Oil and Gas News Briefs
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U.K. imposes tax on oil and gas profits to pay for consumer relief

(CNN: May 26) - The U.K. government is imposing a new £5 billion ($6.3 billion) tax on the windfall profits of its oil and gas companies, bowing to pressure from campaigners to raise money to help millions of people struggling with the worst cost-of-living crisis in decades. Finance Minister Rishi Sunak unveiled the 25% tax on the profits of energy producers such as BP and Shell on May 26. The levy will be phased out once oil and gas prices fall back to more normal levels, he said.

"The oil and gas sector is making extraordinary profits, not as the result of recent changes, risk-taking or innovation or efficiency, but as the result of surging global commodity prices," Sunak said in a speech to parliament. The tax will help fund a new package of benefits worth about £15 billion ($19 billion). Sunak said the government would make direct payments to millions of the country's most vulnerable households. About eight million low-income households will receive £650 (about $820) in two installments later this year, while a further eight million pensioners will receive £300.

Companies including BP and Shell raked in a combined $32 billion in profit last year on soaring oil and gas prices. Russia's invasion of Ukraine in February pushed prices up even further over fears the conflict will lead to energy shortages. Households have taken a big hit. On May 24, the head of the U.K.'s energy regulator said he expected the annual bills for millions of households to jump 40% to hit about £2,800 ($3,500).

New U.K. windfall tax prompts BP to reconsider investment plans

(Bloomberg; May 27) - BP said it will look again at its plans in the U.K., raising questions about whether a £5 billion windfall tax on oil and gas profits announced by the government included enough incentives to preserve investment. The statement opens up the possibility of reversal by the London-based oil major, which has previously said that planned investments of £18 billion ($23 billion) in the country by 2030 were not contingent on whether the government raised taxes.

“Today’s announcement is not for a one-off tax -– it is a multiyear proposal,” BP said in an emailed statement. “We will now need to look at the impact of both the new levy and the tax relief on our North Sea investment plans.” The U.K. government announced on May 26 that it will impose a 25% windfall tax on oil and gas companies, bowing to mounting pressure to support Britons facing a record squeeze on their cost of living.

The major risk of the tax to the U.K. North Sea oil and gas industry is that companies like BP and Shell, which are scaling back fossil-fuel investments in favor of low-carbon energy, see the U.K. as less attractive, JP Morgan's managing director for global energy Christyan Malek said. A windfall tax "creates unpredictability for projects that take years to develop," Malek said. The government tried to head off criticism that the measure is anti-business by including an 80% new-investment allowance so that companies can reduce the amount they pay if they commit to fresh capital expenditure.

U.S. natural gas prices top $9; highest since 2008

(The Wall Street Journal; May 26) – Natural gas prices are heating up ahead of air-conditioning season to the highest level in about 14 years. Prices topped $9 per million Btu for the first time since 2008 — before frackers flooded the market with cheap shale gas. The cost of the power-generation fuel has risen more than 20% this month and tripled in the past year, adding pressure to household budgets and manufacturing costs.

Natural gas has been a major driver of inflation. In addition to heating and cooling, gas prices factor into the cost of producing electricity, fertilizer, plastic, cement, steel and glass. Profits are being pinched at businesses ranging from beer-box makers and wallboard manufacturers to bitcoin miners, and higher costs are trickling down to prices for consumers and putting pressure on the Federal Reserve to raise interest rates.

Fuel traders and analysts say prices could climb even higher if hot weather arrives and air conditioners are cranked up before enough gas can be injected into storage facilities ahead of winter, when the fuel is burned for heat. U.S. gas inventories ended last week more than 15% lower than the five-year average, the Energy Information Administration said May 26. Inventories have been whittled down by strong demand for liquefied natural gas among European buyers replacing Russian gas and domestic drillers who have been slow to increase production despite the highest prices in years.

Buyers of Russian crude find new ways to take delivery

(Bloomberg; May 25) - A logistically risky and costly transfer of crude between tankers at sea highlights the steps at least one Chinese buyer is willing to take to ensure the smooth flow of oil from eastern Russia to Asia. Buyers are using creative ways to maintain flows as more shipowners shun Russian oil due to the potential fallout from financial sanctions, according to shipbrokers. Small vessels are being used to shuttle between Russia's Kozmino port and the waters off Yeosu in South Korea, where cargoes undergo ship-to-ship transfer to large supertankers for the journey to China.

The number of shipowners and insurers willing to handle Russian crude is dwindling, said shipbrokers, created a logistical challenge for producers and buyers working with fewer tankers. While the transfers add to overall sailing time and costs, the brokers said the practice is becoming more common as shipowners and buyers prioritize a ready supply of small vessels to ferry oil out of Kozmino in short runs.

Buyers of Russian crude are set to benefit from steep discounts relative to global prices as others avoid deals with Moscow due to its war in Ukraine. Cheap oil has made it attractive for top consumers such as China and India to keep importing from Russia, despite international condemnation and mounting logistical and financial hurdles. China is set to take almost all of the ESPO loadings this month, a grade that often flows to countries such as South Korea and Japan due to close proximity and simple logistics.

Inability to insure oil tankers next hurdle to moving Russian crude

(Reuters; May 26) - Russia has so far deflected much of the impact of sanctions on its oil trade, but the insurance industry threatens to throw a spanner in the works unless Moscow and its customers can plug a gap left by Western underwriters. Insurers from Europe and the U.S., which dominate the international marine market, are curtailing coverage for Russian oil tankers, industry sources say, to avoid breaching sanctions imposed in the wake of Moscow's invasion of Ukraine. Even non-Russian vessels are now at risk of being dropped by Western insurers if they carry Russian crude.

The moves by Western insurers could undermine Moscow's recent success in rerouting supplies of crude from Europe and the United States to Asia, accelerate the decline in its European business and blow a bigger hole in energy markets as restrictions ensnare the world's second-biggest crude exporter. The pullback is expected to hit over June and July, when policies that were withdrawn this month in anticipation of tougher European Union restrictions fully expire, shipping and industry sources told Reuters.

"There is an ongoing pressure for international marine insurers to not cover shipping companies worldwide for carrying Russian oil," said Maria Bertzeletou, an analyst at Greece-headquartered Signal Maritime Services. "Turmoil or a short-term hiatus on marine insurance cannot be ruled out." Ships are commercially required to have protection and indemnity insurance, which covers third-party liability claims including environmental damage and injury. Separate hull and machinery policies cover vessels.

Sanctions causing problems, delay for Russian LNG projects

(Natural Gas Intelligence; May 25) - Russia's largest independent gas producer, Novatek, is struggling with its two liquefied natural gas projects in the country's Far North under the latest European sanctions imposed against Russia. Novatek's first operating export facility, Yamal LNG, is finding it difficult to secure European buyers for its output. And delay in the construction of its second multibillion-dollar project, Arctic LNG-2, could constrain future global supply of the fuel.

Arctic LNG-2 is designed to produce 19.8 million tonnes per year from three trains. But operations are “complicated,” Novatek CEO Leonid Mikhelson admitted during the company’s annual shareholders meeting in April. The European Union imposed a fifth sanctions package last month, which includes a ban on Russia’s imports of goods and technologies needed for natural gas liquefaction. Foreign companies must conclude all deliveries to Russian projects by May 27, so the modules made for Arctic LNG-2 in China must reach the assembly site in Russia by the end of the month.

But the modules are unlikely to reach Russia by the deadline, as several Chinese yards that manufacture the topside modules for the three liquefaction trains have reportedly stopped work on the project. Work on Train 2 in China was halted on April 29, and Train 3 will be halted in late May. Train 2 is nearly 40% complete, while Train 3 is less than 10% finished. The first production line, or train, is almost finished, Mikhelson said last month. Before the Russia/Ukraine crisis, the first train was slated to begin production in 2023 with Trains 2 and 3 scheduled to start up in 2024 and 2026, respectively.

Indian companies reportedly in talks to buy stake in Russian LNG

(Reuters; May 26) - Shell is in talks with a consortium of Indian energy companies to sell its stake in a major liquefied natural gas plant in Russia, three sources told Reuters, highlighting India's willingness to step into the space left by Western companies following Moscow's invasion of Ukraine. The world's third-largest oil importer and consumer has already stepped up purchases of Russian supplies since the conflict began, taking advantage of big discounts at a time when global oil prices have surged.

The sources said Shell has recently entered into talks with a group of Indian companies, including ONGC Videsh and GAIL, over its 27.5% stake in the 13-year-old Sakhalin-2 LNG plant in Russia's Far East. The plant’s stated production capacity is 9.6 million tonnes per year. The talks follow Shell’s plans to exit all its Russian operations, amid an exodus of Western companies from the country in response to sanctions over the Ukraine conflict. India has not explicitly condemned Moscow's actions there.

India has snapped up cheap Russian oil, taking its share of Russian oil exports to around 10% from zero since the start of this year, according to the International Energy Agency. The Indian government has also asked state-run energy companies to look into buying Russian assets from European oil majors, Reuters reported last month. India does not currently purchase much LNG from Russia. Sakhalin-2 is operated by Russian gas company Gazprom. Other stakeholders include Japan's Mitsui and Mitsubishi.

[Pakistan considers Russian LNG as it looks for 'most favorable deal']

(Bloomberg; May 26) - Pakistan said it is considering signing liquefied natural gas supply agreements with various countries, including Russia, as it seeks to secure more gas and ease a crippling shortage of the fuel. The government "will go for the most favorable deal," the Ministry of Energy said in a statement to Bloomberg News. Pakistan is mulling a government-to-government contract to import the power-plant and industrial fuel, according to the statement.

Only a handful of countries are willing to sign new LNG contracts with Russia, as most importers shun Moscow due to President Vladimir Putin's invasion of Ukraine. India and China are buying additional spot shipments of Russian gas, with some at a hefty discount to prevailing rates. The move comes as Pakistan is grappling with blackouts due to a fuel shortage after several other long-term suppliers were unable to deliver shipments. The government resorted to purchasing LNG from the expensive spot market to keep the lights on, racking up debt that threatens to further boost inflation.

Prime Minister Shehbaz Sharif aims to sign a new long-term LNG contract to help reduce fuel costs. Long-term deals are much cheaper than current spot rates, and may provide some relief for the embattled government.

[Two U.S. LNG export terminals target 2024 start-up]

(Bloomberg; May 25) – Venture Global's decision to move ahead with its second liquefied natural gas export terminal in Louisiana sets off a race to become the eighth U.S. LNG terminal between the company's Plaquemines project and Golden Pass LNG, which is being developed by Qatar Petroleum and ExxonMobil in Texas. Construction at Golden Pass started in 2019 and the plant is expected to start up in 2024. Venture Global, meanwhile, uses a modular approach where components are made in factories and assembled on site, speeding up the work. It, too, forecasts a 2024 start-up.

Touted as time- and money-saver, the modular approach allowed Venture Global to produce LNG at its first project, Calcasieu Pass, in Louisiana, in a record 29 months. "I'm very confident that we will be up and producing LNG very quickly" at Plaquemines, said Venture Global CEO Mike Sabel in an interview. Compressors and other equipment are already being made in factories. "So, we're on a good path," he said.

Bank of America, Goldman Sachs, ING, JP Morgan, Mizuho, Morgan Stanley and RBC served as lead banks to Venture Global on the transaction, according to a statement. The project developer announced this week it had lined up $13.2 billion in financing for the first phase of the LNG terminal, with 13.3 million tonnes annual output capacity.

Developer looks at building Mexico LNG terminal to export U.S. gas

(S&P Global; May 26) – U.S.-based Mexico Pacific Ltd., which is working to develop an LNG export terminal on the Gulf of California, across the water from Mexico's Baja Peninsula, has tied up sales contracts with Asian customers and expects to start "significant" construction as early as June ahead of its formal final investment decision, Sarah Bairstow, chief commercial officer, said in an interview at the World Gas Conference 2022 in South Korea.

The company is looking to build an LNG export project in Puerto Libertad, Sonora, Mexico, which will have direct access to customers in North Asia without having to send cargoes through the Panama Canal, at a significant savings in shipping from U.S. Gulf Coast LNG terminals. The proposed development would include three liquefaction trains, totaling 14.1 million tonnes annual output capacity. The company is targeting a final investment decision for the second half of 2022.

"We've certainly noticed a real shift in requests for contracting acceleration from customers and I think a lot of that has really been driven by the worry that Asian buyers have [about long term supply]," Bairstow said. "Energy security has always been of paramount importance within Asia," she said. The liquefaction plant would source its feed gas from U.S. producers, particularly from the Permian and San Juan basins.

Climate advocates want Louisiana to move away from oil and gas

(Lafayette Daily Advertiser, LA; May 24) - In the farthest southwest corner of Louisiana, Cameron Parish shines as a sportsman's paradise. It has more than 26 miles of shore on the Gulf of Mexico accessible through multiple beaches. More than 400 bird species can be seen throughout the year in Cameron Parish. Its marshes are home to brown and white shrimp, blue crab and alligators. For James Hiatt, Cameron Parish is one of the best places for fishing. There was a pier that ended at the jetties in the mouth of Calcasieu Pass. Hiatt would cast his line or just watch the sunset.

But that road is now inaccessible, replaced by Venture Global LNG with a seawall to protect its Calcasieu Pass LNG export facility, he said. "You can't get there now," Hiatt said. "What happens when industry just takes and doesn't give back?" Hiatt is part of the Louisiana Bucket Brigade, a statewide nonprofit dedicated to environmental issues. He and other environmental justice advocates want to see Louisiana move away from the petrochemical industry toward cleaner and renewable energy.

They argue that while Cameron Parish is on the frontlines of climate change, the victim of an eroding seascape and more frequent and violent natural disasters, it accelerates the issue by being home to three liquefied natural gas production plants and planning for more. Louisiana ranks third in the U.S. in gas production and accounts for about 9%

of the U.S. total marketed gas production, according to the U.S. Energy Information Administration. Last year, Louisiana shipped 52% of the nation's LNG exports.

Japanese gas distributor will start with small hydrogen plant

(Argus Media; May 23) - Japanese gas distributor Toho Gas plans to start delivering hydrogen produced from natural gas at a plant with an output capacity of 1.7 tons per day in Chita, central Japan's Aichi prefecture, by 2024. This is the first step for Toho Gas to supply hydrogen to nearby areas, where demand from industrial users is predicted to rise. The company will start with the small plant and expand its capacity to 5 tons per day or more, depending on the demand in the area.

The produced hydrogen is expected to have its carbon dioxide emissions offset with carbon credits and carbon-capture, utilization, and storage technology. But hydrogen without any offsets can be delivered to users that require cheaper hydrogen, Toho Gas said. The project aims to boost hydrogen demand with affordable prices by producing it from natural gas, as demand is a key part of establishing hydrogen supply chains.

The company will also provide demand-side proposals, such as hydrogen co-firing technology, to their customers to encourage consumption by creating more opportunities for hydrogen use. Japan is discussing supporting the establishment of hydrogen supply chains in areas that have potentially large hydrogen demand.

White House talks with oil industry about restarting idle refineries

(Bloomberg; May 26) - The Biden administration is reaching out to the oil industry to inquire about restarting shuttered refineries, as the White House scrambles to address record high-gasoline prices that are setting off political alarm bells ahead of the midterm elections. Members of the National Economic Council and other officials have inquired within the industry about factors that led some refining operations to be curtailed and if plans are underway to restart capacity, a person familiar with the matter said.

The person, who wasn’t authorized to speak on the record, added no direct ask to restart operations was made. The administration’s efforts come as the average price of a gallon of regular unleaded gasoline stood at a record $4.60 on May 25, just as the summer driving season is set to begin. In California, prices are more than $6 a gallon, according to AAA.

The White House, which has established an interagency “energy markets team” that has been monitoring energy supply and price data for the past several months, has few good options available to tame gasoline prices. More than 1 million barrels a day of the country’s oil refining capacity — or about 5% overall — has shut since the beginning of the pandemic. Elsewhere in the world, capacity has shrunk by a further 2.13 million barrels a day, energy consultancy Turner, Mason estimates. And with no plans to bring new U.S. plants online, the supply squeeze is only going to get worse.

TotalEnergies buys 50% stake in U.S. renewables company

(The Wall Street Journal; May 25) - TotalEnergies said it would buy a 50% stake in U.S. renewables company Clearway Energy, in a deal worth $2.4 billion, the latest move by an oil major to expand in wind and solar power. The French energy giant is acquiring the stake from Global Infrastructure Partners for $1.6 billion in cash plus an interest in a TotalEnergies unit that owns about half of U.S. residential solar business SunPower.

The Clearway deal will expand TotalEnergies' reach in the U.S. green-power sector and comes as the world's largest energy companies seek to transition away from oil and gas toward lower carbon power amid pressure from consumers, investors and governments. TotalEnergies said May 25 that Clearway is the fifth-largest U.S. renewables player, with 7.7 gigawatts of wind and solar power, and a pipeline of more than three times that volume of renewable and storage projects. The company has 760 employees.

TotalEnergies said the deal was its largest U.S. renewables acquisition and would bring its U.S. green-energy holdings to more than 25 gigawatts. TotalEnergies announced the Clearway deal ahead of its annual shareholder meeting where it is asking investors to support its climate strategy. Energy giants including Total, BP and Shell have been raking in piles of cash amid high oil and gas prices, while fending off shareholder proposals asking for more-aggressive climate targets and transparency.