Oil and Gas News Briefs
Compiled by Larry Persily
October 18, 2021

Chinese buyers in talks for long-term U.S. LNG deals

(Reuters; Oct. 15) - Major Chinese energy companies are in advanced talks with U.S. LNG exporters to secure long-term supplies, as soaring gas prices and domestic power shortages heighten concerns about China's fuel security, sources said. At least five firms, including Sinopec, and China National Offshore Oil Corp. and local government-backed energy distributors like Zhejiang Energy, are in discussions with U.S. exporters, mainly Cheniere (Texas and Louisiana) and Venture Global (Louisiana), sources said.

The talks could lead to deals worth tens of billions of dollars and a surge in China's imports of U.S. LNG. At the height of a trade war in 2019, gas trade briefly came to a standstill. Talks with U.S. suppliers began early this year but sped up in recent months amid perhaps the biggest power-generating and heating fuel crunch in decades. Gas prices in Asia have jumped over 500% this year, sparking fears of power shortages.

"Companies faced a supply gap (for winter) and surging prices. Talks really picked up since August when spot prices touched $15 per million Btu," said a Beijing-based senior industry source. "After experiencing the recent massive market volatility, some buyers were regretting that they didn't sign enough long-term supplies," another Beijing-based source said. Sources expect fresh deals to be announced over the coming few months.

U.S. LNG used to be expensive versus oil-linked supplies from Qatar and Australia, but are cheaper now with U.S. natural gas-linked pricing. China is heavily exposed to oil-linked pricing for LNG, and purchases of U.S. gas provides price diversity, said Jason Feer, global head of business intelligence with consultancy Poten & Partners. Delays in LNG export projects in Canada, in which PetroChina owns a stake, and Mozambique, where PetroChina and CNOOC have invested, also have made U.S. supplies attractive.

Russia plays role as 'superstore' of energy

(The Wall Street Journal; Oct. 13) - The natural gas shortage that drove prices to records in Europe has exposed Russia's rising leverage over global energy markets, with Moscow now playing a key role in everything from OPEC negotiations to coal exports to China. Russia is the world's largest exporter of natural gas and the source of more than a third of Europe's gas, and Western officials accuse the Kremlin of trying to score geopolitical points by withholding extra gas supplies, a charge Moscow denies.

Putin said Oct. 13 that Russia is ready to discuss with Europe steps to ramp up gas exports and said Europe is at fault for its own lack of reserves and long-term planning. “As for the use of energy as some kind of weapon, this is exactly what can be called politically motivated blather, which has no substance,” Putin said at an energy forum.

“The European gas crisis has shown the extreme leverage that Russia has over Europe and beyond,” said Thierry Bros, an energy expert and professor at Sciences Po Paris. “Putin is the only one who could prevent blackouts in Europe because Russia has spare capacity. This is a position of power.” In the oil market, Russia has in recent years increased its influence over the Organization of the Petroleum Exporting Countries, despite not being a formal member. In Asia, Moscow has become a significant player, starting gas exports to China in 2019 and increasing coal deliveries there this year.

Russia’s expanding energy influence gives the Kremlin important geopolitical leverage amid worsening relations with the West and a way to challenge Washington’s clout. It also provides Moscow with an important source of revenue to address stagnating living conditions at home. “Russia is a superstore when it comes to energy,” said Helima Croft, head of global commodity strategy at RBC Capital Markets.

IEA warns lack of oil investment could lead to volatility

(The Wall Street Journal; Oct. 13) - The International Energy Agency’s World Energy Outlook confirms what the world is starting to feel in its bones: The coming energy transition could be painful and expensive. Fatih Birol, executive director of the IEA, in a statement accompanying the report lamented the failure to invest enough to meet future energy needs, saying the situation is “setting the stage for a volatile period ahead.”

In the report released Oct. 13, the agency for the first time forecasts an eventual decline in oil demand in all three of its scenarios — from the most status quo assumption to the greenest (net-zero emissions by 2050). Under its most conservative “stated policies scenario,” which is based on climate policies that are already in place and those that are under development, the IEA expects oil demand to peak in the mid-2030s at 104 million barrels a day from almost 100 million today, with a slow decline through 2050.

The IEA’s most ambitious green scenario — net zero by 2050 — sees oil demand shrinking to a quarter of today’s levels. That’s quite different compared with the Organization of the Petroleum Exporting Countries, which last month predicted that oil demand will continue to rise until at least 2045. Bob McNally, founder of energy consulting firm Rapidan Energy Group, argues that a premature peak-demand consensus could be dangerous if supply falls short. Today’s price spikes illustrate the volatility and shortages that can ensue if the energy transition isn’t planned out properly.

Constrained spending by U.S. drillers limits oil output growth

(The Wall Street Journal; Oct. 12) - Shale companies are on track to spend a little more money pumping oil next year but most aren't opening up the spigots much, even as prices top $80 a barrel. Capital investment in U.S. oil this year is projected to come in at the lowest since 2004, years before the fracking boom made America the world's top oil producer. Oil companies are set to boost domestic spending 15% to 20% in 2022, analysts said. However, that will still be less than they plowed into drilling before the pandemic, and far less than the last time crude prices reached into the $80 in in 2014.

That's because the pressure Wall Street put on frackers to keep a lid on spending and oil production is still holding, analysts and executives said. Before the pandemic, whenever crude prices climbed to high levels, U.S. producers would flood the market with more barrels, but they ultimately spent more money than they made. Investors and banks have now pressured oil companies to live within their means, pushing them to pay off debts run up during the shale boom and return any extra cash to shareholders.

They have also pressed companies to rethink drilling plans and address their carbon footprints in response to environmental, social and governance concerns. Investors' retreat has undercut the U.S. oil sector's role as a reliable stopgap for global energy markets at a time when buyers worry that oil supplies will tighten as demand recovers from the pandemic. "Too much investment led to too-poor returns. I don't think there's any scenario where you go back to drunken-sailor spending," said Chris Wright, CEO of hydraulic fracturing company Liberty Oilfield Services.

Lack of capital holds down U.S. oil production growth

(The Wall Street Journal; Oct. 13) - This should be a great time for energy investors, but few of them are still around to enjoy it. Years of awful returns and pressure from clients to exit from the oil and gas business have left fewer and smaller firms able to take advantage of rising prices and help boost production. The unwillingness of some banks to make energy loans has compounded the challenges to boosting energy supplies.

Those producers that are left are moving to increase production, but they are relatively small players that won't be able to make a significant impact on output. Investors are steering capital away from fossil fuels and toward companies that rank high in environmental, social and governance measures. "There's been a huge retreat in available capital," said Wil VanLoh, who runs Quantum Energy Partners, which manages $18 billion, making it one of the few remaining big energy private-equity funds.

In the past, higher prices and limited supplies spurred oil and gas companies to open their spigots. Privately held producers are doing just that, but publicly held companies, under pressure to please grumpy investors, have been buying back shares, increasing dividends and cutting spending. Most are not stepping up output. That makes privately held operators more important than ever. Today, 59% of the nearly 600 active U.S. oil and gas rigs are operated by private companies, compared with 42% of the 1,150 rigs in January 2019, according to Tudor, Pickering, Holt & Co.

Gas producer CEO says U.S. falling short on new pipelines

(Bloomberg; Oct. 14) - The largest U.S. natural gas driller is using the global energy crisis to renew his call for more investment in domestic infrastructure such as pipelines, which the company's CEO said would enable increased exports and ease shortages. U.S. gas drillers could increase supplies by about 20% if not for pipeline and export constraints, EQT Corp. CEO Toby Rice said in an interview Oct. 14.

Gas fields far from population centers and export hubs can't fully open the taps because of a lack of pipe capacity and too few export facilities, he said. More infrastructure would make more fuel available both domestically and abroad, something gas-starved economies in Asia and Europe sorely need with winter approaching, Rice said. A new bonanza in U.S. gas drilling also would help accelerate the phasing out of dirtier energy sources, primarily coal, he said.

Frustrated pipeline projects have been the Achilles heel of U.S. gas as environmental groups, regulators and landowners successfully derailed projects intended to deliver more of the fuel to markets and home and overseas. "The solution is very simple: Unleash American shale," Rice said. "We need is access to more pipeline infrastructure and more LNG facilities." Several proposed pipelines aimed at moving gas from reserve-rich Appalachia have been scrapped the past couple of years. "The largest gas field in the world has been isolated and is not connected to the world market," Rice said.

British Columbia looks at overhaul of oil and gas royalties

(Natural Gas Intelligence; Oct. 14) - With fossil fuel prices rising and a liquefied natural gas export plant under construction, British Columbia has launched an overhaul of its notoriously complicated natural gas and oil royalties. "The B.C. royalty system for natural gas and oil is broken," according to a government-commissioned preliminary report. The assessment was done by professors Nancy Olewiler at Simon Fraser University in Vancouver and Jennifer Winter at the University of Calgary.

The 30-year-old royalty structure "does not support and contribute to government and societal goals," the co-authors said in the 106-page report. The royalty regime "consists of piecemeal modifications to a system designed for a different era with different risks, technology and market conditions," wrote Olewiler and Winter. The review reflects differences between royalty systems in Canada, where natural resources are provincial Crown property, and the U.S., where private property owners hold subsurface rights.

The royalty maze leaks public revenues, they said. The professors calculate that the effective royalty rate for the government share of gas and oil production income fell to 2.4% in 2020 from 8.4% in 2013. For example, a formula sets production values for royalties at processing plant inlets instead of at outlets where markets dictate prices.

Credits against royalties for deep wells and infrastructure such as roads add to the revenue drain, the authors said. The province has awarded C$7.3 billion ($5.8 billion) in deep-well credits, and the industry still has C$3.7 billion ($3 billion) banked for future deductions, the report said. An infrastructure incentive plan has granted C$3.6 billion ($2.9 billion) in credits and industry has C$2.2 billion ($1.8 billion) in future deductions.

TotalEnergies CEO says expensive gas pushing customers to coal

(CNBC; Oct. 13) - Surging natural gas prices have led to a jump in coal use, with coal-fueled power plants in Europe and Asia firing back up as temperatures decline and the world grapples with worsening natural gas shortages. TotalEnergies CEO Patrick Pouyanne on Oct. 13 stressed the need to achieve price stability, contending that lower gas prices will reduce the need to rely on the higher-polluting coal, but that the transition to cleaner energy has also created an imbalance in the market.

“High pricing is not good news — of course immediately for my company results are better, but for customers” is it not, Pouyanne said during a Russia Energy Week panel in Moscow. Replacing coal with gas “is good for climate change, but to do that, we need to have a lower price,” said the CEO of an oil and gas major. “Because coal today is a king, because coal is cheaper than all the other sources of energy.”

Coal-produced electricity has shot up in price in Europe, just as the continent is trying to reduce its use of the polluting fuel. Gas prices in Europe, meanwhile, have nearly quadrupled since the start of the year. “So for us today, prices are too high. We have to find stability, going back to something more normal,” Pouyanne said. He added that this is not merely a European crisis, but a global one, stemming from both a “huge hike in demand for gas from China and Asia,” as well as “more demand for gas because of energy transition, going from coal to gas, which is good for climate change.”

U.K. loses two more power suppliers amid energy crisis

(Bloomberg; Oct. 13) - Two more energy suppliers with about 250,000 customers have collapsed in the latest escalation in the U.K.’s energy crisis. BP-backed Pure Plant and Cororado Energy announced they have gone out of business on Oct. 13, taking the total number of households that have been forced to switch supplier since the start of August to almost 2 million. Since the start of August, 12 utilities in the country have gone under.

The unprecedented volatility in power and gas markets has added to pressure on suppliers as surging prices push them to the breaking point. U.K. Business Secretary Kwasi Kwarteng warned last week that more suppliers would likely go out of business, and the latest failures show that the crisis is getting worse. The customers of the failed suppliers will be transferred to new companies, but finding a replacement is becoming more difficult as most of the larger suppliers have already taken on extra customers and say they are stretched as far as they can go without financial help from the government.

The price of gas in the U.K. has more than quadrupled this year. Many small suppliers haven’t fully hedged, meaning they have to buy expensive gas and power in the market. At the same time, they can’t pass on most of those added costs to their customers because of fixed contracts and a government price cap for some tariffs.

High prices drive energy providers in Singapore to quit the business

(Reuters; Oct. 14) - Two energy providers in Singapore, including one of the largest independent electricity retailers, are exiting the market and according to company sources at least three others have stopped accepting new clients amid rocketing wholesale energy prices. iSwitch Energy, one of Singapore's largest independent electricity retailers, said on its website that it will be ceasing electricity retail operations on Nov. 11, due to "current electricity market conditions.”

SilverCloud Energy, which supplies power to commercial, industrial and residential buildings, told Reuters it will also exit the market soon and is notifying customers to switch to other providers or transfer back to state-owned SP Group. Global wholesale gas prices have surged in recent months as production and transit problems have lowered supply just as demand took off in a post-pandemic economic recovery.

Asian spot LNG prices have risen by over 500% from a year ago to over $30 per million Btu this month while oil prices, the basis for pricing most of Singapore's long-term gas contracts, rose to multi-year highs. Sources said that Diamond Electric, Best Electricity Supply and Ohm Energy had stopped accepting new customers, with Diamond Electric in the process of handing over existing contracts to another utility provider.

Vietnam plans for big increase in coal-fired power generation

(Reuters; Oct. 15) - Vietnam may double the amount of coal-fired electric generation it installs by 2030 under a draft power development plan submitted to the prime minister for approval this week. The draft plan guarantees that Vietnam will become more reliant on coal to power its fast-growing economy at a time when financiers and insurers are refusing to back new projects because of fuel's large climate change impact.

Coal-fired power plants will account for up to 31.4% of as much as 143.8 gigawatts of installed generation capacity planned in 2030, according to a copy of the Power Development Plan 8 reviewed by Reuters. That translates to about 41 gigawatts of coal power by the end of the decade, up from 20.7 gigawatts in 2020.

Vietnam, with a population of 98 million, is seeking to boost its power generation to support the growth of production bases for firms such as South Korea's Samsung Electronics and LG Electronics. The country will need to invest $115.96 billion in new power plants and power grid expansions by 2030, and up to $227.4 billion by 2045, according to the plan. Natural gas, including liquefied natural gas, will make up 22.4% of installed capacity by 2030 from 13% at the end of 2020 and then rise to as much as 26.9% by 2045, while coal slips to 19.4% by then.

Germany will cut power surcharge to help consumers

(Reuters; Oct. 15) - Germany will cut a power surcharge that is levied on consumers to support renewable energy by 42.7% to help households cope with soaring energy prices, network operators said on Oct. 15. Germany and other governments in Europe are seeking to provide relief for consumers as gas prices skyrocket. The reduction in the levy will take effect Jan. 1. The government will help fund the cut with 3.25 billion euros ($3.77 billion) in revenue collected from carbon taxes.

The fee, which was reduced by 3.9% last year to help the economy out of the coronavirus slump, is collected under the renewable energy act and paid to producers of wind and solar electricity installations. The fee makes up one-fifth of a consumer's energy bill. The savings, however, may not be passed on fully by suppliers. "Because of high wholesale market prices and rising network tariffs, there will not be significant relief for households," a price-comparison portal said.