

Oil and Gas News Briefs

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July 27, 2023

First production unit under tow to Russia's newest LNG terminal

(The Barents Observer; Norway; July 23) - It was a historical moment for Novatek and the Russian natural gas industry. Six years after construction started at a shipyard on the western shore of Kola Bay, the first ever gravity-based structure for production of LNG left the plant in Belokamenka near Murmansk and set out into the Barents Sea. Soon after Russian President Vladimir Putin left a ceremony at the yard on July 20, the 640,000-ton structure at more than 360 feet tall set out for the Arctic LNG-2 site on the Gulf of Ob, where production is scheduled to start by the end of the year or early 2024, according to Novatek. The 1,500-mile voyage will take more than a week.

Novatek has already announced that the Belokamenka center will be used to build the company's proposed Murmansk LNG plant. Arctic LNG projects developed by Novatek are of growing national interest as international sanctions have blocked Russia's exports of pipeline gas to the European Union.

The massive structure under tow is topped by 14 production and operations modules delivered by manufacturers in Europe and China. An additional two similar structures are to be built in Belokamenka and towed to the \$21 billion Arctic LNG-2 project site, providing capacity to liquefy 19.8 million tonnes of LNG per year. The towering structures will be anchored to the seafloor to create a production and export terminal. Arctic LNG-2 is owned by Novatek, with French, Chinese and Japanese partners.

Russia's Northern Sea Route open for summer oil tanker traffic

(Bloomberg; July 24) - Three oil tankers will meet up shortly in the Arctic waters of the Kara Sea, signaling that the navigation season along Russia's Northern Sea Route is open for business. Two tankers, each hauling about 730,000 barrels of Urals crude from the Baltic ports of Primorsk and Ust-Luga, are heading east to Rizhao in China. A third similar-sized ship, sailing empty, is coming in the opposite direction after starting its run from China's Yinkou port, according to vessel-tracking data monitored by Bloomberg.

Tapping the Northern Sea Route can sharply reduce the journey time from Russia's Baltic ports to refiners in northern China, making it likely that more Russian crude carriers will make such voyages in the coming months, probably assisted by icebreakers. The empty vessel, the SCF Baltica, escorted by the nuclear-powered icebreaker Sibir, left southern China on June 27, heading for Russia's Pacific coast.

Rather than taking on a cargo of ESPO grade crude and heading back to China, the SCF Baltica headed off northeast, passing between Sakhalin Island and Japan before skirting the Kamchatka Peninsula and entering the Arctic Ocean through the Bering Strait that separates Russia from Alaska. Once in the Arctic seas, the tanker picked up its ice-breaking escort and headed west along Russia's northern coast. Vessels with an ice rating of Ice3 or below can only use the route between July and late November.

Wall Street Journal reports Asian buyers shun Alaska LNG project

(Wall Street Journal; July 25) - Japan and South Korea have rebuffed U.S. overtures about joining a proposed \$44 billion Alaska liquefied natural gas project that would be one of the biggest energy investments in American history. The snubs have put a roadblock in front of a project that proponents say would strengthen global security by giving Asian nations an alternative to Russian gas.

The state-led project, called Alaska LNG, features an 807-mile pipeline that would carry North Slope gas due south to Nikiski on the Kenai Peninsula for liquefaction and export. The project has its authorizations from the Federal Energy Regulatory Commission and Department of Energy, and is eligible for over \$30 billion in federal loan guarantees. But people familiar with the plans of several top prospective buyers in Japan and South Korea said the companies aren't interested in investing in the project or signing deals to purchase its gas, and energy officials also have given Alaska the cold shoulder.

Potential buyers aren't confident in the project's timeline, according to officials at companies and in the Japanese government. They believe that Asian countries will have other sources of stable supplies by 2030, which is the earliest the state says it could start deliveries. Asian buyers also are concerned about the lack of investment commitments by big U.S. energy companies to the Alaska project, these officials said. Japanese officials said the further out a project's timeline extends, the greater the worry that it would run up against Japan's commitment to net-zero carbon emissions by 2050.

U.S., Qatar each at 20% of LNG market, but U.S. has some advantages

(Forbes; July 24) - The U.S. and Qatar are duking it out for supremacy in the liquefied natural gas market. While Qatar's star is rising, U.S. producers have a few aces that could give them an edge. America and Qatar each have a 20% share of the 400-million-tonne-a-year market. Australia is the other major exporter, but is likely at or near peak output due to gas reserve issues and growing domestic demand. Russia has grand ambitions — and the reserves to fulfill them — but sanctions have crippled its chances.

To be sure, Qatar is a formidable opponent. Blessed with huge, low-cost gas reserves from its giant offshore North Field, the small country approved expansion projects in

2022 that will boost LNG output by 64% — 49 million tonnes annually – to 126 million tonnes by 2027. QatarEnergy is a state-owned entity, without the same concerns about bureaucracy and regulatory red tape that bog down Western companies. However, the United States is also experiencing a significant surge in LNG export capacity.

U.S. LNG export developers have finalized investment decisions in three projects so far this year that would add about 44 million tonnes of capacity annually — and there is still a chance of more this year. U.S. producers have some advantages in supplying global LNG markets, chiefly flexible contract terms and the competitive landscape among project developers. America’s “destination-free” contracts allow LNG buyers and traders to take cargoes anywhere in the world — typically to the highest bidder where gas is most in demand — rather than limit them to a single destination.

Qatar does not offer the same flexibility. It requires firm destinations for its cargoes, a strategy that helps optimize QatarEnergy’s large shipping fleet and prevents Qatari cargoes from competing with each other on the open market. Most U.S. LNG is priced against the cost of feed gas from the country’s shale reserves, plus a liquefaction fee. Qatar prefers to price LNG against the traditional oil-linked benchmark, meaning its prices are exposed to the volatility of global oil markets and the whims of OPEC.

U.S. LNG developer sells 800 acres of its project site to raise cash

(Houston Chronicle; July 26) - Liquefied natural gas company Tellurian received another lifeline as it works to secure financing for its massive Driftwood LNG project in Lake Charles, Louisiana. The Houston-based company last week reached an agreement to sell around 800 acres of its Driftwood property for \$1 billion to an affiliate of New York-based asset management firm Blue Owl Capital, according to a filing with the Securities and Exchange Commission. As part of the transaction, Tellurian would enter into a 40-year lease-back for the property.

The deal, which replaces one announced earlier this year that appears to have expired when Tellurian failed to line up an equity investor by a July 14 deadline, may be too little, too late, some analysts said. The lease disclosed last week offers some breathing room for Tellurian’s \$13.6 billion LNG project, which was jeopardized last year after partnerships with Shell and commodities trader Vitol collapsed.

The lease-back would “allow us to continue to put the pieces of the puzzle together,” Tellurian Chairman Charif Souki said in an earlier interview. Still, the project faces significant hurdles as Tellurian works to convince investors to sign on its riskier business model in which it would operate like an integrated oil company, producing, transporting and liquefying gas and taking prices set by global markets, rather than relying on a traditional model where LNG projects sign 15- or 20-year contracts with buyers that pay a fixed price for processing the gas — relieving the LNG plant operator of market risk.

U.S. offshore LNG developer expects FID in October

(LNG Prime; July 25) - Delfin, the developer of a floating LNG export project in the Gulf of Mexico, expects to take a final investment decision in October, a slight delay from earlier plans for the venture proposed for 40 miles offshore Louisiana. Earlier this year, Delfin said technical, commercial and financing work for the first production unit were “on track” for FID in the second quarter. Delfin plans to install up to four liquefaction vessels that could produce up to 13.3 million tonnes of LNG per year.

Delfin recently sealed a deal to supply U.K.-based Centrica with LNG worth about \$8 billion. Prior to that, the firm secured an investment from Japan’s shipping giant MOL and previously signed supply deals with Hartree Partners and commodity trader Vitol. According to a filing with the Federal Energy Regulatory Commission dated July 21, Delfin LNG expects to execute “very soon” a binding LNG off-take agreement with U.S. gas producer Devon Energy as part of a larger agreement announced in September.

Delfin is facing a FERC deadline this year to put its onshore facilities into production. The company is asking FERC to extend the deadline to 2027. Delfin said it expects to announce “very soon” its agreement with major infrastructure investors to provide equity for its first two floating production units, and has begun discussions with a consortium of banks (led by financial adviser Citigroup) to provide the project debt financing, it said.

State orders deficient Louisiana LNG facility to come into compliance

(New Orleans Public Radio; July 25) - After more than 2,000 permit deviations, state officials have ordered Louisiana’s newest liquefied natural gas export facility to come into compliance and could impose steep fines on the company that operates it. The facility is operated by Venture Global, which launched operations at Calcasieu Pass LNG on the coast of Cameron Parish just over a year-and-a-half ago.

In that time, the facility reported more than 138 incidents in which it emitted more pollutants than allowed. Some unauthorized releases lasted over a week, according to a compliance order issued by the Louisiana Department of Environmental Quality in June. The company is liable for up to \$32,500 of fines for each day it violates state rules. A report earlier this year by the Louisiana Bucket Brigade, an environmental group, found that the company had violated its permit on 286 of the first 343 days it was in operation.

In March, Venture Global asked state regulators to modify its permits and allow the company to increase the amount of nearly every type of air pollution it releases. The company has blamed higher-than-expected emissions on faulty equipment, claiming that the pollution was caused by factors out of their control. After the plant emitted up to eight times more sulfur dioxide per hour than it was permitted for three months last year, for example, Venture Global said their pipeline operators had added a chemical to the line without the company’s consent, resulting in higher sulfur dioxide emissions.

The Department of Environmental Quality said the company reported the unauthorized release of sulfur dioxide 56 days after it first learned of the problem; state law requires disclosure within one week. Almost immediately after operations began, the company reported that Calcasieu Pass had a preventable release of 180,000 pounds of natural gas — which contains methane, an especially potent greenhouse gas. State regulators said the incident could partly be attributed to poor training of the facility’s employees.

Mexican state government agrees to move quickly on LNG project

(Rigzone; July 24) - Mexico Pacific Ltd. and Sonora’s state government have signed a collaboration agreement supporting the company’s liquefied natural gas export facility Saguaro Energia, proposed for Puerto Libertad, Sonora, Mexico, Mexico Pacific said in a news release. As part of the agreement, the government of Sonora has pledged to “pave an efficient path” for building the project, including the continued timely issuance of state and municipal permits, the news release said.

With the government’s support, Mexico Pacific said it expects construction to start this year, with first exports from the \$14 billion West Coast project on the Sea of California possible by 2027. Production capacity is planned at 14 million tonnes at full build-out.

Earlier in the month, Mexico Pacific signed a 20-year sales and purchase agreement with China’s Zhejiang Energy for the offtake of 1 million tonnes per year of LNG from Saguaro Energia. In March, Shell signed up to purchase 1.1 million tonnes a year of LNG from Saguaro Energia, also for 20 years, building on Shell’s initial agreement for 2.6 million tonnes per year from the proposed plant’s first two production trains. ExxonMobil has placed an order of 2 million tonnes per year from Saguaro Energia.

Russian LNG cargoes present challenges for buyers

(Bloomberg; July 26) - Argentina’s effort to cancel a liquefied natural gas shipment from Russia shows the determination of importers to shut out Moscow. It may also expose the futility of trying to do so. The South American nation turned away the cargo last week because its bank doesn’t handle payments with Russia. But Gunvor, the trading house that made the delivery, is arguing the shipment was lawful and transparent. The clash is messy and illustrates how Russian LNG currently operates in a gray area.

There are no sanctions against Russian gas as there are for oil. So, despite efforts by importers to reduce dependence on the nation’s gas, they don’t have complete control of the market, especially if they have a binding contract to take the gas. Russia is going to release more supply into the market with the start of Novatek’s Arctic LNG-2 facility this coming winter. The additional fuel is slated to be delivered to countries such as Japan and France, where governments have been critical of Russia’s war on Ukraine.

Most governments haven't banned Russian LNG out of fear sanctions could tighten global supply or trigger shortages. Even some buyers who want to make a clean cut from the nation aren't able to do so because there are few options, and it threatens to boost costs. There's also no stopping so-called portfolio players — or LNG traders with supply from various sources, such as Gunvor — from delivering a Russian shipment to customers. Many long-term purchase agreements don't have provisions that specify the gas must come from certain nations or cannot come from others.

China's gas demand up this year after decline in 2022

(S&P Global; July 26) - China's annual natural gas consumption is estimated to reach 13.6 trillion to 13.77 cubic feet in 2023, a 5.5% to 7% year-on-year increase, reversing a 1.2% decline in 2022, according to the China Natural Gas Development Report 2023 published by the National Energy Administration. City-gas and power generation would be the primary drivers of growth, with the commercial sector, transportation and heating demand expected to significantly contribute to demand for gas, the report said.

The rise in gas consumption for power generation would stem from the growing number of gas-fired power plants and increased demand during the summer season. However, demand from industrial users would remain price-sensitive, depending on price. The NEA said China's gas supply is expected to increase mainly due to more local production and more pipeline gas from Russia.

China's strategy comprises strengthening domestic production and long-term pipeline and LNG import contracts to reduce volatility and maintain price stability, the NEA said. In 2022, China produced 7.7 tcf of gas, a gain of 6% year on year. The government aims to keep reliance on domestic gas at more than 50% in the long term, and use gas as a peak-demand tool amid periods of high power use. China is actively exploring renewables such as wind, solar and hydropower to diversify energy sources, but coal would still play a key role during an energy crunch to ensure stability, the report said.

China will allow gas distributors to raise prices to cover costs

(Reuters; July 26) - Policy reform in China will boost profit for city-gas distributors by letting them raise prices for residential sales above costs, after years of selling piped gas to households at a loss, according to utility officials and analysts. The scheme, which allows retail residential tariffs to be adjusted twice a year in line with gas procurement costs, will inject billions of dollars in revenue into companies like ENN Energy, China Gas and China Resources Gas, utility officials said.

Regional gas distributors like Shanghai Gas, Chongqing Gas and Changchun Gas and other gas utilities suffered steep declines in profit or outright losses in 2022 as they

were unable to pass on more of their costs to a sector accounting for over 20% of China's gas consumption. The new market-based pricing system will also encourage distributors that are expanding into global gas trading to look at importing LNG.

"The policy will help the whole (gas) distribution sector and restore utilities' profitability," said Tan Yuwei, general manager of capital management at China Gas Holdings. State planner the National Development and Reform Commission announced the policy last month, after the China Gas Association had lobbied in March for reform saying heavy losses at utilities could cause supply disruptions. The price hikes will be introduced slowly to help minimize any hardship to poorer families, with local authorities deciding on subsidies to low-income households, the officials said.

Orders for new LNG carriers outpace new container ships

(Seatrade Maritime; July 24) - With owners committing some \$47 billion in investments for new LNG carriers in the past 18 months, the race to order tankers is set to continue. The figure for investment in LNG carriers has eclipsed container ships, with owners of those cargo-hauling vessels placing orders for an estimated \$46 billion of newbuilds. Energy security and increasing trade are key factors underpinning record investment in LNG carriers, according to analysis by Clarkson Research.

Despite dramatically higher new ship prices — up from \$211 million for a standard-size vessel at the start of 2022 to \$261 million today — LNG carrier owners are pinning down the few remaining shipyard slots that are still available between now and late 2027. The orderbook now stands at 331 vessels, 51% of global fleet capacity, Clarkson Research said in a recent report. Already this year, orders have been placed for 30 carriers. The order pace is likely to accelerate from about 4% growth per year in 2023-24 to as much as 10% per year in 2025-27, the research analyst report said.

LNG at sea climbs to highest level since May amid weak demand

(Bloomberg; July 25) - Liquefied natural gas stored on ships jumped to its highest level since May in a sign that weak demand and high inventories in Europe are pushing the fuel toward Asian markets. The volume of LNG that has stayed on the water for more than 20 days topped 3.1 million tonnes this week — well above the average for the season — according to data compiled by Bloomberg. It comes as European gas storage levels are almost 84% full, lowering the immediate need for additional supplies amid higher pipeline gas flows from Norway and persistently sluggish industrial demand.

Yet rising benchmark futures raise questions about how long the lack of LNG deliveries can last if demand for fuel picks up later this year amid a colder-than-expected winter. Prices have also seen some gains recently amid concerns about escalating Russia-

Ukraine tensions and heat waves in parts of Europe disrupting energy networks. But they're still about 60% lower since the start of the year, and gas consumption is subdued for now, indicating there's more fuel available than currently needed.

Warren Buffett ups investment in oil and gas

(Bloomberg; July 25) - Warren Buffett's multibillion-dollar purchases of oil and gas investments early in the pandemic paid off when the sector cranked out record earnings in 2022. But instead of selling out for a huge profit this year, the Oracle of Omaha wants more. Berkshire Hathaway is using this year's dip in commodity prices to load up on some of his favorite oil and gas investments, showing that history's most famous investor sees opportunity in a sector disfavored due to its volatility and climate impacts.

Earlier this month, Berkshire agreed to spend \$3.3 billion to boost its stake in a liquefied natural gas export terminal in Maryland. This year it has also increased its holdings in Occidental Petroleum by 15% and bought more stock in five Japanese commodity traders. Meanwhile, Berkshire's energy division is lobbying hard for a bill that would see Texas spend at least \$10 billion on natural gas-fired power plants to back up its grid.

It's classic bargain-hunting by Buffett and Berkshire Vice Chairman Charlie Munger. Concerns over the sector's environmental, social and governance performance, poor pre-pandemic returns and the risk of declining demand for fossil fuels in the decades ahead have soured many on the industry. "People are missing the economics that Buffett and Munger are looking at," said Cole Smead, of Smead Capital Management. "The returns on capital in coal, oil and gas are off the charts compared with other sectors. And with ESG, you can buy them cheaper than you otherwise would."

BLM proposes wide-ranging changes to oil and gas leasing

(Energy Wire; July 24) - The Biden administration's proposed revamp of the federal oil and gas program caught plenty of notice from Republican lawmakers and industry for how it would dramatically increase the cost of drilling on public lands. Oil industry observers are still wading through the more than 300-page rule package published by the Bureau of Land Management on July 20, but all agree that the new regime for public lands would have drillers paying more. That includes higher royalties and — for the first time in half a century — higher bonding to cover cleanup costs if wells are abandoned.

"The big takeaway that many have seen from the proposed rules is that, if enacted, exploring for oil and gas on federal lands will be more expensive," said Eric Money, an attorney specializing in oil and gas law. Some of these changes were mandated under the climate law — last year's Inflation Reduction Act — such as a 16.67% royalty rate

that lasts until 2032. The administration had been expected to act on bonding changes after it failed to get them in the legislation due to deals with pro-oil lawmakers.

The rules would also set priorities for where drilling should be allowed and potentially kill permit renewals to drill wells. It's part of the administration's strategy to leave its thumbprint of reform on the nation's leasing program. All this tracks with the larger policy platform of advancing renewables like offshore wind and solar, while viewing some oil and gas development as necessary until the U.S. is in a position to depend on cleaner energy. The proposed rules also mirror a report published by Interior in Biden's first year in office that concluded the oil and gas leasing program was shortchanging government.

Russia manages to get higher prices for its oil, despite sanctions

(Wall Street Journal; July 23) - Russia notched a victory in the fight for influence over global oil markets in recent days when the price of the country's most coveted crude traded above a Western price cap imposed to starve Moscow of funds for its war in Ukraine. It is the first time that the price for its flagship Urals grade of oil has breached the \$60-a-barrel limit since the U.S. and its allies introduced the sanctions policy last December, according to commodities-data firm Argus Media.

It is a sign the Kremlin has succeeded, at least in part, in adjusting to the restrictions that limit the availability of tankers and insurance, forcing Russia to sell its crude at discount prices. Higher prices could bolster Russia's oil-export revenues, which last month dropped to just over half their level of a year ago, according to the International Energy Agency. Russia has succeeded in reducing the discount for Urals crude compared with global benchmark Brent to \$20 a barrel. With Brent just over \$80, that nets Russia over \$60 a barrel. The gap was as much as \$40 in January.

Output cuts by OPEC+, which includes Moscow, have also helped push Russia's crude prices above the \$60 cap. Urals — named after the mountainous, oil-rich region — has gotten an extra price boost from high demand in Asia. Climbing prices suggest Russia's push to assemble an alternative network of tankers to which sanctions don't apply is eroding Western influence over its prized export, said Sergey Vakulenko, an analyst at the Carnegie Russia Eurasia Center and former oil executive in Russia.

Japanese company joins with UAE to study carbon capture project

(Reuters; July 25) - Japan's Sumitomo on July 25 said it and Sharjah National Oil Corp. will study a carbon capture and storage project at a mature gas field in the United Arab Emirates. Energy-poor Japan is actively diversifying its economy away from fossil fuels

and is promoting green technology in the Gulf countries, as the region aims to turn from the world's biggest oil producer into the global clean-energy hub.

The project would capture carbon dioxide from nearby power and industrial plants and other emitters in Sharjah and neighboring emirates and store it in SNOC's onshore gas field with capacity of over several hundred million tons of CO₂, Sumitomo said in a statement. Sumitomo and SNOC will conduct a joint feasibility study of the project which could use Japanese technologies in carbon capture, transport and storage, the statement said. Sumitomo did not provide financial details or timing of the project.

Greenpeace in court to stop U.K. North Sea oil and gas licensing

(Reuters; July 25) - Britain's decision to authorize new licensees for oil and gas exploration in the North Sea came under scrutiny at London's High Court on July 25, as Greenpeace argued the government failed to assess emissions produced by burning the fuel. The environmental campaign group says Britain's failure to assess the greenhouse gases produced by consuming oil and gas — so-called end-user or downstream emissions — renders its offshore energy plan unlawful.

But lawyers representing Britain's Department for Energy Security and Net Zero say ministers were not required to assess end-use emissions, though they nonetheless considered them. Last year, Britain held its first oil and gas exploration licensing round since 2019, with a view to boosting domestic hydrocarbon output as Europe weans itself off Russian fuel. Britain says domestic oil and gas production is key to improving its energy security, and that doing so is consistent with its target of net-zero by 2050.

However, Greenpeace argues the government should have assessed downstream emissions because the whole point of the new licensing rounds is to provide a secure domestic energy supply by extracting and then consuming oil and gas. The case is being heard against a similar challenge brought by campaign group Uplift, which argues Britain wrongly failed to consider the option of not issuing new oil and gas licenses.

New contract averts strike at lodge housing LNG Canada workers

(The Canadian Press; July 25) - Employees at a lodge housing workers for the LNG Canada project under construction Kitimat, British Columbia, have won wage increases of up to 40%, averting a strike. The union, Unite Here Local 40, said in a statement the new deal was reached after mediation with the employer at the B.C. Labour Board. It said the 450 hospitality workers at Cedar Valley Lodge unanimously voted in favor of ratifying the new contract on July 22. The workers are employed by Sodexo, which is contracted to provide housing, food and maintenance services at the lodge.

The union said the agreement will provide most staff with a 30% to 40% pay bump over the one-year contract, while lodge workers will get \$5 more per hour and maintenance staff will get an immediate 10% pay increase. It also said the deal includes increases in vacation pay, improvements to medical benefits and the establishment of a retirement plan as well as adding workload protections for kitchen, janitor and housekeeping roles. The C\$40 billion project is about 85% complete and is the only LNG export facility under construction in Canada. It is expected to begin shipping cargoes in 2025.