Oil and Gas News Briefs
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Too little investment could lead to crude shortage in years ahead

(Wall Street Journal; Dec. 30) - With the world awash in crude, the oil industry is contemplating a new problem that the current oversupply could tee up: an oil shortage. As the oil glut has sent prices to decade lows, plummeting investment by oil-producing countries such as Venezuela and Russia and oil drillers such as ExxonMobil and Shell means fewer barrels will be produced in the future. That could leave the world in exactly the opposite situation as now: short of oil and willing to pay more to get it.

This may herald the beginning of a cycle that other commodities, from gold to copper, find more familiar — a cycle in which a glut leads to lower prices that lead to investment cuts, which chokes supply and prompts the price gains that lead to renewed expansion and future gluts. “A big gap is forming in oil-industry investment,” Claudio Descalzi, chief executive of Italian energy company Eni, recently told reporters. “That will lead in two to three years to an imbalance between supply and demand that will push prices higher.”

This year, global exploration-and-production investments will fall by $170 billion, or 20 percent, said Rystad Energy. If international prices average $50 a barrel next year — a level many analysts say is optimistic — investment could fall an additional 20 percent, the Oslo-based consulting firm estimates. It would be the first time the industry has registered two consecutive years of investment declines in 30 years, according to the International Energy Agency. Crude has fallen almost 70 percent since June 2014.

The rout in prices has seen oil companies cut deeply into investment budgets. Tudor, Pickering & Holt, an energy-focused investment bank, has tallied 150 projects that have been delayed, resulting in an estimated 13 million barrels a day of production deferred indefinitely, equal to 15 percent of global output. “The stage is set for a supply crunch down the line,” said Miswin Mahesh, an oil analyst at Barclays. “Supply from existing fields will fall, while new projects won’t come online to replace them.”

Iran’s addition to worldwide oil glut could hold down prices

(Bloomberg; Dec. 29) - Investors are losing faith in an oil-price recovery next year as Iran prepares to add more crude to a global glut. Oil fell to the lowest level in more than six years on Dec. 21 amid speculation that suppliers from the Middle East to the U.S. will exacerbate a glut as they fight for market share. Iran, which expects the sanctions over its nuclear program to be lifted by the first week of January, has secured customers for its planned supply expansion, an Iranian oil official said this month.

"As we approach the end of December, there's more attention being paid to the expected return of Iranian barrels adding to the glut in supply," said Tom Finlon, of Energy Analytics Group. Iran's priority is to boost shipments to pre-sanction levels, Oil Minister Bijan Namdar Zanganeh said, according to the state-backed news agency. However, Iran sees the risk of further price declines as it plans to boost supply amid a lack of OPEC cooperation, said Roknoddin Javadi, head of National Iranian Oil Co.

The Iranian government plans to add 500,000 barrels a day of exports within a week of the removal of sanctions and 1 million within six months, said Javadi, who is also the country's deputy oil minister. "There are fundamental elements that will put downward pressure on the market during the new year," said John Kilduff, a partner at Again Capital, a New York-based hedge fund that focuses on energy. "The supply and demand outlook is negative."

Oil and gas producers cut spending; borrow to preserve dividends

(Reuters; Jan. 4) - With crude at 11-year lows, the world's biggest oil and gas producers are facing their longest period of investment cuts in decades — but are expected to borrow more to preserve the dividends demanded by investors. At about $37 a barrel, crude is well below the $60 that firms such as Total, Statoil and BP need to balance their books, a level that has already been sharply reduced over the past 18 months.

International oil companies are once again being forced to cut spending, sell assets, shed jobs and delay projects as the oil slump shows no sign of recovery. Chevron and ConocoPhillips have published plans to slash their 2016 budgets by a quarter. Shell has also announced a further $5 billion in spending cuts. Global oil and gas investments are expected to fall to their lowest in six years in 2016 to $522 billion, following a 22 percent fall to $595 billion in 2015, according to the Oslo-based consultancy Rystad Energy.

Projects that survive will be those that offer the best returns. With only a few major projects approved in 2015, including Shell's Appomattox project in the Gulf of Mexico and Statoil's $29 billion Sverdrup field in the North Sea, 2016 is also likely to see just a few large investments. Projects that could be green-lit include BP's Mad Dog Phase 2 in the Gulf of Mexico, which the company now pegs at under $10 billion, half the original estimate, and Chevron's expansion of the Tengiz project in Kazakhstan. Meanwhile, some companies will borrow cash to maintain their popular dividends for shareholders.

Europe has more natural gas in storage; lowest prices since 2009

(Bloomberg; Dec. 30) - As the new year begins, Europe's natural gas markets stand at the center of a web of geographic, financial and political factors that could reshape their future. In 2015, gas prices declined as the result of an oversupply made worse by the falling cost of coal, the rising use of renewables, better energy efficiency and the warmest year on record. The result: benchmark contract natural gas prices had their first consecutive annual loss, ending the year at their lowest levels since 2009.

Now, amid a drop in Asian demand, Europe is becoming a more likely target destination for natural gas as the U.S. prepares to ship its first tankers of liquefied fuel from the shale boom, Australia expands its exports, the new competition forces Middle Eastern suppliers to seek new customers, and Russia fights to maintain its market share. “With Europe increasingly becoming the dumping ground for the world’s surplus LNG, 2016 should see a continuation of the oversupply situation in European gas markets,” said Alan Whitefield, a gas and LNG consultant in London.

Meanwhile, Europe’s gas storage levels are at their highest for this time of year since at least 2009, according to data from Gas Infrastructure Europe. None of that is stopping the U.K., which has said it wants to move forward in exploring its shale gas resources, potentially adding to European supply, as the depletion of North Sea fields caused its gas output to drop 62 percent in 2014 from a decade earlier. Next year, producers may drill some of the first exploratory wells to assess the U.K.’s shale gas deposits.

Cheniere plant in Louisiana starts making LNG for first cargo

(Bloomberg; Dec. 30) - Cheniere Energy has started production at what will become the first terminal to export natural gas from America’s shale formations, according to ING Capital, which helped finance the $15 billion project. The liquefaction plant is receiving about 50 million cubic feet of gas a day, superchilling it into LNG at the Sabine Pass terminal in Louisiana, and storing it in tanks for the first export cargo, Richard Ennis, head of natural resources at ING, said Dec. 30.

Cheniere has previously said the inaugural cargo will leave the complex in January by tanker and that U.K.-based BG Group is contracted to take the first shipment. Sabine Pass is on schedule, Ennis said. “You can’t dock a ship to offtake the LNG until you have a full shipload of LNG in the tanks, which is planned to happen in January.” The start-up at Sabine Pass paves the way — with four other U.S. LNG terminals export under construction — to turn the U.S. into one of the world’s largest suppliers.

The U.S. could be capable of exporting 7.76 billion cubic feet of gas a day by 2019, a Bloomberg New Energy Finance analysis shows. While the U.S. has been exporting LNG from Alaska for years, Cheniere’s cargo would mark the first to leave from the Lower 48 states, a testament to surging shale gas supplies that have sent domestic stockpiles to record levels. The exports will mark “a paradigm shift for the industry,” Hadi Hallouche, head of LNG trading at Trafigura Beheer, said by phone from Geneva.

B.C. community short of affordable housing for LNG boom

(CBC News; Dec. 30) - A Terrace, B.C., city councilor is calling on the province to build more income-geared housing, as speculation over liquefied natural gas projects fuels increased demand for housing. People move here because of that, and move here to find out that there are no jobs here and there may not be jobs," said Councilor Stacey Tyres. "A lot of it is speculation … Terrace is climbing in the cost of housing."

Terrace, population about 12,000, is less than two hours from Prince Rupert and Kitimat, B.C., each community the site for proposed LNG export projects. None of the projects have started or even committed to construction, though some are close.

Tyres said the city needs more bachelor or one-bedroom units to meet demand. "We don't have those available. Most of what we have are two- or three-bedroom apartments that demand larger price tags," Tyres said. Mike Watson, an outreach worker with the Terrace and District Community Services, said the high cost of rent has left many people homeless. "We are all one paycheck away from being out on the street," he said. "Rents here have doubled up. A single room … most places want like $900."

India strikes lower pricing deal for Qatari LNG

(Bloomberg; Dec. 30) - India's biggest gas importer Petronet LNG will buy liquefied natural gas from Qatar's RasGas at almost half the price of its long-term contract, in a renegotiated deal that will save it about $605 million a year. The 25-year contract, which started in 2004, was based on the average of oil prices over five years, diminishing any savings for Petronet from low prices of the past year. The new terms use a three-month average of oil prices, putting the deal on a faster match with global energy markets.

Under the revised terms, Petronet will pay RasGas $6 to $7 per million Btu for LNG, about half the $13 price of the old terms, India's Oil Minister Dharmendra Pradhan said Dec. 31. RasGas also agreed to drop a potential $1.8 billion penalty against Petronet for not fulfilling its contractual commitment. India was not taking as much gas as required because the high prices made it hard to resell the LNG to customers, including power companies and fertilizer plants, which could buy fuel at lower cost on the spot market.

Under the new terms, gas not taken by Petronet this year will need to be bought during the remaining term of the contract, the two companies said in a joint statement. Petronet also agreed to purchase an additional 1 million metric tons of LNG a year from RasGas through the remainder of the contract to 2028. This is in addition to the existing contract to purchase 7.5 million tons a year. The pricing deal may stoke similar demands from other buyers, including Korea Gas and CNOOC, Credit Suisse Group said in a report.

Petronas expects to start up floating LNG facility in 2016

(Rigzone; Dec. 31) - Malaysia's national oil and gas company Petroliam Nasional Berhad said its Petronas Floating LNG1 facility is on track to start operations in 2016. "PFLNG1 has reached a 95 percent overall progress in its construction and will come on stream in 2016," the company said Dec. 29. Though smaller than the 1,600-foot-long Prelude floating LNG production and storage vessel under construction for Shell, the 1,200-foot Petronas FLNG1 likely will be first to go to work over an offshore gas field.

The company's floating liquefied natural gas facility will be deployed at the Kanowit field, about 120 miles offshore Bintulu, Sarawak, East Malaysia, at a water depth of about 262 feet. FLNG1, which will produce 1.2 million tons of LNG per year, will play a significant role in the Petronas effort to unlock gas reserves in Malaysia's remote and stranded fields to help meet the growing demand for gas. The company has not disclosed a cost estimate for the project.

China forecasts energy demand growth in 2016

(Reuters; Dec. 29) - China expects its energy consumption to grow in 2016, the official Xinhua news agency of the world's largest energy consumer said Dec. 29. China's apparent demand for crude oil will reach 11 million barrels per day and demand for natural gas will hit 20 billion cubic feet per day, 10 percent more than in 2014, said Nur Bekri, head of the National Energy Administration, according to Xinhua. Overall growth in energy consumption in 2015 was its lowest since 1998, at 0.9 percent.

Electricity consumption will rise to 5.7 trillion kilowatt hours and coal consumption will be 3.96 billion tonnes. Non-fossil fuels will supply 13.2 percent of primary energy needs in 2016, up from 12 percent this year, while coal will fall to less than 62.6 percent from 64.4 percent, Bekri said. Natural gas will grow to 6.2 percent, while non-fossil fuels including nuclear and renewables will account for 35.7 percent. In principle, China will stop approving coal mining projects for three years starting in March, and aims to close more than 1,000 mines that have "lagged behind," Xinhua quoted Bekri.

Tanker owners reap profits as world needs to move all that oil

(Bloomberg; Dec. 30) – The most destructive oil-price crash in a generation is giving ship owners a billion-dollar windfall. With the Organization of Petroleum Exporting Countries abandoning production limits in a drive for market share, crude tankers are in demand to haul oil from the Middle East to Asia and North America. While oil prices fell about 35 percent in 2015, the average rate for the carriers jumped to $67,366 a day, the most since at least 2009, according to Clarkson, the world's largest shipbroker.

Analysts are predicting the rate boom will persist for many of the same reasons that oil forecasters are bearish. OPEC shows no sign of reversing course, and Iran has outlined plans to ramp up its exports once economic sanctions against the country are lifted. At the same time, the U.S. has repealed its 40-year ban on oil exports. With on-land inventories already at record levels, all this could mean more barrels will be stored on ships, further increasing profit, said Nikolas Tsakos, CEO of Tsakos Energy Navigation.

The biggest tanker operators that manage fleets from Europe are: Euronav, based in Belgium; DHT Holdings; Frontline Management, which runs Norway-born billionaire John Fredriksen's tanker fleet; and Tsakos Energy in Greece. All have seen their share prices climb this year while most energy producers have fallen. "We are benefiting from what is currently a challenging environment for the energy sector," said Svein Moxnes Harfjeld, joint chief executive officer for DHT. "We expect 2016 to be a rewarding year."

Canadian oil and gas industry faces multiple unknowns

(Calgary Herald columnist; Jan. 1) - About the only certainty for Canada's oil and gas sector is that the number of known unknowns abounds. The list is led by particularly volatile oil prices at six-year lows, but also includes the review of oil and gas royalties in Alberta, Ottawa's plan to roll out a national framework on climate change, Alberta's newly released greenhouse-gas emissions strategy, the industry's enduring concern over access to foreign markets, and a federal environmental decision on what could be the first liquefied natural gas export plant for the British Columbia coast.

With producers and drillers facing what's been called "one of the most difficult economic times in a generation," significant change is needed — and already underway as the job losses will attest — to address the fundamentals of doing business in a high-cost basin in a low-price environment. But there is tremendous uncertainty over how companies will react and adapt. Investment firm ARC Financial has calculated revenues for Canada's oil and gas industry in 2015 will be almost 40 percent less than a year earlier.

Bankruptcies are already occurring in the especially grim junior sector. Capital spending by oil and gas producers in Canada plunged from $81 billion in 2014 to $45 billion in 2015. Scotiabank has warned it expects U.S. benchmark West Texas Intermediate to average "no more than $40 to $45 a barrel" in 2016. It'll be the oil price that determines the fate of the industry more than anything else. In an industry defined by uncertainty, Canadian producers have always known there's nothing they can do about the price.