Oil and Gas News Briefs
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Lack of workers, capital, supplies make it hard to boost U.S. oil

(Christian Science Monitor; April 15) - One reason U.S. gasoline prices remain so high lies in the ruts of J&J Rental's parking lot in Watford City — the heart of North Dakota's oil country. At a time when spiking oil prices should be driving a boom in drilling, helping to relieve those painful numbers at the pump, two of the company's five rigs have been idle. In January, as oil prices climbed steadily higher, vice president Greg Burbach started getting daily calls from customers interested in hiring the rigs. Over the next two months, he spent $12,000 on ads across the country trying to hire workers. He got one.

Customers still call weekly to see if he's assembled any crews to run the $900,000 pieces of equipment. He hasn't — despite offering a monthly housing allowance, a daily bonus and a 10% pay raise. "I can't just hire people off the street," said Burbach, walking around one of the rigs, which stands 104 feet tall, with a ladder for crews to climb and long guy wires to anchor it to the ground. With the winds that whip across the prairie here, it requires experienced hands to operate the machines safely.

Burbach has seen his fair share of booms and busts. But something is different this time. Despite oil soaring to more than $100 a barrel, almost no one here is expecting a significant boost in production this year. They can't get workers. They can't get capital from Wall Street. They can't secure new leases on federal lands. And the cost of doing business has gone up dramatically — from labor to steel to the diesel needed to drill.

"We were told not to drill and shut everything down because the planet's going to burn up," said Dave Williams, CEO of Missouri River Resources, an oil producer on the Fort Berthold Reservation. "And now we've got everyone saying we've got to produce as much as we can." North Dakota illustrates there is no switch to flip that will instantly boost U.S. oil output, not even in one of the most prolific, pro-oil states in the country.

Federal lease sale reduces acreage and boosts royalty rate

(The Wall Street Journal; April 15) - The Biden administration announced lease sales for oil and gas drilling on federal land on April 15, but said it would sharply reduce the acreage available for leasing and charge higher royalties on the oil and gas produced. The Interior Department said it would make roughly 144,000 acres available for oil and gas drilling in nine states (none in Alaska) through a series of lease sales, an 80% reduction from the footprint of land that had been under evaluation for possible leasing.

Companies will also be required to pay royalties of 18.75% of the value of what they extract, up from 12.5%. Royalties for onshore oil and gas drilling generated about $1.5 billion to $3 billion a year for the U.S. Treasury during the past decade, according to the Congressional Research Service. The announcement comes after weeks of pressure on the administration to take action and promote more drilling to address high energy prices driven by the economic rebound from COVID-19 and Russia's war on Ukraine.

As a candidate, President Joe Biden called for ending oil and gas drilling on federal lands as a way to cut greenhouse gas emissions that contribute to global warming. He ordered a moratorium on new leases on the day he took office. That moratorium was put on hold by a federal judge on June 15, after 13 states sued to block it — saying Congress requires the development of abundant energy resources on public lands. The leasing decision is unlikely to deliver quick relief, since even after a lease has been granted it can take months or years to tap the oil that can meaningfully add to supply.

Sanctions on Russia will make it hard to develop oil and gas

(National Public Radio; April 15) - Russia's government depends heavily on oil and gas revenues to help bankroll its budget and even to potentially help fund its war in Ukraine. For years, Moscow has sought to ensure its place as one of the world's top energy producers by expanding drilling in the Arctic. But the Kremlin's war in Ukraine could jeopardize those plans. Despite harsh conditions and high costs, Western companies — among them Shell, Exxon, TotalEnergies — have flocked to Russia's far north for over a decade, providing critical financing, technology and expertise to Russian companies.

“The oil exploration — just the drilling and the operations and the project management — has all been done with Western technology,” said David Goldwyn, president of Goldwyn Global Strategies, an energy advisory firm. “It will be extremely hard for the Russians to develop oil and gas resources without Western technology. They have some conventional drilling technology themselves, but not the special coatings and pipe and artificial intelligence, which they need to develop those oil and gas fields.”

Matt Sagers, who specializes in Russian energy at S&P Global, a research and analysis company, said the U.S. and its allies knew where to target their sanctions. “It was about hitting Russia in their future development. It was about sending a shot across the bow of basically cutting off their future.” Western oil and gas companies, many with significant stakes in Arctic projects, have announced they will unwind their operations in Russia or pull out completely, Sagers said. “It's become very difficult to do business in Russia. Not only do you have the reputational risk, but you also have the financial issues as well.”

India profits from buying Russian crude, refining it and selling diesel

(Bloomberg; April 13) - Growing calls for the European Union to ban Russian oil imports may be overlooking a crucial flaw in its strategy to punish Moscow: India. The South Asian nation is becoming a huge buyer of Russian oil, snapping up crude cargoes that are going unwanted by European importers. And with several European countries and oil majors self-sanctioning Russian purchases and starving themselves of fuel, India is already profiting from selling diesel onward to Europe.

If Europe adopts official sanctions on Russian crude and fuel, prices will likely surge, and India could profit even more from refining Russian oil it then sells to Europe for more money. It's a plot twist that reflects how complex it is for the EU to untangle itself from Russian energy imports. Though the bloc is making strenuous efforts to move away from Russian oil and gas, a country like India could keep profiting by selling fuel made from the crude to energy-starved Europe. That would weaken the argument of EU countries which are calling for punishing the Kremlin by not funding its energy sales.

"That is the cost of sanctions or self-sanctioning," said Jonathan Leitch, an oil analyst at Turner, Mason & Co. Shipping Urals grade Russian crude to India, refining it and then selling it to Europe, "adds a lot of unnecessary tonne/miles and gives a larger profit to the Indian refiners and results in a higher retail price for the consumer," he said. Indian refiners — state-run and private — have stepped up processing Russian oil and the volumes will rise as more shipments start arriving this month and next after processors aggressively bought cargoes shunned by others, according to refinery officials.

Global traders wind down Russian oil to stay clear of sanctions

(Reuters; April 14) - Major global trading houses are planning to reduce crude and fuel purchases from Russia's state-controlled oil companies as early as May 15, sources said, to avoid falling foul of European Union sanctions on Russia. The move comes even though the EU has not imposed a ban on imports of Russian oil in response to its invasion of Ukraine because some countries, such as Germany, are heavily dependent on Russian oil and do not have the infrastructure in place to switch to alternatives.

Trading companies, however, are winding down purchases from Russian energy group Rosneft as they seek to comply with language in EU sanctions that were intended to limit Russia's access to the international financial system, sources said. The wording of EU sanctions exempts oil purchases from Rosneft or Gazpromneft, which are listed in the legislation, deemed as "strictly necessary" to ensure Europe's energy security.

Traders are wrestling with what "strictly necessary" means, the sources said. It may cover a refinery receiving Russian oil through a captive pipeline, but it may not cover the buying and selling of Russian oil by intermediaries. Traders are cutting purchases to ensure they comply by May 15, when EU restrictions take effect. The inclusion in sanctions of Russia's state infrastructure firm Transneft that owns the key ports and pipelines will add a further layer of complexity for any future sales.

[Pakistan cannot afford LNG or coal, shuts down generating plants]

(Bloomberg; April 18) - Pakistan is cutting electricity to households and industry as the cash-strapped country can no longer afford to buy coal or natural gas from overseas to fuel its power plants. The South Asian nation is struggling to procure fuel from the spot market after prices of liquefied natural gas and coal surged to records last month as the war in Ukraine exacerbated supply shortfalls. Pakistan's energy costs more than doubled to $15 billion in nine months ended February from a year earlier, and it isn't able to spend more to buy additional shipments.

About 3,500 megawatts worth of power capacity had been shut due to the fuel shortages as of April 13, according to a Twitter post by Miftah Ismail, who has been selected as finance minister by new Prime Minister Shehbaz Sharif. A similar amount is offline due to technical problems, he said. The more than 7,000 megawatts offline represents almost a fifth of the country's total generation capacity.

The electricity crunch is complicating the already tough economic challenge for Sharif — who has yet to appoint an energy minister — after former leader Imran Khan was ousted last week following a period of political turmoil. A relatively poor nation that's highly dependent on energy imports, Pakistan has been hit especially hard by rising fuel costs. Adding to the problem, Pakistan's long-term LNG suppliers canceled several shipments scheduled for delivery over the past few months, further tightening supplies.

[U.S. natural gas futures at $7.30 — almost double of a year ago]

(The Wall Street Journal; April 14) – Natural gas prices extended their climb on April 14, bucking seasonal trends as demand from overseas continues to pressure inventories. U.S. natural gas futures for May delivery rose 4.3% to $7.30 per million Btu — a 96% rise in the year to date. While gas stockpiles rose modestly during the week ended April 8, they remain nearly 25% below last year's levels and 18% below the five-year average for this time of year, according to the U.S. Energy Information Administration.

Demand for natural gas usually wanes in the spring as temperatures pick up, pushing prices lower before gas-powered cooling demand kicks in for the summer. But geopolitics and supply issues have driven a sharp rise in the commodity's price in 2022. Energy prices have been higher across the board since the war in Ukraine and Western sanctions curtailed demand for Russia's oil and natural gas exports. As Europe seeks alternatives, demand for U.S. natural gas has driven prices to the highest levels since 2008. For comparison, prices were below $2 per million Btu before the pandemic.

While analysts expect developments overseas to keep natural gas prices higher this summer, the weather will come into play. Demand for the power-generation fuel tends to rise with extreme temperatures, which means hot weather could be bullish for the market. Analysts at energy advisory firm Ritterbusch & Associates said they expect the steep prices to continue.

Cheniere says high U.S. natural gas prices due to underinvestment

(Reuters; April 14) - Top U.S. liquefied natural gas producer Cheniere Energy on April 14 said surging U.S. natural gas prices reflect past underinvestment in new production, followed by "a demand shock" as Europe seeks to wean itself from Russian gas. The high prices will spur more production that will benefit consumers, said an executive with the company that built the first LNG export terminal on the U.S. Gulf Coast.

Gas at the main U.S. hub hit $7.30 per million Btu on April 14, up 96% this year to a 13-year high on record demand. "What we are going through now is a demand shock to the industry that came after a relatively long period of underinvestment," Executive Vice President Anatol Feygin said in an interview at Cheniere's Sabine Pass LNG export terminal. "We think the resource is there and our ability to attract that resource and bring it into the right markets will ultimately result in a more attractive domestic gas price.”

Cheniere’s two plants in Texas and Louisiana can produce up to 45 million tonnes of LNG per year, about 10% of global demand last year. The spike in LNG demand from Europe, as buyers steer clear of Russian gas, has not changed Cheniere's focus on its Asia markets, Feygin said. "Ultimately the driver of growth for energy demand, for natural gas and LNG, we think is going to continue to be Asia.” Cheniere's success has encouraged rivals to propose several new plants along the U.S. Gulf coast.

China signed record volume of LNG supply contracts in 2021

(S&P Global Platts; April 15) - China signed a record high 22.7-million-tonnes-per-year of LNG term contracts in 2021, up 516% year on year, with some contracts starting delivery in 2022, which will boost LNG imports in coming years, state-owned oil and gas company CNPC's Economics & Technology Research Institute said in its latest report.

The institute said China's gas imports in 2022 are forecast to reach a total of 6.5 trillion cubic feet (about 135 million tonnes), up 10.1% year on year, supported by higher volumes through the Russia-China pipeline eastern route and commissioning of new LNG import terminals. China has increased its pipeline imports from Russia to about 1.5 billion cubic feet per day since December (about 11 tonnes a year), with the volume expected to further increase as more pipeline infrastructure is built, the institute said.

China overtook Japan to become the world's biggest LNG importer in 2021. Meanwhile, China's domestic natural gas production is expected to reach 7.8 tcf in 2022, up 6.2% on the year, slightly higher than the target set by the National Energy Administration. Domestically produced natural gas is expected to account for 55% of the country's total gas supply, while imported LNG and pipeline gas are estimated to account for 30% and 15% of the total supply in 2022, respectively, the institute report said. China's gas demand is expected to grow by 8.2% in 2022, slowing from 12% in 2021.

Japan’s government to help with funding for LNG expansion projects

(Reuters; April 15) - Japan plans to step up its investment role in upstream projects for liquefied natural gas, to spur new development and boost fuel off-take by its companies, the industry minister said April 15. Investment in new LNG development worldwide has dropped significantly as a global trend toward decarbonization grows, although demand, especially in Asia, had risen, even before the Ukraine crisis, Koichi Hagiuda said.

“Russia’s invasion of Ukraine has intensified competition for purchasing LNG, raising concerns about stable supply of the fuel for Japan,” he told a news conference. “The government needs to come to the forefront to secure LNG through cooperation with the private sector.” The government aims to provide “risk money” through the state-run Japan Oil, Gas and Metals National Corp. for existing LNG projects that can boost output quickly via expansion, he said, but gave no details.

Japanese energy company looks at expanding into China

(Nikkei Asia; April 18) - Japanese energy group JERA, one of the world's biggest importers of liquefied natural gas, has taken a step toward a possible expansion of its LNG business to China. JERA, a 50-50 joint venture between Tokyo Electric Power and Nagoya-based Chubu Electric Power, recently established a unit in Beijing to conduct market research for LNG terminal construction and trading.

The move comes after China surpassed Japan as the world's top LNG importing nation. Chinese demand for energy is only expected to rise as its economy grows. Several JERA employees have been assigned to the new unit. The company will consider geopolitical risks, including Russia's war on Ukraine, as it makes a decision on a Chinese business. China's LNG imports rose by one-fifth in 2021 to about 80 million tonnes, compared with Japan's roughly 75 million tonnes imported that year.

JERA is involved in everything from procurement and production of LNG to gas-fired power generation. The company handles 40 million tonnes of LNG a year and accounts for about 40% of Japan's gas imports. Its hubs for LNG trading include Singapore. A

Chinese LNG business by JERA could help provide stability to Japan's energy supply. In one scenario, excess LNG in China could be diverted to Japan to meet a shortfall.

U.S. Export-Import Bank expands financing of energy projects

(Bloomberg; April 14) - The U.S. Export-Import Bank approved a plan April 14 that could yield a flood of financing for U.S. energy ventures, including wind and solar projects, battery manufacturing and also terminals to sell LNG overseas. The bank board voted 3-0 on a formal policy shift encouraged by the Biden administration that would extend support to domestic manufacturing and infrastructure projects that facilitate exports.

Under the program, the bank will provide support from capital investment to financing to help secure foreign sales, said Reta Jo Lewis, president of the board of directors. The agency plans to prioritize financing for green projects, from renewable power ventures to clean energy manufacturing. The initiative would apply to non-energy ventures too, including the manufacture of semiconductors, biotech and biomedical gear.

Gas advocates say the initiative could also bolster several proposed U.S. LNG export terminals, especially given the Biden administration's efforts to supplant Russian energy in Europe with U.S. gas. Natural gas backers have cheered the initiative, with LNG supporters arguing that Ex-Im Bank financing could help developers seeking to sell their product to countries with fast-growing energy demand but no bankable credit rating.

Opponents see it otherwise. Potential Ex-Im financing for LNG projects "could translate into billions of dollars" in support "and a catastrophic amount of U.S.-financed greenhouse gas emissions," Friends of the Earth stated. An Ex-Im Bank spokesman said any application the agency receives under the new initiative would be subject to existing environmental and social-impact reviews.

Report finds that LNG-fueled ships leak methane into atmosphere

(Bloomberg; April 12) - Methane leaks from ships using liquefied natural gas as fuel make most of the vessels dirtier than ones using diesel or heavy fuel oil, a new analysis shows. The findings, by Brussels-based nonprofit Transport & Environment, call into question a key plank of the European Union's proposed regulations aimed at decarbonizing the emissions-heavy shipping industry. The study was based on data from the European Commission and global markets analytics firm IHS Markit.

Nearly 80% of ships that burn LNG use a type of engine that leaks 3.1% of the fuel into the atmosphere, according to Transport & Environment. The group used an infrared camera to document methane leaking from LNG-powered ships in Rotterdam. LNG has long been promoted as cleaner than other fossil fuels because it produces less carbon dioxide when burned. But methane, which is the primary component of natural gas, traps 84 times more heat than CO_2 over its first two decades in the atmosphere, and scientists say eliminating releases is crucial to avoiding the worst of climate change.

“Most LNG ships on the market today are more damaging for the climate than the fossil ships they’re supposed to replace,” Delphine Gozillon, a shipping officer at Transport & Environment, said in a statement. “In promoting LNG ships, European policymakers are locking us into a future of fossil gas.”

Putin says Russia will redirect energy supplies to Asia

(Reuters; April 14) - President Vladimir Putin said on April 14 that Moscow will work to redirect its energy supplies eastward as European countries try to reduce reliance on Russian exports, adding that Europe will not be able to completely shun Russian gas immediately. Russia has been forging closer ties with Asia and China, the world's top energy consumer, trying to diversify away from sales to its traditional markets in Europe. Western sanctions over Moscow's invasion of Ukraine have hit Russian energy exports by complicating financing of the deals and logistics.

"What's astonishing is that the so-called partners from unfriendly countries concede themselves that they won't be able to make do without Russian energy resources, including without natural gas, for example," Putin told a televised government meeting. Putin said that Europe, by talking about cutting off energy supplies from Russia, was driving up prices and destabilizing the market. "Unfriendly countries admit that they cannot do without Russian energy resources", Putin said.

Putin said Russia will need to build more infrastructure to boost its energy supplies to Asia. Russia started pipeline gas supplies to China in the end of 2019 after years of painstaking talks and agreeing to cutting prices for the fuel. The two nations announced in February plans for a second multibillion-dollar pipeline to move vast amounts of Russian gas into China, though details were sparse and no timeline provided.

Chinese owner given permission to restart oil sands operation

(Bloomberg; April 14) – China’s CNOOC was granted permission to resume operation of its long-shuttered Long Lake oil sands upgrader in Alberta amid a report that the company may exit Canada. The Alberta Energy Regulator approved the company’s application, filed five months ago, to start an upgrader unit that was shut after a fatal explosion in early 2016. CNOOC must submit a timeline for the restart and the plant will be limited to processing no more than 141,000 barrels a day of oil sands bitumen.

The company plans to resume operation of the vacuum tower by the end of 2022 or early 2023, according to a separate document submitted to the regulator last month. The approval comes as CNOOC — China's biggest offshore driller — is preparing to exit operations in the U.K., Canada and the U.S. amid concern its assets could be subject to sanctions, Reuters reported April 14, citing people familiar with the matter.

Restarting the upgrader would allow Long Lake to produce a lighter, more expensive form of crude oil at a time when the company is expanding the site to generate nearly 100,000 barrels a day. The upgrader converts a thick, sticky type of crude called bitumen into a more valuable, lighter one.