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U.S. LNG exports review will turn on ‘public interest’ determination

(Bloomberg Law; Jan. 30) - The broad public-interest determination underpinning the Biden administration’s decision to pause new liquefied natural gas export approvals while it evaluates climate impacts may come under legal attack, but litigation will depend on how far energy officials go to hamper specific projects, legal experts said. Developers of LNG facilities may find limited legal options to challenge the White House announcement that it will update its economic and environmental analyses of exports.

The Natural Gas Act requires the energy secretary to issue an order approving exports “unless … the proposed exportation or importation will not be consistent with the public interest.” Jim Bowe, a Washington-based lawyer who represents LNG developers, said, “Whether DOE has the authority to consider environmental impacts, including potential impacts on climate change, I don’t think is seriously open to question.”

“Public interest is a pretty broad concept,” Bowe said. “I think, at this point, the question is: How far must or should DOE go in evaluating impacts?” Previous DOE assessments of its LNG export policy, undertaken during the Obama administration and most recently in 2018 and 2019, focused more on economic analyses — ensuring exports weren’t causing U.S. natural gas price spikes and were consistent with U.S. sanctions policy.

Others argue the White House move is supported by the long arm of public-interest determinations that energy officials can adjust over time. “There’s absolutely no reason climate should not be considered as part of the public interest,” said Max Sarinsky, senior attorney at the New York University School of Law’s Institute for Policy Integrity.

U.S. review of LNG exports will test past environmental assumptions

(Climate Wire; Jan. 30) - Experts say the new Department of Energy review of liquefied natural gas exports will likely focus on two key assumptions that regulators made under both the Trump and Biden administrations: That gas is a relatively clean fuel, and that U.S. exports would replace other fossil fuels abroad but not renewables. The department’s current assertions on both issues came from a 2019 National Energy Technology Laboratory report, which found that “cradle-through-delivery” emissions from LNG exports are negligible. But experts see serious flaws with its methodology.

The climate test announced by President Joe Biden last week could reverberate through global energy markets. If the department finds that LNG exports are a

significant driver of rising temperatures, it would be harder for the department to justify future export projects based on public interest. The Natural Gas Act requires that the department make such a determination before approving export projects — a provision intended to safeguard U.S. consumers from high natural gas prices.

If the department updates its analysis to attribute hefty carbon emissions to LNG facilities, that change, coupled with higher social cost of greenhouse gas figures recently adopted by the administration, could show that the climate harms of new projects greatly outweigh their economic benefits. “There’s a reason that we’re so happy and the oil and gas lobby is so panicked,” said Jeremy Symons, an environmental consultant and former EPA climate policy adviser. “And that is both of us know the same thing: These projects just won’t stand up to this kind of scrutiny.”

Pause in LNG approvals could affect lawsuit over Alaska project

(EnergyWire; Jan. 29) - The Biden administration’s decision to halt new liquefied natural gas exports may bolster pending lawsuits against federal approvals of proposed LNG facilities — and could face its own hurdles in court. The Energy Department announced Jan. 26 that it will stop approving LNG exports to nations without free-trade agreements. The agency will review its process for deciding whether overseas shipments of gas are in the public interest, given growing concerns about LNG’s impact on climate change.

The pause, which is expected to last months, was a decisive win for environmental groups and Democratic lawmakers who have been ramping up pressure on the White House to address emissions from the nation’s rapidly increasing LNG exports. It may also boost environmentalists’ legal fight over a proposed LNG export terminal in Alaska that raises the very issue the department plans to investigate: How should climate risks be addressed when the government decides an export project is in the public interest?

The Department of Energy is due to file briefs Feb. 14 in the U.S. Circuit Court of Appeals for the District of Columbia in a lawsuit opposing the state-sponsored Alaska LNG venture. The project — which the department in 2022 determined is in the public interest — is designed to export fuel primarily to Asian markets. “Hopefully the thinking that has prevailed today, in terms of the need for this pause, will also be evident in whatever they file in this case,” said Moneen Nasmith, a senior attorney with Earthjustice, which is representing environmental groups opposing Alaska LNG.

Courts can be influenced by changing policies related to cases, Keith Hall, of Louisiana State University’s Energy Law Center, said. “A judge could reason that, depending on what the administration does, the case might become moot, so why not wait and see.”

Delay could be problem for LNG projects that need permit extensions

(S&P Global; Jan. 30) - The Biden administration's election-year halt on LNG export licenses has put a slew of proposed developments in permitting limbo, threatening to delay projects and prevent some from advancing at all. The moratorium, expected to last at least through November, centers on the analyses the Department of Energy uses to decide whether to approve LNG exports from U.S. projects to countries that lack free-trade agreements from the U.S. Such countries represent most of the global market.

As a consequence, some pre-final investment decision projects are stuck waiting while rivals have the approvals in hand. But even among the latter group, several projects with licenses face permitting deadlines in the coming years that could require developers to seek extensions from the Department of Energy, a category of approvals that is also affected by the policy shakeup.

NextDecade, one of three U.S. LNG developers to reach FID in 2023, is working to build sufficient commercial support for a two-train expansion of its Rio Grande LNG project in Texas and faces a February 2027 Department of Energy deadline to start operations. Another project facing the need for an extension is the proposed Delfin LNG export project offshore Louisiana. Delfin’s export authority is set to expire in June, and it will need a considerable extension of that date — work has not started on the project.

Canada has opportunity to become a serious LNG player

(Calgary Herald columnist; Jan. 29) - As the United States pauses the approval of new LNG export projects, Canada has two projects being built and a few more at the starting gate. After standing on the sidelines for much of the past decade while the U.S. built itself into a global LNG powerhouse, Canada now has a monumental decision to make: Does it also want to become a serious player or be a small exporter to the world?

“It’s not very often that you get a second chance on an opportunity. And I think this may perhaps bode extremely well for that second chance, from a policy and support perspective in Canada — if we take advantage of it,” said Greg Ebel, CEO of Calgary-based Enbridge, which is a partner in the Woodfibre LNG project under construction 30 miles north of Vancouver. “Will we? I don’t know,” he said.

The industry’s development in the U.S. has been astonishing, with LNG export capacity skyrocketing from 1 billion cubic feet per day in 2016 to over 13 bcf a day in December 2023. In Canada, progress has been much slower, to put it kindly. In 2010, the National Energy Board began getting applications for long-term LNG export licenses. The large Shell-led LNG Canada project received the green light from its partners in 2018. The plant at Kitimat, B.C., is under construction and 90% complete. It’s the only one so far to proceed to construction, despite all of the other proposals over the years.

[U.S. decision ups the pressure on Canada to pause LNG approvals]

(Reuters; Jan. 29) - President Joe Biden's decision to pause expansion of U.S. liquefied natural gas exports has raised pressure from environmental groups on the British Columbia and Canadian governments to do the same, although following suit may be politically difficult. British Columbia will hold an election in October, and its left-leaning New Democrat government is expected to decide late this year whether to approve the proposed Ksi Lisims' export facility near the waters that border Alaska. It would become Canada's second-largest LNG terminal. It also still requires federal approval.

Canada's first significant LNG exports will begin this year or next with the Shell-led LNG Canada facility more than 90% built. A second phase under consideration by the partners already has government approval and several other projects may follow, expanding Canada’s reach into Asian markets. But both the B.C. provincial government and Prime Minister Justin Trudeau's federal government have set targets to cut greenhouse gas emissions by 2030 — the LNG facilities could complicate those goals.

A coalition of environmental groups has urged British Columbia to do the same as the U.S. and pause new project approvals. "This is certainly going to be an issue in an election year," said Julia Levin, associate director of national climate at Environmental Defence. "While it's true that most of the big LNG projects have been approved, there are lots of ways to still get projects killed even after they've been approved." Like the U.S., Canada produces more gas than it needs, and the industry supports exports.

[German gas industry group criticizes halt to new U.S. LNG approvals]

(S&P Global; Jan. 30) - German gas industry group Zukunft Gas has slammed the White House decision to pause new U.S. LNG export permits, saying the move will have a particularly negative effect on the market. Germany has turned to LNG — with three floating import terminals already operational and three more set to be deployed in the coming months — to replace lost Russian pipeline gas.

The U.S. has been the dominant LNG supplier to Germany since the first import terminal came online at the end of 2022, with U.S. LNG deliveries totaling 4.1 million tonnes last year, or 82% of Germany’s total imports, S&P Global Commodity Insights data showed. German buyers have contracted future LNG to be supplied from Venture Global's planned Louisiana CP2 facility, which is one of the projects affected by the White House decision to pause new approvals.

In comments to S&P Global on Jan. 30, Zukunft Gas CEO Timm Kehler said U.S. supplies are essential to freeing the European Union from the grip of Russian energy dependence. "U.S. LNG exporters have made significant efforts to replace Russian gas supplies in the last two years. We are therefore extremely critical of the announced stop

to the approval of new LNG terminals," Kehler said. "They are driving the energy price gap between the U.S. and Europe further apart."

Report critical of Europe's reliance on natural gas

(Bloomberg; Jan. 28) - Europe's demand for gas is driving $223 billion in new investment to produce the fuel globally during the next decade, according to a new study that casts a spotlight on the region's broad carbon footprint even as it tries to rein in emissions. Two U.S. liquefied natural gas companies in particular — Venture Global LNG and Cheniere Energy — are set to lead spending on new developments going forward, climate activist group Global Witness said in its report, which analyzes data from Rystad Energy. Heavyweights TotalEnergies and Equinor are also high on the list.

The findings add to indications that Europe's gas demand will continue climbing — despite efforts to slash emissions — as it rebuilds its energy supply after Russia cut most gas deliveries to Europe in the fallout of war in Ukraine. Europe's gas consumption is forecast to grow 3% this year — slightly higher than the global average, though lower than Asia's world-leading 4%, according to the International Energy Agency.

Although gas produces less pollution than other fossil fuels, it's under increasing scrutiny for its effects on climate change, raising questions about which facilities will ultimately get built. Europe relies heavily on imported gas from the U.S. and Qatar, the world's top LNG suppliers. "Europe is hurtling down a dangerous path by doubling down on fossil gas," said Dominic Eagleton, senior fossil fuels campaigner at Global Witness. He called on the European Commission to set 2035 as a phase-out date for the fuel.

State-owned Japanese corporation ready to help with LNG projects

(Reuters; Jan. 26) - The Japan Organization for Metals and Energy Security (JOGMEC) is preparing to give financial assistance to Japanese companies for new liquefied natural gas production projects to ensure a stable supply of the fuel, its CEO said in an interview this week. Japan is the world's second-biggest importer of LNG after China passed it last year. The fuel supplies 34% of Japan's electricity energy mix.

State-owned JOGMEC has in the past provided financial support, mainly through equity investment, for many LNG projects, including Indonesia's Tangguh project, to help Japan secure a stable energy supply. "We have received several queries from Japanese companies regarding new LNG projects and we are preparing to decide on financial assistance," Ichiro Takahara, JOGMEC's chairman and CEO, told Reuters, without giving any details on project locations or companies involved.

According to a budget request from the industry ministry, which oversees JOGMEC, Japan's investment in oil and gas exploration and asset acquisition is expected to double in the fiscal year starting in April to 108.2 billion yen ($733 million), from 47.9 billion yen for the current year. "Natural gas and LNG will remain an important energy source even after the realization of a carbon-neutral society," Takahara noted.

Asian buyers look around in case U.S. LNG pause drags on

(Bloomberg; Jan. 30) - Asian liquefied natural gas buyers have begun looking for alternatives to offset potential delays to U.S. projects hit by a moratorium on new approvals, a potential boost for rival exporters. Buyers, including major importers China and Japan, are reviewing options including talks with already-licensed projects in the U.S. or suppliers from other nations, according to people with knowledge of the matter.

While the consumers aren't proposing to break any existing contracts, they are looking to have alternatives in place in case the U.S. pause on approvals leads to major delays, said the people, who requested anonymity to discuss private deliberations. Japan's Trade Minister Ken Saito said Jan. 30 that his nation would take the necessary steps to ensure energy security amid concerns about delays to future U.S. production.

JERA, Japan's biggest LNG importer, said even a temporary pause to new licenses for U.S. projects could cause concerns for global energy security, given its importance as a supplier. However, buyers can turn to other exporters including Qatar, Canada and Russia, with new plants over the next few years expected to result in a supply glut in the second half of this decade. Two LNG facilities outside the U.S. are likely to reach final investment decisions this year, BloombergNEF analyst Lujia Cao said in a note Jan. 29.

New Russian gas line to China through Mongolia may be delayed

(Reuters; Jan. 28) - Mongolian Prime Minister L. Oyun-Erdene said construction of Russia's planned Power of Siberia 2 gas pipeline to China, which was expected to start this year, may be delayed, the Financial Times reported on Jan. 28. Russia has been in talks to build a new pipeline to carry almost 1.8 trillion cubic feet of gas per year from northern Russia to China via Mongolia, almost as much as the now-idle Nord Stream 1 pipeline carried to Europe under the Baltic Sea that was damaged in 2022.

China and Russia have yet to agree on key details of the mammoth project, he told the paper, adding that record global gas prices during the past two years had complicated talks. Gazprom, which will operate Power of Siberia 2, has said it aims to start delivering gas by 2030. But agreement on key issues, including pricing, remains elusive. "Those two sides still need more time to do more detailed research on the economic studies," Oyun-Erdene told the Financial Times.

Russia is ramping up supplies to China to compensate for the loss of much of its gas sales in Europe since its invasion of Ukraine nearly two years ago, which prompted Western states to slap sanctions on Moscow and trim reliance on Russian energy. Russian Deputy Prime Minister Viktoria Abramchenko told state news agency TASS last year that building of the Mongolian part of Russia's newest gas link to China may start in the first quarter or first half of 2024. It would supplement gas deliveries to China through the first Power of Siberia line, which started operations in late 2019.

U.S. company partners with Qatar to send LNG to Bangladesh

(Reuters; Jan. 29) - QatarEnergy and U.S.-based Excelerate Energy signed on Jan. 29 a 15-year agreement to supply 1 million tonnes per year of liquefied natural gas to be delivered to Bangladesh for 15 years starting in January 2026. The deal is the latest in a series state-owned QatarEnergy has signed with European and Asian partners tied to its massive North Field expansion project, which is expected to lift Qatar's LNG production to 126 million tonnes per year by 2027 from 77 million now. QatarEnergy said the fuel will be shipped to floating storage and regasification units in Bangladesh.

Interest grows in moving away from oil-indexed LNG contracts

(S&P Global; Jan. 29) - With LNG and gas market fundamentals becoming a more pivotal driving force for LNG prices, traders have pointed to contracts across the globe increasingly adopting LNG and gas indexes over historically oil-indexed contracts, according to sources and an S&P Global Commodity Insights analysis. Historically, long-term contracts in the LNG market were formed around oil indexes such as Platts Dated Brent benchmark. However, volatility in recent years has made it increasingly uneconomic for market participants to price their contracts solely based on an oil index.

In oversupplied, lower-priced LNG and gas markets, contracts priced against an oil index could rise above gas spot prices. Conversely, in an oversupplied oil market, LNG contracts linked to lower oil prices could be less profitable for suppliers when LNG markets are tight. Although the global LNG market is not terribly oversupplied, the current high inventories across the world have traders eyeing the potential divergence of oil, gas and LNG prices. With LNG and gas spot prices falling below oil-contracted prices, the incentive to purchase more on the spot market increases.

Utilizing more gas and LNG-linked contracts, such as the Platts Japan-Korea Marker or Northwest European marker, could offer more accurate hedging possibilities. "Arguably, oil-indexation contracts have lost their relevance as oil and gas prices continue to decouple," Hilary Till and Adila McHich from the CME Group said in a report. While the CME report suggests that the level of transition from oil indexation to gas hub prices

varies across regions, LNG traders said there has been an increasingly growing interest across the globe to transition toward more LNG and gas based long-term contracts.

Continuing problems drive oil companies out of onshore Niger Delta

(Reuters; Jan. 29) - Shell's exit from Nigeria's onshore oil sector highlights risks in Africa's biggest exporter but has raised hopes that local firms could reverse the output decline from the Niger Delta, industry officials and analysts said. Shell — which pioneered Nigeria's oil industry — is the most prominent Western company to exit the Delta, a region blighted by pollution, pipeline vandalism and oil theft. Those issues have for years stymied investment — and throttled production and government finances.

The company's sale of its subsidiary to five mostly local firms fits an ongoing trend of Western energy companies divesting onshore Nigerian oil fields. Exxon, Italy's Eni, Norway's Equinor and China's Addax have struck deals to sell assets in the country in recent years. "Nigeria has had well-established problems in policy in the oil sector, and the policy concerns have put constraints on investments. That's probably partially why you have seen the majors pulling out, and disinvesting to some extent," said Andrew Matheny, senior economist with Goldman Sachs.

President Bola Tinubu took office last May, pledging to remove obstacles faced by producers, including ending crude theft and pipeline vandalism. But seven months into his presidency, the asset sales, which were well underway before his election, highlight the inexorable changes to the country's oil sector. "If companies are now leaving the less capital-intensive onshore operations to focus on offshore operations, it sends a perfect picture of the risk involved in doing business in Nigeria," said Seyi Awojulugbe, a senior analyst at security consultancy SBM Intelligence in Lagos.

Nigeria will import 2 million barrels of U.S. crude for new refinery

(Bloomberg; Jan. 29) - Nigeria’s giant new oil refinery Dangote, the largest in Africa, is set to import crude from the U.S. in the coming months, a sign of just how competitive American barrels have become in the global market. Trafigura Group sold 2 million barrels of Texas-priced crude to the Dangote refinery for end-of-February delivery, said traders with knowledge of the matter. This is the first time that the giant refinery has purchased non-Nigerian crude, traders said.

Booming U.S. oil supply over the past decade or so has transformed the global market, reaching as far afield as Asia. Nigeria’s economy is dependent on petroleum exports, meaning that deliveries from across the Atlantic are telling. The new 650,000 barrel-a-day refinery, owned by Aliko Dangote, Africa’s richest person, started operations earlier

this month. It is targeting an initial processing rate of 350,000 barrels a day before ramping up toward its full capacity.

The refinery is sourcing domestic crude under a supply deal with the trading arm of the state company Nigerian National Petroleum Co. The first cargo that arrived at the plant last month was Nigeria's Agbami crude, sold by a trading unit of Shell. This was followed by more Nigerian barrels. It's not clear why a refinery in a large oil-producing country is buying from the U.S., but price is likely a factor, according to traders. West Texas Intermediate Midland barrels tend to be cheaper than grades like Nigeria's.

Saudi Arabia drops plan to boost oil production capacity

(Bloomberg; Jan. 30) - Saudi Aramco abandoned a plan to boost its oil output capacity, a huge reversal that will raise questions about the kingdom's view on future oil demand. The surprise move comes after the world's biggest oil exporter said in November that it was progressing "very well" with a multibillion-dollar project to boost capacity by 2027 to 13 million barrels a day as demand in China and India continues to grow. Saudi Arabia now has capacity for 12 million barrels and is pumping 9 million a day, after it curbed its output as part of OPEC+ efforts to revive the global oil market and prevent a surplus.

The Saudi decision will take out a significant portion of the supply buffer that traders were expecting for later this decade, a gap that may be hard to fill. Maintaining spare capacity is expensive, especially when Saudi Arabia is already producing well below its maximum rate and demand growth is likely to slow with the energy transition. "There is likely to be much speculation on the potential implications on global oil demand over the medium and long term," RBC Capital Markets analyst Biraj Borkhataria said in a note.

"This also marks a change in tone from one of the world's largest oil producers at the government level," Borkhataria said. The change ordered by the government comes at a time when Saudi Aramco has significantly increased dividends to the state, its primary owner. The kingdom is running a fiscal deficit as it spends tens of billions of dollars on efforts to diversify the economy into areas such as sports and tourism.

Exxon, Chevron write down California assets

(Reuters; Jan. 29) - It is the end of an era for Big Oil in California, as the most populous U.S. state divorces itself from fossil fuels in its fight against climate change. California's oil output a century ago made it the fourth-largest producer in the U.S. and spawned hundreds of oil drillers, including some of the largest still in existence. Oil led to its car culture of iconic highways, drive-in theaters, banks and restaurants that endures today.

On Feb. 2, however, the marriage will officially end. The two largest U.S. oil producers, ExxonMobil and Chevron, will formally disclose a combined $5 billion write-down of California assets when they report fourth-quarter results. ExxonMobil last year exited onshore production in the state, ending a 25-year-long partnership with Shell, when they sold their joint-venture properties. The state's regulatory environment has impeded efforts to restart offshore production, Exxon said this month, leading to an exit that includes financing a Texas company's purchase of its offshore properties.

Exxon's write-down will cost about $2.5 billion and end five decades of oil production off the Southern California coast. Chevron will also take charges of about $2.5 billion tied to its California assets. It is staying but bitterly contesting state regulations on its producing and refining operations in the state, where it was born 145 years ago. "This is a green transition," said Daniel Kammen, a professor of energy at the University of California, who argues oil firms need to move to clean energy and away from fossil fuels. "There is a pathway for these companies. But if they chose otherwise, they are dinosaurs."

U.S. oil producers increasingly rely on electrical grid for power

(Wall Street Journal; Jan. 29) - In the country's busiest oil field, frackers are devouring nearly as much electricity as four Seattles every day — and they are clamoring for more. Diamondback Energy, a major producer in the Permian Basin of West Texas and New Mexico, has increasingly relied on the electric grid to power its oil production. But as the driller's production has grown nearly 50 times in the past 10 years, the grid has struggled to handle this new demand, prompting Diamondback to set up its own power network to cut its use of gas-fired generators.

As drillers have faced investor and public pressure to cut greenhouse-gas emissions, they have ditched polluting diesel generators and plugged into the grid at breakneck speed. Sourcing electricity increasingly generated by wind and solar power allows the companies to cut their carbon footprint. On top of making companies greener, utility power means fuel savings and more efficient operations, oil and gas executives say. The trend is sending electricity sales soaring in Texas, New Mexico and North Dakota.

But like other kinds of businesses trying to electrify, drillers have hit a bottleneck, finding there is only so much capacity on the grid. Many operators that can't wait for infrastructure to catch up have built it themselves. While U.S. electricity sales rose just 5% in the past decade, some states with big oil and gas fields have seen some of the largest jumps in power use in the country. In New Mexico, the amount of electricity sales in megawatt hours has jumped 16% in a decade, largely driven by the Permian oil patch in the southeastern corner, according to government data and regulatory filings.

U.S. threatens to reimpose sanctions on Venezuelan oil and gas

(Reuters; Jan. 30) - A reimposition of U.S. sanctions on Venezuela's oil and gas sectors would hurt the OPEC country's ability to collect cash from its oil exports, crimp new energy investments and raise the risks of domestic fuel scarcity, analysts and executives said. Washington this week ordered a wind-down of all business transactions between U.S entities and Venezuela's state miner Minerven, and said it would unwind in April its easing of energy sanctions if President Nicolas Maduro's administration does not stick to an agreement last year to accept conditions for a fair presidential election.

The U.S. is increasing its pressure since the South American country's top court last week upheld a ban blocking the leading opposition hopeful, Maria Corina Machado, from the election. The U.S., which first imposed oil sanctions on Venezuela in 2019, had granted sanctions relief for the OPEC member country in October in recognition of the election deal. That resulted in larger exports of crude and petrochemicals to cash-paying customers in countries from the U.S. to India.

Venezuela’s state-owned PDVSA since 2019 had been forced to switch most of its oil trading to swaps and funnel sales through intermediaries because customers did not want to be exposed to sanctions. Under the eased sanctions, oil exports by PDVSA and its joint-venture partners rose almost 13% to an average 700,000 barrels per day last year, tanker tracking data showed, while the country's crude output grew 9% to 783,000. PDVSA has reestablished relationships with some of its former key clients.