Oil and Gas News Briefs
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U.S. running low on the 'good stuff' in strategic oil reserves

(Bloomberg; June 17) - The U.S. has become the world's oil barrel of last resort, single-handedly keeping prices in the energy market from exploding even higher by selling a large chunk of its Strategic Petroleum Reserve (SPR). But Washington can't use the reserve forever: It's a finite stockpile fighting a potentially unlimited global supply shortage. More worryingly, the U.S. is depleting its cache a lot faster than it looks.

And that matters. The International Energy Agency earlier warned that "global oil supply may struggle to keep pace with demand next year." The SPR may be the final cushion to put a lid on oil prices — and global inflation. To understand the problem, one has to look at what's in reserve. Over the past year, the U.S. has sold 115 million barrels from its hoard, with the releases surging to a record high of nearly 1 million barrels per day.

If Washington sticks to its pace, the reserve will shrink to a 40-year low of 358 million barrels by the end of October, when the releases are due to stop. A year ago, the SPR, located in caverns in Texas and Louisiana, contained 621 million barrels. As the market looks now, it's hard to see how Washington can halt sales in October. But there's a catch: Not all of the crude is equal. What's left is less useful than what's already gone.

The SPR contains two kinds of crude: medium-sour and light-sweet. Typically, U.S. refiners prefer medium-sour crude, which is denser and has more sulfur but is a variety they can easily process into gasoline and other products thanks to highly sophisticated plants. For that reason, the White House has prioritized the sale of medium-sour barrels. Over the past year, 85% of the oil the SPR has sold has been medium-sour.

Already, the government has started to offer more light-sweet crude than medium-sour in its most recent bid notice for SPR barrels. Regardless of the preference of refiners, any barrel is still better than no barrels. But with the good stuff already nearly gone, the world can't keep relying on the U.S. strategic reserve to keep oil prices in check.

Rise in U.S. oil and gas exports contributes to high domestic prices

(The Wall Street Journal; June 16) - A rapid rise in American fuel exports this year has helped push gasoline prices to a record $5 a gallon and also is pressuring U.S. prices of natural gas, which hit the highest levels in over a decade earlier this month. In recent months, companies and commodities traders have shipped more U.S. gasoline and diesel to Latin America and other foreign markets, reaping higher prices than the fuel could fetch domestically. They have also sent more liquefied natural gas to Europe.

The jumps in exports are further draining U.S. inventories that were already languishing at low levels after output cuts during the worst of the pandemic. Now American producers and refiners are struggling to keep up with resurgent demand. While fuel exports haven't hit records, they are trending higher than in prior years. Seaborne shipments of gasoline, diesel and jet fuel departing the U.S. Gulf Coast in March, April and May averaged 32% higher compared with the same three months last year, and 11% higher than the same period in 2019, according to market-intelligence firm Kpler.

U.S. exports have had little effect on domestic prices in recent years, as the country enjoyed plentiful supplies from the fracking boom. But the rise in shipments comes as inventories of crude oil and petroleum products have fallen to the lowest levels since 2008. At that time, exports of refined fuels were much lower, and U.S. companies hadn't yet built LNG export facilities. Exports of natural gas — by LNG and also by pipeline to Mexico and Canada — vaulted to a record in March, about 22% of U.S. gas production.

Robert Yawger, an analyst at Mizuho, said U.S. fuel exports are affecting domestic prices as refiners and traders seek out higher prices for their products overseas.

China, India boost imports of Russia oil by 1 million barrels a day

(S&P Global; June 16) - Russian seaborne crude exports remained at post-pandemic highs in the first half of June as India and China continued to snap up discounted supplies despite tightening Western sanctions on Moscow. Compared to pre-war levels in January and February, Russia's shipped crude exports from June 1-15 rose by 576,000 barrels per day to average about 3.88 million, according to preliminary data from shipping analytics provider Kpler. The flows, which are up from 3.81 million barrels per day in May, put Russia's seaborne crude exports at the highest since May 2019.

China and India continue to make up the biggest growth market for Russia as European Union member states retreat from oil trade with Moscow ahead of the trade bloc's 2023 deadline to end imports of Russian crude and refined products. The two Asian importers have now grown their share of Russian shipped crude to almost 30% and 20%, respectively, a combined growth of over 1 million barrels per day on pre-war levels.

At the same time, EU imports of shipped Russian crude remained at around 1.3 million barrels per day in the first half of June, little changed from May but down from 1.75 million in January and February. To make up the shortfall, the EU has seen its imports of U.S. crude jump by about 400,000 barrels per day, or 50%, since the start of the year and bought more Norwegian and Egyptian crude as it cuts its reliance on Moscow.

China unlikely to use spare refinery capacity to ease global squeeze

(Bloomberg; June 19) - As gasoline prices soar, there's a massive pool of oil-refining capacity on the other side of the Pacific that's sitting idle. About a third of China's refinery capacity is currently out of action as Asia's largest economy struggles to put the coronavirus behind it. If tapped, the extra supply of diesel and gasoline could go a long way to cooling red-hot global fuel markets, but there's little chance of that happening.

That's because China's refining sector is set up mainly to serve its mammoth domestic market. The government controls how much fuel can be sent abroad via a quota system that also applies to privately owned companies. And while Beijing has allowed more shipments at times over the years, it doesn't want to become a major oil-product exporter as that would run counter to its goal of gradually decarbonizing the economy.

The contrast between China and the U.S. — where refineries in some areas are running close to full capacity and high gasoline prices are a political issue — reflects a tectonic shift in the industry over the past few years. European and North American plants have been shutting down, a trend accelerated by slack demand during the worst of COVID-19, while most new facilities are being built in the developing world, particularly Asia and the Mideast. But China's big state-owned refiners, which control the market, were running at just around 71% of capacity on June 10, according to CITIC Futures Co.

U.N. secretary general says U.S. needs to boost oil production

(S&P Global; June 16) - As the world's largest oil producer, the U.S. bears some shared responsibility for easing the global supply squeeze, OPEC Secretary General Mohammed Barkindo said June 16, suggesting that the Biden administration could be doing more to raise domestic output. "We are glad that their production is inching up, as well as their exports," Barkindo told reporters at an energy transition forum in London.

"But the U.S. domestic industry, in our opinion, the shale basins (are) one of the low-hanging fruits that the world can easily tap for additional supplies in the months and years to come." OPEC and its allies, including Russia, have for months stuck to their schedule of modest production increases, frustrating the U.S. and other consuming countries that have chided the group to pump more crude to bring down rising prices and offset Russian output losses from Western sanctions over the invasion of Ukraine.

Fresh off meetings with U.S. oil companies and investors, the secretary general said he heard several complaints that industry did not feel sufficiently encouraged to increase production. Barkindo, who will leave his job in July and be replaced by Kuwait's Haitham al-Ghais, said the energy crisis highlights the need for more upstream and downstream investment. He blamed environmental rhetoric for making investors shy away from fossil fuels. "We have not been able to expand this capacity at the level that will meet current and future demand because of a lack of adequate and predictable investment," he said.

OPEC+ missed production target in May by 2.7 million barrels per day

(Reuters; June 16) - OPEC+ produced 2.695 million barrels per day below its crude oil targets in May because of production problems at several members and as Russia faced deepening sanctions, an OPEC+ document seen by Reuters and citing secondary sources showed on June 16. The development adds to global supply concerns as Brent crude prices in May averaged their highest in a decade close to $123 per barrel, and with June prices hovering just below at an average $118.

Global demand is recovering from the pandemic and outpacing the abilities of OPEC+ countries to increase production. In addition, Western sanctions on Russian oil following Moscow's invasion of Ukraine in February have strained Russian crude production growth. Russia's crude output rose to 9.273 million barrels per day in May from 9.159 million in April, but its production remained 1.276 million barrels per day below target last month, the OPEC+ document showed, the largest deviation across all OPEC+ members. Supply from the group faces additional challenges in June as a new blockade of Libyan crude oil facilities has greatly reduced the country's production levels.

U.S. reportedly looking for ways to ease ban on insuring Russian oil

(Financial Times; London; June 15) - The U.S. is urging European capitals to seek ways of easing the impact of their ban on insuring Russian oil cargoes, arguing the measure could cause global crude prices to soar. The EU and U.K. agreed to prohibit insurance on tankers carrying Russian oil at the end of last month, in one of the most far-reaching sanctions yet imposed on Russia. The EU has now put its ban into law, subject to a delay before it comes into force, and officials play down the idea that it can be adjusted.

The U.K., which agreed to mirror the EU's insurance prohibition, has yet to lay out its own measures. The anxiety in Washington reflects fears that the measure could make it impossible for many oil tankers to transport Russian crude, given the dominance of the European insurance industry. The U.S. is working on ways to ensure the ban does not drive crude prices higher, but proposals to allow coverage for cargoes priced below an agreed cap or to impose tariffs on oil imports do not have broad support in Europe.

"They are afraid prices will skyrocket," said one European official of the U.S. position, adding that Washington had been putting pressure on its G7 partners. Brent crude, the international benchmark, has risen from about $100 a barrel at the beginning of May to $120 a barrel, with traders pointing to the looming insurance ban as a key reason for the rise. The U.S. fears the insurance ban will drive oil prices up, feeding into higher petrol prices as the midterm elections approach.

Alberta oil sands output could grow 1 million barrels a day by 2031

(Natural Gas Intelligence; June 16) – Additions to oil sands operations are set to bump up Alberta’s production by 27% over the next 10 years, but natural gas production in the Canadian province is likely to be flat, according to government forecasts. The latest annual industry review by the Alberta Energy Regulator said oil sands output should increase to 4.7 million barrels per day as of 2031 from the current 3.7 million barrels.

“This projection assumes … that there will be sufficient transportation capacity — the pipeline and rail — to ship these volumes,” the agency stated. The flows would fill the only new oil pipeline space that the Alberta industry and government have confidence will be available over the next decade. Survivors of environmental battles over pipelines would add 960,000 barrels per day to capacity. That includes 370,000 barrels per day to the recently completed Enbridge Line 3 replacement in the U.S. Another 590,000 is under construction for the Trans Mountain line to the Port of Vancouver.

Alberta natural gas production is projected to remain in its current range of about 10 billion cubic feet per day or less, with exports receding as demand grows inside the province to use the gas as an oil sands plant and power station fuel. The agency’s gas outlook matches national trends recorded by the Canada Energy Regulator, which sees natural gas production growth migrating to British Columbia as the liquefied natural gas export terminal under construction in Kitimat, B.C., is expected to start up around 2025.

Qatar adds ConocoPhillips as partner in $29 billion LNG expansion

(S&P Global; June 20) - ConocoPhillips has become the third partner in QatarEnergy's $29 billion North Field LNG expansion. A joint venture between QatarEnergy and Conoco will own 12.5%, or half a train, in the four-train project, Qatar Energy Minister Saad al-Kaabi said June 20 at a news conference in Doha. ConocoPhillips, which has been a partner on a separate Qatari LNG project for more than a decade, joined France's TotalEnergies and Italy's Eni as investors in the latest expansion effort.

At the same news conference, Al-Kaabi warned that natural gas and oil prices are too high. "Prices that are too high are destructive to demand, you do not want a broke customer," he said. Prices were "causing a lot of economic slowdown around the world" with recession possibly hitting the U.S. next year or in 2024 and some European countries already in slowdown, he said. "This is not something we like to see." The origins of the high prices started before Ukraine because there had not been enough investment in oil and gas as the world started to move to alternative fuels, Kaabi said.

Qatar's North Field has the world's lowest cost to LNG supply, which can be used as a fuel to help protect against climate change, CEO Ryan Lance said at the news event. TotalEnergies on June 12 became the first partner in the project, winning a 25% stake in one train. Italy's Eni on June 19 won a 25% stake in half a train. ExxonMobil and

Shell are the remaining bidders without an announced deal, though Exxon CEO Darren Woods was set to speak with Kaabi in Doha on June 21 at the Qatar Economic Forum.

The expansion includes six LNG trains to boost Qatar's liquefaction capacity from 77 million tonnes a year to 126 million in two phases, with initial production starting in 2026.

[Qatar in talks to take in Chinese partners on LNG expansion project]

(Reuters; June 17) - China's national oil majors are in advanced talks with Qatar to invest in the North Field East expansion of the world's largest liquefied natural gas project and buy the fuel under long-term contracts, three people with knowledge of the matter said. It would be the first such partnership between the two nations as the Middle Eastern energy exporter shifts its efforts to expand its Asian client base.

The deal will help China create a buffer against spot-price volatility and diversify its imports. China’s relations with two major LNG suppliers, the U.S. and Australia, are at a low point, and another, Russia, is in a war and faces widespread sanctions. Beijing views gas as a strategic bridge fuel to replace coal on its path to carbon neutrality. State-controlled CNPC and Sinopec are negotiating with state-run QatarEnergy to buy up to 4 million tonnes of LNG per year each for up to 27 years, said two of the sources, in what would be the single-largest deals for the fuel between the two nations.

CNPC and Sinopec are expected to invest a 5% stake each in two separate liquefaction trains, part of the nearly $30 billion initial North Field expansion project, the sources told Reuters. The two-phase expansion includes six LNG trains that will ramp up Qatar's liquefaction capacity from 77 million tonnes per year to 126 million tonnes by 2027. QatarEnergy has announced TotalEnergies and Eni as partners in the first phase, with ExxonMobil, Shell, and ConocoPhillips also reportedly in line for a share of the project.

[German regulator asks consumers, industry to conserve natural gas]

(Bloomberg; June 16) - Germany’s top energy regulator has urged consumers and industry to scale back natural gas consumption to help fill storage sites ahead of the next heating season after Russia curtailed deliveries. “The current reductions of Russian gas deliveries can put all of us — consumers as well as industry — in a very serious situation,” Klaus Mueller, who heads the Bundesnetzagentur agency, wrote on Twitter. “As long as we can, we must avoid this through gas savings and storage.”

Mueller’s appeal follows a steep drop in gas deliveries from Russia, which the German government has said is a political act to unsettle the market and drive up prices. Germany utilities Uniper and RWE both said they are receiving less gas from Russia. By calling out the cutbacks as a politically motivated move, Germany — still among the biggest buyers of fossil fuels from Russia — is openly challenging Gazprom's assertion that the halt was due to technical issues, a stance the Kremlin reiterated on June 16.

Speaking in an interview with German news site RP Online, Mueller said Germany's gas storage sites are 55% full, far short of the more than 90% the country needs by November to make it through the winter. While saving on gas consumption is one way to help fill storage sites, Germany is also racing to install its first liquefied natural gas import terminals to add supply. A total shutdown of Russian gas deliveries would give the country about 24 hours to react, Mueller said. Germany has implemented a three-tier emergency plan that would ultimately require rationing for some industries.

Gazprom blames Western sanctions for reduced gas flow to Europe

(Reuters; June 16) - Russian gas supply to Europe via the 11-year-old Nord Stream 1 pipeline fell further on June 16 and Moscow said more delays in repairs could lead to suspending all flows, putting a brake on Europe's race to refill its gas inventories. The faltering flows came as the leaders of Germany, Italy, and France visited Ukraine, which is pressing for swifter deliveries of weapons to battle invading Russian forces and wants support for Kyiv's bid to join the European Union.

Russia's state-controlled Gazprom said it was reducing gas supply for a second time in as many days via Nord Stream 1, which runs under the Baltic Sea to Germany. The latest move cuts supply to just 40% of the pipeline's capacity. Kremlin spokesperson Dmitry Peskov said reductions in supply were not premeditated and were related to maintenance issues, a reference to earlier comments saying Russia was unable to secure the return of a compressor unit sent to Canada for repairs.

Germany said Russia's excuse was "unfounded" and was instead aimed at driving up natural gas prices. Italy said Moscow might be use the issue to exert political pressure. Russia's ambassador to the European Union told state news agency RIA Novosti that gas flows could be completely suspended due to problems in repairing the compressor station turbines in Canada. Gazprom CEO Alexey Miller said Western sanctions have made it impossible to secure the return of the equipment from Canada.

Baker Hughes stops work in Russia; could delay latest LNG project

(Barents Observer; Norway; June 16) - Several of Russia's Arctic energy projects face more troubles as a U.S company reportedly has decided to halt all engineering services to Russian gas companies. According to newspaper Kommersant, Baker Hughes will also stop deliveries of equipment to Russia. Baker Hughes plays a key role in several of the new natural gas projects that over the past years have been developed in the

Russian Arctic. Without the services and equipment provided by Baker Hughes, projects like the Yamal LNG and the Arctic LNG-2 will soon run into trouble.

According to Kommersant, Novatek will not be able to get needed spare parts for Yamal LNG, which has been producing since 2017, and construction of the first production unit at Arctic LNG-2 might not be completed. Yamal can produce about 17 million tonnes per year of LNG, and Arctic LNG-2, operated by the same gas producer, Novatek, is being built for annual production of almost 20 million tonnes. People associated with Russia's gas industry now question the future of all projects dependent of foreign equipment.

Novatek CEO Leonid Mikhelson has previously stated that operations are "complicated" by international sanctions and that he no longer can confirm timelines for the Arctic LNG-2 project. The first train was originally due to come into production in 2023. The plan had been to tow into place later this year the floating structure under construction at a shipyard outside Murmansk. However, without the services and equipment from Baker Hughes, that is unlikely to happen. The company is delivering turbines for the project, and Novatek has reportedly installed only about half of the seven turbines.

Rising LNG prices deter Asian buyers

(Bloomberg; June 17) - A breakneck rally in Asian natural gas spot prices is forcing some importers to halt plans to buy additional shipments of the power plant fuel. North Asia spot liquefied natural gas prices are surging toward $40 per million Btu, the highest in more than three months, on fears of a global supply squeeze, according to traders. The benchmark is up nearly 70% so far this week and is at a seasonal high.

Some Asian buyers are now unwilling or unable to procure LNG at current spot rates, instead choosing to wait for prices to come down before refilling inventories, according to traders. That risks leaving buyers short in the event of extreme weather or other major supply disruptions. The market continues to be roiled by troublesome news that has kept the pressure on spot prices.

Moscow tightened its squeeze on crucial pipeline gas flows to Europe this week, forcing nations to confront the prospect of no more Russian gas, while traders were stunned as a key U.S. export plant — Freeport LNG, in Texas — announced it will be shut down for several months after a fire. Traders fear that Europe will replace the lost U.S. supply with spot LNG shipments, leaving less fuel for Asia. A pause in spot purchases from price-sensitive buyers in Asia, such as India, could provide some relief to the market.

Japanese utility will quit LNG power plant project

(Nikkei Asia; June 14) - Kyushu Electric Power plans to withdraw from a liquefied natural gas fueled-power plant to be built in Chiba Prefecture near Tokyo, Nikkei has learned. The power company, which serves western Japan, had planned to build the 1.95-million-kilowatt power plant together with Tokyo Gas, bringing it online in 2028, but soaring fuel prices have hurt the profitability of its electricity retail business, leading the Fukuoka-based company to conclude that the investment was unlikely to pay off.

Jointly with Tokyo Gas, Kyushu Electric had planned to invest several billion dollars in the project, aiming to begin construction around 2023. Kyushu Electric will hold a board meeting this week to officially decide on pulling out. Tokyo Gas is expected to push ahead with the plant on its own, as it aims to expand its customer base by selling gas and electricity as a package. Tokyo Gas believes the project can open new commercial opportunities for the company if it has its own large-scale electrical power supply.

Tokyo Gas will reassess whether it can bear the cost alone and may reduce the size of the plant, depending on its projected profitability — which is shrinking in the electric power industry. Japan's 10 major electric utilities have dealt with higher costs through a government program that allows them to pass on increases in fuel costs by raising electricity prices**,** within certain limits. However, unexpectedly high fuel costs have disrupted the system since last fall. To meet growing demands for decarbonization, Tokyo Gas is considering hydrogen to meet part of the fuel needs of the power plant.

Coal-fired power shortage in Australia drives up demand for gas

(Reuters; June 16) - Australia, the world's top exporter of coal and liquefied natural gas, is battling a power crunch, posing major challenges for the country's new Labor government that wants to speed up the shift to greener power. Faced with soaring global energy prices, coal supply disruptions and outages at Australia’s coal-fired power plants, the country's energy market operator has taken unprecedented measures to control domestic electricity and gas prices and secure steady supply.

"It's a whole cascading series of events that have created this chaos," said Dylan McConnell, an energy systems research fellow at the University of Melbourne. The power crunch has hit the National Electricity Market, which covers all of Australia except Western Australia and the Northern Territory. Coal-fired power makes up about 65% of the country’s generation, with gas at 7%. The rest comes from renewables.

About 25% of the market's 23 gigawatts of coal-fired capacity is currently out of service due to unexpected outages as well as scheduled maintenance. With that power supply constrained, an early winter cold snap drove up demand for gas for heating at the same time as gas was needed to beef up gas-fired generation, exacerbating price spikes. LNG exporters on Australia's East Coast have been selling as much gas as possible into the hot export market, but were ordered by the market operator to divert any uncontracted gas they had into the domestic market, which they did two weeks ago.

Company sees booming business in certifying methane emissions

(Houston Chronicle; June 16) - Less than two years ago, Chris Romer's start-up Project Canary was a novelty, a small Colorado firm aimed at certifying the state's natural gas operations as low on methane emissions and generally environmentally friendly. Today, he's got a long list of oil and gas clients such as Chevron touting their relationship with Project Canary to investors. The German power giant Uniper announced this week it had signed with one of Romer's clients, Southwestern Energy, to buy "responsibly sourced gas" — a term Romer says he coined — for its U.S. pipeline network.

With regulators cracking down on emissions of methane, a potent greenhouse gas, and more investors clamoring for companies to prove their sustainable bona fides, oil and gas executives are lining up to get their wells certified as low-methane emitters. The sudden rise in business for Project Canary and similar companies is drawing skepticism from some scientists, wary that the certification firms are underreporting emissions to make oil and gas companies seem less environmentally risky than they are.

But that skepticism has done little dampen the enthusiasm of Romer, a former Colorado state senator, who said he sees a day in the not-too-distant future when certified natural gas becomes the global standard. "The momentum is growing. We now have clients in every major oil and gas basin in the United States," he said. "Will there be a market for non-certified gas in five years? Probably, but I predict it will sell at a discount."

U.N. tries crowdfunding to pay for salvaging oil from rusting tanker

(Washington Post; June 17) - The United Nations has turned to crowdfunding to raise the $80 million needed to remove more than a million barrels of oil from a decaying tanker in the Red Sea and prevent a potential environmental catastrophe. The tanker has been rusting away off Yemen's coast since 2015. Sitting in the delicate ecosystem of the Red Sea, famous for its corals and fish, it threatens to release roughly four times the amount of crude oil spilled off Alaska in the Exxon Valdez disaster of 1989.

Seawater has already seeped into the engine room, according to U.N. officials who are sounding the alarm that a tank rupture would wreak havoc on marine life, shipping lanes and regional economies. For years, the U.N. has sought to launch a rescue mission to transfer the oil and move the ship to a safer location for inspections or dismantling. But the vessel is anchored in waters northwest of Yemen's port city of Hodeida near territory held by the Iranian-aligned Houthi rebels. The 2015 war between them and the Saudi-backed government put an end to maintenance of the ship and blocked offloading oil.

The opposing sides finally agreed to a plan to prevent a disaster, the U.N. said, but now it doesn’t have the money to pay for it. “The fear is that it could soon break apart or explode,” the global body said this week as it launched the crowdfunding campaign. The U.N. said it collected about three-quarters of the money necessary to transfer the oil to another ship, after Saudi Arabia and the U.S. recently promised $10 million each following pledges from others that brought the total in U.N. hands to $60 million. To help pay the remaining $20 million, the U.N. is appealing online.