Oil and Gas News Briefs
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OPEC+ decides against making a change in production target

(Bloomberg; Dec. 4) - The OPEC+ alliance decided Dec. 4 to maintain production at current levels, pausing to take stock of a global oil market that is roiled by uncertainty over China's demand and Russian supply. The 23-nation group, which held a roughly 20-minute online meeting, has only just started implementing the hefty 2 million barrel-a-day reduction agreed at its last gathering in October. The full impact of that cut is still unclear amid severe gyrations in prices. After hitting the lowest level since September on Nov. 28, Brent crude then ended up posting its biggest weekly gain in a month.

The volatility has been driven by European Union sanctions and a price cap on crude exports from OPEC+ member Russia, which come into effect on Dec. 5. It is not yet clear how much Russian oil the two measures could take off the global market, which would tighten supply and drive up prices. At the same time, China is tentatively easing its zero-COVID measures that have eroded consumption in the world's biggest oil importer, creating more uncertainty over China's demand for crude.

"With massive and offsetting fundamental and geopolitical risks bearing down on the oil market, (OPEC+) ministers understandably opted to hold steady and hunker down," said Bob McNally, president of Rapidan Energy and a former White House official. "The group will continue to monitor markets and should fundamentals deteriorate they will meet prior to June," said Amrita Sen, chief oil analyst of consultants Energy Aspects.

Russia threatens to stop oil sales to nations that support price cap

(Associated Press; Dec. 3) - Russia has rejected a price cap on the country's oil set by Ukraine's Western supporters and threatened Dec. 3 to stop supplying the nations that endorsed it. Australia, Britain, Canada, Japan, the U.S. and the 27-nation European Union agreed Dec. 2 to cap what they would pay for Russian oil at $60 per barrel. The limit is to take effect Dec. 5, along with an EU embargo on Russian oil shipped by sea.

Kremlin spokesman Dmitry Peskov said Russia needed to analyze the situation before deciding on a specific response but that it would not accept the price ceiling. Russia's permanent representative to international organizations in Vienna, Mikhail Ulyanov, warned that the cap's European backers would come to rue their decision. "From this year, Europe will live without Russian oil," Ulyanov tweeted. "Moscow has already made it clear that it will not supply oil to those countries that support anti-market price caps."

Under the Dec. 2 agreements, insurance companies and other firms providing services needed to ship oil would only be able to deal with Russian crude if it's priced at or below the cap. Most insurers are located in the EU and the U.K. and could be required to observe the ceiling. Russia's crude has already been selling for under $60 a barrel, a deep discount from international benchmark Brent, which closed Dec. 2 at $85.42.

Price cap on Russia crude intended to keep oil flowing

(Bloomberg; Dec. 2) - The Group of Seven is set to impose a price cap on Russian oil that's well above where it now trades. If there was ever any doubt what the premise of the cap was, it's now clear: The U.S. and its allies want Russia's crude to keep flowing. European Union ambassadors backed limiting the price of Russian oil, a key source of income for President Vladimir Putin's war machine, at $60 a barrel after fraught talks that dragged into the night more than once. Crucially, that's above the $50 that Russia's flagship Urals grade already trades at, according to data from Argus Media.

"The key point in our view is the signal that the G-7 seeks to keep Russian oil on the market," said Joel Hancock, an analyst at Natixis. "The market has shifted to a view that Russian crude oil exports will remain more resilient than previously expected and largely unaffected by the price cap." Moscow's reaction will be key. Russia has opposed the measure, and threatened to stop production in response. "We don't care what the price cap will be. We'll negotiate with our partners directly," Lavrov said.

The G-7 has mostly decided to stop its own imports of Russian crude, so the move is aimed squarely at other big buyers such as China, India and Turkey. If they don't pay below the $60 threshold, they won't be able to access European insurance and shipping. Even if countries buy outside the cap, it will "enable them to bargain for steeper discounts on Russian oil and benefit from greater stability in global energy markets," U.S. Treasury Secretary Janet Yellen said in a statement on Dec. 2. "The price cap will encourage the flow of discounted Russian oil onto global markets."

Russia buys more oil tankers in bid to get around Western sanctions

(Insider; Dec. 3) - Russia has assembled a "shadow fleet" of more than 100 oil tankers in a bid to bust Western sanctions imposed following its invasion of Ukraine, the Financial Times reported. Shipping brokers and analysts told the newspaper they estimated Moscow has quietly amassed even more tankers this year. "We've seen quite a number of sales to unnamed buyers in recent months, and a few weeks after the sale many of these tankers pop up in Russia to take their first load," said Craig Kennedy, a Russian-oil expert at Harvard's Davis Center who has been tracking the ships.

Rystad Energy, an Oslo-based energy consultancy, said Russia amassed 103 tankers to add to its fleet this year through purchases and reallocating ships serving Venezuela and Iran. Russia assembled the expanded fleet in a bid to counter new sanctions. The European Union has imposed a ban on Russia's seaborne imports, which takes effect on Dec. 5, and reached a deal to cap Russian crude at $60 a barrel. The cap aims to let India and China buy the oil, but stop Moscow from making big profits on it.

Anoop Singh, the head of tanker research at Braemar, told the Financial Times that the tankers, bought anonymously, are generally 12 to 15 years old and would be expected to be scrapped in the next few years. "These are buyers that we, as longstanding brokers, are not familiar," he said. Analysts estimate a shortfall as Russia still needs even more tankers to maintain its export levels, according to the report. Singh said Braemer expects Russia’s exports to fall between 700,000 and 1.5 million barrels a day for a lack of tankers, while Rystad estimates 200,000 barrels.

Market waits to see if China, India buy more discounted Russian oil

(Bloomberg; Dec. 2) - Oil refiners in China have started to snap up Russian crude cargoes after a short hiatus, citing sharply lower prices due to ample unsold supplies. Chinese private processors, called “teapots,” purchased several cargoes of Russian ESPO crude for December-January arrival, said traders. The shipments traded at wider discounts to global benchmark Brent crude than deals done just weeks ago.

Market observers are keenly monitoring the sale of Russian crudes in the run-up to Dec. 5 when the European Union rolls out new sanctions that will ban the bloc from extending shipping, insurance and banking services to Russian trades. Specifically, traders are interested to know if China and India will continue to purchase Russian crudes, and whether the countries will adhere to the proposed price cap on their cargoes or turn to non-European Union service providers and pay over the cap.

Those still willing to import Russian crude have been trying to assess their risk of running afoul of EU sanctions, and whether they can use the price cap to gain exemptions from sanctions. Since Moscow’s war on Ukraine, most Western countries including the U.S., U.K. and those in the EU have reduced purchases of Russian oil, prompting a diversion of cargoes to countries such as China, India and Turkey.

Russia’s upstream investments forecast to drop $15 billion this year

(Gas World; Dec. 1) - Delays to several large liquefied natural gas projects have been a major contributor to a $15 billion drop in Russia’s upstream investments, according to Rystad Energy research. Upstream investments in Russia were expected to approach

$50 billion in 2022, but Rystad's research indicates they will sink to $35 billion in 2022, while remaining subdued until at least 2025.

Investments in Russia's upstream totaled $45 billion last year, rebounding from COVID-19 lows of $40 billion in 2020. But as Russia is increasingly shut off from the global energy market, investments have sunk well below levels seen in the pandemic-affected years. "A significant factor limiting investments is the delay of several LNG projects, which have now been pushed out five or six years into the future due to technological and funding constraints as Western partners pull out," according to a Rystad statement.

"Before Russia invaded Ukraine, investments were anticipated to rise significantly as Gazprom had lined up the development of several large gas-condensate fields in the Yamal region and Novatek was actively involved in its Arctic LNG-2 project. Now, only some of these projects are likely to get off the ground before 2025." Swapnil Babele, a senior analyst at Rystad Energy, added, "The war in Ukraine has cost the Russian oil and gas sector dearly, with project investments taking a significant hit."

TotalEnergies will reduce North Sea investment after U.K. tax increase

(BBC News; Dec. 2) - French oil giant TotalEnergies has said it will cut North Sea investment by 25% next year after the windfall tax on oil and gas firms in the U.K. was extended. The company will cut £100m ($123 million) of spending on new wells in the region. The windfall tax — the Energy Profits Levy — was raised from 25% to 35% last month and will now stay in place until March 2028. The government said the tax "strikes a balance between funding cost-of-living support while encouraging investment."

TotalEnergies is one of the North Sea's biggest oil and gas producers, and its decision to cut investment will affect plans to drill a new well at its Elgin gas field. "Following another change to the fiscal environment for energy investors in the U.K., we are now evaluating the impact of this change on our current and planned projects," said TotalEnergies U.K. chairman Jean-Luc Guiziou.

"The energy industry operates in a cyclical market and is subject to volatile commodity prices. We believe that the government should remain open to reviewing the Energy Profits Levy if prices reduce before 2028," the chairman said. The windfall tax on oil and gas companies operating in the North Sea was introduced in May after oil prices increased sharply. The rate was set at 25% originally. However, Chancellor Jeremy Hunt announced it would increase to 35% in 2023, and stay in place until March 2028.

Canada's largest oil producer aims for 1 million barrels per day

(Bloomberg; Nov. 30) - Canadian Natural Resources, Canada's largest oil and gas producer, is aiming to raise its crude oil production to as high as 1 million barrels a day in 2023 for the first time as the company ramps up drilling amid historically high prices. Combined with natural gas, overall production is forecast to increase by 56,000 barrels of oil equivalent a day from this year to as much as 1.4 million barrels, the company said in an investor presentation on Nov. 30.

Oil sands production, accounting for almost 75% of the company's oil output, will increase about 5% as the company drills new wells and reduces maintenance work at some facilities. In addition, conventional production is expected to grow about 4% as heavy-oil output rises from the Clearwater formation in Alberta and other areas. The oil giant's plans buck the industry, which is being more conservative in deploying cash to new drilling even as oil price futures this year trade at higher levels.

Suncor Energy, Canada's largest oil sands producer, expects output to increase from this year by no more than 10,000 barrels a day to as high as 770,000 barrels of oil equivalent, the company said in a conference call on Nov. 29. MEG Energy, a smaller oil sands producer, will increase output to as high as 105,000 barrels a day in 2023.

Energy Department wants to cancel future sales from oil reserves

(Bloomberg; Dec. 1) - The Biden administration is seeking to stop sales from the Strategic Petroleum Reserve mandated by Congress so it can refill the emergency reserve, a move that could impact the release of 147 million barrels of crude oil. The Energy Department is seeking to cancel or delay sales mandated in fiscal years 2024 through 2027 so that it can move forward with a White House plan to refill the reserve when prices reach around $70 a barrel, an official told a Senate committee on Dec. 1.

Congress has mandated the sale of 147 million barrels of oil to pay for unrelated legislative initiatives during that time frame, including 35 million barrels in fiscal 2024, according to data compiled by research firm ClearView Energy Partners. "It doesn't make sense for us to be releasing oil while we're trying to refill the SPR," Doug MacIntyre, the Energy Department's deputy director for the Office of Petroleum Reserves, said in testimony before the Energy and Natural Resources Committee. "We can't fill and release from the same site at the same time."

Such a plan, which would require congressional approval, could be attached to a must-pass government funding bill that could come together this month. The administration has said it wants to start purchasing oil to refill the SPR following a historic drawdown of 180 million barrels this year to lower prices amid Russia's invasion of Ukraine and a surge in demand as the pandemic ended. Energy security adviser Amos Hochstein reiterated in a Bloomberg Television interview on Nov. 30 that the U.S. was looking for oil in a $70 range on "a consistent basis" for it to buy crude to refill the reserve.

[LNG developer’s plan means more price risk, less certainty]

(Houston Chronicle columnist; Dec. 1) - Tellurian Chairman Charif Souki has traveled from boardroom to boardroom peddling plans for his massive liquefied natural gas project in Louisiana. He attempted to raise $1 billion for the project through a public offering, promising to repay debt at a whopping 11.25% interest rate within five years. He took out a full-page ad in the Wall Street Journal, urging readers to “invest in the energy of the future and the energy of now.” So far, no dice.

Investing in the $13.6 billion Driftwood project — built on a riskier business model that could also allow the company to reap more profits — is a gamble no major investor has been willing to make, despite soaring overseas demand for gas after Russia's February invasion of Ukraine squeezed supplies. The project’s precarious state raises questions about whether Souki, who is credited with building the LNG export industry during his tenure at U.S. leader Cheniere Energy, has taken his aggressive deal-making too far.

Souki is reaching for a new business model that would allow Tellurian to benefit fully from price swings, but that would mean exposing the company to risks that other LNG companies are sheltered from. “He’s trying to convince the world he can build a better mousetrap, when the one that’s there is working just fine,” said Clark Williams-Derry, energy finance analyst with the Institute of Energy Economics and Financial Analysis.

That "mousetrap" is a universal design for all U.S. LNG facilities, according to the energy economics institute. It relies on 15- or 20-year contracts with buyers who pay a fixed price for turning gas into a liquid for shipment. The guaranteed income provides the operation with financial stability to repay debt and turn a profit. Souki’s plan would expose more of the company to the spot market instead of locking it up in fixed contracts, and open the company up to more profits — and the risk of price drops.

[Texas LNG developer signs up British buyer for 20-year deal]

(Houston Chronicle; Dec. 1) - Sempra’s Port Arthur LNG said Dec. 1 that it signed a long-term contract with British multinational energy company INEOS, the proposed liquefied natural gas project's second such sales deal in less than two weeks. Under the 20-year agreement, INEOS committed to buy 1.4 million tonnes per year of LNG from the facility in Port Arthur. INEOS also signed a preliminary agreement for an additional 200,000 metric tonnes from the project’s potential second phase.

The deal with INEOS follows a major agreement last month between San Diego-based Sempra and Houston-based oil and gas producer ConocoPhillips, which agreed to buy more than a third of the Port Arthur project’s annual production and take a 30% stake in the development. The Conoco partnership gave Sempra a firmer foundation for building the first phase of Port Arthur LNG, planned for 13.5 million tonnes of annual output.

The INEOS deal also demonstrates that some European buyers can still be tempted into long-term contracts with gas projects along the U.S. Gulf Coast. Deal-making with European buyers has been slow compared to Asian counterparts as Europe grapples with how to meet the continent's urgent energy needs while also easing off fossil fuels. Sempra said it expects to reach a final investment decision, which is a precursor to construction, during the first quarter of next year. It aims to launch the facility in 2027.

[Pakistan, India, Bangladesh struggle with high LNG prices]

(Natural Gas Intelligence; Dec. 1) - South Asian LNG buyers, particularly Pakistan and Bangladesh, are finding it difficult to pay high spot-market prices as the region moves into the winter season. Meanwhile, India has too much of the fuel because domestic consumers refuse to pay top dollar for the expensive imports.

Since the start of the Russia-Ukraine war in February, Pakistan has had difficulty buying LNG in the spot market. The country's 10.65 million gas consumers face a winter of severe gas shortages as the government has scarce financial reserves to purchase spot cargoes. Pakistan relies on LNG imports to sustain gas-fired power plants that have been underutilized as domestic gas production has declined. There have been no major gas discoveries in the country since 2000.

"Pakistan and Bangladesh remain price-sensitive buyers, which means they continue to struggle to secure LNG spot cargoes on the back of high Asian spot prices," said Kpler LNG analyst Ana Subasic. Institute for Energy Economics and Financial Analysis analyst Shafiqul Alam agreed. "Although the price of LNG has significantly decreased in recent months, current spot prices are still much higher than the $8 per million Btu of LNG that Bangladesh paid in 2020-2021," he said.

[Canadian official says Europe looks to pivot from LNG to hydrogen]

(National Post; Canada; Dec. 1) - Canada's Natural Resources Minister Jonathan Wilkinson said the window opening to get natural gas to European markets is just three years, with countries looking to pivot to hydrogen soon after. "They want to see the product (liquefied natural gas) in Europe within three years or they're really not interested in part because they are aggressively moving toward hydrogen, which is something that Canada is very interested in supplying to Germany," Wilkinson said at the House of Commons Natural Resources Committee on Dec. 1.

German Chancellor Olaf Scholz was in Canada earlier this year looking for opportunities to sign deals to import LNG. Germany long relied on Russian gas but is rapidly trying to cut ties with Moscow due to the invasion of Ukraine. Germany has since signed deals for LNG imports from Australia and Qatar. "We have been working with the Germans in particular, looking at the opportunity to be able to actually find something that fits within their window," Wilkinson said. There are several LNG export projects proposed for Canada's East Coast ports, but none have gone to construction.

He said Germany is looking toward the longer-term issues and believe Canadian-made hydrogen could be a significant contributor. "There is enormous work on the East Coast associated with building out both onshore and offshore for the purpose of actually producing hydrogen and shipping it to Germany. There's also significant work going on in Western Canada with respect to the production of hydrogen from natural gas."

Canadian utility questions proposal for LNG exports to Europe

(Natural Gas Intelligence; Dec. 1) - An Atlantic Canada utility has challenged the plan by Repsol to convert its New Brunswick facility, Saint John LNG Development, from an import site into an export terminal for energy-starved Europe. Nova Scotia gas distributor Eastward Energy has urged the Canada Energy Regulator to require an East Coast market review before granting Saint John LNG a six-year license extension to design, win approval and build the proposed conversion.

Last year, Repsol became the sole owner of the Canaport liquefied natural import terminal at Saint John in New Brunswick. The facility then was renamed Saint John LNG. Eastward management pointed to the United States for examples of supply disruptions liable to result from East Coast Canada LNG exports. Exports could lead to "supply-side constraints" during winter, the utility said. The LNG export project is still in the proposal stage, requiring an investment decision by Repsol, financing, sales contracts, and a guaranteed gas supply to feed the export plant.

Japanese LNG buyers explore clean synthetic methane from U.S. Gulf

(Natural Gas Intelligence; Dec. 2) - A group of Japanese firms, including some of the largest buyers of LNG, agreed to study the production and export of hydrogen blended with carbon dioxide in Texas and Louisiana. Mitsubishi, Osaka Gas, Toho Gas and Tokyo Gas will explore a U.S.-based supply chain of synthetic methane, referred to as syngas or e-methane. The firms outlined plans to test whether blending hydrogen made with renewable electricity, referred to as green hydrogen, with CO_2 captured from industrial processes could create a cheaper source of low-carbon fuel for Japan.

The firms are studying Texas and Louisiana with an eye toward Sempra's Cameron liquefied natural gas facility as a possible starting point to export syngas. Mitsubishi owns equity in Cameron and a stake in a proposed expansion with joint-venture partner Nippon Yusen Kabushiki Kaisha. "This decision was made in light of accessibility to the infrastructure for feedstock procurement and high possibility of achieving early establishment of the supply chain," representatives for the partnership said.

"The four (Japanese) companies will continue to conduct feasibility studies on other promising locations to expand its syngas procurement capabilities for enhanced energy security of Japan." The study is estimated to continue until the end of 2023, with a final investment decision by 2025. The companies estimate that first production of methane could be achieved as soon as 2029, with an initial target of 130,000 tons per year. The first cargo could be exported to Japan by 2030, according to the timeline.

Floating LNG regasification terminals are Europe's short-term answer

(The Wall Street Journal; Dec. 1) - Regasification ships are critical in Europe's energy war with Russia. That is hard luck for other regions that were counting on them for their own power needs. Europe has been hoovering up floating storage and regasification units, known as FSRUs, since the Kremlin cut flows of Russian pipeline gas to the continent this summer. These ships can help countries to quickly boost their ability to import liquefied natural gas — but there are only 50 such ships in the world.

FSRUs are hooked up to shore, where they convert LNG back into gas for distribution into connecting pipelines. The ships can be built in around half the time of a permanent onshore gas terminal and at 60% of the cost, making them particularly appealing. Europe now sees them as part of the solution to its energy crisis. The European Union needs to cut its exposure to Russian gas fast but eventually also transition away from LNG to cleaner forms of energy: The bloc wants renewables such as wind and solar to be at least 40% of its energy mix by 2030. Renting an FSRU is the perfect stopgap.

The Netherlands is installing two FSRUs. Germany has chartered six FSRUs and is currently installing its first one. It marks a turnaround for owners of these previously sleepy vessels, which usually went to cash-strapped developing nations. Last year, the cost of chartering an FSRU was just $100,000 a day and demand was thin. Day rates have doubled over the past 12 months and should stay high. Supply will remain tight as South Korea shipyards, where they are usually made, are booked up for several years.

Japan considers establishing a strategic reserve of LNG

(Bloomberg; Dec. 1) - Japan is considering setting up a strategic reserve of liquefied natural gas, as the imports-dependent nation ramps up efforts to make sure it has enough of the fuel amid intensifying competition. The government will propose a plan to secure a so-called "strategic buffer LNG," with authorities supporting local companies to buy excess supply for energy security, according to a government document that outlines the proposal and seeks feedback.

Proposals come as Europe looks for alternatives to Russian gas and as many nations step up efforts to secure supplies of the fuel, used for electricity generation and heat. Under the framework, Japanese firms that trade LNG will secure gas through term contracts and will normally sell it locally and overseas. However, in times of emergency, the trade ministry will order the reserve to be sold to domestic firms.

Sellers will receive financial support for loss-making sales from a fund set up within the Japan Organization for Metals and Energy Security, a state-owned institution. In the event the seller makes a profit, it will return the money back to a national corporation, according to the proposals. The government is seeking comment on the proposals by Dec. 24. The guidelines suggest that Japan will aim to buy at least one cargo a month for the strategic buffer from December to February each year starting in 2023. Over the long-term, the target would be to have at least 12 cargoes a year for the strategic buffer.