Oil and Gas News Briefs
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Freeze knocks 40% of U.S. oil production offline

(Bloomberg; Feb. 17) - Total U.S. oil production has plunged by close to 40% — the most ever — as an unprecedented cold blast freezes well operations across the central U.S., according to traders and industry executives with direct knowledge of the operations. Crude output has now fallen by more than 4 million barrels a day nationwide, they said, asking not to be identified because the information isn't public.

Before the cold snap, the U.S. was pumping about 11 million barrels a day, according to government data. The estimate of production losses has climbed steadily over the past three days as companies and traders assess the situation. Not only do they now believe losses are larger than previously expected, they also fear they will be longer lasting. The Permian Basin — America's biggest oil field — is the region worst affected, with output down between 65% and 80% from normal levels, traders and executives said.

Amrita Sen, chief oil analyst at consultant Energy Aspects, said the production losses were "much higher than initial estimates" and warned that Permian output may not return to pre-freeze levels until Feb. 22. "As producers need pipes to be fully running and power prices to normalize before they return production, a substantial return in production may not occur until this weekend at the earliest," she said in a note to clients.

Oil and gas production in Texas could be cut for weeks

(Reuters; Feb. 17) - The deep freeze will wreak havoc on Texas oil and gas production for several days — if not weeks — said industry experts, as companies deal with frozen equipment and a lack of power to run operations. Texas produces more oil and gas than any other state. Its operators, unlike those in North Dakota or Alaska, are not used to dealing with frigid temperatures. Numerous refineries in Texas have also been shut.

Roughly 500,000 to 1.2 million barrels per day of crude production in Texas has been shut in by the weather, which hit the state with the coldest temperatures in 30 years, analysts at Rystad Energy said. The ripple effect from the cold is likely to reduce output for several weeks. Icy roads in the Permian Basin, the top U.S. shale field, halted the trucking of everything from sand supplies to cement, while a loss of power cut electricity to oil pumps and saltwater disposal facilities. In some instances, wellheads froze. Cellular service, used to send data from well sites to headquarters, was lost.

"They haven't had the electricity available to make the pumps work," said Texas Railroad Commissioner Jim Wright, one of the state's three elected industry regulators. "Some producers in West Texas had to shut in entire fields when they lost power." Permian wells produce prolific amounts of water, so production streams can easily freeze at surface valves. That, along with the loss of electrical power, contributed to the loss in output, analysts at Wood Mackenzie said.

Spot-market U.S. natural gas prices spike to $1,250

(Bloomberg; Feb. 17) – There is no sign of a pause in the dramatic rally in natural gas prices across the central U.S., where spot rates have breached the $1,000 mark, more than 100 times the level of a week ago. Prices for immediate delivery are skyrocketing as consumers scramble to find additional supply. U.S. production has fallen to a four-year low, causing a shortage that has left millions of homes and business in the dark and forced Cargill to halt production at three of its meat processing plants in Texas.

Supply for next-day delivery at the Oneok Gas Transportation hub in Oklahoma traded at $1,250 per million Btu on Feb. 17, according to David Hoy, a trader at Dynasty Power in Calgary. That's up from $9 a week ago. At the Henry Hub in Louisiana, the delivery benchmark for the futures market in New York, spot gas traded at $20 or higher on Feb. 17 morning, according to two traders. That compares with just $3.73 a week ago.

Production has plummeted by a fifth as frigid weather triggers blackouts and causes liquids to freeze inside pipes, forcing wells and processing plants to shut. The cold blast has also disrupted liquefied natural gas exports as terminals take units offline to reduce their power and gas demand in response to emergency declarations. Producers may take a few weeks to fully restore supplies due to equipment damage caused by freezes, said Charles Nevle, senior director for North American gas at IHS Markit.

Texas bans exports to preserve natural gas for its own needs

(Bloomberg; Feb. 17) – The state of Texas has intervened in its natural gas industry amid an unprecedented energy crisis by banning producers from shipping the power and heating fuel across state lines. Gov. Greg Abbott said during a media briefing Feb. 17 that he issued an order forbidding sales to power producers outside of its borders through Feb. 21, forcing them to sell to Texas power generators instead. The cutback applies to pipeline gas sales to Mexico and liquefied natural gas exports.

Abbott was forced to act as millions of Texans remain without power for a third day amid frigid temperatures, with no clear timeline for restoring service. Harris County, which encompasses Houston, said blackouts in the nation's fourth-largest city may last two more days. The crumbling of the state's gas supplies as arctic temperatures took hold at the start of the week has been one of the driving factors behind the cascade of outages. Abbott said 19,800 megawatts of gas-fired generation remains offline in Texas.

Dan Woodfin, an executive at the Texas grid operator, said a lack of gas supply is one of the reasons why it's having trouble getting power plants back online. The state's gas stockpiles are undergoing "maximum withdrawal," Christi Craddick, of the state energy regulatory agency, said at the briefing. Texas produces more gas than any other state, with output at about 23 billion cubic feet a day before the deep freeze, BloombergNEF data show. That's about a quarter of total production from the Lower 48 states.

Limited Texas gas supplies cost Mexico $2.7 billion in lost output

(Reuters; Feb. 16) - Factories across parts of northern Mexico on Feb. 16 reported $2.7 billion in losses from blackouts that extended to a second day on limited natural gas supplies from Texas, where a winter freeze has left millions of users without light or heat. Rolling power cuts affected Chihuahua, Coahuila, Tamaulipas and Nuevo Leon, the national electricity grid operator said, listing Mexican states that border Texas and have a heavy industrial presence, from manufacturing to auto and oil companies.

Later that evening, 12 states farther south were to be included in the rotating blackouts, including major auto manufacturing centers Puebla and Guanajuato, the operator said. Manufacturing lobby INDEX said 2,600 businesses were affected. In total, the output losses over two days amounted to $2.7 billion, said INDEX Director Luis Hernandez.

In Matamoros, opposite Brownsville, Texas, not a single company within the city's 90-member INDEX association was able to operate for more than two or three hours on Feb. 16, said Rosalinda Torres, head of the group. About 4.7 million users in northern Mexico lost power Feb. 15 when cold weather froze pipelines and gas deliveries from Texas slowed. The freeze knocked out electricity for over 2 million customers in Texas.

Canadian gas producers grab market share as U.S. output declines

(Reuters; Feb. 16) - Canadian gas producers are bouncing back faster from the COVID-19 pandemic than battered U.S. shale firms, putting them in position to boost net gas exports to the U.S. for the first time in five years. The opportunity for Canadians to take back market share reverses one of the dominant trends of the past decade, where U.S. shale drillers unleashed a flood of cheap plentiful gas — largely a byproduct of oil drilling — and pushed western Canadian producers out of their only export market.

Canadian drilling is picking up swiftly, spurred by better pipeline access and because U.S. producers have cut back crude output and, with it, the associated gas produced with that oil. Canada's gas production is forecast to keep rising as coal-fired plants are retired and with the expected start-up of the country's first liquefied natural gas plant.

Canadian gas companies are putting rigs back to work and have plans this year to increase capital spending for the first time since 2014. "What we believe is driving some of the increase in expected capital spending for 2021 is for Canadian natural gas producers to capture market share from the reduction in associated natural gas due to the slowdown of drilling and production in a number of the large U.S. shale basins," said Tim McMillan, chief executive of the Canadian Association of Petroleum Producers.

Cold weather pushes Russia's Siberia oil flow lower

(Bloomberg; Feb. 16) - The expected increase in Russia's February oil output has so far failed to materialize, with some fields forced to curb pipeline flows due to abnormally cold weather. The OPEC+ member pumped an average 10.115 million barrels a day of crude and condensate from Feb. 1 to 15, according to two people with knowledge of production data, who spoke on condition of anonymity. That is about 44,000 barrels lower than Russia's January production level.

Russia was one of only two countries assigned a more generous production ceiling for this month under the latest OPEC+ deal. Russia, along with its neighbor Kazakhstan, saw its February quota increase by 65,000 barrels a day, even as other members of the cartel kept output steady, or in the case of Saudi Arabia cut deeper. This would be the first time Russia pumped less than its quota under the agreement reached between the Organization of Petroleum Exporting Countries and its allies last year.

Since May, Russia's compliance with the OPEC+ pact averaged 95% and remained at that level in January, according to the International Energy Agency. But since the start of February, Russia's pipeline operator Transneft has recorded lower flows on a regular basis at some Siberian intake points, citing very cold weather as one of the reasons. Temperatures in eastern Siberia, where many of Russia's newer oil fields are located, plunged as low as minus 74.2 Fahrenheit in early February.

Saudis expected to start raising oil production in April

(The Wall Street Journal; Feb. 17) - Saudi Arabia plans to increase its oil output in the coming months, reversing a recent big production cut, say advisers to the kingdom, a sign of growing confidence in an oil-price recovery. The world's largest oil exporter surprised oil markets last month when it said it would unilaterally slash 1 million barrels a day of its own crude production in February and March in an effort to raise prices.

The kingdom plans to announce a reversal of those cuts when the OPEC+ coalition of oil producers meets next month, the advisers said, in light of the recent recovery in prices. The output rise won't kick in until April, as the Saudis have already committed to stick to their cuts through March. The advisers cautioned that the plans could be reversed if the situation changes.

"We are in a much better place than we were a year ago, but I must warn, once again, against complacency," Prince Abdulaziz bin Salman, the Saudi energy minister, said at a conference Feb. 17. "The uncertainty is very high, and we have to be extremely cautious." The kingdom's output cut was more than offset by gains in oil prices, said Kathleen Kelley, head of Queen Anne's Gate Capital, a New York-based advisory firm.

OPEC+ likely to start easing production cuts in April

(Reuters; Feb. 16) - OPEC+ oil producers are likely to ease their curbs on oil production in April as prices continue to recover, OPEC+ sources said, although any increase in output will be modest as producers are wary of fresh setbacks in the battle against the pandemic. The Organization of the Petroleum Exporting Countries and allies, known as OPEC+, slowed the pace of a planned output increase in January to match weaker-than-expected fuel demand due to continued restrictions on travel because of the pandemic. Saudi Arabia alone made voluntary cuts to supply for February and March.

An oil-price rally since then to a 13-month high to almost $64 per barrel has boosted confidence among producers that the market could absorb more supply. Forecasters, including OPEC, are predicting a record rise in demand this year as vaccines are rolled out. "If demand recovers as we expect, OPEC+ will ease the production adjustments gradually, always thinking about reducing the inventory," said an OPEC delegate.

OPEC+ meets to set policy on March 4. The two key questions for the group will be whether Saudi Arabia rolls back its voluntary cut of 1 million barrels per day — which is due to end next month — and whether there is room for an additional increase in supply from the group. While Riyadh hasn't shared its plans with its OPEC+ partners, expectations are growing that the Saudis will bring back the supply, perhaps gradually.

Rosneft continues talks with possible partners in Arctic oil project

(Reuters; Feb. 12) - Rosneft has held talks with international traders as well as big global oil consumers such as India and China about their possible participation in its massive Arctic Vostok Oil project, the Russian energy giant said Feb. 12. Vostok is one of Russia's biggest oil projects, comparable in size with the exploration of West Siberia in the 1970s or the U.S. Bakken oil province over the past decade. Reuters reported last month that Rosneft was courting investments from global trading houses to help develop Vostok Oil after trading house Trafigura secured a 10% stake in the project.

Rosneft said it sold the stake to Trafigura for 7 billion euros ($8.5 billion). The project is expected to start shipping oil by the Northern Sea Route in 2024. Didier Casimiro, Rosneft's first vice president, told an investor conference call that the company has been in talks with international traders and consumers. He did not identify the traders.

Rosneft has previously estimated Vostok's resources at 44 billion barrels. It has said that it could produce as much as 2 million barrels per day by 2030, at a price competitive with Middle Eastern producers. Rosneft is headed by Igor Sechin, a long-standing ally of President Vladimir Putin.

Rosneft leader promotes Arctic oil project to Kremlin

(The Barents Observer; Norway; Feb. 16) - Rosneft leader Igor Sechin on Feb. 15 made another visit to the Kremlin, his fifth in a year, and the company's Vostok Oil project was again on the top of the agenda. The Taymyr Peninsula is now top priority for the state-owned company, and the Vostok Oil project is a key part of the Kremlin's plans for arctic development and the Northern Sea Route. Sechin said Rosneft made the world's three biggest oil and gas discoveries in 2020, and all are in the Russian Arctic.

The company leader said the average resource potential of the three fields is 4 billion barrels of oil equivalent each. Sechin believes a global oil deficit will appear amid the "green shift" as international oil companies reduced investments in new projects. That will benefit Rosneft and Vostok Oil, he said. Sechin has said that Vostok Oil has a resource potential of more than 37 billion barrels of light-quality oil, with production to start by 2024 and possibly ramp up to more than 2 million barrels per day by 2030.

No firm answer for world's 'missing barrels'

(The Wall Street Journal; Feb. 16) - Oil is on the move: Both West Texas Intermediate and Brent crude prices have broken the $60 mark, taking the price back to where it was before the pandemic. But a mystery still casts a cloud over its recovery. The unsolved question has to do with what is commonly referred to as the case of missing barrels, or the amount of oil unaccounted for by the International Energy Agency. The mystery resurfaces every couple of years, particularly when there is a shock in energy markets.

There is always some oil that isn't tracked, but the number has been growing in more recent oil-market shocks. The volume of missing barrels in the first half of 2020 was the largest recorded gap between observed and implied inventories since at least 1990, according to an analysis from the Oxford Institute for Energy Studies. In fact, it was almost 10 times as large as the imbalance seen in the second half of 2008 when the global financial crisis hit. One common explanation for the discrepancy is that these barrels simply don't exist and that it reflects imprecise measurement.

"The IEA collects data from the governments. If the government data is off, they're off," said energy economist Philip Verleger. Another explanation is that a substantial number of the unaccounted barrels could be stockpiled in non-reporting, non-OECD countries, which could mean the post-pandemic demand recovery could follow an unpredictable route. The Oxford Institute report notes that China's oil imports increased substantially last year despite weakened economic activity and reduced refinery output. While the "unreported" explanation has been dismissed in the past, it is becoming harder to ignore given just how much the volume of uncounted barrels has increased over the years.

Qatar proclaims its LNG expansion 'most competitive on the planet'

(Bloomberg; Feb. 16) - Qatar aims to be the world's biggest producer of liquefied natural gas for at least the next two decades, capitalizing on rising demand as the world transitions from oil and coal to cleaner energy. Qatar will spend billions of dollars expanding its LNG capacity more than 50% to 126 million tonnes a year. The Persian Gulf state is already the world's main supplier of the fuel, but new projects elsewhere — especially in Australia and the U.S. — have eroded its dominance.

The nation will be able to produce LNG from the first phase of the expansion so cheaply that it will be viable even if oil prices fall below $20 a barrel, said Energy Minister Saad Al-Kaabi. "This is one of the most competitive, if not the most competitive, projects on the planet," he said. Qatar Petroleum took a final investment decision on the North Field East Project last week. It's likely to be the only project in the world to reach FID in 2021, after just one was sanctioned last year, according to Bloomberg New Energy Finance.

The lack of new supply from other countries will benefit Qatar, said Al-Kaabi, who is also chief executive officer of QP. "With less projects coming online, our expansion is very timely," he said. Al-Kaabi downplayed the idea among some analysts that demand for LNG is, like that for oil, close to peaking. Energy companies looking to produce more renewable energy will still need gas to offset the intermittency of green power, he said.

LNG Canada construction will ramp back up with COVID protocols

(Reuters; Feb. 12) – The Shell-led LNG Canada export project in Kitimat, British Columbia, has won approval from health officials for construction activities to ramp back up with improved coronavirus protection measures. Work at the site was curtailed last month by an order from the provincial health officer, which applied to five major industrial projects in British Columbia, including LNG Canada.

"Our approved restart and measured workforce increase at the project site will continue over the coming months," LNG Canada and JGC I Fluor, the engineering joint venture building the project, said Feb. 11. The plan includes additional coronavirus testing for workers. Non-local workers will continue to be forbidden from leaving the site except for medical emergency or "critical" appointments that cannot be held virtually or postponed.

LNG Canada is set to cost about C$40 billion (US$31.4 billion), and is designed to produce almost 14 million tonnes per year, or 1.8 billion cubic feet per day of natural gas. Before coronavirus delayed the project, it was expected to start up in 2024. Many analysts now say they expect the project to enter service in the second half of 2025. The partners are Shell, Malaysia's Petronas, PetroChina, Mitsubishi, and Korea Gas.

China criticizes itself, says it built too many coal plants

(The Wall Street Journal; Feb. 12) - The environmental report was unusually harsh: China's National Energy Administration had skirted air-pollution regulations, allowed excess construction of coal plants and failed to heed leader Xi Jinping's instructions on environmental matters. "Some comrades at the National Energy Administration believe that the energy sector's most important task is to ensure supply and that excessive ecological requirements will increase production costs for enterprises," China's Ministry of Ecology and Environment concluded in its report late last month.

The rare public rebuke — authorized by two of China's top state authorities, the Chinese Communist Party's Central Committee and the country's cabinet — signaled to some that environmental regulators in one of the world's worst polluters had been empowered to counter the country's entrenched coal industry. "China's top leaders are saying that in the future, it's impossible to think about the economy and energy without also considering climate," said Zhou Xizhou, a managing director at IHS Markit who advises a number of Chinese state-owned energy companies.

China has long heavily depended on the coal industry for jobs and energy. Coal accounted for 58% of the country's energy mix in 2019, according to the National Statistics Bureau. While coal's share of China's energy use has declined from 68% in 2012, the absolute volume of China's carbon emissions has steadily climbed over that stretch to 10.2 billion tons a year, from 9.6 billion tons. "The recent slew of news has given climate activists like me some hope, but then I see the reality on the ground and become skeptical again," said Yu Aiqun, with the nonprofit Global Energy Monitor.

U.S. refiners boost demand for crude in hopes of summer driving

(Bloomberg; Feb. 14) - U.S. oil demand is finally starting to emerge from the grips of the pandemic after months with Asia serving as the lone bright spot in the global market. American refiners are processing the most crude since the economy ground to a halt in March, as they anticipate a vaccine-driven boost in gasoline demand this summer. The uptick means that the refiners are competing for domestic barrels that for months were sent to more robust markets in Asia.

The return of U.S. demand, which began when a global vaccination campaign kicked off in December, is the latest development in oil's recovery. For months, global oil prices were managed by OPEC and its partners with production cuts, without the help of any demand rebuild outside of Asia. Now as U.S. demand recovers, it could meet with supply shortages. Economic-driven output declines took about 2 million barrels a day of U.S. crude off the market after drillers slashed budgets and many went bankrupt. The government sees domestic production rebuilding to 11.5 million barrels a day in 2022.

Norway's Equinor looking to sell more U.S. assets

(Reuters; Feb. 15) - Norway's Equinor is looking to sell more assets in the United States and exit several other countries as part of a major global reshuffle as it tries to return to profitability after writing down $25 billion of U.S. assets over the past decade. While the company, like other energy majors, has been hit by last year's fall in oil and gas prices, Equinor's new head of international business, Al Cook, said it lacked scale in the U.S. shale market and had underestimated the strength of local competition.

Equinor disposed of its operated shale assets in the Eagle Ford in 2019, and last week said it had agreed to sell its assets in the Bakken shale oil province in North Dakota and Montana for about $900 million. "All our operated onshore positions in the U.S. are under the same kind of review that we've done in the Bakken," Cook said. As of the second quarter of 2020, Equinor had about 232,000 net acres in the Appalachian Basin, and about 114,000 net acres in Louisiana's Austin Chalk.

Cook said Equinor was slow to realize U.S. production was not cost effective at low oil prices. Equinor will keep and possibly expand its assets in the Gulf of Mexico, its large non-operated position in Appalachian gas and its wind business in the U.S. northeast — following a similar strategy to that in the U.K. where it is a major gas supplier and wind power producer. "We think that can become a profitable, low-carbon business which will flourish under the kind of measures President Joe Biden is taking in the U.S."

Postponed federal lease sale puts hold on 476,000 acres in Wyoming

(WyoFile; Feb. 16) - President Joe Biden's order to pause oil and gas leasing on federal lands hit Wyoming on Feb. 12 as the Bureau of Land Management postponed the auction of 383 parcels covering almost half a million acres. The leasing pause will enable a review that's part of an all-government fight against "a profound climate crisis" exacerbated by the burning of fossil fuels, Biden's order states.

The BLM had scheduled the first-quarter 2021 sale of development rights on 476,506 acres for March 15 after the Trump administration decided the sale would not "significantly affect the rate of change" in the environment. The agency did not say when the lease sale might be rescheduled. Wyoming receives about half of a sale's proceeds and also a share of future production royalties, if production occurs. Last year's BLM sale sold less than a sixth of the acreage that had been proposed for sale this March.

Conservationists say a leasing pause shouldn't affect companies because they hold many undeveloped leases. The Bureau of Land Management lists 13,296 leases in effect in the state in FY 2019, covering 8.9 million acres, about 14% of the 62 million acres in Wyoming. BLM statistics show that 4.1 million acres of leases were producing that year, leaving 4.8 million acres still to be explored or set aside for lack of potential. Producers in the state averaged almost 240,000 barrels per day in November 2020.

India continues work to expand LNG import capacity

(The Economic Times; India; Feb. 13) - Petronet LNG, India's top liquefied natural gas importer, plans a 29% increase in its Dahej terminal's capacity to 22.5 million tonnes per year to meet rising demand, its chief executive said Feb. 12. Indian companies are investing billions of dollars to build infrastructure, including pipelines and new LNG import terminals, as Prime Minister Narendra Modi wants to raise the share of gas in the country's energy mix to 15% from 6.2% to help curb emissions.

The International Energy Agency in its latest report said India's LNG imports are expected to quadruple to almost 4.4 trillion cubic feet of natural gas, or about 61% of overall gas demand, by 2040. Reaching Modi's goal of 15% of India's energy mix would require even more gas, closer to 5.3 tcf at today's energy consumption level.

Russian official forecasts oil averaging $45 to $60 this year

(Bloomberg; Feb. 14) - Global oil markets have rebalanced following last year's historic collapse, according to Russia's deputy prime minister. "The last few months we have seen low volatility, which means the market is balanced, and the prices we see today certainly correspond to the situation in the market," Alexander Novak said on state television Feb. 14. Oil will probably average $45 to $60 a barrel this year, said Novak, who was energy minister before President Vladimir Putin promoted him in November.

Benchmark Brent crude has surged 22% this year to top $63 a barrel as energy use recovers in the U.S. and China and nations roll out coronavirus vaccines. Prices have also been buoyed by deep supply cuts from OPEC and its partners, which are trying to clear out surplus stockpiles that built up during the pandemic. The oil market "has partially recovered, but not completely yet," Novak said, adding that global demand was about 8% to 9% below pre-pandemic levels at the end of last year, compared with a decline of 20% to 25% in April and May.