Oil and Gas News Briefs
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OPEC+ inability to meet production targets will help keep prices high

(Bloomberg commentary; Jan. 8) - If oil producers were hoping for a quiet 2022, they may be disappointed. There are two very different schools of thought emerging on what the oil market is going to look like this year. The one thing they agree on: It's not going to be serene. The bears see supply running ahead of demand, rising inventories and the OPEC+ producer group perhaps needing to consider another round of output cuts. The bulls focus on low crude stockpiles, dwindling spare production capacity amid a dearth of investment, and the prospect of triple-digit prices before 2022 is out.

With demand building, the latter argument looks more convincing, as do high prices. An analysis presented to the producer group ahead of its meeting last week showed global oil demand surpassing pre-pandemic highs to average almost 101 million barrels a day in 2022, exceeding 103 million by December. Any potential oil market price weakness likely would come not from diminished demand but from rampant supply, which OPEC sees exceeding 104 million barrels a day before the end of the year.

But as I have pointed out before, there are problems with the OPEC+ supply forecast because it assumes the 19 members that have output targets will actually pump at those rates. But they aren't, and many can't. In December, the group pumped 625,000 barrels a day below its collective target, a slight improvement on the 655,000 barrel-a-day deficit in November, but the seventh straight month in which the group has failed to meet its target. That gap's not going to close any time soon. That means that the supply won't be anywhere near as big as feared, or hoped for, depending on your point of view.

OPEC+ production falls short of target in December

(Reuters; Jan. 7) - The increase in OPEC's oil output in December has again undershot the rise planned under a deal with its allies, according to a Reuters survey, highlighting capacity constraints that are limiting supply as global demand recovers from the pandemic. The Organization of the Petroleum Exporting Countries pumped 27.80 million barrels per day in December, the survey found, up 70,000 barrels per day from the previous month but short of the 253,000 increase allowed under the supply deal.

OPEC and its allies, a group known as OPEC+, are gradually relaxing 2020 output cuts as demand recovers from a global demand collapse. But many smaller producers can't raise supply and others have been wary of pumping too much in case of renewed

COVID-19 setbacks. The OPEC+ agreement allowed for a 400,000 barrel-per-day production increase in December from all members, figures seen by Reuters show.

OPEC+ met Jan. 5 and agreed to proceed with an additional output increase of 400,000 barrels per day in February, suggesting the lag between actual and pledged supply could widen further without larger producers compensating for shortfalls. And while top producer Saudi Arabia and several other nations have boosted their output, production fell or stayed flat in Congo, Equatorial Guinea, Nigeria, Libya and Iran, the survey found, in many cases due to a lack of capacity to produce more or unplanned outages.

New oil and gas discoveries in 2021 lowest in 75 years

(Houston Chronicle; Jan. 7) - The amount of oil and natural gas discovered globally last year fell to the lowest level in 75 years after oil companies slashed their exploration budgets during the pandemic-driven downturn. Oil companies discovered 4.9 billion barrels of oil and natural gas in 2021, the lowest level since 1946, according to a report from Rystad. The Norwegian energy research firm said that's a "considerable drop" from the 12.5 billion barrels discovered in 2020. "A reduction in cumulative volume highlights the absence of large individual finds," Rystad said in its report.

The lack of new oil discoveries is a concern for the oil industry, which must constantly replace depleting oil and gas reserves to maintain production levels and revenues. Some major discoveries last year include ExxonMobil's discoveries in offshore Guyana and Russian Lukoil's discovery in November offshore Mexico. Companies are making smaller discoveries, not necessarily because the world is running out of fossil fuels. Rather, companies are underinvesting in exploration and new projects after oil busts.

After crude demand and prices plunged at the start of the global pandemic, oil companies slashed spending on new projects by more than 27% to $334.7 billion in 2020, down from $461.7 billion in 2019. Although capital spending rose slightly in 2021, they remained about a quarter lower than pre-pandemic levels, according to an analysis by Canadian bank RBC Capital Markets. Enverus, an Austin-based energy research firm, expects that drillers will raise capital spending by about 20% in 2022.

COVID flare-up puts a dent in China's oil demand

(Bloomberg; Jan. 5) - China's worst COVID-19 outbreak since the inaugural flare-up in Wuhan two years ago is blunting oil demand growth in the world's largest oil importer, although most major population centers remain unaffected so far. Peak road congestion in Xi'an, a city of more than 13 million in lockdown, fell 29% on Jan. 4 compared with a year ago, according to Baidu map services data. Still, congestion in the commercial capital of Shanghai, as well as in Beijing and Guangzhou, was 4% to 7% higher.

Oil investors are seeking to gauge the impact on energy consumption in Asia's largest economy from the latest flare-ups as the pandemic grinds on. China is the only country practicing a zero-tolerance strategy, and while the Xi'an outbreak is of the Delta variant, the more-transmissible Omicron strain now roiling the world may in time challenge that approach even further. Mainland China has not yet reported any community spread of Omicron, although it has appeared in Hong Kong, prompting a wave of fresh curbs.

"In view of the government's escalated mobility restrictions, IHS Markit has further lowered its projection for China's total oil demand in the first quarter of 2022 by 420,000 barrels a day," said Fenglei Shi, associate director of oil markets. That revision includes 248,000 barrels a day of gasoline and 124,000 barrels of jet fuel. China's total daily oil demand was 14.2 million barrels in November, according to official figures.

U.S. oil execs like high prices, but not too high

(Bloomberg; Jan. 5) - Bosses for some of the biggest oil explorers in the Permian Basin say their industry could be hurt if crude goes past $100 a barrel. With an expectation that oil demand exceeds supply by later in the year or early 2023, Scott Sheffield, CEO at Pioneer Natural Resources, said he sees prices in the range of $75 to as much as $100. "I hope it stays there," he said Jan. 5 in a Goldman Sachs energy webcast.

Sheffield added, however, that "$110, $120 oil or higher, like what Europe is seeing, is not going to help our industry." Supply falling short of demand could be the problem. Publicly owned explorers in the world's biggest shale patch are continuing to preach the mantra of restricting production growth so they can send more profits to investors. Diamondback Energy and Devon Energy executives said on the same webcast panel that they would need to see shareholder sentiment change to increase output again.

Travis Stice, CEO at Diamondback, agreed that oil above $100 wouldn't be good for the industry, as it could be seen as a signal and prompt too much push for production growth. But right now, he said shareholders are still saying they don't want to see oil explorers boost output. "Eighteen months ago, we were in a global apocalypse for the energy sector, and now you're talking about outsized returns," Stice said. "We should all pause and recognize the Tectonic shifts in capital allocation."

Deloitte expects oil prices to weaken a bit in early 2022

(Deloitte Canada; Jan. 5) - Prices for crude oil are expected to be softer in the early part of 2022 when compared to a strong 2021. This is expected as a result of growing global supply as investment comes back to the sector, coupled with concerns about the impact a new COVID-19 variant may have on global demand, according to the latest forecast from Deloitte Canada's Resource Evaluation and Advisory Group.

The Jan. 5 report says the release of crude oil from several countries' strategic reserves and plans for increased production by OPEC+ member states should put downward pressure on oil prices in the first quarter of the year, but expects natural gas prices to remain higher amid growing demand and tighter supplies.

"The drop in crude prices we started to see in the final weeks of 2021 will likely continue for a while as more supplies flow into the system," said Andrew Botterill, national oil, gas and chemicals leader at Deloitte Canada. "It's unusual for strategic reserves to be used to try to lower prices, but with domestic U.S. oil production still below pre-pandemic levels, it's a way that governments can try to moderate the rising cost of petroleum products such as gasoline which has been adding to concerns about inflation."

Canada defends oil sands even as it vows to cut emissions

(Financial Times; London; Jan. 6) - Canada's new natural resources minister has defended the country's promotion of exports from its controversial oil sands projects, even as he vowed to enforce "aggressive" greenhouse gas emissions cuts on the energy sector. Jonathan Wilkinson, appointed by Prime Minister Justin Trudeau in October, said Ottawa was "going to be very aggressive in reducing emissions from the sector," and would work with other countries to drive down long-term crude demand.

But he insisted Canada still had the right to keep pursuing exports from one of the world's most carbon-intensive sources of oil. "For the [oil] demand that continues to exist, Canada needs to extract value from its resources, just like the United States, the United Kingdom in the North Sea and Norway," Wilkinson said. The minister's comments highlight the tricky task facing Canada, the world's fourth-biggest crude producer and largest foreign supplier to the U.S., as it tries to decarbonize the economy without jeopardizing an industry that accounts for about 5% of the nation's GDP.

Wilkinson's remarks will spark concern in Alberta, the western province that is home to the high-carbon oil sands projects and has tussled for decades with Ottawa over energy policy, including losing a court battle to stop the federal carbon tax. Greenhouse gas pollution from the oil sands — huge projects where output has soared in the past two decades — has risen more than 225% since 2000, according to the government. Wilkinson also indicated the federal government could help to pay for a vast new project proposed by oil sands producers to capture greenhouse gas emissions in Alberta.

Former head of BP says oil majors should split up their businesses

(Energy Voice; Jan. 6) - Oil majors should do more to break themselves up into separate low-carbon and fossil fuels businesses, according to John Browne, the former boss of BP. Writing in Time Magazine, he said that making the separation would allow investors to more efficiently allocate their capital. The comments from Browne come as activist investor group Third Point has called for Shell to break itself up, arguing that its “energy transition business” of LNG, renewables and marketing could soon become as valuable as the entire company, despite only generating 40% of its business.

Browne, who led BP from 1995 to 2007, said low- and zero-carbon activity is “rapidly growing, less capital intensive and valued at a premium by investors.” Hydrocarbons, he said, is “capital intensive, unloved by the market and in decline,” adding, “if companies take steps to separate these very different types of activity into two corporate entities, investors can allocate their capital more efficiently and the true value of the low-carbon businesses embedded within large hydrocarbon producers will become clearer.”

Browne pointed to a big oil example in Italy’s Eni which is making moves to do just that, spinning off oil and gas to reward shareholders and fund its energy transition. Fossil fuels companies are under increasing pressure to shift away from oil and gas, though firms including Shell and BP have resisted calls to break up their companies.

Argentina will go ahead with offshore exploration, despite protests

(S&P Global Platts; Jan. 6) - Argentina plans to push forward on its first new offshore exploration drilling in years despite protests, a government official said Jan. 6, arguing that the dangers of spills are low, while oil and gas demand will remain steady over the next two to three decades as the world transitions to net-zero emissions. "Until we reach that moment when the world has renewable energies or more sustainable energies, we are going to have to carry out a transition process in which gas will be the main source of energy," Gabriel Cerruti, the presidential spokeswoman, said in a press conference.

Cerruti spoke two days after thousands of people marched in Mar del Plata, a coastal city in Buenos Aires province, to protest offshore drilling on fears that spills could sully their popular beaches, harm sea life and damage fishing areas. The protest was organized after the Energy Secretariat on Dec. 30 authorized seismic exploration in three blocks in the Argentine Sea 186 to 273 miles off the coast of Mar del Plata.

The exploration will be carried out by Argentina's state-run YPF, Norway's Equinor and Shell. The blocks were awarded in 2019, attracting a total of $720 million in exploration investment by the three companies as well as ExxonMobil, France's Total and BP.

States apply for share of $4.7 billion to clean up abandoned wells

(The Hill; Jan. 5) - The U.S. has more than double the number of abandoned oil and gas wells than previously thought, according to a preliminary analysis by the Interior Department. In a memo Jan. 5, the department said there are more than 130,000 documented abandoned, or orphaned, wells. Comparatively, a 2019 report from the Interior documented a total of 56,600 orphaned wells across 30 states.

The infrastructure bill signed into law last November includes $4.7 billion to restore and plug orphaned wells. In December, the department released guidance on state applications for grants under the program. Since then, 26 states have submitted notices of intent to apply for the grants, according to the memo. Nearly every state documented contained orphaned wells. States applying for funding included Alabama, Alaska, Arizona, Arkansas, California, Colorado, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Texas, Utah, West Virginia and Wyoming.

The Interior Department is set to publish the amount of grant funding each state is eligible to receive in the months ahead. States are also eligible to apply for initial $25 million grants to address high-priority wells and start their plugging programs. The White House's budget for fiscal 2022 also includes a proposal to more than double the enacted 2021 budget for orphaned well cleanup and reclamation.

Canadian oil sands producers export more output through U.S. Gulf

(Bloomberg; Jan. 7) - Canada's oil sands producers were able to export a record volume to overseas markets last year, thanks to a new link to the U.S. Gulf Coast. The recent reversal of Marathon Pipe Line's Capline pipeline is sending oil sands crude produced in landlocked Alberta to Gulf Coast terminals, where it can be shipped to other countries. Exports to Asia were at their highest ever, with India the leading destination by far, followed by China and then South Korea, according to oil analytics firm Kpler.

The development marks a sea change for Canada's oil industry. The country holds the third-highest crude reserves in the world, but exports to markets beyond the U.S. have been limited due to a lack of infrastructure. Canada has faced opposition from activists for building pipelines from the oil sands to British Columbia's Pacific Coast. Additionally, the Biden administration last year blocked the Keystone XL pipeline, which would have moved hundreds of thousands of barrels a day to U.S. Gulf Coast terminals.

Canadian crude exports from the U.S. Gulf Coast averaged just 25,000 barrels a day in 2018, before rising to average around 70,000 in both 2019 and 2020. In 2021, shipments of the heavy crude averaged 180,000 barrels a day, with the volume at 266,000 barrels a day in December.

[Opponents urge FERC to take wider look at Gulf Coast LNG projects]

(S&P Global Platts; Jan. 6) - An environmental group is urging the Federal Energy Regulatory Commission to conduct an "exhaustive" evaluation of Venture Global's proposed CP2 LNG export terminal and feeder gas pipeline, taking into account not only the two related projects but also the proliferation of liquefied natural gas export terminals and pipelines serving southwest Louisiana and southeast Texas.

The effort reflects the increasingly steady opposition by environmentalists to LNG projects before FERC as gas industry development concentrates in the U.S. Gulf Coast region to serve the thriving export market. It also comes as environmentalists recently gained some ground with an appeals court decision remanding two FERC LNG project authorizations for better explanation of climate and environmental justice analyses.

In comments Jan. 5, Healthy Gulf called on FERC to go beyond examining the two Louisiana projects to conduct a programmatic environmental impact statement because of the spread of LNG related facilities in the area. It also advocated a sweeping look at cumulative impacts that covers gas development from any feedstock source, climate impacts, and the impact of other oil, gas and petrochemical facilities in the area.

Venture Global on Dec. 2 applied at FERC for permission to build the CP2 LNG export project in Louisiana that would be capable of producing more than 20 million tonnes per year, along with the associated 85-mile, 48-inch-diameter pipeline from Texas.

[U.S. LNG terminals loaded about 100 cargoes in December]

(Wood Mackenzie; Jan. 7) - About 20 cargoes of U.S. LNG are currently on their way to Europe, responding to soaring natural gas prices in the U.K. and European Union that last month rose above $65 per million Btu. Alex Munton, Wood Mackenzie’s principal analyst for Americas LNG, said U.S. exporters loaded about 100 cargoes last month. “U.S. terminals are running red hot right now. … They are going as hard as they can.”

However, the arrival of additional U.S. LNG will not end the pressure on European gas prices, which are being driven by a number of factors including the weather and concerns over supplies from Russia. But it does underline the emergence of the U.S. as a leading player in the global LNG market, providing flexible supply that can be diverted to wherever prices are most attractive. The 100 or so U.S. cargoes are worth billions of dollars at current high global prices.

As gas prices in Europe have risen above prices in Asia, tankers have been diverted to take advantage. The Hellas Diana, for example, was reported to have been near Hawaii, on its way from Texas to China, when it was turned around to go back through the Panama Canal and head for Europe. Back in February last year, when LNG prices were higher in Japan and South Korea than in Europe, most U.S. cargoes went to Asia. Now it is Europe that is the bigger draw.

LNG tankers continue diverting to Europe

(Natural Gas Intelligence; Jan. 7) - Liquefied natural gas tankers previously en route to Asia are still diverting toward Europe as the western part of the continent continues to deal with reduced pipeline flows and low storage inventories that have supported high prices. After diverted LNG vessels made headlines last month, market research firm Kpler has continued to track 14 more ships that have all changed course for Europe even though prices have fallen from record highs in December.

Kpler analyst Laura Page said almost all of the ships — chiefly from the United States and West Africa — were originally destined for Northeast Asia, except for one headed for South America. “Prices have started to rise again due to lower Russian piped flows at the start of the year, so Europe is starting to come back into play,” Page said. “Demand for LNG in Northeast Asia remains subdued and isn’t expected to strengthen unless temperatures fall.”

A cold snap on the continent and lower inventories saw European prices march upward in mid-December, eventually hitting a record high of nearly $60 per million Btu on Dec. 21 on the region’s leading natural gas benchmark. Just over a week later, prices had almost halved to $32 after U.S. LNG deliveries and warmer weather predictions helped temper the market, but analysts are already warning that less competition from Asia will not substitute for stable pipeline flows from Russia, which are uncertain.

Mild winter and U.S. LNG help Europe avoid higher natural gas prices

(Bloomberg opinion; Jan. 6) - Russia’s winter defeated Napoleon Bonaparte and Adolf Hitler. The bitter season has played such a historic role against the nation’s enemies that it now enjoys military rank, popularly known as General Moroz and General Zima (“frost” and “winter”). In the great European natural gas battle of 2021-2022, however, the weather has worked against Moscow. If President Vladimir Putin was counting on Moroz and Zima, the commanders have yet to show up at the Western front.

Mild weather has so far crushed heating demand and soothed the European market panic about supply that saw natural gas prices shoot up to record highs. In recent days, London, Berlin and Paris have enjoyed spring-like weather. For Europe, which imports 40% of its gas from Russia, it has been an economic and geopolitical reprieve. From a record high of nearly €188 ($214) per megawatt hour on Dec. 21, gas plunged to a low of €65.40 by Dec. 31, an unprecedented 65% drop in just eight trading days.

Gas isn't just used for heating and industries. Europe burns lots of it to generate electricity. And so the mild weather has avoided the worse-case scenario of blackouts. U.S. shiploads of liquefied natural gas have also helped push prices down — quite an irony since European countries vehemently opposed hydraulic fracking, the technique that has unlocked American gas from shale rock. Before the spell of mild winter, Europe was heading into a full-blown crisis. However, spring in the Northern Hemisphere is still 73 days away, giving Generals Moroz and Zima time to show their mettle.

Nuclear power shutdowns expose Europe to supply and price risks

(Bloomberg; Jan. 7) - Electricite de France will switch off the last unit at its Hunterston B nuclear power plant in Scotland on Jan. 7, further crimping supplies in the middle of an energy crunch. While the decision to close the 46-year-old station due to long-running safety issues was made in 2020, it comes at a difficult time for the market — and with the coldest months still to come. The reactors were only intended to run for 25 years. But the extended lifespan took its toll with the discovery of cracks in the graphite core of the reactors, and proving that the units were safe to run became too difficult.

Britain can usually rely on electricity from France, but extended outages at nuclear plants there are limiting supplies. In addition, Germany shut half of its nuclear fleet last month ahead of a total phaseout by the end of this year. Along with a gas crunch, that's helped send power prices to record highs. Low-carbon power from Britain's aging nuclear fleet is seen as key to meeting net-zero targets by 2050, and the closure of more capacity by 2024 leaves a gap that needs to be filled without boosting emissions.

Meanwhile, expensive gas plants will need to step in to supply power when there's not enough wind to generate renewable electricity. High gas prices have pushed up power costs and exposed the risk of relying on imported fossil fuels. As "the current energy crisis demonstrates, without nuclear the cost of the electricity we rely on is higher, causes pollution and leaves us reliant on burning imported fossil fuels," said Tom Greatrex, CEO of the Nuclear Industry Association. "That's why we need new nuclear."

Netherlands expands gas production from controversial field

(The Associated Press; Jan. 7) - The government of the Netherlands has sparked anger by announcing it may have to double the amount of gas it pumps this year from a northern province that experienced a string of small earthquakes in recent years. "I realize it really is a disappointment for people in the quake region that it has indeed proved necessary to extract more gas," Dutch Economic Affairs Minister Stef Blok said Jan. 7. The government has pledged to phase out gas extraction in Groningen province because the activity has been blamed for the earthquakes, badly damaging homes.

But the Ministry of Economic Affairs said Jan. 6 that the amount of gas to be pumped this year could double because of long-term contracts with neighboring Germany and construction delays on a facility that would make imported gas suitable for use in the Netherlands. A lobbying group for residents who suffered millions of euros in damage to their homes over the years slammed the announcement of more gas production.

"The Groningen Earth Movement finds it incomprehensible that the Ministry of Economic Affairs is choosing to open the gas tap further," the group said in a statement. The group said a plan to reinforce or rebuild damaged homes has proceeded slowly and the planned extraction increase "means that the unsafe situation in Groningen will continue even longer." The government has reduced the amount of gas pumped from Groningen in recent years and says it still should no longer need to extract any more from mid-2022, assuming there are no harsh winter weather conditions.

Second gas line from Russia would give China edge in LNG buys

(South China Morning Post; Jan. 8) - China is seeking to fast-track a second pipeline to double its gas supply from "comprehensive strategic partner" Russia, which could give Beijing an upper hand in dealing with LNG supplier Australia, according to analysts. The proposed Power of Siberia 2 gas line, which would be built by Gazprom, could pump up to 4.8 billion cubic feet of gas per day to northern China. Russian President Vladimir Putin said last month that a feasibility study on the pipeline would be finished very soon.

"Just as it makes sense for the EU to use [liquefied natural gas] as a political hedge … it makes sense for China to use Russian pipeline gas as a political hedge or backup for its high reliance on LNG — large amounts of which come from Australia and the United States, with whom Beijing's relations have deteriorated over the past years," said Henning Gloystein, director of energy, climate and resources at Eurasia Group.

China imported 43% of its gas needs in 2020, including 3.14 trillion cubic feet as LNG and 1.6 tcf of pipeline gas, according to its customs data. About 43% of its LNG imports came from Australia, but China-Australian relations have deteriorated the past two years. Tian Miao, a senior analyst with Everbright Sun Hung Kai, said a second supply channel with Russia "will partly meet China's rising demand and also help diversify its imports." The first China-Russian gas pipeline, launched in 2019, transported 460 billion cubic feet of gas in the first two years, about one-third of the design capacity.