Oil and Gas News Briefs
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Cheniere asks for exemption from emissions rules at LNG plants

(Reuters; July 8) - Cheniere Energy has asked the Biden administration to exempt it from limits on emissions of cancer-causing pollutants, arguing they would force the top U.S. exporter of liquefied natural gas to shut for an extended period and endanger the country's efforts to ramp up LNG supplies to Europe, according to documents reviewed by Reuters. The request imposes an uncomfortable dilemma on President Joe Biden's administration as it tries to balance efforts to slash pollution from fossil fuels against promises to help European allies cut energy ties with Moscow over its war on Ukraine.

Denying Cheniere could shut off much of America's LNG exports for months or years, while granting its request would mean ongoing emissions of toxic pollutants into poor and minority neighborhoods that Biden has vowed to protect. Texas regulators have already given Cheniere's LNG plant on the outskirts of Corpus Christi, Texas, a pass for overshooting emissions limits on other pollutants, according to Reuters reporting.

The request reflects a huge financial vulnerability for Cheniere and its shareholders. At issue is a rule under the U.S. Clean Air Act called the National Emissions Standards for Hazardous Pollutants, which imposes curbs on emissions of carcinogens like benzene and formaldehyde from stationary combustion turbines. The Environmental Protection Agency announced in February that starting in August the rule will apply to two types of gas-fired turbines that had been left out of the regulation for nearly two decades.

An EPA list shows that Cheniere is the only LNG producer using these type of turbines. The company, which accounts for around 50% of U.S. shipments of the fuel, told the EPA in a series of emails this spring that its two LNG facilities in Louisiana and Texas use a unique turbine design that cannot be easily equipped with pollution controls.

Crude could drop to $65 if world goes into recession, Citigroup says

(CBS News; July 6) - Worries of a global recession are pummeling the price of oil, and should those fears be realized this year crude could cave to $65 a barrel, according to Citigroup. "Thus far, we're not in a recessionary environment," Ed Morse, the bank's global head of commodity research, told CBS MoneyWatch. The economies of certain countries are slowing more than others, but the world as a whole is not in a recession — a scenario that's more unlikely than not this year, he said.

Morse and his team currently offer a 40% probability of a global recession, defined as two consecutive quarters of a collective drop in the world's GDP. Concerns that a slowdown in the global economy could dent the world's appetite for crude had oil futures falling below $100 a barrel on July 5 for the first time since May 11.

Meanwhile, thoughts earlier this year that Russia's invasion of Ukraine would disrupt global oil supplies have not panned out. Instead of the conflict and resulting sanctions limiting the supply of oil, it has created a two-tiered market, according to Morse. "What Russia's managed to do is find new customers, and they are selling at a discounted price of 30% to 40%," the analyst said.

Citgo ready to buy Venezuelan oil for U.S. refineries, if allowed

(Reuters; July 8) - U.S. refiner Citgo Petroleum is willing to resume imports of Venezuelan crude, suspended since 2019 by Washington's sanctions on its parent company PDVSA, if the U.S. government authorizes the flow, Citgo's CEO said on July 7. Since March, top U.S. and Venezuelan officials have been engaged in political negotiations that could lead to Washington easing oil trading sanctions that have hit the OPEC country's production and exports.

OPEC and the French government, representing Europe, have called for Washington to allow Venezuelan and Iranian crude to flow to consuming nations that are struggling to replace Russian energy supplies during the war in Ukraine. "To be competitive in this market, we have to buy the cheapest and most convenient crude," said Carlos Jorda, Citgo CEO in an online conference on Venezuela's foreign energy assets. "We should not be at a disadvantage" to other refiners. Citgo operates three U.S. refineries.

The Bidens administration in May authorized European companies Eni and Repsol to resume imports of Venezuelan crude, which last month helped boost the nation's oil exports to over 600,000 barrels per day. Chevron, the last U.S. producer operating in Venezuela, also is requesting an authorization from the U.S. Treasury Department to ship Venezuelan oil to the U.S. and even getting operating control of its joint ventures.

Saudi Arabia may have little spare production capacity to give Biden

(Bloomberg; July 10) - Even if President Joe Biden secures a pledge for more oil when he visits Saudi Arabia this week, it may do little to drive down the high fuel prices roiling the global economy. The visit to a country he once vowed to isolate is a thawing of relations, but the Saudis and their OPEC partners have limited spare output capacity to offer Biden in return for this political concession.

“A surge in Saudi production seems unlikely,” said Ben Cahill, senior fellow at the Center for Strategic and International Studies in Washington, D.C. “Saudi Arabia and OPEC+ have very limited spare capacity, and they have to manage it carefully.” Shell CEO Ben van Beurden warned on June 29 that the world faces an “ever-tighter market” and a “turbulent period” because OPEC has less spare capacity than assumed.

Saudi Aramco says it can reach and sustain maximum production of 12 million barrels a day. OPEC data show the country has only held this level for a single month, April 2020. “There’s a realization that Saudi Arabia doesn’t have much to bring to the table in terms of supplies, at least for the time being,” said Bill Farren-Price, a director at Enverus Intelligence Research. “This energy crisis needs long-cycle investment in infrastructure like refineries,” said Jeff Currie, head of commodities research at Goldman Sachs. “The questions over OPEC production capacity are a sideshow.”

Shell set to start up 13th major offshore Gulf of Mexico project

(The Wall Street Journal; July 7) - Political uncertainty is clouding prospects for new drilling in the Gulf of Mexico, but Shell — the Gulf’s biggest producer — is still investing billions of dollars in its waters to pump oil for years to come. Shell’s continued ambitions in the Gulf are on full display in a sprawling fabrication yard in southeast Texas. There, the company is putting the finishing touches on Vito, its 13th major offshore project in the region, with a cost of about $3 billion, according to energy consulting firm Wood Mackenzie. The cost is shared by Shell and its partner, Norway’s Equinor.

Later this month, three tugboats will tow Vito to waters about 4,000 feet deep some 150 miles southeast of New Orleans, where it will start pumping oil and gas from eight wells, reaching peak production of 100,000 barrels of oil equivalent per day. The investment decision on Vito was made in 2018, and Shell will need to invest billions of dollars more in years to come just to maintain current Gulf production levels, said Paul Goodfellow, the U.K. oil company’s global head of deep-water operations.

Shell has said it expects to decrease oil output by 1% to 2% a year through this decade while it uses oil and gas profits to fund renewable energy. But that will take years, and in the interim, Shell shows no signs of slowing down in the Gulf, which typically provides about 10% of all of Shell’s global oil and gas production. Output last year from Gulf of Mexico projects operated or partly owned by Shell was about 588,000 barrels a day, up by about 12% since 2017, according to Shell. Its fully owned share was 337,000 barrels.

Germany’s largest landlord will reduce heat to save on natural gas

(Reuters; July 7) - Germany's largest residential landlord Vonovia will reduce heating for tenants in many of its apartments at night, as Europe's biggest economy braces for a possible gas crunch with falling Russian fossil fuel imports. The company, which owns about 490,000 apartments in Germany and heats apartments through various energy suppliers, will cut the heating output between 11 p.m. and 6 a.m. to 17 degrees Celsius (62.6 Fahrenheit), a spokesperson for the company said.

Tenants will be able to use their heating as usual during the day and in the evening hours, and the rationing will not affect hot water supply. The reduced heating schedule will be rolled out gradually over the coming months and will be fully in place by the start of autumn. The measure aims to save up to 8% of heating costs, the company added.

Tenants pay a fixed monthly amount for heating based on an annual estimate. At the end of each year, landlords can subsequently ask for additional money from tenants, or they pay a refund, depending on the real consumption and cost. Sky-rocketing heating bills, in reflection of global rallies and shortages due to the Ukraine crisis, might mean tenants are handed giant bills early next year. Vonovia, which has 55% of its heating system supplied by gas, said it was informing tenants that high energy prices will lead to increased additional payments in the foreseeable future.

French companies convert gas boilers to run on oil as contingency

(Reuters; July 10) - France's energy-intensive companies are speeding up contingency plans and converting their gas boilers to run on oil as they seek to avoid disruption in the event any further reduction in Russian natural gas supplies leads to power outages. Gathered over the weekend at a business and economics conference in southern France, several top executives said they were preparing for possible blackouts.

"What we've done is we've converted our boilers, so they're capable of running on gas or oil, and we can even switch to coal if we need to," said Florent Menegaux, the boss of Michelin, one of the world's leading tire makers. "The aim is to avoid having to shut down a plant in case we face a shortage," he added, saying that while a gas shortage in Europe was likely, oil would still be available as an alternative.

Across Europe, industry has been resorting to more polluting fuel than gas as it gives precedence to tackling the cost to the economy of business disruption and surging energy prices, rather than longer-term targets to switch to zero carbon fuel. French Finance Minister Bruno Le Maire told the top corporate executives attending the conference it would be irresponsible not to prepare for shortages. "Let's prepare for a cut-off of Russian gas," he told them. "Today it's the most likely scenario."

Poorer nations cannot afford to compete for LNG with Europe

(The Wall Street Journal; July 7) – The war in Ukraine is depriving far-away developing countries of electricity, as the world's supply of liquefied natural gas used to produce power is swallowed up by European nations as an alternative to Russian gas. The price of LNG, which can be moved by ship around the world, has rocketed 1,900% from the bottom hit two years ago amid suppressed demand during the COVID-19 pandemic. Current prices are the energy equivalent of buying oil at $230 a barrel, more than double the current price of oil. LNG normally trades at a discount to oil.

Developing countries often can't compete with European nations for LNG cargoes at such prices — around $40 per million Btu — meaning that poorer nations, from India to Brazil, are cutting their LNG imports. Even China has pulled back on purchases. Bangladesh has resorted to cutting off electricity supply for parts of the day. India has pivoted to using more coal and domestic gas. In some cases, cargoes due to poorer nations have been diverted to Europe, experts say, in what can be a profitable trade even as suppliers are forced to pay penalties under contracts with developing nations.

European countries increased their LNG imports by 49% from the start of the year to June 19, according to data from Wood Mackenzie, an energy consulting firm. By contrast, imports by India are down 16%, China by 21%, and Pakistan by 15% over that period, it said. "The European gas crisis is sucking the world dry of LNG," said Valery Chow, head of Asia Pacific gas and LNG research at Wood Mackenzie. "Emerging markets in Asia have borne the brunt of this and there is no end in sight."

No one bid to supply Pakistan with LNG

(Bloomberg; July 7) - Pakistan's energy crisis looks set to drag on for months after another failed attempt by the nation to import gas. In an unusual development, state-owned Pakistan LNG didn't receive a single offer in a $1 billion liquefied natural gas purchase tender, according to traders with knowledge of the matter. That illustrates both the extent of the global fuel shortage, and also the reluctance of suppliers to sell to a country in the depths of an economic crisis.

It's the fourth time in roughly a month that Pakistan — which is already suffering frequent blackouts — has failed to complete an LNG purchase tender. The relatively poor country is reliant on energy imports, meaning it's been hit especially hard by soaring prices. Inflation has topped 20%, and the government is negotiating with the International Monetary Fund on a financial rescue package.

Already elevated Asian gas prices started rising further over the past few weeks on increasing supply disruptions. Global LNG flows are being redirected to energy-starved Europe, where utilities are willing to pay more than emerging markets. Thailand and India have also been curbing purchases due to high prices, but they're not in as bad a situation as Pakistan. The world's fifth-most populous country was looking to buy 10 cargoes from the spot market for delivery from July to September via the tender that closed on July 7. Pakistan bought almost half of its LNG on the spot market last year.

Europe's natural gas crisis could extend a couple more years

(Bloomberg; July 6) - Those expecting Europe's worst energy crisis in decades to ease after this winter will be disappointed, according to a major gas lobby. "We might go through the winter of 2022/23 without too much damage — if we are lucky — but the next winter will probably be more difficult, and the winter after," said Vincent Demoury, a general delegate of GIIGNL, the Paris-based group of liquefied natural gas importers.

While last winter's milder weather left Europe with higher-than-expected gas inventories for the coming heating season, market prices are soaring on the threat of a winter fuel shortage. A prolonged cut in Russian imports and resurgent demand in China after virus lockdowns will mean replenishing Europe's storage sites for next year will be challenging, Demoury said July 6 at an industry gathering in London.

Policymakers have acknowledged the risk of an extended gas crisis. The European Commission, the European Union's executive arm, is expected to unveil this month more detailed contingency plans for the heating season, which may include recommendations for better long-term planning in case of tougher winters and fewer alternative sources of energy. "I hope it's a short-term situation, but I think it's a one- to three-year situation," Jonathan Stern, a distinguished research fellow at the Oxford Institute for Energy Studies, said at the July 6 gathering.

LNG market looks on track to stabilize before end of decade

(The Straits Times; Singapore; July 7) - The global LNG supply crunch triggered by the shockwaves from the Russia-Ukraine war is expected to drag out over the next few years before supply stabilizes some time toward the end of the decade, according to senior industry executives gathered in Singapore for an annual conference on July 7.

Speaking during a panel discussion at the 12th Asia LNG Summit, Andrew Walker, vice president of strategy at Cheniere Marketing, a unit of top U.S. liquefied natural gas exporter Cheniere Energy, said he expects new supply from projects in the U.S. and Qatar to hit the market 2026 through 2027, helping to set the market back in balance.

Late last month, Cheniere Energy announced an US$8 billion expansion of its plant at Corpus Christi, Texas, and signaled further expansions could be on the horizon. Walker said more of such projects, not just by his company but by others based in the United States, would likely be announced down the road, spurred by growing demand for long-term purchase agreements that make up about 90% of Cheniere Energy's portfolio. He added that demand for longer-term contracts was growing as they provide more security for buyers and mitigate volatility in the spot market.

Dutch ask Germany to consider running nuclear plants longer

(Bloomberg; July 7) - The Netherlands has asked Germany to consider keeping its nuclear power plants open, but admitted the chances of that happening are slim. Rob Jetten, the Dutch Minister for Climate and Energy Policy, made the request to German Economy Minister Robert Habeck as Europe faces its worst energy crisis in decades. Power prices have soared after Russia reduced natural gas supplies to many countries in retaliation for sanctions triggered by its invasion of Ukraine.

Europe is rushing to reduce its dependence on Moscow's energy, and the Netherlands plans to stop importing Russian gas this year. "I just asked them if it's technically possible to keep the nuclear power plants open," Jetten said July 6 in The Hague, referring to his meeting with Habeck. "They've already taken so many measures to shut them down and there's probably not enough fuel to keep them open a bit longer." Germany has all but ruled out prolonging its last nuclear plants, citing technical risks.

The Netherlands could extract an extra 1.8 trillion cubic feet of gas each year from its Groningen field. Yet Dutch authorities — wary of earthquakes triggered by drilling, which have damaged buildings — have repeatedly said they plan to wind down the field and will only increase output as a last resort. It is "crystal clear," State Secretary for Mining Hans Vijlbrief said, that nuclear plants are a safer option than getting more gas from Groningen. Still, the government may decide to produce more if all Russian gas is cut and households face a supply risk, said Vijlbrief, who's responsible for Groningen.

European Parliament classifies gas, nuclear as 'sustainable'

(The Hill; Washington, DC: July 6) - The European Parliament voted July 6 to classify liquefied natural gas and nuclear power as "sustainable" fuels, making them eligible for subsidies reserved for renewable energy. The decision was quickly blasted by environmental groups and activists as setting back the cause of fighting climate change.

"Gas and nuclear are not green, and labeling them as such is blatant greenwashing — this harms the climate and future generations," Ester Asin, director at the World Wildlife Fund's European Policy Office, said in a statement. "Today, fossil gas and nuclear lobbies hit the jackpot," she added. Swedish climate activist Greta Thunberg, meanwhile, tweeted that the move "will delay a desperately needed real sustainable transition and deepen our dependency on Russian fuels."

While the expansion of the classification can still be rejected if 20 of the 27 European member states vote against it, that’s unlikely due to many of those nations’ past support of one or both forms of energy. If the rule is not rejected, it will take effect next year. The parliament voted 328-278 for the policy, with 33 abstentions. The proposal dates back to before Russia’s war on Ukraine and the resultant European energy crunch, but the parliament said in a statement that the “inclusion of certain gas and nuclear activities is time-limited and dependent on specific conditions and transparency requirements.”

Russia’s takeover of Sakhalin-2 LNG plant a possible risk to Japan

(Reuters; July 8) - Resource-poor Japan is facing a historic energy security risk as tensions with Moscow intensify, heightening the threat of gas supply disruptions at a time when global supply is tight and spot prices are sky-high. Last week, Russia seized full control of the Sakhalin-2 gas and oil project in its Far East, in which Japanese investors hold a 22.5% stake. Although Moscow said it saw no reason for Sakhalin-2 deliveries to stop, the move threatens to unsettle an already tight LNG market. Japan imports 10% of its LNG from Russia, mainly under long-term contract from Sakhalin-2.

LNG accounts for 24% of Japan's primary energy mix and 39% of its electricity mix. Japan, the world's second-biggest LNG buyer after China, imported 74.32 million tonnes of the fuel in 2021. Russia is its fifth-biggest supplier. In case of a disruption of Sakhalin LNG, Japan's options to secure alternative supplies are limited, analysts say. Nuclear offers a cheaper and less emissions-intensive alternative, but a quick acceleration in restarts will be challenging as restart regulations and safety requirements remain strict.

For the short-term, electric utilities and city gas suppliers that buy about 80% of LNG through long-term contracts, will ask their suppliers for extra volumes and scramble for spot cargoes, said Hiroshi Hashimoto, the head of gas group at the Institute of Energy Economics, Japan. Buyers can exercise a contract clause, known as Upward Quality Tolerance, which is typically a flexibility embedded in long-term contracts where buyers are able to request for about 5% to 10% extra volumes.

Freeport LNG expects partial restart of Texas plant in October

(Houston Chronicle; July 8) - A partial restart of operations at Freeport LNG’s Quintana Island facility in Texas is not expected until October, when it aims to deliver “substantially all” of its volumes, the company said in a statement. The liquefied natural gas company’s update follows an order issued last week by the U.S. Pipeline Hazardous Materials Safety Administration, which deemed the facility unsafe after a June 8 fire and explosion caused significant damage.

The order outlined a series of steps the company must take before resuming operations, noting conditions at the facility “pose an integrity risk to public safety, property or the environment.” The blast and subsequent production disruption sent a major ripple through the global gas market, which had been relying on the facility to send LNG to Europe as the European Union distances itself from Russia — previously its primary supplier of natural gas — in the wake of Moscow’s invasion of Ukraine. Exports from Freeport LNG go primarily to Europe and account for about 10% of the continent's imports, according to research firm Rystad Energy. The company aims to bring the plant fully online by the end of the year. Preliminary evidence suggests a pressure safety valve failed, allowing pressure to build along a 300-foot stretch of pipe, which then burst. The ruptured pipe had been used to transfer LNG around the facility’s storage area, the order said. “Much of the other piping in the area was damaged and will require repairs or replacement before LNG transfer operations can recommence.”

FERC suspends Louisiana LNG project review, cites deficient filings

(Reuters; July 7) - The Federal Energy Regulatory Commission has suspended its environmental review schedule for Venture Global LNG's proposed CP2 liquefied natural gas export project in Louisiana, citing deficiencies in filings. While the schedule for its environmental review was suspended, FERC said on July 6 that it would continue to process the proposal "to the extent possible" based on information received. It said it still needs information for analysis of hazards, cumulative impacts and noise.

FERC's original schedule set a July 2022 issue date for a draft environmental impact statement and a February 2023 date for the project's final EIS. Venture Global LNG has said it planned to make a final investment decision to build CP2 in mid-2023, with first LNG expected in 2026. "Venture Global is working hard to complete outstanding regulatory deliverables for CP2," spokesperson Shaylyn Hynes said in an email.

Analysts at ClearView Energy Partners, a consulting firm, said the FERC action was noteworthy because "congressional overseers have levied strong criticism at FERC ... for not approving LNG and pipeline projects ... in a sufficiently timely manner since 2021." CP2 appears to be a viable project that has been identified as a supplier in a 20-year contract with German energy company EnBW Energie Baden Wuerttemberg, ClearView noted. CP2 is designed to produce about 20 million tonnes per year of LNG. It will be located next to Venture Global's existing Calcasieu Pass plant in Louisiana.

Canadian natural gas part of LNG export flow from U.S. Gulf Coast

(Canadian Energy Centre; July 8) - Canadian natural gas is finding its way to global customers desperate for more LNG, but it’s not because of any export project on Canada’s coasts. Instead, the supply is taking off on ocean tankers as part of the mix from liquefied natural gas terminals in the United States, according to consultancy Deloitte Canada. “It appears that every spare cubic foot of Canadian natural gas that’s not being used for domestic consumption is being exported to the United States for LNG export,” analysts wrote in Deloitte’s July oil and gas market outlook.

U.S. transport of LNG to Europe is surging in the wake of Russia’s invasion of Ukraine. In the first four months of 2022, LNG imports from the United States to the European Union and United Kingdom more than tripled compared with 2021, according to the U.S. Energy Information Administration. The majority of U.S. LNG exports (74%) have gone to Europe so far this year. Thanks to an extensive interconnected pipeline network, U.S. LNG exports can include natural gas from Canada.

The largest U.S. LNG exporter, Cheniere Energy, has long-term supply deals with two Canadian gas companies. Last year Calgary-based Tourmaline Oil announced a 15-year supply agreement with Cheniere for LNG exports, to start in 2023. Cheniere struck a similar 15-year supply deal with Calgary-based ARC Resources in May 2022, to start in 2027. The Shell-led LNG Canada project, under construction in Kitimat, British Columbia, is expected to start up by 2025, providing a closer outlet for Canadian gas.