Oil and Gas News Briefs
Compiled by Larry Persily
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Global energy crunch 'the revenge of the fossil fuels'

(Bloomberg; Oct. 10) - With its chimneys towering 650 feet above England's industrial heartland, West Burton A power station is a relic of the fossil fuel age. When fired up, its boilers burn thousands of tonnes of coal a day, spewing out the carbon dioxide that's warming up the planet. After more than 50 years of operation, it will close next year, part of a global transition into green energy such as wind and solar. It's only rarely used, but for several days in September, this old polluter kept the lights on in the U.K.

West Burton isn't an oddity. Across the world, fossil fuels are making a remarkable comeback as a super-charged recovery from the pandemic boosts energy demand. For all the green energy promises and plans, that transition is in its infancy, and the world still leans heavily on fossils. It's an addiction built up over two and a half centuries, and it runs deep. In Europe, where electric vehicles are becoming ever more popular, gasoline sales are booming, reaching a 10-year high in some countries.

In the developing world, from Brazil to China, natural gas consumption is stronger than ever. The global hunger for energy has collided with constrained supply, itself the result of a tangle of factors, sending power prices surging in many countries. Adding it all up, fossil fuel demand is already flirting with pre-pandemic levels, which means emissions are on the rise too. On current trends, the combined consumption of coal, natural gas and oil is likely to hit an all-time high by mid-2022. "This is the revenge of the fossil fuels," said Thierry Bros, an energy expert and professor at Sciences Po in Paris.

Qatar says net-zero pledges are 'sexy,' but not useful without a plan

(Bloomberg; Oct. 11) - Qatar, the world's biggest exporter of liquefied natural gas, said it would be wrong to commit to eliminating planet-warming emissions without having a proper plan in place. The United Arab Emirates become the first of the Persian Gulf's petrostates to make such a pledge last week, saying it wanted to be a leader on climate change in the region. The announcement came ahead of United Nations-sponsored climate talks starting later this month in Glasgow, Scotland, and known as COP26.

"For me to just come out and say net-zero 2050 would be very sexy," Saad Al-Kaabi, Qatar's energy minister, said at an event in Doha on Oct. 11. "But it's not the right thing." Many politicians "are just throwing it out there without a plan," he said.

The problem is that the UAE and several other nations planning to net-out emissions have offered few details on how they'll achieve their targets, beyond that they'll invest more in renewable energy. Al-Kaabi said that gas, a cleaner fuel than oil or coal, would remain crucial to the global economy for decades. The country is spending almost $30 billion to boost its LNG production capacity by about 50% in the next six years.

Permian drilling resumes growth with private money

(Bloomberg; Oct. 11) - Oil prices above $80 a barrel are once again spurring a revival of shale drilling in America's biggest oil field, where production is expected to return to pre-pandemic highs within weeks. Only this time, the surge is being driven by private operators, rather than the publicly traded companies that fueled the previous booms. And they see little reason to slow things down.

Increased access to financing and strong oil demand has created an opening for closely held producers, most of whom are backed by private equity or family money, to ramp up output in West Texas and Southeast New Mexico. With the other major U.S. shale basins either holding steady or declining, according to BloombergNEF, the surging growth in the Permian isn't likely to risk upsetting OPEC or tanking crude prices as it did in previous shale booms — at least not yet.

"It's a win for the privates without being a loss for the oil markets," said Raoul LeBlanc, an analyst at IHS Markit. "The big takeaway is that private growth won't ruin the party." It's a tenuous balance, and one that could shift quickly if oil prices continue to march higher. U.S. production growth was so strong the past decade — and took so much market share from OPEC and its allies — that the cartel was willing to engage in all-out supply wars in 2014 and 2020. The fight has since cooled as demand surges, especially amid a need to supply fuel-hungry Europe and Asia, easing some competitive pressure.

Power crisis in China prompts look at energy transition

(Bloomberg; Oct. 12) – China's widening power crisis, which has forced rationing across the country and threatens to derail economic growth, is prompting policy makers to rethink the pace of the energy transition. China's path to a greener economy needs to be underpinned by a stable energy supply, Premier Li Keqiang said in a release Oct. 11 following a meeting of the National Energy Commission last week. Before establishing a timetable for peak carbon emissions by the end of the decade, China needs to conduct an in-depth assessment of how it has handled the recent power crunch, he said.

The comments, just weeks before crucial climate negotiations open in Glasgow, Scotland, could be contentious given the need to accelerate efforts to mitigate global warming. Without additional commitments from China — which the U.S. and U.K. have long been calling for — the conference is unlikely to be a success. In a statement that highlighted the need to continue building up the nation’s capacity in fossil fuels, from coal to oil and shale gas, Li said that China needs to prioritize its economic development, which “holds the key to solving all its problems.”

“Energy security should be the premise on which a modern energy system is built, and the capacity for energy self-supply should be enhanced,” he said. That means the goals of peak emissions by 2030 and carbon neutrality by 2060 should proceed in a “sound and well-paced” manner requiring “long and hard” effort, he said. In a separate speech on Oct. 12, President Xi Jinping said China intends to set out more details on how it will reign in carbon emissions in key areas, without giving a timetable for the release.

China’s crude oil imports in September down 15% from a year ago

(Reuters; Oct. 12) - China's September crude oil imports fell 15.3% from a year earlier, data showed on Oct. 13, as companies drew on inventories amid rising global prices and as tightened import quotas continued to constrain purchases. Meanwhile, September natural gas imports rose to the highest since January at 10.62 million tonnes, according to data from the General Administration of Customs, as companies built up inventories ahead of the peak winter heating season amid a shortage of coal for electricity generation that has triggered widespread power outages.

China, the world's top crude oil buyer, imported an average of 9.99 million barrels per day of crude oil last month. That compares with 10.49 million barrels per day in August and 11.8 million a year earlier. Imports for the first nine months of 2021 were down 6.8% from the same period last year, dragged lower by a slowdown in purchases between April and August due to tightened quotas for both crude oil and refined fuel.

China’s September coal imports highest all year

(Bloomberg; Oct. 13) - China’s energy crunch pulled in more coal and natural gas imports in September as buyers scrambled to ensure adequate supplies to counter a deepening power shortage ahead of winter demand. Coal purchases rose 17% on the month to 32.9 million tons, the highest this year, according to customs data on Oct. 13, although the tally for the first nine months still lags last year’s pace.

Coal imports have been constrained as top supplier Indonesia prioritizes its domestic needs. COVID restrictions in Mongolia have also affected overland coal shipments, and China continues to push its neighbor for more coal to ease a shortage that sent futures rocketing to yet another record on Oct. 13. Meanwhile, China’s natural gas imports nudged up just 1.8% in September as sky-high prices and a shortage on international markets affected buyers’ ability to secure enough gas, although imports of the cleaner-burning fuel are still running 22% ahead of last year.

Citi raises natural gas price forecast for Asia and Europe

(Reuters; Oct. 13) - Citi has raised its price forecast for European and Asian benchmark natural gas prices, analysts at the bank said Oct. 12. It has raised the base-case price for the fourth quarter of this year to average $32 per million Btu for the Japan-Korea-Marker, which is widely used as a spot benchmark in Asia, and $30.90 for the Dutch TTF hub, a European benchmark. Both are up $3 from Citi's previous forecasts.

"Current prices are above fundamentally justified levels, should remain volatile and could still reach $100 per million Btu or above this season if the weather gets very cold," the analysts said. "Asian/European natural gas prices are above diesel and propane, the last remaining expensive fuels that could be substitutes in some sectors."

The analysts said that low gas inventories, the potential for a cold winter and the likelihood of a limited supply response have led to price spikes in Asian and European natural gas, European power and global seaborne coal. Inflation due to higher energy prices could hit industrial production and potentially curtail the growth in economic recovery following the coronavirus pandemic.

Putin sees opportunity in natural gas crisis

(Bloomberg; Oct. 13) - Fresh from crowing over Europe’s gas crisis, Russian President Vladimir Putin now sees a chance to capitalize on it. Putin wants to press the European Union to rewrite some of the rules of its gas market after years of ignoring Moscow’s concerns, to tilt them away from volatile spot-pricing toward predictable long-term contracts favored by Russia’s state-run Gazprom, according to two people with knowledge of the matter. Europe relies on Gazprom for about a third of its gas.

Russia’s also seeking rapid certification of the controversial Nord Stream 2 pipeline to Germany to boost gas deliveries, the sources said. Amid record daily swings of as much as 40% in European gas prices, Putin made a calculated intervention to cool the market last week by saying Gazprom can boost supplies to help ease shortages. Still, even as the Kremlin casts Putin as Europe’s energy savior, Russia’s under no illusion that it will gain political concessions from the EU or ease strained relations as a result of the crisis, according to a government official and a policy adviser close to the administration.

“Putin senses an opportunity from the crisis,” said Andrei Kortunov, head of the Kremlin-founded Russian International Affairs Council. “Russia wants to prevent the EU from dragging its feet on certifying Nord Stream 2 and start talks on long-term stable prices for gas." Putin has blamed the crisis partly on "snobbish" EU officials and advisers who he said had pushed for the shift to spot pricing "and do not want to hear anything else."

[U.S. gas producers worry Russia will take market share in Europe]

(Bloomberg; Oct. 8) - U.S. shale drillers are increasingly worried that growing Russian natural gas exports will slash their European market share. American gas exporters already are cranking out almost all the fuel they can, but as U.S. capacity to ship liquefied natural gas overseas expands, some domestic drillers are pessimistic about the prospect of increasing sales to the red-hot European market, the Federal Reserve of Kansas City found in its quarterly energy-industry survey.

U.S. natural gas output is expected to increase, partly because some supplies of the fuel come out of the ground as a byproduct of oil drilling — so-called associated gas. The Kansas City Fed released the report on Oct. 8, which noted: "European demand will be further satisfied from Russian supply reducing the U.S. market share." The bank's region covers important oil and gas states such as Oklahoma and Wyoming, as well as parts or all of New Mexico, Colorado, Kansas and Nebraska.

Europe is on the doorstep of winter with many of its biggest economies nursing significant gas supply deficits, forcing heavy industry to shut down factories because of surging prices and leaving policy makers scrambling to protect consumers from skyrocketing energy bills. Gas powerhouse Russia took off some of the edge of European worries this week when President Vladimir Putin pledged to boost shipments to western customers, but it's not yet clear if that will be enough.

[Chinese gas importer signs 13-year deal for U.S. LNG]

(Reuters; Oct. 11) - China's ENN Natural Gas said on Oct. 11 that it has signed a 13-year deal to buy liquefied natural gas from Cheniere Energy, the top U.S. LNG exporter. This is the first major binding deal for natural gas between the two nations since a long-standing trade war brought gas trade between both countries to a standstill before resuming in 2020.

The deal, which starts in July 2022, is for 900,000 tonnes of LNG a year, ENN said. The company said this is its first LNG contract priced at the U.S. Henry Hub futures index for natural gas. Citing Cheniere CEO Jack Fusco, ENN said the deal is expected to bring the third stage of Cheniere's Corpus Christi LNG plant in Texas closer to a final investment decision, which is expected next year. Cheniere also operates the Sabine Pass LNG terminal in Louisiana. Last year, China's Foran Energy signed a non-binding heads of agreement deal with Cheniere for 26 LNG cargoes to delivered 2021-2025.

Qatar says it is at maximum LNG production capacity

(Bloomberg; Oct. 10) - Qatar, the world's biggest exporter of liquefied natural gas, said it is "unhappy" prices are so high but is producing at its maximum capacity. The Oct. 11 comments from Energy Minister Saad Al-Kaabi come amid a crisis in gas markets, with prices rocketing as supply fails to keep up with soaring demand. Although Qatar is spending billions of dollars to increase output, it has said it will struggle to boost production in the near term. "We are maxed out," Al-Kaabi said at an event in Doha. "We're producing what we can," which is close to 80 million tonnes per year.

The Persian Gulf state has the world's lowest production costs with its abundance of easy-to-extract gas, most of it in the giant North Field that extends into Iran. Al-Kaabi reiterated the schedule for expansion of the field's output, despite calls for faster ramp-up. Qatar aims to increase LNG output by about 50% by 2027, a project that will cost almost $30 billion.

Meanwhile, the global energy crunch has worsened as the Northern Hemisphere enters winter. Prices are up fourfold since the start of the year. "I'm unhappy about gas prices," Al-Kaabi said. "If the customer is unhappy, he's not going to buy."

Europe's gas shortage a matter of location more than volume

(Bloomberg opinion; Oct. 8) - Whether Europe's natural gas stockpiles will cover all eventualities is the question. The continent's gas storage facilities are 76% full. That is by far the lowest at the beginning of heating season in the past decade. In absolute terms, though, is 76% so bad? It adds up to about 2.8 trillion cubic feet. That is well below the five-year average, but that average has been skewed upward by unusually loose conditions in 2019 and 2020. The current level is only 3% below the average for the five years ending 2018, when demand was similar to projected levels for this year.

These numbers point to elevated prices, definitely. But on their own, they don't suggest Europe will run out of gas, which is the implication of the recent spike in prices. Beneath the storage numbers, though, there's a gaping hole stretching from the North Sea to the Alpine valleys. Inventory in the Netherlands, Germany and Austria is below the average for the continent, ranging from 55% full in Austria to slightly less than 70% in Germany.

These three countries not only host roughly half of Europe's entire capacity, they are strategically located at the center of the system, providing de facto capacity for areas around them such as the U.K. and Eastern and Southern Europe. In a pinch — a particularly cold week — you need volume, but you also need the ability to quickly move gas to where it is needed. Without that, you get regional price spikes, such as often happens in northeastern U.S. cities during the winter, or outright shortages.

A hard winter could mean drawing down most of what's in storage, along with regional shortages and further price spikes. The biggest challenge would be sudden cold snaps, testing a system that may have the gas but not necessarily where and when it's needed.

EU will consider joint purchase and storage of natural gas

(Bloomberg; Oct. 8) - The European Union's executive will explore the possibility of national governments jointly purchasing and storing natural gas to boost the region's energy resilience and avoid price shocks. The European Commission is set to examine options for strengthening the region's leverage in talks with suppliers as part of a plan to lessen the energy crunch undermining an economic recovery.

The plan will also offer guidance on how to design tax cuts, direct support for the most vulnerable and state aid for companies, according to a person familiar with the draft EU proposals. About 20 countries already have taken action to blunt the impact of the energy crisis or are in the process of doing so, according to the draft. These measures can be financed with revenues from government auctions of permits in the EU carbon market and other tools such as environmental taxes.

Gas and power prices have soared to records as Europe is nearing the winter heating season, prompting some industrial giants to curtail production and fanning social concerns about skyrocketing bills for households. The spike comes as demand rebounds with the effects of the pandemic waning, and coincides with limited supplies from Russia and Norway. Energy prices are expected to fall by April 2022, according to the EU draft, but are likely to remain above average compared with previous years.

Electricity prices in Japan at highest for the year

(Reuters; Oct. 12) - Electricity prices in Japan have risen to nine-month highs this week as gains in global prices of oil, liquefied natural gas and coal are starting to feed through to the country's $150 billion power market. Energy prices across the world are hitting records or multi-year highs as economies from Europe to Asia recover from the pandemic but are facing lingering supply chain problems and other disruptions.

For Japan, which imports all but a tiny amount of its energy needs, higher oil, gas and coal prices are bringing back inflation, with wholesale prices at 13-year highs. Elevated electricity prices are also reviving memories of last winter when prices hit record highs and Japan's grid nearly failed in the worst energy crisis for the country since the Fukushima disaster in 2011. On Oct. 12, spot prices for peak-hour delivery of electricity reached 50 yen ($0.44) per kilowatt hour.

"We are seeing thermal generation being offered to the market at increasingly higher prices to either preserve fuel for winter or get paid for it on an opportunity-cost basis," said one trader. Inventories of LNG have been topped up and are now above 2.4 million tonnes, around 600,000 tonnes higher than the four-year average for this time of the year, Japan's industry ministry said. That represents about 12 days of supply based on last year's imports of 74.4 million tonnes of LNG.

India faces power crunch as coal supplies run low

(CNBC; Oct. 12) - China is not the only Asian giant grappling with an energy crunch — India is also teetering on the edge of a power crisis. Most of India's coal-fired power plants have critically low levels of coal inventory at a time when the economy is picking up and fueling electricity demand. Coal accounts for around 70% of India's electricity generation. A potential power crisis would likely have an immediate impact on India's nascent economic recovery which is being led by industrial activity instead of services, said Kunal Kundu, India economist at French investment bank Societe Generale.

Government data showed that as of Oct. 6, 80% of India's 135 coal-powered plants had less than eight days of supplies left — more than half of those had stocks worth two days or fewer. By comparison, over the past four years, the average coal inventory at power plants was about 18 days of supply, according to Hetal Gandhi, director of research at ratings firm CRISIL, a subsidiary of S&P Global.

State-run Coal India, which accounts for over 80% of India's coal output, reportedly said last month it would ramp up supplies to address the coal shortage at power plants. A combination of supply factors and falling coal imports has led to the crisis. India saw a spike in power demand between April and August as the economy regained momentum following a devastating second wave of COVID-19. But power companies had lean coal inventories and did not anticipate the spike in power demand, Gandhi explained. Other sources of generation — such as hydropower, gas and nuclear — also declined.

Pakistan receives no bids on tender for 8 LNG cargoes

(Reuters; Oct. 12) – State-owned Pakistan LNG, the country's main importer, did not receive any offers in a tender seeking eight liquefied natural gas cargoes for delivery in December and January, raising concerns about a potential power crisis in the South Asian country. Pakistan, with a population of more than 200 million, has struggled with energy shortages and rising power prices, with electricity still not available to 50 million people in the country who need it, according to a 2018 World Bank report.

It was not immediately clear if Pakistan LNG plans to re-issue the tender, but with spot-market gas prices expected to surge further during winter when demand for the fuel typically rises, this is expected to push up the overall energy import bill for the country. Spot LNG prices are already trading near record levels against the backdrop of power shortages in China and India. A spot LNG cargo, for instance, costs about $100 million currently, compared with just under $20 million in late February.

Pakistan imports more than half of its LNG through long-term contracts, which buffers it somewhat from spot-price volatility. But the country still needs to import spot cargoes to meet domestic gas demand. Still, that spot demand is expected to be lower this winter, compared with last winter, as a new 10-year supply deal between Pakistan and Qatar is expected to take effect in January.

Yergin believes U.S. will ask OPEC for more oil to reduce prices

(Bloomberg; Oct. 11) - The U.S. is likely to ask OPEC member states to pump more crude to help ease a surge in energy prices, said oil historian Daniel Yergin. “Joe Biden knows that high gasoline prices are not good for incumbents,” Yergin, vice chairman of IHS Markit, said Oct. 11 in a Bloomberg TV interview. “We’ll certainly be hearing more from the administration.”

In August, the Biden administration called on Saudi Arabia and its allies to pump more crude into global markets, while stressing the importance of “affordable energy.” The Biden administration doesn’t have a lot of tools to deal with current elevated prices, Yergin said. Crude futures, which have surged above $80 a barrel, could reach $90 as Europe and Asia are likely to use more of the fuel for power generation and heating, substituting for pricier natural gas, he added.

Tight gas supplies have led to unprecedented price spikes amid escalating concerns about winter shortages, adding to inflation woes and imperiling the economic recovery from the pandemic. While most power plants can’t switch from gas to oil, dual-fired generators have some flexibility, Yergin said. Though the Biden administration has pushed for a quicker transition to renewable energy, the crisis ravaging Europe and Asia could lead to a big “re-think” over the timing of cutting back on fossil fuels as available alternatives are still not ready to fully replace them, according to Yergin.

Equinor plans to invest billions in hydrogen production

(Bloomberg; Oct. 7) - Equinor, the flagship producer of oil and gas giant Norway, is investing billions of dollars in blue hydrogen on a bet that it can make the fuel more cleanly than anyone else. The state-controlled oil firm is among energy companies across Europe stepping up plans for hydrogen as mounting pressure to fight climate change spurs massive shifts in investment.

The company is focusing on blue hydrogen, which is made from natural gas and has been touted as key to cleaning up industries such as steel, cement and aviation. Yet it’s also drawn criticism, since its production releases carbon dioxide that must be captured and stored, while the process of gas extraction and transportation emits methane, an even more potent greenhouse gas. Equinor believes it has the edge in the race to commercialize the industry because it leaks less methane than its rivals.

“We work with catch rates of 95% CO_2 capture,” Vice President of Low-Carbon Technology Henrik Solgaard Andersen said in an interview. That compares with a maximum rate of 90% from “standard” technology, according to the International Energy Agency. The company plans around 100 billion kroner ($11.7 billion) of investment in hydrogen — comprising its own spending, partners’ contributions and state funding — by 2035. It can count on an abundant supply of gas, with Norway pumping more than any other country in western Europe, and says its methane leak rate is below 0.03%.

Australian state will offer financial incentives for hydrogen projects

(Reuters; Oct. 13) - Australia's New South Wales state on Oct. 13 said it would offer A$3 billion ($2.2 billion) in incentives to attract hydrogen projects to the country's biggest coal-exporting state as it races to slash its carbon emissions. Energy Minister Matt Kean said the plan would not only help the state halve its carbon emissions by 2030 but also would create opportunities for heavy industry and boost the economy by more than A$600 million over that period.

"Our major trading partners see hydrogen as part of their energy future," state Premier Dominic Perrottet said in a statement. The biggest incentive the state plans to offer is a 90% exemption from power network charges for electrolyzers installed by 2030. Power costs are key for green hydrogen production which involves splitting water with an electrolyzer. "This strategy is forecast to more than halve the cost of green hydrogen production in New South Wales, and will make New South Wales the best place to invest in hydrogen in the world," Kean said in a statement.

The state faces heavy competition from Australia's other major resource-exporting states — Western Australia and Queensland — which have already lured major green hydrogen project developers, many backed by Japanese companies. Hydrogen development is the one strategy for tackling climate change that Australian politicians on all sides of the spectrum have backed.

Qatar Petroleum changes name to Qatar Energy

(Reuters; Oct. 11) - Qatar Petroleum has changed its name to Qatar Energy to better signal a new strategy that focuses on energy efficiency and environmentally friendly technology such as capturing and storing carbon dioxide, its chief executive said on Oct. 11. "It's more of a reflection of what we're actually doing that wasn't reflected by the name that we had," said Saad al-Kaabi, who is also the Qatari minister of state for energy. He said gas would remain part of the energy transition and would be needed for at least a few decades. Qatar is the world's largest supplier of liquefied natural gas and aims to boost capacity to 127 million tonnes annually by 2027 from almost 80 million.