Oil and Gas News Briefs
Compiled by Larry Persily
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Saudi Arabia says it is committed to OPEC+ alliance with Russia

(S&P Global Platts; Feb. 27) - Saudi Arabia remains committed to the OPEC+ deal, Crown Prince Mohammed bin Salman told French President Emmanuel Macron on Feb. 27, in an endorsement for the bloc's alliance with Russia amid that nation's invasion of Ukraine. In the call, the leaders discussed the Ukraine crisis and its impact on energy markets, according to the Saudi Press Agency. OPEC has teamed up with Russia and nine other allies on a series of production cuts since 2017 to prop up the oil market.

"In this regard, his highness the crown prince affirmed the kingdom's keenness on the stability and balance of oil markets and the kingdom's commitment to the OPEC+ agreement," the report said. Russia's invasion of Ukraine has sent crude prices to near $100 a barrel, and intensifying sanctions by the West on Moscow have raised questions whether OPEC countries such as Saudi Arabia would be willing to step up production to help moderate prices, as the U.S. and other key crude customers have urged.

The sanctions, which include bans on Russian banks from accessing the SWIFT international payment system, could also jeopardize OPEC's ties with Russia. The OPEC+ alliance meets March 2 to decide on April output levels. OPEC ministers have indicated they plan to stick with their modest production increases each month, pointing to geopolitics — not any supply shortage — as underpinning the recent surge in prices.

BP will exit its holdings in Russian oil company Rosneft

(Bloomberg; Feb. 27) – BP has moved to dump its shares in oil giant Rosneft, taking a hit of as much as $25 billion by joining the campaign to isolate Russia's economy. The surprise move from the British company is the latest sign of how far Western powers are willing to go to punish President Vladimir Putin for his invasion of Ukraine. BP has been in Russia for three decades and just weeks ago was defending its presence there.

BP had been coming under growing pressure from the U.K. government over the alliance with Rosneft. CEO Bernard Looney was summoned by U.K. Business Secretary Kwasi Kwarteng to explain the company's Russian links last week. "This military action represents a fundamental change," BP Chairman Helge Lund said in a statement. "It has led the BP board to conclude, after a thorough process, that our involvement with Rosneft, a state-owned enterprise, simply cannot continue."

BP didn’t say whether it was planning to sell its roughly 20% stake in Rosneft, or simply walk away. Any buyer would have to navigate a tightening web of economic sanctions that would make any transaction extremely difficult. In a memo to employees, Looney said there would be “financial consequences” from the move. A spokesperson said there could be a write-down of as much as $25 billion. Looney will also resign from the Russian company’s board, as will his predecessor Bob Dudley.

BP was one of the first majors to establish a presence in Russia after the collapse of the Soviet Union. The company received dividends from Rosneft, which last year amounted to $640 million, compared with BP’s total operational cash flow of $23.6 billion. BP’s 19.75% stake in Rosneft made up more than half of the British company’s energy reserves. Rosneft is chaired by Igor Sechin, an ally of Russian President Vladimir Putin.

Russian crude offered at steep discount, but no takers

(Bloomberg; Feb. 24) - Russia’s flagship crude oil was offered for sale at a record discount as some buyers and shipping companies fretted over potential sanctions by the West following the country’s invasion of Ukraine. The nation’s Urals crude was offered at $11.60 a barrel below Dated Brent, a marker for physical oil transactions in Europe and beyond. That’s the deepest discount in at least 11 years of data compiled by Bloomberg. There were no bids. Separately, a large tender for the grade also went unsold and oil transport costs boomed.

Russia’s invasion of Ukraine has made the market leery of a sanctions backlash. Officials at three large oil tanker companies, two shipbrokers, four oil traders and one refinery all said that Russia-related activity has been put on hold. The country sends out about two-thirds of its exports by sea, with many of those cargoes handled by traders.

Freight rates from Russia’s Baltic Sea soared, according to the Baltic Exchange in London. The daily earnings for a tanker moving a 100,000-ton cargo of Urals crude from the region into Europe jumped by almost 800%, reaching $121,741 and underscoring the reticence among some tanker owners about taking Russian cargoes. The situation has prompted a rush for crude from other parts of the world, said Lars Barstad, the management unit of Frontline, one of the world’s largest owners of supertankers. “Buyers are looking to source crude from safe suppliers,” he said.

U.S. will not sanction Russian crude to avoid further price hikes

(Bloomberg; Feb. 25) - The Biden administration won’t sanction Russian crude oil because that would harm U.S. consumers and not Vladimir Putin, a U.S. State Department official said Feb. 25. “The sanctions will not target the oil flows as we go forward," Amos Hochstein, the State Department's senior energy security adviser, said in an interview on Bloomberg Television.

The remarks underscore the administration's approach to sanctions that are intended to maximize pain for the Russian president while minimizing the blowback for U.S. and European consumers. "If we target the oil and gas sector for Putin, and in this case the Russian energy establishment, then prices would spike. Perhaps he would sell only half of his product, but for double the price," Hochstein said. "That means he would not suffer consequences while the United States and our allies would suffer consequences."

Oil prices topped $100 a barrel for the first time since 2014 following Russia's invasion of Ukraine on fears that the move would lead to harsher sanctions from the West. But those gains were mostly erased after Biden's package of initial sanctions avoided the energy sector. On Feb. 25, West Texas Intermediate slipped $1.10 to $91.71 a barrel while Brent crude dropped $1.69 to $97.39 a barrel.

Hawaii dependent on Russia for one-third of its crude

(Canary Media; Feb. 25) - Global oil prices are up as Russia invades Ukraine, and one U.S. state in particular will feel the crunch. Hawaii imports all of its oil, much of it from Russia. "Isolated by the Pacific Ocean, Hawaii is the most petroleum-dependent U.S. state," says the U.S. Energy Information Administration. Hawaii is unique among the states in how much it depends on oil for electricity, and the geopolitical strife catches Hawaii at an awkward moment of transition from fossil-fueled electricity to clean energy.

The biggest power plant on the most populous island, the coal-powered AES plant in West Oahu, will shut down in September. The fleet of large-scale renewable projects developed to replace the coal plant is facing delays and cancellations. Until new clean capacity comes online, oil-fueled power plants are part of the fallback plan to keep the lights on for Oahu's 1 million residents when coal power goes away.

"We have warned about leaving the cost of this transition up to world oil markets, and this week's events are another reminder of the price we pay for oil dependence," said Jay Griffin, chair of the Hawaii Public Utilities Commission. In recent years, roughly one-third of Hawaii's oil came from Russia, according to information from the state. As of Feb. 25, it was unclear whether tensions between the U.S. and Russia would interrupt the flow of oil to Hawaii. Utility Hawaiian Electric, which supplies almost all of the state's electricity, buys fuel oil from local refiner Par Hawaii. The refiner has assured the utility that it will be able to pivot to other crude oil sources if current supplies are interrupted.

Rather than release oil stockpiles, China is adding to its reserves

(Reuters; Feb. 25) - China has ramped up purchases into its oil reserves this year even as oil prices soared, despite calls from Washington for a global coordinated stockpiles release to help cool the market, industry data showed and traders said. Washington has sought cooperation from China to bolster the impact of a coordinated release of strategic oil stocks from major consumers to dampen the surge in prices, which topped $100 a barrel this week for the first time since 2014 after Russia invaded Ukraine.

On Feb. 2, President Joe Biden said the United States was working with other countries on a new release of oil reserves following on one in November last year. The U.S. had announced a release of 50 million barrels from its own stocks in November and said China, India, Japan, South Korea and the U.K. would do the same. The move came as U.S. gasoline prices soared and inflation spiked.

India, Japan, South Korea and the U.K. said they would release modest volumes into the market. China, the world's No. 2 consumer and largest importer, never committed to the move and has been buying more oil for its reserves instead. Two oil trading sources said Beijing ramped up purchases immediately after Chinese President Xi Jinping met Russian leader Vladimir Putin in early February in Beijing. The U.S. government declined to comment on why China had not participated in the release of oil stockpiles.

Another Russian LNG export project proposed to serve China

(Natural Gas Intelligence; Feb. 25) - Yakutia LNG, proposed for the Russian Far East republic of Yakutia, is planned to start up in 2027 to deliver liquefied natural gas to China. At full operations, the terminal would be capable of producing 17.7 million tonnes of LNG per year and would help Russia toward reaching its ambitious LNG production target of 140 million tonnes by 2035. It would also help buttress Russia's growing role as a gas supplier to China, which has become the world's leading LNG importer.

In 2021, Russia was the fourth-largest global LNG exporter at 30.1 million tonnes, and the fifth-largest LNG exporter to China at 4.46 million. Construction of the Arctic LNG-2 project is underway, which will boost Russia's production capacity close to 50 million tonnes. Russia holds the largest gas reserves in the world, with more than half located in Siberia, according to state-owned Gazprom. But Siberia's long winter months, cold weather and unfavorable conditions are a challenge for constructing LNG projects.

Yakutia LNG plans a final investment decision in 2023. Globaltec is the operator of the project. Producer Yatec would supply the gas. Both companies are subsidiaries of a private company, A-Property, owned by Russian oligarch Albert Avdolyan. Yatec will manage construction and operation of the 810-mile pipeline to deliver gas from Kysyl-Syr in Yakutia to Ayan on the coast of the Sea of Okhotsk, for liquefaction and export.

Globaltec awarded the front-end engineering and design contract last month to a consortium of Japan's JGC Corp. and Norway's Aker Solutions. TechnipFMC completed the pre-FEED study in 2020. A subsidiary of a Chinese gas importer would take a 10% equity share in Yatec and Globaltec and take LNG from the project.

U.S. can't send much more LNG to Europe until new projects built

(Natural Gas Intelligence; Feb. 24) - Europe's energy crisis has been a boon for American liquefied natural gas exports, and Russia's incursion into Ukraine puts them in an even better position. The attack is not expected to push U.S. natural gas prices significantly higher, as producers can ramp up output and move gas where it is needed through an extensive pipeline grid, but production capacity limits and contractual commitments at U.S. liquefaction terminals will constrain gas deliveries to Europe.

The U.S., Qatar and Russia provided almost 70% of Europe's LNG imports last year, according to the U.S. Energy Information Administration. The U.S. became Europe's largest supplier in 2021, providing 26% of all the LNG imported by the European Union in a trend that has continued this year. Europe imported a record 11.6 million tonnes of LNG in January, about half of which was provided by the U.S., according to Kpler. But the U.S. cannot increase its LNG production until more projects are built or expanded.

If Russian supplies are cut by the war in Ukraine, Europe would have to lean heavily on a combination of LNG, storage, domestic production, pipeline imports from other suppliers and possibly even energy conservation measures to fill the void. However, a prolonged conflict in Europe could also bolster brownfield LNG site expansions and possibly even help greenfield LNG projects to reach final investment decisions or secure financing, Evercore ISI analysts led by Sean Morgan said in a recent analysis.

Europe's turn away from Russian gas could lead to more U.S. LNG

(S&P Global Platts; Feb. 25) - As Western Europe looks to wean itself from reliance on Russian natural gas, a turn toward U.S. supply could lend support to liquefied natural gas export project developers and gas producers. In February, nearly three-quarters of U.S. LNG cargoes were destined for Europe. High prices and tight supply globally have kept U.S. LNG export terminals operating at full tilt this year. Since the start of January, feed gas demand has averaged a record high 12.4 billion cubic feet per day.

With current export capacity maxed out, analysts say there's little Europe can do to attract more U.S. LNG. Longer term, though, growing security and supply concerns in Europe could spark more interest in the U.S. as an alternative supplier. Europe hasn't looked favorably on LNG given its heavy carbon footprint, but that could change in the wake of the current crisis, said Ross Wyeno, S&P Global Platts Analytics lead analyst for LNG Americas. "Even before the Russia-Ukraine conflict escalated, there was already a strong uptick in contracting for U.S. LNG exports," Wyeno said Feb. 25.

"We were expecting three to five facilities to reach a final investment decision in 2022. Given the conflict — which is encouraging gas buyers to look for supply outside of Russia — it raises the prospect of FIDs even further," Wyeno said. Three projects in Louisiana appear to be the leading contenders for an FID this year. "I think there will be new long-term contracts with European utilities following this crisis," Leslie Palti-Guzman, co-founder and CEO at GasVista, said Feb. 25. "The discussions had already started this summer, but it could take more time to finalize those deals."

Europe’s energy needs prompt renewed interest in Canadian LNG

(Financial Post; Canada; Feb. 23) - An energy crunch in Europe, exacerbated by the escalating conflict in Ukraine, is breathing new life into hopes that Canada’s Atlantic provinces could become a hub for liquefied natural gas exports, industry watchers say. The energy-starved European Union gets almost 40% of its gas from Russia, whose move into Ukraine this week has added more uncertainty. Germany announced it was halting the approval process for the Nord Stream 2 project, a controversial twinning of a major pipeline bringing Russian gas to Germany under the Baltic Sea.

As Europe’s gas woes mount, at least two companies are exploring LNG options on Canada’s East Coast. Earlier this month, Spanish oil major Repsol was reported to be considering converting its Saint John LNG import terminal into an export facility. And in Nova Scotia, Calgary-based Pieridae Energy, was already working on plans to build a floating LNG export terminal in Goldboro, at an annual capacity of 10.2 million tonnes.

According to Bloomberg News, Repsol has filed a not-yet-public description of the project with Canada’s Environmental Assessment Agency, describing its development plans. Saint John LNG already holds an export permit that it received in 2016, which could speed the regulatory process. Pieridae canceled an attempt to build a land-based LNG export terminal last summer due to cost issues. The gas for both terminals would likely come from Western Canada, presenting pipeline capacity and cost issues.

Cheniere says Texas LNG plant expansion decision could come soon

(Reuters; Feb. 24) – The largest U.S. exporter of liquefied natural gas, Cheniere Energy, said Feb. 24 that high prices and an "extremely volatile" global market are driving more long-term supply contracts. Russia's attack on the Ukraine sent European gas prices up 40% on Feb. 24, a signal that LNG will remain a critical part of Europe's energy mix, said Cheniere Chief Commercial Officer Anatol Feygin.

Even before the invasion, LNG demand had soared, sending prices late last year to record highs on supply shortages and a shift to gas from more polluting fuels. LNG suppliers rely on long-term contracts to finance new plants. Such strong demand could allow the company to make a final investment decision "in the near term" on a major expansion at its Corpus Christi, Texas, plant, said Cheniere CEO Jack Fusco. That expansion would add 10 million tonnes per year of production capacity.

Two-thirds of contracts signed by Cheniere last year were with Asian buyers, 45% of which were from China, Feygin said. Cheniere said it exported a record 153 LNG cargoes during the fourth quarter in 2021, compared to 130 in the fourth quarter of 2020. For its full year, it exported 566 cargoes, up 45% from 2020.

Cheniere signs up another gas supplier for LNG project expansion

(Natural Gas Intelligence; Feb. 24) - Cheniere Energy said Feb. 24 it has extended a gas supply agreement with producer EOG Resources, concluding the commercial deals it needs to move ahead this summer with a final investment decision to expand its Corpus Christi liquefied natural gas export terminal in South Texas. The expanded integrated production marketing agreement triples the volume of gas that EOG would supply for Cheniere to market overseas as LNG.

EOG would provide more than 700 million cubic feet per day for the Corpus Christi expansion project. EOG would earn prices linked to the U.S. Henry Hub natural gas price benchmark and the Japan-Korea Marker for LNG prices in Asia. “The project is well positioned to be sanctioned,” said CEO Jack Fusco. The expansion would add seven midscale liquefaction trains and 10 million tonnes of annual capacity. An LNG supply shortage and growing unrest in Europe as Russia has attacked Ukraine provides “tailwinds for our business,” Fusco said. Cheniere is the largest U.S. LNG exporter.

Future uncertain for Nord Stream 2 gas line to Germany

(Reuters; Feb. 23) - Germany's decision to halt certification of the Nord Stream 2 gas pipeline has raised questions about the future of the $11 billion, 762-mile line from Russia under the Baltic Sea, and the prospect of compensation lawsuits against Germany by its Russian owner Gazprom. Asked if he could still expect Nord Stream 2 to go online one day, German Chancellor Olaf Scholz said: "We are in a situation at the moment where no one should bet on that. We are very far from this at the moment."

Germany’s Economy Minister Robert Habeck, whose Greens party always opposed the project, said in a separate interview it could end up being entirely scrapped. "It is absolutely still possible that sanctions will be imposed on Nord Stream 2," he said as Europe grappled with how to respond to Russia’s invasion of Ukraine. However, the

Kremlin and some of the companies backing the pipeline say they are holding out hope the decision to halt the certification could be reversed.

The German economy ministry on Feb. 22 withdrew an assessment submitted last year to the nation's energy regulator declaring that the pipeline posed no risk to the security of energy supplies. Germany gets about 40% of its gas from Russia. The ministry is expected to submit a new assessment within three months, taking into account Russia's invasion of Ukraine. If, as expected, it declares the pipeline a risk to energy security, Germany's energy regulator would almost certainly not approve the project.

Halt to Nord Stream 2 could be start of Europe-Russia gas breakup

(Barron's commentary; Feb. 25) - Vladimir Putin's armies clearly hold the upper hand on the Ukrainian battlefield. But economically, Russia shot itself in the foot before the fighting started. State-owned gas monopolist Gazprom, and half a dozen Western partners, spent three years and $11 billion laying the Nord Stream 2 pipeline between Siberia and Germany, for one main reason: To shift gas exports away from Ukraine.

Chancellor Olaf Scholz abruptly sank those plans, halting final approvals that had looked like a slam dunk. The German leader acted as soon as Putin recognized the breakaway Donetsk and Luhansk "People's Republics." He didn't wait for Moscow's assault, or U.S. sanctions. "Honestly, I was surprised the government acted so quickly," said Marcel Dirsus, a fellow at Kiel University's Institute for Security Policy.

Nord Stream 2 offered a more direct route from Russia's rich new Arctic gas fields to European customers. But the chief impetus was political. "This was never needed from a capacity perspective," said Hanns Koenig, a Berlin-based consultant at Aurora Energy Research. "It was a way of going around Ukraine." Unless it takes control of Ukraine, Moscow would have to negotiate transit with its unloved neighbor again by late 2024, when current contracts expire — that or lose a third of its export capacity to the West.

Putin's military moves should speed the growth of liquefied natural gas imports into Europe, particularly in Germany, where environmental concerns have hamstrung projects. "We may be witnessing the beginning of the end of Europe's umbilical relationship with Russian gas," said Simon Flowers, chief analyst for energy consultant Wood Mackenzie. "The Ukraine invasion appears to be the last straw."

LNG prices surge in Europe, but limited supply available near term

(S&P Global Platts; Feb. 24) - The Northwest Europe delivered LNG price surged 29% on Feb. 24 to $38.823 per million Btu, posting its the biggest one-day increase on a percentage basis since S&P Global Platts launched the assessment in 2010. The runup was largely a response to Russia's invasion of Ukraine that could reduce Europe's access to supplies of pipeline gas amid already tight mid-winter inventories.

"It's certainly driving the off-takers to think of longer-term, more stable pricing, and U.S. LNG because of the stability in pricing and the destination flexibility," Commonwealth LNG CEO Paul Varello said Feb. 24. Varello said he plans to have dinner with a German LNG buyer who recently expressed interest in taking gas from Commonwealth LNG, a proposed project in Louisiana, with planned annual capacity of 8.4 million tonnes per year. The company has not made an investment on the project.

LNG exporting countries face challenges helping meet U.S. and European Union goals of mobilizing meaningful volumes of additional gas supplies to Europe over the near-term, due to global demand, trade-flow fundamentals, commercial contracts and operational considerations. The overwhelming majority of LNG volumes produced in the U.S. are committed under long-term contracts. The volumes that are available for spot delivery are generally sold to a market that provides the best netback profit. Europe is “going to have a very difficult time for the balance of this winter,” Varello said.

Italy may reopen coal plants to help replace Russian natural gas

(Bloomberg; Feb. 25) - Italy’s new plan to break its dependence on Russian gas may rely partly on an old source of energy: coal. Prime Minister Mario Draghi said Feb. 25 the country could reopen some shuttered coal plants to help bridge its looming energy supply gap and cut its dependence on Russia, which accounts for 45% of Italy’s gas supplies. The government also is reviewing other options including boosting imports of U.S. LNG and gas from Azerbaijan, Algeria, Tunisia and Libya via existing pipelines.

Draghi’s remarks came just hours after Enel, the country’s biggest utility, said it was scrapping plans to convert its two biggest coal-fired power plants to gas. Enel said it will pursue a different strategy for sustainable development at the sites in the south of the country. The company has a target to exit coal by 2027 and gas by 2040. Italy has already spent about 16 billion euros ($18 billion) to shield businesses and consumers from the impact of rising energy costs, and Draghi said his government will continue to search for ways to deliver price relief.

Other European countries are also preparing plans to offset dependence on Russian energy supplies. Germany is set to create reserves of coal for electricity power plant operators in a bid to strengthen energy security. However, about 50% of the country’s coal supplies come from Russia. Berlin is also considering an incentive plan to revive some troubled liquefied natural gas import terminal projects.

Lithuania decides to buy leased LNG vessel used at import terminal

(Reuters; Feb. 25) - Lithuania has decided to buy the floating storage and regasification vessel that it has leased for its liquefied natural gas import terminal since 2014 from Norway's Hoegh LNG. The shareholders of the state-controlled company that operates the terminal, Klaipedos Nafta, have approved the exercise of an option to acquire the vessel Independence for $153 million after the 10-year lease expires in 2014.

Klaipedos Nafta said the purchase would ensure Lithuania's energy independence by continuing to provide an alternative to pipeline gas from Russia. "The terminal has served its purpose, and today we are free from dependence on Russian gas ... by having diversified our supplies," the company said. "Energy security and independence are even more important in the context of the current geopolitical tensions."

Until 2014, Lithuania and other two Baltic states, Latvia and Estonia, were completely dependent on supplies from Russia, their former Soviet master. Last year, gas imports via the LNG terminal, mainly from the United States, met 68% of the country's demand, data from Lithuania's gas system operator Amber Grid showed. Lithuania has said it could also supply gas to Poland via a newly built pipeline, expected to start operations by mid-2022, in addition to possibly supplying gas to its Baltic neighbors and Finland.

Trucked LNG prices reach record high in China amid tight supply

(S&P Global Platts; Feb. 23) - China's trucked LNG prices hit a new record high recently, the equivalent of nearly $25 per million Btu in some northern and eastern regions, driven by tighter LNG supply at first-tier suppliers, robust domestic demand and partial curtailment of Central Asian pipeline gas supply, according to market participants. China's overall trucked LNG price, for coastal LNG terminals and inland LNG plants, is up 79% from Jan. 28.

PipeChina's Tianjin LNG terminal only sold about 50 truckloads of LNG on Feb. 21, compared to about 350 cargoes on normal days, a trade source in Beijing said. Cold weather since early February has stimulated gas demand and put pressure on first- and second-tier gas suppliers, which import LNG and regasify it for distribution through pipelines or delivery aboard tanker trucks. Truck deliveries account for a large portion of the distribution infrastructure due to inadequate pipeline networks in many areas.

Affected by cold weather, natural gas supply from Central Asian pipelines to China has been cut by more than 10% recently due to increased domestic demand in the exporting countries, a source close to PetroChina said. As a result of lower pipeline gas supply from Central Asia, PetroChina has either curbed or suspended gas supply to some industrial and compressed natural gas vehicle users since last week, in a bid to ensure natural gas supply to residential users, market sources said.