Oil and Gas News Briefs
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Citigroup analyst says oil could average $65 by end of the year

(Barron's; Jan. 26) - At least one bank is bucking the trend of forecasting higher oil prices, painting a very different picture of the supply side of the equation. Citigroup sees prices falling more than 20% by the fourth quarter to an average of $65. "I think there's been a colossal failure of the analytical community to look at what's happening on the ground, to look at projects that have been reaching final investment decisions, to look at where the efficiency of capital is, to be blindsided by a prejudice which says not enough capital is being spent and decline rates are going up," said Citi oil analyst Ed Morse.

Morse has a strong record of against-the-grain predictions. He was one of the first to predict that oil would plunge because of an oversupply in 2014. He doesn't think $100 is impossible — he just expects the latest bull run to be transitory because supply is rising too fast. Not including Iran — whose oil exports are still subject to sanctions — Citi expects oil supply to rise by 5.5 million barrels this year, even if OPEC and allies restore 250,000 barrels of production a day each month instead of their projected 400,000.

Morse said he thinks global supply will rise above 102 million barrels a day this year. He expects U.S. companies, which now produce about 11.8 million barrels a day, to add at least 800,000 barrels in 2022. "Everybody's balances indicate oversupply by the end of the year," he said. Morse thinks that U.S. companies will boost production by more than 1 million daily barrels next year, to 13.9 million — a record. "And indeed, we're probably going to have to revise that number up, because more is being spent than we thought."

OPEC+ inability to meet production target fueling higher oil prices

(The Wall Street Journal; Jan. 25) - OPEC and its Russia-led partners have promised to increase oil production to pre-pandemic levels this year but are falling short of those public commitments, stoking fast-rising global crude markets. Last month, the Organization of the Petroleum Exporting Countries and its Russia-led allies increased their collective production by 250,000 barrels a day, or 60% of what the two groups promised for the month, according to the International Energy Agency.

Overall, the group is pumping 790,000 barrels a day below its publicly stated targets, said the Paris-based watchdog, which advises industrialized nations on energy. The shortfalls have softened the market effect of a series of steady increases in oil output that the two groups, known together as OPEC+, have announced in recent months.

Instead of curbing prices with higher production targets, the group's inability to increase production as promised has become a reason for traders to bet on higher prices.

"These monthly [OPEC] additions are increasingly nominal," said Bill Farren-Price, director of intelligence at London consulting firm Enverus. "They are not fully backed by real barrels." One factor in pushing prices higher is "the concern that OPEC has very little scope to make up for any supply disruptions elsewhere," he said. OPEC is producing 2.5 million barrels a day less than just before it started cutting in early 2020. Despite the capacity to pump more, Saudi Arabia and the United Arab Emirates are not moving to open taps wider and make up the shortfalls from other members.

JPMorgan maps out what $150 oil could do to world economy

(Bloomberg; Jan. 25) - The price of oil hasn't even reached $100 a barrel, but that's not stopped economists at JPMorgan Chase from war-gaming what a surge to $150 this quarter would mean for the world economy. In a report published Jan. 21, bank economists including Joseph Lupton and Bruce Kasman warned that such a shock would be enough to reduce global growth by more than three quarters, to around 0.9% in the first half of the year — versus the 4.1% they currently forecast.

Global inflation would also more than double, to 7.2% rather than the projected 3%, in the bank scenario. That could force central banks to constrain monetary policy even faster than they now intend, the analysts said. "Oil shocks have a long history of driving cyclical downturns," they wrote. "The latest geopolitical tensions between Russia and Ukraine raise the risk of a material spike this quarter." JPMorgan noted its analysis does not account for any financial market fallout from a conflagration between Russia and Ukraine nor for the effects of U.S. sanctions being imposed on Russia.

Conoco, Occidental CEOs have differing views of U.S. oil production

(Reuters; Jan. 24) - The chiefs of major U.S. oil companies Occidental Petroleum and ConocoPhillips offered differing outlooks on the growth of U.S. oil output at a conference on Jan. 24, as the industry rebounds from shutdowns imposed during the first stage of the coronavirus pandemic. Oil prices have surged to seven-year highs in the past several weeks, with international benchmark Brent crude hitting nearly $90 per barrel, bolstered by tight worldwide supply and resurgent global demand.

ConocoPhillips CEO Ryan Lance told an audience at the Argus Americas Crude Summit in Houston that he was bullish about markets, as high oil prices will persist for a while. "What we're seeing is a call right now that there's more supply needed. That's why prices are where they are today," he said, adding that he expects U.S. output to grow by about 800,000 barrels per day this year. Output is likely to eventually eclipse the record 13 million barrels per day reached in late 2019, he said.

Occidental CEO Vicki Hollub was more measured in her forecast, saying the U.S. would likely surpass 12 million barrels per day at some point — but fall short of its record. The U.S. Energy Information Administration predicts annual production to average 11.8 million this year and 12.4 million in 2023. That average would be a full-year record, though less than the monthly peak of 12.97 million set in November 2019. More growth could once again make U.S. shale a swing factor in production as OPEC and its allies, including Russia, have struggled in recent months to meet higher production targets.

Producers not investing enough in new oil, says Saudi Aramco CEO

(Bloomberg; Jan. 24) – Saudi Aramco said demand for oil is nearing pre-COVID levels and reiterated that producers are investing too little in new supply. "We are getting very close to pre-pandemic levels," CEO Amin Nasser told reporters on Jan. 24 in Dhahran, where the world's biggest oil company is based. "We continue to see healthy demand in the future." Consumption of crude crashed from 100 million barrels a day in early 2020 as the coronavirus pandemic spread, shutting down factories and triggering lockdowns.

The International Energy Agency, which advises rich countries, said demand was back to almost 98 million barrels a day as of September. Oil prices have surged 13% this year to more than $85 a barrel as demand continues to recover and the Omicron variant proves less damaging economically than many oil traders first feared. At the same time, spare supply capacity is dwindling as several major producers struggle to boost output.

There's no sign yet that rising prices are causing consumers to cut back on oil, Nasser said. He and Saudi Arabian officials have previously warned that crude prices could climb even higher if Western governments and energy companies pull back from fossil fuels too quickly. Persian Gulf countries are among the few still spending billions of dollars to increase their output. Saudi Arabia plans to raise its daily crude-production capacity to 13 million barrels from 12 million by 2027.

'Missing barrels' could affect oil prices

(Bloomberg opinion; Jan. 22) – Where'd all the oil go? According to the latest estimates, the world should be awash in oil stockpiles built up during the pandemic. But that's not what the data show. The International Energy Agency's latest report, published Jan. 19, shows that, if their supply-and-demand numbers are right, the world's oil stockpiles are about 660 million barrels higher than they were before the pandemic. That's equivalent to more than a month's worth of production by Saudi Arabia and Russia.

Yet oil inventories in the nations of the Organization for Economic Cooperation and Development — including commercial and government reserves — and other barrels aboard tankers and stockpiled elsewhere totals about 200 million barrels less than the IEA estimate. The IEA suggests some of that oil could be in underground storage, where levels can't be measured remotely; in new pipelines that need to be filled before they are used; or as refined fuels in countries (like China) that don't report inventories.

But nowadays, though, these notions of "missing barrels" are no longer good enough. The bigger worry is that the oil isn't hidden away anywhere. The large volume of missing oil may suggest that supply estimates are too optimistic or demand has been understated. Or, more likely, some combination of the two. Analysts are lining up to call $100-crude later this year. If it turns out that a large proportion of the missing barrels has actually been consumed already, that's just going to add fuel to the high-price fire.

U.S. crude and refined product inventories below seasonal norm

(Reuters columnist; Jan. 23) - U.S. petroleum inventories have continued to slide in the past month and are well below normal seasonal levels, which has helped push oil prices to their highest since 2014. The market remains chronically undersupplied with OPEC+ and U.S. shale firms unable or unwilling to meet rapidly recovering demand at prevailing price levels. Total commercial crude and products inventories have fallen in 56 out of the past 81 weeks according to data from the U.S. Energy Information Administration.

Commercial inventories have declined by a total of 273 million barrels since peaking in July 2020, more than reversing the 204 million increase during the first wave of the pandemic. Commercial inventories are 52 million barrels (4%) below the pre-pandemic five-year seasonal average for 2015-2019, the lowest for this time of year since 2015. Crude stocks are 17 million barrels (4%) below average, with stockpiles at the Cushing, Oklahoma, pricing hub particularly tight at 16 million barrels (33%) under the average.

Distillate stocks are also especially tight at 23 million barrels (15%) below the average and at their lowest seasonal level since 2014. Only gasoline inventories appear normal and in line with the average. In fact, the market has remained undersupplied almost continuously for 18 months, with the result that conditions are now among the tightest in a quarter of a century. The persistent shortage of petroleum production is real.

Companies paying higher prices for fracking crews, oil field services

(Transport Topics; Jan. 24) – U.S. shale oil drillers are using almost all of the fracking equipment and crews available as exploration expands, accelerating cost inflation and pointing to worsening supply chain disruptions across the industry. North American oil drillers appear likely to expand spending by more than 25% this year while overseas explorers are on course for a more modest increase in the mid-teens, Halliburton executives said Jan. 24 after reporting their biggest quarterly profit in seven years.

The world's top provider of fracking services already is seeing tightening labor, trucking and raw material supplies, and in some regions as much as 80% of its workers are transplants recruited from other areas. Even something as mundane as the sand Halliburton blasts into wells to help fracture oil-soaked rocks is getting harder to source, CEO Jeff Miller said during a conference call with analysts.

The squeeze is proving a boon to Halliburton, which lifted its dividend for the first time since 2014 and said orders for pumping gear have more than doubled. The company's fracking business is working at full capacity. ConocoPhillips and peers such as Devon Energy have been warning since last year that oil field inflation was a burgeoning threat. Supply chain snarls in the Permian Basin — the biggest U.S. field — are making drilling projects more complicated, prolonged and expensive. Miller said there is little reason to expect changes any time soon. "I don't see 2023 as an endpoint by any means."

Qatar has no spare gas to help Europe if Russian flow is disrupted

(Bloomberg; Jan. 25) - Qatar would not be able to significantly ramp up supplies of natural gas to Europe in the event of any disruption to Russian flows, according to two people familiar with the situation. President Joe Biden's administration has spoken to major gas producers, including Qatar, about the possibility of getting more shipments sent to Europe in case a potential Russian invasion of Ukraine interrupts flows.

Qatar, one of the world's biggest exporters of liquefied natural gas, is already producing at full capacity and most of its cargoes are sent to Asia under long-term contracts that it can't break, the sources said. The Persian Gulf state doesn't want to be seen as compromising those Asian partnerships even if it reaps political rewards in Europe, they said. State firm Qatar Energy sells some LNG on the spot market, which could be mostly sent to Europe, but the volumes would be too small to make much difference.

Qatar's Energy Minister Saad Al-Kaabi said in October the country was unable to pump more gas to help bring down prices, which have soared in the past year as the global economy rebounds from the coronavirus pandemic. "We are maxed out," Al-Kaabi said at the time. "We're producing what we can." Qatar is spending almost $30 billion to increase its LNG output capacity by 50%, but the project won't be finished for five years.

Analysis says growing LNG exports cost U.S. consumers

(Natural Gas Intelligence; Jan. 26) - Framed around their projections that U.S. consumers could be hit with higher heating bills this year, advocacy groups are renewing the message that expanding U.S. liquefied natural gas exports are part of the problem. The nonprofit Institute for Energy Economics and Financial Analysis is highlighting last year's natural gas price fluctuations in a new analysis exploring whether exports are exposing average Americans to higher prices.

IEEFA's Clark Williams-Derry, energy finance analyst, said the U.S. Henry Hub natural gas price spikes last year showed how gas exports will "bite" consumers, even when domestic production is up and consumption is down. "LNG exports just about doubled from 2019 to 2021, and that is what created the supply tightness in the market that has lifted prices and made U.S. consumers pay higher prices for natural gas and, as a consequence, electricity," Williams-Derry said.

LNG exports during the first 10 months of last year outpaced the previous year by 30%. IEEFA has estimated that 10% to 15% of U.S. gas output capacity is dedicated to LNG exports. The share of exported gas could increase as more projects are sanctioned. But the U.S. LNG industry has rejected the idea that limiting exports will guarantee stable domestic prices. Department of Energy officials also recently reiterated that the Biden administration is unlikely to significantly limit exports, especially as European allies face supply risks from Russia and its threats to Ukraine and possible reactions.

Industrial gas consumers renew criticism of U.S. LNG exports

(S&P Global Platts; Jan. 26) - A manufacturer trade group and other opponents of U.S. LNG exports have renewed their call for the government to restrict shipments of natural gas to world markets despite few signs that the White House is amenable when allies are facing potential gas shortages. The Industrial Energy Consumers of America (IECA) said Jan. 25 that surging LNG exports harm domestic consumers and that the president should rein them in. The Institute for Energy Economics and Financial Analysis agrees.

"What [the U.S. Energy Department] has put in place is an extreme LNG export policy, and it is anti-consumer," IECA President Paul Cicio said. For years, the IECA has asked the Energy Department to order U.S. LNG producers to throttle back exports of the fuel. The gas industry has pushed back, arguing that limiting exports would erode the status of the U.S. as a reliable trading partner and undercut billions of dollars of infrastructure investments when LNG exports are not solely to blame for domestic price increases.

Cicio said exports "shift the supply risk and the price risk from the exporter to the domestic consumer." The IECA has called for a new law to revisit how the U.S. government determines whether exports are in the public interest and the creation of a "consumer safety valve" that would allow the U.S. to roll back exports in the event of significantly higher domestic prices. The trade association for U.S. LNG exporters describes the IECA argument for restricting exports as a "tired claim." The U.S. later this year is expected to take the top spot as the world's largest LNG exporter.

[Colorado regulators start deliberations on higher bonding for wells]

(Colorado Newsline; Jan. 24) - State regulators will begin deliberations this week on a rule change that could fundamentally rewrite the financial bargain that Colorado strikes with oil and gas companies seeking to drill within its borders. The latest phase of the Colorado Oil and Gas Conservation Commission's rulemaking on financial assurance, known as bonding, kicked off with a round of public comment last week. More than 160 members of the public weighed in over two days of testimony.

Mandated by a 2019 law that dramatically overhauled drilling policies, the rulemaking comes after repeated delays and three drafts of new rules proposed by commission staff in 2020. Financial assurances are the security deposits that oil and gas operators provide to cover potential cleanup costs in the event that a drilling site or other facility is abandoned, or orphaned to the state, typically as a result of bankruptcy. Environmental groups have long criticized the amounts required by current regulations as inadequate.

"Blanket bonds," for example, allow operators with hundreds of wells statewide to cover their portfolio with a bond of just $100,000. That's despite the fact that the cost to plug and reclaim hundreds of wells — a process that drastically reduces the potential for safety or environmental hazards — would run into the tens of millions. The agency's proposals have largely revolved around increased bonding for certain wells that are deemed to be at higher risk of abandonment. But final details are yet to be determined.

[Critics say Canadian orphaned-well cleanup report shorts true costs]

(The Canadian Press; Jan. 25) - The parliamentary budget officer has found the cost of cleaning up orphaned oil and gas wells in Alberta and Saskatchewan already dwarfs the money collected from industry to pay for it. Critics, however, called Yves Giroux's estimated C$1 billion (by 2025) price tag a massive underestimate. "It's a great disappointment," said Regan Boychuk of the Alberta Liabilities Disclosure Project, a group whose research was cited in the report. "They left out the most expensive part."

The report considers about 10,000 wells in Alberta and Saskatchewan that are considered orphans — those with no viable operator capable of addressing their environmental liabilities. It says the cost of cleaning up those wells is currently C$361 million and will rise to C$1.1 billion by 2025 as the number of orphan wells grows 35% a year. Industry has paid only about C$237 million in security deposits, the report said.

But the budget officer report does not include cleanup of pipelines or other energy infrastructure on the land. It doesn't include oil sands. And it does not include 7,400 wells that are considered abandoned but not yet orphaned. If those wells were included, the report said current liability would more than double to $801 million. Nor does it include liability for the 225,000 wells in Alberta and Saskatchewan that are inactive or plugged. Nearly two-thirds of all wells in the two provinces no longer pump, the highest percentage ever, and most wells once declared inactive never start again.

High natural gas prices raise refinery costs for low-sulfur fuel oil

(S&P Global Platts; Jan. 24) - High natural gas prices have been raising costs for the production of very low-sulfur fuel oil — the key marine fuel to meet the International Maritime Organization's global low-sulfur mandate — while also curbing refinery output of the residual fuel. Refineries that run on gas are facing surging costs, forcing them to trim some operations, including production of the 0.5% sulfur fuel oil.

"High natural gas prices have pushed the cost of desulfurization extremely high, which removes an incentive for refiners to produce lower-sulfur molecules," a fuel oil trader told S&P Global Platts. The effect is most pronounced in Europe, where some refineries are particularly exposed to the spot gas market for their refinery fuel.

High natural gas prices are also causing more demand for fuel oil as a feedstock, which means refineries are not just producing less low-sulfur fuel but also competing with the bunker market for fuel oil to process into the lower-sulfur product. In addition, in recent months, high natural gas prices have turned power generators to substitute away from natural gas to oil, primarily low-sulfur fuel oil and low-sulfur burning crude, further competing with refineries that need the products.

Germany considering government-controlled gas storage

(Bloomberg; Jan. 26) - Germany is considering creating government-controlled natural gas storage sites as it tries to prevent another shortage of the fuel ahead of next winter, Economy Minister Robert Habeck said. Habeck, a co-leader of the Greens party that took office last month, said another option would be an obligation for Germany's gas-storage facilities to maintain a certain volume at any specific time.

Europe is seeking ways to avoid a repeat of the crisis that has gripped the region this winter amid perilously depleted inventories and curbed supplies from Russia that have sent energy prices to record highs. "The issue must be resolved by next winter," Habeck said Jan. 26 during government questions in the lower house of parliament. "We can't run into a situation like we've been through again. That would be really negligent."

Germany's storage facilities are operated by private companies, and national inventories would give the government more control on how to utilize gas supplies in case of emergencies. Germany imports most of its gas, and about half of those supplies come from Russia. That reliance has come into sharp focus in recent months as tensions rise with Russia building up troops on Ukraine's eastern border.

Germany opposes EU proposal to label nuclear and gas as green

(Bloomberg; Jan. 22) - The German government opposes the European Union commission's view of nuclear power as a sustainable source of energy and only supports natural gas as a bridge solution on a path to green energy, according to a letter sent by the federal government to the EU on Jan. 21. "The longer nuclear power plants run, the bigger the nuclear waste problem becomes," according to the letter. "In the view of the German government, nuclear energy is not sustainable."

In addition, gas cannot be regarded as a sustainable source of energy in the long term, the German government wrote, but rather as a temporary solution to speed up transition to green energy. "Gas-fired power plants can facilitate the rapid transition to renewable energies and the reduction of emissions in the energy sector as a whole, complement rather than displace renewables," the letter said.

Europe faces mounting opposition to its proposed addition of gas and nuclear power to its green rulebook, as investors, the public and some member states voice their dismay at the process. The EU Commission says the adjustment is necessary to wean some countries off coal and ease the transition to renewable energy forms. Germany is committed to shutting down its nuclear power plants and getting off coal in the long term, though a lack of sufficient renewable energy sources and tight gas supplies have driven up power costs this winter to record highs.

Japan will provide small subsidy to ease petroleum fuels price hike

(Kyodo News; Japan; Jan. 25) - Japan's Industry Minister Koichi Hagiuda said Jan. 25 that the government will implement for the first time its oil industry subsidy program, aimed at curbing petroleum fuel prices starting later this week following a recent surge in crude oil prices. The nation's average regular gasoline retail price was the equivalent of $5.67 per gallon as of Jan. 24, reaching its highest level in 13 years and topping the threshold required to launch the subsidy introduced in November, Hagiuda said.

Under the program, a subsidy of about 11 cents per gallon will be paid to 29 oil distributors and importers for a week starting Jan. 27 with the aim of keeping them from sharply raising their prices of gasoline, diesel oil, kerosene and fuel oil, according to the ministry. "I expect this program to suppress wholesale price rises and prevent further sharp price hikes," Hagiuda said. The size of subsidies will be reviewed by Feb. 3 according to changes in retail gasoline prices. The program has been criticized as a market-distorting measure and excessive intervention by the government.

[Japan’s largest power generator expands U.S. presence]

(Houston Chronicle; Jan. 26) - A U.S. subsidiary of Japan’s biggest power generation company is doubling down on its Texas investments — growing its Houston workforce and expanding its office space in the process. JERA Americas, the U.S. subsidiary of Tokyo-based JERA, is planning a string of renewable energy projects in Texas after increasing its stake in the Freeport LNG export terminal.

The Texas investments are on top of its growing presence in the Northeast, where it invests in power plants. To support its growth, JERA is relocating its North American headquarters to bigger digs in downtown Houston, with plans to double its headcount to about 150 from 70 over the next two to three years. JERA has grown its U.S. employment from about six in 2013. JERA also has a regional office in San Francisco and a virtual office in the Northeast.

Long-term contracts to supply LNG to Japan and investments in renewables gives the company a business model to grow through the energy transition, said Steve Winn, chief executive of JERA Americas. JERA, which stands for Japanese Energy for a New Era, supplies 30% of the electricity in Japan, according to the company. Over the years, JERA Americas has expanded its investments in natural gas power plants. The company wants to grow its gas plant portfolio from about 1,500 megawatts today to about 5,000 to 7,000 megawatts across North America by 2025, Winn said.

[Australian explorers plan active year at offshore prospects]

(Australian Financial Review; Jan. 24) - The hunt for new oil and gas fields in the waters around Australia is set for a fresh burst of activity in 2022 led by Santos and smaller explorers, while eyes worldwide will be focused on drilling results in the Northern Territory. Drilling onshore and offshore is expected to be more active this year after a quiet couple of years, even as community acceptance of searching for and developing more fossil fuel resources wanes amid the push toward net-zero emissions.

The Australian explorers will aim to buck the global trend of slumping oil and gas discoveries. The volume found worldwide in 2021 is thought to have been the lowest in 75 years, according to consultancy Rystad Energy. Rystad put the volume of finds last year across the world at 4.7 billion barrels of oil equivalent up to the end of November, about one-third the 12.5 billion found in 2020. “The global exploration focus remains on low-carbon, faster-payback wells ideally in lower political risk jurisdictions, and Australian targets largely follow this trend,” said Credit Suisse analyst Saul Kavonic.

Offshore, Santos plans to get the drill bit spinning next months at the Pavo and Apus exploration wells near its Dorado oil and gas field off Western Australia. Santos had been seeking to bring in a partner to Dorado last year, but CEO Kevin Gallagher said last week the sales process is suspended pending the outcome of the drilling. “If they are dry holes, we'll get no value for them, but that's what we were getting anyway through the offers in the sale process,'" he said. Once the results came through, Santos would look to sell part of its 80% stake to coincide with the final project go-ahead.