Oil and Gas News Briefs
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Qatar signing low-cost deals to sell supply from LNG expansion

(Bloomberg; March 3) - Executives from the top exporter of liquefied natural gas are jetting around the globe in a whirlwind bid to strike competitive deals with the fastest-growing customers. They need to. Qatar, the world's largest producer of the fuel, last month approved a $29 billion plan to boost its LNG export capacity by 64% this decade, and is now urgently seeking to lock in contracts and undercut rival developers from the U.S. to Australia.

That's why Qatar Petroleum executives were in Pakistan last week to sign a supply deal and pose for photos with Prime Minister Imran Khan, and they have announced an agreement with a trading house for supply to Bangladesh. "Just in the last week or so we signed a couple of contracts and we're working on many more," Qatar Energy Minister Saad Al-Kaabi said at the CERAWeek by IHS Markit conference on March 2.

In the rush to ink deals, Qatar agreed to rates well below those they were demanding less than a decade ago. Pakistan's latest LNG contract is at a 10.2% link to the price of a barrel of oil, compared to 13.37% in 2016. The Bangladesh deal was done below the 11% mark, according to traders. Still, these agreements just cover a tiny portion of Qatar's plan to increase annual output by 49 million tonnes per year by 2030. The Persian Gulf state benefits from being able to produce LNG at a cost lower than most competitors with the first phase of the expansion viable even if oil prices fall below $20.

Qatar expects to announce next LNG expansion project by 2022

(Reuters; March 2) - Qatar Petroleum will announce within a year detailed plans for the second phase of expansion of its North Field South liquefied natural gas project, the head of the world's largest LNG producer said March 2. The expansion project will add two more liquefaction trains, and will be announced by the end of 2021 or early 2022, Qatar Petroleum CEO Saad al-Kaabi told the CERAWeek by IHS Markit conference.

"We look for Exxon definitely to be one of our partners going forward," said Kaabi, on a panel with ExxonMobil CEO Darren Woods. International partners will participate in about 30% of the development, Kaabi said. Last month QP signed a contract for the first phase of its North Field LNG expansion project, aiming to boost the country's LNG production capacity to a world-leading 110 million tonnes per year by 2026 from 77 million tonnes — in the largest single LNG project ever to be sanctioned.

The second phase of expansion will increase Qatar's LNG capacity to 126 million tonnes by the end of this decade. "We will be announcing by the end of the year or first quarter next year the implementation of North Field South," Kaabi said. The large growth in output will be underpinned by expectation for soaring demand for gas in the coming decades, he said.

Qatar agrees to cut price of LNG to Pakistan

(The Associated Press; March 1) - Pakistan's landmark deal with Qatar for liquefied natural gas at lower rates will save Islamabad a total of about $3 billion over the next 10 years, an adviser to the country's prime minister said March 1. The agreement, signed Feb. 26, will save the country $317 million annually due to the reduced price of the gas compared to the 2015 agreement between the two countries, according to Nadeem Babar, Prime Minister Imran Khan's adviser on petroleum.

Under the new agreement, which take effect in January 2022, Pakistan will import liquefied natural gas from Qatar at a price about 31% lower than the rate in the 15-year contract signed in 2015. That deal, indexed to oil prices, drew criticism over its cost. Many Pakistanis are angry over long power cuts in the summer and shortages of natural gas in winter, and are demanding an uninterrupted supply of electricity and gas. Khan's government has said it is trying its best to overcome an energy shortfall.

Cheniere LNG production capacity to reach 45 million tonnes in 2022

(S&P Global Platts; March 1) - Cheniere Energy hopes to be producing LNG from its ninth and, for now, final liquefaction train by the end of this year, as construction remains ahead of schedule, CEO Jack Fusco said March 1. The biggest U.S. LNG exporter is betting on a lift to its commercial efforts from the rebound in global markets following a challenging 2020, demand from major Asian consumers and plans to make its carbon footprint more transparent.

During a panel discussion at the annual CERAWeek by IHS Markit energy conference, held online this year, Fusco said that when Sabine Pass Train 6 in Louisiana goes online at the end of 2021 and begins commercial service during the first half of 2022, Cheniere will have completed the company's sanctioned LNG infrastructure. It also operates three trains at its Corpus Christi facility in Texas; the third unit there is preparing to begin commercial service. In total the two facilities will have capacity to produce almost 45 million tonnes of LNG per year.

Looking forward, Cheniere hopes to be able to build sufficient commercial support to sanction an expansion of up to an additional 10 million tonnes a year at Corpus Christi.

LNG contracts covering 30% of global demand expire through 2025

(Bloomberg Intelligence; March 1) - Contracts covering about 30% of global LNG demand are expiring through 2025, according to an analysis of Bloomberg New Energy Finance data, and could contribute to the commoditization of the market, providing an opportunity for importers to re-contract under better terms and shore up margins, as well as bolster profit prospects for portfolio players. About 110 million tonnes a year of supply contracts, worth a possible $35 billion to $45 billion, are affected.

Expiring LNG contracts offer opportunities for buyers such as gas suppliers and utilities to re-sign volume under more favorable terms and prices, and improve their margins. We expect a gradual shift away from pricing tied to oil and toward more gas-linked and hybrid deals. Yet those contracts that are oil-linked could get re-signed at a lower slope (the level of indexation of LNG price to a barrel of oil) of about 11% versus 13% to 15%. For example, a contract that had been at 14% of Brent at $60 oil and is re-signed at 11%, could save about $85 million a year per 1 million tonnes of LNG.

Trading houses, as well as companies with LNG portfolios (oil majors), may seek to renew contracts and snatch up added volume from expiring agreements to fuel their trading revenue. In addition, contracts that are re-signed will likely be for shorter durations of 5 to 10 years or less, and have more flexible terms such as no destination restrictions. We expect a sizable amount of the volume up for renewal will be re-signed, but exporters are unlikely to get prices as lucrative as the first round of their projects.

Shell-led LNG Canada not happy with pipeline delays, higher costs

(Calgary Herald; March 1) - The top executive at LNG Canada said the company is disappointed with its pipeline contractor, TC Energy, over announced delays and cost overruns for the Coastal GasLink pipeline, as construction ramps up on its massive export project in Kitimat, British Columbia. “Like any other relationship or friendship, sometimes you disagree on certain issues,” LNG Canada CEO Peter Zebedee said of TC Energy, which is building a pipeline to connect northeastern British Columbia’s gas fields with his company’s C$40 billion liquefied natural gas export development.

“To be frank, I was disappointed with the comments that were made,” Zebedee said, referring to TC Energy announcing on an earnings call Feb. 18 that work had temporarily stopped on the 416-mile gas pipeline due to COVID-19 protocols and the project would likely be delayed and would likely come in over its C$6.6 billion budget. “We do expect Coastal GasLink to live up to their commitments around costs and schedule,” Zebedee said in an interview with the Financial Post.

TC Energy is signaling that it intends to negotiate higher tolls on the pipeline. “We are working with LNG Canada on establishing a revised project plan for Coastal GasLink,” TC Energy president and CEO Francois Poirier said Feb. 18. “We expect that project costs will increase and the schedule will be delayed due to scope increases, permit delays and the impact of COVID-19." Higher tolls would affect economics of shipping gas from Canada to Asia, and would likely be resisted by LNG Canada's joint-venture partners Shell, Malaysia's Petronas, PetroChina, Mitsubishi, and Korea Gas.

The oil world has changed a lot in two years

(Reuters; Feb. 28) - Former U.S. Secretary of State Mike Pompeo took the stage at the world's largest energy conference in 2019 to declare an age of U.S. dominance after a decade of rapid shale development made the United States the world's top oil and gas producer. Two years later the oil industry is recovering from the worst recession it has ever experienced after measures to contain coronavirus stopped billions of people from traveling and temporarily wiped out one-fifth of worldwide demand for fuel.

The pandemic has also accelerated the energy transition, interrupting a steady rise in fuel consumption that may have otherwise continued for several more years unabated. Oil demand may never recover from that hit. This year the CERAWeek conference in Houston is entirely virtual and panels are dedicated to the transition to the low-carbon economy of the future, hydrogen technologies and climate change. Microsoft Corp co-founder Bill Gates and U.S. climate envoy John Kerry are among headline speakers.

Last year's conference was one of the first major global events to be canceled as the pandemic quickly made it unfeasible to gather thousands of people from 85 countries at the conference. Since then many of the world's major oil companies have set ambitious goals to shift investments to technologies that will reduce carbon emissions to slow global warming. BP has largely jettisoned its oil exploration team, and General Motors announced plans to stop making gasoline and diesel-powered vehicles in 15 years.

Exxon will keep spending down, lower its production targets

(Reuters; March 3) - ExxonMobil is lowering its ambitions for oil and gas output, it said March 3, as it focuses on cutting costs and preserving dividends to win back investors that have soured on the company after years of overspending. The top U.S. oil producer incurred a historic loss of $22.4 billion last year and is trying to convince a skeptical Wall Street that it can rebound after years of overspending left it deeply indebted and lagging behind rivals better geared for a world demanding cleaner fuels.

Exxon last year fell out of the Dow Jones index of top U.S. companies and its shares fell to a two-decade low. Activist investors are pushing it to lessen its reliance on fossil fuels. "The priority right now is to rebuild the balance sheet," CEO Darren Woods said after a virtual analysts day that emphasized Exxon's commitment to lower spending and reducing debt, which has ballooned to $67.6 billion from $37.8 billion two years earlier.

Woods reaffirmed plans to keep annual project spending at or below $19 billion in 2021 and between $20 billion and $25 billion through 2025. Production will remain largely flat at around 3.7 million barrels of oil and gas per day. Previously, Woods had planned to hike spending to as much as $35 billion per year to build production, but has reversed course after costly misfires on U.S. shale and Canadian oil sands. Oil and gas spending will focus on Guyana, Brazil and U.S. shale oil. The company expects its 400,000 barrels of daily output in west Texas and New Mexico to rise to about 700,000 by 2025.

Industry watches private companies for signs of U.S. oil production

(Bloomberg; March 1) - The battered and bruised U.S. shale industry is finding a resurgence in one of the most unlikely places: private operators most investors have never heard of. Take the case of little known, closely held DoublePoint Energy. It's now running more rigs in the Permian Basin than giant Chevron. Meanwhile, family-owned Mewbourne Oil has about the same number of rigs as ExxonMobil.

Once minor players, private drillers held half the share of the horizontal rig count as of December. It's the first time in the modern shale era that they have risen to the level of the supermajors. That's happening when, after years of unwieldy supply growth, the big guys are finally starting to show restraint. They've dialed back drilling after the pandemic sent oil prices into collapse. Now that the market is on the rise again, the majors and publicly traded counterparts are mostly sticking to the mantra of discipline.

Private operators' growth plans are a wild card as prices rebound. "Private companies are getting so much bigger than we ever thought they would, and the publics are drilling so much less than we ever thought they would," said Wil Vanloh, co-founder of the private-equity firm Quantum Energy, whose portfolio companies have combined for 18 rigs, second in the nation. With oil prices up close to 30% the past two months, traders and analysts are watching shale producers for signs that they're opening the spigots.

Report warns of reliance on oil and gas revenues for Texas schools

(Houston Chronicle; March 3) - Texas' reliance on the oil and gas industry could jeopardize up to $29 billion in public school funding over the next 15 years, according to a new study by two nonprofit policy groups. The report, released March 3 by the Center for Houston's Future and Texas 2036, analyzed the impact of declining oil- and gas-related revenue under various scenarios over the next decade and a half.

The analysis calls attention to the state's "complex, difficult-to-forecast and increasingly at-risk" method of funding schools with gas and oil revenue — a strategy susceptible to market swings. "Most people would be surprised to learn that K-12 education in Texas is affected by world oil prices," said Brett Perlman, the CEO of the Center for Houston's Future, which conducted the study. "But when you start to look at this in more detail, what you find is that there is quite a significant link. … What happens over the next 15 years in world oil prices is going to matter a lot to the state of Texas."

In 2019, the oil exploration and production industry contributed about $13.5 billion in revenue to state funds. That year about $6 billion in public school funding could be linked to the oil and gas industry, either through property tax collections or other revenue — about 20% of total expenditures for K-12 schools, according to the analysis. The state's Permanent School Fund, a $46 billion endowment, is also tied directly to the success of oil exploration, as it is funded solely by the industry's returns.

"We're going to have to have significant conversations about what the state's revenue mix should look like," said John Hryhorchuk, the vice president of policy for Texas 2036.

Oil storage space opens up worldwide as stockpiles are drawn down

(Reuters; March 1) - When the world economy slammed on the brakes last year, there was a rush to store a wave of unwanted crude and products, but now rising prices and optimism about demand is spurring a swift unwinding of storage contracts. At the end of February, the volume of refined products held on stationary tankers for over 10 days stood at 19.2 million barrels, down 77% from a peak of 84 million last May, IHS Markit estimates show.

The Organization of the Petroleum Exporting Countries and its allies, a group known as OPEC+, closely monitors global inventories, and the rate of drawdowns will be a major factor discussed when it meets on output policy March 4. A year ago traders were struggling to find storage capacity, and prices for it surged as fuel consumption plummeted. Earnings for oil-product tankers surged to record highs above $100,000 a day last May versus less than $10,000 currently.

Remote salt caverns in Scandinavia and unused U.S. pipelines and railcars were pressed into service. But now storage capacity is again becoming available in northwestern Europe, the Mediterranean, Middle East, and North America, brokers said. U.S. brokers are also seeing lower prices offered for storage of crude and products.

Interest declines in latest Norwegian Arctic oil leasing

(Bloomberg; Feb. 28) - Interest in oil exploration in the Norwegian Arctic has dropped dramatically following years of disappointing drilling results. Only seven oil companies applied for new acreage in the Barents Sea in the latest licensing round, down from 26 in a similar round in 2013. The continued decline will be a blow to the government, which had offered 125 new blocks in eight frontier regions of the Barents Sea.

"The number of companies is relatively low, but it's not a big surprise," Oil and Energy Minister Tina Bru said in an email. There will still be "increased petroleum activity in the Barents Sea for decades to come," she said, citing the Goliat and Snohvit fields already onstream and several projects under development. The country's oil and gas industry has been keen for new acreage to offset an expected decline in production toward the middle of the decade. The Barents is estimated to hold more than 60% of the undiscovered resources off Norway, according to the nation's petroleum directorate.

But frontier licensing there has seen a steeper decline in interest than rounds for mature areas. While exploration has been encouraged by successive governments, drilling results from companies including state-controlled Equinor and Aker BP have fallen short of expectations. Aker BP was not among applicants in the latest round.

U.S. refinery outages hurt market for Europe's bottom of the barrels

(Bloomberg; Feb. 28) - The freeze-driven shuttering of core sections of the U.S. refining system isn't all good news for rival plants in Europe. Down at the bottom of the barrel, losses are deepening. While U.S. closures mean less competition for European refiners in supplying gasoline and diesel on both sides of the Atlantic, they also remove a key market for European exports of the remnants of the refining process — high-sulfur products known as fuel oil.

With much of the U.S. Gulf Coast in recovery mode after February's extreme weather, many of those barrels need a new home. That is acting as a drag on margins for those European refineries that churn out relatively large amounts of higher-sulfur fuel oil. Gulf Coast refineries regularly import bottom-of-the-barrel feedstocks from Europe and Russia, turning them into higher-value fuels like diesel and gasoline. But with so many outages on the Gulf Coast, there's little appetite for such cargoes at this time.

Exports to the U.S. from Europe and Russia of dirty petroleum product — including various grades of mostly high-sulfur fuel oil and vacuum gasoil — have plunged. They sank by 136,000 barrels a day, or about 40%, Feb. 1-23 compared with January, and by roughly 50% year-on-year, according to tanker analytics firm Kpler.

Without enough gas storage, China at risk of price spikes

(Reuters commentary; March 2) - The price of spot liquefied natural gas in Asia has retreated almost as fast as it surged during a cold winter snap, leaving a market grappling with how best to deal with the extreme volatility. The weekly assessment for spot LNG cargoes dropped to $5.60 per million Btu in the week that ended Feb. 26, the lowest since early October and about 81% below the peak of $29 on Jan 15.

There are two lessons from the unprecedented 1,468% rally from the COVID-inspired record low of $1.85 in May last year to the peak, and the subsequent rapid retreat in spot prices. The first is that a demand spike on the back of something unexpected can overwhelm supply, even if the market is in a slight oversupply situation as a whole. The second is that the best way to deal with unanticipated volatility is to ensure that storage levels are adequate to meet all contingencies.

Much of the storage problem is in China, which has rapidly boosted its imports of LNG and pipeline gas as it switches to the cleaner-burning fuel from dirtier coal boilers. Its relatively small gas storage capacity and widespread demand gives China less room to maneuver when there is a sudden increase in demand. The country then has little choice but to go to the spot market and pay the prevailing rate for what cargoes are left.

China has big plans to build new gas storage, tripling underground capacity by 2030. This would go a long way toward providing a buffer against demand-led spikes as seen this past winter, but it will depend on how quickly China achieves its construction goals.

China's LNG importers don't want to be told what to buy

(S&P Global Platts; March 2) - State-owned China Oil & Gas Piping Network Corp., also known as PipeChina, is requiring shippers that want to obtain third-party LNG terminal access to bundle their own lower-cost spot-market imports with higher-price cargoes bought from the three state-owned oil companies' long-term contracts, several sources from companies told S&P Global Platts this week.

The companies said their interest in third-party access to LNG import terminals would be dampened if they are mandated to buy long-term cargoes from the national oil companies at higher oil-linked prices. "We may not consider using PipeChina's terminal slots if it is compulsory to purchase the NOCs' term-contract LNG cargoes," a source with one of the companies said. The cost of contracted LNG is estimated at about $8 to $9 per million Btu based on a crude oil price of $60 to $65 per barrel. That is much higher than spot-market LNG, reported at about $5.57 on March 1 for April delivery.

PipeChina, China's largest energy infrastructure company, was created in 2020 under the country's largest gas market reform in decades. It is designed to break the hold of NOCs over energy infrastructure. "There is a clause in the contract with PipeChina stating that terminal users should jointly bear the import cost of LNG term contracts with the three NOCs, which means terminal users will have to buy the three NOCs' long-term LNG contract cargoes," a source confirmed.

China burns more coal, but its percentage of energy mix declines

(Bloomberg; Feb. 28) - China's use of coal in its energy mix continued to decline in 2020, but more aggressive measures may be needed to reduce emissions to meet Beijing's climate goals. Coal accounted for 56.8% of China's total energy consumption last year, down 0.9 of a percentage point from 2019, according to figures released Feb. 28 by the National Bureau of Statistics. The modest decline allowed China to meet a government target to reduce the proportion of coal to 57.5% in 2020. Still, total coal use climbed by 0.6% as energy consumption rose by 2.2% in 2020 from a year earlier.

President Xi Jinping pledged China would target carbon neutrality by 2060 in a Sept. 22 speech to the United Nations. While he didn't lay out details, Xi's announcement implies the nation's emissions will have to sharply decline to reach net-zero in less than 30 years after peaking in 2030. One proposal under consideration to accelerate China's adoption of clean energy is to cut the share of coal in the energy mix to 52% by 2025, Bloomberg reported earlier. Still a gulf remains between China's ambitious carbon-neutral goals and the desire of its companies to maintain breakneck growth.

China may provide more details of its roadmap to carbon neutrality in its five-year policy blueprint set to be unveiled at legislative meetings that start next week. Beijing's energy policy will need to juggle the competing demands of delivering economic growth, promoting energy security and mitigating the worst effects of global warming. The proportion of clean energy including natural gas, hydropower, nuclear, and wind power in total energy use rose by just 1 percentage point to 24.3% in 2020.

Sinopec announces move into hydrogen and solar power

(Asia Times Financial; Feb. 26) - China has been slow to start reducing its greenhouse gas emissions (GHG) compared to some of its neighbors, while a growing number of European nations are way ahead of Beijing on this critical front. Now, however, one Chinese state-run oil major is trying to pick up the slack. Sinopec, China's largest oil, gas, and chemical giant in terms of revenue, has announced a green pivot to more hydrogen production and even solar power generation build-out.

It aims to become China's top hydrogen company by 2025 by increasing investment in hydrogen for the transport sector, as well as refining hydrogen-related products. To hit its goal, it will move away from so-called gray hydrogen, produced by natural gas and as such still a carbon dioxide emitter, to blue hydrogen, which is also produced from fossil fuels but uses carbon-capture and storage for greenhouse gases. Green hydrogen, with no GHG emissions, is produced by renewables, namely solar and wind.

Sinopec plans to build 1,000 pure-hydrogen refueling and hydrogen integrated retail outlets that also will sell conventional fuels, by 2025. It also plans to build 7,000 distributed solar power generation stations by the same date. Sinopec hasn't disclosed capital costs for either plan. In November the company made incremental moves in the right direction when it launched its first onshore wind power project. The 20-megawatt project in Dali in China's northwestern Shaanxi province is being developed by a Sinopec clean-energy subsidiary that previously focused on geothermal development.

Australian LNG companies continue spending on new projects

(Australian Financial Review; Feb. 26) - Australia’s LNG producers will increase spending by hundreds of millions of dollars this year on new projects, undeterred by threats of carbon tariffs and warnings that gas use must drop to meet net-zero emissions targets — or by the companies’ almost $6 billion of bottom-line losses last year. Woodside and Santos have foreshadowed sharp increases in capital spending as they target final investment decisions in more than $20 billion of LNG projects this year.

Santos is lifting its spending in growth projects more than six-fold to US$700 million this year after joining the rest of the sector in axing capital investment last year after the plunge in oil prices in March. Oil Search, still scarred by its forced equity raising last year in the wake of the price collapse, last week flagged a capex budget for 2021 on a par with last year’s, and aims to sanction a US$3 billion oil project in Alaska in the fourth quarter and start design work on an LNG expansion in Papua New Guinea in 2022.

The fresh round of spending on LNG kicked off late last year when Beach Energy and Mitsui committed to build the $750 million onshore Waitsia gas project, which will supply the Woodside-run North West Shelf LNG plant. All are confident in growing demand for LNG in Asia, despite pledges by Australia’s three biggest markets — Japan, China and South Korea — to reach carbon neutrality by 2050, or 2060 in the case of China.