Oil and Gas News Briefs
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LNG producers risk overinvesting in too much new supply

(The Wall Street Journal; Dec. 24) - As a cleaner fossil fuel, natural gas will play a role for years to come. It is less certain, however, that it will be a profitable one. Exuberant investment in new reserves and liquefaction facilities in recent years helped globalize the LNG market but also created a supply glut. Any sustained recovery in prices and profits will require producers to resist the temptation to overinvest once again. Future profitability will depend on how well supply and demand match up.

Natural gas will likely play two key roles in the upcoming green transition: replacing coal-fired power plants until sufficient renewables production can be built; and fueling backup peak plants to bridge the gaps in intermittent wind and solar generation. Gas demand is expected to peak sometime in the next decade or two and then taper off slowly, though advances in carbon capture and storage could extend its role. On the other hand, gas demand could be reduced by a faster-than-expected fall in costs for renewable energy and storage, or an accelerated development of green hydrogen.

The uncertainty makes it tricky to estimate what supply will be needed in the future, particularly as projects can take years to come online. This raises the risk of overproduction, which can cause prices to languish. Decisions to invest during the next two years could lead to another "wave of supplies" coming online in 2027, prompting another downward price cycle, said Carlos Torres Diaz, gas and power analyst at energy consultancy Rystad Energy. There is even a risk that some gas reserves will become uneconomic to produce, particularly in the U.S., Russia, and the Middle East.

Export add-ons to existing LNG import terminals have advantage

(Reuters; Dec. 23) - North American LNG exporters are sounding more confident about the prospects for new projects in 2021 due to a sharp rally in prices driven by surging Asian demand, even as most industry analysts expect next year to be another difficult one. Gas futures in Europe and Asia have climbed to their highest levels in more than a year due to a sharp increase in demand late in 2020, especially out of China, where buyers have scrambled to secure supply. Asian nations have driven record growth in LNG as they seek to replace dirtier coal plants and fuel growing energy consumption.

Numerous projects slated for groundbreaking in North America were put off in the past two years due to historically weak prices and worries about oversupply. With spot prices in Asia hitting a six-year high, LNG operators are seeing greater interest in long-term supply deals that could allow developers to build new export plants. Tom Mason, general counsel at Energy Transfer, which is developing an LNG export plant at its Lake Charles import facility in Louisiana, said the rise in prices "has translated into a pickup in traction with customers for long-term commitments for LNG purchases."

At the start of 2020, a dozen or so ventures said they planned to make final investment decisions to build new projects in the U.S., Canada, and Mexico by the end of this year. Only one of those plants went forward: Sempra Energy's $2 billion addition to its Costa Azul LNG import facility in Mexico. All others were delayed because not enough buyers were willing to sign long-term deals to finance the multibillion-dollar projects with spot prices so low. There are now 14 North American projects awaiting FID in 2021, most carried over from 2020, but analysts do not expect all to go forward next year.

Analysts said "brownfield" projects built at existing LNG terminals like Energy Transfer's Lake Charles or Sempra's Costa Azul have a better chance of going forward than "greenfield" projects. "Brownfield projects tend to involve less cash and shorter development lead times," said Henning Gloystein, of the Eurasia Group in Singapore.

Louisiana LNG hopeful trying to raise money; delays project again

(The Advocate; Baton Rouge, LA: Dec. 23) - About six months after New Orleans-based Pointe LNG hired a financial adviser to raise $4 billion from investors for its proposed liquefied natural gas export terminal in Plaquemines Parish, the company says it has letters of intent for 45% of the project equity. Pointe LNG also has a letter of intent from a customer to buy 1.5 million tonnes of LNG per year, according to the company, but it declined to disclose the buyer, citing a confidentiality agreement.

The company told federal regulators that its financial adviser is continuing to pursue financing and purchase agreements but Pointe LNG has pushed back its environmental review documentation into 2021. The developer wants to build a terminal that could export at least 6 million tonnes of LNG per year.

Some economists have projected that roughly half of the proposed LNG export terminals along the Gulf Coast could be canceled. In 2019, Pointe LNG expected to begin construction in early 2021 and begin operations by 2025. In May, the company sought to make a final investment decision by 2022 and begin exporting in 2026. In April, Pointe LNG projected it would file draft resource reports with the Federal Energy Regulatory Commission by mid-2020, but that's since been delayed to third-quarter 2021. The company is still in the prefiling phase stage at FERC.

Russia supports another increase in OPEC+ production

(Reuters; Dec. 24) - Russia expects to support an increase in oil production by OPEC+ of an additional 500,000 barrels per day starting in February at next month's summit of the leading global oil producers, Russian Deputy Prime Minister Alexander Novak said. He also said that Moscow views an oil price between $45 and $55 per barrel as the optimum level to allow for recovery of the country's oil production, which has been significantly reduced as part of the OPEC+ supply deal.

Russia, other leading oil producers and the Organization of the Petroleum Exporting Countries, a group known as OPEC+, agreed to reduce output to support the global oil market as the pandemic has weakened fuel demand. Since the agreement on a record global supply cut in April, OPEC+ has progressively reduced the cuts and is expected in January to release an extra 500,000 barrels per day into the market. The group holds its next online summit Jan. 4, when it is expected to discuss a February output boost.

"If the situation stays normal and stable, we will support this position (increase by 500,000 barrels per day)," Novak told reporters. He said Russia supported a gradual production rise to avoid jolting the market. OPEC+ had initially agreed to increase its production by 2 million starting from January, but decided on a smaller increase at its meeting earlier this month. Novak said earlier this month the cumulative output increase by OPEC+ will reach a planned 2 million by April, barring any unforeseen events.

Canada's oil provinces will be the slowest to recover

(Financial Post; Canada; Dec. 23) - While most Canadian provinces are expecting U-shaped or V-shaped economic recoveries next year, the country's oil-producing regions are bracing for a bleaker outlook defined by a less exciting letter. An L-shaped trajectory could be in store for Alberta and Newfoundland and Labrador, Canada's two most oil-dependent provinces, which suffered sharp economic contractions during the COVID-19 pandemic and are now expected to be the slowest provinces to recover from the shock.

"Newfoundland and Alberta won't get back to pre-COVID levels until 2022 at the earliest. If there's an area that's struggling with more of an L-shaped recovery, it's oil and gas," said Derek Burleton, vice president and deputy chief economist at TD Economics. "It's going to take a while to see investment spending bounce back and make a real improvement in performance."

The beginning of the coronavirus outbreak this year coincided with an oil-price war between Russia and Saudi Arabia, which flooded markets with millions of barrels of oil at a time when economies were locking down to prevent the spread of the virus. As a result, while other Canadian provinces are planning for a return to normal — or close to normal — in 2021, residents in Alberta and Newfoundland and Labrador expect the scars of the pandemic, oil-price crash, and resultant recessions to last into 2022 or 2023.

Conoco announces another discovery offshore Norway

(Natural Gas Intelligence; Dec. 22) - ConocoPhillips on Dec. 22 announced a new oil find offshore Norway that it estimated could hold between 75 million and 200 million recoverable barrels of oil equivalent. It marked the second "significant" discovery in the region in as many months, the company said building upon earlier successes. The latest discovery well was drilled in 1,165 feet of water to a total depth of 7,149 feet by the Leiv Eiriksson rig, ConocoPhillips said.

The company said it had amassed extensive data and that a future appraisal would determine potential flow rates as well as the reservoir's ultimate resource recovery and potential development plan. ConocoPhillips Skandinavia is operator on the Slagugle prospect with an 80% working interest. Pandion Energy is its license partner with 20% interest. ConocoPhillips, among the biggest operators on Norway's continental shelf, in November announced a separate offshore discovery. The company estimated the size of the discovery at between 50 million and 190 million barrels.

"This discovery marks our fourth successful exploration well on the Norwegian Continental Shelf in the past 16 months," said Matt Fox, ConocoPhillips' chief operating officer, said in a statement. "All four discoveries have been made in well-documented parts of the North Sea and the Norwegian Sea and offer very low cost of supply resource additions that can extend our more than 50-year legacy in Norway."

Oil tank cars derail north of Seattle on their way to Phillips refinery

(CNBC; Dec. 23) - Seven train cars carrying crude oil derailed Dec. 22 and five caught fire, sending a large black plume of smoke into the sky north of Seattle close to the Canadian border, authorities said. The derailment in the downtown Custer area closed nearby streets and spurred evacuation orders during a large fire response, Whatcom County officials said. Interstate 5 was temporarily closed in the area in both directions.

Later in the day, the Whatcom County Sheriff's Office tweeted that the fires were under control and the evacuation order had been lifted. Home to five refineries, Washington sees millions of gallons of crude move by rail through the state each week coming from North Dakota and Alberta, according to the state Department of Ecology. Federal and local authorities are investigating the incident, which is near where two people were arrested last month and accused of attempting a terrorist attack on train tracks to disrupt plans for a natural gas pipeline in British Columbia.

BNSF Railway spokesperson Courtney Wallace said two crew members were on board the 108-car train headed from North Dakota to the Ferndale Refinery, owned by Phillips 66. "I think we got lucky today," said Matt Krogh, director of U.S. Oil & Gas Campaigns for the environmental group Stand.earth, based in Bellingham near the derailment. He said the incident was another example of how transporting crude oil by train is "very, very dangerous." Custer, population about 200, is 100 miles north of Seattle.

German line places $1 billion order for six LNG-fueled container ships

(Natural Gas World; Dec. 23) - German shipping line Hapag-Lloyd has ordered six ultra-large container ships that run on LNG as well as conventional fuel at a cost of roughly $1 billion, the company announced Dec. 23. The order was placed with South Korea's Daewoo Shipbuilding & Marine Engineering. The ships, each large enough to carry more than 23,500 20-foot-long containers, will be delivered between April and December 2023. They will operate along Europe-Far East routes.

"With the investment in six ultra-large container vessels we will not only be able to reduce slot costs and improve our competitiveness on the Europe to Far East trade, but also take a significant step forward in modernizing our fleet," Hapag-Lloyd CEO Rolf Habben Jansen said. "Additionally, we will further reduce our environmental impact." Financing for the ships has been secured, Hapag-Lloyd said.

Carnival's new LNG-fueled cruise ship will sail from Florida in April

(Travel Pulse; Dec. 22) - Carnival Cruise Line's new Mardi Gras made its first port call in Rotterdam, The Netherlands, where it will mark a historic occasion — fueling up with liquefied natural gas for the first time. The 180,000-gross-ton Mardi Gras, set to begin sailing from Port Canaveral, Florida, in April, will be the first cruise ship in the Americas to be powered by LNG. The fuel is more environmentally friendly and less expensive than traditional marine oils, Carnival said. LNG requires larger, custom-built, onboard fuel tanks as well as specialized refueling stations, such as the one in Rotterdam.

The 1,130-foot-long, 6,000-passenger Mardi Gras can operate for two weeks between refueling. It is the largest ship in the company's fleet. The Mardi Gras, which was delivered to Carnival last week at the Meyer Turku shipyard in Finland, is scheduled to depart Rotterdam on Dec. 23 and then sail to Barcelona, Spain, before making its eventual arrival in the U.S.

Polish shipyard launches fourth LNG-fueled ship for BC Ferries

(CTV News; Canada; Dec. 23) - A liquefied natural gas-fueled BC Ferries vessel under construction in Poland was launched into the water last weekend, scheduled for sea trials in 2021 before it starts service in British Columbia in 2022. The LNG-powered Salish Class vessel is the fourth of its kind for the ferry operator. It is being built at Remontowa Shipbuilding in Gdansk, Poland. The 351-foot-long ship can accommodate up to 600 passengers and crew and at least 138 vehicles, according to BC Ferries.

The vessel is capable of using LNG or ultra-low sulfur diesel, which produces less emissions than other types of fuel. BC Ferries accepted bids for construction contracts in 2018, receiving quotes from 16 international shipyards. No Canadian companies bid. The price tag for the vessel is about C$92 million.

Closing inefficient coal plants could boost Japan's LNG demand 33%

(Argus Media; Dec. 23) - Japan's annual liquefied natural gas demand could increase by 22 million tonnes if all of the inefficient coal-fired power units are replaced by gas-fired power units, according to the latest assessment by government-affiliated think-tank the Institute of Energy Economics Japan. The country has 30,030 megawatts of coal-fired generation capacity that uses less advanced technologies. That represents almost half of the nation's coal power capacity in operation or planned for operation by 2030.

The loss of that much coal-fired power capacity could be offset by burning an additional 22 million tonnes per year of LNG. That would represent about a 33% boost in Japan's LNG imports. The IEEJ did not consider more introduction of renewable and nuclear power sources in its assessment. Japan's Energy and Industry Ministry in July proposed a plan to start discussing closing inefficient coal-fired power plants over the next 10 years to accelerate its efforts to reduce greenhouse gas emissions. The prime minister declared in October a goal to achieve a carbon-neutral society by 2050.

Japan will test liquefied hydrogen delivery from Australia

(S&P Global Platts; Dec. 23) - Japan is set to enter a new era in 2021 as it launches the world's first transport of liquefied hydrogen from Australia, a key step forward in the commercialization of a potential new source of energy. The start of liquefied hydrogen transport over 5,600 miles will come at a time when there is unprecedented momentum for deployment of hydrogen as a cleaner energy source in Japan after Prime Minister Yoshihide Suga said on Oct. 26 the country would aim for carbon neutrality by 2050.

The transport of liquefied hydrogen will take place as part of a pilot project run by the CO2-free Hydrogen Energy Supply-Chain Technology Research Association, or

HySTRA, with aid from the state-owned New Energy and Industrial Technology Development Organization. The project will demonstrate coal gasification and hydrogen refining in the Latrobe Valley in southeastern Australia; hydrogen liquefaction and storage of liquefied hydrogen at the port of Hastings; marine transportation of liquefied hydrogen from Australia to Japan; and the unloading of liquefied hydrogen at Kobe.

The exact timing of the maiden transport on the Suiso Frontier, the world's first liquefied hydrogen carrier, remains unclear. Japan aims to develop and commercialize hydrogen supply chains by 2030. While the pilot project to move liquefied hydrogen from Australia will help in development of a supply chain, costs will need to come down.

Australia LNG plants sign on to process third-party gas

(Reuters; Dec. 23) - Woodside Petroleum and its North West Shelf LNG partners executed two agreements to process gas through the project's facilities in Western Australia, the gas producer said Dec. 23. The Perth-based firm said the North West Shelf facilities will process and load about 7.5 million tonnes of liquefied natural gas over five years from the Waitsia Gas Project Stage 2, owned jointly by Beach Energy and Japan's Mitsui. The North West Shelf terminal started operations in 1989.

The terminal partners also signed a three-year deal to produce about 3 million tonnes of LNG along with processing domestic gas at the project's separate Karratha gas plant under a deal signed with Woodside. "It will provide new revenue and LNG exports from the NWS Project, add to Western Australia's domestic gas supplies from Pluto (Karratha), and help underpin Australia's economic recovery," Woodside Chief Executive Peter Coleman said.

Woodside's partners on the North West Shelf project, which has five gas liquefaction trains, include units of BHP Group, BP, Chevron, and Shell. The agreements mark a major step in transforming the Karratha gas plant into a third-party gas tolling facility and securing gas to fill processing capacity. The Karratha (Pluto) plant is operated by Woodside, with Kansai Electric and Tokyo Gas holding small stakes.

Limited pipeline capacity holds down prices for Appalachian gas

(S&P Global Platts; Dec. 23) - Appalachian producers could see heavily discounted natural gas prices with increasing frequency next year as buoyant production and constrained pipelines limit access to premium markets beyond the region. This autumn, Appalachia's Dominion South market was trading at one point at a fraction of the U.S. Henry Hub benchmark price. With limited access to the premium Gulf Coast market and mild temperatures persisting in the Northeast, gas prices at Dominion South languished.

While steep autumn-season discounts at Northeast production hubs are nothing new, multiyear basis-price lows recorded this fall reflect the increasingly insular character of the Appalachian gas market. According to S&P Global Platts Analytics, nearly every interstate production-takeaway pipeline from Appalachia has now reached or is nearing its capacity limit. With no major expansion projects currently on the horizon, the region's dwindling egress capacity is reshaping market dynamics in Appalachia.

With no additional pipeline capacity planned, those market dynamics are likely to remain unchanged in 2021. Through late November, downward pressure on prices from production was also exacerbated by this year's persistently high storage level — another factor that's likely to remain unchanged in the years ahead. On Nov. 15, gas inventories in the Northeast climbed to their highest in nearly a decade.

Even with Christmas travel, U.S. jet fuel demand still half of a year ago

(Bloomberg; Dec. 23) - Even with air travel surging ahead of the Christmas holiday in the U.S., demand for jet fuel is unlikely to fully recover anytime soon. Foot traffic through airports last weekend topped 1 million people a day for three straight days — something that hadn't happened since March before the coronavirus shut the nation down. That's still less than half of what it was at this time a year ago, which doesn't bode well for a part of the oil barrel that by most estimates will be the last to recover.

The spread between the price of jet fuel and crude oil, a rough gauge of how much a refinery can make for producing it, rose to $8 a barrel. It's the highest since the pandemic forced most flights to be grounded but far below the roughly $21 margin a year ago. Traffic is "still about 63% less than last year," Bloomberg Intelligence oil analyst Brett Gibbs said. "We don't see demand materially recovering until the second half of 2021 at the earliest with mass vaccine availability."

Likewise, domestic jet fuel demand has risen to the highest since April, according to U.S. government data, but that's still half of where it was at the same time last year. Globally, the market has seen an uneven recovery. While China is now scheduling 10% more domestic flights than a year ago, other parts of the world are far behind, hobbling jet fuel consumption.

Independent gas distributor in China plans new LNG import terminal

(Reuters; Dec. 23) - China's Jiasheng Gas, an independent gas distributor, has agreed to an engineering and construction deal to build a 2.5 billion yuan ($380 million) liquefied natural gas storage and receiving facility in East China, a company executive said. The little-known firm is among a group of companies outside the dominant state oil and gas giants that are expected to lead new investment in LNG import terminals over the next decade as China opens up the sector to more private participation.

The first phase of the project, to be built at Jiangyin port in Jiangsu province, will have an annual handling capacity of 1.5 million tonnes. The company plans to add more storage and boost annual capacity at the terminal to 3 million tonnes in a second phase. Construction of the first phase is expected to take two years. The facility will supply fuel to the cities of Wuxi and Jiangyin in Jiangsu, a top gas-consuming region, as well as to inland areas via smaller tankers along the Yangtze river.

Nigerian state government claims it has seized Shell's assets

(Bloomberg; Dec. 23) - An oil site operated by Shell's Nigerian unit has been seized by one of the country's state governments due to a dispute over an oil spill that occurred decades ago. The government of Rivers state on Dec. 23 in the Niger Delta sealed off the base, which is called Kidney Island and located in the oil hub of Port Harcourt, according to a statement emailed by a spokesman for the governor, Nyesom Wike. The facility and Shell's 30% stake in a nearby block, known as Oil Mining Lease 11, were "lawfully purchased through public auction ordered by the court," the statement said.

Shell "dismissed the purported takeover" of Kidney Island and OML 11, asserting in a statement that the court judgment is still subject to appeals submitted by the company to a local court in Rivers state. The state government's announcement is "premature and prejudicial," Shell said. The transfer of the oil license requires the approval of Nigeria's federal minister of petroleum resources, which has not been granted, according to the statement.

It will be difficult for Rivers state to take control of Shell's share of the permit because the federal government is "highly unlikely" to sign off on the transfer, Menas Associates, a London-based strategic and political risk consultancy, said in a note. Shell is involved in a long-running legal battle with a community in Rivers state which has successfully sued Shell for millions of dollars in damages for polluting its land. Last year the regional government claimed it had acquired Shell's interest in the oil block and the support base after a court approved the sale of the firm's assets to enforce the judgment.