Oil and Gas News Briefs
Compiled by Larry Persily
January 11, 2024

White House reevaluating criteria for approving LNG exports

(Bloomberg; Jan. 9) - The Biden administration is reevaluating the climate criteria it uses when approving new liquefied natural gas export facilities, in a move that has the potential to stall pending projects as the 2024 election nears. A panel of government officials convened by White House climate adviser Ali Zaidi met on Jan. 6 to develop a policy recommendation on the issue for President Joe Biden, according to two people familiar with the matter who weren't authorized to speak publicly.

Biden has been briefed but has not made a decision, a source said. The deliberations — a collision of domestic and geopolitical issues — are fraught for the White House. The administration's approval of fossil fuel projects has been under tough scrutiny from environmentalists and drawn blowback from young voters critical for Biden's reelection. Meanwhile, the U.S. has been significantly growing its LNG exports, a move that would help loosen Russia's energy leverage on Europe and shore up supply for Asia.

The Energy Department, which issues export permits, is checking whether it's properly accounting for the climate impact of proposed LNG plants, Politico has reported, citing an unidentified senior official. "Should the Biden administration decide to needlessly delay permits for additional LNG exports, it would undoubtedly send a troubling message to our allies and potentially force them to seek supply from bad actors like Russia," said Charlie Riedl, executive director of the Center for LNG, a trade group.

Analysts forecast steep LNG price drop as new supply comes online

(Australia Financial Review; Jan. 8) - A wave of new supply of liquefied natural gas is set to hit global markets late this year, making 2024 potentially the last year of robust prices in one of Australia's major export earners before a glut causes prices to start falling. The forecast from Bernstein Research — for a price decline of up to as much as 47% by 2027 — comes as Australia has been supplanted as the world's top exporter of the fuel by the United States, and as major Australian producers including Woodside Energy and Santos face a dip in output as gas supplies run down at older plants.

The research report supports findings from the federal government's commodities forecaster that Australia is facing a decline in export earnings from LNG over the next few years. Bernstein said good news is in store for gas buyers because over 140 million tonnes a year of new LNG supply would start to hit the market from the end of the year and for the next three years, representing more than 30% of the existing global market.

But for LNG exporters which have benefited from high European and Asian spot LNG prices, 2024 could be the last year of sturdy prices as the cycle is “beginning to turn.”

“Global LNG is approaching a turning point,” Beveridge analysts wrote in a note to its clients, foreshadowing that the LNG market will revert from being “net short” to “net long” as the new supply reaches the market between 2025 and 2027. Bernstein expects that while spot prices could remain elevated this year at between $US12 and $US14 per million Btu, they could plunge to between $US8 and $US9 over the next three years.

Texas county commissioners will vote on LNG project tax break

(Texas Public Radio, Jan. 10) - Cameron County commissioners will vote next month on whether to grant a tax break to Texas LNG, a planned export plant just outside of Port Isabel, Texas. According to the agreement, the company would pay the county about $2 million a year and a portion of its property taxes. If the county grants the abatement, Texas LNG would avoid paying around $34 million in taxes over a 10-year period. Of the plant’s employees, 35% would have to be hired locally to uphold the tax break.

The project, owned by multinational corporation Glenfarne, would be next to Rio Grande LNG, another export plant 2.5 miles outside of Port Isabel. Unlike Rio Grande LNG, which got limited clearance to begin construction after it received development funding, Texas LNG has yet to start site clearing. Texas LNG had sought a tax break from Port Isabel’s school district in 2022 but was rejected. The City of Port Isabel, which has long opposed both LNG plants, voted Jan. 9 to oppose tax breaks for Texas LNG.

“There's nothing that's actually being incentivized by granting tax abatements,” Jared Hockema, Port Isabel’s city manager, said. “It's just shifting the tax burden onto our homeowners by not allowing (Texas LNG) to pay taxes for something that's harmful to the public.” Delays in an investment decision by the Texas LNG developer are partly due to lawsuits from the City of Port Isabel, which is challenging the company’s air permit from the Texas Commission on Environmental Quality. Port Isabel also sued Texas LNG in an appeal against Federal Energy Regulatory Commission approval.

Shell signs 20-year deal with First Nation-led Canadian LNG project

(Reuters; Jan. 8) - Global gas giant Shell has agreed to buy 2 million tonnes of liquefied natural gas per year from Ksi Lisims LNG, the partners in the proposed British Columbia project said on Jan. 8. Canada’s Pacific Coast is close to Canada's vast Montney shale field for feed gas to the LNG plant, and has a relatively short shipping distance to Asian markets. Ksi Lisims LNG filed an application with the provincial government for an environmental certificate in October last year and is awaiting regulatory review.

The multiple partners behind Ksi Lisims LNG are the Nisga'a First Nation, a partnership of Canadian gas producers, and Houston-based Western LNG. Ksi Lisims said in the statement it would continue to work toward reaching a final investment decision but did not provide any additional details. It previously said that construction is expected to take three to four years, and that commercial operations could start in 2028.

Ksi Lisims would produce 12 million tonnes of LNG a year from floating production and storage facilities. U.S.-based engineer Black & Veatch and South Korean shipbuilder Samsung Heavy Industries won a contract last year for the floating production unit. The operation would be located at Pearse Island, British Columbia, near the waters that separate the province from Alaska. Separate from its agreement with Ksi Lisims, Shell leads the LNG Canada project under construction in British Columbia. That project would produce 14 million tonnes of LNG a year, with shipments beginning in 2025.

Japanese utility considering investment in Louisiana LNG project

(Nikkei Asia; Jan. 9) - Kyushu Electric Power is weighing the purchase of a 10% stake in the proposed Lake Charles liquefied natural gas project in Louisiana. The Japanese utility is also in discussions to buy 1.6 million tonnes of LNG annually for 20 years from the project, combining its purchases with smaller utilities. Japan's government is considering supporting the project to help reduce its gas imports from Russia.

The Lake Charles LNG project, with a planned production capacity of 16.5 million tonnes a year, is being developed by U.S. midstream company Energy Transfer. The company intends to sell stakes to partners to help finance the project, which is estimated to cost more than $10 billion. The talks with Kyushu Electric are taking place as Japan aims to replace LNG from the Sakhalin-2 project in Russia's Far East. Japanese utilities import roughly 6 million tonnes yearly from Sakhalin-2.

Japan's long-term contracts with Sakhalin-2 are expected to expire by the end of the decade, and securing alternative LNG sources is a top priority for Japan since Russia's war in Ukraine started. Increasing imports from the U.S. is becoming a crucial option to enhance energy security. The Japanese government plans to support the investment in Lake Charles LNG through state-backed organizations such as the Japan Bank for International Cooperation and the Japan Organization for Metals and Energy Security.

U.S. companies merge to create one of the largest gas producers

(Wall Street Journal; Jan. 11) - Chesapeake Energy and Southwestern Energy have agreed to merge in an all-stock transaction valued at $7.4 billion that would create one of the largest natural gas producers in the U.S. With a market capitalization of more than $17 billion, the combined company will aim to take advantage of a resurgent boom in natural gas — the U.S. is now the world's largest exporter of liquefied natural gas.

The deal strengthens Chesapeake's position in Louisiana and the Gulf Coast, where most liquefaction plants that then ship LNG around the world are based. The deal is also the latest major tie-up in the energy industry, as investors urge producers to scale up. In October, ExxonMobil struck a $60 billion deal for Pioneer Natural Resources, followed by Chevron's $53 billion deal for Hess. Occidental Petroleum in December said it would buy Permian producer CrownRock for nearly $11 billion.

The deal also marks the latest chapter in Chesapeake's turbulent history. Co-founded in 1989 by charismatic wildcatter Aubrey McClendon, Oklahoma-based Chesapeake was the poster child for the fracking boom, borrowing lavishly to acquire millions of acres across Louisiana, Texas, and Appalachia. But a glut of supply drove down prices in the early 2010s and the company slashed gas drilling and diversified into oil. It was laden with debt as it entered the pandemic's price spiral and in 2020 filed for bankruptcy.

Russia's Arctic LNG-2 project starts production, despite sanctions

(High North News; Jan. 10) - Despite mounting international sanctions, Russian gas producer Novatek has begun production at Arctic LNG-2 and the first liquefied natural gas cargo is likely just weeks away. The company managed to successfully redesign its facility to replace Western technology with Chinese imports, and a number of new ice-class LNG carriers will enter service in 2024. Despite the exit of Western companies and a number of rounds of U.S. and European Union sanctions, Novatek appears poised to complete all three trains of its $20 billion project in the coming two years.

The first production line, or train, assembled on a floating platform near Murmansk and towed to the terminal in 2023, began gas liquefaction on Dec. 21, confirms Mehdy Touil, an LNG operations specialist, who in the past worked as a senior operator for Novatek's Yamal project. A key challenge was the lack of gas turbines from U.S. supplier Baker Hughes. The company delivered four out of seven turbines before sanctions kicked in.

As a result, Novatek was forced to modify the unit's configuration while it awaits and installs replacement turbines from Chinese supplier Harbin Guanghan. However, with only four turbines available, Novatek reconfigured the first production line to run at lower capacity using two turbines each for power generation and refrigeration. Train 1 began operation with this setup three weeks ago, achieving around 50% capacity of the unit's planned annual production of 6.6 million tonnes. Once Novatek receives additional generators from China, it will revert to its full capacity configuration.

China continues supplying production modules for Russian LNG

(High North News; Jan. 8) - Despite mounting Western sanctions, Novatek continues to receive prefabricated modules for its Arctic LNG-2 project in Russia. Two heavy-lift vessels, Audax and Pugnax, departed from Penglai, China, on Jan. 6, with destination Murmansk, Russia. Satellite imagery indicates the two ships loaded liquefied natural gas production modules during a six-day period in late December and early January. By Jan. 8, they had entered the Sea of Japan heading north toward the Bering Sea.

Both vessels are estimated to arrive in Murmansk in mid-February after meeting up with the nuclear icebreaker Arktika to attempt the mid-winter crossing. While the U.S. recently ramped up sanctions to “kill the project,” its efforts have thus far been unable to halt delivery of modules to Novatek’s Belokamenka construction yard near Murmansk. Russia’s cooperation with China remains key to completing construction of the second and third production trains of the Arctic LNG-2 project.

The first train of the $20 billion project began production in late December 2023, though Novatek faces mounting obstacles to delivering LNG from the Gydan Peninsula to markets in Europe and Asia as it faces a shortage of ice-capable LNG carriers. In addition, its international partners declared force majeure due to U.S. sanctions, which leaves in limbo offtake agreements for millions of tonnes of LNG.

LNG import terminal serves import function in Massachusetts

(Wall Street Journal; Jan. 9) - America is the world’s largest gas producer, but New Englanders’ capacity to stay warm in winter may hinge on the fate of an expensive, 53-year-old import plant that its owner has threatened to shut down. Constellation Energy plans to retire a Massachusetts power plant at the end of May. That will eliminate the biggest user of the liquefied natural gas imported through the company’s neighboring Everett Marine Terminal. Constellation said it is trying to line up new gas buyers to keep the import terminal running. If it cannot, it will likely close that facility as well.

But New England utilities rely on imported LNG to keep them supplied in winter. Without it, severe cold could leave them, and their customers, in a bind, the utilities have said. The situation shows that despite 25 years since the first shale well was fracked in Texas, the benefits of the drilling boom are unevenly distributed. Swaths of the country are flooded with cheap gas and export facilities have cropped up to sell the excess overseas. Other areas, including New England, are bereft of fuel and pay up for energy.

New England residents paid about 43% more for natural gas in the first quarter of 2023 than the U.S. average. Weaning off those supplies without shortages during cold days is also emblematic of the challenges involved in a transition from fossil fuels to renewable energy. “We don’t see any other near-term plausible solution in the event that Everett closes if gas demand does not decline as drastically as some may anticipate," said James Holodak Jr., vice president of energy supply at the regional utility National Grid.

The Everett LNG terminal has lasted this long partly due to the difficulty of building energy infrastructure in the Northeast. Pipeline projects have been blocked that would deliver gas from prolific shale gas fields in Pennsylvania, Ohio and West Virginia. Electrical transmission lines and even renewable-power projects meet resistance in the Northeast. The latest fights are disrupting offshore wind projects.

Massachusetts import terminal receives 2nd LNG cargo of the winter

(Reuters; Jan. 8) - Constellation Energy's Everett liquefied natural gas import terminal in Massachusetts took delivery of LNG from Trinidad over the weekend, LSEG data showed. A tanker delivered about 2.7 billion cubic feet of natural gas as LNG, the second cargo to Everett this winter after one from Trinidad in December. U.S. imports of LNG have dropped in recent years as domestic production from shale fields increased and global prices for the fuel soared after Russia invaded Ukraine.

Energy traders said it is hard for U.S. LNG importers to compete with European utilities willing to pay $10 per million Btu for gas when the fuel trades at around just $3 in the U.S. In 2023, Everett imported about 15.4 bcf of gas, according to LSEG data, down from a five-year (2018-2022) average of 31.5 bcf, according to federal energy data.

But with limited amounts of gas able to flow into the region on pipelines, New England depends on imported LNG and oil to fuel some power plants on the coldest days when most of its pipeline gas is used to heat homes and businesses. About half of the power generated in New England comes from gas-fired plants. But Everett LNG could shut this year with Constellation expected to retire in May its Mystic gas-fired power plant, which is also located at Everett. The LNG terminal supplies gas to the Mystic plant and other gas companies in New England, and its possible closure is causing concern.

Another European firm asks FERC to intervene in U.S. LNG dispute

(Reuters; Jan. 9) - Portugal oil and gas firm Galp has asked U.S. regulators to allow it to join BP and Shell's formal complaints against U.S. liquefied natural gas exporter Venture Global LNG, according to a Jan. 9 filing. Shell and BP have asked the Federal Energy Regulatory Commission to require Venture Global to disclose plant commissioning data to help determine what is behind the company's claim that commercial operations at the Calcasieu Pass terminal in Louisiana have not started.

Galp said "no other party can adequately represent or protect its interests," after it missed a FERC filing deadline and asked to join the two other firms in petitioning for more details. Venture Global's export facility has been producing and selling LNG for more than 21 months while telling Galp, Shell, BP and others it cannot provide them with contracted cargoes while the plant is still undergoing commissioning. The firms have complained that the lack of cargoes has cost them billions of dollars in lost sales.

Venture Global has previously said that the letters to FERC by Shell and BP sought to bring a commercial dispute into the political arena. Venture Global has become a major U.S. LNG exporter since it started production at its Calcasieu Pass plant early in 2022. It has sold more than 200 cargoes of gas under its own accounts on the higher-value spot market without supplying anything to its long-term contract customers.

Oil prices continue downward slide, off 16% since October

(Calgary Herald; Jan. 8) - Analysts say 2024 will be a year of weaker oil prices, something that should bring some relief to weary consumers after two years of soaring energy costs. On Jan. 8, the benchmark West Texas Intermediate crude price continued what has been its recent downward slide to land around US$71 a barrel. Oil prices were volatile in 2023 and have declined approximately 16% since October due to a combination of factors including growing global supply and slowing demand.

Those trends are likely to continue, many analysts believe, putting further downward pressure on energy prices in the year ahead. A new report by Deloitte Canada is forecasting WTI to average US$72 for the year ahead. That's more than 7% below 2023's average and a whopping 29% below 2022 when Russia's invasion of Ukraine caused oil prices to spike. The lower prices should spell relief for consumers. Higher energy prices, particularly for gasoline, have been a major factor behind inflation.

The lower prices, however, may be less welcome by Canada's oil and gas industry. Many Canadian companies reaped record profits in 2022 as commodity prices soared and have been working to expand their production in the face of rising global demand. "Canada alone is expected to provide around 200,000 barrels of additional (oil) supply (in 2024)," said Sara Vakhshouri, founder and president of energy consulting firm SVB Energy International, in an email.

Texas suspends permits for wastewater disposal wells

(Texas Tribune; Jan. 10) - The Texas state oil and gas regulatory agency last month suspended nearly two dozen permits that let companies inject produced saltwater water into the ground, a routine industry practice that regulators said has contributed to the rising frequency and magnitude of earthquakes in West Texas. The permits apply to 23 disposal wells storing hundreds of thousands of barrels of produced water, a toxic brine found in the deep recesses of rock rich in crude oil.

Produced water flows up to the surface during crude oil extraction, and although amounts vary, drilling for oil can return enormous volumes of the liquid. A 2022 report found that Texas alone generated 3.9 billion barrels of produced water from oil and gas extraction. The Railroad Commission of Texas, which regulates oil and gas in the state, last month instructed major companies to no longer dispose of saltwater in Reeves and Culberson counties in an effort to reduce earthquakes in the region.

According to the commission, seven earthquakes occurred in the two counties in 2023. In November, the U.S. Geological Survey recorded a 5.2 magnitude earthquake in the region, tied for the fourth-strongest seismic event in Texas history. The injection of saltwater back into the ground “is likely contributing to recent seismic activity,” the commission has said. Storing produced water in deep underground rock formations is one of the few ways oil and gas operators can get rid of the contaminated, salty mixture.

“The water has to go somewhere,” said Robert Trentham, a senior lecturer and geologist at the University of Texas Permian Basin. But when the chemical compound is pumped into wedges already full of water from previous injections, it increases the pressure above the surrounding rock, contributing to seismic activity, Trentham said. Treating produced water for desalinization is an alternative, but it is less affordable.

Russia on pace for record year of oil drilling, despite sanctions

(Bloomberg; Jan. 10) - Russia was on pace for a second year of record oil drilling in 2023, further evidence of the nation’s resilience to Western sanctions. “Russia is substantially more independent in its oil field services than generally appreciated,” said Ronald Smith, an oil and gas analyst at Moscow-based BCS Global Markets. In the first 11 months of 2023, Russia drilled oil production wells with a total depth of almost 17,500 miles, according to industry data seen by Bloomberg.

That’s on track to beat the previous year’s post-Soviet record. The frenetic pace of drilling — amid fairly static production — also offers an indication of some long-term problems that may be building up for Russia’s oil sector as a result of Moscow’s international isolation. The industry is working harder to maintain output from its oldest wells, while new projects that would sustain production in the coming decades must adapt to the country’s changed circumstances. Drilling of exploration wells is weak.

Last year the U.S. sanctioned dozens of companies that produce drilling equipment and develop new production techniques, aiming to limit Russia’s capabilities. The European Union in 2022 imposed its own restrictions on equipment, technology and services. The data indicate that these restrictive measures have largely failed. The exit of Western oil-service companies from Russia had minimal impact because it largely left intact their local subsidiaries. These operations “were mostly sold to management, retaining the know-how built up over the years,” said Viktor Katona, lead crude analyst at Kpler.

Chinese company signs on to help Nigeria use wasted gas

(Vanguard; Jan. 8) - A Chinese firm, Beijing Zhogmin Xinjunlong New Energy Technology Co., and a Nigerian Firm, NIGUS International, have signed a $1 billion agreement to fund and develop gas-flaring solutions for Nigeria. Speaking at the signing, Malik Ado Ibrahim, CEO and chairman of NIGUS, said the partnership with the Chinese company is aimed at using its new state-of-the-art technology to put flared gas to commercial use. “We flare a lot of our gas, 90% of what we produce in Nigeria is being flared, not utilizing the gas,” he said.

The plan is to use the wasted methane as feedstock for gas-to-liquid (GTL) conversion, liquefied natural gas for export, and liquefied petroleum gas (cooking gas). GTL technology converts natural gas to high-quality liquid fuels such as gasoline, jet fuel and diesel. “The joint venture ... allows us to bring a clean-climate economy to Nigeria and create value from what we are wasting at the moment to generate lower-priced energy,” the Nigerian company said.

Coal production up, Asia benchmark price down 66% in past year

(Wall Street Journal; Jan. 9) - Even China’s voracious appetite for thermal coal hasn’t been able to arrest sliding prices of the dirtiest fossil fuel. Blame an influx of supply from Indonesia and Australia, and an uptick in coal mining globally. Despite widespread perceptions that the coal industry is under threat, output is actually hitting new records — at least outside the U.S. and European Union. Prices of Newcastle thermal coal, the main Asian benchmark, have fallen about 13% over the past month, according to Refinitiv data. Overall, Newcastle coal prices are down 66% over the past year.

One main reason: Global coal production rose an estimated 1.8% in 2023 to reach a record high of 8.7 billion metric tons, according to the International Energy Agency. Abundant supplies of coal in China are likely to keep prices muted in the near future. There will probably be some boost to demand in the coming months from India as it struggles to keep its air conditioners and fans running this summer.

In the longer run, however, coal prices probably won’t retrace the heights seen in late 2022 and early 2023 — barring another major geopolitical blowup. China appears to have spent much of 2023 building up coal stocks — meaning, potentially, less need for restocking this year, especially if the country’s growth keeps underperforming. China alone consumes about half the world’s coal. The IEA reckons that India and China together will account for more than 70% of global consumption by 2026.