Oil and Gas News Briefs
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Shale producers not rushing to boost production

(The Wall Street Journal; May 7) - Oil prices are at their highest in years and politicians want companies to pump more. But most large U.S. frackers are standing pat, or even letting production decline. Much of the shale industry has reported higher profits than in the same quarter in 2021, but companies are not reinvesting more. Nine of the largest oil producers this week said they paid out a total of $9.4 billion to shareholders in first-quarter dividends and share repurchases, 54% more than they invested in new projects.

Limited spending, supply-chain constraints and harsh winter in some regions, analysts said, took a toll on shale production, which has increased only modestly so far this year. Some producers reported drops in their domestic oil output. That some of the largest shale companies allowed production to slip amid the highest prices in years shows the extent to which the industry has restrained spending and has made substantial growth in domestic output far less feasible than it was the last time oil prices topped $100.

Even as the Biden administration has urged executives to pump more to help ease high gasoline prices, most said they would not alter spending plans in pursuit of growth, touting low rates of reinvestment in oil and dividend yields higher than most in the S&P 500. “We are staying disciplined,” Marathon CEO Lee Tillman told investors this week. Marathon, which has seen its stock price jump about 67% from the start of this year, said its first-quarter U.S. oil production was down about 8% from the prior three-months.

“Historically, this industry has reacted to the commodity price,” said Arun Jayaram, an analyst at JPMorgan Chase. “Now, they’re sitting on their hands.” In private talks, administration officials have expressed frustration to shale executives about their companies’ unwillingness to substantially boost oil production this year.

Constrained spending could set up world for tighter oil market

(Bloomberg; May 6) - Big Oil is raking in historic amounts of cash, but the windfall isn’t being invested in new production to help displace Russian oil and gas. Instead, executives are rewarding shareholders — setting up the world for an even tighter energy market in the years ahead. The West’s five biggest oil companies together earned $36.6 billion over and above their spending in the first quarter, or about $400 million in spare cash a day. It is the second-highest quarterly free cash flow on record.

Oil booms typically spark a chase for higher production — but not this time. All five supermajors have kept their capital budgets firmly in check and pledged the discipline will hold in future years — even as prices have closed above $100 on all but five days since Russia invaded Ukraine. With wells naturally declining in production every year and large projects taking half a decade or more to come online, any expansion lag happening now will push the possibility of new production even further into the future.

In short, if consumers are looking for Big Oil to replace Russian production with any urgency, they better look elsewhere. The last time crude was consistently over $100 a barrel in 2013, Big Oil's combined capital spending was $158.7 billion, almost double what the companies are currently spending, according to data compiled by Bloomberg. The group includes Shell, BP, TotalEnergies, ExxonMobil and Chevron. "Discipline is the order of the day," BP Chief Executive Officer Bernard Looney told analysts May 3.

Instead of spending on new projects, companies are opting to reward shareholders with share buybacks after years of poor returns. The reasons why Big Oil is choosing not to spend more are led by climate concerns and uncertainty over the future of oil demand. "Any decision to increase, support or add in new fossil projects today could see returns risk within a few years," said Banco Santander analyst Jason Kenney.

Despite high prices, U.S. gas drillers not rushing to produce more

(The Wall Street Journal; May 4) – Natural gas drilling has rarely been so profitable. Yet U.S. producers say they will retire debt, buy back shares and pay dividends rather than ramp-up output. The pursuit of stock-boosting financial maneuvers has helped shares of gas producers shine in a down market. But it also adds to concerns about low supplies and suggests higher prices ahead for the heating and power-generation fuel, which has already contributed to the sharpest inflation in four decades.

Natural gas prices have more than doubled so far in 2022, rising at a time of year when they normally decline into mild spring weather. Futures for June delivery on May 4 ended at $8.415 per million Btu, the highest price since frackers flooded the market with shale gas more than a decade ago. "Our investors have been clear: They want us to be disciplined in both high and low commodity price environments and be proactive in returning cash to our shareholders," said Thomas Jordan, CEO of producer Coterra.

Rising prices are pushing up utility bills, threatening to make air conditioning much more costly this summer and eating into manufacturer profits. "Gas is used to power many of our plants, and, importantly, many of our suppliers' plants, which puts pressure on their costs and timing," Colgate-Palmolive finance chief Stanley Sutula III told investors last week. In Appalachia, where some of the country's biggest gas producers operate, executives say they're drilling just what's necessary to maintain steady output. They cite shortages of labor and materials as well as too few pipelines to get more gas to market.

U.S. natural gas prices close in on $9, highest since 2008

(Reuters columnist; May 9) - U.S. natural gas prices have surged to the highest level in real terms since the financial crisis in 2008 as strong demand for LNG from buyers in Europe and Asia puts pressure on inventories. Front-month futures for gas delivered to Henry Hub in Louisiana are trading at almost $9 per million Btu, up from just over $3 at the same point last year. Traders anticipate inventories will remain under strain through the rest of the year as working gas stocks in underground storage are 335 billion cubic feet or 18% below the pre-pandemic five-year seasonal average for 2015-2019.

Domestic gas production has recovered to its pre-pandemic peak, according to data from the U.S. Energy Information Administration. But exports especially in the form of LNG have risen sharply, which is keeping inventories low and putting upward pressure on prices. In recent months, LNG exports have been equivalent to 10% to 12% of domestic dry gas production, up from around 4% in early 2019. U.S. gas supplies have tightened as Europe and Asia scramble to buy LNG to refill their own depleted storage after last winter and amid fears about a disruption of gas supplies from Russia.

The rise in prices will enforce maximum fuel-switching among power generators from natural gas to coal to conserve fuel stocks this summer, with spot gas purchases now uncompetitive against coal except for peak generation. "These prices are unsustainably high," said Pavel Molchanov, an analyst with investment bank Raymond James.

Oil execs says rising drilling costs will hold down production

(Bloomberg; May 5) - Inflation in the oil sector is worsening and industry executives see no reason to expect cost pressures on everything from steel pipe to frac sand to ease any time soon. The spiral has been so swift and dramatic that CEOs are being forced to revise annual spending plans higher just to preserve oil and gas output targets. Those same executives are warning that rampant oil field inflation makes any significant gain in domestic oil production much more difficult to attain despite the lure of $100 crude.

Benchmark U.S. and international oil prices have surged more than 40% this year as strong post-pandemic demand crashed headlong into anemic growth in crude supplies and worldwide market dislocations triggered by Russia's invasion of Ukraine. "Given the substantial supply chain bottlenecks and scarcity of oil service equipment and field personnel, any attempt to increase activity in the U.S. will be logistically challenging and capital inefficient," APA Corp. CEO John Christmann said in a May 5 conference call.

APA Corp., the oil explorer formerly known as Apache, this week raised its full-year drilling costs by 8%. ConocoPhillips also increased its spending plan by 8%, while Murphy Oil and Laredo Petroleum raised theirs by 7% and 6%, respectively. The inflationary trend has hit every corner of the oil exploration and production cycle. Drillers said they're experiencing sticker shock on everything from rigs and workers to diesel fuel and frack sand. Shale giant Continental Resources said the price of steel tubes used to line the interior of oil wells jumped about 7% in the month of March alone.

U.S. will call for bids this fall to start rebuilding strategic oil reserves

(Bloomberg; May 5) - The Biden administration announced plans May 5 to begin purchasing oil to refill the nation's emergency reserve. The Energy Department will start the buyback process with a call for bids for 60 million barrels this fall, though the actual deliveries won't take place until sometime in the future. President Joe Biden in March ordered the release of a historic 180 million barrels — a million barrels of oil a day for six months — in an effort to tame prices that skyrocketed after Russia invaded Ukraine.

The delivery window for this first tranche of purchases will likely be after fiscal year 2023, taking into account market structure and dynamics, a person familiar with the matter said. Once they start, the purchases to replenish the Strategic Petroleum Reserve will take about three years, the person said. This buyback is aimed at replenishing part of the 180 million barrels that had been earmarked for release during May through October.

The Energy Department said that deliveries would be "based on anticipated market conditions factoring in when future oil prices and demand are expected to be significantly lower." In addition, the department said it would start crafting a rule "to consider broadening DOE's buyback regulations to allow for a competitive, fixed-price bid process as an alternative to the (variable) index-pricing that is traditionally used."

Europe looking worldwide for alternative oil and gas supplies

(The Wall Street Journal; May 4) - Europe is racing to stock up on oil and gas before it imposes tighter sanctions on Russian energy sales, showing the dash that is underway to reorganize global energy supplies in the wake of the war in Ukraine. Europe's liquefied natural gas import terminals took in a record volume of the fuel for this time of year in April, according to commodity-tracking firm Vortexa. Oil imports from non-Russian suppliers, meanwhile, hit their highest level since the start of the pandemic.

Governments and companies are seeking other sources in the U.S., Africa, the Mideast and Asia. The hunt is a boost for suppliers able to sell into Europe's starved market at historically high prices. Beneficiaries include traders, U.S. LNG exporters, West African crude producers and Indian oil refiners. Europe is shoring up supplies ahead of a likely embargo on Russian oil and a potential severing of gas exports — both would rewire an economy that has run on affordable Russian energy dating back to the Cold War.

Among the winners is BP, which sent 55 LNG cargoes into Europe in the past five months. But there are limits to how much LNG Europe can take, with import terminals at capacity. In oil markets, European imports of crude from Africa have risen by half a million barrels a day, according to Vortexa, while imports from North America and the Mideast have climbed by 300,000 barrels a day apiece. Diesel is coming from refiners in India and the Mideast. The conflict has worsened a monthslong fuel shortage because Europe came to depend on Russian refiners when it pushed drivers to buy diesel cars.

Hungary continues to block EU proposal to ban Russian oil imports

(Bloomberg; May 8) - Hungary continued to block a European Union proposal that would ban Russian oil imports, holding up the bloc's entire package of sanctions meant to target President Vladimir Putin over his war in Ukraine, according to people familiar with the talks. A meeting of the EU's 27 ambassadors ended on May 8 without an agreement, with talks expected to resume in the coming days, said the people, who asked not to be identified because the discussions were private.

A ban on shipping Russian oil to third countries may also be delayed until the Group of Seven countries commit to similar measures. The EU's proposal seeks to ban crude oil over the next six months and refined fuels by early January. The EU had offered Hungary and Slovakia until the end of 2024 to comply with the sanctions and the Czech Republic until June of 2024, since they are heavily reliant on Russian crude imports.

The extended exemption failed to convince Hungary, which continued to block the plan over the oil ban as well as how to fund the transition away from Russian energy, the people said. "We have voted for all the sanctions packages so far, but this latest one would destroy the security of the Hungarian energy supply," Hungarian Foreign Minister Peter Szijjarto said in a statement on May 8. "As long as there is no solution to the problem caused by the Brussels' (EU) proposal, we will not vote for this package." EU rules require a unanimous vote of all the member states.

Japan agrees 'in principle' to phase out Russian oil imports

(Reuters; May 9) - Japan will ban Russian oil imports "in principle," as part of a Group of Seven campaign to counter Russia's invasion of Ukraine, Prime Minister Fumio Kishida said after an online meeting of G7 leaders on May 8. The G7 nations committed to ban or phase out imports of Russian oil, marking the latest attempt by the West to put pressure on Russian President Vladimir Putin for the invasion of Ukraine.

"For a country heavily dependent on energy imports, it's a very difficult decision. But G7 coordination is most important at a time like now," Kishida said, according to a statement released by the government. For Japan, the Ukraine crisis has put its energy dependence on Russia in sharp relief, even as Kishida has been outspoken in his criticism of Russia. Japan has acted swiftly and in tandem with the G7 in instituting sanctions against Russia, including freezing the assets of oligarchs.

However, Tokyo has shown less appetite for a full ban on Russian oil and gas, given that resource-poor Japan is dependent on imports, particularly since it closed most of its nuclear reactors following the 2011 Fukushima crisis. Russia is Japan's fifth-biggest supplier of oil and liquefied natural gas. "We commit to phase out our dependency on Russian energy, including by phasing out or banning the import of Russian oil. We will ensure that we do so in a timely and orderly fashion," the G7 leaders said.

Germany signs contracts for floating LNG import terminals

(Bloomberg; May 5) - Germany has signed contracts to charter four floating terminals to import liquefied natural gas in partnership with utilities RWE and Uniper as it races to reduce its energy dependence on Russia. Shipping companies Hoegh LNG and Dynagas will each provide two of the LNG terminals — which together will have the capacity to convert at least 700 billion cubic feet per year of natural gas, about a fifth of Germany's needs, the economy ministry said in an emailed statement May 5.

RWE and Uniper will operate the terminals. The government has allocated 2.94 billion euros ($3.1 billion) to pay for the terminals and the necessary infrastructure to connect them to the pipeline network, the economy ministry confirmed. The plan is for the first terminal to go online at Wilhelmshaven on Germany's northwest coast around the end of this year, with another up and running in nearby Brunsbuettel in early 2023.

Germany currently has no LNG terminals of its own, and those in neighboring countries such as the Netherlands, France, Belgium and Poland don't have enough capacity to supply all of Europe. Over the longer term, Germany is also planning to build several onshore LNG terminals that are expected to come online by 2026. Habeck is also due on May 9 to present legislation designed to speed up the approval process for LNG projects — and make it harder for environmental groups to challenge them.

LNG tanker flow into Europe in April at 20% above March

(S&P Global Platts; May 6) - The 114 LNG tankers that arrived in Europe in April were 20% more than the previous month, as continued uncertainty about Russian pipeline gas supplies amid the war in Ukraine lured cargoes to the region. Mediterranean import terminals saw the biggest increase, a rise of 24.4%, while Northwest Europe saw a month-on-month growth of 18.4%, according to vessel-tracking data from S&P Global's cFlow trade-flow analytics. The higher inflow of LNG into Europe also contributed to the upward trend in European gas inventories which were at 34.6% of storage capacity in the latest reading of Gas Infrastructure Europe, up from 26.3% at the end of March.

Canada in talks with East Coast LNG export project developers

(Reuters; May 6) - The Canadian government is in discussions with the companies behind two proposed East Coast liquefied natural gas export facilities to see how it can speed up the projects and help boost supply to Europe, Natural Resources Minister Jonathan Wilkinson told Reuters on May 6. Wilkinson said the government is looking at Spanish company Repsol's LNG facility in New Brunswick and the Goldboro LNG facility in Nova Scotia proposed by Calgary-based Pieridae Energy.

Ottawa has held talks with European countries about ways to boost energy exports to the continent after Russia's invasion of Ukraine in February upended oil and gas supplies. However, Canada, the world's sixth-largest gas producer, does not have any East Coast LNG export facilities and just one under construction on its West Coast. "We are looking at whether there are things we can do to expedite one or more of the projects in a manner that's consistent with environmental considerations and a long-term transition to a lower-carbon future," Wilkinson said in an interview.

Pieridae is proposing a floating export facility at 2.4 million tonnes annual capacity. Pieridae spokesman James Millar confirmed the company has had discussions with the government. Repsol already operates an LNG import facility in Saint John; it's export proposal is for 10 million tonnes annual output. Wlkinson said for the projects to go ahead they would "almost certainly" have to use clean electricity rather than natural gas to power the liquefaction process, and have the ability to transition to hydrogen exports.

CNOOC awards shipyard contracts for a dozen new LNG tankers

(Reuters; May 5) - China National Offshore Oil Co. (CNOOC) has awarded 16 billion yuan ($2.42 billion) worth of contracts to build 12 liquefied natural gas tankers, the largest of their kind in the country, the company said on May 5. China is the world's largest buyer of the gas, while CNOOC is the country's largest importer of the fuel and among the state majors leading a drive to expand their LNG tanker fleet to meet rising import needs and facilitate fast-growing global trade.

The 12 vessels will be built by Hudong Zhonghua Shipbuilding Co., a unit of China State Shipbuilding Corp., using the so-called fifth-generation LNG tanker technology that trims fuel consumption and carbon emissions, CNOOC said on its website. Each tanker can carry up to 174,000 cubic meters of LNG, equivalent to 3.8 billion cubic feet of gas when regasified. The vessels are slated for commissioning between 2024 and 2027, CNOOC said. The company, which first imported LNG in 2006, already has built 10 LNG tankers.

California county upholds approval of refinery conversion to biofuels

(Times-Herald; Vallejo, CA; May 4) - Over the objections of environmentalists, Contra Costa County supervisors May 4 gave Marathon Petroleum and Phillips 66 permission to start producing liquid biofuels at the oil refineries the two companies respectively own in Martinez and Rodeo, California. The Martinez refinery, which at one point produced almost 18% of the fossil fuel consumed in California, was idled in late 2020 because of pandemic-related revenue losses, resulting in a mass layoff of more than 700 workers.

Now, instead of refining crude oil, Marathon soon will begin processing vegetable oils and animal fats into renewable diesel, and hire 1,400 people to do the job. Phillips 66 will do the same at its Rodeo refinery, though at a much higher scale: The plant turn an average of 80,000 barrels of feedstock each day into fuels, compared to about 48,000 barrels per day at Marathon's Martinez refinery.

Both plans were separately approved in March by the county planning commission, but more than a dozen Bay Area environmental groups subsequently appealed the projects. On May 4, both plans were separately reviewed by the supervisors in back-to-back hearings. The environmental groups told the supervisors that biofuels production would strain food supplies and contribute to deforestation. But the supervisors praised the proposals, saying the companies had fine-tuned the details and sufficiently planned to reduce the environmental impacts — such as carbon emissions and odor.