Oil and Gas News Briefs
Compiled by Larry Persily
September 6, 2021

OPEC+ could face hard choices if outbreak weakens oil demand

(Bloomberg opinion; Sept. 4) - You'd be forgiven for thinking that it's smooth sailing ahead for the OPEC+ oil producer group. The 23 members concluded their meeting last week in less than an hour, agreeing to raise output in October. There were no signs of the tensions that had marred earlier gatherings, just a quick rubber-stamping of the next step in the deal to add 400,000 barrels a day of supply each month through fall 2022.

But the easy days are numbered. The group's own analysis of the oil market next year suggests there are challenges to overcome. Producers may have to forgo future output increases and perhaps even re-impose cuts if they are to prevent stockpiles from rising again. The group's analysts see trouble if a resurgence of the coronavirus hits demand in the final quarter of this year, and they see the supply-demand balance returning to a surplus if the producer group continues boosting output as currently planned.

OPEC+ faces a real challenge in the months ahead, needing to reduce supply just as many members are itching to open their oil taps some more. Unless oil demand turns out much stronger, or production outside the OPEC+ group much weaker than OPEC analysts predict, the time will soon come when the members will again have to contemplate cutting, rather than raising, output. When that happens, expect the old (and new) divisions to emerge again, and the meetings to go back to being long and difficult.

Saudi price cut raises possibility of competition over market share

(Bloomberg; Sept. 5) - Oil could lose ground this week after Saudi Arabia slashed crude prices for Asian buyers, raising the prospect of fierce competition among sellers as the resurgence of COVID-19 continues to cloud the demand outlook. The kingdom cut the price of its flagship crude for October by just over $1 a barrel just days after OPEC+ agreed to continue boosting output. Traders were caught off guard by the Saudi move, attributing it to factors including increased competition and a push to hold market share.

"The Saudis cut the price to Asia by more than expected," said Ole Hansen, head of commodities strategy at Saxo Bank. "This obviously raises speculation whether they're looking for market share or whether they see a weak demand situation that requires a lower price in order to stay competitive." Oil's rally over the first half of the year has been interrupted by the Delta variant of the virus, which has led to renewed restrictions on mobility. Adding to bearish sentiment has been the readiness of governments to release strategic petroleum reserves, reducing the need for supplies from the market.

Last month, some Asian customers requested less Saudi crude due to the demand impact from Delta. It remains challenging for analysts and traders to form a cohesive picture of the global demand outlook due to the continuing spread of the virus. Still, fuel consumption in the U.S. has climbed to a record, while inventories at key storage hubs such have dipped, a sign that the pandemic-induced glut is quickly dissipating. Global oil supplies are increasing as the Organization of the Petroleum Exporting Countries and its allies are raising output by an additional 400,000 barrels per day a month.

Total will invest $10 billion in Iraq oil and gas over 7 years

(Bloomberg; Sept. 5) - Iraq's government and TotalEnergies agreed on a $27 billion package of investment deals aimed at boosting oil and gas output and reducing power outages in OPEC's second-biggest producer. The French energy company will invest $10 billion in the projects over seven years, Iraq Oil Minister Ihsan Abdul Jabbar said at a ceremony in Baghdad. Work on the projects will start in southern Iraq by the end of the year, TotalEnergies Chief Executive Office Patrick Pouyanne said at the event.

Under the agreement, TotalEnergies will invest in the large Ratawi oil field in the southern province of Basra, and bring expertise in seawater injection to the region's oil wells to maintain their production, Bloomberg reported Sept. 3, citing people with knowledge of the situation. TotalEnergies will also help Iraq to capture gas associated with several oil fields in the region and will build a large solar plant. The agreement marks the biggest investment by a foreign company in Iraq, Abdul Jabbar said.

The accord comes ahead of elections in Iraq next month. The country faces frequent electricity blackouts with infrastructure investment in the oil-rich nation hobbled by years of conflict, terrorism and insecurity. While Iraq pumps about 4 million barrels a day of oil, more than any other member of the Organization of Petroleum Exporting Countries other than Saudi Arabia, international companies also have been put off in recent years by tough contractual terms, payment delays and political instability. Making better use of its own gas could help Iraq reduce its dependence on imports of the fuel from Iran.

Nigeria hopes lower royalties will attract investment

(Bloomberg analysis; Sept. 2) - Nigeria's vast reserves of oil and gas have generated great riches but are also blamed for fostering conflict, corruption and poverty. Now the country's leaders want to almost triple its crude production just as a warming world seeks to accelerate a move away from fossil fuels. After years of stagnant oil output, the government this summer finally enacted a long-delayed law cutting taxes levied on energy companies to more globally competitive levels.

Royalties will now range from 5% to 15%, depending on where fields are located, down from the previous 7.5% to 20%. Communities affected by exploration wanted oil firms to be compelled to allocate the equivalent of 10% of their operating expenses to local projects, but had to settle for 3%. The government also wants to revamp moribund state-owned refineries to help wean Africa's largest oil producer off refined fuel imports. The legislation seeks to end legal and regulatory uncertainty that's delayed investment and led to lawsuits and disputes over licenses.

Nigeria's drive to attract foreign capital faces stiff competition from the likes of Saudi Arabia, Russia and Angola, which also want to push more oil while there's still demand. Nigeria's hope is to avert the so-called stranded assets problem confronting oil, gas and coal companies. The nation currently pumps about 1.5 million barrels of oil a day, down from a peak 2.5 million in 2005, attributed to a lack of investment in new wells, oil theft and quotas set by OPEC. President Muhammadu Buhari's administration is banking on an influx of private capital to boost production to 4 million barrels a day by 2025.

High natural gas prices could hinder global economic recovery

(Bloomberg; Sept. 3) - Natural gas prices are undergoing a historic surge, and it's bad news for everyone from ceramic makers in China to customers of patisseries in Paris. The cost of the fuel is already at record seasonal highs in most major markets and looks likely to rise further, threatening to dent the recovery from the COVID-19 pandemic. The coming winter may give the world a painful lesson in just how pervasive and vital gas has become for the economy. Unaffordable prices could crimp household spending and erode their wages through inflation, giving central bankers some difficult policy choices.

Worse still, actual supply shortages could idle swathes of industry, or even trigger blackouts in developing countries, potentially causing social unrest. "Energy lies at the base of an economy," said Bruce Robertson, an analyst at the Institute for Energy Economics and Financial Analysis. "High energy prices reverberate through the supply chain" and could dent the nascent recovery, he said.

Gas began to rise in earnest at the start of summer in the Northern Hemisphere, when it became increasingly clear there wasn't enough supply in Europe to allow for the usual refilling of storage depleted in winter. The continent's largest supplier, Russia, has been limiting pipeline exports for several reasons including high domestic demand, output disruptions and an agreement to move less of the fuel through Ukraine. Consumers in Europe are now at the mercy of the weather and prices "will now depend on how cold this winter is," said Alfred Stern, CEO of Austrian oil and gas producer OMV.

[Rising LNG prices push down demand in China’s industrial sectors]

(S&P Global Platts; Sept. 2) - High LNG prices in recent months have curbed natural gas consumption in some of China's downstream sectors like heavy-duty trucking, and forced energy-intensive businesses like ceramics to either slash output or suspend operations as fuel costs continue to surge. The demand destruction in industrial and transportation sectors comes amid China's recovery from pandemic-related economic deceleration, and some downstream businesses shutting completely due to fuel costs could reduce third-quarter gas consumption and fourth-quarter LNG procurement.

China's gas demand comes mainly from four sectors — industrial, city gas, power generation and chemicals. The industrial and city gas sectors each accounted for 37% to 38% of total gas demand in 2020, power generation 16% and chemicals 9%, national data showed. The power sector's gas consumption is capped by regulated electricity prices that prevent utilities from passing on higher fuel costs to consumers. The bulk of industrial gas demand comes from ceramics, glass, cement, steel, paper, textile, food and pharmaceuticals that use kilns or boilers for heating purposes.

Many of these factories, which typically use coal-fired kilns or boilers, were asked to switch to using gas last year under the government's coal-to-gas initiative, and the surge in gas prices heavily squeezes their profits. Some regions have also clamped down on gas use or diverted fuels to residential use and industries deemed essential like power generation when shortages emerged.

[High LNG prices drive utilities to burn more polluting fuels]

(Reuters; Sept. 3) - Surging liquefied natural gas prices are prompting utilities across Asia and the Middle East to burn more high-sulfur fuel oil (HSFO) than usual to meet increased power demand during summer, analysts and traders said. The move toward the cheaper but more polluting HSFO highlights the problems faced by developing countries that have to grapple with the economics of lower costs versus meeting emission-cutting standards.

The strong demand for the residual fuel oil could last beyond the summer as the global economic recovery from the coronavirus gathers momentum and global LNG prices hold firm at more than twice where they averaged in 2020, the analysts said. "With (spot) LNG prices surpassing HSFO, power generation plants are switching from gas to oil where possible," said Serena Huang, Vortexa's Asia lead analyst, highlighting strong power demand in the Middle East, Pakistan and Bangladesh.

"Fuel oil imports are likely to rise further as LNG prices continue to head north amid tight supply-demand fundamentals," said Huang. Asian spot LNG prices are at their highest since January and also at their highest for this time of the year since at least 2010. They are expected to climb further during the Northern Hemisphere winter when demand for

LNG for heating typically surges. On a forward-price basis, a Singapore-based fuel oil trader said, spot LNG is trading above fuel oil prices through the first-quarter of 2022.

LNG buyers ask for extra supplies at lower, oil-linked contract prices

(Reuters; Sept. 2) - Liquefied natural gas buyers with long-term, contracts are asking their suppliers for extra volumes of the fuel pegged to oil prices, which are currently much lower than spot-market LNG prices, several trade and industry sources told Reuters. Some have requested to load bigger cargoes bought under their long-term contracts instead of turning to the spot market to buy additional cargoes, or have asked for earlier delivery of the cargoes, the sources said.

“Oil-linked LNG prices are now about 25% cheaper than spot, so buyers are trying to optimize wherever they can and are buying only what they absolutely need in the spot market,” a Singapore-based LNG trader said, declining to be named as he was not authorized to speak with media. Asian spot LNG prices are trading at about $20 per million Btu, the highest ever for this time of year, and this winter may surpass the previous peak reached earlier this year, especially if winter turns colder than expected.

Spot prices have tripled from this year’s low in February and are nearly 10 times higher than the record lows seen last year. Some buyers have requested to exercise a contract clause known as Upward Quality Tolerance, which is typically a flexibility embedded in long-term oil-price-linked contracts where buyers are able to request about 5% to 10% higher volumes, the sources said. Whether sellers agree to the requests depends on availability of cargoes, a source with an LNG producer said.

LNG tanker operators burn more fuel oil to save money

(Reuters; Sept. 3) - Liquefied natural gas tankers are burning more dirty fuel oil than normal after the price of their cargo soared above that of oil, trade and shipping sources said. LNG tankers often use some of their cargo, stored in liquid at super-cold temperatures, for power as a small portion tends to evaporate, or "boil off," during transit and needs to be removed from the tanks anyway to avoid a build-up of pressure.

Older LNG tankers run on steam turbines that burn a combination of fuel oil and boil-off gas, while vessels built after 2014 have more efficient dual or tri-fuel diesel engines that burn a mixture of marine gasoil and boil-off gas. When gas prices were lower, operators chose to boil off more of their cargoes over using fuel oil to power the ships. But the price of LNG is so high that they are trying to avoid using more than necessary of the stored gas and are instead relying on cheaper fuel oil, the sources told Reuters.

"It's unusual for fuel oil to be cheaper than LNG, so traders are taking advantage of the cost economics to save on voyages," a Singapore-based shipping source said. Spot LNG is now about $200 a tonne costlier than the fuel oil used in the marine sector in the hubs of Singapore and Rotterdam, the sources said. Over the past few years, gas prices traded well below fuel oil or marine gasoil prices, so LNG tankers typically relied mainly on the boil-off gas for power, sources said. But a spike in spot LNG prices over the past year has placed fuel oil at a steep discount and made it the fuel of choice.

Russian LNG project may get financing help from China and Japan

(Reuters; Sept. 3) - Japanese and Chinese banks may provide more funding for Russia's Arctic LNG-2 project amid a lack of support from European governments, Leonid Mikhelson, head of the project's major shareholder, Novatek, said on Sept. 3. Shareholders in Russia's Novatek this year approved external financing of $11 billion for the $21 billion project, which is expected to start production of liquefied natural gas from the first of three liquefaction trains in 2023.

A document seen by Reuters last year said project financing was to include about $1 billion from France and Germany. Fundraising will be split three ways between Russia, China, and with Japan and Europe combined, Mikhelson said in April. The project's equity partners include France's Total, China National Petroleum Corp., China National Offshore Oil Corp., and the Japan Arctic LNG consortium, comprised of Mitsui and state-owned JOGMEC, formally known as Japan Oil, Gas and Metals National Corp.

A group of mostly Green Party lawmakers from the European Parliament in May urged the leaders of Germany, France and Italy not to support the project over climate change concerns. Despite having European equity partners, Mikhelson said he does not “see support from the governments of these partners," which would mean a lack of export credit agency backing from the governments. Chinese and Japanese banks may take on the rest of the financing, he said. The Arctic LNG-2 plant will be across the bay from Novatek-led Yamal LNG, the first terminal in Russia’s Arctic. Yamal started up in 2017.

Most oil and gas production still offline after hurricane

(Reuters; Sept. 5) - Energy companies have been coping with damaged platforms and onshore power outages and logistical issues, slowing efforts to restart production after Hurricane Ida hit the U.S. Gulf of Mexico. Some 88% of crude oil output and 83% of natural gas production remained suspended as of Sept. 5. About 1.6 million barrels of crude oil remained offline, and 1.8 billion cubic feet per day of gas output also was shut-in, according to federal regulators. A total of 104 oil and gas platforms and five rigs remain evacuated on Sept. 5, down from the 288 originally evacuated.

Shell, the largest U.S. Gulf Coast producer, on Sept. 4 was evaluating damage to its West Delta-143 offshore platform, which transfers about 200,000 barrels of oil and gas per day from three offshore fields. The lower Mississippi River and New Orleans ports reopened to traffic and cargo operations, the Coast Guard said on Sept. 4, allowing the resumption of grain, metal and energy shipments. Four oil refineries in Louisiana have initiated restarts after Hurricane Ida knocked out most of the state's oil processing. Five others have yet to resume operations, the U.S. Department of Energy said Sept. 5.

Utilities have restored electric power to seven of the impacted refineries since Sept. 3, the Department of Energy said. The five refineries still shut in Louisiana account for about 1 million barrels per day, or approximately 6% of total U.S. operable refining capacity, the department said.

Gulf Coast recovery struggles with damage to heliports, fuel depots

(Reuters; Sept. 2) - Hurricane Ida's extensive damage to Louisiana heliports and fuel depots is hampering the return of offshore production crews to U.S. Gulf of Mexico platforms, according to two people familiar with the matter. The helicopter companies that service offshore energy producers are struggling to get access to fuel in Louisiana, after many tank farms became unreachable because of damages to roads and power. That has cut the number of flights they can handle in a day, the people said Sept. 2.

"We are trying to move the fuel first to Louisiana, then the staff," said an executive of an offshore oil producer. "On top of everything, staff is dealing with their personal issues, including losing houses and the lack of transportation to reach the base camps," the person said. Many transport companies had moved their helicopter fleets to Texas to avoid damages ahead of the storm. U.S. Gulf Coast deepwater oil producers rely on helicopters as their primary means of ferrying staff to offshore platforms.

Refinery shuts down unit as oxygen supply directed to medical needs

(Bloomberg; Sept. 2) - A refinery on the Texas Gulf Coast shut part of a key processing unit due to a lack of oxygen supply amid a resurgence of the coronavirus pandemic, with authorities citing increased medical demand for the gas. Citgo Petroleum is shutting down a section of a sulfur recovery unit known as a B-train for four days due to the loss of third-party oxygen supply “resulting from increased medical field demand,” according to a state filing. Oxygen is used to boost the unit’s ability to recover the sulfur.

Oxygen supplies have been tightening in parts of the U.S. due to medical use of the gas as COVID-19 patients require intensive care. In recent days, Premier, a supply-purchasing group, said hospitals in the Southeast were running low on oxygen, with the worst-hit left with only 12 to 24 hours worth. The impacted refinery unit takes sulfur already extracted from feedstocks and products in the form of acid and gas streams and turns it into a solid. Citgo’s filing with the state did not indicate an impact to production.

A similar situation took place in India earlier this year when the Asian nation was hit by a crippling wave of cases that overwhelmed health care facilities. Local refiners such as Indian Oil Corp. diverted oxygen from industrial operations to hospitals, prompting processors to scale down operations. Citgo’s 167,500-barrel-a-day refinery has two refineries several miles apart operating as one in Corpus Christi and known as the East and West plants. The sulfur recovery unit that was curtailed is located at the West Plant.

Polish gas company signs up for more U.S. LNG

(Natural Gas Intelligence; Sept. 2) - Liquefied natural gas developer Venture Global LNG said Sept. 2 it has finalized a deal that would make it the top U.S. supplier of the fuel to Poland. A sale and purchase agreement signed in Warsaw calls for Polish Oil and Gas Co. (PGNiG) to buy 2 million tonnes per year from Venture’s two Louisiana facilities for 20 years. That brings the total off-take under contract to PGNiG to 5.5 million tonnes per year over 20 years.

Including this most recent sales agreement, PGNiG is set to purchase 1.5 million tonnes per year from the Calcasieu Pass project, which is under construction and expected to come online by the end of the year. It also plans to purchase 4 million tonnes per year from the planned Plaquemines LNG, which is scheduled for sanctioning in the last quarter of this year.

Poland has been working in recent years to cut its reliance on Russian natural gas supplies by expanding its relationships with additional pipeline suppliers and LNG exporters, particularly those in Norway, Qatar and the U.S. PGNiG’s Paweł Majewski, president of the management board, said the supplies also would allow the country to trade LNG on the global market. The company recently signed an agreement with Knutsen Shipping for the charter of two LNG carriers starting in 2024.

U.S. explorer challenges Mexico’s decision on oil field

(Bloomberg; Sept. 3) - Talos Energy, the U.S. explorer behind Mexico’s largest oil find in years, is taking the first step toward an international dispute after control of the field was given to state producer Pemex. The Houston-based driller sent the Mexican government a dispute notice Sept. 3, a required step before moving to arbitration under the U.S.-Mexico-Canada Agreement. The takeover of the Zama oil field in July was a violation of the agreement, Talos said in a statement.

The government of Mexican President Andres Manuel Lopez Obrador, who has pledged to put the country's oil back in the hands of the state, named Pemex as Zama's operator and gave it a 50.4% stake. It was one of his latest moves to backtrack on the previous administration's historic reforms to open up the energy industry to private investment.

Talos and its partners discovered Zama in 2017 after winning the block in Mexico's first-ever competitive oil auction, before Lopez Obrador took office in 2018. His government later determined that the Zama field extended past the boundaries of the Talos block and into a neighboring field belonging to Pemex, and Mexico officials ordered Talos and Pemex to unify the shared reservoir.

The Talos-led venture has invested nearly $350 million in the project. Though Pemex won control of the field, it doesn't have the $2 billion needed to develop the prospect, sources said. The Talos-led group has followed up with three successful appraisal wells, while Pemex has failed to drill a single confirmation well on its neighboring area.

Bakken Shale growth has not been easy on North Dakota county

(The Associated Press; Sept. 5) - First came the roughnecks and other oil field workers, almost all men. Lured by steady wages as the U.S. climbed out of the Great Recession, they filled McKenzie County's few motel rooms, then began sleeping in cars, tents, trailers — anything to hide from the cold wind cutting across the North Dakota prairie. Once empty dirt roads suddenly were clogged with tanker trucks. Crime rates spiked.

The workers' spouses and children arrived. Classrooms swelled. Apartment buildings cropped up beside oil rigs. And the newcomers made this Northern Plains community their own. The growth made McKenzie the nation's fastest-growing county during the past decade, according to the Census Bureau. It shattered the rural innocence of a region known for inhospitable winters and long summer days perfect for growing crops.

But it also brought youth, diversity and better wages — breathing life into somnolent towns that had been losing population since the 1930s. Watford City spilled out onto surrounding farmland. The flat, largely barren landscape now features mile after mile of worker camps, shopping centers, subdivisions, hotels, truck yards and warehouses.

Ten years on, the Bakken Shale frenzy has settled. The wariness that newcomers and locals held for one another eased. Lives got stitched together through school events, church and youth football games. By 2020, census figures show, the city's population more than doubled, to 14,704 residents. Bypasses were built to ease congestion and pipelines replaced tanker trucks. At the height, almost 4,000 trucks daily crawled through the city. Amid lower oil prices, recent counts are just over 320 trucks a day.

First Arctic LNG-2 liquefaction unit at sea, headed to Siberia

(The Barents Observer; Norway; Sept. 2) - The gas liquefaction module was built at Wison Offshore & Marine’s Zhoushan shipyard in China and is en route toward Novatek’s Kola yard in Belokamenka north of Murmansk, Russia. At the yard, the giant module will be mounted atop a large gravity-based structure before final towing to the coast of the far northern Gydan Peninsula in Ob Bay in Siberia.

The facility will be Novatek’s first liquefaction train for the gas producer’s Arctic LNG-2 plant. Production at Train 1 is scheduled to start up in 2023. A year later, in 2024, Train 2 will start production, while the final Train 3 is set to start operation in 2025. Each of the three trains will have a production capacity of 6.6 million tonnes per year. The total project cost is estimated at more than $20 billion.

Novatek is Russia’s largest privately owned natural gas company and operates Russia’s first Arctic LNG production and shipping terminal, the Yamal LNG plant, also on Ob Bay. Unlike Yamal LNG, which was built onshore, Arctic LNG-2 will entirely be based on a floating production platform anchored to the seafloor. The Norwegian open-deck, heavy-lift vessel, the GPO Grace, is bringing the production module from China to Murmansk. Estimated arrival at the Kola yard in Belokamenka is Sept. 16.

Japan, Russia will work together on hydrogen, ammonia production

(Reuters; Sept. 2) - Japan and Russia on Sept. 2 agreed to work together on hydrogen and ammonia production, the Japanese industry ministry said, as the long-time partners in oil and gas shift the focus to cleaner alternatives to fossil fuels. Japanese Industry Minister Hiroshi Kajiyama and Russian Energy Minister Nikolai Shulginov signed a statement of cooperation after a virtual meeting as part of the Eastern Economic Forum, which started on Sept. 2 in Vladivostok, Russia.

The nations will cooperate in research and development and on technology to reduce planet-warming emissions in the atmosphere, including carbon capture and storage (CCS) and carbon capture and utilization (CCU). While Russia is energy rich, resource-poor Japan is accelerating its efforts to build global supply chains of potentially carbon-free fuels. Japan's industry ministry also signed a memorandum of cooperation with Russia's largest LNG producer, Novatek, on hydrogen, ammonia, CCS and CCU.

Hydrogen is mainly used in oil refining, and ammonia is used for fertilizer and industrial materials, but both are considered to have potential to replace higher-carbon fuels in the future. Japan has been experimenting with hydrogen to displace natural gas and in replacing some coal with ammonia. It aims to increase its annual hydrogen demand to 3 million tonnes by 2030, and 20 million tonnes by 2050 from about 2 million tonnes now, and to grow its ammonia fuel demand to 3 million tonnes a year by 2030 from zero now.

Russian Arctic miner helps with design of diesel/LNG icebreaker

(Reuters; Sept. 3) - Metals miner Nornickel said it will participate in the design and building of Russia's first dual-fuel liquefied natural gas and diesel icebreaker to prepare for more capacity in the environmentally sensitive Arctic. Russia, which has a fleet of nuclear-powered icebreakers, has long considered LNG-powered icebreaking ships to develop the Northern Sea Route into an international shipping lane from Arctic waters.

Nornickel, the world's largest palladium and nickel producer, said on Sept. 3 it will team up with Rosatom, the state operator of the shipping route, and the shipbuilding arm of Russian oil giant Rosneft for the project. They plan to design and build the new icebreaker to escort ships carrying Nornickel's cargo from its Arctic assets. Icebreakers are currently needed to clear a channel from November to June to allow ships to pass. Nornickel, which is producing gas for its own needs, is also making a bet on LNG-powered technology as it sees the fuel as less harmful to the environment than diesel.