Oil and Gas News Briefs
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August 11, 2022

U.S. wood pellets earn premium price in export market

(The Wall Street Journal; Aug. 8) - The wood-pellet market is on fire. War has cut off the supply of compressed-wood pellets from Russia, Belarus and Ukraine to power plants in Western Europe that burn them instead of coal. That has put a premium on pellets from North America, especially the U.S. South. U.S. exports, which have climbed steadily the past decade, are running ahead of last year, when a record of over 7.4 million tonnes of U.S. wood pellets were sold abroad, according to the Foreign Agricultural Service.

The average price before shipping has risen to nearly $170 a tonne, from $140 last year. Prices for spot shipments, which can be scarce in a business that runs mostly on long-term deals, have jumped to almost twice that. The big winner has been Enviva, which accounts for the bulk of U.S. pellet exports. Enviva is building several new plants in the Southern Pine Belt with the aim of doubling production capacity over the next five years. Enviva buys branches, bark, brush, sawdust, spindly or diseased logs and other waste wood from landowners and sawmills and processes the fiber into pellets.

The company's output flows from Atlantic and Gulf of Mexico ports to European utilities and through the Panama Canal to Asia. The company on Aug. 4 said it signed five-, 10- and 15-year supply contracts with new customers in Germany. One will burn the pellets to produce heat for a manufacturing process and another is replacing coal and gas, which have surged in price even more than pellets. Though some environmental groups and scientists contend that wood-fired generation is no cleaner than coal when it comes to emissions, biomass counts toward renewable-energy targets under European rules.

Europe could have 25 floating LNG import facilities

(S&P Global; Aug. 10) - The scramble by countries across Europe to install new LNG import facilities in record time continues to pick up pace, with floating receiving and storage units now secured for deployment in a number of European Union member states. The sharp fall in Russian gas pipeline imports — and the prospect of flows from Russia being cut further or halted completely — has led to plans to implement numerous projects, both old and new, as quickly as possible.

Most of the plans are for floating LNG import facilities — known as FSRUs (floating storage and regasification units) — which can be installed more quickly than onshore, permanent import terminals. Some 25 new FSRUs are expected to be installed across the EU in the coming years, according to S&P Global Commodity Insights data, with the first facilities expected to be operational before late 2022 or early 2023 in Germany.

Projects are moving forward at unprecedented speed, driven by the urgent need to displace Russian gas, with developers praising the combination of political and commercial will in accelerating work. In addition to Germany, there are plans for five FSRUs in Greece — which is aiming to become a gas hub for supplies to the wider southeast European region — as well as two in the Netherlands, two in Italy (plus two more for the island of Sardinia), and two in Ireland. Single FSRUs are also planned in a number of other EU countries including France, Finland, Estonia, Cyprus and Poland.

Germany's gas regulator working out plan if rationing kicks in

(Reuters; Aug. 9) - Germany's network regulator, which would be in charge of gas rationing in the case of a supply emergency, has received scores of exemption requests from all parts of industry, reflecting fears over potential production cuts and subsequent losses. Germany is at Phase 2 of a three-stage emergency plan following a reduction in gas flows from Russia, its main supplier, a major problem for the country's industry that accounts for a quarter of the country's gas demand.

While industry and regulators are trying to work out a plan for what happens at Phase 3 — when rationing kicks in — individual sectors have started to ask for leniency and some companies have begun changing work practices to reduce energy use. "An application procedure is not foreseen. The Federal Network Agency continues to receive numerous letters from virtually all sectors," a spokesperson for Germany's network regulator (BNetzA) said in e-mailed statements.

"Blanket exemptions are not provided for in the current law," the spokesperson said, adding that the regulator maintains "a constant dialogue" with industry to prepare for a gas supply emergency. About 120 of the staff are working on crisis prevention and management. The regulator has started to collect data from the country's largest industrial players. BNetzA has said wants to put together a shutdown list for the country's industry based on six criteria, which include a company's size, economic damage as well as costs and how long it would take to restart specific facilities.

U.K. energy company signs agreement with Louisiana LNG project

(Bloomberg; Aug. 9) - Centrica plans to ramp up its supplies of liquefied natural gas, inking a 7 billion pound ($8.5 billion) deal for U.S. gas as Europe rushes to wean itself off Russian fuel. The U.K. company signed a heads of agreement with Delfin Midstream to buy LNG from the company's proposed floating export facility offshore Louisiana.

While deliveries aren't expected to start until 2026, the accord shows European firms are securing extra supply after disruption to Russian gas flows sent prices soaring.

Centrica, one of the largest suppliers of gas and electricity in the U.K., is focused on boosting its LNG portfolio and "ensuring that we increase our access to a diversified range of reliable gas supplies," CEO Chris O'Shea said in a statement on Aug. 9. The deal follows a similar agreement between Delfin and global commodity trader Vitol Group last month. Delfin is scouting for customers for production from its proposed LNG project ahead of a final investment decision expected later this year.

Centrica agreed to purchase 1 million tonnes annually for 15 years. Delfin's project is planned for as much as 14 million tonnes annual production capacity, at an estimated cost of more than $8 billion. Centrica earlier this year vowed to exit all accords with Russian exporter Gazprom, and has since clinched an agreement to get more gas from Norway over the coming winters. In the U.K., it's trying to hammer out a deal to restore capacity at the giant Rough natural gas storage site before the cold season sets in.

U.K. may need to draw on European gas supplies this winter

(Bloomberg; Aug. 8) - Britain's relative immunity to natural gas supply cuts from Russia may be about to run out. If the winter is particularly cold, the U.K. may have to rely increasingly on pipeline shipments from mainland Europe — where supplies are already thin as Moscow curbs flows amid its war in Ukraine and governments are worried about keeping their own citizens warm. That presents a dilemma for the U.K., which has very little domestic gas storage capacity.

The nation has gradually built up a small glut of the fuel, in part by storing imported liquefied natural gas. In addition to wanting to store the gas, it has had to hold on to the fuel due to pipelines already clogged with record gas shipments to the continent. But those U.K. reserves will go quickly if temperatures plunge, meaning that those flows may need to be reversed and the U.K. will need to draw gas from Europe. The nation will also face stiff international competition for additional cargoes of LNG.

"Due to the lack of U.K. long-range storage, we are set to be reliant on European and LNG imports to meet our peak demand," said Nick Campbell, a director at Inspired. Though Britain has almost zero dependency on Russian gas, Europe's pain in the event of further supply curbs by the Kremlin will still reverberate across the English Channel, due to interconnectivity of the markets. The availability of LNG will also largely depend on how cold it gets in Asia.

Europe could reach gas storage target by November

(Natural Gas Intelligence; Aug. 8) - A steady supply of LNG continues to arrive in Europe, keeping the continent on track to have storage inventories filled to 80% of capacity by November. European storage inventories are at nearly 72% of capacity, or just above the five-year average. Tudor, Pickering, Holt & Co. said last week it is now modeling European inventories to reach 3.45 trillion cubic feet by the end of injection season, just above the five-year average of 3.4 tcf.

The forecast still hinges on a steady supply of Russian imports, keeping the market on edge. The Kremlin cut Nord Stream 1 deliveries to 20% of the system's capacity in July. The reduction was blamed on compressor station turbines that needed to be repaired. One turbine is still stuck in Germany, and Russia has indicated it can't take delivery of the unit because of sanctions, which Germany said is not true. Scorching heat forecast for parts of the continent this week is also likely to keep things volatile. Hot weather has continued pushing European power prices to record highs in recent days.

The European Union is already trying to cut consumption by 15% among all sectors through the spring in response to reduced Russian deliveries. A wildcard is Asia. China's liquefied natural gas imports have declined this year amid an economic slowdown, while high spot liquefied natural gas prices have made it difficult for buyers in Bangladesh, India and Pakistan to secure supplies. Suppliers in India have been rationing gas, while Bangladesh faces rolling blackouts because of a gas shortfall.

Egypt wants to cut electricity use to free up more gas for export

(Bloomberg; Aug. 9) - Egypt is curbing some electricity use to free up for export more of the natural gas that feeds its power plants, helping generate much-needed foreign currency, Prime Minister Mostafa Madbouly said. Lighting in streets, public squares and larger sports facilities will all be reduced, and illuminations outside government buildings switched off after working hours, Madbouly said Aug. 9 in a press conference.

The belt-tightening is a sign of the lengths Egypt is going to earn more hard currency as it copes with the effects of the Russian invasion of Ukraine on the Arab world's most populous nation. The conflict has sent Egypt's wheat and fuel bills soaring, put pressure on its currency and led to Gulf allies pledging more than $20 billion in support. At the same time, Europe's gas crunch is giving Egypt, where the giant Zohr offshore natural gas field was discovered in 2015, a key role in the continent's energy plans.

Egypt, which previously used 60% of its gas to generate electricity, has instead been using mazut, a heavy fuel oil, at some power plants since October, Madbouly said. That's helped build a gas surplus for export, generating $100 million to $150 million per month, according to the prime minister. Other measures to cut electricity consumption include setting a limit to how low air conditioning in the nation's shopping malls can go, the premier said. He called on Egyptians to recognize the scale of the crisis.

Eni buys floating LNG plant to produce gas in Republic of Congo

(Reuters; Aug. 5) - Energy group Eni said on Aug. 5 it had acquired Tango FLNG to produce and export liquefied natural gas from the Republic of Congo, as Italy rushes to find alternative supplies to Russian gas. Italian ministers and Eni's CEO have traveled to Africa to sign contracts to secure additional gas supplies for the project. Built in 2017, the Tango LNG floating liquefaction facility will begin work in the second half of 2023.

When fully operational, it will liquefy about 430 million cubic feet of natural gas per day, Eni said in a statement. The Italian group bought the production facility from Belgian ship-owner Exmar, which had first sent the new 472-foot-long floating LNG factory to Argentina in 2019 to liquefy gas from the Vaca Muerta shale gas play. Tango FLNG can produce 0.5 million tonnes of LNG per year.

But after a less than a year's work under a 10-year lease, Argentine producer YPF terminated its contract with Exmar, claiming "the effects of the coronavirus pandemic both worldwide and in Argentina have hindered YPF's ability to perform its obligations under the agreements, including but not limited to its ability to pay the invoices due." Exmar settled its contract dispute with YPF in 2020 for a $150 million payment, and since then has been looking for a new customer for the floating LNG plant.

LNG production outages cost traders that still have to provide gas

(Reuters; Aug. 9) - Major energy traders are taking hundreds of millions of dollars in losses as they scramble to plug a liquefied natural gas supply gap after several outages hampered efforts to fill European gas storage ahead of the winter heating season. Unplanned disruptions at U.S., Nigeria and Australia LNG plants have wrong-footed traders, including BP and Shell, forcing them to pay inflated costs for other supplies.

In a market already struggling to meet global demand for natural gas after Russia sharply reduced pipeline supplies into Europe, the lost LNG cargoes have pushed global prices sharply higher in recent months. BP took a more than $500 million hit to replace LNG cargoes lost after a shutdown of the Freeport plant in Texas in June, sources told Reuters. Freeport, the second-biggest U.S. LNG export plant, supplies BP with 4 million tonnes per year, said BP Chief Financial Officer Murray Auchincloss.

France's TotalEnergies said it would replace eight LNG cargoes it was scheduled to receive from Freeport by buying in the spot market in the third quarter of the year. It was unclear how much the cargoes would cost Total. Freeport produces 15 million tonnes of

LNG per year. Traders typically sign long-term off-take agreements with LNG producers, negotiating separate deals to supply consumers with cargoes from their portfolios. It's up to the traders to make good on their contractual supply commitments.

[Freeport LNG retracts force majeure, could cost buyers billions]

(Reuters; Aug. 10) - Top U.S. gas exporter Freeport LNG has retracted the force majeure it initially declared after an explosion closed its Texas plant in June, a development that could cost its buyers billions of dollars in losses, a document showed and three trading sources said. Force majeure is a notice used to describe events outside a company's control, such as a natural disaster, which usually releases it from contractual obligation without penalty. Freeport plans to reopen the plant in October.

The force majeure would have allowed Freeport's LNG buyers to exit their own agreements to deliver gas to end-users. Instead, they are facing a collective loss of up to $8 billion as they have to buy or otherwise obtain alternative supplies at elevated spot-market prices to meet their contractual obligations, according to the trading sources, who have knowledge of the matter, and calculations by a consultancy.

Those buyers include BP, TotalEnergies, Osaka Gas, Japan's top power generator JERA, South Korea's SK Gas Trading and trading house Trafigura. Freeport and the buyers declined to comment on the force majeure, its retraction and potential losses. Freeport accounts for more than 15% of U.S. LNG exports but stopped shipments after the explosion June 8, causing a spike in global gas prices that had already soared on falling Russian supplies to Europe and other outages. Freeport declared force majeure on June 9, before retracting the notice around the end of June, two of the sources said.

[Sempra looks at developing up to 3 West Coast Mexico LNG projects]

(Natural Gas Intelligence; Aug. 9) - San Diego-based Sempra's whirlwind of LNG and equity agreements includes the potential to develop up to three different natural gas export projects on Mexico's Pacific coast. CEO Jeff Martin said last week that "significant growth drivers" were influential for the Sempra Infrastructure subsidiary formed last year to expand liquefied natural gas exports, net-zero fuels and cross-border energy networks. U.S. gas would feed the Mexican West Coast projects.

"In the first half of this year, the United States became the No. 1 global exporter of liquefied natural gas, and by the end of the decade we expect the United States will extend its significant leadership advantage in this area," Martin said in an earnings call. However, the momentum of rocketing commodity prices and the global thirst for more LNG isn't going to change Sempra's disciplined pace for program development, he said.

Sempra recently added to its list a potential LNG terminal in Salina Cruz, Oaxaca. Martin said Sempra's "strong position in U.S. Gulf Coast LNG" gave it heightened interest for the facility as it moves to embrace Asian markets through Mexico. Sempra operates the Cameron LNG terminal in Louisiana and is working toward development of Port Arthur LNG in Texas. Meanwhile, Sempra's Mexican subsidiary is progressing the Energia Costa Azul LNG project in Mexico's Baja California, with the first cargo in 2024.

[Qatar signs LNG carrier contract with Asian shipping consortium]

(Maritime Executive; Aug. 10) - State-owned energy giant QatarEnergy has awarded a consortium of four Asian shipping companies a long-term time charter contract for the operation of seven liquefied natural gas carriers as the latest step in its efforts to secure capacity to support the expansion of its LNG operations. It is the latest in a series of deals that include building LNG carriers in South Korea and China as the shipping industry faces a shortage of gas carriers to meet demand.

The charter calls for the construction of seven LNG carriers at Hyundai Heavy Industries. The shipyard announced the contract, which brings its total to 17 LNG carriers ordered for shipping companies that will operate under long-term charters with QatarEnergy. Hyundai valued the new contract at $1.5 billion, with the ships due to be delivered in 2025 and 2026.

Unlike the earlier orders, these seven LNG carriers will be operated by a consortium of companies. Four companies — Malaysian firm MISC Berhad, Japan's Nippon Yusen Kaisha (NYK) and Kawasaki Kisen Kaisha (K Line), and China LNG Shipping — will participate in the partnership. The awarding of the long-term charter is the latest in a series of contracts that QatarEnergy has signed in recent months as the company implements its mega LNG expansion project geared at increasing annual LNG production and exports from 77 million tonnes to 110 million tonnes.

[Environmentalists vow to fight $5 billion North Sea project]

(BBC News; Aug. 5) - Norwegian state-controlled oil company Equinor said the Rosebank field in the North Sea could produce almost 70,000 barrels of oil a day at its peak. The company said it would do so with the "lowest possible carbon footprint." But environmental campaigners argued that the development would be a "total betrayal" of the U.K.'s climate goals, with Greenpeace vowing to "fight Rosebank every step of the way." Equinor said that if production started in 2026, Rosebank could account for 8% of the U.K.'s total oil production between then and 2030.

In addition to oil, Rosebank could produce about 44 million cubic feet of gas per day in its first 10 years. Equinor and its project partners say they will invest almost $100 million to ensure that the development, about 80 miles northwest of Shetland, would be powered with electricity. The partners aim to make a final investment decision on the field in the first quarter of 2023. The project will require capital expenditure of about $5.22 billion, Equinor's U.K. upstream chief told Reuters.

Equinor senior vice president Arne Gurtner said the firm was committed to net-zero by 2050. But, he added, "For the next few decades, oil and gas will continue to play a vital role alongside low-carbon systems. Therefore, while we still need oil and gas, we aim to develop and operate projects such as Rosebank with the lowest possible carbon footprint while bringing the maximum value to society."

Big and small oil producers see climate change bill differently

(Bloomberg; Aug. 9) - Oil and gas executives from ExxonMobil to Occidental Petroleum have been quick to applaud parts of the $437 billion climate, tax and health care legislation that Congress is poised to pass this week. But the enthusiasm from Big Oil isn’t shared by some smaller and independent producers, which pump the vast majority of oil and gas produced in the U.S. They’re bracing for new fees and taxes, including penalties on leaking methane and much higher payments for drilling on federal land.

While Occidental’s CEO Vicki Hollub hailed the Democrats’ sprawling bill as “very positive,” and Exxon’s Darren Woods dubbed it “a step in the right direction,” for many smaller oil producers there’s little in the legislation to like, said Dan Naatz, executive vice president at the Independent Petroleum Association of America. The clash over the landmark piece of legislation underscores longstanding tensions between large, public oil companies and smaller rivals when it comes to federal policy on climate change.

By providing hefty tax credits for carbon capture, hydrogen and biofuels, the bill would help underwrite supermajors’ green transition strategies at a time when they’re under intense pressure to accelerate investments in clean energy. Smaller oil producers that don’t have refining arms or renewable investments are more exposed to provisions that take aim at fossil fuels. “The oil and gas industry is actually many different industries under a single umbrella,” said Andrew Logan, a senior director at Ceres, a not-for-profit coalition of investors and companies advocating sustainability.