biggest carbon emitter is putting economic growth and energy security above its ambitions to combat climate change. Coal consumption is back near peak levels after rebounding over the past three years, despite China's pledges to make steep cuts in what is the country's most prevalent and polluting source of energy. The country is building more coal-fired plant capacity than the rest of the world combined.

The renewed focus on coal has raised doubts among analysts over China's commitment to cutting carbon emissions and frustrated the European Union, which has leaned on China to uphold the Paris Agreement since President Donald Trump pulled the U.S. out of the deal in 2017. While China is on track to meet its goals through 2020 and 2030, its mixed signals on coal suggest Beijing is less willing to pursue green-energy goals and join the EU in setting more ambitious emission targets.

China has continued construction on new coal plants even as it talks of phasing out the fossil fuel. "China was seen, particularly by the developing and emerging economies, as the leader, saying look at all the wonderful stuff we're doing," said Philip Andrews-Speed, senior fellow at the Energy Studies Institute at the National University of Singapore. "There's a deep contradiction in this." Efforts to boost China's economy through infrastructure investment have also driven coal demand higher, analysts said.

## Saudi Arabia and Kuwait agree to resume oil output at disputed field

(Bloomberg; Dec. 24) - Saudi Arabia and Kuwait agreed to resume oil production in a shared border region more than four years after halting output. Their agreement allows for "the resumption of oil production from the joint fields," the Saudi energy ministry said. The oil fields in the so-called neutral zone can produce as much as 500,000 barrels a day — more than each of OPEC's three smallest members pumped last month.

Chevron, which operates the area's Wafra field together with Kuwait Gulf Oil, expects full production within 12 months, it said Dec. 24. Wafra has been shut down since May 2015. A resumption on that timetable would be unlikely to add significant amounts of oil to the market within the current duration of the Organization of Petroleum Exporting Countries' production cuts deal, which runs until the end of March. Even so, the agreement to restart the fields could weigh on market sentiment amid concerns about faltering growth in world demand and rising supply from the U.S. and other producers.

The neutral zone, spanning more than 2,200 square miles, was created by a 1922 treaty between Kuwait and the fledgling Kingdom of Saudi Arabia. In the 1970s, the monarchies agreed to divide the area and incorporate each half into their territory while sharing and jointly managing the zone's petroleum wealth. The zone contains two main oil fields: the onshore Wafra and offshore Khafji, which was shut down in 2014 after a spat between the neighbors.

## Analyst expects non-OPEC production growth to keep lid on oil prices

(OilPrice.com; Dec. 23) – As a busy 2019 in the oil and gas industry ends, analysts are issuing predictions for next year and what they could mean to oil markets and prices. This year saw a mix of some of the more predictable events — such as OPEC and Russia extending their cooperation pact, twice — and the unexpected September attack on Saudi oil facilities that cut off 5 percent of daily global oil supply for weeks.

Independent energy analyst David Blackmon has offered his predictions: U.S. shale growth is slowing down but will continue rising in 2020. Growth may be slower due to reduced capital spending, but the U.S. will still be the main contributor to global supply growth next year. To achieve that growth, U.S. oil exports — and also liquefied natural gas — will benefit from an increase in infrastructure capacity in 2020. The U.S. exported more crude and petroleum products than it imported in September 2019 — the first month the country was a net petroleum exporter since monthly records began in 1973.

The rising production from non-OPEC nations, driven by the U.S., Brazil, and Norway, is expected to keep a lid on global oil prices. And due to the growing non-OPEC supply, unexpected and short-lived outages are likely to have a smaller impact on oil prices than they would have on markets five or ten years ago, Blackmon said. Another key factor to watch is what OPEC and its Russia-led non-OPEC partners will do after March, when the current production curtailment agreement expires. The next move by the cartel and its allies will largely depend on how oil-demand growth fares.

## Permian gets gassier as shale oil wells get older

(Bloomberg; Dec. 24) - America's top shale field is becoming increasingly gassy as drilling slows down, undercutting profits for explorers at a time when investors are demanding better returns. Natural gas has long been a nuisance in the Permian, where a massive gas glut weighs on prices, with crude producers sometimes having to pay to get the gas hauled away or burn it off. Now the problem is intensifying as wells age.

Shale wells produce a spew of oil when first fracked, but over time oil production falls — sometimes as much as 70 percent in the first year — and gas becomes a bigger part of the mix. In the Midland portion of the Permian, the average well produces about 2,000 cubic feet of gas for each barrel of oil in its first year, said Tom Loughrey, a former hedge fund manager who started shale data company Friezo Loughrey Oil Well Partners. Over the lifetime of those wells, about 30 years or so, that rises to an average of about 5,000 cubic feet per day. It can climb as high as 7,000 in the gassier Delaware.

Meanwhile, in recent years investments have shifted to the Delaware. In April gas at the Waha hub in West Texas dropped to minus $4.63 per million Btu — producers had to pay to get rid of it. Smaller producers with rising gas ratios have taken the hardest hit. Meanwhile, producers in the Permian are flaring record levels of gas. The Texas Railroad Commission, which oversees the state's oil and gas industry, has granted nearly 6,000 permits allowing explorers to flare or vent gas this year. That's more than 40 times as many permits granted at the start of the shale boom a decade ago.

## Banks question fundamentals of loans to shale drillers

(Wall Street Journal; Dec. 23) - Some of the banks that helped fuel the fracking boom are beginning to question the industry's fundamentals, as many shale wells produce less than companies forecast. Banks have begun to tighten requirements on revolving lines of credit, an essential lifeline for smaller companies, as the financial institutions revise estimates on the value of some shale reserves held as collateral for loans to producers, according to people familiar with the matter.

Some large financial institutions, including Capital One Financial and JPMorgan Chase, are likely to decrease the size of current and future loans to shale companies linked to reserves as a result of their semiannual reviews of the loans, the sources said. The banks are concerned that if some companies go bankrupt, their assets won't cover the loans, the sources said. The tightening financial pressure on shale producers is one of the reasons many are facing an economic reckoning going into next year.

The heat is greatest for small and midsize shale producers, including many whose wells aren't producing as much oil and gas as they had projected for lenders and investors. Some of those companies may be forced out of business, said Clark Sackschewsky, the managing principal of accounting firm BDO's Houston tax practice. Large companies are likely to weather the blow because of their size and global asset diversity, but for some smaller shale operators, tightening access to bank loans could prove disastrous.

## Shorter, flexible contracts a challenge for LNG developers

(S&P Global Platts; Dec. 23) - Depending on who you talk to, the global LNG supply glut will either end or persist during the early part of the next decade. How much new capacity comes from the U.S. could help decide the issue. A recent outlook from S&P Global Platts Analytics projected that the surge in global LNG supply will end by the middle of 2020 with capacity growth next year expected to be the slowest in five years. New supplies coming mainly from the U.S. will test the market, however, and attracting more demand growth will largely depend on lower prices and flexible contracts

Platts Analytics expects that U.S. LNG export volumes will rise from approximately 7.6 billion cubic feet per day this month to 12.2 bcf per day a year from now. That would be a build of 60 percent, on top of the 65 percent boost over the past year. As projects are completed and few new ones are ready to go, however, the growth rate in U.S. LNG export volume is expected to drop to 10 percent in 2021 and 5 percent in 2022.

Tudor Pickering Holt & Co. analysts described a spate of final investment decisions by deep-pocketed backers as a "changing of the guard," reflecting the difficulty of securing long-term contracts for new projects, while indicating a growing spot LNG market that further disincentivizes contracting. The energy investment bank expects contracts to become shorter and more flexible on volume, price and destination. With multiple long-term contracts with Asian buyers tied to legacy projects around the world set to expire over the next few years, buyers in new deals are seeking shorter, more flexible terms.

## Supposed window on U.S. LNG projects could be closing

(S&P Global Platts; Dec. 24) - This was supposed to be a breakout year for U.S. LNG export projects getting commercially sanctioned. But with 2019 wrapping up, just two export terminals and an additional liquefaction train at an existing facility made it over the line to construction. That means 2020 could be a shakeout year for the dozen or so projects proposed on the Gulf, Atlantic, and Pacific coasts amid a growing consensus among that the window for independent projects to reach construction is rapidly closing.

"It's getting late. It's getting dark. It's much tougher," said Michael Webber, an LNG analyst and managing partner of Webber Research & Advisory. "Liquidity issues are going to have real teeth to them next year." NextDecade's Rio Grande LNG in Texas, Tellurian's Driftwood LNG in Louisiana and Sempra's Port Arthur LNG in Texas all have some firm equity or offtake deals supporting their projects. But the commercial activity, at least so far, has been insufficient for the projects to reach final investment decisions.

The picture is bleaker for several other projects. Developers face significant headwinds, including depressed global gas prices, oversupply concerns and the still unresolved U.S.-China trade war. A recent initial agreement between the two countries to hold off on additional tariffs and roll back some existing tariffs did not bring any relief to the LNG market. In the meantime, the overall commercial crunch has caused a number of U.S. developers to delay their targets for sanctioning LNG projects until 2020 or 2021, even as regulators have been signing off on certificate approvals with increasing speed.

## U.S. LNG terminals send out 17 cargoes in one week

(Natural Gas Intelligence; Dec. 24) - U.S. liquefied natural gas exports increased last week as terminals along the Gulf Coast continue to ramp up production. Seventeen LNG vessels, including eight from Sabine Pass (Louisiana), two each from Corpus Christi (Texas), Cove Point (Maryland), Cameron (Louisiana), and Freeport (Texas), and one from Elba Island (Georgia), departed with a combined carrying capacity of 59 billion cubic feet of gas during the week ending Dec. 18. That's up from 14 ships and 51 bcf in the previous week, according to the U.S. Energy Information Administration.

Exports are poised to continue growing. Sempra Energy said Dec. 23 that the second liquefaction train at Cameron LNG in Hackberry, Louisiana, has started production. Trains 2 and 3 are expected to start commercial operations in 2020. The facility's first liquefaction train started operations last August. The three trains comprise Phase 1 of Cameron, while Phase 2 could include up to two more production trains.

The increase in U.S. exports has some domestic consumers on edge. The Industrial Energy Consumers of America filed comments on Dec. 20 opposing four LNG export applications under review at the U.S. Department of Energy. The manufacturing trade group said the export terminals are decreasing gas pipeline capacity available to U.S. consumers at a time when pipeline expansions are slowing. The group noted that feed gas deliveries to LNG plants are expected to hit 10 bcf per day in the coming months.

## Cameron LNG in Louisiana starts production at second train

(The Advocate; Baton Rouge, LA; Dec. 23) - Cameron LNG's export facility in southwest Louisiana has started generating liquefied natural gas from its second production unit. Cameron is jointly owned by affiliates of Sempra, Total, Mitsui & Co., and Japan LNG Investment, which is a partnership between Mitsubishi and Nippon Yusen Kabushiki Kaisha. The Cameron facility, when fully operational, will include three liquefaction units with total export capacity of 12 million tonnes per year.

The company began commercial operations at its first liquefaction unit in mid-August. Trains 2 and 3 are expected to start commercial operations in the first and third quarter of 2020, respectively. Upon completion, Cameron will be the fourth-largest LNG export facility in the country. Currently, there are six LNG export terminals in operation, with two more under construction and several more in various planning, permitting, and promotion stages.

## New England natural gas hits $15.25 Dec. 18 as winter prices spike

(OilPrice.com; Dec. 23) - For those in New England, single-digit temperatures, snow squalls and icy roads are nothing outside the ordinary. Nor is expensive natural gas. On the morning of Dec. 18, the price at New England's largest gas hub was $15.25 per million Btu, the highest since Jan. 30, 2018. That's more than six times the U.S. Henry Hub pricing point in Louisiana. Major changes in New England the past two years have resulted in greater gas demand for power production, adding to the stress on prices.

New England already was known for its pipeline constraints, and the retirement of the 680-megawatt Pilgrim nuclear generating plant in Massachusetts has almost entirely been met with increases in gas-fired generation. Additionally, the Millstone Unit 3 nuclear plant in Connecticut, at 1,235 megawatts, ramped down on Dec. 17 after its primary back-up diesel generators were unable to come back online after 14 days of maintenance. If the plant's output is replaced with gas-fired power, it would translate into 200 million cubic feet of additional gas demand per day.

Coming up short on pipeline gas capacity into the region, New England relies heavily during the winter on imported liquefied natural gas offloaded at a Boston harbor terminal and at an offshore mooring buoy.

## U.S. sanctions may push up costs for Nord Stream 2 gas line

(Bloomberg; Dec. 23) – Although costs will rise, the Nord Stream 2 gas pipeline should be completed in the second half of next year, despite U.S. economic sanctions that prompted one of the companies involved to halt operations, a senior German official said. Switzerland's AllSeas Group removed its vessels that were laying the last section of the pipeline connecting Russia with Germany, which was just weeks away from completion, after President Donald Trump approved sanctions targeting the project.

The AllSeas decision will delay the pipeline and push up costs but it should be completed in the second half of 2020, Peter Beyer, the German government's coordinator for trans-Atlantic issues, said Dec. 22. Trump's decision, announced Dec. 20, was not a surprise, but the sanctions are "completely incomprehensible" and "not a way to treat friends," Beyer said. The consortium may resort to using Russian-owned ships to complete the Baltic Sea project, German lawmaker Timon Gremmels said.

The line is set to ship as much as 2 trillion cubic feet of Russian gas annually directly to Germany, doubling the capacity of the existing link. About 350 European companies are helping to build the line, a German industry group estimates. Trump has criticized Germany for not doing more to diversify imports away from Russia, while Germany argues that the $11 billion link is crucial to ensure energy security. Kremlin spokesman Dmitry Peskov said Dec. 22 that Russia will retaliate against the U.S. sanctions.

## Russia, China and Mongolia to jointly study new gas pipeline

(Radio Free Asia; Dec. 23) - Less than a week after opening its first gas pipeline to China, Russia has mounted a new push for a second line through Mongolia to replace earlier plans for a line through Xinjiang. On Dec. 5, Russia and Mongolia signed a memorandum of understanding for a joint feasibility study of piping Russian gas through Mongolia to China, reports from the three countries said. Although the steps are preliminary, they have received high-level attention and an accelerated timeline.

The agreement followed meetings in Russia between President Vladimir Putin, Prime Minister Dmitry Medvedev, and Mongolian Prime Minister Ukhnaagiin Khurelsukh. The document was signed by Ulziisaikhan Enkhtuvshin, Mongolia's deputy prime minister, and Alexei Miller, CEO of Russian pipeline gas export monopoly Gazprom. The feasibility of the new route will be determined by experts from the three countries within six months, Russian Deputy Prime Minister Alexei Gordeyev said.

The route was previously discussed by Putin and Khaltmaagiin Battulga in September at a meeting in Mongolia, said Russia's Sputnik News. After those talks, Putin tasked Miller with studying the option of supplying China with yet-to-be-developed Siberian gas resources from the Irkutsk and Yamal regions on a route through Mongolia. "I know the route there isn't easy, but a preliminary consideration of this matter showed that it's absolutely realistic, and our Chinese partners tend to agree," Putin said.