Oil and Gas News Briefs
Compiled by Larry Persily
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Multiple factors could push oil prices lower — or higher

(The New York Times; Aug. 15) - When Russia invaded Ukraine last spring, energy experts were predicting that oil prices could reach $200 a barrel, a price that would send the costs of shipping and transportation into the stratosphere and bring the global economy to its knees. Now oil prices are lower than they were when the war began, having dropped more than 30% in barely two months. On Aug. 15, news of a slowing China economy sent prices down further, to under $90 a barrel for the U.S. benchmark.

Gasoline prices have fallen every day over the past nine weeks, to an average of under $4 nationwide, and prices of jet fuel and diesel are easing as well. That should translate eventually to lower prices for things as diverse as food and airline tickets. But it would be premature to celebrate. Energy prices can spike as easily as they can plummet. “Oil prices always have the capacity to surprise,” said Daniel Yergin, the energy historian.

China, where COVID-19 lockdowns remain widespread, will eventually reopen to more commerce, increasing demand. Withdrawals of oil from the U.S. Strategic Petroleum Reserve will end in November, and it will need to be refilled. And a single unexpected event — such as a hurricane flooding the Houston Ship Channel and taking several Gulf Coast refineries out of commission for weeks or months — could send prices soaring.

But prices could ease further if Iran agrees to a new draft nuclear agreement after it backed off from its demand that the Islamic Revolutionary Guards be removed from the U.S. terrorism list, opening a potential spigot of at least one million more barrels a day of Iranian exports. In addition, the prospect of a continuing increase in interest rates has many investors and economists predicting a recession — and a reduction in oil demand.

Iran could quickly bring more oil to market if sanctions are eased

(Bloomberg; Aug. 16) - A last-ditch attempt by Europe to revive the Iranian nuclear deal has stoked speculation that millions of barrels of oil are set to flood world markets. The return could be swift if Tehran’s previous comeback is any guide. Should an agreement materialize, Iran could ramp up sales within months, raising supply by hundreds of thousands of barrels a day before the end of the year, according to the International Energy Agency. That would help relieve a tight global market.

When sanctions were eased after the 2015 deal, Iran’s crude output was restored more quickly and more completely than analysts had predicted. With no evidence of damage to oil fields or facilities, that feat may be repeated. The Persian Gulf nation also has an estimated 100 million barrels of crude and condensate in storage that can be released almost immediately. Tehran has this week responded to a “final” proposal to reactivate the 2015 nuclear accord, and the European Union is now consulting the U.S. on a “way ahead.” The prospect of Iranian supplies has helped knock down oil prices.

Once stored oil is released, the challenge will be reviving dormant fields and arranging the contracts, tankers and insurance to ship the oil. Iran has continued to maintain many of its fields — and key customer relationships — during the years it’s been shut out of global trade. The country could add as much as 900,000 barrels a day of production within three months of sanctions being eased, and potentially pump near full capacity of about 3.7 million barrels a day in six months, said Iman Nasseri, Dubai-based managing director of energy consultants FGE. Iran now is producing near 2.5 million barrels a day.

Possibility of U.S.-Iran deal helps drive down oil prices

(Bloomberg; Aug. 16) - Oil settled at the lowest in more than six months on Aug. 16 as traders weighed the prospects for increasing Iranian crude exports with a worsening outlook for global economic growth. West Texas Intermediate futures dropped 3.2% to close below $87 a barrel in another volatile, thinly traded summer session. Talks between Iran and European Union negotiators signaled progress toward a renewed nuclear deal that could open the door to crude shipments from the Islamic Republic.

The U.S. benchmark already had weakened amid bearish U.S. economic data that included a rapidly cooling manufacturing sector. That followed lower-than-expected Chinese economic numbers. “The potential for a deal (with Iran) is being priced in,” said Craig Erlam, senior market analyst at Oanda. “But the primary driver of the weakness, which could keep prices around $90 or lower, is the threat of recession around the world and the Chinese lockdowns.” The removal or modification of sanctions on Iran could unleash an additional 1.3 million barrels of daily oil supplies, ING Bank head of commodities strategy Warren Patterson said in an emailed note.

Global oil demand depends on power generation switch from gas

(Reuters columnist; Aug. 15) - The International Energy Agency raised its global oil demand forecast last week, while OPEC lowered its forecast. However, the apparent differing views actually masked an increasing convergence between the consumer and producer groups. OPEC said in its monthly report on Aug. 11 that it expected 2022 oil demand to rise by 3.1 million barrels per day, or 3.2%, which was a decline of 260,000 from its prior forecast. The IEA in its report on the same day raised its forecast by 380,000 barrels per day to 2022 oil demand growth of 2.1 million barrels per day.

While these headline numbers look different, the overall number for 2022 global oil demand is now much closer, with OPEC expecting 100.03 million barrels per day and the IEA forecasting 99.7 million — a difference of just 330,000, largely insignificant. There are similar dynamics driving the convergence of views, with both August reports pointing to an ongoing recovery in top importer China and increases in using crude and fuel oil for power generation amid extremely high prices for coal and gas.

"Soaring oil use for power generation and gas-to-oil switching are boosting demand," was how the IEA characterized growth in oil demand. Similarly, the OPEC report talked of "still healthy growth includes the recently observed trend of burning more crude in power generation." What is less certain is whether the trend of burning crude and fuel oil for power generation is going to be a sustained trend, or whether it's a short-term phenomenon that will fade.

High LNG prices are driving power plants to burn oil and coal

(Bloomberg; Aug. 14) - With high natural gas prices showing no signs of abating and supplies becoming harder to obtain, cheaper and dirtier alternatives to the fuel are looking increasingly tempting for energy-hungry buyers. On an energy-equivalent basis, natural gas was at about double the price of diesel as of early August, with high-sulfur fuel oil and coal cheaper still, according to data from S&P Global Commodity Insights.

In Europe, the situation is similar, with natural gas at around $60 per million Btu, at least triple the price of high-sulfur fuel oil and propane, according to energy consultancy FGE. Even at high prices, there is not enough liquefied natural gas to go around, and the situation is expected to worsen with the approach of winter. The result is that buyers both rich and poor are increasingly eyeing the dirtier alternatives.

“With the concern that supplies could become very tight this upcoming winter, various governments have recently announced they will allow more fuel oil and coal burning in power stations,” said Steve Sawyer, director of refining at industry consultant FGE. The International Energy Agency on Aug. 11 boosted its forecast for global oil demand by 380,000 barrels a day on the expectation of industry and power plants switching to oil.

The shift from gas is a setback in the global push for cleaner energy. Many countries turned to gas as part of decarbonization efforts, as it's the cleanest fossil fuel. Dirtier alternatives from coal to oil will make it more difficult to reach their climate goals.

Spot-market LNG prices in Asia jump to nearly $60

(Bloomberg; Aug. 17) - A global rush to secure shipments of liquefied natural gas for winter has catapulted Asian prices to the highest level in five months. The Asian benchmark spot LNG price jumped close to $60 per million Btu on Aug. 16, the highest since early March when Russia's invasion of Ukraine upended energy markets. Utilities in Asia and Europe are accelerating efforts to secure LNG spot cargoes for delivery in winter, when consumption peaks, exacerbating a shortage and fueling the price rally.

Several Japanese utilities are in the market to procure more LNG shipments for delivery from December onward, according to traders with knowledge of the matter. Korea Gas, one of the world's top buyers, is also seeking to scoop up more winter supply, traders added. Meanwhile, supply disruptions from Australia to the U.S. are curbing the amount of available LNG. The Japan-Korea Marker jumped to $57.728 per million Btu on Aug. 16, more than triple the level this time last year, according to S&P Global. European gas prices settled just below a record high on Aug. 16 amid scorching summer heat.

Santos decides to proceed with oil project in Alaska

(Reuters; Aug. 17) - Australia's Santos said on Aug. 17 it will move ahead with its partner Repsol to develop a $2.6 billion Alaska North Slope oil project in a surprise decision that sent the energy producer's shares lower despite it posting a record first-half profit. Santos decided to go ahead with the Pikka project after failing to sell down its 51% stake, and also flagged it would sell a smaller-than-expected stake (5%) in its prized PNG LNG asset in Papua New Guinea, just 5%.

"What's changed since February is we don't have to sell anything at this point in time. We're in a very strong place," CEO Kevin Gallagher told Reuters, referring substantial profits from high energy prices. Surging oil and gas prices in the wake of the Ukraine war have boosted cash flows beyond expectations in February, which eased the pressure to sell assets. Pikka is an "outstanding project," forecasting a strong 19% internal rate of return based on an oil price of $60 a barrel, he said.

The company remains willing to sell down its stake in Pikka during the development phase. First oil from the 80,000 barrel-per-day project is expected in 2026. Credit Suisse analyst Saul Kavonic said the company's decisions were "significant disappointments versus expectations." Santos' share price fell 3.46% on Aug. 17.

Report says East Coast Canada LNG would be too late to help Europe

(Financial Post; Canada; Aug. 17) - A visit to Canada by German Chancellor Olaf Scholz next week has stoked speculation about the possibility of liquefied natural gas exports from the East Coast, despite a new report that suggests Canadian natural gas is not the answer to Europe's current energy woes. Proposed export projects include expansion of the existing Saint John LNG regasification terminal, along with entirely new ventures in Nova Scotia and Newfoundland and Labrador.

But a new report is cautioning that Canadian LNG is not the answer to Europe's short-term supply shortage. The International Institute for Sustainable Development (IISD) analysis suggests that Canadian infrastructure would take years to build and come online "too late" to address Europe's needs. The report also warned that proceeding with projects could result in stranded assets as energy efficiency and fuel-switching over the next several years could significantly reduce Europe's demand for LNG.

The Winnipeg-based think tank IISD warns that the high gas prices may be temporary — driven by a rebounding economy after COVID-19 lockdowns and colder-than-average temperatures that increased worldwide demand for LNG — and exacerbated by recent supply-side capacity outages and upstream underperformance. "Europe is accelerating its plans to reduce gas use by ramping up energy efficiency and the use of renewable sources," IISD said. "Canada cannot ramp up supply before 2025, while Europe's energy needs will largely be resolved by that time."

Germany expected to postpone closure of nuclear power plants

(The Wall Street Journal; Aug. 16) - Germany plans to postpone the closure of its last three nuclear power plants as it braces for a possible energy shortage this winter after Russia throttled gas supplies to the country, said government officials. While temporary, the move would mark a departure from a policy initiated in the early 2000s to phase out nuclear energy in Germany and which had become enshrined in political consensus.

The decision has yet to be formally adopted by German Chancellor Olaf Scholz's cabinet and would likely require a vote in Parliament. Some details are still under discussion, three senior government officials said. A cabinet decision would also need to wait on the outcome of an assessment of Germany's energy needs that will be concluded in the coming weeks but which the officials said was a foregone conclusion.

Still, while a formal decision could be weeks off, the government believes two key conditions allowing a temporary extension of the life of the three remaining plants, now expected to close on Dec. 31, have been met: Germany is facing a likely shortage of gas, and letting the reactors operate longer poses no safety concern, the officials said.

Extending the life of the three plants beyond their current closing date is no panacea for Germany's looming energy bottleneck this winter. Yet by allowing the plants, which together account for around 6% of the country's electricity production, to stay online, Berlin would remove the need to replace them with gas- or coal-powered plants, allowing gas to be used in areas where it can't be replaced by other fuels.

German levy on natural gas will start in October

(Bloomberg; Aug. 15) - Germany's government said households will face additional annual costs of about 290 euros ($296) to pay for natural gas as the financial burden of Russia's squeeze on energy flows to Europe is redistributed. Starting in October, consumers will have to pay extra 2.419 euro cents per kilowatt hour for natural gas, Trading Hub Europe said in a statement Aug. 15. The blow of the temporary levy will be softened by subsidies for some households.

"The levy is a consequence of Putin's illegal war of aggression against Ukraine and the artificial energy shortage caused by Russia," Economy Minister Robert Habeck told reporters in Berlin. "It is necessary to maintain the heat and energy supply in private households and the economy. Otherwise, the security of supply would be jeopardized." The levy comes as Europe shifts its focus to curbing consumption in the face of a worsening energy crisis. German power prices have climbed to a record amid mounting concerns the region may struggle to generate enough electricity this winter.

Habeck said the levy — which runs through April 1, 2024 — would cost an average single household about 97 euros a year; a couple would pay about 194 euros more; and a four-people household would have extra costs of about 290 euros. The mechanism is set to accelerate inflation in Germany, analysts at Commerzbank Research said in a report Aug. 15. The bank estimates the inflation rate would rise well above 9% by year's end. Some consumers will be eligible for a heating cost subsidy, Habeck said.

Germany reaches deal with energy companies on LNG imports

(Bloomberg; Aug. 16) - The German government has struck a deal with energy companies to import liquefied natural gas through two new terminals in an effort to alleviate a supply crunch that's crippling the economy. Economy Minister Robert Habeck signed a memorandum of understanding with Uniper and RWE Supply & Trading, which will operate the floating terminals in Brunsbuettel and Wilhelmshaven, for the "temporary supply" of LNG, he said in a statement on Aug. 16.

The two companies will also team up with EnBW Energie Baden-Wuerttemberg and VNG to purchase the LNG. The infrastructure is essential for Germany to increase imports of the fuel, after Russia curbed flows via a key pipeline at the end of the spring. The facility at Brunsbuettel is set to start up by the end of the year, according to RWE. Construction of the Wilhelmshaven terminal has begun and operations are expected this winter, Uniper has said.

The country is in talks with Qatar on supply, Habeck told reporters in Berlin. Germany doesn't yet have import facilities of its own and, until now, has depended on neighboring countries to import LNG. But European terminals are operating close to maximum capacity since Russia cut flows to the region. In May, Germany signed contracts to charter four floating terminals to import LNG in partnership with German utilities.

Aluminum smelter will close in Slovakia over high energy costs

(Bloomberg; Aug. 17) - Europe's energy crisis has claimed another victim in the power-hungry metals industry, with Norsk Hydro planning to shutter an aluminum smelter in Slovakia at the end of next month. Aluminum is one of the most energy-intensive metals to produce, and the closure of the Slovalco facility adds to growing signs of stress in Europe's industrial economy as power prices surge to record highs.

The region had already lost about half of its zinc and aluminum smelting capacity over the past year, mainly as producers have dialed back output, but Norsk Hydro and others are now moving to shut down plants entirely. Europe's energy crisis is contributing to volatile trading on the London Metal Exchange, as traders weigh a slew of supply losses against the rising risk that runaway inflation and tightening monetary policy will hammer industrial metals demand in some of the world's top economies.

Norsk Hydro, Slovalco's majority owner, said the closure was a response to adverse conditions including "high electricity prices, which show no signs of improvement in the short term." The smelter was running at 60% of its 175,000-ton annual capacity, and would suffer substantial losses if it continued operations beyond 2022, the Norwegian firm said. The decision to shut down the Slovalco factory is painful for Slovakia — the plant is one of the biggest employers in the Banska Bystrica region.

Protestors argue Europe should stick with renewables, not LNG

(CBC; Canada; Aug. 14) - They rappelled down the side of Germany's iconic Elbphilharmonie building, blocked a German liquefied natural gas site, and thousands of residents from across Europe filled the streets of Hamburg, Germany, in what has been a weeklong protest calling for a more sustainable society. At the heart of their movement is this warning: Liquefied natural gas is not the solution to the energy crisis magnified by Russia's invasion of Ukraine.

Governments and energy industry lobbyists are floating the idea that adding LNG import capacity could help lessen Europe's need for Russian oil and gas. But there's backlash, with one demonstrator in Hamburg suggesting that to invest more in LNG would be "climate suicide," exacerbating already high levels of carbon in the atmosphere. "There is the idea that Europe needs LNG to stay warm in the winter and this is really a lie," Toni Lux said from the site of a protest camp set up in northwest Hamburg.

Lux is with the German climate activist group Ende Gelände which, along with 40 other groups, came together to create the System Change Camp. Since Aug. 8, an estimated 6,000 people from across Europe have joined in the festival-like atmosphere, tenting, working and sharing ideas in a Hamburg park. Many of those ideas have focused on alternatives to LNG. Lux said energy policy needs to focus on transitioning to renewable sources, saying more LNG would be "a crime against climate and against people."

BP working to sell or return its oil exploration blocks in Mexico

(Bloomberg; Aug. 15) - BP is seeking to get rid of its oil assets in Mexico amid a shift in its business strategy toward renewable energy and a challenging political climate in the energy sector in the country. Since winning three exploration contracts in partnerships with France's TotalEnergies, Equinor, Qatar Petroleum and Hokchi Energy six years ago, BP has sold off its participation or is in the process of returning the blocks to the National Hydrocarbons Commission, the nation's regulator, according to a BP official.

BP is among a number of oil companies that flocked to Mexico following its historic oil opening in 2013 and 2014 that introduced competitive oil auctions for the first time in about eight decades in the resource-rich country. While companies have had some success in discovering and developing oil fields, the rise to power of President Andres Manuel Lopez Obrador in late 2018 has made operating in Mexico more challenging.

The nationalist president has sought to dial back the previous government's energy reforms and return state oil giant Pemex to its former glory by reducing competition with private players. At least one company, Talos Energy, has threatened international arbitration after the government determined that Pemex should operate the mega oil field the U.S. driller discovered. Oil majors are also under pressure to reduce their carbon footprint and many are shifting toward renewable energies.

EU plans more support to help gas-rich Mozambique fight insurgents

(Reuters; Aug. 16) - The European Union is planning a five-fold increase in financial support to an African military mission in Mozambique, an internal EU document shows, as Islamist attacks threaten natural gas projects meant to reduce Europe's reliance on Russian energy. The energy squeeze due to the Ukraine war has added impetus to Europe's scramble for gas off Mozambique's northern coast, where Western oil firms are planning to build a massive liquefied natural gas terminal.

Mozambique has been grappling with militants linked to the Islamic State in its northernmost gas-rich province of Cabo Delgado since 2017, near LNG projects worth billions of dollars. The paper prepared by the European External Action Service, the EU's de facto foreign ministry, recommends 15 million euros ($15.3 million) of EU funding to 2024 for the mission of the Southern African Development Community, a bloc of 16 African nations of which half a dozen sent troops to Mozambique.

French oil giant TotalEnergies is leading an international consortium to extract gas off north Mozambique's shores and liquefy it at an LNG plant under construction, for export to Europe and Asia. Mozambique has the third-largest proven gas reserves in Africa. The EU fears that without support for the military interventions, Mozambique may again lose control of its restive north. The Islamists have recently stepped up attacks. Italian oil firm ENI expects to begin shipments from a nearby offshore gas field this year, using a floating LNG terminal which can process only limited amounts of gas.

Lacking pipelines, Canadian natural gas sells at deep discount to U.S.

(Calgary Herald columnist; Aug. 17) - Imagine that the neighbors hold an epic summer bash, but you're not invited. That's the sense some natural gas producers in Western Canada must be feeling these days. Natural gas prices are sizzling south of the border, with benchmark U.S. spot rates climbing by about 7% on Aug. 16 to a 14-year high. But in Alberta, the AECO natural gas spot price closed at US$2.75. That's a punishing $6.28 differential compared with gas sold in the U.S., according to ATB Capital Markets.

Any way you slice it, prices globally are soaring as demand increases, yet in recent weeks, Western Canadian operators have been left on the sidelines. "Producers are not getting paid as much as they should, given where natural gas prices are for North America. … I don't even want to guess how much royalty revenue has been lost because of this," said Phil Hodge, CEO of Calgary-based Pine Cliff Energy.

The differential between the U.S. Henry Hub in Louisiana and Alberta's AECO price narrowed earlier this year, but has come back with a vengeance this summer. Companies and analysts are citing familiar issues for its unwelcome return: a lack of available pipeline capacity in the region, summer maintenance work on existing transportation networks, and rising output in Western Canada. "It's just more of the same. We just don't have the ability to get the gas out of the province to that better market," said Darren Gee, CEO of Peyto Exploration and Development.

FERC gives Marathon more time to decide on LNG imports to Alaska

(Reuters; Aug. 16) - Marathon Petroleum's Trans-Foreland Pipeline Co. unit received more time to convert the Kenai liquefied natural gas export plant in Alaska into an import terminal, U.S. energy regulators said on Aug. 16. The Federal Energy Regulatory Commission approved Trans-Foreland's request for an extension to complete the project until December 2025. FERC first approved Trans-Foreland's request to build the plant in 2020 and gave the company until December 2022 to place it into service.

Trans-Foreland has said the facility would import up to four tanker loads per year and use the gas at its adjacent oil refinery, which currently buys expensive natural gas from local production to power the refinery. Trans-Foreland said it has yet to make a final investment decision to build the project because the pandemic and the war in Ukraine have worsened economic and logistical conditions. The company said the project "remains commercially viable," and that it is "actively seeking suitable (LNG) supplies."

Once Trans-Foreland makes commercial arrangements for suitable supplies, the company said it anticipates making its FID and moving forward with the project. The Kenai LNG export plant entered service in 1969. It has not exported LNG since 2015. Marathon purchased the facility from ConocoPhillips.