Oil and Gas News Briefs
Compiled by Larry Persily
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Federal court rejects Berkeley's ban on new natural gas hookups

(Associated Press; April 18) - The politically liberal enclave of Berkeley, California, became the first U.S. city to adopt a ban on natural gas in new homes and buildings in 2019, starting a climate change-driven effort in dozens of other cities and counties that has morphed into a heated debate about the future of gas stoves. On April 17, the 9th U.S. Circuit Court of Appeals in San Francisco sided with the California Restaurant Association to halt Berkeley's effort, saying it violates federal law that gives the U.S. government the authority to set energy-efficiency standards for appliances.

The ruling has drawn criticism from Berkeley officials and environmentalists, although it's unclear what kind of impact the decision will have on climate advocates' fight to go electric, given its narrow scope and the possibility of an appeal to a broader panel of judges. Berkeley had banned the installation of natural gas piping in new construction. City Councilmember Kate Harrison, who authored the 2019 ordinance, said she doesn't know how the council will respond, but noted that bans on gas or efforts to curtail its use have spread to 70 communities in California, plus Seattle and New York City.

"This is a movement that can't be stopped," Harrison said. "They've conflated a 1970s regulation about the efficiency of appliances with what kind of materials can come into our house. We did not change appliances, we changed the … fuel that can come into new buildings." The ruling does not affect the majority of cities and counties that have already banned or curtailed natural gas through building codes that meet certain federal requirements and are allowed by the court decision, environmental groups said.

Supreme Court allows climate change cases against oil companies

(Wall Street Journal; April 24) - The U.S. Supreme Court on April 24 turned away appeals by oil companies seeking protection from potential liability under state laws for harms caused by climate change, a decision that at least for now allows a number of cases to move forward under state laws the industry sees as less favorable than federal environmental statutes. Oil companies are facing lawsuits alleging environmental harms from greenhouse gas emissions filed under state laws by Rhode Island and several local governments, including the city of Baltimore; Boulder and San Miguel counties, Colorado; Honolulu and Maui counties, Hawaii; and several California counties.

The Supreme Court denied the industry petitions in a summary order that as is typical contained no comment. "This was the right decision, and it is time to prepare for trial," said Sara Gross, an attorney with the Baltimore City Law Department. “Since we filed this case nearly five years ago, the climate crisis has worsened, the costs to Baltimore taxpayers are skyrocketing, and the defendants have pocketed trillions of dollars in profits while trying to dodge accountability for their deception.”

The Baltimore suit, filed in 2018 in state court, alleges that over 20 energy companies promoted fossil fuels while concealing information about the harmful changes in climate they cause, including rising sea levels and extreme weather. Other cases make similar allegations. Theodore Boutrous, who represents Chevron in several of the disputes, said he was confident the lawsuits would ultimately be dismissed. “Climate change is an issue of national and global magnitude that requires a coordinated federal policy response, not a disjointed patchwork of lawsuits in state courts across multiple states.”

Federal regulators deny permit extension for LNG-by-rail plan

(WHYY; Philadelphia; April 26) - A plan to transport liquefied natural gas by rail across the Delaware River has hit another roadblock. The U.S. Pipeline and Hazardous Materials Safety Administration on April 24 denied Energy Transport Solutions, a subsidiary of New Fortress Energy, a permit extension. Approval of the permit would have allowed the company to liquefy Marcellus shale gas at a plant in Wyalusing, Pennsylvania, and rail it to Gibbstown, New Jersey, where it would be exported.

Last year, New Fortress Energy agreed to halt the plan after reaching a settlement with environmental groups that filed suit seeking to overturn an air emissions permit for the LNG plant. Environmentalists say the proposal would pollute the air and contribute to climate change. Safety is a concern for those living along the proposed path of the train, one of the most densely populated areas of the East Coast. The recent derailment of a train carrying vinyl chloride in East Palestine, Ohio, has increased scrutiny of rail safety.

Opponents of the plan said they can breathe a sigh of relief — at least for now. The company’s next steps are unclear. PHMSA had approved a rarely issued special permit to approve the rail plan in 2019. It would have allowed two 100-car trains to move the gas each day about 200 miles across the Delaware River, into South Jersey. Though its original permit was issued in 2019, New Fortress Energy’s project was delayed because of “widespread economic and political uncertainties,” according to the company.

Wisconsin’s only oil refinery set to reopen after $1.2 billion rebuild

(Associated Press; April 26) - Wisconsin’s only oil refinery is on track to be fully operational in June after a $1.2 billion effort to rebuild the facility five years following an explosion that injured three dozen workers. The 2018 explosion and subsequent fires at the facility then owned by Calgary-based Husky Energy in Superior, Wisconsin, also produced fears of a hydrofluoric acid leak, causing 2,500 people in the city to evacuate.

No acid leaked but a tank containing hot asphalt spilled 17,000 barrels into the facility. The asphalt caught fire, sending up a plume of black smoke that released thousands of pounds of flammable hydrocarbon vapors. The explosion caused about $550 million in damage to the refinery. The plant is now owned by Calgary-based Cenovus Energy. Cenovus said on April 26 that the refinery is on track to resume full operations by the end of June, Wisconsin Public Radio reported. The cost to rebuild the refinery tripled from initial projections, and took years longer than expected.

A final report released by the U.S. Chemical Safety Board in December found the refinery's lack of safeguards during a maintenance shutdown led to the explosion. The board made 16 recommendations to improve safety. The refinery typically produces gasoline, diesel and asphalt with a capacity of about 50,000 barrels per day. Around 350 employees will now work at the refinery, which previously employed about 200 workers.

Russia will stop taxing Arctic gas used to make ammonia, hydrogen

(Barents Observer; Norway; April 24) - The natural gas that is used in the production of hydrogen and ammonia in the Arctic will be exempted from taxation, the Russian government has decided. The measure follows a request from gas producer Novatek, the newspaper Kommersant reported. It could significantly benefit the company's plans to build a hydrogen and ammonia plant in the Arctic.

Novatek has long planned to develop its Ob gas project, but international sanctions introduced against Russia following its war against Ukraine have halted progress. The company initially planned to produce up to 5 million tonnes a year of LNG in the project, but then instead decided to go for ammonia. Contracts were signed with international companies Uniper, RWE and Mitsui in 2021. A few months later, those partners pulled out. The Russian government now seeks to stimulate a resumption of the plans.

The bill that this week was sent to the State Duma proposes to remove the production tax on natural gas used to generate hydrogen and ammonia. The Ob project includes the annual production of 2.2 million tonnes of ammonia and 130,000 tonnes of hydrogen. The first part of the project was originally planned to launch in 2026 and the second phase in 2027. Included in the project are plans to capture during the production process and store underground up to 4 million tonnes of carbon dioxide per year, intended to make the ammonia and hydrogen attractive for the European Union market.

Russia reportedly considering cuts in refinery subsidies

(Bloomberg; April 25) - Russia’s government is considering cutting subsidies to the nation’s oil refineries as it looks for ways to limit spending amid the costly war in Ukraine, according to sources familiar with the matter. Last year, the Russian state spent 2.17 trillion rubles ($26.6 billion) compensating refiners for the difference between the base price of domestic fuels and their theoretical value if they had exported to Europe, according to data from the Finance Ministry. In the first quarter of 2023, the companies received more than 253 billion rubles ($3.1 billion), the data show.

Now, as a second year of war in Ukraine strains Russia’s budget, the government in Moscow is looking to raise the base price of gasoline and diesel in the subsidy formulas by as much as 50%, said two people familiar with the matter, who asked not to be named because the discussions are private. That would reduce future subsidies.

There is no final decision on the size of the hike or whether the formulas will be changed at all, one of the people said. If the proposal is implemented, it would eat into Russian oil companies’ profits because the government has said it aims to keep domestic fuel price growth within inflation, so the cost couldn’t be immediately passed on to consumers. Russia’s public finances have deteriorated sharply since the Kremlin started war on Ukraine. Defense spending together with national security is now second only to the government’s social programs as a proportion of the budget.

Russia’s oil export revenues down one-third in first quarter of the year

(Financial Times; London; April 26) - Russia’s revenue from oil exports fell by almost a third in the first quarter of this year, indicating that Western price caps were starting to squeeze the lucrative trade for Moscow, according to oil sales records compiled by the Kyiv School of Economics. The data analysis by the Ukrainian academic institute shows that three-quarters of the drop in sales of Russian oil and oil products between January and March can be linked to Western restrictions.

Russia’s revenue from crude and refined products totaled $38.8 billion in the first full quarter after the G7 and European Union introduced price caps in December. In the last three months of 2022, that revenue amounted to $54.5 billion. The findings offer evidence that sanctions targeting Russia’s energy sales are having some effect in limiting Moscow’s ability to refill its war chest while continuing to allow its oil to flow in order not to disrupt global markets.

The detailed records also suggest Russia’s move to cut oil production may be driven by challenges in the market rather than a policy choice. Sales of crude fell 12% year on year, the equivalent of about 400,000 barrels per day. “With the EU embargo fully in force, it has become very difficult for Russia to redirect all of the seaborne crude from the no-longer existent European market,” said Benjamin Hilgenstock, senior economist at the Kyiv School of Economics. He said Russia was increasingly sending out tankers without a destination and accepting steep discounts on sales.

Russia getting close to $60 price cap on its oil exports

(Wall Street Journal; April 26) - U.S.-led sanctions designed to throttle Moscow's fossil-fuel income face a new challenge: a big jump in the price Russia gets for its oil. Booming demand in India and China has pushed the price of Urals crude, Russia's main grade of oil, up to about $55 a barrel from a daily low of $35 in January, according to commodities-data firm Argus Media. The rally contrasts with a retreat in broader oil markets driven by weakening demand in the U.S. and Europe as economies there slow.

Prices could soon run into the $60 limit the U.S. and allies put on most Russian crude exports, putting pressure on the West's ability to keep Russian oil on the market while still pinching the Kremlin's revenue. Russian crude still trades at a substantial discount to benchmark prices, but that gap has narrowed. Some traders are starting to question whether they should keep handling the oil, given the risk of getting caught up by sanctions. Others are finding alternative ways to carry Russian oil at higher prices.

David Fyfe, chief economist at Argus, said it's uncertain how the U.S. government and oil markets would react if the price passes $60. A retreat by shippers from the market, spurred by a fear of sanctions, could dent exports and boost global prices. "Russia has absolutely no problem in placing all of its volumes in the market at terms that Russia considers reasonable," said Sergey Vakulenko, a former Russian energy executive and scholar at the Carnegie Russia Eurasia Center. "They just find another way."

Delivery of new LNG carriers for Russian project delayed one year

(Reuters; April 26) - The schedule for delivery of liquefied natural gas carriers ordered by Russia's shipping company Sovkomflot for the Novatek-led Arctic LNG-2 project has been delayed by one year, RIA news agency said on April 26, citing the head of Sovkomflot. Novatek CEO Leonid Mikhelson said last September that the first tanker for the project was likely to be delivered at the end of 2023, in time for production start-up. Six of seven tankers were expected to have been delivered by the end of 2024, but that schedule now appears in jeopardy.

"It was delayed by one year," RIA cited Sovkomflot director general Igor Tonkovidov as saying when asked about the schedule for the delivery of the gas carriers. Arctic LNG-2 is due to start up production at its first liquefaction unit by the end of this year. Total capacity of the three planned liquefaction lines is put at 19.8 million tonnes per year. However, the start-up schedule has been threatened by Western sanctions that have blocked access to technology and equipment for the $20 billion development.

European refiners struggle with loss of Russian, Iraqi supplies

(Bloomberg; April 24) - Europe's oil refiners, already making do without longstanding shipments of Russian crude, are now struggling with the loss of similar supplies from northern Iraq and a reduction in output by several of the world's top producer nations. Flows from Russia — formerly the European Union's top supplier — have plummeted by more than a million barrels a day since the country's invasion of Ukraine in February of last year, amid ever-tightening sanctions.

The reductions are starting to bite harder because Iraq has halted shipments that reach Europe via a Turkish port in the Mediterranean. In addition, OPEC+ producers including Russia have announced supply curbs starting in May that will cut output by 1.6 million barrels a day by July. For Europe, the loss comes at an unfortunate time. The Russian and Iraqi grades are of similar density and sulfur quality, and refiners in Asia — notably China — are ramping up demand for this medium-sour oil that forms their staple diet.

"A tough battle between Europe and Asia awaits, and Asia could outbid Europe for barrels, potentially triggering European run cuts to balance the crude market," Energy Aspects analysts Amrita Sen and Christopher Haines said in a recent note discussing global oil markets, including medium-sour crude. Europe has replaced at least a quarter of Russian oil with crude from the Mideast since the spring of 2022, according to Energy Aspects. Flows from the Atlantic Basin — from Norway, Angola and the U.S. — also increased in the first three months of this year, the International Energy Agency said.

Energy Department denies extension for proposed LNG project

(S&P Global; April 24) - The U.S. Department of Energy has denied Lake Charles LNG's request for a second extension of its deadline to start exports from its planned Louisiana terminal. The regulator has adopted a new policy raising the bar for extending deadlines for commencement of exports to non-free trade agreement nations. Finding the seven years that it generally allows projects for the start of exports to be "reasonable" and "achievable," the DOE said it will no longer consider applications for extensions, unless an applicant can show it has begun construction or faced "extenuating circumstances."

While the new policy did not directly apply to the Lake Charles decision, the DOE said April 21 its ruling on that extension was consistent with the new approach. The DOE determined that Energy Transfer's Lake Charles LNG had not shown good cause for "an unprecedented second extension" of the deadline to start exports. The extension would have pushed a December 2025 deadline out to December 2028. The DOE first issued an export authorization for the project in 2016 and granted an extension in 2020.

The project developer had argued that global events including the COVID-19 pandemic created an extremely difficult environment for constructing large-scale infrastructure projects. It also said that several recent off-take agreements for LNG from the terminal were contingent on an extended deadline of 2028. The department, however, agreed with environmental advocates that Lakes Charles LNG's "generalized statements" failed to show with specificity how it was delayed by global events since its first extension. The company has not yet made a final investment decision to proceed with the project.

Another U.S. LNG developer targets investment decision this year

(Reuters; April 24) - U.S.-based global energy company Glenfarne said on April 24 that it expects to make a final investment decision in 2023 to build its proposed Texas LNG export plant in Brownsville, with first liquefied natural gas production possible in 2027. Glenfarne made the announcement after the Federal Energy Regulatory Commission issued an order on April 21 on air monitoring and emergency response communications that the company said Texas LNG will incorporate into its plan. Glenfarne said it plans to reduce carbon dioxide emissions by using renewable energy to power the facility.

Glenfarne is one of about a dozen companies hoping to make FIDs in 2023 to build proposed LNG export plants in the United States, Canada and Mexico. Many of those projects, like Glenfarne's, have been delayed for years due to coronavirus-related demand destruction, U.S.-China trade disputes and other factors that made LNG buyers hesitant to sign long-term agreements needed to finance the multibillion-dollar projects.

Texas LNG is designed to produce about 4 million tonnes per year of LNG. On average, it costs about $800 to $1,000 per tonne to build an LNG export plant, so the Texas project would likely cost between $3.2 billion and $4 billion. Glenfarne is a privately held energy and infrastructure development and management firm based in New York City.

Offshore LNG project developer signs up another customer

(Natural Gas Intelligence; April 24) - Delfin Midstream on April 24 announced a binding agreement to sell LNG to an affiliate of commodity trader Hartree Partners and said it expects to sanction its floating offshore production facility in the Gulf of Mexico by the middle of the year. Under the sales and purchase agreement, Delfin would sell 0.6 million tonnes per year of liquefied natural gas to Hartree for a 20-year period. Hartree would pay prices indexed to the U.S. Henry Hub natural gas pricing benchmark.

The Delfin floating LNG project would consist of four vessels offshore Louisiana with a nameplate production capacity of 3.5 million tonnes per year each. The company signed a binding agreement with commodity trader Vitol last year to supply 0.5 million tonnes per year. It also has up to 3 million tonnes per year under tentative deals with U.K. utility Centrica and U.S. onshore producer Devon Energy that still need to be finalized.

Delfin said those agreements, along with its binding contracts with Vitol and Hartree, are sufficient to make a final investment decision on the project in the coming months. Vitol and Devon would also make equity investments in the project under their agreements. “The Delfin project’s ability to make FID one vessel at a time is attracting significant interest from buyers,” said CEO Dudley Poston. The company has appointed Citi as its financial adviser and “is well advanced in securing project-level equity and debt for the first (production) vessel.” The ships would be anchored 45 miles offshore Louisiana.

Led by Italy’s Eni, first Congo LNG production expected this year

(Bloomberg; April 25) – Italian energy firm Eni said it is moving toward first production this year from liquefied natural gas projects in the Republic of Congo that will focus on supplying Europe. The first vessel is now being converted into a floating LNG production facility with capacity of 0.6 million tons a year, Eni said in a statement. Production start-up is planned for later this year. A second LNG production ship with annual capacity of 2.4 million tonnes is scheduled to begin operations in 2025.

Congo’s President Denis Sassou Nguesso and Eni Chief Executive Officer Claudio Descalzi on April 25 laid the foundation stone of Congo LNG, according to the statement. The project was fast-tracked to help meet Europe’s rising need for LNG to replace Russian gas imports, which have slumped since the invasion of Ukraine.

Congo will join other West African countries including Angola and Nigeria as LNG exporters, adding to a rising number producers of the fuel across the continent. The project will include the installation of two floating LNG plants at the Nene and Litchendjili fields, which are already in production, and at other fields yet to be developed, Eni said.

Europe’s efforts to develop wind farms falling short of target

(Bloomberg; April 25) - European efforts to rapidly scale up offshore wind farms to help cut dependence on Russian natural gas and reduce planet-warming emissions are falling short as developers struggle to deliver projects. Significant changes in how governments approve new developments as well as incentives for hydrogen production are crucial to get Europe on track to reach its renewable power goals, which are key to the EU’s climate and energy security plans, according to Rasmus Errboe, head of Europe for Orsted, the largest offshore wind farm developer in the region.

The prognosis comes after European leaders gathered in Belgium on April 24 to promote the promise of the North Sea wind in Europe’s low-carbon future. Nearly a year ago, Germany, Belgium, the Netherlands and Denmark issued a declaration to speed offshore wind construction to reach 65 gigawatts of capacity by 2030, about five times the amount deployed today. The U.K. plans an additional 50 gigawatts of wind farms off its coast. “One of my worries is that we don’t move forward fast enough,” Errboe said.

Despite the political push to move faster, spending has actually slowed. Last year, there wasn’t a single final investment decision in an offshore wind farm, according to industry group WindEurope. This year has seen some improvement, with companies already making new investments in offshore wind. But just to reach the 2030 target will likely require every project to go ahead on schedule, if not before.

[Nova Scotia approves proposed hydrogen hub project]

(Natural Gas Intelligence; April 21) - Bear Head Energy has received an environmental assessment approval to move forward with a green hydrogen and ammonia production, storage and loading facility in Point Tupper, Nova Scotia, formerly proposed for an LNG export facility. The project was approved by Timothy Halman, provincial minister of Nova Scotia Environment and Climate Change. The plant could come online in 2028, though the developer has yet to announce a final investment decision.

“Following a review of the information provided by Bear Head Energy and the information provided by the Mi’kmaq of Nova Scotia, and the public during consultation on the environmental assessment, I am satisfied that any adverse effects or significant environmental effects of the undertaking can be adequately mitigated through compliance” with some conditions, Halman stated in the approval last week.

“We believe green hydrogen and ammonia will play a fundamental role in facilitating the global energy transition, and this approval demonstrates that Canada and Nova Scotia are at the forefront of making this a reality,” Bear Head’s Paul MacLean, managing director, said. The Canadian East Coast project originally had planned to liquefy and ship natural gas to overseas markets. However, when Houston-based Buckeye Partners completed its takeover of the Bear Head LNG facility last year, it announced changes to remake the dormant gas export project into “a large-scale green hydrogen hub.”

[Australia may extend price cap on natural gas to 2025]

(Bloomberg; April 26) - Australia may extend a domestic price cap on natural gas until at least 2025, as part of regulations that have already drawn protest from the country’s fossil fuel industry and raised concern among buyers from one of the world’s biggest exporters of the fuel. The government proposed extending the limit of A$12 per gigajoule ($7.60 per million Btu) imposed in December for the East Coast market, with a first review planned to start by July 2025, it said in a draft paper on April 26.

The government plans to finalize the measures by the new fiscal year, which starts on July 1. The initial cap was only intended to last until the end of 2023 as a means of limiting soaring energy prices sparked by the Russian invasion of Ukraine. Under new measures contained in the draft paper, small producers that only supply the domestic market would be exempt from the price limit, while larger providers can apply for an exemption if they make domestic supply commitments.

Liquefied natural gas exporters and major buyers including Japan and China have raised concerns about the regulations for the East Coast market, which includes three LNG export facilities. They worry that the domestic supply commitments to escape the price cap could restrict supply for export. The government, however, counters that the measures “will ensure sufficient supply of Australian gas for Australian users at reasonable prices, give producers the certainty they need to invest in supply, and ensure Australia remains a reliable trading partner.”