

Oil and Gas News Briefs

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Qatar announces further expansion in LNG production capacity

(Bloomberg; Feb. 25) - Qatar plans to expand its exports of liquefied natural gas amid rising demand and a pause in approval of new LNG export projects in the U.S., a key rival supplier. Qatar, which vies with the U.S. and Australia as the biggest shipper of the fuel, will develop a new project, at 16 million tonnes a year, before 2030, lifting the country's annual production capacity to 142 million tonnes, Energy Minister Saad Al-Kaabi said Feb. 25. Qatar's production capacity is at 77 million tonnes a year now, with work underway on a \$50 billion expansion to reach 126 million tonnes by 2027.

At 142 million tonnes, Qatar's overall capacity would equal more than 30% of last year's worldwide LNG demand. The additional expansion opens the way for the Middle Eastern country to secure a dominant long-term role in global exports. It has already signed a succession of deals to sell supply from its current expansion project, including a 27-year pact with China Petroleum & Chemical Corp. and with European companies such as Eni, TotalEnergies and Shell. Global demand for LNG is forecast to rise more than 50% by 2040, driven by rising consumption in Asia, according to Shell.

Qatar's latest expansion announcement follows the discovery of 250 trillion cubic feet of new gas deposits in the North Field, taking overall reserves to about 2,000 trillion, Al-Kaabi said. The country is still appraising new wells in the field and will produce more if there are additional gas finds, he said. Qatar hasn't yet decided if it will bring in partners for the new project, Al-Kaabi said. "The only thing that would stop us announcing more projects is if we don't believe there is a market for gas," he said. Al-Kaabi did not give a cost estimate for the latest expansion, but said it would be in the billions of dollars.

Japan's largest LNG buyer takes 15% stake in Australia gas project

(Reuters; Feb. 23) - Woodside Energy is selling a 15.1% stake in its Scarborough gas project offshore Australia to Japan's largest LNG buyer, JERA, for about US\$1.4 billion, marking the Australian gas producer's second stake sale to a Japanese liquefied natural gas buyer in six months. The estimated value of the deal includes a purchase price of about \$740 million plus reimbursement to Woodside for JERA's 15.1% share of expenditures incurred back to Jan. 1, 2022, Woodside said on Feb. 23.

The deal is JERA's largest overseas LNG stake acquisition, Yuichiro Kato, executive officer of JERA, told a news conference on Feb. 23. Resource-scarce Japan is the world's second-biggest LNG importer after China. Despite gradually cutting imports over

the past decade, thanks to nuclear power restarts and renewable energy, it still relies on LNG for a third of its electricity mix. The deal will allow JERA to lift 1.208 million tonnes of equity LNG annually after the project comes onstream.

The latest deal follows an August 2023 announcement that Woodside had sold a 10% participating interest in Scarborough to LNG Japan for \$500 million. Japanese companies have been diversifying their sources of LNG through acquisitions abroad. The new sale to JERA is expected to be completed in the second half of 2024, Woodside said. After both sales to Japanese interests, Woodside will hold a 74.9% share in the US\$12 billion Scarborough gas project and continue as its operator. The project continues to target its first cargo for 2026, at 8 million tonnes annual capacity.

Low U.S. natural gas prices drive producers to scale back

(Wall Street Journal; Feb. 25) - An unusually warm winter and roaring U.S. output have pushed natural gas prices to some of the lowest levels of the shale era. Adjusted for inflation, gas futures recently hit their cheapest prices since trading began on the New York Mercantile Exchange in 1990. This is good news for American consumers, who can look forward to lower utility bills, as well as for businesses that use a lot of natural gas making basic materials like steel, concrete, cardboard and fertilizer.

But the plunge is weighing on gas producers, which are dialing back their drilling plans and pushing for more exports to relieve the domestic glut. "This is exactly how companies should be responding to historically low natural gas prices," said Mark Viviano, a managing partner at energy investment firm Kimmeridge. Gas futures for March delivery ended this past week at \$1.603 per million Btu, down 35% from a year ago. "The market is clearly oversupplied," said Chesapeake Energy CEO Nick Dell'Osso. "We think we should hold back our supply to better meet that demand."

Analysts say U.S. storage capacity is in danger of filling up later this year unless prices are low enough to curtail production and entice electricity generators to switch from coal to gas. Gas prices have been on a roller coaster the past two decades since producers began tapping shale rock using hydraulic fracturing and horizontal drilling. Repeatedly, the frackers have flooded the market until prices crash. Low prices discourage drilling, prompt the plugging of piddly wells and weed out inefficient operators. Eventually, cheap gas stokes demand, prices recover and producers send drilling rigs back to work.

Western Hemisphere oil production meets global demand growth

(Reuters; Feb. 21) - Oil producers in the Western Hemisphere have captured all the increase in global oil consumption over the past decade, reversing the previous trend toward production becoming concentrated in the Eastern Hemisphere. Meanwhile, with

consumption growth increasingly focused on the Eastern Hemisphere, much of it in Asia, the predominant flow of crude oil and refined products across the oceans has been reversed, transforming the energy security picture.

Western Hemisphere output climbed to 31.6 million barrels per day (34% of the world total) in 2022, from 23 million (27%) in 2012. Greater production from the Western Hemisphere satisfied the entire growth in global consumption of 8.6 million barrels per day over the decade from 2012 to 2022. The Western Hemisphere's share will climb even further in 2023-2024 thanks to output cuts by Saudi Arabia and its closest allies in the Middle East.

Between 2012 and 2022, increases from the United States (+8.9 million barrels per day), Canada (+1.8 million) and Brazil (+1 million) more than made up for the loss from Venezuela (-2 million). Since 2020, Guyana in South America has also emerged as a major new producer, with output climbing to more than 500,000 barrels per day by the end of 2023, spurring hemispheric growth even more.

OPEC+ expected to continue oil production cuts

(Bloomberg; Feb. 23) - OPEC+ is expected to continue its current oil-supply cutbacks into the next quarter in a bid to avert a surplus and prop up prices. Saudi Arabia and its partners plan to decide early next month whether to extend roughly 2 million barrels a day of curbs beyond March. With global demand growth slowing and U.S. crude production climbing, OPEC+ may need to persevere, according to a Bloomberg survey.

Several delegates from the Organization of the Petroleum Exporting Countries and its allies privately have predicted an extension. "They'll have to extend their cuts," Bob McNally, president of consultants Rapidan Energy Group and a former White House official, told Bloomberg Television. "Supply is exceeding demand, and to keep prices stable, OPEC+ has to keep that oil off the market." Oil prices have held near \$80 a barrel this year as swelling supplies from the U.S. and other producers offset both the OPEC+ cuts and fears that conflict in the Middle East could disrupt crude shipments.

Subdued prices could offer relief to major consuming nations like the U.S. and central banks wary of stubborn inflation, but such levels are too low for many OPEC+ members. Riyadh needs oil above \$90 as it spends billions on an economic transformation that spans futuristic cities and sports tournaments, according to Fitch Ratings. Global oil markets are in surplus, and the overhang would expand considerably if the OPEC+ bloc were to restore production, the International Energy Agency said in a report last week.

Geopolitical risk factors could change global oil market dynamics

(Wall Street Journal; Feb. 23) - It has been two years since Russia invaded Ukraine and about four months since Palestinian militant group Hamas attacked Israel. Sparks from these wars have recently spread to an oil refinery in Russia and to tankers crossing the Red Sea. Meanwhile, clashes between Israel and Lebanon threaten to boil over to another full-blown war. Yet the price of oil, a commodity that sits in the crosshairs of these conflicts, is around 12% lower than on the eve of Russia's invasion.

Markets have developed a "very thick skin" when it comes to geopolitical disruptions, notes Bob McNally, president and founder of energy consulting firm Rapidan Energy. Analysts think one of two things would need to happen for a geopolitical threat to have enduring effects on the oil price. First is an actual disruption to spare capacity, which today is concentrated in Saudi Arabia and the United Arab Emirates. Second is a credible threat to the flow of oil tankers through the Strait of Hormuz.

These risks might seem far-fetched in some ways. The U.S. and Iran have signaled reluctance to escalate the Houthi/Yemen conflict affecting traffic in the Red Sea. But oil watchers warn that markets could be too complacent. Helima Croft, head of commodity strategy at RBC Capital, points out Iran has varying levels of control over its proxies. "Even if Iran wants to keep things on a low boil, it can't ensure that the Houthis do."

A second-order risk is the possibility that Saudi Arabia doesn't step in with its spare oil production capacity if there are supply disruptions elsewhere in the world. "Saudi Arabia has made it very clear that it is after high prices, not market share," said Ilia Bouchouev, managing partner at Pentathlon Investments.

U.S., European oil majors see future oil demand differently

(Reuters; Feb. 23) - U.S. and European oil giants sell the same product in the same global market. But they are on diverging paths. While American groups like ExxonMobil and Chevron are buying up smaller drillers, their European rivals such as Shell, BP and TotalEnergies are largely sitting on their hands. Part of the explanation is a transatlantic disagreement about the long-term outlook for future oil demand amid the growing push to stem climate change.

Fossil fuel producers have a limited range of options. They can keep pumping and hope they outlast smaller rivals; pivot to other forms of energy that emit little or no carbon dioxide; or gradually wind themselves down while returning cash to shareholders. There is one other alternative: simply assume that demand for oil will not decline. Forecasts circulated by U.S. oil giants suggest they have chosen the fourth option.

In January, ExxonMobil said daily demand under its central scenario for 2050 would be roughly the same as the current 100 million barrels. Chevron cites third-party forecasts

that assume daily oil consumption will lie in a range between 70 million and 112 million barrels in the decade from 2040 to 2050. The Europeans are a lot less bullish.

Under one scenario, Shell sees demand of 90 million barrels a day in 2050, but only 40 million barrels using another scenario. BP's "New Momentum" model assumes 73 million barrels of daily 2050 consumption. TotalEnergies reckons demand for oil and biofuels could range between 51 million and 71 million barrels. Any of the visions could be correct, but if higher-demand scenarios transpire, U.S. oil investors will be winners.

Sanctions on Russian oil and gas redirect global energy flows

(S&P Global; Feb. 22) - Russia's invasion of Ukraine and intensifying Western sanctions against Moscow have fractured the world of energy, and while both sides in the standoff claim to have adapted to shifting oil and gas flows, divisions have only deepened and risks intensified. Two years after Russia launched its full-scale invasion of Ukraine, the shockwaves for the sector have spread far and wide, affecting investment, refining, shipping and trade.

On the oil front, Europe's needs are being met partly by U.S. shale production, while the embargo on Russia's Urals crude has boosted demand for medium sour Norwegian grade Johan Sverdrup as a stand-in. Security of supply concerns have also given a boost to North Sea investment. And the relative attractiveness of such projects far from the conflict has increased, particularly for companies with operations close to geopolitical fault lines around Russia in Azerbaijan and Kazakhstan.

Russia has successfully redirected its exports east, with steady increases in loadings of ESPO (East Siberia Pacific Ocean) crude at Kozmino. And Urals crude has made inroads into India, supported by Rosneft's ownership of a refinery there. Urals delivered on India's west coast averaged a modest \$4.75 per barrel discount to the Platts Dubai benchmark in the six months to the end of January. ESPO crude but has traded at discounts to Dubai of less than \$5 since September.

Guyana tries out new contract terms to win more oil investment

(Reuters; Feb. 23) - Guyana is open to further changes in its oil-contract terms to secure investment in the country but will not alter royalties or other fiscal terms, Vice President Bharrat Jagdeo said at the end of an energy conference. The South American nation has become the world's fastest-growing oil producer, with about 650,000 barrels per day, up from zero five years ago. Last year, it unveiled a new oil production-sharing model in hopes of increasing its share of oil wealth and attracting new producers.

Results of its first competitive bidding round for oil blocks under that new model will be announced in coming weeks, an official said this week. Guyana could allocate up to eight areas to several consortia, including an ExxonMobil-led group that is responsible for all the nation's output today. The new production-sharing agreement includes a 10% royalty, up from 2% paid by the Exxon group, a lowering of the cost-recovery share allocated to producers, and a new corporate tax.

"We had to ensure that we, having such a fiscal model, remain globally competitive," Jagdeo said in a media briefing Feb. 22, adding that some oil firms had paused investment in exploration when the auction was launched in 2023. The government in 2022 eased the proposed terms that required the use local workers, a provision that companies had anticipated would be too tough to meet, saying there were insufficient qualified workers and local contractors. "We don't want, because of the non-fiscal terms, to kill interest," he said. Some of "the conditions were too tough," he added.

'OPEC of LNG' members will meet in Algeria

(LNG Journal; Feb. 21) - The Gas Exporting Countries Forum (GECF), known as the OPEC of LNG and pipeline gas, is preparing for its seventh summit meeting with members scheduled to start arriving at the end of February in the Algerian capital of Algiers. The GECF, whose secretariat is based in Qatar, will attempt to put some context into the geopolitical and economic challenges facing LNG and pipeline gas producers.

Although the GECF counts Qatar among its members, the world's other main LNG producers Australia and the U.S. have never been members nor will they be sending observers to the meeting, where 19 countries will be in attendance representing more than 70% of the world's proven gas reserves, 43% of its marketed production, 52% of pipeline gas sales and 58% of LNG exports.

Algeria, which is a key supplier of gas to Europe from its two liquefaction plants and with gas pipelines connected to Italy and Spain, said it would use the occasion to "build a consensus" between the producing nations to preserve the interests of gas exporters. Meetings will start on Feb. 29 and the actual summit will take place on March 2.

U.S. LNG plant customers oppose further delay in start-up deadline

(Reuters; Feb. 21) - Four Venture Global customers have asked U.S. regulators to delay a decision on the liquefied natural gas exporter's request for more time to bring its first Gulf Coast LNG terminal into full service. Virginia-headquartered Venture Global asked the Federal Energy Regulatory Commission last week to extend the company's deadline for bringing its Calcasieu Pass terminal in Louisiana into full commercial operations by one year, which would further delay its delivery of contracted cargoes.

BP, Shell, Edion and Repsol are requesting to weigh in on the extension request, according to documents filed Feb. 21 with FERC. All three have filed contract arbitration claims against Venture Global over a lack of delivery of contracted cargoes. Shell said it has deep concerns about Venture Global's conduct and "intends to file comments or a protest in response."

The company's Calcasieu Pass facility has been processing gas for export since March 2022, but it considers the facility not fully operational and has said it is allowed under its contracts to sell pre-commissioning cargoes on its own. Keeping the production for itself rather than its contract off-takers has earned Venture Global substantial profits the past couple of years, angering its contract customers that want the gas for themselves.

China looking to buy spot LNG as prices fall to 3-year low

(Bloomberg; Feb. 22) - Chinese liquefied natural gas importers are hunting for cheap shipments from the spot market after prices fell to the lowest level since 2021. LNG buyers, including Shenzhen Energy Group and China Gas, are in talks with potential suppliers for additional cargoes for the next several months, according to traders with knowledge of the matter.

The interest in additional supplies from China — the world's biggest LNG importer — is emerging after a drop in spot prices made the fuel more cost competitive with local gas options and oil products, the traders said. Still, Chinese LNG spot demand remains subdued, especially when compared to a flurry of buying last month ahead of the Lunar New Year holiday, traders added. Asian LNG prices are expected to continue sliding as ample supply outstrips demand, especially as the peak winter season ends.

Chinese LNG imports are recovering from a slump in 2022, when virus restrictions and high prices dashed demand for the fuel. January imports jumped nearly 30% year-over-year, but were still about 8% lower than the same month in 2021, according to ship-tracking data compiled by Bloomberg.

Cheniere doesn't expect LNG approval pause to delay its plans

(S&P Global; Feb. 22) - Cheniere does not see the White House suspension on key LNG export permits hindering its growth plans, even though both of the proposed expansions at its terminals in Texas and Louisiana will require approvals that are subject to the freeze. Instead, the country's top LNG exporter said it expects to receive the permits it needs from the U.S. Department of Energy in time to reach its targeted final investment decisions on the projects.

Cheniere looks to add 3 million tonnes per year to the liquefaction capacity at its Corpus Christi plant in Texas, and a larger, roughly 20 million-tonne expansion of its flagship Sabine Pass terminal in Louisiana. The exporter has maintained its targets for an FID on the Corpus Christi project in 2025, followed by an FID on expansion of the Louisiana facility in 2026.

"To be clear, the DOE action has not slowed down our expansion projects at either site," Cheniere CEO Jack Fusco said during a Feb. 22 earnings call. "We are full steam ahead." Cheniere's comments amounted to a show of confidence that the permitting holdup will not be long-lived or morph into a more expansive ban on new LNG exports from the U.S. At the same time, the permitting hold "does introduce regulatory and permitting uncertainty into the U.S. LNG industry as a whole," Fusco said.

Decision on British Columbia LNG project delayed to mid-2024

(Canadian Press; Feb. 23) – Calgary-based Pembina Pipeline says it will defer a final investment decision on its proposed Cedar LNG project until mid-2024. The company and its partner, the Haisla First Nation, have been working to develop a floating liquefied natural gas facility in Kitimat, British Columbia. The partners had previously said a decision to go ahead with the project could be made before the end of the first quarter, with onshore construction work starting as soon as the second quarter of this year.

But Pembina now says there a number of issues that must be resolved before a final decision, including ongoing negotiations for commercial off-take agreements, obtaining third-party consents and project financing. Cedar LNG has already obtained all major regulatory approvals and is advancing an agreement that would connect the floating facility to Coastal GasLink, the TC Energy-owned pipeline that will also carry gas to the Shell-led LNG Canada facility currently under construction in Kitimat.

The capital cost of Cedar LNG was originally estimated at US\$2.4 billion, but Pembina Pipeline chief financial officer Cameron Goldade said Feb. 23 the company now believes it will cost more than that. The project is proposed for 3 million tonnes annual production capacity.

Chinese company proposes inland LNG plant in British Columbia

(Business Intelligence for British Columbia; Feb. 23) - A Chinese company with natural gas assets in Alberta is pitching a new liquefied natural gas plant in Prince George, British Columbia, that would rail the LNG to Prince Rupert, B.C., for export to Asia. The Summit Lake PG LNG project recently entered the provincial environmental review process in British Columbia. The developers propose a new inland LNG plant that would

produce up to 2.7 million tonnes per year, a little more than the production capacity at the Woodfibre LNG project under construction on the coast in Squamish, B.C.

The company behind the project, JX LNG Canada, is an Alberta-based subsidiary of Changchun Jixing New Energy, which is involved in the LNG and compressed natural gas sector in northeastern China. LNG produced in Prince George would be loaded in specialized, insulated containers and sent by rail more than 450 track miles to the port of Prince Rupert for export to Asia aboard container ships. The project would need an extension of an existing pipeline owned by Enbridge to deliver feed gas to the plant.

TotalEnergies deal to take Russian LNG runs to 2032

(Bloomberg; Feb. 23) - A long-term liquefied natural gas contract between TotalEnergies and a Russian supplier has become an uncomfortable obstacle to the Dutch government's pledge to end imports of the fuel from Russia. The Netherlands stopped signing new contracts for Russian LNG imports last year and has been working on winding down earlier supply agreements. However, it's stuck with the imports because the government can't legally end agreements between two private companies.

The dilemma highlights Europe's difficulty in completely eliminating its energy dependence on Moscow. While the region has made progress in finding alternatives, Russia remains among Europe's biggest suppliers of liquefied natural gas amid long-term contractual obligations like the Total deal. Under the contract that started in 2018, Total takes Russian cargoes from Yamal LNG in northwest Siberia, with some volumes shipped to the Netherlands. The deal accounts for 10% of Dutch imports of the fuel.

TotalEnergies CEO Patrick Pouyanne has said the French company will keep shipping LNG from Russia as long as there are no sanctions. The company has a long-term contract to buy LNG from the project at 4 million tonnes annually until 2032 for markets that are not specified. Yamal LNG is majority controlled by Russia's Novatek, with Total and China National Petroleum Corp. holding minority stakes.

Sierra Club reports investments continue in fossil fuel projects

(Texas Public Radio; Feb. 21) - A report by the Sierra Club details how the largest U.S. financial management companies are using pension funds, retirement and other investments to fund fossil fuel projects like LNG plants along the Texas coast — despite commitments to reduce emissions. Management companies including BlackRock, Invesco, Vanguard and JPMorgan are buying bonds to finance projects such as Rio Grande LNG, despite committing to net-zero carbon emissions, according to the report.

The information coincided with news last week that JPMorgan & Chase left the climate-impact commitment group Climate Action 100+. BlackRock left the group as well, and transferred its membership to its international arm. Vanguard left a different climate-impact commitment group in 2022. The report lists several fossil fuel projects in the U.S., including oil projects in the Permian Basin in Texas, the Mountain Valley Pipeline in West Virginia, BP oil projects in the Gulf of Mexico and the ConocoPhillips Willow project in Alaska as being financed by bonds purchased by the asset managers.

The asset management companies have bought \$1.6 billion in bonds for fossil fuel projects in the past year and a half, according to the Sierra Club report. In the past 20 years, financing for fossil fuel projects has increasingly come from bonds purchased by asset management companies rather than loans. "When asset managers continue to purchase newly issued bonds, it tells fossil fuel companies that investors approve of their current plans and support a longer future for fossil fuels," the report said.

Qatar names new LNG carrier after former Exxon CEO Tillerson

(Bloomberg; Feb. 23) - QatarEnergy, the state-owned liquefied natural gas exporter, named the first in a series of new tankers for its expanded fleet after Rex Tillerson, the former U.S. Secretary of State and former head of ExxonMobil. The Doha-based company said Feb. 23 in a statement that the move was in recognition of Exxon's relationship with QatarEnergy while Tillerson ran the company, a period in which QatarEnergy saw significant investment.

As Secretary of State, Tillerson was also pivotal for the U.S.-Qatar relationship at the start of a Saudi Arabia-led coalition to blockade Qatar in 2017. The Rex Tillerson is expected to go into service in September and is one of 12 LNG ships that are being built in China for QatarEnergy, which has undertaken a \$50 billion expansion project to push its annual LNG production capacity to 126 million tonnes, from 77 million tonnes now.