Oil and Gas News Briefs
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China continues adding more nuclear reactors

(Bloomberg; Aug. 19) - China approved 11 nuclear reactors at five sites on Aug. 19, a record number of permits as the government leans even more heavily on atomic energy to support its push to cut emissions. The State Council approved the reactors in sites spread across Jiangsu, Shandong, Guangdong, Zhejiang and Guangxi provinces, state-run China Energy News reported. The total investment units will be at least $31 billion, with construction taking about five years, according to financial publication Jiemian.

China has more nuclear reactors under construction than any other nation in the world and has approved 10 new reactors in each of the past two years. The country is expected to surpass France and the U.S. to be the world's leading atomic power generator by 2030, according to BloombergNEF.

The country has 56 reactors currently in operation, with a combined capacity that equates to around 5% of total electricity demand, according to the China Nuclear Energy Association. Beijing is likely to approve around 10 new reactors annually for the next three to five years, Citic Securities Co. said in a note.

U.S. LNG likely headed to China, despite political rhetoric

(E&E News; Aug. 19) - Former President Donald Trump plans to ramp up natural gas exports if elected this fall, and a surge in shipments could mean more business with one of the biggest U.S. foes: China. That would put a second Trump administration in an awkward position, as much of his election campaign platform focuses on combating the Asian economic giant. Trump is proposing to cut key regulations for the LNG sector and would likely advance controversial projects to boost U.S. gas exports.

Analysts say the November election could directly affect the amount of U.S. LNG sold globally and to whom. Large volumes are all but certain to end up in China, the biggest potential market for U.S. gas, even though U.S. trade protections against China are in vogue. Many Republicans see an opportunity to force Chinese concessions.

"If you could provide an energy source to your great economic enemy that they're paying cash for … if you could addict them to that … wouldn't that give you more leverage ultimately?" said Oklahoma Rep. Frank Lucas, chair of the Science, Space and Technology Committee, at a June hearing. Lucas said LNG export restrictions "limit your ability to create leverage with one of your greatest adversaries." Dan Byers, vice president for policy at the U.S. Chamber of Commerce's Global Energy Institute, said having China depend on the U.S. for energy is "generally a good thing."

U.S. LNG industry faces challenges as it expands

(Financial Times; London; Aug. 17) - The U.S. liquefied natural gas industry faces challenges as legal clashes with activists and contractors combine with a federal permit freeze to slow the expansion of the world's biggest exporter. Two multibillion-dollar projects under construction on the Texas coast backed by supermajors ExxonMobil and TotalEnergies suffered fresh setbacks this month, with delays expected. This has added to uncertainty over future supply growth created by the U.S. pause on new export permits and underlined the complexity of getting LNG megaprojects off the ground.

"LNG plants are energy infrastructure — and building energy infrastructure in America today is hard," said Kevin Book, managing director of ClearView Energy Partners. The U.S. LNG industry has boomed in recent years amid surging demand from abroad, and the industry has ambitious plans to double exports by 2030. But the challenges in bringing new terminals online costing tens of billions of dollars are increasing.

ExxonMobil and QatarEnergy this month pushed back the start of their $11 billion Golden Pass project in Texas by six months to the end of next year after a clash with lead contractor Zachry Holdings over ballooning costs at the project. Zachry filed for bankruptcy protection in May. A settlement reached with Zachry in recent weeks has allowed the owners to bring in a new lead contractor and push ahead with construction.

NextDecade's $18 billion Rio Grande LNG was dealt a blow this month when a court threw out a regulatory approval following a challenge by environmental and community groups. The company — 17% owned by France's TotalEnergies — vowed to take "all available legal and regulatory actions" to ensure the first phase, due online in 2027, will be ready. The capacity of Golden Pass and Rio Grande is set to total as much as 5.9 billion cubic feet of gas per day, almost half of the volume shipped by the U.S. last year.

Oversupply of natural gas holds down U.S. prices

(Wall Street Journal; Aug. 20) - A glut of natural gas is depressing prices and prompting fresh cutbacks in America's drilling fields, despite one of the hottest summers on record. Big producers such as EQT and Coterra Energy are choking back output, waiting to connect new wells to pipelines and delaying drilling projects. They aim to buoy prices that have rarely been lower during the heat of the summer, when air conditioning creates a lot of demand for electrical power.

Benchmark U.S. natural gas futures ended Aug. 19 at $2.235 per million Btu, down 15% from a year ago and 29% less than the recent peak in mid-June. Futures were even lower at the start of this month, trading below $2, before producers began disclosing plans to dial down output. Aside from the crash during COVID-19 lockdown, summer natural gas prices hadn't been so low since the 1990s. "Simply put, gas markets are oversupplied," Coterra CEO Thomas Jorden told investors this month when the Houston company mapped out plans to reduce production in its Appalachian gas fields.

U.S. gas output hit a daily record of 105 billion cubic feet in December. An unusually warm winter left a lot of gas unburned. By spring, the market was swamped and prices tumbled. A round of production curtailments lifted prices but they were driven back down by resurgent output. "We're seeing markets function efficiently and producers responding the way you would expect them to respond," said Eric McGuire, director of natural gas and LNG analytics at energy research firm Wood Mackenzie. "The thing that is shocking is that they haven't really done this before; it's a new producer paradigm."

U.S. LNG developer withdraws application for carbon capture project

(Reuters; Aug. 20) - Liquefied natural gas project developer NextDecade has withdrawn its application at the Federal Energy Regulatory Commission for building a carbon capture and storage facility, the company said on Aug. 20. NextDecade proposed the project in 2021 to reduce carbon dioxide emissions by 90% at Rio Grande LNG, the production and export terminal it is building on the Texas coast. It had planned to market its production to buyers that want to reduce the links to greenhouse gas emissions.

"The CCS project at Rio Grande LNG is not sufficiently developed to allow FERC review to continue at this time," said NextDecade CEO Matt Schatzman. It's another challenge for NextDecade. The D.C. Circuit Court of Appeals ruled Aug. 6 that FERC failed to adequately consider the greenhouse gas emissions and environmental impacts of Rio Grande and a second Texas LNG project. The court ordered FERC to redo its environmental reviews of the two projects, likely delaying both for months if not longer.

Construction continues on the first three liquefaction trains and related infrastructure (Phase 1) at Rio Grande LNG. NextDecade is evaluating the impact of the court's decision on the timing of a positive final investment decision on Phase 2 to add a fourth liquefaction unit. The company had been anticipating a positive FID later this year.

New study links fracking wastewater injection to Texas earthquakes

(Dallas Morning News; Aug. 20) - North Texans recently felt the aftershock of several earthquakes originating near Hermleigh, 250 miles west of downtown Dallas. A U.S. Geological Survey scientist said they were likely induced by oil and gas operations. In a paper published in June in the journal The Seismic Record, researchers at Southern Methodist University found that quakes before 2017 in the Delaware Basin — part of the Permian Basin — didn't originate as deep in the Earth as previously thought. Instead, they were at shallow depths corresponding to where fracking wastewater was disposed.

The study represents an advancement in how scientists can detect and determine the cause of an earthquake, said Dino Huang, a research assistant professor at the University of Texas at Austin's Bureau of Economic Geology who was not involved in the study. Wastewater injection is one way of disposing water produced by fracking, a process that typically uses millions of gallons of water mixed with sand and other chemicals to break up underground rock formations containing oil and gas.

Leftover wastewater may be reused for further fracking or injected underground into saltwater disposal wells. If the injection is near a fault line — a vulnerable fracture between two blocks of rock — the stress can trigger an earthquake. A 2019 study in North Texas found that pressure changes from disposal wells made fault lines more likely to rupture. In Oklahoma and Kansas, wastewater injection has been linked to seismic activity. That link has also been observed in Texas, said Heather DeShon, Department of Earth Sciences Chair at SMU and co-author of the new study.

Pipeline company plans extension to serve smaller B.C. LNG terminal

(Business in Vancouver; Aug. 20) - TC Energy officially marked mechanical completion of the C$14.5 billion Coastal GasLink pipeline in November 2023. But there is still work to do on the line — about $1.2 billion worth — following the $5.5 billion final investment decision by the Haisla First Nation and Pembina Pipeline in June to develop the Cedar LNG project. Costal GasLink was built by TC Energy to supply gas for the LNG Canada project in Kitimat, British Columbia — Cedar LNG is almost next door.

As part of its negotiations with the Shell-led LNG Canada venture, the Haisla First Nation managed to negotiate an offtake agreement that gives them 400 million cubic feet per day of natural gas from Coastal GasLink to supply their own LNG project which will be located about 5 miles from the LNG Canada site. The pipeline brings in gas from northeastern British Columbia for liquefaction and export. Cedar LNG is planned for 3.3 million tonnes of production capacity, about one-quarter the volume of the Shell project.

The new project will involve building a connector pipeline between the Canada LNG terminus and the Cedar LNG floating terminal. It will also require building a new compressor station. Construction of the Mount Bracey compressor station begins this year, with work on the connector pipeline and LNG metering station to start in 2025.

China dominates latest Iraqi oil field contracts

(S&P Global; Aug. 15) - Iraq's oil ministry has initialed the 13 contracts for oil fields and exploration blocks that were awarded in the most recent licensing round held in May. In an Aug. 14 ceremony in Baghdad, Oil Minister Hayan Abdul Ghani said the contracts, when fully developed, will add 750,000 barrels per day of oil and 850 million cubic feet of gas production per day, offering flexibility to power-generating stations and supporting the Iraqi energy sector, according to a ministry statement.

The contracts signed were with: China's ZPEC for the East Baghdad and Middle Furat oil fields, and the Qurnain and Abu Khaima blocks; Hong Kong-based UEG for the Fao block; China's Geo-Jade for the Zurbatiya and Jebel Sanam blocks; China's Sinopec for the Summer block; China's CNOOC for Block 7; China’s Anton Oil for Al-Dhifriya oil field; and Kurdistan-based KAR for the Al-Dima, Sassan and Alan oil fields and the Khilaisiya exploration block.

The results further consolidate China's dominance in Iraq's oil and gas sector. The East Asian country, which imported 166.6 million barrels of crude from Iraq in the first six months of 2024, relies heavily on Middle East oil to meet domestic demand. China manages one-third of Iraq's proven reserves and two-thirds of Iraq's current production, according to S&P Global Commodity Insights estimates.

Iraq agrees to share profits with BP to lure back major oil producer

(Reuters; Aug. 20) - Iraq will share profits with BP from developing its giant Kirkuk oil and gas fields, officials said on Aug. 20, as the country moves away from low-margin service contracts to speed up production growth and lure back Western majors. Several oil majors, including BP, in recent years turned to other countries offering better terms. They complained the traditional contracts in Iraq that paid a flat rate for every barrel of oil produced after reimbursing costs prevented them benefiting from rising oil prices.

Iraq and BP, which is returning after a nearly five-year absence, signed a preliminary agreement earlier this month to develop four oil and gas fields in northern Iraq's Kirkuk. BP has estimated the Kirkuk field holds about 9 billion barrels of recoverable oil. The two oil ministry officials told Reuters the contracts with BP to develop the Kirkuk, Bai Hasan, Jambour and Khabbaz fields would be on a profit-sharing model.

A final agreement is expected by the end of this year, the officials added. Kirkuk was discovered in 1927 and marks the birthplace of Iraq's oil industry. Its fields produce about 245,000 barrels per day, the officials said. Baghdad regained full control of the deposit in 2017 after a failed Kurdish independence referendum, at which point BP resumed its studies of the field. But in late 2019, BP pulled out of the oil field after its 2013 service contract expired with no agreement on the field's expansion.

U.K. oil industry not happy with extension of higher tax rate

(Financial Times; London; Aug. 19) - Docked in the Cromarty Firth near Inverness in northeast Scotland, Ping Petroleum's vessel for extracting and storing up to 270,000 barrels of oil is an imposing presence in a port full of components set to power the U.K. economy. Some 200 feet in diameter and about 150 feet tall, the Excalibur is a floating ship deployed near platforms to receive, store and process oil before transferring it to tankers. Ping bought the vessel in mid-2022 as energy prices surged after Russia's full-scale invasion of Ukraine and anticipated using it for up to 15 years.

But the imposition of a windfall tax on oil and gas companies in the U.K. and potential changes in regulation have caused the company to delay plans for a roughly £100 million (US$130 million) refurbishment, which would make the ship one of the first to run on electricity. Higher levies mean Ping is one of several smaller companies whose bets on eking out profits from the U.K.'s aging oil basin by taking over assets being abandoned by international majors risk turning sour.

"(Policy uncertainty) reduces our willingness to spend money to do things quickly because if we spend and the policy changes, then we have to start all over again," said Ping Chairman Robert Fisher aboard the vessel. "People are walking away from fields with significant reserves." The Labour government last month delivered on its pre-election pledge to lift the headline taxes on oil and gas companies by 3 percentage points to 78% and extend the windfall tax by one year to 2030.

India, Southeast Asia buy more LNG amid high demand, lower prices

(Nikkei Asia; Aug. 17) - More exports of liquefied natural gas are heading to India and Southeast Asia as soaring temperatures and a push toward decarbonization stoke demand for cheaper, lower-emissions fuel. LNG trade flows to India and the rest of South Asia increased 9% on the year to 33.27 million tonnes in 2023, data from LSEG shows. The figure is on pace to grow in 2024 as well, with the January-July total coming to 23.06 million tonnes. July flows to South Asia totaled 3.51 million tonnes, outpacing shipments to Europe on a monthly basis for the first time since the autumn of 2021.

Vietnam and the Philippines imported LNG for the first time in 2023, adding to strong demand from such existing importers as Thailand and Singapore. Asia's appetite for LNG is growing in part due to its relatively low price. The weekly spot price for the fuel in Asia averaged $35 per million Btu in 2022, according to LSEG. But it fell to $14 in 2023 and to around $11 earlier this month. The price has since increased slightly to $12.90, though it remains below the level prior to Russia's invasion of Ukraine.

High temperatures have also contributed to demand for air conditioning. The average high in May in New Delhi, India, was 106.5 degrees. The Philippine capital of Manila and parts of central Myanmar hit record highs for April. Decarbonization also plays a role as well in LNG demand. Gas generates about half the greenhouse gas emissions as coal and is seen as critical for the energy transition. Households and governments in India and Southeast Asia are more price-sensitive compared with advanced economies.

Qatar in talks to supply Kuwait with LNG

(Reuters; Aug. 20) - Qatar Energy is in talks with Kuwait Petroleum Corp. for a new long-term supply of liquefied natural gas to help meet rising demand for power generation in the Gulf Arab state, five trading and industry sources told Reuters. The deal would see Qatar provide Kuwait with 3 million tonnes per year of the seaborne fuel over 15 years from its North Field project, which is expected to commence operation in 2026, four of the sources said.

Kuwait, an OPEC member and a major oil producer, has been boosting its reliance on imported gas to meet power demand, especially in summer when consumption by air conditioning systems rises sharply, but it is also focusing on ramping up its own gas production as part of its 2040 growth strategy. This week, Kuwait faced a second round of scheduled summer power outages, due to a defect in the gas supply, despite officials indicating there would be no more cuts after the first round in June.

Qatar, one of the world's top LNG exporters, plans an 85% expansion in LNG output from its North Field's current 77 million tonnes per year to 142 million by 2030.

Decline in offshore field may push Australia to import LNG

(Australia Financial Review; Aug. 19) - Falling production at one of Australia’s largest gas plants and a forecast slide in supply from fields off the southeastern coast is making increasingly inevitable what had been dismissed as an unlikely development only a few years ago: the need to import LNG. The country’s market operator has warned for months of looming shortfalls in gas — used in everything from manufacturing to heating homes — and fears of supply problems have spread beyond the major energy retailers.

Other major companies examining the possibility of importing LNG now include Snowy Hydro, Woodside Energy, Shell and industrial users, including explosives manufacturer Orica and steel producer BlueScope. “Everyone is looking but no one is committing ... there are still no customers willing to lock in import-parity prices,” said MST Marquee energy analyst Saul Kavonic. “We may need to see a severe gas shortage event for someone to finally sign up for imports.”

But that may be coming. ExxonMobil, operator of the Longford plant east of Melbourne, has flagged it would close the facility, which processes gas from nearby offshore fields operated by its partner Woodside. While the shutdown of the first of three units is due by Oct. 1, supply is already falling. EnergyQuest’s Rick Wilkinson said there was a big drop in Longford’s supply at the height of winter this year. “The decline of Longford’s peak-day supply capacity is already clear, with a drop of 28% this winter compared to the peak in 2022.” Longford typically supplies about 40% of the gas for the East Coast.

Federal agency wants to charge for LNG project reviews

(E&E News; Aug. 20) - The U.S. Transportation Department’s pipeline safety agency is proposing a new fee to cover its costs of site reviews for new and expanded liquefied natural gas facilities. The new fee — laid out in a draft rule published Aug. 19 — would apply to LNG facilities where design and construction costs total $2.5 billion or more. It would ensure the Pipeline and Hazardous Materials Safety Administration can carry out reviews without diverting resources from other areas, according to the federal notice. PHMSA has estimated the review fees at about $65,000 for a $2.5 billion project.

The U.S. was the world’s largest exporter of LNG in 2023, with applications for new facilities steadily increasing in recent years. PHMSA’s siting review — which factors into the evaluation of LNG facilities by the Federal Energy Regulatory Commission — assesses projects to check their compliance with federal safety regulations. PHMSA is proposing an up-front fee for estimated personnel costs in carrying out the reviews and then a “true-up payment” at the end of that review should the agency’s costs exceed the estimate. The agency said it completes an average of seven reviews each year.

This proposed rule also revises regulations authorizing PHMSA's cost recovery for design safety reviews of gas, hazardous liquid and carbon dioxide pipeline facilities. Comments on the proposed rules are due by Oct. 18. The agency said the intent is that “the costs associated with the review are borne by the project applicant rather than by all pipeline operators through the expenditure of operator user fees.”

Rail strike unlikely to reduce Canadian oil exports to U.S.

(Reuters; Aug. 19) - A looming labor dispute at Canada's two main railroads is unlikely to significantly reduce oil exports to the U.S. due to excess capacity on Trans Mountain and other pipelines, people close to the matter said. A strike or lockout could start Aug. 22, but oil exports may be largely unscathed. U.S. rail imports of Canadian crude have fallen sharply in recent years, averaging about 55,000 barrels a day in May, U.S. Energy Information Administration data showed, the lowest since the pandemic price crash in 2020. The U.S. imports about 4.2 million barrels a day from Canada, mostly by pipeline.

"Anybody receiving crude by rail right now is figuring out what alternatives they have, whether it's an alternative grade that can be substituted on the pipeline, or if a buyer is willing to take something else," said Elliot Apland at MarbleRock Advisors, which helps negotiate rail freight contracts. Prices for Canada's Western Canadian Select crude typically fall during export logjams. But Trans Mountain's expansion in May and capacity on other pipelines should limit deep discounting, industry experts and analysts said.